New Conceptual Model of Employee Engagement in Formal and Informal Organizations of Japanese Companies

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Abstract

Like European and U.S. companies, Japanese companies also require to disclose human capital details to institutional investors. Employee Engagement (EE) is an indicator of human capital that the government and Japanese companies consider important. Engagement is a relatively new concept, however, that has not yet been defined by researchers. According to a survey by a research firm, the EE scores of Japanese companies are much lower than in other countries. Therefore, it is unclear whether the concept of engagement fits the corporate culture of Japanese companies and the characteristics of the Japanese people. Using previously studied concepts of EE and Barnard's organizational theory of formal and informal organizations, we developed a new conceptual model of EE. The characteristics of Japanese companies and culture, as shown in other studies, are applied to the new conceptual model and considered valid.

Keywords: Employee Engagement, Formal and informal organizations, Japanese Companies, Knowledge Management, Social Exchange Theory

1 Introduction

Japan has a declining birth rate, an aging population, and a decreasing working-age population. After peaking in 1997, the working-age population declined by 10.34 million by 2016 [1]. This decrease was equivalent to 8% of the Japanese population. This declining trend is more pronounced than in other developed countries. To ameliorate this critical situation, the Japanese government must increase the number of workers and improve labor productivity. The Japanese government has created an environment and laws that make it easier for older adults with low employment rates to join the workforce. As a result, from 1995 to 2016, the female workforce grew by 1.91 million and the older workforce (65 years and older) by 3.41 million [2]. However, these measures have yet to compensate for the decline in the working-age population owing to the falling birth rate and aging population. Therefore, Japanese companies believe that the shortage of human resources is becoming increasingly serious. Consequently, Japanese companies are

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seeking to increase their employee retention rates.

In the past, Japanese companies conducted satisfaction surveys to implement measures aimed at increasing employee retention. The theory underlying such surveys may use Herzberg's two-factor theory of motivator-hygiene [3], under which the survey questions measure motivational (such as results and the job itself) and hygiene factors (such as salary and working conditions). Motivational factors lead to increased satisfaction, whereas hygiene factors lead to less dissatisfaction. Since satisfaction or dissatisfaction can be thought of as reflecting a discrepancy between the expectations of the employee at the time and reality, a high or low level of satisfaction does not translate into higher productivity or retention in a company.

The concept of Employee Engagement (EE) is a proposal that has recently emerged. The dictionary defines engagement as a pledge, promise, or contract. In human resource management, it refers to being "involved with someone or something in order to understand them" [4]. EE can be considered the degree of mutual involvement and understanding between employees and the company, management, or among employees. Over time, the concept of EE has transformed; this term currently refers to employees' desire to contribute to their company and is indicative of their attachment to the company.

Engagement is becoming increasingly prevalent among Japanese companies. Gallup, a U.S. research firm, measured the degree of EE among employees in Japanese companies [5]. In 2017, Gallup measured EE using the "Q12" measurement technique. The results showed that Japan ranked 132nd out of 139 countries, and only 6% [5] (p. 140) of employees showed high EE. Meanwhile, in the US, 32% of employees showed high EE [5] (p. 183). Employees of Japanese companies are known to be extremely hardworking and highly motivated to contribute to the company. They are also highly loyal to their company. However, Japanese EE scores were significantly lower than those in the U.S. It is possible that some of the survey questions measure EE of employees in Japanese company.

This study aimed to develop a new conceptual model of EE in Japanese companies based on the existing concept of engagement and Barnard's organizational theory. The remainder of this paper is organized as follows. Section 2 describes the global situation regarding EE and its implementation in Japanese companies. Section 3 describes the concept of engagement. Section 4 describes the theoretical system of EE based on the social exchange theory. A new conceptual model of EE is presented in Section 5, where this study's conceptual model is also discussed. Finally, Section 6 concludes the paper. The development of this conceptual model is expected to identify the factors that contribute to EE in Japanese companies and make comparisons with companies in other countries.

2   Global Standards for EE and their Implementation in Japanese Companies

In December 2018, the International Organization for Standardization (ISO) established ISO 30414, a guideline for internal and external human capital reporting (HCR). It consists of 49 items corresponding to 11 areas. These guidelines and associated indicators are intended to improve organizational performance. One of the 11 core HCR areas is organizational culture, which requires disclosure using engagement, satisfaction, and commitment as metrics [6]. In August 2020, the U.S. Securities and Exchange Commission (SEC) announced that it would revise "Regulation S-K" under the U.S. Securities Act. In the announcement, the SEC mandated human capital disclosures for listed companies in the U.S. stock market starting in November 2020 [7].

Many Western institutional investors demand that the boards of listed companies disclose information about their human capital, because institutional investors believe that human resource strategies are important for realizing management strategies.

Japanese companies are required to make non-financial information visible within the framework of corporate disclosure to strengthen the means of communication with shareholders. Methods to evaluate the value of non-financial information, such as human capital should be studied. Guidelines should be compiled to serve as a reference for corporate management. For this purpose, the Cabinet Secretariat launched the Study Group on Visualization of Non-financial Information in February 2022, which outlined the need for a human resource strategy to implement a management strategy. They also presented a draft of the Human Capital Visualization Guidelines to committee members at the sixth meeting in June 2022 [8]. Regarding human resource strategies, the Ministry of Economy, Trade and Industry (METI) reports the human resource version of the "Ito Report 2.0." It presents a framework based on three perspectives and five common elements and provides "pull-out of ideas" on the initiatives that should be implemented, their importance, and the innovations that will be effective in advancing these initiatives. EE is positioned as one of the five common elements [9]. The percentage of EE is shown as an example of a reference collection of disclosure items in the draft of the Human Capital Visibility Guideline [10].

Japanese companies have begun to introduce EE. The EE survey market is active in the U.S. and Europe, and is rapidly expanding in Japan. According to a report by the Yano Research Institute, the EE survey market is expected to expand at an annual rate of approximately 20%, as shown in Figure 1 [11]. There is growing interest to increase employee job satisfaction and human capital management; the market for measuring engagement as a potential indicator of these efforts is expanding. Some major companies have introduced new EE measures to replace employee satisfaction surveys [11].
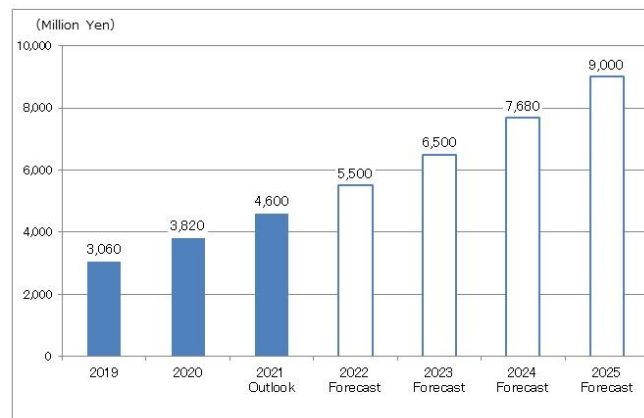
Note 1. The figures are based on the sales at cloud-based service providers.
Note 2. The value for 2021 is an outlook, for 2022 and beyond are forecasts.

Figure 1: EE Survey Market Forecasts in Japan

The following is the status of EE implementation in typical Japanese companies. The status of these installations is shown in each company's sustainability reports. Table 1 shows the EE descriptions of the top ten companies with the largest number of consolidated employees [12].

As shown in Table 1, three companies described EE. Japanese companies have already begun to disclose EE and more companies are expected to do so in the future. However, each company's

definition of EE differs; therefore, it is essential to clarify the concept of EE in Japanese companies. In the next section, we examine the concept of engagement, based on previous studies.

Table 1: EE in Sustainability Reports

No.	Company name	Number of Employee	EE	Definition of EE
1	Toyota Motor Group	370,870	no	- [13]
2	Nippon Telegraph and Telephone Group	303,351	yes	Methods of Engagement (example) [14] Employee satisfaction surveys Regular interviews Dialogue between labor and management Corporate ethics helplines CSR Conferences
3	Hitachi Group	295,941	yes	Hitachi uses the term "engagement" to refer to employees' understanding of the company's strategies, policies, job satisfaction, and desire to take actions on their own initiative to bring about results. [15]
4	Sumitomo Electric Industries, Group	272,796	no	- [16]
5	Panasonic Group	271,869	no	- [17]
6	JP HOLDINGS	245,922	no	- [18]
7	Yamato Holdings	225,125	no	- [19]
8	Honda Motor Group	219,722	yes	Honda assesses the status of "very good" engagement levels in six categories: an open-minded work place; rewarding tasks; an environment that makes hard work worthwhile; being proud to work at Honda; trustworthy management; and a pleasant work environment [20](p.132)
9	Canon Group	195,056	no	- [21]
10	Denso Group	171,992	no	- [22]

3   The Concept of Engagement

Kahn's psychological concept of personal engagement marks the beginning of research on engagement. Kahn defined personal engagement as "the harnessing of organizational members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances" [23] (p. 694). In addition, Kahn mentions that it is "the simultaneous employment and expression of a person's 'pre-

ferred self' in task behaviors that promote connections to work and to others, personal presence (physical, cognitive, and emotional), and active, full role performances" [23] (p. 700). To do so, it is required that the work is meaningful, reasonably safe, and resourced proportionately [23]. Based on this concept, researchers continue to study what engagement looks like and have attempted to apply their research findings to human resource development (HRD).

Shuck and Wollard [24] surveyed many prior studies of EE. They noted that there are many definitions of EE, which may differ to some extent depending on the researcher's field. Shuck and Wollard concluded that the definition of EE is not constant and can be misleading. They defined it as "an individual employee's cognitive, emotional, and behavioral state directed towards desired organizational outcomes" [24] (p.103). Figure 2 shows the hypothesized moderation model of EE proposed by Shuck and Reio [25].
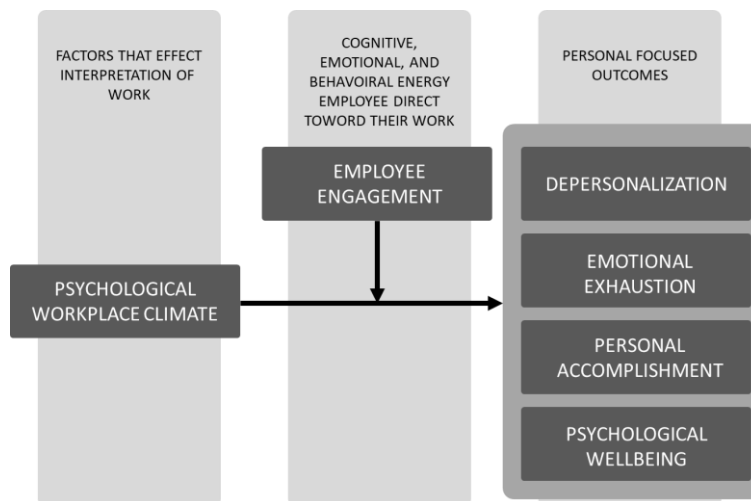
Figure 2: The hypothesized moderation model of EE

Schaufeli, Salanova, González-Romá and Bakker [26] examined the concept of work engagement. They defined work engagement as "a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption" [26](p.74). Schaufeli and Bakker developed the Utrecht Work Engagement Scale to measure the degree of engagement on the basis of this idea [27]. This scale consists of three components: vigor, dedication, and absorption, and the components are defined as follows [26].

* "Vigor is characterized by high levels of energy and mental resilience while working, the willingness to invest effort in one's work, and persistence even in the face of difficulties." (p.74)

* "Dedication refers to being strongly involved in one's work and experiencing a sense of significance, enthusiasm, inspiration, pride, and challenge." (p.74)

* "Absorption is characterized by being fully concentrated and happily engrossed in one's work whereby time passes quickly and one has difficulties with detaching oneself from work." (p.75)

The Utrecht Work Engagement Scale consists of 17 items: 6 items for vigor, 5 items for dedication, and 6 items for absorption. Figure 3 shows an integrative model of work motivation and engagement [28].

Figure 3: An integrative model of work motivation and engagement

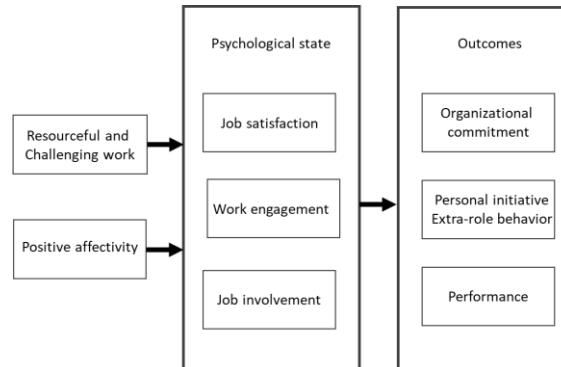In Japan, Arai and Matsubayashi defined engagement as "a willingness to contribute voluntarily based on one's relationship to the organization and one's job" [29] (p. 4). Hashiba defined it as a state in which employees can take actions that lead to results by combining a willingness, eagerness, stance, knowledge, understanding, and abilities [30]. In giving this definition, Hashiba reviews the major definitions of engagement by researchers, consultants, and research firms; he also notes that there are discrepancies in definitions among the commentators he surveyed. Various researchers have interpreted the concept of engagement, and there are multiple definitions. To summarize the definitions of engagement in previous studies, it is safe to assume that individuals' motivation for their work has a significant impact on engagement. Hashiba then finds a common understanding: "At the very least, it is a desirable situation for both the individual and the organization that manifests itself through work" [30] (p.258).

4   Theoretical System of EE Based on Social Exchange Theory

Based on the definition of engagement identified in the previous section, it is safe to assume that engagement is the willingness of employees to work in situations that are desirable for both the employee and the organization, which is expressed through work. What, then, are the assumptions on which such an engagement is based? By examining EE, as proposed by Saks [31], this section clarifies the assumptions on which engagement is based on the underlying social exchange theory.

Saks divided the concept of EE into two categories: job engagement (fulfilling one's job role) and organizational engagement (fulfilling one's role as a member of the organization), as shown in Figure 4.
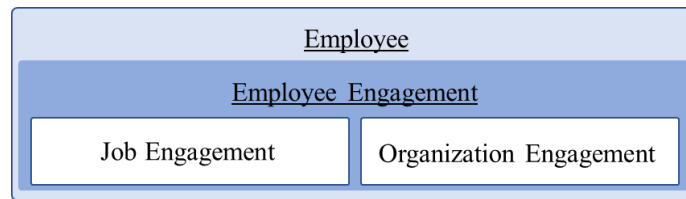
Figure 4: Job Engagement and Organization Engagement in EE

Saks then proposed a model of EE, as shown in Figure 5 [31].

Figure 5: EE model of Saks

This model shows the antecedents and consequences of EE. The antecedents of work function as inputs to EE, and the resulting engagement is referred to as consequences. To verify the model, Saks collected survey data from 102 employees working in various occupations and organizations. The results of statistical processing of the data were as follows [31].

*   While job and organization engagement are related, they are also significantly different with participants, indicating significantly higher job engagement than organization engagement. (p. 609)
*   "The antecedents are related to job and organization engagement." (p. 609)
*   "Job and organization engagement were significantly positively related to job satisfaction, organizational commitment, and organizational citizenship behavior, and negatively related to intention to quit." (p. 609)

These results suggest that antecedent and consequent relationships are partially mediated by work and organizational engagement. Engagement refers to the relationship between an employee and their organization or job. Saks used the concept of social exchange theory (SET) to explain why employees feel engaged in their jobs and organizations [31].

SET is a theory of social psychology that can explain the formation of human relationships. SET research has been conducted by many researchers from various perspectives. The basis of SET is that the accumulation of interdependent transactions creates attachment between people. When executives "take care of their employees," a social exchange relationship is created between executives and employees and beneficial results are achieved. In other words, a social exchange relationship is considered a mediating or intervening variable between humans. In strong relationships, favorable and fair transactions exist. These relationships can result in effective work behaviors and positive employee attitudes.

Based on previous studies, Cropanzano and Mitchell classified social exchange relationships in the workplace into five categories as follows: A) perceived organizational support and leader-member exchange, B) support to commitment, C) adding team support to organizational support, D) adding supervisory support, and E) trust. Cropanzano and Mitchell

state that "committed workers are more desirous of maintaining their associations and will become more motivated on behalf of their employers" [32] (p. 889).

Saks states,

> SET argues that obligations are generated through a series of interactions between parties who are in a state of reciprocal interdependence… A basic tenet of SET is that relationships evolve over time into trusting, loyal, and mutual commitments as long as the parties abide by certain 'rules of exchange'… Rules of exchange usually involve reciprocity or repayment rules such that the actions of one party lead to a response or actions by the other party.

> Engagement as a two-way relationship between the employer and employee, and Employees will choose to engage themselves to varying degrees and in response to the resources they receive from their organization [31] (p. 603).

According to Saks,

> SET is the theoretical foundation of EE. Furthermore, employees feel that they need to provide labor at a higher level of engagement. Saks argues that Employees who perceive higher organizational support are more likely to reciprocate with greater levels of engagement in their job and in the organization; employees who are provided with jobs that are high on the job characteristics are more likely to reciprocate with greater job engagement; and employees who have higher perceptions of procedural justice are more likely to reciprocate with greater organization engagement. Engaged employees are also more likely to have a high-quality relationship with their employer, leading them to also have more positive attitudes, intentions, and behaviors… When the organization fails to provide these resources, individuals are more likely to withdraw and disengage themselves from their roles. Thus, the amount of cognitive, emotional, and physical resources that an individual is prepared to devote to the performance of one's work roles is contingent on the economic and socioemotional resources received from the organization. [31] (p. 603)

The engagement relationship can be illustrated by the conceptual model shown in Figure 6. Saks indicated rewards and recognition as antecedents, which are incentives typically provided to employees by companies. Saks also indicated commitment to the organization as a consequence, that is, a contribution to the organization.
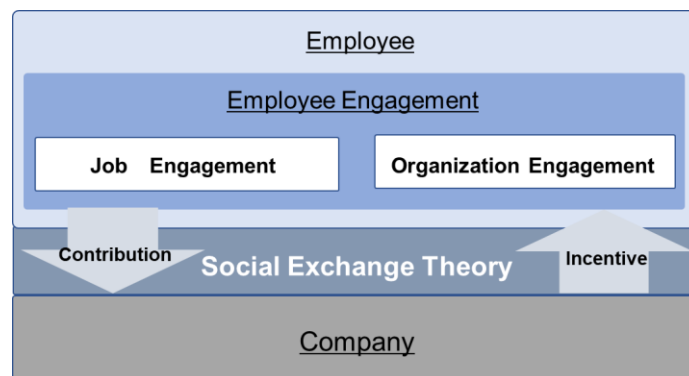

Figure 6: Conceptual Model of EE using Saks' SET

For example, Western companies offer not only monetary rewards, but also work styles and office spaces commensurate with compensation for their labor. The company expects employees to deliver the work they have been contracted to do. Vogel states the following:

> In an American company without a strong group spirit and without expectations of permanent employment, an employee might come to feel that the only significant reward is salary and position, which in his view ought to be finely tuned to match performance. [35] (p. 150)

This model is a good representation of the engagement relationship in the U.S. and Europe, based on the employment relationship between the company and the employee, which is strongly individualistic and is a reflection of the concept of supply and demand.

5   Develop a New Conceptual Model of EE

In Barnard's organizational theory, there are formal and informal organizations within a company. Barnard states, "Formal organizations arise out of and are necessary to informal organization; but when formal organizations come into operation, they create and require informal organizations" [33] (p. 121). A company is an organization. Saks' model of EE does not separate formal and informal organizations. Barnard described the importance of informal organizational functions and we seek to build a conceptual model of EE in both formal and informal organizations.

Barnard's definition of a formal organization is: "A system of consciously coordinated activities or forces of two or more persons" [33] (p. 81). Three elements are necessary for management to establish an organization: common purpose, willingness to serve, and communication [33]. Executive management provides incentives to employees and employees contribute to executive management [33]. As discussed in the previous section, Saks' concept of EE can be considered an exchange of incentives and contributions as the object of SET. As argued by Saks, if we introduce the concept of SET-based EE into the model of a company's formal organization, we can construct the conceptual model shown in Figure 7.
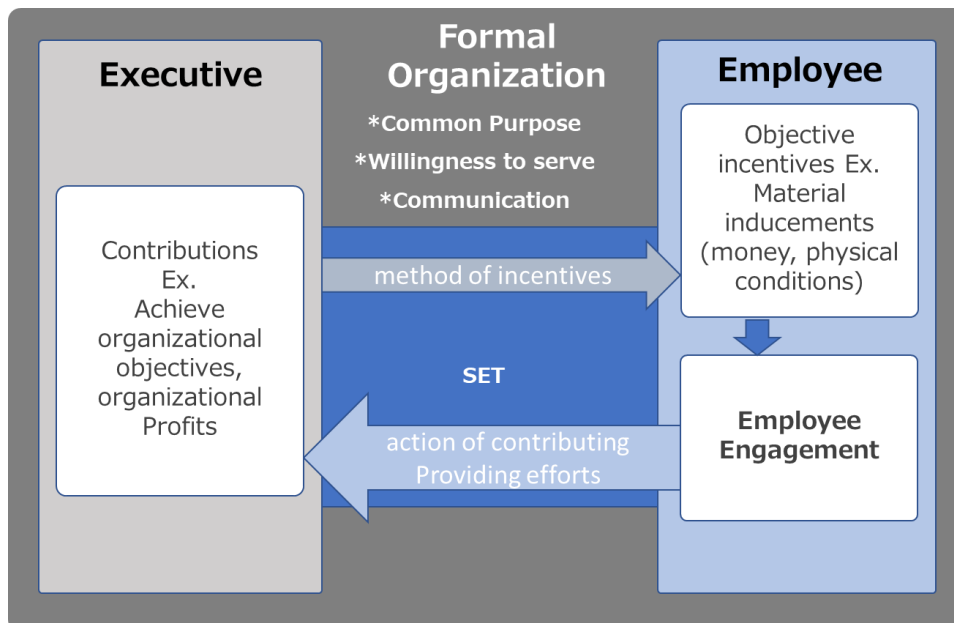

Figure 7: Conceptual Model of EE within Formal Organizations in Companies

The conceptual model in Figure 7 can be explained with the aid of Barnard's organizational theory as follows. The executive provides objective incentives to employees using this

method. Objective incentives include material incentives, such as money or physical conditions. Employees are motivated to contribute due to their satisfaction about objective incentives; that is, objective incentives create a state of mind to make positive contributions. In other words, engagement is created within employees, who positively contribute to the company and achieve organizational objectives, such as making a contribution to management. Barnard's definition of an informal organization is as follows: the linkage of groups of people, such as naturally occurring personal contacts and interactions [33]. Informal organizations are based on relationships between people and consist of unconscious social processes. An individual's essential need is social bonding, and people seek direct interactions. Without social cohesion, humanity is lost [33]. There are also two important consequences of informal organization: (a) certain attitudes, understandings, customs, habits, and institutions, and (b) the conditions under which formal organization may arise [33]. The creation of conditions for the emergence of informal organizations includes the following three conditions: "communication" [33] (p. 120), "maintenance of cohesiveness in formal organization" [33] (p. 120), and "maintenance of the feeling of personal integrity, of self-respect, of independent choice" [33] (p. 120), which are closely related to formal organizations. Even in informal organizations in companies, employees are often connected to each other through personal relationships that are direct interactions, such as conversations over a meal or about the same hobbies (e.g., sports or fishing). Through such conversations, employees deepen their understanding of each other and develop their habits and customs. We believe that this leads to a different form of willingness to contribute than what Arai and Matsubayashi call "a willingness to contribute voluntarily based on one's relationship to the organization and one's job," [29] (p. 4), which we posit to constitute EE in informal organizations. This concept was developed into the conceptual model shown in Figure 8.
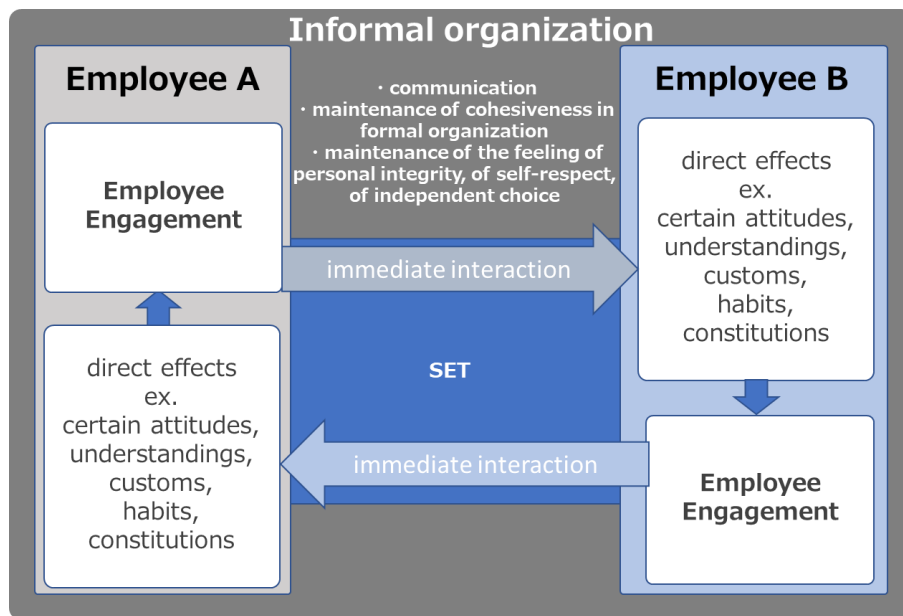

Figure 8: Conceptual Model of EE within Informal Organizations in a Company

The conceptual model in Figure 8 can be explained as follows with the aid of Barnard's organizational theory. In an informal organization, immediate interactions generate direct

results among individual employees, such as employees A and B's understanding and conventions. This understanding or custom generates a sense of social cohesion and satisfaction, which in turn motivates further direct interaction and EE to positively enhance the immediate interaction, the end result being further direct consequences.

6   Discussion of New Conceptual Models of EE

As discussed in the previous section, EE is considered a two-layered structure that exists simultaneously in both formal and informal organizations. This section discusses new conceptual models of EE in formal and informal organizations developed based on the characteristics of Japanese companies and Japanese culture.

The new model is based on Barnard's three conditions for formal organizations, which are considered important for Japanese companies.

First, management and employees need "a common purpose" to inspire collaborative employee activity through shared vision, goal management, etc. [33]. Yamada notes that "Japanese employees take pride in achieving organizational objectives" [34] (p. 105). Vogel also states that, "It provides a sense of belonging and a sense of pride to workers, who believe their future is best served by the success of their company" [35] (p. 157). There is a causal relationship between a company's success (i.e., the achievement of the company's objectives) and one's own future (i.e., the achievement of one's own objectives). This is consistent with Barnard's point that the existence of an organizational purpose and its achievement are necessary for the organization to become established.

Second, Barnard lists "communication" as a necessary and sufficient element in the formation of an organization [33]. To communicate common objectives and increase the willingness to collaborate, executives constantly provide opportunities and venues for communication between managers and employees. Communication includes goal management briefings, consultations on individual employees' career development, and individual performance briefings. Yamada also noted the importance of communication in Japanese companies, stating that "communication is related to the definition of the organization" [34] (p. 104). "Workplace communication, which is a core matter for staff members, is a matter of collaboration in the workplace, of reduced workplace collaboration and team dynamics," Funaki has stated [36] (p. 18), based on the results of a survey of Japanese company employees that communication in Japanese companies affects collaboration.

Third, "willingness to cooperate" in formal organizations arises because the incentive to cooperate is positive. Employees weigh their net satisfaction from the incentive and the sacrifices associated with cooperation [33]. In Japanese companies, the employment system and methods are based on membership; executives have provided major objective incentives, such as seniority-based wage systems and long-term secure work environment. Employees have always been satisfied with wages that could at least sustain their lifestyle; it generates a desire to actively contribute to the company. In other words, it increases EE and contributes to achieving organizational goals through small group activities and other means. Yamada states that "Japanese employees are loyal and have a strong group spirit because they have a large surplus of utility to be distributed" [34] (p. 105). He argues that high utility, which is the difference between incentives and contributions, increases employees' willingness to cooperate. In addition, Japanese companies are deeply involved in the lives of their employees who were under their eo.mploy since they started their careers. Companies instill a sense of

belonging and provide benefits such as age-based pay, age-appropriate status, personal assistance, welfare, and retirement benefits. As a result, employees do not worry about being laid off unless there is a prolonged recession. This gives employees a strong sense of self-worth, encouraging them to actively contribute to the achievement of the company's objectives. This increases EE because they strive to achieve the company's goals [35]. From this perspective, it can be concluded that Barnard's concept of formal organization is also valid for Japanese companies.

As explained in the previous section, the relationship between incentives and contributions within formal organizations is common to both the East and West. In Japanese companies in particular, there is, in Yamada's words, "a strong sense of participation rather than buying and selling labor" [34] (p. 104). This characteristic also generally fits with the characteristics of Japanese companies. Based on the above, it can be said that the concept of engagement in formal organizations is consistent with the behavior of employees in Japanese companies.

The conceptual model in informal organizations is similarly true for many Japanese companies. Regarding communication, Barnard states that "a large part of the communication of an organization is informal" [33] (p. 108). In Japan, people often spend their private time with colleagues to understand them better and facilitate communication. Vogel states, "Socializing is partly for sheer fun, but many consciously try to have a good time together to make it easier to work together during the week" [35] (p. 152).

We also consider "cohesion" in formal organizations. As a formal organization becomes extended in scope, it requires overall cohesiveness. Moreover, a formal organization is vitalized and conditioned by informal organizations [33]. Japanese companies sometimes have their own sports teams. Although cheering for the corporate team takes place outside work hours, it boosts the teams' morale when employees come together to cheer for them. Vogel states, "the very highest officials in the company commonly take off from work to attend important sports contests with their rival companies" [35] (p. 147) and executives value a sense of togetherness with their employees.

Finally, we confirmed that self-esteem and the ability to make independent choices are maintained in Japanese companies. Informal organizations maintain the personality of the individual against certain effects of formal organizations that tend to disintegrate their personality [33]. In informal organizations, this involves a direct person-to-person relationship. Individuals respect each other's individuality because they are not directed and they have self-respect. Vogel states that in Japanese companies, "It provides a sense of belonging and a sense of pride to workers" [35] (p. 157).

Many Japanese companies hire batches of fresh graduates from high school or college on a membership basis for an indefinite period. They are trained by their peers on basic work procedures and applications through on-the-job trainings. Work often requires implicit knowledge that requires a long period of training and direct mutual involvement. While being educated, mutual understanding and rules, such as customs among peers are fostered among employees. As a result, it can be said that social bonding (e.g., when employees feel a sense of togetherness and connection with their colleagues) is socially satisfying and generates a desire for employees to be more involved with each other and with the organization. Nakane states that, "Emotion takes precedence over logic and [notes] that it has an important social function" [37] (p.183). This indicates that in Japanese companies, informal organizations (relationships that are based on emotions) are prioritized over formal organizations (relationships formed by necessity or conscious logic). Vogel states, "Employees come in to their workplace on vacation and weekends in large part because they enjoy the camaraderie" [35] (p. 293). This indicates that the sense of unity among employees in informal organizations

has a significant impact on formal organizations. Tsuda also states that "Japanese is an incomplete means of communication if a relationship of mutual understanding and mutual trust does not exist first and that Japanese language is idealized to be just a "*TU-KA*" "[38](p.214). "*TU-KA*" means that people are on such good terms that they know what each other is thinking. This suggests that immediate interaction between people in informal organizations can lead to better EE because of mutual understanding, habits, and customs.

7   Future Research

In this study, we reviewed the basic concepts of engagement. In particular, we focused on EE, which has attracted the attention of researchers. We analyzed its characteristics. Our analysis revealed that the SET concept, the theoretical foundation of EE proposed by Saks, can be applied to both formal and informal organizations using Barnard's theory of organizations. We found that EE is a two-layered structure that exists simultaneously in both formal and informal organizations. The EE model is a new conceptual model based on considerations of Japanese companies and Japanese culture. However, because this study was conducted on Japanese companies, it is not clear whether it can be applied to other companies worldwide. Further research is required to verify this. It is also necessary to clarify the factors of EE using this new conceptual model in the future. We intend to clarify the validity of the new conceptual model by conducting further fieldwork and factor analysis through questionnaires and interviews.

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