

***Seikashugi* from an Employee Perspective**

Shingo Tatsumichi

Deputy Senior Researcher, Research Institute for Labour Policy, The Japan Institute for Labour Policy and Training

Motohiro Morishima

Professor, Graduate School of Commerce and Management, Hitotsubashi University

I. Introduction

It is believed that not until Company A, a major domestic electronics manufacturer, introduced a performance-based pay system called “*Seikashugi*” that the word first drew attention in Japan.¹ At the time, Company A was attempting a major change in their line of business from hardware manufacturing to software development and sales. In the software development business an engineer’s skill greatly influences productivity, occasionally boosting it 200 fold in a single month, and at the time their management benefits system had reached its limit. Through technological innovation centered on ICT, they attempted to change wage distribution rules. There was a major turning point in the personnel system reforms of Company A with the concept of a salary based on performance instead of working hours.

As for the subsequent reaction in economic circles, the Japan Federation of Employers’ Associations released a proposal in 1995 entitled “Japanese management in the new age” that described the future employment and wage system. In this proposal they propose a wage system design concept stressing the need for transition from the idea of emphasizing age and years of service to a system where wages rise in accordance with boosts in job competence, and business results as a means of revitalizing corporate management. Clearly the emphasis on business results in addition to the idea of a merit-based personnel system now being emphasized in major companies in Japan was an epoch-making turning point, much like the introduction of a merit-based personnel system and ability-based grade system that distanced itself from the seniority system.²

However, even with regards to performance measurable levels of achievement vary within the company as a whole, between departments and

¹ Nikkei Business Editorial Department (2001): 26.

² Recently, arguments in politics, labor and management have become heated and have redrawn attention to the introduction of a Japanese model of white-collar exemption and “*Seikashugi*.”

teams and individual employees. Until now, Japanese companies have paid wages according to fluctuations in the achievement of the company as a whole in the form of bonuses and a term-end allowances. Therefore, in a historical context from the 1990's until the present, the fact that *Seikashugi* wages reflect fluctuations in short-term individual achievements has been emphasized, and this is thought to be understood by companies and workers.

In this paper *Seikashugi* is considered to be “ideal type” and is explained in more detail in the next section, “Organization principles of *Seikashugi*.” In short, it is an employee assessment and compensation system for companies wishing “to assess and offer benefits based on short-term individual business results and performance.”³

Seikashugi has been the personnel system reform of choice for many companies from the 1990s to the present. Since employees are the ones influenced by the reform, it is believed that in Japanese companies the manner in which employees receive *Seikashugi* decides its long-term success or failure. It is our intention to clarify in this paper the employee perspective of *Seikashugi*, which is now being introduced in a large number of companies.

II. Organization Principles of *Seikashugi*

Naturally, before this mechanism was introduced companies already had a personnel system for assessing employee performance and adjusting wages accordingly. For instance, even companies with an ability-based grade, which is a form of a merit-based assessment and compensation, have often measured performance and reflected it in the form of a bonus. One could claim that no personnel system neglects to measure performance (roughly speaking ‘marked ability’) as the foundation for personnel management.

The question needs to be asked: Wherein lies the difference? In other words, in what manner is the now problematic *Seikashugi* a reform system for assessment and compensation? In short, *Seikashugi* differs greatly depending on the company

³ Okunishi (2001) insists that the following three elements of *Seikashugi* be filled: 1) Emphasize business results and not various other variables affecting them (skill, knowledge, and effort, etc.), 2) Emphasize short-term business results over long-term business results, and 3) Create a major differential with the actual wage. Since this paper mentions whether the wage differential will rise as a result of *Seikashugi*, here element 3) is excluded. In this paper *Seikashugi* is used to measure the divergence from reality since it is the ideal type, and not to explain the performance oriented treatment system.

as it has various forms and applications. Based on the premise of such variability, this paper sees the *Seikashugi* reform system for assessment and compensation as distinctive of the traditional assessment and compensation system based on the three following features: 1) Weakening of a seniority structure and an ability development structure, 2) Proportional wage costs in accordance with performance, and 3) Strict and precise assessment.⁴

First, 1) Weakening of seniority and ability development structures denotes a reduction in the wage determinant factor that existed in the traditional wage and assessment system. That is, the reduction and elimination of the seniority and merit elements in wage determination as well as the abolition and decreased emphasis on the evaluation of effort and attitude, which is the conventional trend of evaluation based on age and seniority.

The reduction and elimination of seniority and ability growth elements in wage determination is particularly important; in particular, the elimination and reduction of the ability growth element since it means that many companies now have doubts regarding the ability-based growth system, which has saved as a backbone of Japanese HRM since the late 1950's. For instance, according to the JILPT corporate survey⁵ carried out in 2004 by the Research Section of the Independent Administrative Institution, The Japan Institute for Labour Policy and Training, 44 % (539 companies) of the 1,200 sampled changed or eliminated their ability-based grade system, and 43 % (528 companies)

⁴ In addition, the Japan Productivity Center for Socio-Economic Development Productivity Labor Information Center, Yoshio Sasajima (2000), etc. makes a similar argument.

⁵ For analyses purposes this paper used questionnaire surveys conducted by the Independent Administrative Institution, The Japan Institute for Labour Policy and Training in 2004 and 2005 as its primary data sources. Two types of surveys were conducted, one was a "corporate survey" conducted in October, 2004 that obtained effective responses from 1,280 companies (rate of return 10.8%) after sending the survey to 11,865 in order of decreasing number of workers, targeting mainly companies located in Japan with more than 200 workers. The other was a "workers survey" conducted in March, 2005 that was directly recovered by mail and sent under special distribution principles wherein 30 individual questionnaire forms were sent to each of the companies that answered the corporate survey (hereafter, they are called the JILPT corporate survey and JILPT workers survey respectively). In the JILPT workers survey 2,823 forms in total were collected. The JILPT corporate survey had the specification that it could be matched with the data of the JILPT workers survey. The detailed survey results are summarized in the following reports: The Japan Institute for Labor policy and Training (2005), The Japan Institute for Labor policy and Training (2006a), and The Japan Institute for Labour Policy and Training (2006b).

reduced or eliminated the age and seniority elements as wage determinants. Moreover, many companies have applied the “elimination of raises based on job competence” as well as the “elimination of skill-based wages,” clearly distinguishing ability growth from performance.

In other words, one could point out that Japan is ridding itself of the seniority principle and the ability development principle to create a foundation for compensation based on *Seikashugi*. As a result, the fundamental mechanism of employee assessment and wage determination that companies in this country have been cultivating since the war has been undergoing dramatic changes.

Second, 2) Proportional wage costs in accordance with performance means that many companies are intentionally introducing a mechanism linking an employee’s short-term performance to wages in an unconventional manner, and they have begun increasing the degree to which wages are calculated based on short-term performance. An ideal example reflects the introduction of an annual salary system where the variability therein is increased through bonus assessments and performance-based bonuses based on departmental performance. The result is an intentional increase in the wage differential. In other words, *Seikashugi* assessment and reform of the compensation system as a mechanism aims to shift to an assessment and compensation system where assessment and wage differentials can be increased.

Third, 3) Strict and precise assessment refers specifically to the mechanism for introducing a management-by-objective (MBO) system to measure performance, and an annual salary system emphasizing short-term performance as a wage determinant. This involves not only assessing a superior’s prior management of achievements and performance in the office, but also advancing it to the point of a wage system. Consequently, the simplest definition of *Seikashugi* is the mechanism “to determine wage and bonuses based on work performance.”

As mentioned above, it can be said that *Seikashugi* in Japan comprises three principles: 1) Weakening of a seniority structure, and an ability development structure, 2) Proportional wage costs in accordance with performance, and 3) Strict and precise assessment.

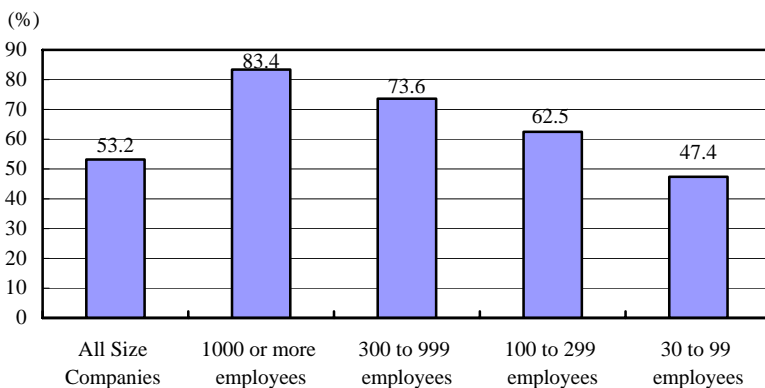
III. The Current Status and Criticisms of *Seikashugi*

1. The Current Status of *Seikashugi*

According to the Ministry of Health, Labour and Welfare, “The Labor

Situation in Japan and Analysis: General Overview” (see Figure 1) in 2004, the proportion of companies “reflecting individual achievement in employee wages” is 53% in all size companies, and the larger the company the stronger the trend, with companies of 1,000 or more employees reaching 83%. If *Seikashugi* were to be introduced in companies already reflecting individual achievement in employee wages, one could claim that *Seikashugi* is growing in popularity, particularly in major companies. Moreover, according to the JILPT corporate survey more than half, that is 57%, of companies that answered the questionnaire had introduced *Seikashugi*. These results reflect a trend based on the size of company, where the larger it is the higher the rate of introduction; a result that is nearly identical to existing surveys including one conducted by UFJ General Research Institute in 2004.

Figure 1. The proportion of companies “Reflecting individual achievement in employee wages”



Source: The Ministry of Health, Labour and Welfare, *The Labor Situation in Japan and Analysis: General Overview 2004*.

2. Criticism of *Seikashugi*

Seikashugi is growing in popularity, but criticism against it has also been growing rapidly since the publication of the best-seller by Jo (2004). This book is an inside report by a former employee and retired Personnel Department Chief of a major company referred previously as Company A. As noted earlier, this company had not only introduced *Seikashugi*, but was a pioneer in the introduction of *Seikashugi*. It was nevertheless faced with various difficulties

at the time of introduction and underwent a trial and error process. According to the report, during this process employees lost ambition and the vitality of the organization diminished. Furthermore, Yanashita (2001) wrote about a successful example of *Seikashugi* introduction in a major pharmaceutical company. During the trial and error process Yanashita generated rules for success such as 1) Introducing *Seikashugi* together with management reform, 2) Emphasizing MBO (introducing MBO among management staff, etc.), and 3) Transparency in assessment to ensure understanding.⁶ These three points represent precisely the areas where *Seikashugi* draws criticism.

In addition to Jo (2004), which pointed out the reality of the situation, and Takahashi (2004) drew attention in academic circles with the issues they raised in their works. There are two aspects to Takahashi's (2004) chief criticism of *Seikashugi*, one of which is mainly a psychological aspect based on the research of Deci (1975) who states 1) The more opportunity one has to decide one's work, the greater the satisfaction, and 2) External rewards dictate the degree of self-determination (self-motivation), etc.⁷ Deci offers a definition of self-motivated action as "an action wherein the person engaged considers himself capable and self-determined." Deci criticizes that with *Seikashugi* there is a low degree of self-determination that causes a drop in the level of satisfaction and subsequently in the morale of each individual.

Moreover, Takahashi (2004) criticized *Seikashugi* from the perspective of its flawed disregard for "weight on the future" that encourages a person not to be opportunistic and draws a time line into the future. He bases these criticisms on 1) Axelrod (1980a, 1980b) who evolved the old game theory from the perspective of cooperation and his own, 2) "future inclination principle" (1997).

Based on such arguments, prolonged competition necessitates "cooperation" in order to sustain success; however, in *Seikashugi* where short-term work results are linked to assessment and compensation, there is no means of obtaining any resultant "cooperation" or long-term success. Takahashi's "future inclination principle" suggests that long-term relationships between companies

⁶ Higuchi (2006) organized opposing points in the assessment of *Seikashugi* into 1) input assessment vs. output assessment, 2) absolute assessment vs. comparative assessment, and 3) plus assessment vs. minus assessment.

⁷ Kohn (1993) reviewed the research alleging that wages determined by business results performance do not improve productivity.

and individuals are the key to providing companies with positive business results. He insists that if companies introduce *Seikashugi* to improve performance, they will never obtain their goal.

Aside from the above, there are three additional criticisms of *Seikashugi*.

The first is criticism from the point of harmonizing Japanese employment practices and business strategies primarily designed for manufacturing. It is a requisite to retain highly skilled workers in Japanese companies when their business strategy is primarily designed to produce high-quality goods that other companies cannot imitate. Cultivating such highly skilled workers necessitates skill formation and ability development within the company while also maintaining long-term employment relationships. The more specific the skill is to the company, the larger the degree of differentiation with other companies; herein lies the source of competitiveness.

It can also be said that the seniority-based wage system typically found in Japan and the ability-based grade system,⁸ which is the advancement of the seniority-based personnel system, are consistent with this business strategy. Also, many major companies have offered support based on the personnel system, assessed and compensated workers over the long-term, and supported their growth and ability development while applying an ability-based grade system over the long-term. This confirms that intellectual skill, as shown in the research of Koike (1991a, 1991b), has typically been the source of competitiveness for major companies in Japan.

Seikashugi style assessment and compensation, however, reflects the recent business results of short-term work and is said to be contradictory in nature to a system that generates long-term assessment and ability development. This means a lack of long-term expectations for workers, which breaks any psychological contract and may cause a negative influence on the perception and ability development of workers. In this light, *Seikashugi* with its emphasis on the assessment of short-term business results is criticized as being out of touch with management strategies designed primarily for manufacturing.

⁸ It was not until the report on merit-based personnel system management by Nikkeiren in 1969 that the ability-based grade system derived from a merit-based personnel system started spreading as the new assessment and compensation principle, replacing the pre-war seniority system that was based on age and years of service. For details, refer to the merit-based personnel system management report by Nikkeiren Noryokushugi Kanri Kenkyukai (1969).

The second criticism of *Seikashugi* is from the perspective of management reform. Based on companies that introduced *Seikashugi* comparatively early on, Takahashi (1999) summarizes the causes of failure in its introduction as a form of management reform into the following six points: 1) Failure due to bureaucratizing of the organization, 2) Failure due to overstressing the importance of monetary reward, 3) Failure due to retaining a seniority structure, 4) Failure due to excessive participation in and focus on system design, 5) Failure for having set a goal of reducing personnel expenses, and 6) Failure due to an inability to eliminate opposition.

The third criticism is that *Seikashugi* does not function when white-collar work, for which it is intended, is separated from management of work in the work places. From results of careful fieldwork and based on the preconception that to improve performance one must synchronize management of work and personnel management, Nakamura and Ishida (2005) and Nakamura (2006) point out that 1) When implementing *Seikashugi* rewards should not be determined solely based on financial indicators, and 2) Workers are unsatisfied if those non-financial indicators demanded by management of work are not included in *Seikashugi*'s assessment elements.⁹

In addition to the several criticisms mentioned above¹⁰ is the rising concern for workers' perceptions of *Seikashugi*. As yet there has been little research done that focuses primarily on motivation. *Seikashugi* may not cause major changes in employee morale and motivation, which are often the primary reason for its introduction, and according to Morishima (2004) and the JMA Research Institute Inc. (2005)¹¹ the percentage of companies indicating a rise in employee motivation was at best 56%, with many companies not acknowledging any effect on motivation. Such results indicate a necessity for more comprehensive examinations of *Seikashugi* and employee perceptions and attitudes thereof. Thus, let us consider various aspects of *Seikashugi* from an employee perspective by using the above-mentioned JILPT data.

⁹ Based on a book review of Ishida and Nakamura (2005) by Imano (2005).

¹⁰ For example, Morishima (2006) points out that *Seikashugi*'s lack of human resource cultivation is currently the major problem with its implementation.

¹¹ The Japan Management Association carried out a "Survey on *Seikashugi*" between November and December, 2004 intended for personnel departments, department heads, and employees of major companies in Japan (1,325 companies). As a result, it became evident that the introduction of *Seikashugi* does not have a negative effect on the organizational climate as had been indicated in recent years.

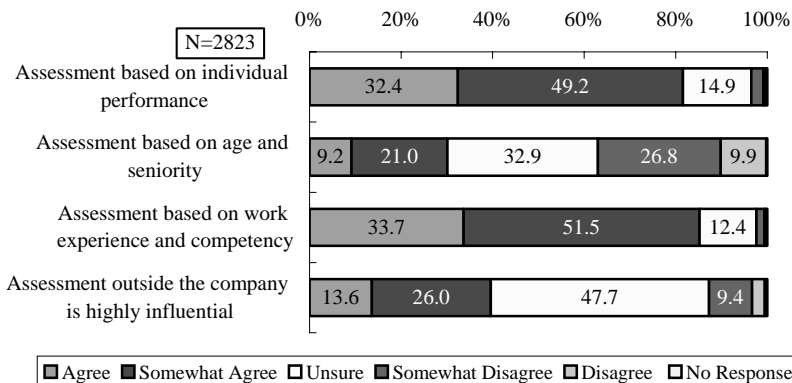
IV. *Seikashugi* from an Employee Perspective

1. General Attitudes toward *Seikashugi*

First of all, how do workers generally perceive *Seikashugi*? In the survey conducted by JILPT in 2001 (survey of 4000 men and women nationwide aged 20 years or more with a two-stage stratified sampling conducted using the Basic Resident Register), questions were posed after showing four kinds of resource distribution principles: the performance principle, effort principle, necessity principle, and equality principle. Among all survey respondents 83% agree with *Seikashugi*'s theoretical performance principle, which is described as "the higher the individual performance the higher the reward"; 83 % supported the effort principle—nearly identical to the performance principle ratio; 32% supported the necessity principle; and 20% supported the equality principle. The latter two cases showed a major disparity from the performance principle, indicating that many Japanese support the performance principle that corresponds to the basic philosophy of *Seikashugi*.

Next, using data from the JILP workers survey let us take a look at the assessment of *Seikashugi* based on general attitudes regarding how a worker's salary should be determined. Here it is important to note that the question was not how workers perceive the *Seikashugi* system in their own companies, but how it is perceived as a whole, including the opinions of those working in companies where it is not being implemented. The top bar on the graph in Figure 2 shows that in total over 80% agree or somewhat agree

Figure 2. General attitude toward methods for salary determination



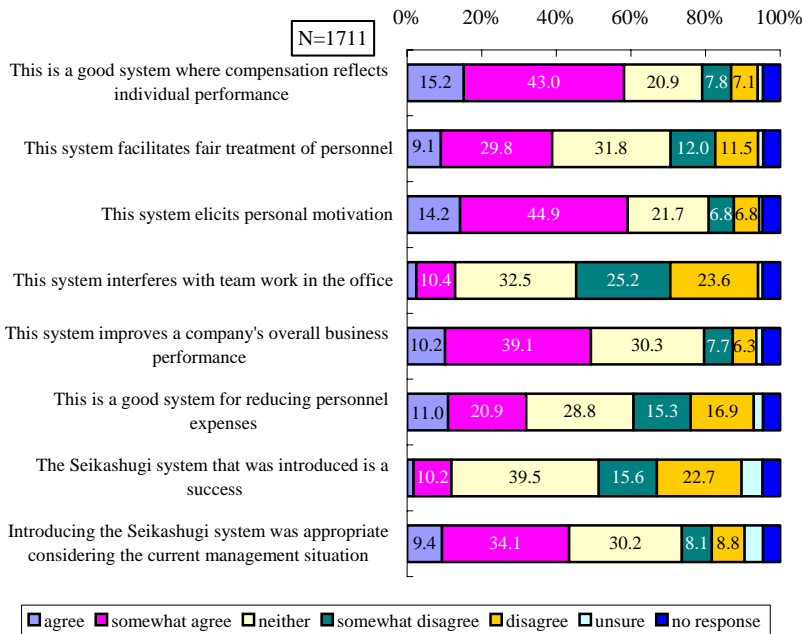
Source: JILPT workers survey

(hereafter, referred to as the “Approval Group”) with *Seikashugi* wages described as “assessment based on individual performance.” On the other hand, only a low ratio, that is 30%, of the Approval Group supported “assessment based on age and seniority.” These results indicate that workers prefer *Seikashugi* to a mechanism where wage is determined by a seniority system. However, the ratio of the Approval Group supporting “assessment based on work experience and competency” exceeded 80%. Therefore, they highly favored assessment based both on performance as well as work experience and competency. In light of this, it is believed that workers prefer a wage system where rewards are given to highly competent individuals with satisfactory performance levels.

2. Assessment of the *Seikashugi* System in One’s Company

How do employees feel about introducing *Seikashugi* in the company where they work? The assessment of such workers can be seen below:

Figure 3. Assessment of the *Seikashugi* system in one’s company



Source: JILPT workers survey

First, we shall look at the positive assessments (refer to Figure 3). Within the Approval Group (total ratio of persons who “agree” and “somewhat agree”) 60% agreed with the assessments, “This system elicits personal motivation” and “It is a good system where compensation reflects individual performance.” Nearly half of the Approval Group agreed with the assessment, “This system improves business performance for society as a whole.” In general, for the assessment, “This is a good system for reducing personnel expenses,” the ratios of the Approval and Disapproval Groups (“disagree” and “somewhat disagree”) were about the same, that is 31% and 32% respectively. In the assessment, “Introducing the *Seikashugi* system was appropriate considering the current management situation,” the ratio for the Approval Group far exceeded that of the Disapproval Group at 43% to 16% respectively. However, in the assessment, “The *Seikashugi* system that was introduced is a success,” the Disapproval Group’s ratio of 38% far exceeded that of the Approval Group at 11%, indicating a grave assessment.

In other words, workers seem to agree with the specifics of *Seikashugi*, but disagree with it overall. This indicates that many workers support the introduction of *Seikashugi*, but disagree with how it is being implemented in their companies. These results also suggest that the introduction of *Seikashugi* may have some influence on labor-management relations.

3. Problems Regarding *Seikashugi* in One’s Company

What problems arise for workers when *Seikashugi* is implemented in their company? Looking at those items assumed to be problematic, the “somewhat agree” and “agree” group (hereafter, referred to as the “Problem Group”) (see Figure 4) who fault the system with the assessment, “There are some sections where business performance is difficult to measure,” comprise a total ratio of 80%. Furthermore, in the assessment, “There are variations in assessments according to assessor,” the Problem Group’s ratio exceeds 70%. This suggests that an assessor’s personal intentions and assessment skills may influence the outcome of the assessment, and the issue concerning the difficulty of “criticizing another person” is also drawing the attention of many workers.

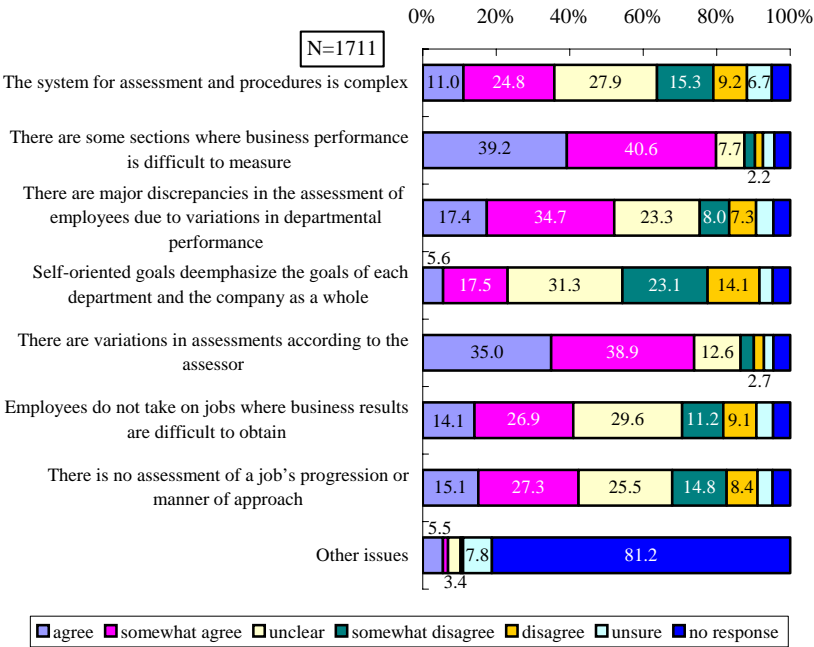
Moreover, over 50% of the Problem Group agrees with the assessment, “There are major discrepancies in the assessment of employees due to variations in departmental performance.”

A number of the companies that introduced *Seikashugi* have corrected the

discrepancy in individual compensation levels due to variations in departmental performance; however, workers consider it to be a major problem in cases where the discrepancy is not adjusted. Workers are calling for an impartial system that eliminates any discrepancies from opportune or inopportune placement in a company.

Furthermore, 30% to 40% of the Problem Group indicated, “There is no consideration on a job’s progression,” “Employees do not take on jobs where business results are difficult to obtain,” and “The system for assessment is complex.”

Figure 4. Problems implementing the *Seikashugi* system in one’s own company



Source: JILPT workers survey

V. *Seikashugi* and the Wage Differential

1. Systematic and Operational Discrepancies

First is the question concerning whether *Seikashugi* will actually increase the salary differential, which we will confirm using the JILPT company survey.

In this survey, answers were obtained by index concerning the existence of an annual income differential among section chief level employees in the same department. With a standard of 100 we obtained the approximate maximum and minimum levels of the potential differential due to the system, as well as the real annual income differential. In other words, assuming an average value of 100 we were able to grasp the maximum (larger than 100) and minimum values (smaller than 100) for potential (systematic) and actual (operational) differentials respectively. Here the differential is defined as the difference of the maximum and minimum values. A Systematic Differential A (maximum minus minimum) and Operational Differential B (maximum minus minimum) were obtained. First, looking at the Systematic Differential A, the average minimum value was 81.3 and the maximum value 121.9. The average annual income differential varied at approximately 20% above and below the average. Furthermore, the actual Operational Differential B had an average minimum value of 85.5 exceeding the systematic differential, and an average maximum value of 117.0 that fell below the systematic differential.

In other words, the annual income differential for companies targeted in the survey showed an operational differential lower than that of its system design. Despite the fact that it goes against principle for an operational differential to exceed the system, it seems to be the basic stance of Japanese companies not to fully utilize this system but rather to set the differential within it.

We must then ask ourselves if the introduction of *Seikashugi* has caused a rise in systematic and operational differentials. Using the JILPT corporate survey, it is clear by looking at the results of the multiple regression analysis where the controls were industry and size that both systematic and operational differentials are higher in companies that had introduced *Seikashugi* than in those that had not. Statistical analysis also confirms the accuracy of the general opinion that “*Seikashugi* increases the wage differential.”¹²

2. Increased Differential and Employees’ Satisfaction

Now let us examine the relationship between the systematic and operational differentials obtained from the JILPT corporate survey and the satisfaction of employees. First, as basic information, the JILPT workers survey respondents

¹² Refer to JILPT (2005), 153-54. These facts support all three requirements for *Seikashugi* as introduced by Okunishi (2001), cited in footnote 3.

were asked about any changes in their satisfaction toward the assessment and compensation system over the past three years. The results are shown in Table 1.

Table 1 shows the ratio of persons indicating a decrease in the past three years in satisfaction concerning the reflection of personal assessment on wage and bonuses was as low as 31%, and the ratio of persons indicating a decrease in satisfaction concerning the assessment of their work and ability at 22%. There was also no remarkable decrease in other satisfactory opinions.

Table 1. Changes in satisfaction toward the assessment and compensation system over the past three years

Over the past three years has there been a change in your satisfaction regarding compensation or assessment?	Percentage of "Decrease" (%)		
	Total (N=2,699)	Introduction of <i>Seikashugi</i> (N=1,526)	Others (N=1,173)
1) Changes in your satisfaction of business results and ability assessment	22.2	22.9	21.2
2) Changes in your satisfaction of the reflection of assessment on wage and bonuses	31.0	32.0	29.6
3) Changes in your satisfaction of the assessment of efforts to achieve goals	20.4	21.2	19.4
4) Changes in your satisfaction of personal assessment and compensation when compared with the assessment and compensation of others	22.3	23.5	20.8

Source: JILPT workers survey

It is important to note that a decrease in satisfaction is not conclusively linked to the introduction of *Seikashugi*. These figures do not create the impression that there are many complaints concerning wage or assessment or that there was a significant decrease in satisfaction of those companies that responded to the survey.¹³ Moreover, there appears to be no relationship with

¹³ The degree of satisfaction with wages, however, is lower than that of satisfaction with and criticism against the assessment and treatment. In the individual questionnaire forms, questions were posed regarding changes in wage satisfaction over the past three years and rated on a one- to-five point scale. 53.8% (1,719) of respondents indicated that they were unsatisfied or somewhat unsatisfied.

the introduction of *Seikashugi*.

Next we shall consider whether the wage differential caused by *Seikashugi* is related to a decrease in satisfaction. To understand this relationship Table 1, 2) “Changes in your satisfaction of the reflection of assessment on wage and bonuses,” was used to conduct a logistic regression analysis with a response of “decreased” assigned a value of 1 and all other responses assigned a value of 0. Explanatory variables used include the above-mentioned “potential (systematic) wage differential” and “actual wage differential.”¹⁴

**Table 2. Analysis of decreases in satisfaction and the wage differential
(Logistic regression analysis, standard error in parenthesis)**

	Total sample (N=1,613)		Employees of companies which are taking measures to ensure employees’ satisfaction (N=1,013)		Employees of companies which are not taking measures to ensure employees’ satisfaction (N=600)	
A. potential wage differential	.007*** (.002)	---	.004 (.003)	---	.010* (.006)	---
B. actual wage differential	---	.011*** (.003)	---	.006 (.004)	---	.019*** (.006)
-2 log-likelihood, PseudoR ² (Cox & Snell)	1776.291 .062	1883.351 .063	1191.051 .079	1183.808 .083	559.792 .071	653.660 .095

Source: JILPT corporate survey

Note: Refer to footnote 14 for control variables *0.05 < p < 0.10, **0.01 < P < 0.05,
***p < 0.01

Results are shown in the leftmost row of Table 2 and appear to indicate a decrease in satisfaction of the reflection of assessment on wage and bonuses in accordance with a rise in the potential differential and actual differentials.

However, since the differential and fluctuations cause a loss of employees’ satisfaction and motivation, the increase in wage differential and fluctuations alone are not sufficient conditions. At the same time, one cannot simply be

¹⁴ In addition to this control variable, the sex, age, seniority, academic background (university degree holder?), rank (above director, section chief, assistant manager, other), annual income, working hours (average actual working hours per week based on June 2004 statistics), industry (11 dummy variables), number of full-time employees, company achievement record (upward or downward trend, other), labor union and listed company dummy were utilized as variables (For detailed results, please contact the authors).

content with the wage differential. To that end, in many cases a company's personnel management will introduce a "set of three" evaluation system changes when introducing *Seikashugi* in order to increase the fairness of the assessment system: "MBO", "disclosure of assessment results to the person in question," and "assessor training." The rationale behind this is that individuals are more accepting of some degree of differential and fluctuation in wages and assessment in the *Seikashugi* system when there are sufficient measures in place for ensuring fairness.¹⁵

For the purpose of this report we took samples of companies considered to have executed "sufficient measures for ensuring fairness of the assessment," or those that have executed two or more of the three measures for ensuring fairness of the assessment. They were then separated from companies without sufficient measures and both were analyzed based on the same model. The analysis of circumstances at the introduction of measures for ensuring fairness of the assessment is shown in Table 3. Data concerning the measures for ensuring fairness of the assessment was obtained from the above-mentioned JILPT corporate survey.

Table 3. Circumstances at the introduction of measures for ensuring fairness of personnel assessment

Did your company introduce the following measures concerning employee assessment?	Proportion of "Being Implemented" (%)		
	Total (N=2,699)	Introduction of Seikashugi (N=1,526)	Others (N=1,173)
1) MBO	64.1	65.2	34.8
2) Disclosure of assessment results to the person in question	48.4	60.0	40.0
3) Assessor training	49.4	55.8	44.2
4) Implemented at least two of the above-mentioned measures	55.9	66.6	33.4

Source: JILPT corporate survey

¹⁵ This view is based on organizational justice research. See to Folger and Cropanzano (1998) and Greenberg and Colquitt (2005) for details regarding organizational justice and human resource management.

The analysis results for the status of companies at the introduction of measures for ensuring employees' satisfaction are shown in the two rightmost rows of Table 2. As expected, in companies with sufficient measures for ensuring employees' satisfaction, an increase in the wage differential did not correlate with a decrease in the perception of employees' satisfaction concerning the reflection of performance assessment on wage and bonuses. These results indicate that, in short, satisfaction for employees in companies that seek to make them more receptive to the wage differential differs from that in companies that do not.¹⁶

VI. Effect of *Seikashugi* on Workers' Perceptions

What effect does *Seikashugi* have on an employee's commitment to or satisfaction with their company? Here, we verify the assumption that introducing *Seikashugi* has a negative effect on workers' perceptions.

1. Can One Work for the Same Company until Retirement?

The perception is that workers seek to deepen feelings of unity with their company and strongly desire to remain working at that company until retirement under the customary practice of lifetime employment, a key feature of Japanese employment practices. One must then consider whether the introduction of *Seikashugi* has an effect on such perceptions. The following is a statistical analysis using data from the JILPT workers survey.

With the "lifetime employment-oriented dummy" as the outcome variable representing cases where respondents indicated, "I could work for this company indefinitely" or "I plan to work on external assignments or switch companies before I retire," a logistic regression analysis was conducted using the dummy variable to indicate the introduction of *Seikashugi* as the explanatory variable (see Table 4). Here, the effect of introducing *Seikashugi* is measured by limiting the target of the analysis to a 1985 case of workers in companies indicating, "We hope to maintain long-term, stable employment for our employees for as long as possible."¹⁷

¹⁶ Since 2000, employees' satisfaction has decreased significantly more in companies implementing *Seikashugi* than in those that were not. However, when the samples were separately analyzed, in neither sample was a significant link found between the introduction of *Seikashugi* and the decrease in satisfaction.

¹⁷ Control variables include male sex, age (logarithm), university graduate, seniority (logarithm), industry, and number of full-time employees (logarithm).

Table 4. Results of logistic regression analyses with the lifetime employment-oriented dummy as the outcome variable

	Standardized coefficient	Standard error	Significant probability	Odds ratio
Companies that introduced <i>Seikashugi</i>	-0.264	0.111	0.017	0.768

N = 1985, -2Loglikelihood = 2242.840, Pseudo R² (Nagelkerke R²) = 0.277

These results indicate a negative effect on lifetime employment aspirations in companies that introduced *Seikashugi*. In other words, results of the regression analysis show that in companies declaring, “We hope to maintain long-term, stable employment for our employees for as long as possible,” the number of workers indicating, “I could work for this company indefinitely” was lower in companies that had introduced *Seikashugi* than in those that had not. This may be due to the fact that introducing *Seikashugi* generates insecurity in employee perceptions with respect to both wages and employment. In existing research in psychology, sociology, and business economics, it is believed that a “Psychological Contract” is an implicit contract made between a company and its workers. For example, workers form long-term relationships through their employment. Morishima (1996) also points out that relationships of mutual trust have been cultivated through long-term employment. However, in contrast with long-term employment, seniority-based wages—wherein merit is bestowed through long-term relationships, disappear with the introduction of *Seikashugi* at which point workers tend to grow concerned that the matter of long-term employment conveyed in their contract will also be annulled. As Rousseau (1995) suggests, such a change could potentially alter the relationship between a company and its workers from relational to transactional.

2. Changes in Commitment Associated with the Introduction of *Seikashugi*

Among worker’s perceptions, we shall focus here on commitment as being the most influenced by the introduction of *Seikashugi*. In the JILPT workers survey, questions were posed using the semantic differential scale where, along with classifying the commitment, it is placed in one of five levels; that is, the higher the commitment the more points allotted. Here the following three types of commitment were set up as pragmatic commitments:¹⁸ 1) “I want to

¹⁸ Here we focus on the pragmatic and affective commitments that Takagi (2003)

continue working for this company because the salary and compensation are consistent with my performance,” 2) “I want to continue working for this company because the more I work the more I will progress,” and 3) “I want to continue working for this company because my work is challenging”. The following two commitments were added as affective commitments: 4) “I am twice as devoted to the company as others,” and 5) “For the good of the company I will do my best no matter what the work or where.” We conducted an ordered logit analysis by setting up these commitments as outcome variables in order to measure the influence of the explanatory variable, *Seikashugi* (see Table 5).¹⁹

These results indicate that statistically the introduction of *Seikashugi* causes a significant negative influence on all five commitments. In other words, there was a significant decrease in both the pragmatic and affective commitments with the introduction of *Seikashugi*.

It is important to note that, as mentioned above, the introduction of *Seikashugi* caused a negative effect on lifetime employment aspirations within that company. When long-term employment and *Seikashugi* are introduced as a set, however, the commitment “I want to continue working for this company because the more I work the more I progress” is the only among pragmatic commitment that statistically is significantly higher. In short, the perception that it is possible to continue working for a company until retirement has waned; however, when *Seikashugi* is applied under the long-term employment

established by organizing early research by Allen and Mayer (1990) etc.

¹⁹ Control variables are the same as in footnote 17. The test result are as follows:

- 1) N=2401 -2log likelihood=6547.8, chi-square value=86.1, significance probability=0.000, goodness of fit (Pearson chi-square value=8742.2 significance probability=0.213), PseudoR² Nagelkerke=0.040, Macfadden=0.013,
- 2) N=2401 -2log likelihood=6477.1, chi-square value=79.3, significance probability=0.000, goodness of fit (Pearson chi-square value=8671.7, significance probability=0.469), PseudoR² Nagelkerke=0.037, Macfadden=0.012,
- 3) N=2401 -2log likelihood=6485.0, chi-square value=92.9, significance probability=0.000, goodness of fit (Pearson chi-square value=8761.6, significance probability=0.224), PseudoR² Nagelkerke=0.043, Macfadden=0.014,
- 4) N=2401 -2log likelihood=6603.6, chi-square value=242.1, significance probability=0.000, goodness of fit (Pearson chi-square value=8630.5, significance probability=0.593), PseudoR² Nagelkerke=0.108, Macfadden=0.036,
- 5) N=2401 -2log likelihood=6808.2, chi-square value=169.3, significance probability=0.000, goodness of fit (Pearson chi-square value=8578.38, significance probability=0.580), PseudoR² Nagelkerke=0.077, Macfadden=0.025.

Table 5. The influence of *Seikashugi* on commitment (ordered logit analysis)

	Commitment	Unstandardized Coefficient	Standardized Error	Significance Probability	Significance Level
pragmatic	1) I want to continue working for this company because the salary and compensation are consistent with my performance	-0.199	0.081	0.014	*
	2) I want to continue working for this company because the more I work the more I will progress	-0.243	0.081	0.003	**
	3) I want to continue working for this company because my work is challenging	-0.228	0.081	0.005	**
affective	4) I am twice as devoted to the company as others	-0.232	0.081	0.004	**
	5) For the good of the company I will do my best no matter what the work or where	-0.364	0.081	0.000	***

Source: JILPT workers survey

*0.05 < p < 0.10, **0.01 < P < 0.05, ***p < 0.01

system workers realize that the longer they work the more they will progress.

3. The Introduction of *Seikashugi* and Workers' Overall Job Satisfaction

We may wonder if a worker's overall job satisfaction will be influenced as a result of introducing *Seikashugi*. Thus, we conducted a multiple regression analysis using data from the JILPT workers survey, with a worker's overall job satisfaction as the outcome variable.²⁰ At the time of the survey the change in the sales of the company over the past five years, the worker's sex, age

²⁰ The degree of satisfaction is separated into five levels; the higher the score, the higher the level of satisfaction.

(logarithm), academic background, seniority (logarithm), industry, and the number of full-time employees (logarithm) were added as control variables.²¹ The result showed that statistically the introduction of *Seikashugi* did not have a significant influence on a worker's overall job satisfaction.

On the other hand, let us also address unexpected results. For our research purposes, we divided the companies into four categories using results from the JILPT corporate survey. Each company's employment system was placed on two axes, one being prior and post-introduction of *Seikashugi* and the other the maintenance or elimination of long-term employment. Table 6 shows the results of the analysis²² wherein these categories were used as explanatory variables.

Table 6. Influence on degree of overall job satisfaction as indicated using a dual axes model of *Seikashugi* and long-term employment (OLS regression)

	Unstandardized Coefficient	Standardized error	Significance Probability	Significance Level
Japan (long-term employment +non- <i>Seikashugi</i>)	-0.062	0.076	0.415	
New Japan (long-term employment + <i>Seikashugi</i>)	-0.095	0.077	0.220	
America (non-long-term employment+ <i>Seikashugi</i>)	-0.192	0.091	0.035	*

N=2037 *** p < 0.001 ** p < 0.01 * p < 0.05 adjust R²=0.028

Significance probability for analysis of variance=0.000 F Value=3.827

Note: Analysis of companies from 1999 that introduced *Seikashugi* and those that did not.

The American model, where non-long-term employment (elimination of the long-term employment) and *Seikashugi* were introduced in combination, was the only model with a statistically significant influence on overall job satisfaction. In other words, it became clear that the overall job satisfaction of workers in American model companies was low. *Seikashugi* itself does not have a statistically significant relationship to overall job satisfaction.

²¹ The results of the JILPT corporate survey confirmed that company performance tends to be higher in companies implementing *Seikashugi* than in those that are not. Analysis adding the change in sales as a control variable was conducted to eliminate a spurious effect where satisfaction was influenced not by the introduction of *Seikashugi*, but by the company's success that ensued.

²² The control variables are the same as in footnote 21.

However, a workers' overall job satisfaction decreases when *Seikashugi* and "elimination of long-term employment" are introduced concurrently. These results suggests that further mobilization of the labor market will lead to a decrease in the number of companies maintaining long-term employment, and subsequently cause a decrease in workers' satisfaction presumably related to leaving one's job.

VII. Conclusions—*Seikashugi* from an Employee Perspective

In this paper, the following analysis was conducted on "employee" perspectives of *Seikashugi*: 1) A worker's perspective of *Seikashugi*, 2) The influence on the worker's perceptions regarding *Seikashugi* induced wage differentials, and 3) The influence on the worker's commitment and satisfaction regarding *Seikashugi* subsequent to its introduction. The main findings are as follows:

First, the following three points became clear with analysis of employee perceptions of *Seikashugi*. 1) Many workers favor the concept of emphasizing business results, work experience and ability over using the seniority system as a wage distribution principle. 2) As for assessments of *Seikashugi* in one's company, many workers praised it by saying, "This system elicits personal motivation," "This system facilitates fair treatment of personnel," and "This system improves a company's overall business performance." Nevertheless, workers had doubts regarding the general question, "Is the *Seikashugi* system in my company working successfully?" Finally, 3) Many workers believe there are problems with *Seikashugi* in terms of assessment methods and application, and as a result many workers become dissatisfied with the system in its early stages.

Second, the following two points were distinguished through analysis of the wage differential. 1) An increase in the wage differential leads to a decrease in the satisfaction regarding the assessment of wage and bonuses. 2) On the other hand, in companies with sufficient measures for ensuring satisfaction, an increase in the wage differential does not lead to a decrease in the satisfaction regarding the assessment of wages and bonuses. In short, in terms of the wage differential fairness perceptions of employees in companies that seek to make them more receptive to the wage differential differs from those in companies that do not.

Finally, the following three points were gathered through analysis of the

Seikashugi system's influence on a worker's commitment and satisfaction: 1) Even in companies maintaining a long-term employment system, the introduction of *Seikashugi* generates insecurity among workers regarding sustainable employment. 2) The introduction of *Seikashugi* causes a drop in workers' pragmatic and affective commitments. However, when long-term employment and *Seikashugi* are introduced concurrently, the *Seikashugi* system boosts the commitment to workers that they will progress as they continue to work. 3) There is no relationship between the introduction of *Seikashugi* and workers' overall job satisfaction. The level of satisfaction decreases, however, when *Seikashugi* and "elimination of long-term employment" are introduced concurrently.

We gather from the above-mentioned results that among recent changes in human resource management in Japanese companies, the introduction of *Seikashugi* influenced workers in a manner never before witnessed. The time has come where reform occurs both within a company and a worker's lifestyle. Concrete analysis reveals that workers' lifestyles and mental status are becoming increasingly unstable. Further investigations are necessary regarding stable labor-management relationships and workers' lifestyles believed to be maintained by traditional Japanese employment practices. This problem cannot be solved with only the efforts of individual companies or workers, and requires constructive labor policy intervention. Our research has given us a glimpse into these major changes of the times.

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