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# Selection and Promotion of Managers in Japanese Companies: Present and Future Perspectives

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Given the long-term employment and recruitment of new school graduates, firms must maintain the motivation of the greatest number of staff as long as possible. Under the long-term employment system, where it is difficult for firms to urge them to leave or hope that they would leave voluntarily, if they are sorted into elite and non-elite as a result of competition at an early stage of their career, losers are likely to stay for a long period, with reduced motivation. To avoid that, firms select managers through tenure-based management of promotion—wherein a promotion gap among the staff on the same tenure cohort (called *nenji*) expands gradually over a long time. In addition, personnel department has a great influence in relocating their staff, so that they can transfer to different departments or functions within the firm and have a greater opportunity of promotion than staying in the same function for a long time. This also helps to maintain tenure-based management of promotion. However, it also causes that the staff with specialty is assigned to managerial positions, and on the contrary, the staff with managerial grades but with no managerial positions tend to be given the title as ‘specialists.’

## **I. Introduction**

Japanese employment system has been discussed from various points of view, such that it is indispensable element for skill formation, or that they are the cause of turning labor costs into fixed ones and are obstacle to managing human resources. The point of view is also broad, ranging from employment and wages of regular employees to unequal treatment of regular and non-regular staff.

An attempt to capture it as a whole goes beyond the scope of this paper, which instead focuses on the selection and development of managerial staff as the main topic, because the incentive system for the white-collar employees is a critical aspect of Japanese employment system and the source of their incentives is the ambition to be promoted to managers.

The sections of this paper are as follows. First, Section II briefly reviews the Japanese employment system, prescribing the selection and development of managers. Then, Sections III to VI examine and analyze the present situations in terms of the main issue, and Section VII finally explores the future picture for the selection and development of managerial staff.

## **II. The Japanese Employment System: Actual View**

### **1. The “Long-Term Employment”**

In the introduction section, I used the term “Japanese employment system.” In its

past country reviews on Japan, the OECD named a trio of typical Japanese employment system—Lifetime Commitment, *Nenko* Wage System, and Company-based Unions—the “Three Treasures.” However, because the mandatory retirement age is 60 years and the average life span is 80 years, the concept of “lifetime commitment” has deviated from the actual view in Japan. For that reason, “lifetime commitment” was replaced with “long-term employment,” which bases the discussion of selection and development of managers in this paper. The employment in Japan can be divided into the following three types.

The first is to recruit new school graduates as a main source of regular staff. Once hiring graduates, firms do not urge them to leave or dismiss them but continue to retain them until they reach the mandatory retirement age, while recruiting no mid-career staff. Although Abegglen (1958) gave it a title “lifetime commitment,” it does not literally represent employment for the entire life.

While firms do not urge staff to leave, they can actually leave. In fact, the proportion of leaving the companies to the total new school graduates hired is considerable, and firms have to recruit mid-career staff to fill the vacancies. This is the second type of employment.

In the case of the third type, employees are free to change jobs as in the case of the second type, and also firms are “free to hire, free to fire,” that is, they recruit and dismiss employees on an as-needed basis.

Which of the above three types represents best the employment in Japan? Presumably, lifetime commitment among the “Three Treasures” may have been parallel to the concept underlying the first type. However, in the present situations, it does not necessarily draw the true picture because of presupposing that employees would not leave their firms before mandatory retirement. The third type is not the present picture, either, because firms are supposed to be subject to restrictions on dismissal, as detailed later. We actually had an argument that where employees can quit their firms at any time and firms can fire their staff at any time is an ideal society, on the condition that employees and firms are on an equal footing. However, the existence of labor laws—including the Labor Standards Act and the case law doctrine—, and also of labor unions, gives proof that employees and firms are not on an equal footing.

In contrast, given the prevalence of the recruitment of new school graduates and the mandatory retirement system, the second type—that firms should refrain from terminating employment contracts at least for reasons attributable to themselves, is the closest to the actual view. In the sections below, it will be assumed as the definition of “long-term employment.”

## 2. “Firm-Specific Skill”

Before going into the main discussion, let us first consider why firms retain their staff for a long period of time, despite incurring fixed labor cost and facing difficulties in employment adjustment.

It is dealt with by labor economics, as “firm-specific skill.”<sup>1</sup> Skills are divided into two types, “general skill,” which is appreciated equally by anywhere in the labor market, and “firm-specific skill,” which is appreciated only by a particular firm. Unlike general skill, which is equally valuable in the labor market, firm-specific skill is valuable only within the firm workers receive training. So, they are not motivated to receive training at their own cost. So, the training for firm-specific skill would eventually be joint investment by workers and their firms, and in that respect, long-term employment is economically rational for both sides, in the sense both are to bear training cost, in order to recoup their own investment in training. The practice of recruiting new school graduates, which is prevalent in the Japanese labor market, can be explained by the desire of firms to secure human resources that are highly adaptable to such human investment.

The characteristics of “firm-specific skill” are that the nature of specificity is not clear and the concept itself tends to mean “less developed.” Regarding the former, Koike (1977) provided a convincing explanation based on the concept of “specificity of career,” which used differences of work experience within a firm as a substitute indicator for the firm-specific nature. As for the latter, Pfeffer (1998) presented an argument that creating a differentiated manpower is the source of competitive advantage. By considering differentiated manpower as employees with firm-specific skills, the concept of “firm-specific skills” is not a sign of “less developed,” but is an advantageous element. The long-term employment is economically rational in the above-mentioned aspects.

The legal aspects can be described by the doctrine of abuse of the right of dismissal, or more specifically, the four requirements for dismissal for restructuring (collective redundancy).<sup>2</sup> Under the Labor Standards Act, firms may dismiss its staff by giving 30-days prior notice. Actually, however, dismissal for restructuring would be regarded as invalid unless it meets the four requirements, including whether the firm endeavored to avoid dismissal. As a case law doctrine is not a statute, it is possible for the firms to dismiss employees if they take the risk of litigation (Kamio 1999). However, because large firms worry about their reputation, the existence of this case law doctrine constitutes an extreme constraint on their decision to dismiss staff. Therefore, Japanese firms and the U.S. firms show different responses. Now, let us move on to reviewing the selection and development of managers.

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<sup>1</sup> For more details of “firm-specific skills,” see Higuchi (1996, chap. 6).

<sup>2</sup> The case law established four requirements for validating the dismissal of employees for the purpose of restructuring (collective redundancy): (i) the need to reduce the workforce; (ii) the obligation to endeavor to avoid dismissal; (iii) the rational grounds for the selection of employees to be dismissed; and (iv) consultation with the labor union.

### III. Promotion under the Long-Term Employment System

#### 1. Multi-Tiered Career Track: Japanese Type of Tournament Mobility

This section discusses various types of promotion management under the long-term employment system.<sup>3</sup> In general, staff is promoted by positions subsection chief (*kakaricho*) to section chief (*kacho*), and to department chief (*bucho*). Therefore, on the promotion ladder mentioned above, the staff who fails to move up to *kakaricho* or *kacho* can never be promoted *kacho* or *bucho*. In order to move up to *bucho*, they must first be *kacho* and then *bucho*. It means that selection for promotion takes place in the form of a “tournament” (Rosenbaum 1984). Company-men have to survive succession of competitions in the course of developing their career paths within the firm. Winners can join higher level of competitions, although they are not guaranteed of winning of the next “game.” Losers are completely either excluded from all competitions or can join lower level of competitions.

In Japanese firms, such a selection for promotion is conducted within each tenure cohort (called *nenji*), that is, among staff who enter the firm as new school graduates in the same year. According to Rosenbaum’s theory of tournament mobility, Imada and Hirata (1995) defined the series of competitions for promotion among the staff in each *nenji* as a “multi-tiered” career track, in which competitions are held in different manners according to the career stage.

The first stage is “escalated promotion based on the tenure.” For a few years after coming to the firm as new recruits, a group of staff in *nenji* are equal in terms of promotion. According to the survey conducted by the Japan Institute of Labour (JIL), 64.5% of the surveyed firms adopted this tenure-based escalated promotion system. The most popular reason was to “evaluate employees’ abilities accurately” (73.4%), followed by “increase employees’ motivation” (58.4%) and “develop employees’ abilities” (52.1%) (Japan Institute of Labour 1993).

The survey results reveal that the period of tenure-based promotion is (i) the time to collect information to overcome asymmetry of information, (ii) the time to invest in training their staff at a higher cost than the worth of their abilities, and (iii) the time to motivate employees by providing the majority of them with the opportunity to be promoted.

The second stage is “competition in promotion speed.” Selecting people for promoted is inevitable in order to use the pyramidal structure of organization as motivators. The group of staff, selectively promoted to the positions with title first among the members in *nenji* is called the “first selected group” and the age they are selected for promotion is called the “promotion age of the fast-trackers.”

In that stage, they compete in terms of the speed of being promoted, rather than compete for the chance to be promoted. According to a close examination of the career data of

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<sup>3</sup> The discussion in this section is based on Yashiro (2009, chap. 7).

white-collar staff of a large corporation, Imada and Hirata (1995) found that those who fall behind front-runners for a few years in the competition are not completely deprived of the opportunity to be promoted; they follow those running not so large a distance ahead from them, and this results in a “resting place” in the promotion ladder.

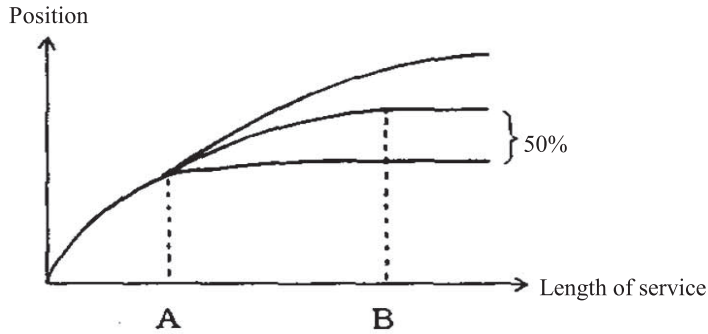
Another feature of the stage is the reshuffling of “runners” in competitions. Hanada (1987) presented a case of a firm where only about 20% of the members of the tenure cohort were promoted in the first selection, and some of those failed in the selection can be promoted next time—which can be referred to as a “return game,” and also presented another case where the reverse case is occurring. There are firms which do not hold such a return game but rather place importance on the differentiation of losers from winners.

Uehara (2003) conducted a detailed data analysis of promotion structure for large banks, and found that job assignment and personnel relocation were closely linked to selection for promotion.

The third stage is “competition by tournament,” in which runners compete for the chance to be promoted. Unlike the competition pattern up to the rank of the *kacho* where there is a resting place in the promotion ladder, competition to the rank of the *bucho* and higher positions is held in the form of a tournament, that is, only winners of the competition can join a subsequent competition. As a result, much of the staff is deprived of promotional opportunity and stay in the same position or grade.

The multi-tiered career track hypothesis considers that the type of selection differs for each stage of the career track. However, as explained above, if the staff are promoted through the ranks within the organizational structure in a pyramid shape, from *kakaricho* to *kacho* and then to *bucho*, the basic mechanism should be a tournament. So, there is no great difference between the multi-tiered career track hypothesis and Rosenbaum’s theory of tournament mobility, assuming that in the multi-tiered career track, the period of the first round of the tournament is intentionally set rather long, encompassing the periods for tenure-based escalated promotion and for competition on the promotion speed.

Next to be reviewed is the JIL comparative survey of selection for promotion in Japan, the United States, and Germany (Japan Institute of Labour 1998b). It asked the distribution of promotion in the same *nenji*, the group of staff who joined the firm as new university recruits in the same year. In Figure 1, point A indicates the time of the first selection and point B indicates the time when the staff ratio who loses the chance to upward movement reached 50% in the same *nenji* and stay at the present status, career plateau. The first selection was held 7.9 years after recruitment in Japan, whereas it was held at an earlier stage after recruitment in the other two countries: 3.4 years in the United States, and 3.7 years in Germany. Similarly, as for when the majority in *nenji* lose the chance to be promoted, the period was 22.3 years in Japan, whereas it was 9.1 years in the United States and 11.5 years in Germany. Thus, career paths are separated at an earlier stage in the latter two countries than in Japan.



Source: Japan Institute of Labour (1998b, 276).

Note: Point A indicates the time of the first selection, and point B indicates the time when staff ratio who lost the chance to be promoted (those staying in the same position) reached 50% of the members in the same tenure cohort.

Figure 1. Separation of Promotion Paths among the Staff  
in *Nenji*

Then, it should be inquired whether tenure-based escalated promotion can be the best practice. If this is effective to developing human resources and increasing staff's motivation, it can spread over the world, as the best practice everywhere in the world. However, in the 1980s, Ishida (1985) already pointed out that because Japanese firms tried to transfer their own style of promotion overseas, they failed to acquire the best talent there. It would be evidence that *nenji*-based escalated promotion is not the best practice but is the consequence of recruiting new school graduates and the subsequent long-term employment.

## 2. Selection for Promotion and Motivation

The above sections provided an explanation of selecting people for promotion in *nenji*, which continues over a long period of time, that is, "long-term competition." As mentioned before, its role in human resources management (hereafter HRM) is critical, because it contributes to training and educating their staff, enables accurate evaluation of their abilities, and gives due consideration to their motivation.

However, it is not always correct to propose that "narrower the gap, the greater the motivation." People would generally consider: "how can long-term competition motivate us? Elevating capable ones to higher positions faster than others would rather increase motivation." Assuming that the "narrower the gap, the greater the motivation." is suitable for long-term employment. If the winners-losers gap expands, it will definitely increase winners' motivation but also will obviously de-motivate losers. And, it is more serious in the case new school graduates are the major source of the manpower and all of the new recruits

join the firm under the same conditions.

Of course, it is not serious providing that firms are free to ask losers to leave, or losers tend to voluntarily leave their firms. However, as explained above, in Japanese labor market, firms are not free to fire their staff as well as they are not willing to leave their firms, as compared to other countries. Then, losers would not leave in spite of expanding the gap, but they eventually choose to stay, with being de-motivated. Therefore, it is not effective to allow the large gap in an earlier stage of the careers because it will cause losers to harbor dissatisfaction for the subsequent long period of services. Consequently, the gap in *nenji* expands gradually over a long period of time, instead of “sudden dropout” in a short period.

Yashiro Atsushi Seminar, Faculty of Business and Commerce, Keio University (2011), conducted a survey on the promotion gap and the job turnover in *nenji*. It set four quadrants based on the scales of these elements and formulated a hypothesis that “the larger the promotion gap (9.2 years or more), the higher the turnover (4.9% or higher in 1998; 4.5% in 2010).” The questionnaire survey results show that firms with a large promotion gap and low job turnover, and firms with a small promotion gap and high job turnover, were hardly seen. Thus, even in Japan, losers tend to leave their firms, in case of facing a great promotion gap.

### 3. Tenure-Based Escalated Promotion and HRM System

In terms of tenure-based escalated promotion, the following three points are important for HRM system (Yashiro 1995).

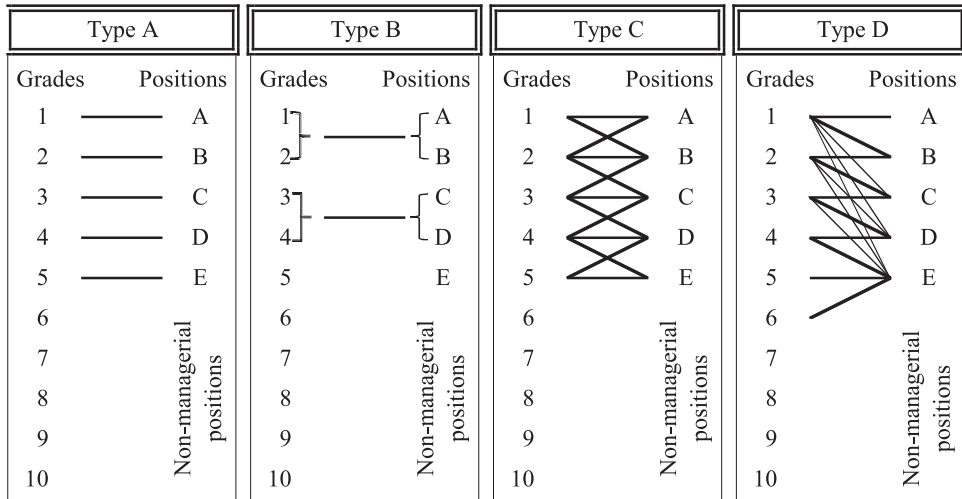
The first is the minimum required period of staying in each grade. Under the ability-based grade system, staff must stay in each grade for the minimum required period regardless of their performance appraisal results, to prevent the promotion gap in *nenji* from expanding.

The second to point out is separation between positions and grades, and between promotion in positions and promotion in grades. The grade system is a “system for clarifying the ranking and treatment within the firm, aside from the position hierarchies”<sup>4</sup> Through separation between two hierarchies, staff is now able to move up to higher grades even when he or she fails to catch higher positions, which diversifies the population in managerial grades, such as line managers, staff managers, managers without subordinates, etc. (Yashiro 2002).

Thirdly, as shown in Figure 2 and Table 1 (Institute of Labour Administration 1997), the relationships between positions and grades are of four types: (i) each grade corresponding to a particular position (Type A); (ii) a certain scope of grades corresponding to a certain scope of positions (Type B); (iii) each grade corresponding to a certain scope of positions,

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<sup>4</sup> “Questionnaire on Aging of Society and Human Resources Management,” the Association of Employment Development for Senior Citizens (1984, 3).



Source: Institute of Labour Administration (1997, 16).

Figure 2. Correspondence between Positions and Grades

Table 1. Changes in the Correspondence between Position and Grade

(Unit: %)

Category	Total (number of firms)	Type A	Type B	Type C	Type D	Lack of correspondence	Others	
<u>Five years ago</u>								
All industries								
Total size	(140)	100.0	20.0	24.3	30.7	20.0	2.9	2.1
3,000 or more staff	(31)	100.0	16.1	25.8	25.8	29.0	3.2	
1,000 to 2,999 staff	(54)	100.0	20.4	14.8	42.6	18.5	1.9	1.9
Less than 1,000 staff	(55)	100.0	21.8	32.7	21.8	16.4	3.6	3.6
Manufacturing	(95)	100.0	23.2	24.2	29.5	18.9	2.1	2.1
Non-manufacturing	(45)	100.0	13.3	24.4	33.3	22.2	4.4	2.2
<u>Currently</u>								
All industries								
Total size	(140)	100.0	12.1	26.4	34.3	25.0	2.1	
3,000 or more staff	(31)	100.0	12.9	25.8	29.0	29.0	3.2	
1,000 to 2,999 staff	(54)	100.0	11.1	18.5	46.3	24.1		
Less than 1,000 staff	(55)	100.0	12.7	34.5	25.5	23.6	3.6	
Manufacturing	(95)	100.0	14.7	24.2	34.7	24.2	2.1	
Non-manufacturing	(45)	100.0	6.7	31.1	33.3	26.7	2.2	

Source: Institute of Labour Administration (1997, 16).

Note: The survey targeted 2,657 firms in total, of which 2,291 are listed and 366 are unlisted.

Managers include specialists and staff managers.



and each position corresponding to a certain scope of grades (Type C); and (iv) each grade corresponding to a certain level of positions (Type D). The correspondence between positions and grades suggests that if promotion in grades is based on the tenure, the influence of the tenure cannot be eliminated from promotion in positions.

#### 4. The Determinative Elements of Managerial Promotion

The next to consider is the influence long-term competition, which gradually widens the promotion gap in *nenji*, has on the selection and development of managers.

First, it is impossible, at least on a superficial level, to launch the selection and development of executive candidates who will be senior managers in the future at an early stage in their career. However, long-term competition and the necessity of early selection of executive candidates are different issues. If firms attempt early selection in the course of long-term competition, the selection should inevitably take a latent nature.

Secondly, on the premise of such long-term competition, what determines selection of promotion? If selection is before each one's ability and contribution to their firm is disclosed, their potential would be a key element. However, if they are selected for promotion through long-term competition or in the tournament, what would be important is achievement of performance in their career within the firm. According to the JIL survey (Japan Institute of Labour 1993), "ability, performance," "attainment of a certain level of performance under the grade system" and "recommendation by the line managers" are frequently answered in promoting the staff to *kacho* and *bucho*. Just as a manager of a professional baseball team is usually chosen from among those who were successful players, promotion to managers is not necessarily on the basis their performance.

### IV. Personnel Department: Its Role in HRM

#### 1. Does the Management Board Decide Staffing of Employees or Vice Versa?

Then, we now turn to our focus on the influence personnel department has in the process of selection for promotion. Generally, personnel department executes the following tasks: planning HRM systems, negotiating with labor unions, as well as planning staffing allocation. And also, because long-term employment and tenure-based HRM are established in Japan, personnel department should influence in staff allocation, transfer and promotion for the following two reasons.

Firstly, on the premise of long-term employment as described in Section II, labor supply and demand in internal labor markets should be adjusted by the corporate level, rather than by each function or unit. If adjustment of supply and demand is executed per function or unit, those who are judged as redundant are to be dismissed and gone to the external labor market.

The second is the tenure-based HRM described in Section III. Gradual expansion of the promotion gap in *nenji* is possible only when the corporate personnel department holds

the influence in staff allocation. Since individual information is departmentalized and the access is limited across the function, personnel department is the only body within the firm, capable of determining promotion in position or grades based on the information of all the staff in each *nenji*.

According to the JIL survey (Japan Institute of Labour 1998b), line manager (“the head of the division + “the direct boss”) was the most frequent answer chosen as the organ with the greatest influence on promotion to *kacho*, standing at 57.4%, followed by “personnel department” at 29.7%. On the other hand, in the case of promotion to *bucho*, line manager was chosen by 27.8% and “personnel department” by only 7.4%. In the latter case, “top management” (61.5%) substantially picks up from the pool of the candidates.

It does not necessarily mean that personnel department has no influence in the process of promotion to senior managers. In the case that long-term employment and internal promotion are established, even board members and senior managers start their careers from rank-and-file jobs and move up to senior positions through the “tournament mobility.” If the personnel department is the “gate keeper” of such career path, it can be described that the personnel department strongly commit to the selection of top management, although hardly told officially.

## **V. Job Rotation and Managers**

### **1. Manager’s Role and Job Rotation**

In the previous sections, selection of promotion was dealt with in the context of Japanese employment system. Here, staffing relocation is considered from the viewpoint of “Japanese Managers.”

Since Ouchi (1981) described job rotation as a salient feature of the Japanese management system in the 1980s, it has been on the center of the controversial point. Ouchi pointed out that the purpose of job rotation was for coordination and integration across the function, although he did not make it clear what need the coordination and integration in Japanese companies.

Hirano (2006) compared Japanese organizational modes with American counterparts, and stated that Japanese managers tend to make horizontal coordination voluntarily, because they understand firm specific context by their broad experience within the firm.

It has a vital importance on the selection and development of managers. According to the theory of Japanese organizational mode, staff is required to experience various jobs within the firm. This would be so under long-term employment, it is not general that managers are recruited directly from the external labor market.<sup>5</sup>

The JIL survey (Japan Institute of Labour 1993) defined ten categories of functions white-collar staff is engaged, such as “personnel,” “accounting” and “sales,” and asked the

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<sup>5</sup> The discussion in this section is based on Yashiro (2009, chap. 7).

personnel department of their job rotation policy across function. 51.3% of the surveyed firms answered that he or she should have been transferred across function for their 20s, but the number declined for their thirties and forties. Thus, firms have strong preference for executing cross-functional job-rotation for the younger than the older.

Another survey by Japan Institute of Labour (1998b), comparing personnel, sales, and accounting managers between Japanese, the U.S. and German firms, asked them of career paths for of university graduates. According to the survey results, “experience in other functions in addition to one’s main function” is the most frequently answered in Japan, as desirable career paths to *kacho* in particular function. The survey illustrates that Japanese firms have orientation for broader career paths than the U.S. and German firms, where managers are rather required to “experience many jobs in the particular function.”

What, then, is the actual picture from individual careers data? The abovementioned JIL survey (Japan Institute of Labour 1998b) for *kacho* and *bucho* of personnel, sales, and accounting function, asked the length of services in their current firms and the length of services they have been engaged in the function for which they have the longest experience.

The proportion of the latter to the the former shows the career patterns of the respondents can be categorized into three types: (i) single-function career, with such proportion at 76% or over; (ii) quasi-single-function career, at 51–75%; and (iii) multiple-function career, at 50% or under. Among Japanese firms, these types are distributed nearly evenly, about 30% for the multiple-function type, 30% for the quasi-single-function type and 40% for the single-function type. However, among the US and German firms, the single-function dominated career accounted for an exceedingly majority, while the multiple-function career was not often observed. It clearly shows that Japanese managers have broader career paths than their overseas counterparts.<sup>6</sup>

## 2. Tenure-Based HRM and “Retirement from Specialists”

Apart from the mode theory of Japanese firms, the necessity for staff relocation seems to be the result of the abovementioned tenure-based HRM. According to the tenure-based HRM resulting from recruiting new school graduates, the staff in each *nenji* is promoted to higher positions or grades based on their length of service, with the gap of promotion gradually expanding. Therefore, if the promotion in the particular *nenji* is delayed, it would cause a further delay of promotion in the immediately lower *nenji*. (Yashiro 1995)

To avoid it, they should move up to higher positions or grades across function. The chance for promotion will surely be greater in the case staff moves between functions than their careers being within a particular function. This is because they would be able to acquire wide-range skills through job rotation, and also such a rotation itself would involve

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<sup>6</sup> Based on the JIL survey (Japan Institute of Labour 1998b), Koike (2005) defined the career patterns of Japanese university graduate white-collar employees as a “broader single-function type.”

promotion in positions or grades.

The staff relocation system is quite convenient insofar as to maintain the tenure-based HRM. However, if it is applied to firm-wide base, job rotation and promotion is given the priority than specialists pursuing their specialized career paths.

### 3. Specialist Careers and Managerial Positions

Okamoto (1990, 178–79) described the characteristics of career paths in the 1960s, which basically continues today:

“The paradox is created between heterogeneity from functional specialization and homogeneity-oriented HRM, based on academic background and tenure cohort (*nenji*). An extreme case is that a well-experienced engineer in the research division is moved to first-line managers in the factory only to avoid imbalanced treatment of people in the same *nengi*. The engineer’s specialist careers are interrupted at a critical point, due to such job transfers.”

According to the survey conducted by Keio Studies on Organizational Behavior and Human Performance (1996), for the staff engaged in research in leading manufacturing companies, nearly 60% responded that they had limits for their careers as researchers due to age. The most frequent answer for such age limit is “being occupied by managerial works” (69.7%). It shows researchers following career paths as specialists are ‘pushed up’ to managerial positions under the tenure-based HRM and forced to “retire” from their researcher’s jobs.

If one moves up to manager’s positions by job rotation under the tenure-based HRM, they do not have enough experience in the field to which they are newly assigned, so they have to make decisions just by approving the choices by the staff directly reporting to them. It is another consequence of promotional selection in Japanese companies, in addition to that managerial promotion is not necessarily on the basis of managerial competencies.

### 4. Do Specialist’s Careers Actually Have Specialties?

The above section pointed out that specialists are ‘forced’ to be managers as a result of tenure-based HRM. On the contrary, however, it is often the case that someone, whose level of specialties is questionable, is appointed to ‘specialist’ just as a name. Okamoto (1990, 181–82) stated as follows of ‘specialists’:

“A career pattern for developing specialists has not yet been created...therefore, in the extreme case, he or she is rotated in an opportunistic and unplanned manner...In such a situation, the specialists jobs are, as if, pool of “‘veterans and reserves,” not suitable to perform line functions.’ In that case, the order of division of duties easily leads to sectionalism.”

Research Institute for Advancement of Living Standards (2000) compared their jobs and careers between managers and specialists. Regarding the minimum required years for which they should be managers or specialists, more than 70% of the total responded they required at least five years to have managers, and those requiring ten years or more reached almost half of the total (“five to nine years” [27.3%] + “ten years or more” [45.4%]). On the other hand, for the specialists, requiring ten years or more were only 11.2%, and those requiring five years or more were about one-third of the total (“five to nine years” [23.0%] + “ten years or more” [11.2%]). From the above-mentioned survey results, managers are required to have greater years of service than specialists in the single firm.

The similar thing can be observed on the academic background to perform the duties of managers or specialists. 56.9% perceived they required the “status of four-year university graduate or equal academic level” for managers and 48.0% required it for specialists, whereas 27.5% of specialists and 31.6%. The academic background was not considered for managers. Therefore, actually, the ratio of respondents requiring higher level of academic background is slightly greater for managers than specialists.

As the earlier sections pointed out, firms separate positions and grades, and separate managerial positions and managerial grades for motivating the staff under the long-term employment system. Consequently, all of the staff, promoted to managerial *grades* in the same *nenji*, will not be able to have managerial *positions*. So, the position of specialists, they should execute their specialties by, is actually the pool managerial candidates, staying and queueing for promotion.

The consideration in the previous and present sections indicates the following mismatch. Those who have been failed for managerial promotion take the way of specialists, while those with high level of specialties are ‘forced’ to move to managers. It is derived from tenure-based HRM, which is the center of Japanese employment system.

## **VI. “Dynamics” between Personnel Department and Line Managers for Job Rotation**

### **1. Manager’s Role: Human Resources Development and Staff Allocation**

The preceding sections reviewed selection and development of managers from the Japanese employment system, long-term employment, recruiting new school graduates and tenure-based HM. However, apart from the corporate policy of HRM, line managers themselves have considerable influence in the development of future managers. Here, “dynamics” between personnel department and line managers for job rotation has a vital importance.<sup>7</sup>

As mentioned above, rotating the staff is firms’ policy. However, from the side of

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<sup>7</sup> The discussion in this section is based on Yashiro (2002, chap. 7).

managers, staff relocation means that they are to give away their subordinates to other workplaces, whom they have developed, and consequently productivity would decline. So, managers would not be willing to agree to the transfer of their subordinates by personnel department as well as his direct bosses.

The JIL survey (Japan Institute of Labour 1998a) actually illustrates it clearly. Regarding the obstacles of human resources development in the workplace, 48.8% of the surveyed managers answered that due to the pressure to achieve a short-term performance, they will not be able to consider job rotation as mid- and long-term human resources development, and 34.4% answered that they were too busy to spare time for the development of younger or mid-career staff. The above-mentioned answers were more frequently among managers who reduced the number of regular staff greatly.

Then, next to consider is, how the declining of managers' developing their staff will affect their attitude for job rotation? According to the abovementioned JIL survey, when managers were required by their superiors or the personnel department to move their subordinates, about one-third of them accepted transfers of "younger" or "mid-career" staff as requested. As for other options, 50% accepted the request for transfer conditionally (accepted the request for transfer on condition that they can retain the target employee in his/her current position until he/she finishes the assigned task or until his/her successor is developed or assigned), while slightly less than 20% refused the request for transfer (for the sake of the target employee's current situation or future career or in consideration of the circumstances within their workplace). It clearly shows that managers can reserve the request by their superiors or personnel department to transfer their subordinates, or can even refuse it.

However, if manager's attitude is rather negative to the request for transfer of their subordinates, promotional opportunities of their subordinates might be delayed. There is such "dynamics for job rotation" affecting the actual control over promotion.

## **VII. A Sign of Change?—Selection and Development of Managers in the Future**

### **1. The Future Way of Japanese Employment System**

In this paper, selection and development of managers was taken up from the viewpoint of Japanese employment system. Finally, some future prospects will be presented here.

According to the above consideration, Japanese employment system is composed of recruiting new school graduates and tenure-based HRM, based on long-term employment. Long-term employment is justified by the following two reasons: (i) economic rationality, investment in developing human resources for firm-specific skills; and (ii) the case law doctrine.

In consideration of interdependency among HRM systems, it is difficult to select executive candidates at an early stage or build career paths for specialists as long as firms

maintain current way of recruiting and subsequent HRM. When recruiting new school graduates, firms evaluate their potential, rather than whether they are suitable for firm-specific jobs. Consequently, it is efficient that recruiting activities are synchronized, and these newcomers are managed collectively by personnel department for their promotion in positions and grades based on their tenure in terms of scale economies. Such tenure-based HRM, combined with the case law doctrine, makes a great promotion gap unacceptable.

Yet, of the two wheels for long-term employment, (i) the combination of recruiting new school graduates and tenure-based HRM, and (ii) the case law doctrine of abuse of the right of dismissal, the former is controllable by the firms. If they reduce the quota of new school graduates and expand mid-career recruits, tenure-based HRM will gradually fade away.

## 2. Japanese Employment Practices and Organizational Field

The next thing to consider is the element influencing firms' choice to either maintain the traditional Japanese employment system or change it. The theory of "organizational field"<sup>8</sup> in organizational sociology, considers that management is under pressure to become isomorphic to the system that is regarded as a norm in the areas they are operating the businesses. Japanese firms compete to each other in the Japanese market; they naturally become isomorphic to the Japanese employment system.

Therefore, in the areas long-term employment and recruiting new school graduates are established as norms, firms cannot catch talented people in the external labor market even if they would like to recruit mid-career staff. These firms have no choice but recruiting new school graduates, which would make long-term employment more established as a normative employment system.

The story would be completely different; however, if foreign-owned firms enter the Japanese market and their management system is recognized as the best practices. In that case, organizational field does not exist in "Japan" but it rather exists in "industry." For an instance, in the investment banking industry, Anglo-American HRM is standard even in Japan, New York, or anywhere else in the world. Japanese investment banks follow and become isomorphic to Anglo-American system, regardless of their basement. If mid-career recruiting or head-hunting, early selection of executive candidates, and career development as specialists are standard in the industry, Japanese firms operating in the industry would have to change their employment system. Unless they take suitable actions, such as searching competitors' pay levels, selecting executive candidates in the early stages and notifying them, and offering them monetary benefit, otherwise, they would lose talented human resources. Competition with foreign-owned firms for tal-

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<sup>8</sup> For details of the organizational field theory, see Hirano (2006), Magoshi and Kuwana (2010), etc.

ented human resources will be a significant for transforming Japanese employment system.

### 3. Case Study: Company A in the Automobile Industry<sup>9</sup>

The following is the case of Company A, manufacturing automobiles on global scale. In Company A, the appointment of staff for the key positions on the world base must be formally approved by the Nomination Advisory Council (NAC). The NAC consists of management executives and human resources staff. The NAC is formed on three levels: Corporate NAC, Global Functional NAC, and Functional/Regional NAC.

Talented persons, called High Potential Persons (HPP) are registered in the list of candidates for these key positions. HPPs are divided into three stages according to their career stages or potential, in which persons at the highest stage, Corporate High Potential Persons (CHPP), are regarded as having potential to be future corporate executives. Age or tenure is not taken into consideration when approving the appointment of HPPs.

In addition to the appointment for the key positions, the NAC also approves HPP nominations and formulates their career development plans. The major career development patterns for HPPs are assignment to projects and transfer to important positions in regions and functions, as well as global headquarters. The NAC discusses their career development plans (CDP), while understanding HPPs' desires and intentions through periodic interviews with career coaches.

There is no special rule for the promotion of HPPs, but actually they rise to higher positions quickly because they are qualified persons. HPPs are subject to periodic review and some of them leave the HPP list in light of their performance or intentions, although this is the rare case. HPPs are not informed that they are HPPs. In principle, HPPs' bosses are not informed that their subordinates are HPPs, except when they need to be, due to the HPPs' ranks. Motivation of HPPs and their colleagues, and the accountability for their deletion from the list, is taken into account in such a decision.

Company A states that it sets rough target numbers of HPPs in different ranks so as to secure the appropriate size of pools of human resources but does not make it a rule to achieve such targets.

This paper considered Japanese employment system from the perspective of selection and development of managers. We have two extreme view of Japanese employment system: whether it will survive as a whole or completely collapse. However, as the case of Company A clearly shows, the possibility of survival depends on industries. Some industries, focusing on domestic competition, and others, toward international competition, will take the different way. Accordingly, the selection and development of managers will diversify among industries.

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<sup>9</sup> The survey was conducted in August 2012.



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