

6 Wage Systems

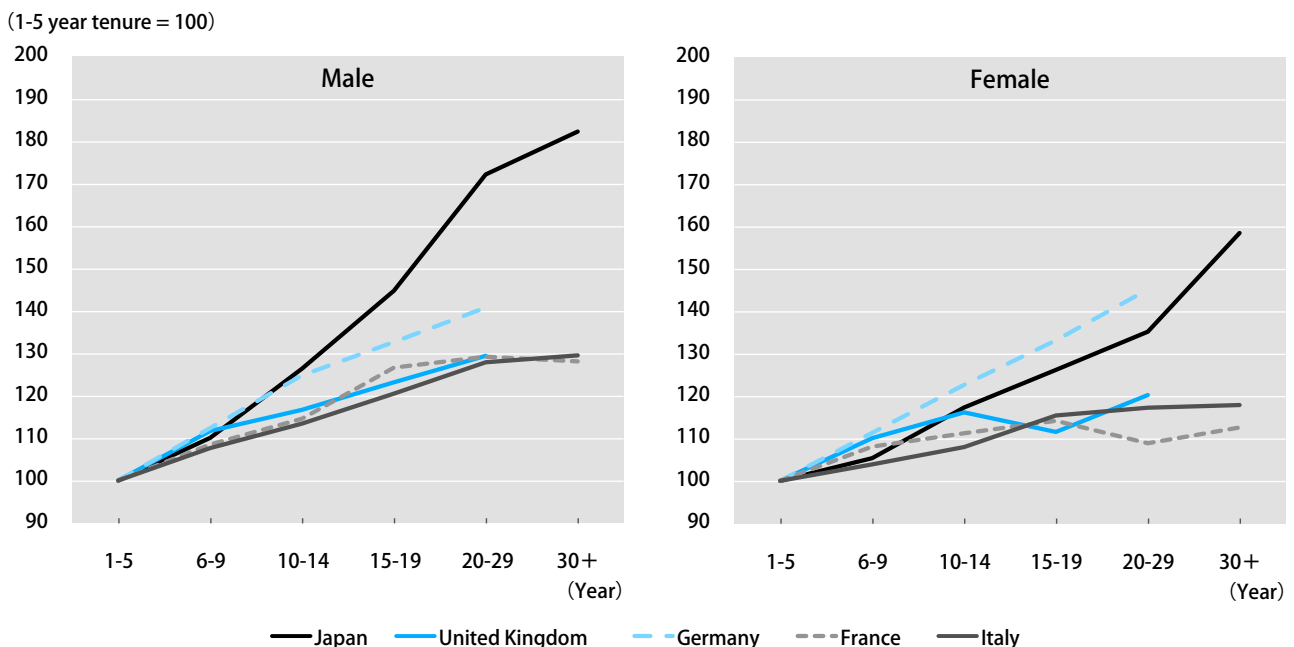
Strong “seniority” element

Figure III-13 shows that the wage levels of manufacturing workers in several countries differ according to employee tenure. In all the countries shown, wage levels tend to increase with length of tenure, but this trend is particularly pronounced in the case of Japan. Looking at male workers in Japan, the wages of workers who have worked continuously for the same company for at least 30 years is almost twice as high as that of workers who have been employed 1-5 years, compared with around 1.2 to 1.4 times as high in other countries.

There are several possible reasons for the markedly stronger “seniority” element of wages in Japan compared with other countries. One is that Japanese companies tend not to determine “job wages” based on the content of the job that an

employee performs. Instead, they much prefer to pay employees according to the level of “ability” required to perform a variety of tasks in the company. This “ability” is assumed to increase the longer that an employee has worked at a company, and accordingly wage levels increase with length of service. A further reason, in addition to the view that wages are compensation for the ability and labor services provided by an employee, is that there remains a deep-seated acceptance at Japanese companies that wages are the main means by which employees secure their livelihoods. If the intention of a company is to pay a wage that will cover the typical cost of living at a given age, then it will pay a higher wage to longer-serving employees who, being older, tend to have to spend more at home on children, education, and so forth.

Figure III-13 Wage Differences in Manufacturing according to Employee Tenure (2002)



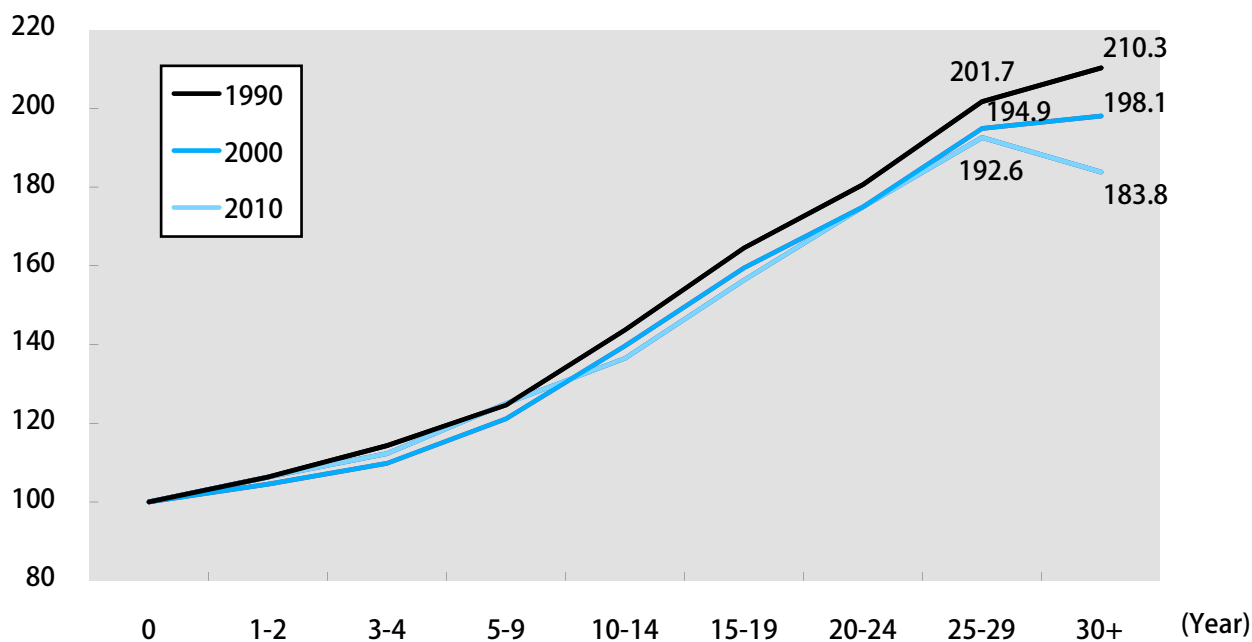
Sources: Japan- Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure (2003.6)*
Other countries- EU (November 2005), *Structure of Earnings Statistics 2002*

Trends in revisions to the wage system

However, as can be seen in Figure III-14, the relationship between length of tenure and wage levels is weakening in Japanese companies. More specifically, with regard to the wages of male workers, if we take the level for workers with no

years of continued service at 100, then in 1990, the level was 201.7 for workers with 25-29 years of continued service and 210.3 for those with at least 30 years of continued service, whereas the figures were 194.9 and 198.1 respectively in 2000, and 192.6 and 183.8 respectively in 2010.

**Figure III-14 Employee Tenure and Wage Levels
(Male Workers, 0 Years of Continued Service = 100)**



Source: Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure*

Note: Figures are totals by industry, academic background and age at companies with at least 10 employees.

The reason why such changes can be seen is that many Japanese companies are revising the wage system that has been in place hitherto, and are exploring new mechanisms. The *General Survey of Working Conditions* conducted in 2007 by the Ministry of Health, Labour and Welfare shows that 46.3% of companies had modified their wage systems in some way over the preceding three years. The proportion to have taken such action is greater among larger companies, with 56.5% of companies with 1,000 or more employees having done so. Regarding the types of changes made, comparatively large proportions of companies of all sizes had expanded the wage component linked to performance/results, content of work (such as job or occupational category), or job-performance skills. Even if we look at the 2010 survey, although the movement towards

the reform of the wage system is weakening, we can see that there is no change in the basic trend (Table III-15).

In other words, firstly, the relationship between output, in the form of performance or results, and the wages that are paid at Japanese companies has become clearer and is demonstrating a tendency to strengthen further in the future. In Japan, this trend is called the increasing prevalence of “performance-related” pay, and it has become particularly pronounced since the 1990s. Another trend is for wages to be consistent with the content of the work actually being carried out by employees. However, in Japan, employees are not often allocated to specific “positions,” so when setting wages at a level consistent with the content of the work, rather than basing them on the work itself, in many cases a

mechanism is introduced that determines wages according to the level of “responsibility” or “function” fulfilled by employees in the course of

carrying out their work. This kind of mechanism is called a “responsibility-based wage system” or a “function-based wage system.”

Table III-15 Percentages of Companies Making Changes to Wage Systems in Preceding Three Years and Types of Change

		Percentage of companies to have made changes	Type of change (multiple responses allowed)									
			Expansion of portion of wage linked to work content (job or occupational category, etc.)	Expansion of portion of wage corresponding to job-performance skills	Expansion of portion of wage linked to performance results	Reduction of allowances and inclusion in base pay	Reduction of retirement benefits and inclusion in base pay	Restriction of base pay and relative expansion of bonuses	Introduction of pay scale	Modification/introduction of ability-based grade system	Modification/introduction of annual salary system	Discontinuation of regular pay increases
2010	All companies	34.6	17.5	16.9	15.0	5.5	0.4	3.1	5.2	6.9	3.0	4.6
	1000 and over	37.0	18.8	14.6	15.4	8.0	0.4	2.1	6.5	12.7	4.8	2.5
	300-999	35.1	14.9	14.6	13.5	7.4	0.7	1.3	8.5	11.2	4.0	3.0
	100-299	35.5	17.0	15.5	16.0	7.7	0.7	3.5	6.0	10.5	3.9	3.5
	30-99	34.3	17.8	17.5	14.8	4.7	0.3	3.1	4.7	5.4	2.5	5.1
2007	All companies	46.3	23.3	22.1	23.7	9.1	1.1	6.0	7.7	11.0	4.0	7.1
	1000 and over	56.5	27.2	23.0	31.3	18.1	0.9	5.7	11.9	22.3	8.9	11.5
	300-999	52.9	23.7	23.5	30.2	15.3	0.7	6.2	13.8	19.1	8.3	10.2
	100-299	45.5	21.7	19.7	24.9	10.3	1.4	5.1	10.4	14.4	5.7	6.1
	30-99	45.5	23.7	22.6	22.4	7.8	1.0	6.2	6.2	8.7	2.8	6.9

Source: Ministry of Health, Labour and Welfare, *General Survey on Working Conditions 2007, 2010*

Issues encountered in revision of wage systems

Moves to strengthen the link between wages and work content and output are always designed to correct the demerits of wages with a seniority element. The aging of corporate workforces with the graying of society as a whole and the decline of the birthrate, combined with the destabilization of the business environment faced due especially to the intensification of international competition, has rendered it unfeasible for Japanese companies to continue to maintain the conventional seniority element of their wage systems. Moreover, companies feared that by continuing to operate a seniority-based wage system, the motivation of young employees or high-performing employees would decline.

However, revising wage systems is not without its pitfalls. If wages are to be linked to performance and

results, mechanisms for evaluating performance are needed. According to the *General Survey on Working Conditions (2010)*, 45.6% of companies have introduced a performance evaluation system, but only 23.0% of those companies acknowledge that their performance evaluations are “going well,” with the remaining companies perceiving that problems are arising with regard to such issues as the individual concerned not accepting the results of their evaluation and evaluations resulting in decreased will to work. Introducing function and responsibility-based wages to strengthen the linkage between work content and wages also has only a limited corrective effect on conventional seniority-based wage systems if the details of roles and responsibilities are not clearly established. Japanese companies will have to tackle issues such as these as they design and administer their wage systems in the future.