
Introduction

Has the Japanese Employment System Changed?

Employment systems change with the times. The Special Edition articles which appear in this issue of *Japan Labor Review* refer to the employment system commonly applied to regular employees of large Japanese corporations and medium-sized firms, which was born during the period of rapid economic growth in Japan (1960–1974) and matured during the stable growth period (1975–1996), as the “Japanese employment system.” This definition is based on the study carried out by Nitta and Hisamoto (2008),¹ who analyzed the transition in the employment system in Japan. More specifically, the Japanese employment system consists of a set of personnel management practices including long-term stable employment, mass hiring of new graduates, internal human resources (HR) development, ability-based grading system, and labor-management consultation.

The primary purpose of the Special Edition articles is to re-capture “Japanese” aspects of employment systems implemented by Japanese firms for their regular employees, and examine which aspects have changed and which have remained the same during the severe employment situation period (since 1997 until today). These articles also aim to study the complementarity of the Japanese employment system, that is, in what manner such personnel management practices that formed the Japanese employment system complement one another. What kind of complementarity was fulfilled by such set of personnel management practices (consisting of the middle-up-down management model, strong intellectual skills possessed by members of an organization which enable such model to operate, the ability-based grading system designed to train employees while motivating them to improve their own intellectual skills, the combination of tenure-based personnel management, periodic transfer and slow promotion, and long-term stable employment)? How did such function favorably affect the business performance of Japanese firms? Has the Japanese employment system lost its complementarity or found a new one and undergone a transformation?

With the objective of elucidating the Japanese employment system with a focus on its complementarity, the Special Edition articles choose an analysis approach that incorporates two viewpoints: (i) that of the members of an organization who develop their careers under the Japanese employment system; and (ii) that of the human resources (HR) department, which is deeply involved in the career development process of the organization members. In other words, this is an attempt to reverse the flow of causality generally used as a research framework, which goes from the employment system (a set of personnel management practices) to HR behavior and value, and deduce the features of the Japanese employment

¹ Michio Nitta and Norio Hisamoto, eds, *Nihonteki Koyo Shisutemu* [Japanese employment system] (Tokyo: Nakanishiya Shuppan, 2008).

system from the actual state of career development of the organization members. In this context, the organization members refer to chief executives, employees in the managerial positions, shop-floor workers, and newly recruited school graduates.

Mishina and Hino analyzed the facts relating to chief executives. Their paper compared the chief executives of large companies (top fifty companies in the manufacturing industry) and those of all public companies in the electronics industry in Japan at the selected four time points (1965, 1980, 1995, and 2010), and reached the following findings. In the period of high economic growth, most Japanese companies were led by their founders for a term well over ten years. Even the chief executives who did not found the companies but joined after graduation held their posts for more than ten years. The folklore that middle managers played the leading role in running Japanese companies does not apply during this period; rather, we should recognize anew that powerful corporate leaders built the Japanese economy in the postwar period. On the other hand, the tenure of chief executive has been becoming shorter in more recent times, both among the top fifty companies and electronics companies. Furthermore, the long-term trend of a declining operating margin corresponds to the tendency of the tenure of chief executives to become shorter. During the stable growth period, when founders started to retire, Japanese companies promoted tough competition among employees, which resulted in the development of intellectual skills, by incorporating periodic transfer and slow promotion in the personnel management system. This approach was successful in increasing the organizational capability of the workplace, whilst at the same time it pushed upward the age to assume the post of chief executive, eventually shortening the tenure. While creating chief executives well-versed in business operations as frontline managers, it inevitably led to limiting the time for them to acquire skills in strategic decision-making as corporate leaders.

Yashiro inquired into the features of the Japanese employment system from the perspective of selection and development of managers. On the premise of long-term employment and recruitment of new school graduates, firms must maintain the motivation of the greatest number of employees as long as possible. Under the long-term employment system, it is difficult for firms to urge employees to leave or even hope that they would leave voluntarily. In such a situation, if employees are sorted into elite and non-elite as a result of competition at an early stage of their career, the non-elite are likely to stay for a long period, with reduced motivation. To avoid this, it is reasonable in a sense for firms to select managers through tenure-based personnel management, wherein a promotion gap among employees widens gradually over a long time. However, this management practice also causes a problem, that is, if personnel relocation is conducted with a view to maintaining tenure-based personnel management, it results in a mismatch, where employees with specialized abilities are assigned to managerial positions according to their tenure, and conversely, employees who are promoted to ranks equivalent to managerial grades according to their tenure but cannot find managerial positions are retained as specialists. In consideration of interdependency among personnel management practices, it is difficult to

select executive candidates at an early stage or build career paths for specialists as long as firms maintain the recruitment of new school graduates and tenure-based personnel management. Thus, the existing system for selection and development of managers hinders managers from cultivating the necessary abilities for serving as corporate leaders, such as the ability to shape a corporate strategy.

Despite such negative impacts, however, it is an undeniable fact that periodic transfer and slow promotion helped to maintain the motivation of members of organizations for a long period and greatly contributed to increasing Japan's competitiveness. The problem is, as pointed out by Mishina and Hino, that tenure-based personnel management covers even employees who may become chief executives in the future. By incorporating some ways to separate such employees in this management practice, Japanese firms may have the potential to advance further.

No one would raise an objection to the fact that Japan's competitiveness has been supported by its comprehensive *monozukuri* (manufacturing) power, comprising the efficient production system and speedy product-development process. It is skilled shop-floor workers who exert this *monozukuri* power. Based on this premise, Muramatsu explored how intellectual skills possessed by skilled shop-floor workers have changed during the 2000s. According to a shop floor survey conducted within the automotive industry in 2002, Muramatsu found that intellectual skills continued to be important and that these skills were formed among regular employees in an integrated fashion. Meanwhile, in workplaces where the number of non-regular workers was growing, the work they did was initially separated from that done by regular employees, but that led to poor efficiency, and many non-regular workers quit their jobs. Although their status is "non-regular," their work experience in such workplaces is important. Hence, non-regular workers gradually entered the domain of the core work in the workplace. In addition, as the economy recovered, there was an increase in their appointment to positions with regular employee status. Then, by examining the surveys conducted by the Japan Institute for Labour Policy and Training in 2007, 2008 and 2009, Muramatsu found that the importance of intellectual skills among regular employees and the methods used to form them have remained basically unchanged. In fact, skills have become more advanced and have penetrated to the level of small and medium-sized enterprises. It was at this point that a sudden slump occurred as a result of the Lehman Crisis, with the operation rate of factories dwindling by 40–50%. The employment of many fixed-term employees, who were employed for a fixed time frame, and that of temporary employees, was terminated, and this protected the employment of regular employees.

Next, let us look at another feature of the Japanese employment system: the mass hiring of new graduates. Yano focused on university graduates as Japan's new recruits, and discussed the problems concerning their job-seeking activities and the relationships between family, universities and employment that form the background to such problems. What makes Japanese universities characteristically "Japanese" is their attributes that are unusual

from the perspective of the rest of the world, namely the requirement to be 18 years old, the emphasis on graduation, and the expectation that parents bear the financial burden. These three attributes are strongly affected by the distinctive nature of the typical Japanese family (the Japanese-style family) and go hand-in-hand with each other. In addition, Yano pointed out that Japan's unique university system operates in synchronization with the Japanese-style employment system. Companies attach greater importance to the hiring of new graduates, rather than mid-career employment, and they educate the personnel that they require. Due to this mechanism, companies have ceased to question the quality of university education and employ university graduates aged 22 collectively. If a student drops out of university, they will be labeled as someone unsuited to a company hiring personnel for long-term employment, so students have to find some way to graduate. There seems to be truth in the saying that "Two years is the limit you can spend on seeking a job while staying on at university beyond the standard duration." If a student reports that they have finally found employment, the university manages to find ways to ensure that they can graduate. In parallel with the mass hiring of new graduates, what is important is hiring based on a uniform starting salary. Companies effectively profit if they hire someone talented. This spurs the tendency for job-seeking activities to start earlier. Thus, Japanese universities and new recruits are shackled by the Japanese-style family and Japanese employment system, and are completely trapped by them.

The target of Hirano's study was HR departments, which have shaped and implemented the Japanese employment system. Compared with personnel management during the stable growth period, the current Japanese personnel management mode has changed in some aspects and remained the same in others. One significant change relates to the incentive system, in which there has been a shift from the ability-based policy to the role-based policy, that is, a shift to a role-based ranking system which measures the importance of a role on the basis of its value in the market and incorporates personal attributes or abilities. On the other hand, HR departments retain centralized power to manage personnel issues, and collect and accumulate personnel information, and HR managers still have promising career paths and high status within firms. The centralization of the power to manage personnel issues in Japanese HR departments has greater relevance to the departments' involvement in determining personnel transfer issues. American HR departments serve as business partners to top management in implementing the strategies laid down by top management and the finance department, or business management plans deduced, whereas, within Japanese firms, human resources exist from the beginning as a given condition and create roles, and a strategy is developed *ex post facto* using the results achieved by these roles. In short, the intended strategy of Japanese firms is more of an "emergent strategy." Japanese HR departments, while making use of sticky personnel information as the source of their power, consult and negotiate with line managers about individual personnel transfer issues, and search for and select the right persons to assign to the right positions as well as flexibly promoting personnel training beyond sectional

boundaries, thereby contributing to workplace reform. To fulfill these duties, HR managers are required to have experience in a variety of work in multiple divisions, thorough knowledge of various work within the firm, and the imagination to match employees to the right work. At the same time, they need to develop a broad network of human connections within the firm. As a result, the career paths of HR managers extend to different functions, and they come to have high status, which vests them with bargaining power over line managers. The characteristic features of the Japanese employment system—a wide variety of career development options, ability-based grading systems, and the strong power of HR departments to be directly involved in determining the transfer of individual employees—are linked in a complementary manner to the aspect of close coordination among departments. Such complementarities seem to be still effective today.

Reading through the five papers in this journal, one can understand that an employment system is incorporated into complementary relationships with various other systems, e.g. the labor market, legal frameworks, and university system. New developments, such as the introduction of the performance-based pay system, can be observed since the beginning of the severe employment situation period, but they do not appear to have a powerful impact that would extend to the employment system as a whole. The conclusion reached by the studies presented in the Special Edition articles is that the Japanese employment system has been changing only gradually and many of its characteristic features that were seen during the stable growth period still remain unchanged. However, these characteristic features apply only to the employment system for regular employees. The number of regular employees has been decreasing as Japanese firms reduce the workforce in regular employment and implement strict personnel management out of the need for thorough cost-cutting. To replenish the reduced workforce, non-regular workers and contract workers, who are unable to enjoy the benefit of the Japanese employment system, are increasing. A new type of regular employees, whose place of work, working hours, or type of job is limited, are also increasing, and along with this, an employment system applicable to regular employees with such limitation is being established within a buffer area between the employment system for regular employees and that for non-regular employees, which have been separated. This movement may have the magnitude to change the system of rules on the internal labor markets of Japanese firms. We should keep watching the future transformation of the Japanese employment system.

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