

What is the Outcome of the Wages Reform in Recent Japan?

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1. What Has Changed: Overview

It has been some ten years since the term “performance-based evaluation system” was introduced. Although we hear a great deal of praise and censure of this term, it has yet to be clearly defined even after so many years. In this paper, I will attempt to identify what has changed since the 1980s.¹

The current wage reform can be summarized as follows: (1) the wage system has been diversified, (2) the diversification is a result of the accelerated involvement of wage system management in the business model of individual companies, and (3) in parallel to diversification, the core of the wage system has been reformed from the system of the 1980s.

- (1) Diversification of the wage system. Company B, a distribution and retail company, provides its all union-member employees with single rate pay. On top of that, employees receive “Individual Performance Pay” (linked to the index of the sales amount per person in relation to the average monthly sales per person) and “Shop Performance Pay” (ranked by the achievement rate of actual sales against the monthly target sales for the section). The “Individual Performance Pay” and “Shop Performance Pay” are calculated every three months, thus effecting a drastic change on employees’ salaries every three months. While this “performance pay” directly related to sales is applied only to those who work on the shop floor, a similar wage system is used for those who work in purchases, planning, human resources and

¹ This paper has been written based on the case study research project reported in “*Gendai Nihon no Chingin Seido no Genjo to Tenbo nikansuru Chosa Kenkyu* (Survey Research on the Current Situation and Prospects of the Wage System in Current Japan)” published by the Japan Trade Union Confederation Research Institute for Advancement of Living Study (RENGO RIALS), and I am grateful to RENGO RIALS for allowing me to publish this paper. The main focus of my survey is on labor unions, and as such this paper does not fully describe the pay system of the management layer. In general, the pay system of the management layer has been drastically reformed based on the performance-based system. The wage system for union-member employees reportedly has not gone through a drastic reform; however, in this paper emphasis is placed on the fact that the reform has actually been so drastic that it cannot be reversed anymore. Although the case study covers a wide range of industry fields, the observation is limited to large, representative companies in Japan.

other departments, taking into consideration qualitative target values instead of linkage to sales for the “performance pay.”

In comparison, Company F, a steel maker, has, after going through a series of wage reforms, maintained a system that takes into consideration the seniority-based treatment for union members. For personnel evaluation they place importance on the use of workers’ long-term skill ranks achieved in their workplace, calling it “*Ayumi Kanri* (Progress Management),” a tactful expression representing the practice.

As it has been described above, the wage system has been widely diversified.

- (2) Increased association with business models. In comparison, the capability-based personnel system, which was widely applied in the 1980s, exhibited a high degree of convergence. On one occasion Koichiro Imano (1998) deftly described the capability-based personnel system of the 1980s as “the supply-based wage system.” The wage system was then based on the implicit premise that the demand of products and services would be generated as a result of the enhanced capability of human resources in the soaring market environment, and that the market would absorb the wage cost that increased under the established system. It is well known that this idea justified the rationality of the wage system that promoted the enhancement of workers’ capabilities and that consequently the application of a capability-based wage was widely spread based on the capability-based grading system, appropriately designed for incorporating the enhancement of capability.

The diversification of the current reform is taking place based on the abandonment of such optimistic ideas that prevailed in the market up to the 1980s. Japanese companies learned a painful lesson during the “Lost Decade.” The current wage reform, therefore, must encompass the idea of “Winning the Market.” In the words of Imano, it might be described as a “demand-based wage system.”

To achieve the goal of “Winning the Market” and “Making Profits,” wage theory does not serve as a starting point for ideas. Only after clearly defining a business model, establishing a management strategy that allows the company to be supported and appreciated in the market, and setting up a mechanism of job management for the strategy should a wage theory be designed to fit the business model. Therefore, job theory comes before wage

theory.²

Company B, the retail company mentioned above, maintains a wage system that has inevitably been generated from the business model, in which its lifeline relies on the capability of “selling out.” On the other hand, the steel maker has introduced their wage reform based on the idea that competitive force is provided not only from product development, but also from skills that are built up based on the seniority system applied in their team work in the manufacturing section.

In any case, companies are performing their current personnel reform in the sequence of management reform, job management reform and personnel reform, and are carefully correlating these reform programs. Individual companies are required to establish their business model by taking advantage of their unique core competence for survival in the market, which also contributes to diversification of the wage system.

- (3) Table 1 summarizes the changes made to the primary systems under the trend of diversification.

Table 1. Summary of changes

	1980s	2000s
Concept	Job fulfillment capability	Role
Employee grade	Capability qualification grade	Role grade
Base pay	Age-based pay + Capability-based pay	Role pay
Personnel evaluation	Capability evaluation + Motivation evaluation + Performance evaluation	Competence evaluation + Performance evaluation

The following sections are written to ensure that this summary of changes is not based on my dogmatic ideas.³ Table 2 shows the outline of the reform conducted by different companies.

The following sections are provided: 2. Employee Grades, 3. Base Pay, 4. Changes in Personnel Evaluation, 5. Changes Promoted by Human Resource Concept, and 6. Industrial Relations.

² To put it simply without fear of being misunderstood, it can be said that for men job theory is the body and wage theory is the clothes. In this sense, to vitalize men, for example, physical strength is required before changing clothes to improve the mood or relationship with others. To understand the importance of job theory, refer to Ishida (2003), Nakamura and Ishida (2005) and Nakamura (2006) with a critical view.

³ Although the bonus is an important item, it is omitted in this paper due to limited space.

Table 2. Outline of reform conducted by different companies

	Employee grade	Base pay	Evaluation system
Company A	Job accountability grade	<p>1. Base pay (32%): Pay raise by zone and according to “Job accountability grade” and “Achievement rate”. Range-based pay.</p> <p>2. Job accountability pay (60%): Fixed amount for “Job accountability grade” and “Achievement rate.”</p>	<p>1. “Achievement rate” with target management interview ⇒ Bonus, pay raise</p> <p>2. Competence review ⇒ Grade promotion</p>
Company B	Job grade	<p>1. Base pay, fixed amount for all employees</p> <p>2. Individual performance pay</p> <p>3. Shop performance pay cf. The above is for sales staff. For office staff: 1 + job performance pay (corresponding to “2 + 3” above.)</p>	<p>1. Four types of evaluation and criteria</p> <p>Type 1: Jobs that are mainly evaluated with numerical values for performance.</p> <p>Type 2: Jobs that can be evaluated with numerical values, but that require more information for performance.</p> <p>Type 3: Jobs that can be evaluated with numerical values only for a small portion.</p> <p>Type 4: Jobs that are difficult to evaluate with numerical values.</p>
Company C	Job rank	<p>1. Job pay (30%): Fixed amount for grades</p> <p>2. Performance pay (70%): Pay raise according to grades, personnel evaluation and zone. Range pay.</p>	<p>1. Target plan ⇒ Bonus, pay raise</p> <p>2. Career-enhancement plan ⇒ Promotion</p>
Company D	Capability qualification grade	<p>1. Base pay: Pay raise according to grades, personnel evaluation and zone. Range pay.</p>	<p>1. Performance evaluation ⇒ Bonus</p> <p>2. Evaluation of action and process</p> <p>3. Capability evaluation ⇒ Promotion</p> <p>4. Evaluation of action and performance (1 + 2) ⇒ Pay raise</p>
Company E	Mission standard	<p>1. Role pay: Fixed amount for grades</p> <p>2. Process evaluation pay: Pay raise according to grades and personnel evaluation. Range pay (ceiling is 40,000 yen)</p>	<p>1. Output evaluation ⇒ Bonus</p> <p>2. Process evaluation ⇒ Pay raise, promotion</p>

	Employee grade	Base pay	Evaluation system
Company F	Capability qualification grade	1. Base pay: Pay raise according to grades and personnel evaluation. No ceiling. 2. Additional pay = Age-based pay 3. Capability pay = Fixed amount for capability qualification grade + Base pay according to qualification \times evaluation coefficient	1. Capability evaluation = "Progress Management"
Company G	Job grade	1. Job pay: Pay raise according to grades, personnel evaluation and zone. Range pay.	1. Performance evaluation 2. ACE (Accountability and competence evaluation) 1=60%, 2=40% \Rightarrow Bonus 1=40%, 2=60% \Rightarrow Pay raise 3 occurrences of 2 \Rightarrow Promotion
Company H	Role grade	1. Monthly pay: Pay raise according to grades, personnel evaluation and zone. Range pay.	1. Performance evaluation \Rightarrow Bonus 2. Competence evaluation \Rightarrow Pay raise
Company I	Capability qualification grade based on role	1. Qualification pay: Fixed amount for grade 2. Capability pay: Pay raise according to grades and personnel evaluation. Range pay (ceiling is 28,000 yen)	1. Achievement of sales index in the 1st/2nd half 2. Achievement of targets in the 1st/2nd half 3. Achievement of annual target 4. Evaluation of job fulfillment capability (Competence evaluation)

2. Employee Grades

An organization is constituted by hierarchy, indicating a structure of different grades, and it is of the primary issue for companies to manage the hierarchy of their employees.

Table 3 below summarizes the criteria used by companies studied for research in categorizing their employees into different grades. Without adhering to a strict definition of terms, three groups of criteria are identified: (1) job, (3) capability and (2) the role that is based on a concept between the two.

The table alone clearly indicates that the personnel reform was substantial. The system of capability grade was no longer the primary system employed by 90% of large companies until the 1980s. Instead, the systems of job grade and role grade began emerging as the primary system.

Table 3. Categories of employee grades

(1) Job grade	Job grade (Companies B and G), job rank (Company C)
(2) Role grade	Job accountability grade (Company A), mission standard (Company E), role grade Company H)
(3) Capability grade	Capability qualification grade (Companies D, F and I)

Now, what is the difference between job grade and role grade? Which represents the current reform more appropriately: job, role or capability grade? To answer these questions, observations are required with examples listed below. Due to the limited space available, the main points are briefly summarized in this paper.

Table 4 summarizes advantages and disadvantages of these three employee grading systems. Employee grades can be characterized from four viewpoints: (1) based on job/human resource, (2) human resource/job matching function, (3) human resource development function, and (4) evaluation function.

Table 4. Advantages and disadvantages of three employee grading systems

	Basis	Correction of mismatching between human resource and job	Human resource development function	Performance evaluation function
Job grade	Job or position	Strong	Weak	Average
Role grade	Human resource	Strong	Average	Strong
Capability grade	Human resource	Weak	Strong	Weak

Among these three employee grading systems, the “role grade system” is expected to take the primary position. The reasons for this are: (1) it is based on “human resources,” making it more appropriate to consistently position all employees compared with the “job grade system,” (2) it provides opportunities to correct mismatching between “human resources” and “jobs” to do, one of the seniority-related problems, in a similar way as in the “job grade system” (however, it may be disadvantageous if the “capability grade system” is maintained), (3) it is based on “human resources,” making it easy to incorporate the regulations of “capability” into the “definition of grades” with the possibility of adding human resource development functions (this is the most advantageous function of the “capability grade system,” but disadvantageous

for the “job grade system”), (4) the concept of “role” is suitable for developing rules within an organization out of information that is obtained from the market when such market information is received as a part of personnel functions, since the following conceptual structure is natural: the demand of the market indicates “contribution to added value” that equals the role multiplied by performance. “Role” grades indicate grades in the normal state for contribution to added value; therefore, “performance” can be set at the “target” level corresponding to each “role grade,” representing the difference between the target and achievement. The “capability grade system” is weak in this function.

Summarizing all that has been discussed so far, the “role grade system” is expected to be the mainstream in future.

3. Base Pay

3-1. Characteristics of Changes

No information is available on the old system used by Company A. Comparisons cannot be made for Company F due to the merge, and Company B has irregular factors (fixed amount for the base pay to all union members). Excluding these companies, Table 5 summarizes the history of the wage systems of other companies.

The primary change that can be observed in Table 5 is that the wage system has been simplified among all other changes. Taking a look at the base pay alone, the number of pay items has been reduced from 3 to 2 for Company C, 6 to 2 for Company D, 3 to 2 for Company E, 2 to 1 for Company G, 5 to 1 for Company H, and 4 to 2 for Company I.

The second change that can be observed is the elimination of age-based pay. Companies C, E, G and I have eliminated the age-based pay that they previously had.

The third change that can be observed is the emergence of the fixed amount by grade = single rate by grade. In place of the age-based pay that has been eliminated, the pay item of the “fixed amount by grade = single rate by grade” has expanded, and is seen as the “job pay” of Company C, “role pay” of Company E and “qualification pay” of Company I.

pay has changed in the way described in Table 6. The “age-based pay” and “capability pay” typically observed in the 1980s has changed to what is primarily described as “role pay” in the 2000s.

Table 6. Change of base pay

	1980s	2000s
General workers	<p>Age-based pay</p> <ul style="list-style-type: none"> •Fixed amount by age •Periodic pay raise <p>Capability pay</p> <ul style="list-style-type: none"> •Pay raise according to “capability grade/evaluation” or Pay step management according to “capability grade/evaluation” •Range pay with loose upper limit •Periodic pay raise 	<p>Eliminated</p> <p>Role pay</p> <p>Type 1: “Fixed amount by role grade” + “Pay raise according to role grade/wage zone/evaluation”</p> <p>Type 2: “Pay raise according to role grade/wage zone/evaluation”</p>
Managers	<p>Capability pay</p> <ul style="list-style-type: none"> •Pay raise according to “capability grade/evaluation” •Range pay with clear upper limit •Periodic pay raise 	<p>Role pay</p> <p>“Fixed amount by role grade/evaluation”</p> <p>cf. Bonus is broken down to “fixed amount by role grade/evaluation/organizational performance evaluation,” and therefore the total annual salary is determined by evaluation and organizational performance.</p>

Table 6 indicates one of the models. In practice, three types are found, as shown in Table 7.

Type 1 in Table 7 is found only with Company C: Job pay (30%) = Fixed amount by grade + Performance pay (70%) = Pay raise by zone. Companies E and I use Type 2 based on the “fixed amount by grade.” Some additional pay is provided; however, its proportion is minimal. On the other hand, Companies D, G and H use Type 3 consisting of “Pay raise by zone” for their base pay.

It is difficult to say which type is the mainstream, but we must put focus on the fact that the wage table is now based on the “Fixed amount by grade” and the “Pay raise by zone.”

Table 7. Different types of base pay

	Description	Examples
Type 1	“Fixed amount by grade” + “Pay raise by zone”	Company C: “Job pay” + “Performance pay”
Type 2	“Fixed amount by grade” (+ Additional pay)	Company E: “Role pay” (+ “Process evaluation pay”) Company I: “Qualification pay” (+ “Capability pay”)
Type 3	“Pay raise by zone”	Company D: “Base pay” Company G: “Job pay” Company H: “Monthly pay”

The new wage table provides rules to minimize the periodic pay raise. Under the “Fixed amount by grade,” pay raise is not provided as long as one remains on the same grade. As it is shown in Table 8 below, the “Pay raise by zone” system provides a strict pay raise for higher wage range and generous pay raise to lower wage range, based on the position of wages within the grade wage range (the top one quarter of the table (I) to the bottom one quarter of the table (IV), for example), converging wages to the policy line at the middle level of the range as long as individuals remain on the rank for long period of time. For this purpose, the general rule has been made to reduce pay for those who receive a high-level wage when they are evaluated as low. As a result, depending on the proportion of the total amount of pay reduced and the total amount of pay raised, the “Pay Raise by Zone” does not necessarily produce institutional pay raises under this mechanism.

Table 8. Management of pay raise by zone

	S	A	B	C	
I	0	—	—	—	
II	+	0	—	—	
III	++	+	0	—	Policy line
IV	+++	++	+	0	

By resetting the employee grading system as well as minimizing the “Pay raise system” for the base pay, as described above, a drastic reform was conducted on the conventional seniority-based wage system.

Certainly, the family system and working conditions of family members do not change as fast as personnel reform, and consequently the seniority system is applied for the wages of employees in the age group of 20s and 30s naturally

as long as the level of the initial wage remains at the current level. This requirement can be provided firstly by operating grade promotion and secondly by operating the low-level grade “pay raise” without any pay reductions.

The design of the wage system that converges on the policy line indicates inclusion of negative pay raises. Applying the “fixed amount by grading system,” Companies E and I do not practice negative pay raises in principle; however, the practice of negative pay raises is possible in the portion of “additional pay” that is not a large amount. In many cases, it is claimed that “there is no negative pay raise as long as they work normally.” However, it is clearly different from the old system, which was active up to the 1980s and institutionally did not have negative pay raises.

4. Evaluation System

The performance-based system is ultimately considered as an increase of the weight on the “evaluation of individuals work = personnel evaluation.” Everyone knows, however, that the current reform of wages highlights the increasing complexity of the evaluation system while the wage system is being simplified. After reviewing several cases, I received an inchoate impression that the system has become quite complex.

Despite my impression, here I would like to clearly state the changes that have been made. Without expressly showing the change that took place in the evaluation system, one cannot say that the personnel system has been drastically changed. As times have changed, so does the evaluation system.

4-1. Change in the Paradigm of the Evaluation System

Since personnel reform was initiated from management reform, evaluation is now positioned differently. This change implies that evaluation now has a different aspect in business operations. This is illustrated in Figure 1. (1) The domain of business strategy and job management now has a clear profile, ensuring the possibility for “individuals to make contributions in increasing added value” for the company to be “appreciated in the market.” The most important issue will be how to evaluate “individuals for their contribution.” (2) This evaluation is based on performance evaluation. Evaluating performance requires criteria to be set. The criteria should be generated from the “target” or expected performance. A functional organization has a hierarchy or an order of

Table 5. History of wage system of different companies

Company C	1986 Base pay = Age-based pay Base pay by job Personal pay by job	2001 Base pay = Age-based pay Job pay: Fixed amount by grade Performance pay: Pay raise by zone	2004 Job pay: Fixed amount by grade Performance pay: Pay raise by zone
Company D	Old system Capability-based base pay Capability pay Qualification pay Job pay Special addition Instructor addition	2003 Base pay: Pay raise by zone Base pay addition (App. ¥20,000 for group leader)	
Company E	Old system Fixed pay = Age-based pay Capability pay: Fixed amount by grade Job and capability pay: Pay raise by evaluation	2003 Role pay: Fixed amount by grade Process evaluation pay: Pay raise (Max ¥40,000)	
Company G	Old system Base pay: Pay raise Job pay: Fixed amount by evaluation	1997 Personal base pay = Age-based pay Job pay: Pay raise by zone	2003 Job pay: Pay raise by zone
Company H	Old system Base pay: Pay raise Qualification allowance Job pay Performance pay Age-based pay	2004 Monthly pay: Pay raise by zone	
Company I	Old system Base pay = Age-based pay Qualification pay: Fixed amount by grade Skill learning pay: Pay raise Performance pay: Fixed amount by evaluation	2002 Qualification pay: Fixed amount by grade Capability-based pay (Max ¥28,000)	

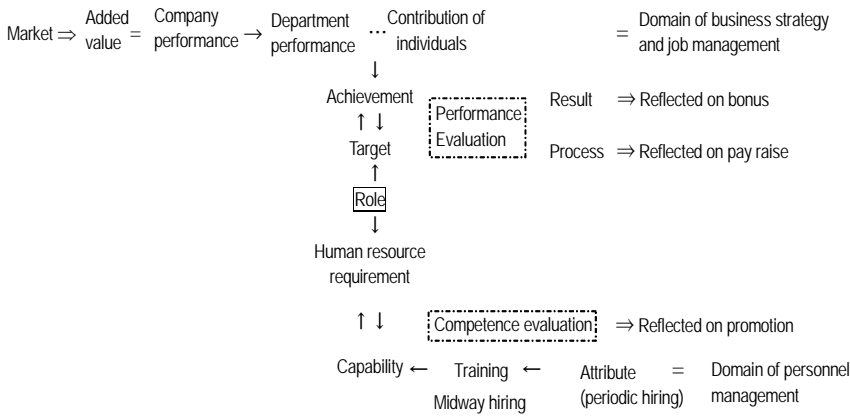
The fourth change that can be observed is that the “pay raise by zone” has been generalized. Although subtle, an important change has been made to pay raise management, which is the generalization of the “pay raise by zone.” It is shown by the “performance pay” of Company C, “base pay” of Company D, “job pay” of Company G, and “monthly pay” of Company H.

3-2. Base Pay after Reform

Following the four changes described above, it can be said that the base

levels for stable “expected performance.” To this end, the “role” is used in the current reform. Therefore, “performance evaluation” is the system in which “target level” is determined by the “role grade” with evaluation of “achievements” in comparison to the “target.” (3) Since “performance evaluation” is conducted based on the “role grade,” there is another issue of defining the “role” in terms of capability and assigning “human resources” to appropriate “roles” for supplying (training or hiring) human resources who take the “role.” In other words, adjustment is needed for the “role” and “human resources” = “capability.” This is what competence evaluation is about.⁴ Here again, “actions conducted” are evaluated based on the “expected actions,” and the “role grade” must indicate the level of “expected actions.”

Figure 1. Framework of performance-based evaluation system



On the other hand, Figure 2 shows aspects of evaluation employed during the period of capability-based evaluation for the purpose of reference. In this case, as Imano (1998) explains, everything was for the training of “job fulfillment capability” and evaluation. “Increased capability” would lead to increased added value, which would in turn be appreciated by the market in an

⁴ Interpreting “competence” as “doing...” in comparison to “job requirements” in the old system as “capable of doing...” is superficial, and the two terms are not of grammatical difference. It is more correct to understand that “competence” is defined realistically, since “role” is defined from the viewpoint of business strategy or job management. Consequently, “competence” can be defined by job and managerial objectives.

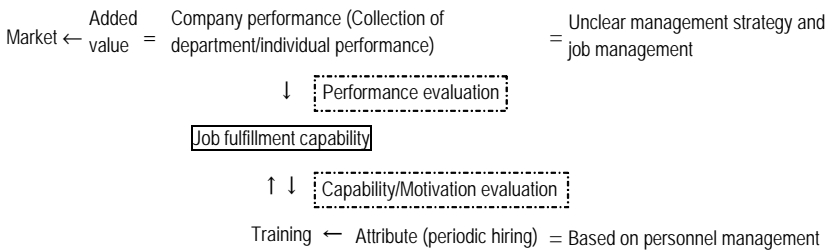
among all. Company F maintains capability-based evaluation and does not segregate one system with the other. (2) The “performance evaluation” is reflected on determination of bonus amount, while the “competence evaluation” is reflected on promotion (rank upgrade). Pay raise is divided into three types among the examples: Except Companies B and F, Companies A and C determine their pay raises based on the performance evaluation, Companies E and H determine it based on “competence evaluation,” and Companies D, G and I determine it based on the combination of both evaluations. Compared with the old system in which “performance evaluation” was never reflected in pay raises, here short-term evaluation is also reflected based on some conditions.

Table 9. Performance evaluation and competence evaluation

	Performance evaluation	Competence evaluation
Company A	Achievement rating ⇒ Bonus, pay raise	Competence review ⇒ Promotion
Company B	Evaluation of 4 types ⇒ Individual performance pay, shop performance pay	
Company C	Target plan ⇒ Bonus, pay raise	Career-enhancement plan ⇒ Promotion
Company D	Performance evaluation ⇒ Bonus	Capability evaluation ⇒ Promotion Integration of (a) action/process evaluation +(b) performance evaluation ⇒ Pay raise
Company E	Output evaluation ⇒ Bonus	Process evaluation ⇒ Pay raise, promotion
Company F	(?) Performance evaluation ⇒ Bonus	Capability evaluation ⇒ Pay raise, promotion
Company G	Performance evaluation (60%)/ACE evaluation (40%) ⇒ Bonus	ACE (accountability, competence evaluation) evaluation ⇒ Promotion Performance evaluation (40%)/ACE evaluation (60%) ⇒ Pay raise
Company H	Performance evaluation ⇒ Bonus	Competence evaluation ⇒ Pay raise, promotion
Company I	Evaluation for achievement of sales index in 1st/2nd half ⇒ Performance bonus (sales staff) Evaluation for achievement of target in 1st/2nd half ⇒ Basic bonus (sales staff) ⇒ Bonus (back-office staff) Evaluation of achievement of annual target ⇒ Pay raise for 50%	Job fulfillment capability evaluation ⇒ Pay raise for 50% ⇒ Promotion in combination with exam

upward trend. It was a happy period of time when such an optimistic view was accepted. The “evaluation” was based on “capability evaluation,” primarily to evaluate “job fulfillment capability.” The criteria were ultimately defined with workplace hierarchy and relative evaluation, instead of “any objective criteria.” These criteria were derived from a series of daily operations after a long period of time and as such are rather convincing. The “performance evaluation” in those days was somewhat of a minor addition based on the observation of capability evaluation from term to term. The “motivation evaluation” was based on personality and therefore the evaluation must have been stable.

Figure 2. Structure of capability-based evaluation



Consequently, the change was made due to the fact that the market force exceeded that of the company organizations, making the profile of business strategy and job management clear. As a result, integration into the personnel management had to be taken care of by the “role” that would “contribute” to the achievements of the company and department targets. The “role” that serves for integration needs to indicate the level of “expected performance” on one hand and the level of “expected actions” on the other.

In this way, performance-based evaluation was constructed with the “role grade” serving as a scale of “performance evaluation” and “competence evaluation.”

4-2. Comparison with Examples

How appropriately does this evaluation structure match the examples? Table 9 shows an overview of this by not including any details. (1) Companies are organized in terms of “performance evaluation” and “competence evaluation” systems. Company B integrates “competence-based” qualitative evaluation in its performance evaluation for staff in particular, making it unique

5. Concept of Human Resource Management That Has Promoted Changes

I have described the changes that took place. A variety in the wording of changes are found in examples of reform; however, there is consistency in the concept of reform regarding variety in the intention of reform. I wanted to emphasize that the system is rather simple when observing the system based on the concept of reform.

The question is what the concept of reform is. How does it differ from the one that prevailed up to the 1980s? The turning point is related to how to consider the relationship between the organization and the market. The difference is either starting with getting the organization to think of human resources or with getting human resources to think of the organization.

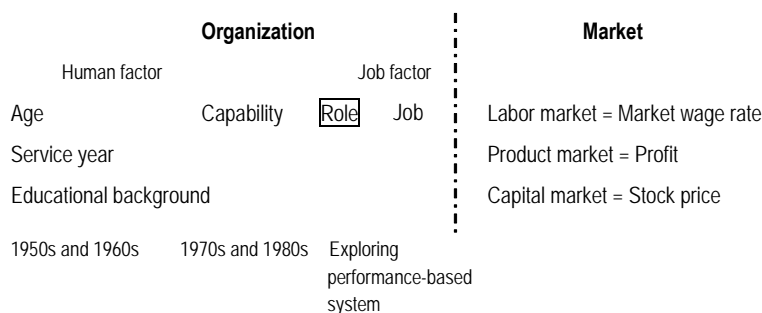
For the period from confusions arising from the war to the 1980s, Japanese companies worked towards personnel reform for every occasion encountered. It is a history of attempts to promote activation within the organization, searching for factors that would determine the order within the organization and remuneration.⁵ For the period up to the 1960s, the criteria were primarily based on the following: [age, service years and educational background], with some consideration given to individual evaluation. With the pressure from international competition after liberalization of trade and capital, the “capability-based system” was introduced from the 1970s to 1980s to reform the system.

Throughout this period there was consistency in that, first of all, of the determining factors of [age, service years, educational background] and evaluation, the concept of job fulfillment [capability] was used for reorganizing and reinforcing the evaluation part and reducing the weight of [age, service years, educational background] in an attempt to correct problems inherent to the seniority system; however, they failed to eliminate the factors of [age, service years, educational background] that are incorporated in the determining factor [capability]. Consequently, companies continued to shoulder the burden of the seniority-based wage system at all times. Along with the aging of their employees, the issue became more serious year after year for organizations.

⁵ This attempt by management meant introduction of a new wage differentials to labor unions and seriously affected union members in the workplace. This wage reform actually resulted in the major disintegration of unions, and the strained industrial relations only improved in the 1970s.

Secondly, up to the 1980s the design of reform and system was not based on the market; it was always based on ideas generated within the organization. The remuneration system was conceived by implicit optimism with the [upward market] assuming that [the market would appreciate the organization for its performance on capability development and human resource training]. That is why it was called “supply-based” personnel management. Thirdly, meanwhile, a number of attempts were made to prevent an inclination towards the seniority system by incorporating more objective job factors into the [capability] factor, although it was not based on the market. These attempts were made to restrict the seniority element embedded in [capability] factor by introducing the [job] factor; however, the attempts were often “laborious but fruitless” due to characteristics of Japanese companies, which traditionally provided flexibility in job assignments and job descriptions.

Figure 3. Conditions determining criteria



To summarize the reforms in line with Figure 3, the reforms that took place up to the 1980s consisted of changes in the weight of the determining factors for remuneration shown from left to right in the table (or from human factor to job factor); that is from the “pre-conditional” factors of [age, service years, educational background] to the “post-conditional” factors of [capability]. To prevent the influence of the seniority system that was persistently applied, manufacturing industries in particular seriously and repeatedly tried to incorporate [job] factor into [capability] factor; however, the persistent application of the seniority system was preserved somewhat for the normative, moral concept that employees should be remunerated for their improvements and long-term practice of sincere work represented by long years of service.

This means that the Japanese personnel system up to the 1980s was designed for harmony between activation through the competition between human resource development based on capability and the moral concept remunerating workers for their hard work. It can be said that companies then were “gentle and kind.” These “gentle and kind” companies had the most outstanding performance in the world market. That was the situation in the 1980s.⁶

After reaching a peak the situation then changed for the worse. In the painful struggle that followed, the organization theory had to be dismantled by way of the market theory, thus pushing the dismantling process to the limit. This was the introduction of the performance-based evaluation system.

Refer to Figure 3 again. The market as a source of ideas consists of the labor market, product market and capital market. How, then, can it be translated into the personnel system? The primary work of management planning was to convert “market sign = price” into “organizational sign = rules.”

Firstly, the wage rate that existed in the labor market has to be accepted, and then it is possibly taken into account. Although capability-based competition took place in organizations, they had already set wages at high levels due to the seniority system. The more the market wage rate is applied, the more the wage cost is reduced. We, however, do not have the market wage rate for long-term, regular employees in Japan.⁷ The market wage rate is widely applied to part-timers, dispatched workers and contracted workers. The labor demand is concentrated in these sectors, expanding the supply system and rapidly enlarging the external human resource market. Through efforts to reorganize their work, companies segregated jobs that did not require skill accumulation and outsourced these kinds of jobs.

Secondly, how can personnel management be changed for those who

⁶ For more information on this period, please refer to Kusuda and Ishida (2004). They vividly describe how deeply designers of the personnel system understood the environment of the time and how they applied the system in practice.

⁷ It must be difficult to offer leader positions of work groups for vehicle assembly lines or steel sheet rolling mills; however, newspapers and job magazines do not even offer positions of account managers, personnel managers or production control section managers. This is quite different from the U.S.A. It indicates that there is no market wage in a true sense. What we have is the wages survey according to business scale, age, job title and educational background. These elements cannot be directly used for the basis of wage determination within the organization.

cannot be taken from the labor market? This is a question of how to apply the product market (sales and revenue) or capital market (stock price), “market sign = symbol,” to the personnel system. To this end, the procedural steps should be as follows: (a) reconstruction of management strategy, (b) reorganization of the organization, (c) reconstruction of job (work) management, and (d) personnel management.⁸

To accept the logic of “market → business strategy → reorganization of the organization → job management → personnel management,” the personnel management system requires a mechanism to promote the job fulfillment of individuals in line with organizational targets (job management functions) on one hand, and to ensure essential personnel functions (personnel management functions) to place human resources in the right order on the other. In this respect, the old system had a weak relationship between the “capability grade system” and job management functions.

To combine the job management function and personnel function, the grading system had to be introduced for defining the level of work targets for individuals. The “role” was suitable to this since it implies the grade of contribution to the achievement of organizational targets.

In reaching this theory, it was natural to use “performance evaluation” for job management functions to evaluate the target and achievement, and “competence evaluation” for the personnel management function, based on the “role grade system” and making the best use of the job management function and personnel management function.

6. Industrial Relations

6-1. Landing Position without the Presence of Industrial Relations

It is clear where the reforms have landed. Unfortunately, they have landed on a weak foundation, both theoretically and practically. It is weak because it indicates a high probability of a “landing position without the presence of industrial relations.”

Theoretically, the “price of work”, in other words the trading rule between the job and wage, is not determined by collective bargaining; however, it is

⁸ It was not mentioned due to limited space, but the premises of the personnel management is well explained by application of the holding company system. This system broke down companies into operational companies to quickly respond to the reconstruction of strategy and to conduct smooth job management.

determined through a target interview and an evaluation between the superior and subordinate. Thus, the issue is how to consider this practice. When the trading rule is solely determined individually through the target interview between the superior and subordinate, can that trading rule be called a “fair system”?

From this theoretical viewpoint, both sides have to be examined and in particular the “work” part of “price of work” (= quality and volume of work) and the “price” part (= wage).

For “price” (= wage), signs of efforts that have been made are observed, starting from ensuring time for the target interview, checking feedback, improving the operation, and to forming rules to more closely match the “fair system” in designing the wage system. (1) For the younger generations, the conventional “capability-based system” is used more to evaluate their skill learning, work knowledge and capability improvement. (2) For the middle management group, (a) “performance” is replaced with “performed capability” for jobs that shows only the qualitative aspect of their “work behavior”, observing and evaluating “performed capability” on an annual basis against their specific target and behavior performance, including processes without adhering much to past performance.⁹ (b) For jobs that show the quantitative aspects of their “work behavior” numerical evaluation can be used, but labor-management consultation needs to be enhanced to “provide the feeling of fairness” for the situation. Company B, the distribution and retail industry is one of the typical examples.¹⁰

Examining these in details, the current reform cannot be described for sure as a “landing position without presence of industrial relations,” but the problem is deep rooted. To put this without fear of being misunderstood, “price” (wage) is a minor issue of the current reform. The root problem lies in the “work” part that included the driving force of the reform (reform of business model); however, no serious efforts are made in establishing collective rules for the target setting. This makes industrial relations more difficult in Japan.

Let me explain this a little further. The target interview determines the work target of individuals. The target can be the level of work, but it does not

⁹ Toyota is a good example. Please refer to Nakamura and Ishida (2005), Chapter 6.

¹⁰ Following the personnel reform that was based on the achievement of numerical targets, the labor union of Company B introduced a mechanism to discuss business plans at the labor-management consultation.

define the volume of work. Of course, the volume of work is an important issue for individuals which they are concerned about, so they consult their superior at the target interview or during day-to-day work in regards to this. The superior would probably answer that it is the job of the worker to perform their task with capability, concluding the quality and volume of work as the problem of the capability of individuals.

For the current wage reform, there is a paradigm change that “job performance” is “not volume but quality of work.” This is not wrong, however, it does not eliminate the problem of “volume,” thus leaving it unsolved as to which common rule should be used to determine “volume.” The level of work of individuals can be discussed only after this problem of “work volume” is defined with “fair” rules.

6-2. Performance-based Evaluation and Activating Labor-management Consultation

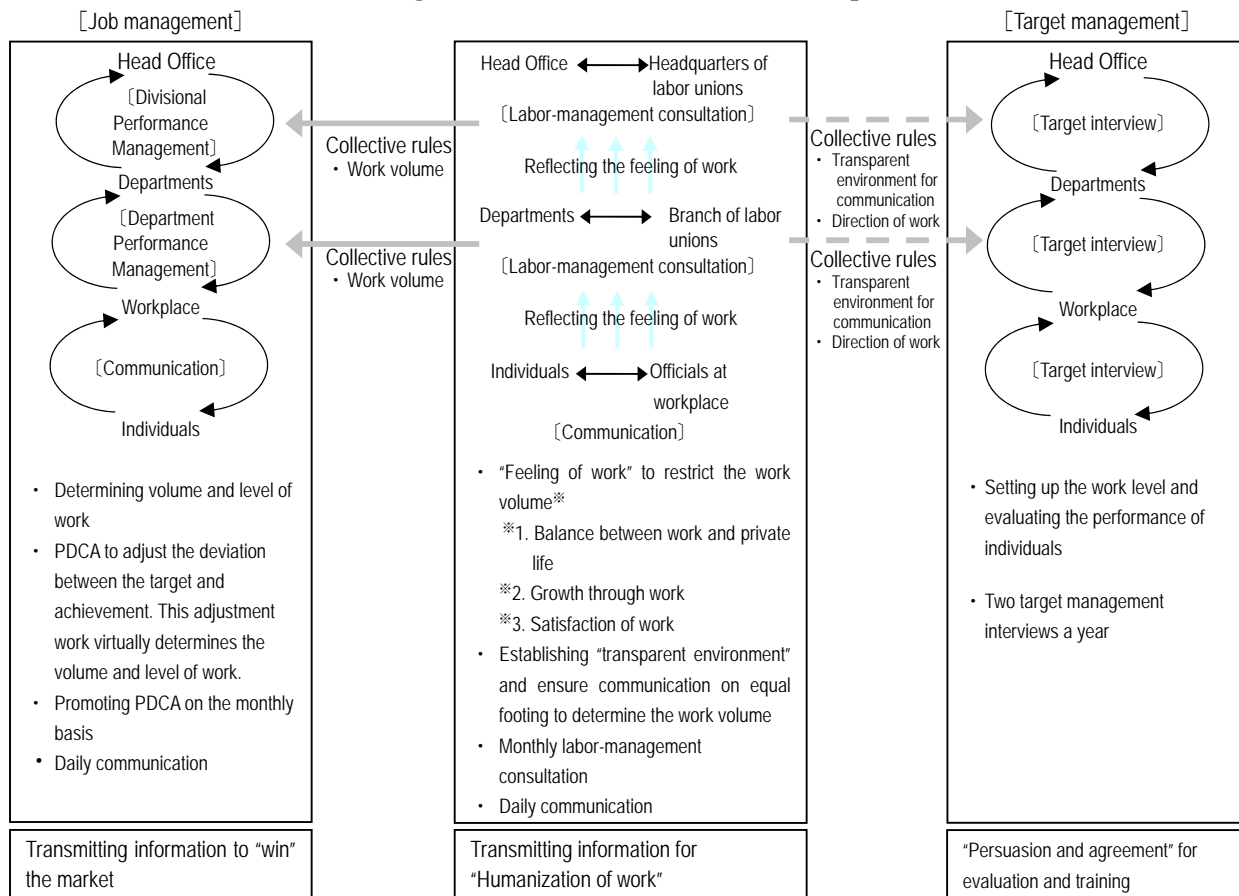
The above overview summarizes that personnel evaluation now provides a more decisive influence than ever for determining the terms of employment.

The target is derived from the level of work and the level of work is derived from the management plan. It is necessary for labor unions to maintain the last defense line, and losing it prevents labor unions from getting involved in the determination of the wages of union members thus makes it virtually nonexistent. Therefore, they must uniquely associate their domain, once called “participation in business,” with “labor-management consultation system” at each level.

Now I would like to explain how to get involved with the rule of “work” described above. Please refer to Figure 4 “Potentials of Labor Unions in Japan.”

Companies today have the following two elements for “work” management: (1) job management, and (2) target management (target interview). The job management (1) cannot be described in detail due to the limited space available, therefore, please refer to Nakamura and Ishida (2005) for this topic. The plan (target) is determined for each term in a chain, linking company target - department target - workplace target - (individual target) with PDCA (Plan, Do, Check and Action) operated to achieve these targets. This practice is normally repeated on a monthly basis, although it differs by company and business fields, and as such determines the whole job (quality and volume). The target management (2) does not need to be explained in detail. At the beginning of

Figure 4. Potentials of labor unions in Japan



each term, (2) does not need to be explained in detail. At the beginning of each term, (2) does not need to be explained in detail. At the beginning of each term, individuals and their superiors meet to set work targets, and evaluation is conducted at the end of term to provide feedback. This is also ideally performed based on PDCA. This PDCA cycle rotates at most twice every year. This target interview determines the level of work.

This mechanism has the problem that the job management (1) determines the total volume of work and overall level, and the target management (2) determines the work level of individuals; however, it does not determine the volume of work for individuals.

Here, labor-management consultation (3) can play a role. To determine the volume of work for individuals, the “required number of workers \times working hours \times work density” must be determined. Working hours are the central item of labor-management consultation. While it is difficult to discuss the number of workers required and work density, it can be collectively expressed in working hours in terms of workload and difficulty of the job. It is essential to consider labor-management consultation (3) in relation to determination of the “job.” White-collar workers need to talk about the “monthly work plan,” since it is difficult to express their volume of work in terms of working hours. In fact, the labor unions of prominent automakers discuss the “development plan” of the product development department for their labor-management consultation to prevent the work going out of control.

Based on this, labor-management consultation (3) has an extended role to play: it extends to the “participatory consultation” of the management plan for job management (1) on one hand and to the “workplace activities” of the target interview for the target management (2) on the other. Due to the limited space, the summary only is described. The “participatory consultation” extended to job management (1) should provide a “better understanding” of management plans at the company level, department and workplace. The “workplace activities” of the target management (2) should provide union members with a precise understanding as to the extent that they can explain the focal point of their work relation to the management plan for the target interview. This is necessary also to reform and fulfill corporate governance and CSR (Corporate Social Responsibility), which is one of the hot topics today. On the other hand, the “workplace activities” (2) are designed to provide union members with information required to sufficiently understand the business plan prior to the

target interview, also giving them opportunities to self-sufficiently consider what to discuss with their superior. In the beginning of the term, seminars may be required to prepare for the target interview. Subsequently, at the end of term a “feedback improvements” seminar should be organized so that information can be distributed throughout the workplace without difficulty.

By making every effort to devise solutions for determining common rules for work, the first valuable step will be made towards the 21st century, thus filling the world of work with vital human energy. The issue of industrial relations has boiled down to this level in Japan.

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