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Business, Society, and Governance in Shrinking Societies: Four Levers of Action for Japan and Switzerland

by Jonas Huber & Hans Groth

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Executive Summary

Labor force supply, one of the dominant factors in economic growth, is at jeopardy in countries facing the phenomenon of population shrinking and ageing. This paper therefore proposes recommendations for business leaders and policy makers in two such countries, Japan and Switzerland, for coping with the challenges induced by the shrinking of their labor forces. These recommendations address shortcomings in four areas of action – participation of older workers and women, immigration, and productivity – and if adapted to cultural idiosyncrasies and properly implemented could also serve for other developed countries. In the case of Japan and Switzerland, our data show that both these countries have shortcomings in all four areas, although the degree and origins vary. Japan, for example, and the companies located there, generally perform quite satisfactorily with respect to older workers' labor force participation but unsatisfactorily with respect to female labor force participation and immigration. Switzerland, in contrast, has acted favorably in the area of immigration but generally experienced shortcomings with respect to the participation of older workers. Both countries have faced shortages in productivity growth over the last decade, albeit for somewhat different reasons. By proactively ameliorating these weaknesses, the two nations could neutralize the pressures resulting from demographic ageing or even turn them to competitive advantage.

The major issue for these two countries, therefore, is one of change management to adapt deep-rooted values, beliefs, and long-used practices to the demographic realities of the 21st century. If well carried out, such change management will benefit both society – individuals and families – and business and its commercial goals.

Introduction

Although all developed economies will face demographic slow-downs and unprecedented population ageing in the decades to come, their experience will differ in the (a) timing, (b) pace, and (c) pattern of population dynamics. In terms of demographic ageing, Japan is by far the most advanced nation, while Switzerland leads in the phenomenon of "Healthy Old Europe." Although both countries lie approximately 10,000 kilometers apart and represent fundamentally different cultures, they have a striking number of similarities. Both countries are economically successful, as reflected in their prosperous service sectors, and both have distinctly advanced technological production factors. In both countries, citizens are used to a high quality of life and consider well-developed social security and healthcare systems to be the norm. Both also share life expectancies far above the global average (Groth & Gutzwiller, 2011): in 2010, the life expectancy in Japan was 87.1 for women and 80.1 for men; in Switzerland, it was slightly lower for women (84.6) but around the same for men (80.2) (see Table 1).

In both countries, however, continuously increasing life expectancies have been accompanied for four decades by below-replacement birth rates, leading to major demographic shifts like decreasing rural populations, increasing urbanization, a declining workforce, and skyrocketing 80+ populations (in 2010, 6.3% of Japan's and 4.7% of Switzerland's population were over 80) (Groth & Gutzwiller, 2011). Yet despite these similarities, each country has taken a different approach to handling its demographic

challenges. Whereas the “island nation” in the Far East accepts the shrinking of its population and considers the “import of workers to replace the aging/shrinking work-force” taboo, Switzerland, a “political island” within the EU, maintains a positive growth rate mainly through a (somewhat unpopular) policy of foreign worker in-migration.

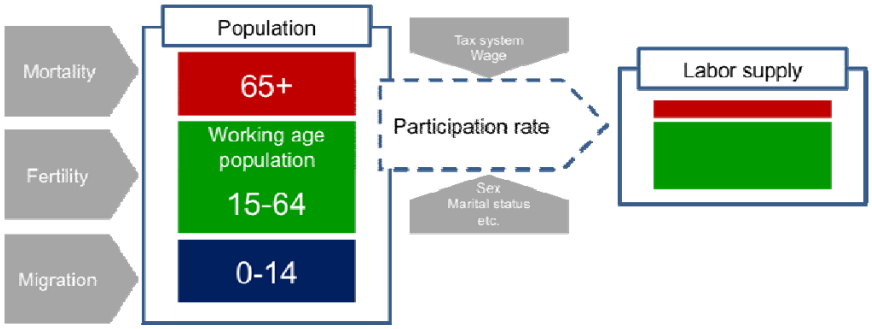
In any given nation, any demographic ageing and societal shrinking, if left unattended, will strongly affect economic growth, private and public consumption, and wealth, as well as the sustainability of social security systems designed and continuously upgraded in the 20th century. Most particularly, in the face of increasingly visible population dynamics[1], labor markets play a critical role in ensuring sustainable development, not only in business, but also in society and governance. Hence, comparing the past and future demographic evolution of Japan and Switzerland and the strategic approaches under discussion or already implemented in each country provides a unique opportunity for mutual learning.

To this end, based on extensive desk research and 36 interviews with senior executives and labor market experts in Japan and Switzerland (Huber, 2012), this paper proposes four areas for action tailored specifically for these two countries but potentially useful for wider application.

How do population dynamics shape labor supply?

The Figure 1 overview of the determinants of labor supply immediately makes obvious the central role of total population and age composition. Hence, any attempt to anticipate changes in labor supply must begin with analyses of the parameters influencing population size and composition and the participation rates of the different demographic groups.

Figure 1: Determinants of labor supply



Source: Huber (2012)

The main features of the demographic change occurring in Japan and Switzerland are summarized in Table 1. In Switzerland, the growth of the total population seems to level off over the next decade, while in Japan the slow decrease in population that began in 2005 is expected to accelerate over the coming years. Both countries are likely to experience an unprecedented development in age composition: the share of the working population (15–64), as well as the share of the subsequent generation of young people (0–14), is decreasing, while the share of the nonproductive generation (65+) is constantly increasing.

[1] In Japan, the share of 65+ increases from 22.8% (2010) to 29.8% (2030) and the share of 80+ from 6.3% (2010) to 12.7% (2030). In Switzerland, the share of 65+ increases from 14.4% (2010) to 25.1% and the share of 80+ from 4.7% (2010) to 8.5% (2030).

The triggers driving demographic change are fertility, mortality, and migration. In both countries, during the last century, fertility rates declined and life expectancy soared. For the future, Japan expects a slight increase in its fertility rate, while Switzerland expects stabilization at around 1.5 (see Table 1). Nonetheless, for both countries, the rate remains well below the 2.1 threshold necessary for natural population replacement. Yet according to the published scenarios, both countries will enjoy an ongoing increase in life expectancy; for example, a baby girl born in Japan in 2030 can expect to reach the age of 89.4, while one born in Switzerland in the same year may reach age 87.8.

In terms of the third trigger, migration, Japan and Switzerland have taken very different approaches. With the exception of 1965, 1970, 1975–1978 1996 and 1997, Switzerland has experienced continually positive net migration rates since the end of World War II (Bundesamt für Statistik [BFS], 2010), and the predomination of young adult immigrants (aged 20 to 39) has led to a certain degree of population rejuvenation and counteracted the population ageing trend induced by the other two triggers (Avenir Suisse, 2006). Japan, in contrast, has continued the restrictive emigration policy first imposed by the allied occupying forces during the postwar period (1945–1951) – one reflective of the isolationist policy in place for centuries – in order to fuel its rapidly growing economy with a high labor force supply (Akaha, 2008). In 2009, the 2.18 million immigrants living in Japan represented only 1.71% of the total population (Vogt, 2008) as compared to 22.8% in Switzerland and similarly high numbers in other countries. Yet the predicted scenarios to 2030 assume a steady influx for Japan and a decreasing net migration for Switzerland. In reality, however, as the figures clearly show, immigration has not been an important trigger for demographic development in Japan, while in Switzerland predictions have always been exceeded.

Table 1: Future development of Japan's and Switzerland's population

		Japan			Switzerland		
		2010	2020	2030	2010	2020	2030
Population *		126'536	124'804	120'218	7'870	8'357	8'714
Population Growth (in %) **			-1.37	-3.67		6.18	4.27
Age 0-14 *		16'903	15'910	14'980	1'191	1'165	1'179
Age 15-64 *		80'926	73'461	68'833	5'349	5'443	5'345
Age 65+ *		28'707	35'432	36'404	1'330	1'749	2'190
Age 80+ *		7'996	11'459	15'245	373	530	739
Total Fertility Rate		1.42	1.58	1.71	1.54	1.53	1.52
Net migration *		54	54	54	64.9	28.8	22.5
Life expectancy (at birth)	Male	80.1	81.4	82.4	80.2	82.5	83.8
	Female	87.1	88.4	89.4	84.6	86.3	87.8

* in .000, ** compared to the preceding decade

Source: The figures for Japan are based on United Nations [UN] (2011) and those for Switzerland on BFS (2012). The figures for 2020 and 2030 are based on the medium variant scenario for each country.

Levers for fueling the labor force pipeline in shrinking and ageing populations

Having provided a demographic perspective and statistical evidence that both countries, and the companies located there, already face (Japan) or will face (Switzerland) a declining or

stagnating labor supply, we now use the basic macroeconomics to evaluate the impact of such demographic developments. Because labor supply is a primary determinant of economic output (measured by the GDP) (Gärtner, 2006), a shrinking labor force (ceteris paribus) negatively impacts GDP growth and could even constitute the initiating impulse for a vicious cycle. There are thus three major pillars that influence or drive GDP growth:

- **the amount of capital per worker**
- **technological progress or innovation**
- **the growth of labor supply**

In terms of the first pillar, the fact that many economists assume that capital grows at a steady rate in line with overall economic growth (Magnus, 2010; Gärtner, 2006) excludes it as an efficient lever for coping with a decreasing labor supply. Technological progress, on the other hand, which implies a more efficient use of inputs, is equal to productivity gains and thus relates to the main factors already introduced as influencing labor supply: fertility, mortality, immigration, and participation. As regards labor supply growth, because it is virtually impossible (especially for business leaders) to influence mortality and fertility rates, these levers are not appropriate as short- to medium-term measures. Instead, immigration and participation warrant further consideration. The participation rates of older people and women, particularly, still leave room for considerable improvement, at least in advanced economies. We therefore identify four levers for coping with the impending shortage of labor supply:

- **participation of older workers**
- **participation of women**
- **immigration**
- **productivity**

Participation rate of older workers: Despite the increased life expectancy and the generally good health status of older workers, a trend toward early retirement is still observable in developed countries. At the same time, although any attempt to change this tendency is met by public resistance, in many European countries, a move is underway to increase the formal retirement age (Gleininger, Schwalke, & Stotz, 2012). Tapping into this pool of workers by either encouraging them not to retire or by enticing them back into the labor force would certainly help to ameliorate labor force shortages, thereby benefiting both individuals and society (Sanders & McCready, 2010). In general, according to recent studies, the determinants of early retirement lie in regulation or legislation (Burkhauser & Rovba, 2009; Higo, 2006, Kyyrä & Wilke, 2007; Hairault, Sopraseuth, & Langot, 2010; Duval, 2003); in managerial beliefs like increased salary and health costs or declining productivity (Torres-Gil, 2009, Jordan, 2006); in traditional, cultural, or personal (i.e., the older worker's) attitudes toward a suitable work/leisure balance (Czaja & Sharit, 2009); in age discrimination with respect to promotion and training (Kunze, 2010); and in the acute persistence of a seniority principle (Cappelli, 2009).

Participation of female workers: Although female participation has increased markedly in most advanced economies over recent decades, it still remains significantly different from male labor force participation in all countries (Montanari, 2009; Euwals, Knoef, & Vuuren, 2011; Fortin, 2009). Nonworking females and part-time female workers therefore represent

another potential labor pool that could be exploited to cope with labor force scarcity. According to extant research, the main reasons for lower participation rates include not only legislated gender discrimination (The World Bank, 2010), labor market demand and inadequate social policies (Coulmas, 2008), and workplace bias and workplace inflexibility (Heilman, 2001; McGrath, Driscoll, & Gross, 2005) but also traditional and cultural attitudes and the personal attitudes of women (Fernández , 2007; McDonald, Bradley, & Guthrie, 2005; Schulz & Martire, 2009; Babcock et al., 2003).

Immigration: Unrestricted immigration would certainly be a preferred option for many businesses trying to cope with a shortage of skilled labor because it would enable them to select skilled workers from a global pool. Such importation of skilled labor, besides increasing productivity and the participation rates of native citizens, would be an indispensable determinant of economic growth in developed countries whose declining fertility rates herald a shrinking labor force (McDonald & Kippen, 2001). In fact, as early as three decades ago, Hamilton and Whalley (1984, as cited in O'Rourkea & Sinnottd, 2006) argued that freeing up world migration would lead to a substantial increase in world income. Yet, despite these positive effects on the economy, all developed countries have legislation and regulation that restrict immigration. Governments erect such barriers to unrestricted immigration across borders in response to anti-immigrant voter mindsets, which are the result of negative attitudes, prejudices, and fears (see, e.g., Ridell, 2011; Bolzen, 2011).

Productivity: If the labor supply cannot be boosted sufficiently by either immigration or increased participation of older workers and women, the alternative would be to pursue a higher productivity growth. Among the most prominent factors involved in increasing productivity are technological improvements, the accommodation of intangible assets, an increase in labor quality through education, outsourcing, labor market flexibility, adjustments in the hours worked per employee, and the reallocation of both labor input and materials (Gordon, 2003; Oliner, Sichel, & Stiroh, 2007). Nonetheless, although researchers agree that productivity will increase over the decades to come, the projections are burdened with a high degree of uncertainty (Jorgenson, 2008; Conference Board, 2011). It is therefore difficult to answer the question of whether the anticipated productivity increase will be sufficient to compensate for the expected labor shortages.

Recommendations for exploiting the four levers in Japan and Switzerland

We justify the appropriateness of the four strategic levers proposed by briefly summarizing corresponding data from interviews (of at least one hour) with 36 business leaders and labor market experts from Japan and Switzerland (Huber, 2012). For convenience, we also outline our recommendations to the relevant stakeholders in the two countries (e.g., business leaders or policy makers) in tabular form.

Participation of older workers

Compared to other OECD countries, both Japan and Switzerland have high participation rates of older workers, probably due at least in part to restrictive pension systems that discourage people from taking early retirement. Nonetheless, both countries predict only a limited potential for increasing labor force participation by rising the statutory retirement age

and improving actuarial fairness (Duval, 2003). Differences exist, however, because of both cultural attitudes and company practices.

Older workers in Japan, for example, exhibit a greater willingness than those in Switzerland to work beyond the statuary retirement age. In fact, in Japan, willingness to work and commitment to the company is an indispensable element of self-confidence and sense of life. Swiss workers, on the other hand, are less committed and more interested in optimizing their work/leisure balance, which makes it much more difficult to retain workers via such soft factors. Companies in Japan also offer many different means by which older employees can prolong their working lives, many designed to circumvent the difficulties induced by the seniority principle (high wages, horizontal career planning). According to interviews conducted by Huber (2012), however, very few companies in Switzerland have begun to work in this direction even though such a practice is certainly recommended based on Japan's experience and preliminary Swiss findings.

In both countries, the primary constraints on older worker retention from a company perspective are the seniority principle and stereotypes about increasing healthcare cost and older workers' lack of flexibility, state-of-the-art training, and willingness to learn. Such stereotypes and beliefs frequently lead to frustrating discrimination against older workers with respect to vocational training and career planning. In Table 2, therefore, we summarize a set of recommendations that pay close attention to these areas.

Table 2: Recommendations to increase the participation of older workers

Recommendations for business leaders in both Japan and Switzerland
- Intensify vocational training for older workers with respect to quantity and quality
- Implement two-way mentoring
- Exchange best practices

Recommendations for business leaders in Switzerland
- Implement alternative workplaces and innovative work time and compensation models
- Create a corporate culture that appreciates age, experience, and intergenerational dialogue

Recommendations for business leaders in Japan
- Implement innovative work time, work place, and employment models that support corporate allegiance
- Exploit (as a foreign company) the pool of neglected older workers

Recommendations for policy makers in both Japan and Switzerland
- Change pension laws and regulations to reflect flexibility and tangible, as well intangible, incentives to work longer
- Encourage cultural change in society by example, transparency, and openness

Source: Modified from Huber (2012)

Intensify vocational training for older workers with respect to quantity and quality (Japan and Switzerland): Companies must first eliminate negative stereotypes and any form of discrimination with respect to accessibility to vocational training. Training programs must be tuned bilaterally to the needs and psychological mechanisms of knowledge acquisition in older adults. Learning goals must be implemented in the performance, development, and incentive plans to increase the motivation and commitment of employees to actively participate. To address the frequently expressed concern of training cost, since both employees and employers benefit from training, it could be financed via a fund amassed over the years by both parties and/or employee tax incentives. Such actions should have a positive cooperative effect on both productivity (higher skill sets, greater motivation) and immigration (increased employability of older staff means less immigration and thus less resistance).

Implement two-way mentoring (Japan and Switzerland): Two-way mentoring between younger and older employees could minimize the brain drain and lack of technological knowledge among older workers. In fact, multigenerational teams are ideal environments in which to identify critical knowledge and its owners and potential recipients, between whom two-way mentoring needs to be established. The dialog induced by the mentoring program could also foster intergenerational acceptance. The implementation of learning goals in performance and incentive planning would also earn the mentoring program appropriate recognition and emphasize the importance that management assigns to such activities

Implement alternative workplace, work time, and compensation models (Switzerland): Switzerland can learn from the many Japanese models: even those like teleworking, which failed in Japan because of cultural attitudes, could be successful in Switzerland where workers are less burdened by deeply-imbedded cultural attitudes and more interested in optimizing their work/leisure balance. There is, however, room for alternative models, such as establishing expert pools for internal consulting and/or more fragmented career models that enable a better balance between working, learning, and leisure time. Companies in Switzerland, therefore, should first review the wide spectrum of possible models at their disposal and then select those options that best suit their needs. Additional activities, for example, might include tailoring the models to their needs, implementing suitable retirement models, switching to performance-based wage compensation, and fostering awareness of these new opportunities among employees and managers.

Implement work time, work place, and employment models that support corporate allegiance (Japan): Japan has to cope with aversion to certain models because of culture-based attitudes. For instance, it must offer models that support older workers' self-confidence by adequately considering the importance of, for example, their sense of belonging, their commitment to a company, and/or their corporate integration. Models must therefore be expanded to enable close interaction with the company and thus increase the sense of belonging. They should not, for example, equate to exclusion from team work, corporate briefings, social events, performance planning, performance assessment, and incentive plans. Rather, the inclusion of older workers in all such events can increase their acceptance and thus the model's success.

Participation of women

The difference between male and female participation is more notable in Japan than in Switzerland even though both countries have adopted a single breadwinner model, implemented and cultivated primarily during the 20th century. This model assigns the role of housewife to women, who are responsible for housework and caring for children and, if necessary, ill or elderly relatives (Stähli et al., 2009; Garon, 2010). In Japan, this family model seems engraved in stone and is as deeply internalized as other traditions, meaning that changing the model means disturbing a part of the culture. Yet the presence of children or ill relatives means that women who remain in this role have little chance to apply for a full-time job and climb the career ladder: for many, it is simply impossible to satisfactorily combine work and family life. Moreover, even though regulations and legislation are in place to alleviate these difficulties, government and companies still show significant reluctance to enact them.

Switzerland, on the other hand, seems to be in a transitional phase; that is, the state and many companies have clearly signaled their willingness to change, and preliminary steps have already been taken. As a result, the government receives fewer exhortations from international organizations monitoring the implementation of anti-discriminatory measures, and an increasing number of women occupy key positions. The Swiss Federal Council, for instance, now includes three female and four male members, the inverse of the picture in 2011. Nonetheless, even though the signs of change are positive, much remains to be done. Many of the managers interviewed (Huber, 2012) have as yet implemented no special programs to support female participation despite being sensitized to the need to implement such programs without unnecessary delay.

These subtle differences between two countries that began with a similar family model but are now drifting apart suggest definite recommendations in respect to the opportunities given to women for labor force participation. Our interviews, like the extant literature, focus on three key areas that are vital for improvements within the female participation lever; namely, legislation and regulation, company disposition, and societal attitudes and stereotypes.

Because the lack of female participation results primarily from workplace inflexibility, widespread role stereotypes – especially among employers, and an absence of self-confidence, our recommendations are designed to tackle stereotypes and meet women's changing career needs. We offer no recommendations for quotas because our interviewees clearly rejected such measures. As regards the laws and regulations already in place, we simply urge more emphatic government enforcement.

Table 1: Recommendations to increase female labor participation rates

Recommendations for business leaders both in Japan and Switzerland
- Support the eradication of female role stereotypes
- Adapt working conditions to the father's needs
- Increase managerial awareness of the distinct characteristics of men and women
- Exchange best practices

Recommendations for business leaders in Switzerland
- Adapt employment conditions to women's changing needs and competencies
- Remove inherent aversion to certain industries (especially to high-tech and financial industries)

Recommendations for business leaders in Japan
- Adapt employment conditions to women's changing needs
- Intensify sourcing of skilled female workers by foreign companies

Recommendations for policy makers in Japan and Switzerland
- Increase supply of affordable care (to remove "tax" burden)
- Influence the perception of women in society and their tangible and intangible contributions

Recommendations for policy makers in Switzerland
- Countrywide alignment of school and education system to fit the demands of working mothers

Recommendations for policy makers in Japan
- Eliminate discriminatory practices

Source: Modified from Huber (2012)

Support the eradication of female role stereotypes (Japan and Switzerland): Stereotypical views of the woman's role are strongly persistent in Japan and have not yet completely vanished in Switzerland. Although women are partly responsible for liberating themselves from this prescribed function, society must support this process. Companies can contribute to this support by identifying alternative female role images and clearly communicating a serious interest in skilled women. A higher visibility of women in executive positions, for example, could slowly eradicate the omnipresent housewife stereotype. Managers also need

to be trained in how to act when offering jobs to and planning promotion with women: they must understand, for instance, that hesitant behavior by a female is not a sign of lack of interest. It is thus the trained managers' duty to encourage women to take responsible jobs during recruitment, performance interviews, and at university job fairs. Such behavior can enhance women's self-confidence and convince them of their ability to successfully assume a position of high responsibility.

Adapt employment conditions to women's changing needs (Switzerland): Employment conditions, generally designed for and by a male-dominated economy, must be adapted to women's highly fragmented careers. Hence, breaks and re-entries must be facilitated by more flexible career models and by measures that enable women to remain tied to the company and up-to-date with respect to new skills. Gender neutrality in promotion must also be implemented and facilities and work models offered that allow the reconciliation of family and work life.

Adapt employment conditions to women's changing needs (Japan): Since male domination is still high in the Japanese business world, the activities outlined for Switzerland are a fortiori applicable to Japan. The double track system, the most prominent instrument for discouraging women from management careers in Japan, must be applied in a gender-neutral manner or be eliminated altogether.

Intensify sourcing of skilled female workers by foreign companies (Japan): Skilled, ambitious female workers that are discriminated against by Japanese companies because of the double track system constitute a rich pool that foreign companies can exploit to meet their demands. To become attractive, therefore, foreign companies must offer innovative working models, perhaps drawing from the experiences of the corporate center in their home country. Their employment of native women in top positions will in turn demonstrate the company's willingness to promote competent females.

Immigration

Although Japan and Switzerland seem similar with regard to their political (democratic) and economic orientations (high-tech industry), they differ totally in terms of government policy and firm behavior profiles related to the current handling and exploitation of the immigration lever. Switzerland, although it practices cultural pluralism and has few immigration limitations, is not free from negative attitudes and discriminatory behavior, which are strongly reflected in its political agenda. Hence, for decades, the country has managed to find an acceptable compromise between the prospering economy's unappeased demand for foreign labor and the people's fear of foreign infiltration (xenophobia). Nonetheless, there is still room for improvement, especially as regards the naturalization and assimilation of the many immigrants. Japan, in contrast, has no historical tradition of immigrant integration, having resisted both internal and external pressure for immigration; most particularly, because of deep belief in a homogeneous cultural and national identity. The fear of losing this identity is widespread in all population groups and prevents policy makers from following a strategy that embraces immigration.

Companies located in Switzerland practice cultural pluralism to an even greater extent than the country itself: immigration currently represents the dominant lever for coping with labor force scarcity, and the economy would not be so prosperous without the import of skilled

workers. Concentrating on immigration, however, also harbors growing risk: immigration will only remain a solution as long as the opportunities for immigrants are more favorable in Switzerland than in the countries of origin or other developed countries. If conditions change – for instance, because of demographic changes in the countries of origin or better employment opportunities elsewhere – the flow of immigrants would soon dry up. The extensive exploitation of the immigrant lever may also trigger resistance by the native population, thereby increasing the speed of this lever's erosion. Companies located in Japan, in contrast, are highly reluctant to recruit from international markets. In fact, some of their current business practices actually undermine activities that would help broaden the horizon of young skilled workers. For example, companies do not reward stays in foreign countries to gain experience or additional education even though such workers have the potential to support the establishment of a global culture in Japanese companies.

The recommendations directed to policy makers and business leaders in Switzerland, therefore, are modest and designed mostly to reduce resistance or negative sentiments. The recommendations for Japan, however, call for radical changes at both a country and a corporate level. On a national level, legislation and regulations must become more transparent and more compatible with other industrialized countries, and both the country and the companies located in it must enhance the nation's comparative attractiveness for immigrants.

Table 4: Recommendations for an optimized application of the immigration lever

Recommendations for business leaders in Switzerland
- Prevent overuse of the immigration lever to avoid resistance in society and political populism
- Communicate the merits of immigrants

Recommendations for business leaders in Japan
- Internationalize companies with respect to staff, culture, and language

Recommendations for policy makers in Switzerland
- Change legislation and regulations for immigration from non-EU states
- Create awareness about alternatives to immigration such as female and/or older worker labor participation
- Maintain the country's attractiveness and competitive advantages
- Craft transparent and demand-driven migration goals with local responsibilities

Recommendations for policy makers in Japan
- Change immigration legislation and regulation
- Enhance the country's comparative attractiveness for immigrants (workers, students)
- Support cultural openness among native citizens

Source: Modified from Huber (2012)

Prevent overuse of the immigration lever to avoid resistance (Switzerland): The easy manageability of hiring skilled workers from abroad tempts companies to apply this lever, particularly because it substantially increases their chances of finding workers with the exact skills, experience, and attributes they seek. Such overuse of the immigration lever, however, may not only increase resistance and polarization in Swiss society, it could reduce the lever's "ease-of-applicability" because of changing comparative attractiveness and similar demographic developments in other countries. Companies must therefore begin developing contingency plans for such an immigration drought, primarily by developing the other levers and exploiting their potentials. Companies must also send the message that native workers, and especially marginal groups (women and older workers), will be given a fair chance to remain in the labor force.

Internationalize companies with respect to staff, culture, and language (Japan): The Japanese business professionals interviewed by Huber (2012) expressed doubts that company attractiveness is sufficient to draw large numbers of skilled immigrants. Hence, the major task for Japanese business leaders is to implement a welcoming culture able to integrate a large number of immigrants. This necessary change could be initiated slowly in a stepwise approach designed to reduce fear and promote trust. First, companies must foster the skills necessary to interact with foreigners; for example, by making the completion of successful training programs (language skills, behavioral training) to improve managerial communication skills a mandatory condition for promotion. Instead of penalizing post-doctorate years spent abroad, they should use them to support promotion and should offer sabbaticals at overseas universities to prospective managers. Second, companies must give foreigners (students, consultants, university experts) opportunities to bring in new ideas, technologies, and managerial methods; for instance, by offering them temporary positions in which they have daily interactions with the entire staff. Third, companies must move away from the local proprietary knowledge and standards implicit in "keiretsu-like systems" and set up more international partnerships. They must therefore view off-shoring, outsourcing, and other collaborations with foreign companies as opportunities for international interaction and collaboration. Not only could such activities prepare firms to benefit from higher immigration rates, they should also have positive cooperative effects on the productivity lever through diversity-boosted innovation.

Enhance the countries' comparative attractiveness for immigrants (workers, students) (Japan): In addition to adjusting legislation, Japan must enhance its comparative attractiveness to immigrants. Although already highly attractive with respect to wage levels, personal security, leisure, and lifestyle, the country also needs to take the important step of establishing a "welcome state" that ensures equal treatment for all people, immigrants and natives alike. Equal citizenship, including eligibility for all services in the welfare system, is necessary to establishing an immigrant sense of belonging. To achieve these goals, Japan needs to brush off the stereotype of a country that defends monoethnicity and monoculturalism at any cost; for instance, by offering positions in public institutions (e.g., universities, museums, and theaters) to foreign staff.

Productivity

Although productivity growth was relatively substantial for both countries in 2010, trends for the first decade of the 21st century indicate a decrease in productivity growth (OECD, 2011a, 2011b). Such productivity growth is impacted by the contribution to productivity of the older cohort, which in turn is jeopardized by insufficient vocational training opportunities even though both countries have well-developed, albeit different, education systems that are outstanding with respect to quality and quantity.

The low output is also due in part to a misallocation of investments. That is, although both countries and the firms located in them invest heavily in R&D activities, these investments fail to generate appropriate output. In Japan, companies are making major R&D investments in the manufacturing sector but not in the fast growing service sector (Fukao, 2010; JETRO, 2007; Syed & Lee, 2010), a reluctance that Japanese experts and managers attribute to fears that change will bring about a decline in quality. In Switzerland, the low productivity growth results from a concentration of R&D activities in traditional fields with a low return on

investment (Guellec, 2006), which in turn leads to a relatively small number of patents being filed in cutting-edge science (ICT, biotechnology, nanotechnology). In fact, interviewees from Switzerland mentioned off-shoring as an activity that could free the capacity for greater engagement in such emerging technologies.

Although the publication intensity of basic research is high, in Switzerland, exploitation of the research results for new product and process developments is weak, probably because of the poorly developed risk disposition among firms, particularly venture capital investors (Guellec, 2006). The adoption of technology is also slow in Japan, where some determinants of its speed are especially unfavorable: venture capital, for example, is scarce (Guellec, 2006); openness, internationalization, and thus exposure to competition in the R&D field is small; and there is no large propensity for firms to support academic research.

Taken together, these productivity data from the interview analysis and literature call for improvements in several key areas.

Table 5: Recommendations to increase productivity

Recommendations for business leaders in both Japan and Switzerland
- Shift R&D focus to more promising sectors with higher return on investment (e.g., service sector)
- Concentrate on higher value generating activities

Recommendations for business leaders in Switzerland
- Develop higher risk disposition for cutting-edge technologies
- Support the education of skilled workers
- Develop a motivating and less risk-averse corporate culture

Recommendations for business leaders in Japan
- Implement a dual education system
- Change corporate culture and exploit human resource potential
- Increase internationalization and openness

Recommendations for policy makers in both Japan and Switzerland
- Shift R&D focus to more promising sectors with higher return on investment (e.g., service sector)
- Support venture capital-driven commercialization of R&D outcomes

Recommendations for policy makers in Switzerland
- Improve macroeconomic conditions to increase competition

Recommendations for policy makers in Japan
- Improve macroeconomic factors to enhance knowledge dispersion
- Implement a dual education system

Source: Modified from Huber (2012)

Develop higher risk disposition for cutting-edge technologies (Switzerland): Although the predictions for Switzerland's innovation-driven productivity growth are outstanding among OECD countries, full exploitation of this potential requires higher risk disposition. Companies and venture capital investors must therefore intensify contacts with universities that undertake cutting-edge research, thereby securing early access to emerging technologies. If a given technology fits their portfolio, companies should establish collaboration for its rapid maturation and adoption. Likewise, venture capital investors must intensify support for the foundation of spin-offs to exploit the most promising technologies emerging from the universities. Contracts for such collaborations and spin-offs must take into account the fact that inventors' motivation only remains high if they can reap the fruits of their risk taking.

Support the education of skilled workers (Switzerland): Companies should influence and support the education of skilled workers over the entire education and work cycle. Most particularly, they should provide further support for the dual education system whose advantages for Swiss companies have been well documented. They should also intensify

their contacts with universities in order to communicate their needs and practice orientations and encourage investigation into research topics of interest to companies. The speedy transfer of the resulting technologies and knowledge can be facilitated through collaboration, internships, post-doctoral fellowships, and the mentoring/coaching of older or even retired employees. Companies should also promote the lifelong education of skilled employees to a higher extent either through internal training or sabbaticals at universities. Such education, however, must be balanced with the interest and remit of the universities to undertake general basic education and research.

Change corporate culture and exploit human resource potential (Japan): Both the interview data and the literature indicate that in Japan, corporate culture is responsible for low productivity growth via suboptimal labor usage. First, therefore, the rigid dual track system that prevents workers from changing career paths must be abolished. Because the nonregular workers in this system are excluded from benefits and vocational training (and are thus less motivated and less educated), the application of this status should be minimized or nonregular workers should be included in benefit and educational programs to increase their productivity and ease their transition to regular employment. The strong seniority principle must also be replaced by performance-related promotion and compensation systems that increase the motivation of all workers. Rigid hierarchies and the belief that effective work equates to long working hours must be weakened because they encourage workers to adopt unproductive behavior.

Implement a dual education system (Japan): The implementation of a dual education system in Japan may help the country increase productivity in three ways: reducing youth unemployment by smoothing the transition from education to work life, supplying companies with skilled workers trained in practical and theoretical knowledge tailored to their demands, and reducing the number of students with mediocre performance at universities while simultaneously increasing their level of education and reputation. Given the high value accorded university degrees in Japanese society, however, policy makers and business leaders need to push and promote this educational path collaboratively to achieve the level of acceptance needed. Such promotion should include a clear commitment by companies to demonstrate the value of this path and implementation of company networks to organize the apprentice system and networks of universities of applied science to supply higher education and prepare the legal framework required for implementation.

Conclusions

Overall, our analysis reveals shortcomings in both Japan and Switzerland for the four levers proposed as critical to cope with the challenges induced by a shrinking labor force; namely, participation of older workers, participation of women, immigration, and productivity. Despite the two countries' similar political and economic orientations, however, they differ in the magnitude and origins of the shortcomings for some levers. Our analysis unambiguously attributes these differences to legal, regulatory, cultural, and educational factors, but also to stereotypes and prejudices in the way business is conducted. The revelation of these factors lays the foundation for recommended actions to improve the efficiency and effectiveness of efforts to avert serious workforce scarcity. Although the recommendations are directed toward either policy makers or business leaders as the responsible parties, the discussion

reveals that, in most cases, only a joint effort will lead to sustainable success. The most important findings for each lever are briefly summarized below:

The participation of older workers is high in both Japan and Switzerland compared to other industrialized countries. Japan's older workers, however, show a greater propensity to remain in the workforce, a greater willingness that can be attributed to both soft (cultural traditions) and hard factors (e.g., corporate employment models). Although Switzerland can learn useful lessons from these hard factors[2], both countries need to improve the training of their older cohorts and foster a culture of lifelong learning.

The participation of women lags behind male participation in both countries, signaling that prejudices and stereotypes prevail in both the business world and society at large and need to be removed. Such removal is even more pressing given the high education level of women. As Switzerland is already in a state of transition, it may take Japan longer to remove these barriers and tap into this high potential.

Immigration receives different treatment in each of the two countries. Switzerland, although it has always embraced this lever and both its companies and its society have learnt how to efficiently and effectively integrate immigrant workers, should be careful not to overuse the immigration lever, thereby accelerating its erosion and neglecting other options. Japan and the companies located there, in contrast, have not yet embraced this option, which although it offers a large and hitherto untapped pool of potential labor also requires a change in practice whose sudden implementation would be infeasible. Rather, the country could best prepare to make use of this lever through a step-by-step approach, a gradually increasing cultural exchange that could help reduce fears and increase trust.

Productivity in both countries is already at a high level; however, the low growth rates of the last decade may jeopardize their lead at a time when the decreasing number of available workers makes productivity growth even more urgent. Nonetheless, key areas of opportunity for improvement exist in both nations: accumulation of brain power through education in both companies and the country in general, R&D activities in higher risk and higher benefit sectors and technologies, faster exploitation of upcoming cutting-edge technologies, and development and strengthening of venture capital.

In sum, demographic ageing is both an achievement and an opportunity. Capturing such an opportunity, however, as so aptly pointed out by Theodore Roosevelt, requires an early leadoff: "Old age is like everything else. To make a success of it, you've got to start young."

[2] The authors are convinced that it would be pertinent to learn from the soft factors (e.g., strong link between quality of life and work and higher appreciation of experience and age); however, these cultural changes would require a much longer incubation period.

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