

Employee Comprehension of Pay Systems

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1. Introduction

Combining human resources data on employees from a specific company with the results of a questionnaire completed by the same employees, this paper analyzes to what extent these employees accurately understand the human resources policies and compensation systems of their company. The paper also aims to identify the relationship between their relative positions or level of compensation and their knowledge of performance evaluation and compensation systems.

Japanese business firms have made varied and great efforts in order to climb out of recession. As indicated by the fact that many extensive discussions have been held concerning performance-based pay systems, changes in human resources policies have been incorporated in the improvement of management culture, aiming at heightening employees' desire to work. However, the criteria for new employee appraisal systems or changes to appraisal systems have not always been reflected in the actions of the employees as originally intended. This is because several steps need to be taken in order to shift the actions of employees in a desired direction.

The first appraisal conducted by the immediate supervisor of an employee on the basis of his/her performance usually passes through the first and second adjustment stages and continues to the final appraisal. Then, this final appraisal is factored into the salary of the employee, based on wage tables and wage determination formulas. Evaluating supervisors or human resources agents sometimes make adjustments at the stage of authorization of appraisals or promotions. However, in most cases, the salary of each employee is determined through the aforementioned procedures. This results in the formation of wage structures characterized by seniority pay or wage disparity, which are visible in an overview of all employee wages. Meanwhile, each employee understands the wage tables and wage determination formulas, and grasps the relationship between work effort and salary through information related to their own salary and evaluation as well as salaries paid to coworkers; then with this information each employee determines the level of his/her effort and way of work.

An important point to consider is that changes in employees' work mentality,

in many cases, result from changes in their awareness of their external environment. Their judgments depend on the information that they have retained and the awareness that they have formed for themselves and their environment on the basis of such information. In other words, the elements that determine their behavior are the knowledge and awareness that they have concerning human resources policies and wage structures, as well as the actual status of each.

Therefore, during the intermediary stage of a change in human resources policies to a change in work mentality and effort, there may be some problems in which an employee's awareness of the guidelines under which he/she should work or act is not always in harmony with the actual intentions of the company. No matter how the system is changed, his/her effort and way of work cannot be changed unless perceptions are also changed. Moreover, if employees have misconceptions concerning their human resources policies, changes in the policies may result in a response not originally intended. Conversely, if employees assume that the system has been changed, regardless of whether a change in the system is unsuccessful or no changes were made in the first place, some changes may still appear in an employee's effort. Considering this point to be important, this paper measures to what extent employees accurately understand human resources policies and pay systems and to what extent their knowledge deviates from the actual intentions of the company.

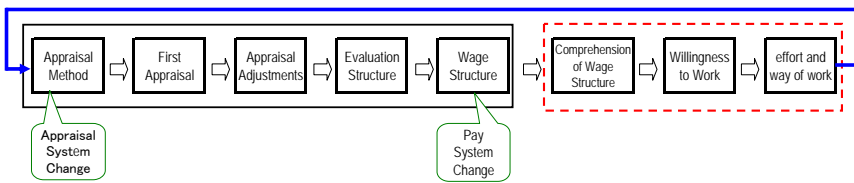
2. Earlier Studies and Positioning of This Paper

Attempts have already been made to analyze both the results of a series of renovations to human resources policies, called the performance-based pay system, and the effects that such renovations have had on one's willingness to work and motivation in the workplace. However, few attempts have been made to analyze the deviations between the institutional structure of pay systems and employee awareness of these systems.

These studies can be roughly divided into two categories. As shown in Figure 1, one category is those that attempt to analyze the process as it moves from first appraisal to final appraisal, and ultimately to the determination of wage structures in which the final appraisal is reflected. A recent and remarkable trend is that several analyses have been made using highly reliable individual human resources data from the human resources departments of various business firms. The analyses made by Tsuru, Abe and Kubo in 2003 and by Nakajima,

Matsushige and Umezaki in 2004 can be raised as examples of recent studies. Using the data accumulated over a period of many years to make estimations, the former group points out that in some business firms the introduction of new evaluation systems weakened the seniority system, resulting in increasing wage gaps. Comparing the wages that were put into effect by a business firm before and after introducing a new evaluation system, the latter group observes that this change not only increased the weight of seniority but also narrowed wage gaps in the manager class where annual salary systems had been introduced. Analyzing the procedures for employee evaluation adjustments, Umezaki, Nakajima and Matsushige jointly clarified in 2003 that “hierarchical evaluation” (namely, the degree of involvement of third parties or a senior manager in the employee evaluation adjustments) played an important role in determining wage gaps.

Figure 1. System change and work methodology



Genda, Kambayashi and Shinozaki jointly tried in 1999 to clarify the relationship between the introduction of performance-based systems and motivation in the workplace. Morishima (1997/1999), Fujimura (1998) and Tsuru (2001) point out in their respective papers that it is necessary to improve the fairness of the employee evaluation adjustment process and the clarity of the evaluation in order to have employees readily accept the “performance-based” pay system. The information used in these studies is, however, based on the questionnaires. Since the employee questionnaires can be said to be a survey on the subjective understanding of employees, the studies can be regarded as the analyses of the relationship between their knowledge and their effort and way of work.

However, there is no research on the means of connecting the research of these two groups, namely, research between the wage structures currently adopted by business firms and the wage structures understood by employees.

The studies conducted by Abe in 2000, Tsuru in 2001 and Ohtake and Karato in 2003 already point out that not all of the employees objectively and accurately grasp the actual status of their own salaries. For example, the results of verification made by Tsuru (2001) illustrate that the subjective awareness of wage gaps is not linked to motivation in the workplace. Moreover, Abe (2000) points out that when system changes are not relayed to employees these changes do not lead to any improvements, which is expected but meaningful nonetheless. These studies, however, have not analyzed to what extent awareness deviates from the actual conditions. As far as I know, only The Japan Institute for Labour Policy and Training (2006) has identified the deviations existing in the understanding of performance evaluation systems and verified relationships between the deviations and the performance of business firms. This study, therefore, can be said to be worthy of special mention. The study, however, has not analyzed to what extent the individual employees of a business firm understand their own evaluations and relative positioning.

Such being the case, I will confirm whether deviations in the awareness of employees concerning the human resources policies can be identified by any data other than those used by The Japan Institute for Labour Policy and Training (2006). Then, I will investigate to what extent individual employees understand their salaries and positioning within the organizations of their company. Finally, I will investigate the elements that determine the accuracy of their perceptions.

3. Degree of Understanding

In this section, I will confirm deviations in employee awareness of human resources policies by using a combination of data from the actual employment management survey (company survey) titled “1995 Fiscal Year, Report on Employment Upgrading Promotional Business for Pharmaceutical Manufacturing Industry (1996)” and the data of an employee awareness survey. Additionally, I will survey the degree of employee awareness and the accuracy of their perceptions of human resources policies through utilization of the employees-related micro data from the human resources department of a business firm, as well as the data obtained through the employee questionnaire survey.

3.1. Data Related to Pharmaceutical Manufacturing Industry

Table 1 shows the figures obtained through the calculation of employee awareness deviations concerning human resources policies. The survey used

for the “1995 Fiscal Year, Report on Employment Upgrading Promotional Business for Medical Manufacturing Industry (1996)” was conducted in 1995. The “company survey” is based on the questionnaires that were distributed to and collected by mail from 230 member companies of The Pharmaceutical Manufacturers Association of Tokyo and 270 member companies of The Osaka Pharmaceutical Manufacturers Association. The number of companies that provided valid responses was 310, while the response rate was 62.0%. The “employee survey” is based on questionnaires that were distributed to and collected through companies from 5,000 regular employees working for the 120 companies that provided valid responses and that were engaged mainly in medical products manufacturing. The questionnaires were answered by 3,462 employees of 102 companies, and the response rate was 69.2%.

Analyses have been conducted concerning the annual salary system, which is closely related to the “performance-based” evaluation system, and the introduction of objectives management. A cursory review reveals quite substantial deviations. Particularly, the employees understand that the performance-based evaluation system has already been introduced by their companies more extensively than the employees think.

Table 1. Employee awareness deviations concerning human resources policies in the pharmaceutical manufacturing industry

1) Annual Salary System		Employee Awareness (Employee Survey)		N=3020
		Believe a System Has Been Introduced	Do Not Believe a System Has Been Introduced	Total
Responses from Human Resources Staff (Company Survey)	Companies Which Have Introduced Systems	85.6	14.4	100.0
	Companies Which Have Not Introduced Systems	79.0	21.0	100.0

2) Objectives Management		Employee Awareness (Employee Survey)		N=3020
		Believe a System Has Been Introduced	Do Not Believe a System Has Been Introduced	Total
Responses from Human Resources Staff (Company Survey)	Companies Which Have Introduced Systems	81.4	18.6	100.0
	Companies Which Have Not Introduced Systems	81.5	18.5	100.0

3.2. Analysis Using the Micro Data Related to Employee Management

Next, I will analyze the human resources data of a business firm concerning the salaries paid by the firm for four fiscal years from 1999 to 2002 in conjunction with the employee questionnaire survey results.

The company targeted by this survey is a manufacturing company with more than 1,000 employees. The average age of all of its employees is approximately 38 as of the fiscal year 2002, while the average length of service is a little less than 15 years. This company has a labor union; however, it does not belong to any larger union organizations. The company has thus far kept a relatively cooperative relationship with the union. The business performance of the company was stable for several years before the survey was conducted. Their annual sales have steadily increased in the recent six years.

The above micro data includes information such as salaries, age, years of service, sex, and whether work responsibilities are considered comprehensive or clerical in nature. This survey, however, focuses only on said comprehensive employees as it is necessary to limit the coverage to those employees working under similar treatment scheme. Their annual salary is composed of a monthly salary, summer bonus, winter bonus and account-settlement bonus. The monthly salary is further divided into a fixed salary and non-fixed salary. The fixed salary is composed of a basic salary and allowances. The basic salary is composed of a personal salary (age salary plus service salary) and a qualification-based salary. For this analysis, I will use the basic salary.¹

The employee questionnaire survey was carried out by the human resources department in March and April of 2003 in order to identify the awareness level for all of the general managers, section managers and other lower-class employees. The response rate was approximately 68%. This survey was conducted in such a manner as to allow the data collected through the survey

¹ This performance evaluation system is based on the same qualification scheme as that of many Japanese companies. In this scheme, clerical employees are classified into classes from one to four, while comprehensive employees are classified into classes from one to ten. Comprehensive employees, which are the subject of this analysis, are evaluated from the perspective of their organizational status. Classes one to six are for general employees, classes seven and eight are for managers, and classes nine and ten are for general managers. The employees who begin working immediately after graduation from their 4-year university are treated as class three. The age salary stops increasing at the age of 50 and slowly decreases from the age of 55. The service salary is no longer provided after the age of 55.

to be matched with the human resources data of the company.

3.3. Accuracy of Perceptions Regarding Human Resources Policies

The accuracy of employee perceptions regarding human resources policies has been measured by eleven questionnaire queries concerning human resources policies. The contents of the questions are the same as those explained in the training seminars related to the human resources policies of the company. Thus, the questions are related to topics of which employees are aware of to some extent. These topics are comprised of two items concerning basic salary, two items concerning an increase in the age salary², three items concerning bonuses, one item concerning promotion standards, two items concerning the performance appraisal system and one item concerning notes for the operation of objectives management.

The percentage of correct responses is illustrated in Table 2. The percentage of correct responses concerning questions about performance appraisal is comparatively high. However, the percentage concerning basic salary is extremely low, while the percentage concerning bonuses is as low as approximately 50%. Since the difficulty of the content of the questions varies from one to another, each difference in the percentage of correct responses is not directly related to the exactness of their knowledge or the degree of their interest. However, considering that the questions are related to quite basic matters, I cannot say that they are fully aware of their human resources policies.

Those employees answering all questions provided, on average, 7.0 correct responses to the 11 questions (percentage of correct responses: 63.3%). As for the employees who answer some but not all of the questions, if you determine that they were unable to answer such questions their percentage of correct responses becomes 5.6 on average (51.2%). This rate is very low. Also, from this point of view it is difficult to say that the accuracy of their perceptions regarding human resources policies is high.

² Example: "The age salary stops increasing at the age of []." "The number of months for bonus provision varies from [] to [] depending on the performance evaluation." As such, the contents are quite basic.

Table 2. Questionnaire response rates regarding human resources policies

	Correct Response Rate 1* (%)	Correct Response Rate 2** (%)
Question about the basic salary of manager classes	28.0	16.5
Question about the basic salary of general employees	24.7	20.5
Question about the age salary 1	69.1	61.3
Question about the age salary 2	69.3	61.7
Bonus calculation base	73.4	50.9
Minimum number of months for bonus provision	62.0	57.3
Maximum number of months for bonus provision	48.7	44.9
Requirements for promotion	95.1	89.1
Question about personnel appraisal 1	87.2	81.6
Question about personnel appraisal 2	64.7	61.1
Notes for the operation of objectives management	25.8	18.7
Average Rate for Correct Responses	63.3	51.2

* The number of employees who answered all of the questions is regarded as the total number of respondents

** The number of employees who answered any of the questions is regarded as the total number of respondents

3.4. Knowledge Regarding Wages

I also surveyed the degree of accuracy with which employees understand the level of the salaries actually paid to them, as well as existing wage gaps. The salaries that they expect to receive if they continue to work hard or that they would receive if they fail to move up to higher classes are directly related to what they want to be in the future. Therefore, it is not unusual to assume that their work is motivated by interest in these matters.

The questionnaire provides the following questions:

1. What do you think are the minimum and maximum amounts for a general manager's monthly, pre-tax salary?
2. What do you think are the minimum and maximum amounts for a 35-year old employee's monthly, pre-tax salary?
3. What do you think are the minimum and maximum amounts for a 45-year old employee's monthly, pre-tax salary?
4. What do you think are the minimum and maximum amounts for a 55-year old employee's monthly, pre-tax salary?

5. For an employee the same age as you, what do you think are the minimum and maximum amounts for their monthly, pre-tax salary?
6. For an employee with the same qualifications as you, what do you think are the minimum and maximum amounts for their monthly, pre-tax salary?

For employees, general managers are the model success story. This is the organizational position to which promotion seekers aspire and is the top position that is in contact with day-to-day business operations. Naturally, other employees are believed to be very interested in the salaries of the general managers. Question No. 1 has been established in consideration of these factors. Questions No 2 to 4 have been selected as the said ages are nearly equivalent to the timings of promotion to manager and general manager and the timing of the stop in age-salary increases, all of which represent turning points for career development. As these questions are related to the salaries of the employees who differ from the respondents in terms of position and age, the accuracy of their responses is likely to decrease. Therefore, I considered it necessary to prepare questions that are related to the employees who may be more familiar with the respondents and added Questions No. 5 and 6 accordingly. Generally, it is believed that employees are strongly interested in their rivals and that they can easily measure and determine their relative position by comparing it with the position of their rivals.

Table 3 provides the statistical figures related to the answers to these questions. The figures reveal that the levels of not only maximum but also minimum salaries assumed by the respondents are higher than those actually paid. For example, the average amount of the maximum monthly salary that respondents think 35-year-old employees receive is 405.0 thousand yen. This is 74.9 thousand yen (22.7%) higher than the 330.1 thousand yen actually paid. It is quite understandable that it is difficult for respondents to accurately estimate the salary level for employees who are much older. However, they also estimated the salaries of employees equally qualified or in the same age group to be much higher. The only exception is the minimum salary provided by the employees who are classified in the classes one and eight. Their estimates were lower than what is actually paid. As a whole, we can say that employee knowledge about salary levels is substantially ambiguous.

Furthermore, deviations in the understanding of salary levels are significantly

Table 3. Knowledge regarding maximum and minimum monthly salaries

Question		Current Amount (1,000 yen)			Average (1,000 yen)	Standard Deviation	Variable Parameter	Number of Respondents
Monthly Salaries of Employees Age 35, 45, 55, and General Managers	35-year-old Comprehensive Employee	Max.	330.1	Max.	405.0	94.8	0.23	581
		Average	281.6					
		Min.	222.4	Min.	284.2	54.8	0.19	582
	45-year-old Comprehensive Employee	Max.	428.3	Max.	515.9	124.4	0.24	581
		Average	385.0					
		Min.	338.8	Min.	345.7	67.0	0.19	580
	55-year-old Comprehensive Employee	Max.	495.0	Max.	590.2	173.1	0.29	582
		Average	437.0					
		Min.	356.6	Min.	385.0	86.3	0.22	582
	General Manager	Max.	502.0	Max.	773.2	289.6	0.37	583
		Average	478.6					
		Min.	457.1	Min.	572.3	176.0	0.31	584
Salaries for Employees of the Same Age	35-year-old Comprehensive Employee	Max.	330.1	Max.	414.4	93.1	0.22	31
		Average	281.6					
		Min.	222.4	Min.	285.4	58.0	0.20	31
	45-year-old Comprehensive Employee	Max.	428.3	Max.	562.5	69.4	0.12	8
		Average	385.0					
		Min.	338.8	Min.	353.8	46.0	0.13	8
Salaries for Employees with the Same Qualifications	55-year-old Comprehensive Employee	Max.	495.0	Max.	607.1	117.0	0.19	7
		Average	437.0					
		Min.	356.6	Min.	385.7	47.6	0.12	7
	Qualification First Class	Max.	174.7	Max.	178.6	17.7	0.10	7
		Average	167.9					
		Min.	159.2	Min.	143.6	25.0	0.17	7
	Qualification Second Class	Max.	242.5	Max.	269.6	69.2	0.26	23
		Average	196.5					
		Min.	178.9	Min.	186.5	40.9	0.22	23
	Qualification Third Class	Max.	291.4	Max.	300.2	57.5	0.19	109
		Average	230.8					
		Min.	203.2	Min.	217.4	38.6	0.18	109
	Qualification Fourth Class	Max.	345.9	Max.	374.3	90.7	0.24	139
		Average	269.9					
		Min.	237.9	Min.	266.1	46.5	0.17	139
	Qualification Fifth Class	Max.	388.9	Max.	413.3	85.8	0.21	109
		Average	311.7					
		Min.	277.8	Min.	307.4	74.9	0.24	109
	Qualification Sixth Class	Max.	411.7	Max.	452.0	68.8	0.15	99
		Average	359.7					
		Min.	320.3	Min.	334.2	42.4	0.13	99
	Qualification Seventh Class	Max.	442.7	Max.	518.3	81.4	0.16	66
		Average	420.6					
		Min.	389.8	Min.	403.1	76.6	0.19	66
	Qualification Eighth Class	Max.	502.0	Max.	586.9	105.5	0.18	34
		Average	478.6					
		Min.	457.1	Min.	449.1	36.8	0.08	34

large. Taking the estimated maximum monthly salary of a 35-year-old employee as an example, the average amount is 405.0 thousand yen as mentioned above, with the standard deviation of 94.8 thousand yen (coefficient of variance: 0.23). This means that the perceptions employees have of the distribution of salaries vary to a large extent. In other words, the employees have only significantly inaccurate information about the wage structures.

4. Factors for Determining Awareness

It is generally considered that the degree to which employees accurately perceive their working environment and conditions depends largely on their capabilities. One of the indexes that represent their capabilities is the performance appraisal made by their company. Age, length of service and educational background can also be raised as possible factors determining awareness; while experience as a member of society, length of service at the office and level of education also help deepen the understanding of their environment.

4.1. Wage Determination by Compound Accumulation and Capability Indexes

First, let me explain the fundamentals of capability indexes. The most valuable feature of the data used in this study is the fact that the information regarding the employees was accumulated over a long period of time. The capability indexes have been created by applying panel analysis to human resources data.

Many Japanese companies determine the salary of each employee or, in particular, the base salary by determining first the salary increase amount or rate according to the performance evaluation results and then by adding the increased amount to the monthly salary paid to the employee during the previous fiscal year. The company examined for this study is no exception. It neither disregards the currently effective evaluation rank of its employees or creates a completely new evaluation rank in every fiscal year, nor determines their salaries by referring only to the evaluation results of the previous fiscal year. Thus, the basic salary is determined in a manner in which the increase accumulates through the compounding of interest, as indicated in the following formula:

$$w_{it} = w_0 \prod_t ((1 + d_t)(1 + \alpha_{it} + \varepsilon_{it}))$$

In this formula, w_0 is the amount of the salary effective at the time of

recruitment, d_t is the base-up ratio for each fiscal year, and $\alpha_{it} + \varepsilon_{it}$ is the salary increase ratio applicable to an employee i in the fiscal year t . This is the portion that is determined on the basis of the evaluation. However, α_{it} is the portion that is determined on the basis of personal capability or contribution, while ε_{it} is the portion of accidental evaluation error.

The following is the logarithmic formula converted from the above formula:

$$\begin{aligned}\ln w_{it} &= \ln w_0 + \sum_t \ln(1 + d_t) + \sum_t \ln(1 + \alpha_{it} + \varepsilon_{it}) \\ &\equiv \ln w_0 + \sum_t d_t + \sum_t \alpha_{it} + \sum_t \varepsilon_{it}\end{aligned}$$

If the base-up ratios and regular pay raises of an employee are the same throughout the period, namely in the cases of $d_t = d$ and $\alpha_{it} = \alpha_i$, the following formulas are established:

$$\ln w_{it} \equiv \ln w_0 + Td + T\alpha_i + \sum_t \varepsilon_{it}$$

or

$$\frac{\ln w_{it}}{T} \equiv \frac{\ln w_0}{T} + d + \alpha_i + \frac{1}{T} \sum_t \varepsilon_{it} \quad (1)$$

T is the number of consecutive years of service or the number of years spent in the labor market if the experience of a mid-career transfer can be considered applicable. Personal capability, α_i , can be interpreted as the fixed effect that is obtained when an estimation is made with Formula (1) and panel data.³

³ The internal salaries are determined on the basis of the wage tables and items that are stated in employment regulations. The basic salaries in particular are automatically and clearly determined once necessary items are determined, including length of service, age, qualification, class-correspondent pay and evaluation. More specifically, once these necessary items are fixed as explaining variables, no room is available for other factors to have an effect on the conversion of the items into salary. This conversion involves none of the meddling factors that are usually discussed in the estimations. Special exceptions are sometimes utilized by the company, but the data used for this analysis include no such cases. Thus, unlike the analysis involving macro data, problems in which the fixed effect is influenced by factors other than the variables used in the estimation have successfully been avoided. However, although the salary conversion is not easy, this analysis has been conducted on the assumption that explained variables can be statistically and nearly represented by a linear equation with explaining variables. The fact that the estimation formula is essentially not complete does present a problem. As a result, it is almost impossible to avoid estimation errors.

4.2. Estimation Results

Table 4 shows the estimation results. The assumption that the entire fixed effect is zero is rejected by $F=57.11$ (value $P = 0.00$) and the existence of the fixed effect α_i is designated statistically. More specifically, it becomes apparent that salary increase rates vary from one employee to another and that the differences are somehow static. This fixed effect is considered to be the capability or long-term internal evaluation of each employee.

Table 4. Estimation of capabilities

	Parameter	P value
1/Number of Years in Service	12.15	0.00
Constant Term	0.03	0.00
Hypothesis Test: Entire Fixed Effect = 0	$F(748, 5066) = 57.11$	Prob > F = 0.00
Number of Observation	5816	
Number of Groups	749	
R ² within	0.9999	
between	0.9999	
overall	0.9999	
Corr (u _i , Xb)	0.2051	

The next issue is the degree of the relationship between the capability estimated here and the employee awareness concerning human resources policies and wage structure. I will analyze the percentage of correct responses to questions about human resources policies from Table 2 and the degree to which employees accurately understand the maximum and minimum salary amounts from Table 3, as well as the capability indexes discussed earlier.

The estimation results are shown in Table 5. This table illustrates only those cases in which variables considered to be related to personal capability have a significant effect. The table shows that the higher the fixed effect, the higher the percentage of correct responses. Or, the more capable the employee, the more accurately he/she understands human resources policies. However, the impact of the fixed effect on perceptions of salary levels and disparity has not been observed in the majority of cases.

Meanwhile, it has been noted that whereas age has a positive effect, length of service and university graduate dummies have negative effects on perception errors [(lowest estimated salary - lowest actual salary) /lowest actual salary] related to the maximum salaries of employees with the same qualifications.

Moreover, it has also been observed that university graduate dummy variables and two-year college or vocational school graduate dummy variables negatively affect the perception error relating to employees with the same qualifications. However, a promising combination of variables able to determine the errors in other cases has not yet been found.

Table 5. Determining factors for awareness of human resources policies and wage structure

Explained Variable	Correct Response Rate Regarding Human Resources Policies		Maximum Monthly Salaries of Employees with the Same Qualifications		Minimum Monthly Salaries of Employees with the Same Qualifications	
	coefficient	P value	coefficient	P value	coefficient	P value
Estimated Capability	20.634	0.050	0.027	0.954	0.212	0.603
Age	-0.144	0.423	0.018	0.028	0.005	0.509
Number of Years in Service	0.147	0.411	-0.017	0.034	-0.006	0.384
Lady Dummy	0.641	0.449	-0.046	0.350	-0.054	0.213
Graduate	1.254	0.430	-0.101	0.151	-0.093	0.133
University Graduate	0.884	0.401	-0.100	0.031	-0.085	0.037
College/Vocational School Graduate	1.120	0.134	-0.033	0.338	-0.055	0.069
Constant Term	8.781	0.013	-0.167	0.321	0.162	0.272
Number of Observation	184		422		422	
R ²	0.056		0.017		0.032	
Adjusted R ²	0.019		0.001		0.015	

5. Conclusion

This paper has verified the degree to which employees accurately understand wage structure by matching the human resources policies of a business firm with questionnaire survey results.

As a result of this analysis, it became apparent that the knowledge of the employees concerning policies and wage structure is not necessarily sufficient, and more specifically, that the overall image employees have of their salaries is substantially different from the reality. Furthermore, it has been verified that the competency of employees has a positive correlation with the accurate comprehension of human resources policies, though this competency does not necessarily share a strong correlation with their knowledge of wage structures.

In situations where employee knowledge regarding human resources policies is insufficient and employee awareness of their actual status is inaccurate, changes in these policies will not bring about the desired results. It can be

argued that in order to change the behavior of workers, it is necessary to upgrade the level of their knowledge regarding human resources policies. In some business firms, the introduction of a new performance evaluation has not yielded any positive results. Therefore, it is necessary to be cognizant of the presence of problems relating to employee knowledge and awareness.

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