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## General Survey

### Elderly Households to Double by 2020

The Ministry of Health and Welfare's National Institute of Population and Social Security Research recently published the outcome of estimates on household trends from 1995 to 2020. The estimates are made every five years and are based on the Institute's Projections for the Japanese Population released in January 1997 and on trends in households shown in the national censuses.

According to future estimates on the population, the nation's total population will reach 127.78 million in 2007, and then begin to decrease. The total number of households will peak in 2014 at 49.29 million. The number of households will then decrease to 48.85 million in 2020. The average number of people per household will continue to decline. The figure was 2.82 in the 1995 national census, dropped to 2.74 in 1998, and is predicted to fall to 2.49 by 2020.

The decline in the average number of people per household is attributed mainly to the rising number of households comprised of couples alone and of one-person households. One-person households accounted for 25.6 percent of all households in 1995. The number will increase 29 percent to 14.53 million households in 2020 (accounting for 29.7 percent of all households). Couples without children accounted for 17.4 percent of all households in 1995, but projections suggest they will account for 21.9 percent of all households in 2020. Families with children will fall from 34.2 percent of all households in 1995 to 26.7 percent in 2020. Three-generation households and other ordinary households will drop from 15.7 percent of the total in 1995 to 12.2 percent in 2020.

By age of the family head, 8.67 million households were headed by someone aged 65 or older in 1995. That figure will nearly double to 17.18 million in 2020, and account for 35 percent of all households. Among those households, those with one person living alone stood at 2.20 million in 1995, but will surge to 5.37 million by 2020. In other words, 31.2 percent of households headed by elderly persons will be one-person households.

From this year a new category has been created for one-parent households. There were 3.11 million (7.1%) such households in 1995. It is estimated that the number will increase to 4.62 million (9.5%) by 2020. With the increase in one-person elderly households and single-parent households it is estimated that there will be a growing need for social welfare

## Working Conditions and the Labor Market

### Preliminary Results of the Survey on Wages and Working Hours

#### - Weekly Scheduled Hours Drop Below 40 Hours for First Time in 1997 -

The Ministry of Labour each year conducts a survey on the realities of wage calculations and working hours. The findings of the 1997 survey released recently are based on replies from 4,807 companies that responded to a questionnaire that was sent to 5,300 private firms with 30 or more regular employees.

According to the survey, regular weekly hours of work in 1997 averaged 39 hours and 31 minutes, down 74 minutes from the previous year's average. This was the first time the average was below 40 hours since 1966 when the ministry began compiling these statistics. By company size, scheduled weekly hours stood at 39 hours and 45 minutes for companies with 30-99 regular workers, 39 hours and 10 minutes for those with 100-299 regular workers, 38 hours and 37 minutes for those with 300-999 regular workers, and 38 hours and 29 minutes for those with 1,000 or more regular workers. The larger the company, the shorter the scheduled weekly hours.

By industry, the scheduled hours were fewest in finance and insurance (37 hours and 9 minutes), followed by electricity, gas and heat supply, and water supply (38 hours and 25 minutes) and real estate (38 hours and 29 minutes). Meanwhile, with smaller decreases scheduled hours stood at 39 hours and 52 minutes in mining and construction, 39 hours and 50 minutes in transportation and telecommunications, and 39 hours and 40 minutes in wholesale and retail trade, and eating and drinking establishments. The scheduled hours for manufacturing was 39 hours and 34 minutes.

As for the workweek, 33.6 percent of companies have a five-day workweek every week (up from 28.5 percent the previous year). By company size, 79.4 percent of firms with 1,000 or more regular employees have made the five-day workweek normal practice; 64.2 percent of firms with 300-999 regular employees have done so, as have 39.8 percent of firms with 100-333 regular employees, and 27.6 percent of firms with 30-99 regular employees. By industry, 94 percent of companies in finance and insurance have fully implemented five-day workweek while only 18.6 percent of those in mining have done so. In between are firms in electricity, gas and heat supply, and water supply (58.1%), services (50.5%), real estate (46.1%), those in manufacturing (32.8%), wholesale and retail trade, and eating and drinking establishments (28.3%), and construction (26%).

Finally, 54.4 percent of companies have introduced a working hours averaging scheme, up from 40.5 percent a year earlier. By type of scheme, 35.9 percent use an annual average (up

from 15.1 percent in 1996); 16.3 percent use a monthly average (down 22.4 percent in 1996), and 4.4 percent have adopted flextime (down from 4.8 percent in 1996). The smaller the company, the more likely a firm is to have adopted the annual average; the larger companies have been more likely to use a monthly average or flextime.

The decrease in the number of weekly scheduled hours to below 40 hours is seen by the Ministry of Labour as arising from two factors. One is the spread of the five-day workweek and the use of flextime. The other is that more companies came to be legally required to implement the 40-hour workweek from April 1997.

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### **The Unemployment Rate Surges to 4.4 Percent**

The seasonally adjusted unemployment rate stood at 4.4 percent in November (4.5 percent for men and 4.4 percent for women). According to the preliminary findings from the Labor Force Survey, which were released by the Management and Coordination Agency (MCA) on December 25, 1998, 2.91 million people were registered as unemployed in November, a increase of 90,000 from the previous month and 630,000 more than the year before.

According to the survey on job placements published the same day by the Ministry of Labour, the number of active job seekers fell 3.5 percent from September while active job offers fell 4.9 percent during the same period. The ratio of active job openings to active job applicants (seasonally adjusted) dropped to 0.47 in October, down from 0.49 in September. This was the lowest ratio recorded since 1963 when the ministry began compiling that statistic.

By age group, the unemployment rate for male workers aged 15 to 24 stood at 8.0 percent; that for those between 55 and 64 stood at 6.4 percent. However, the rate was increasing among males aged 25 to 34 (4.6%) and 35 to 44 (2.9%). For women, the rate was high at 6.7 percent among those aged 15 to 24. It was also high at 6.8 percent among those aged 25 to 34. Among the unemployed, those who left work involuntarily (in short, those who were dismissed due to bankruptcy or restructuring), numbered 920,000, a rise of 360,000 from the year before.

Active job openings continued to fall, down 17.1 percent for the year to 1,187,977. New job offers also fell over the year by 14.7 percent to 433,925 offers. Active job seekers numbered 2,374,909, a decrease of 3.5 percent on the figure for the previous year. In addition, 448,721

made their first application for a job, and 123,283 actually found a job.

## Labor-Management Relations

### Electronics Giants Settle on Bonus Payments and Gap Widens Between Firms

Japan's electronics giants recently concluded their negotiations on winter bonuses. Seventeen major corporations settled on amounts equivalent to 2.31 months of regular income, or ¥678,983, the lowest level since 1969 when labor and management began to take a unified approach to negotiations. The tendency for them to reach similar agreements has changed. The variation in bonuses mirrors variations in corporate profits. Some corporations are moving to link their business performance to bonuses overall; others are seeking to vary bonus payments at the divisional level according to the profits of each division.

Personal consumption has remained sluggish due to the prolonged recession, and corporations have had to put a brake on capital investment. Because of the sluggish sales of home electronics, personal computers and semiconductors, many corporations have experienced a deterioration in their corporate profits. In view of the recession, Denki Rengo (the Japanese Electrical, Electronic and Information Unions) sat at the negotiating table with management and demanded a smaller bonus from the year before for the first time in four years.

On November 5, the 17 firms presented their final reply to the labor unions, and settlement was reached for an amount that was ¥42,974, (equivalent to an average of 0.235 months' pay) lower than the bonuses received the year before.

Last year, three groupings each settled for similar amounts within their grouping: the Kansai-based home electronics firms, Kanto-based general electrical-machinery firms, and information and telecommunications firms. In this year's talks, the Kansai-based firms settled for different amounts. At Matsushita Electric Industrial, agreement was reached for bonuses equivalent to 2.53 months' pay; at Matsushita Electric Works, the figure was 2.523 months' pay, Sanyo Denki and Sharp in between with 2.5 months' pay.

Among the Kanto-based firms, Toshiba settled for a bonus equivalent to 2.25 months' pay, while Hitachi, (which has experienced its worst losses ever) settled for a bonus of 2.15 months' pay. The settlement at Mitsubishi Electric and Fuji Electric also called for bonuses equivalent to 2.15 months' pay (the same as at Hitachi). In the information and telecommunications industry, Fujitsu's bonus was 2.5 months' pay and NEC's was something just over 2.4 months'

pay.

Mayumi Ofuku, general secretary of Denki Rengo, seemed happy with this year's negotiations given the overall business conditions.

Fujitsu adopted a system of linking bonus amounts to its corporate account settlements the year before. It divided the bonus payment into two portions - a fixed amount that will assure workers that they maintain a decent standard living and a fluctuating amount linked to the firm's business results. The fluctuating portion is calculated by multiplying the amount of corporate profits for the previous year added to a total of bonuses paid for the year before by nine percent.

Hitachi is studying the introduction of a system whereby bonuses will reflect the business results of the division to which an employee affiliated. Thus, bonuses will vary among each of its various divisions, such as electric power, home electronics and information. The company has already adopted the system for managers and it has agreed with its union to introduce the scheme for chief clerks (which include union members) starting this winter. In 1999, Hitachi will divide the whole company into several different firms. It is now holding talks with labor in order that the new arrangements will involve ordinary union members as well.

## Public Policy

### **Six Draft Plans for Individual Industrial Dispute Settlement**

On October 15, the Minister of Labour's Advisory Study Group for Industrial Relations reported on the future of industrial dispute settlement and Labour Relations Commission for submission to the minister, Akira Amari.

The settlement of industrial disputes revolves around mechanisms for collective resolution. Labor-management relations, which were extremely antagonistic until around 1960, gradually stabilized over time. From the mid-1980s the number of labor disputes and the number of cases involving unfair labor practices declined noticeably. However, with the lifetime employment practices being overhauled and performance-based wages being introduced, a growing number of employees are dissatisfied with their wages and retirement allowances, and the number of dismissals has increased. This has in recent years resulted in an increased number of disputes between working individuals and employers.

As for disputes between management and a union, the Labour Relations Commissions

may become involved and consider whether unfair labor practices have occurred. However, it has no special procedures in place to deal with individual industrial disputes. Although prefectural labor administrative offices and bar associations may assist parties in achieving an individualized private outcome, a civil lawsuit must be taken to a court in order to obtain a public settlement. However, a tremendous amount of time and resources are necessary to use the court system.

The report, thus argues that it is necessary to establish a public mechanism that can assist with simple conciliations. The Study Group presented six plans. They include a plan for the present Local Labour Relations Commissions to provide information on individual industrial disputes. Another calls for the establishment of a special judicial mechanism for handling mediations of this sort.

The report thus calls on concerned parties to discuss a range of issues immediately so that the present system may be satisfactorily revised. Labor and management have opposite opinions concerning the mechanism they want for individualized industrial dispute settlement. In a report compiled in June 1998, Rengo called for changes to the Labour Relations Commission and for a mechanism to deal with individualized industrial disputes. It argues for an approach that will utilize the lifetime of know-how that has been acquired for settling group-based industrial disputes. Nikkeiren has opposed Rengo's approach. It argues that fairness cannot be secured simply by realigning the Labour Relations Commission. It fears that the commission will likely settle industrial disputes in favor of workers and will focus its attention on providing remedies for unfair labor practices. In its report, which was compiled in May 1998, Nikkeiren proposed that special mediation be established within the framework of civil mediation currently provided by the judicial system.

## Special Topic

### Procedural Fairness in Evaluation Systems for Japanese White-Collar Employees

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#### 1.0 Evaluation Systems for Japanese Employees

This article discusses issues relating to "procedural fairness" in the systems that

Japanese firms use to evaluate employees. As Japanese employers place more emphasis on aligning each employee's compensation with his or her productivity and shift toward a more individualized model of determining wages and other working conditions, procedural fairness increasingly becomes a concern for employees. Also, because of employees' interest, it becomes a requirement of each firm's human resource management system. Procedural fairness may be defined as the extent to which the methods, mechanisms and processes of determining wages and other working conditions are perceived to be fair.

One indicator of procedural fairness in the evaluation and reward systems is the degree to which employees feel that their employers are sharing information with employees regarding such items as evaluation criteria, evaluation procedures and evaluation outcomes. Another indicator of a "procedurally fair" evaluation system is the extent to which employees feel they are able to appeal their evaluations or at least to seek explanations about their own appraisal. When these kinds of features are incorporated into the system of employee evaluation, employees are likely to perceive the system as fair and accept its decisions and outcomes. This discussion focuses on the extent to which Japanese employers have conducted employee evaluations in an "open" or transparent manner and the amount of "participation," that managers are allowed to have in their own evaluation.

## **2.0 Employee Reward System is Changing**

Employee evaluation practices for white-collar employees in Japanese organizations are changing. Morishima (1998) argued previously that these changes represent a shift from evaluation systems based on seniority and skill levels to those that more intensively assess employees' current contribution to the firm. Some observers, however, are not convinced that these changes represent a fundamental change in the evaluation of white-collar employees.

While one may debate how fundamental the changes are, it is clear that Japanese employers are determined to increase the productivity of white-collar managers by bringing their pay into alignment with their contribution. Consequently, the portion of each employee's compensation that is dependent on his or her seniority and skill levels is decreasing.

Until the late 1980s, the Japanese model of human resource management was premised on the assumption that firms recruited candidates with the largest learning potential, provided them with continuous training opportunities, and then rewarded them according to the degree to which they acquired internally relevant job-related skills. Wages and promotion were determined using schemes that have been referred to as "the skill grade system (*shokuno shikaku seido*)."



Recently, however, because of the increasing global competition, an aging workforce, and the current economic difficulties, Japanese firms are beginning to adopt methods that place more emphasis on productivity when evaluating their managerial staff.

### 3.0 Current Procedures in Japan for Evaluating Employees

A survey of 522 large firms was conducted by the Fuji Research Institute (FRI) in November 1997 (FRI, 1998). The findings indicate that, on average, firms assign "employee performance" 41.1 percent of the total weight (0%) in evaluating their middle managers (i.e., *kacho* level personnel). The weight given to each employee skill level and ability averages only 26.8 percent. Job content and responsibility account for 14.4 percent in each employee's rating, and the employee's effort is given only 13.8 percent of the total. Factors such as educational background and age receive only 4.0 percent of the total weighting. The results in Table 1 show that larger firms tend to focus more on performance and less on effort and educational background.

Table 1. Weight Attached to Various Criteria in Assessing Employees

	Performance	Skills/ Abilities	Effort	Job Content	Edu- cation/ Age	Total
Total sample	41.0%	26.8%	13.8%	14.4%	4.0%	100.00
Manufacturing	43.9%	25.2%	12.4%	15.0%	4.3%	100.00
non-manufacturing	39.1%	27.9%	14.7%	14.0%	3.5%	100.00
Firm size						
fewer than 2,000 employees	39.5%	26.2%	15.1%	15.0%	4.3%	100.00
2,000-5,000 employees	41.1%	27.4%	13.6%	14.0%	3.9%	100.00
more than 5,000 employees	43.9%	27.1%	11.5%	14.0%	3.4%	100.00

Note: Firms were asked to indicate in percentage terms the relative importance attached to each of five evaluation criteria.

Source: FRI (1998), p.70.

These firms also indicate that performance contributes more significantly to the determination of managers' cash compensation than to the determination of other reward outcomes such as promotion and rank in the skill-grade system. Table 2 shows the relative importance of various evaluation criteria in the determination of pay and non-pay rewards for white-collar managers. The survey used a Likert-type 4-point scale with "1" for little importance and "4" for great importance.

Table 2. Emphasis on Various Evaluation Criteria in Determining Reward Outcomes

Outcome Being Determined	Performance	Skills/ Abilities	Effort	Job Content	Edu- cation/ Age
Basic wage increases	3.3	3.1	2.5	2.6	1.6
Bonus	3.7	2.5	2.4	2.6	1.4
Promotion	3.3	3.4	2.8	2.7	1.8
Rank in the skill grade system	3.2	3.4	2.8	2.7	1.8

Note: Responses were taken using a four-point scale. Higher values show stronger emphasis of the criterion.

Source: FRI (1998), p.74

The data indicate that while Japanese firms consider a combination of skills, abilities and performance in evaluating their white-collar managers, the performance dimension is linked most directly to pay determination. For cash compensation (basic wages and bonuses), more weight is given to employee performance than any other criteria. Performance determines all three components of the employee's annual compensation - basic wage increases, bonuses and rank in the skill-grade system. An employee's rank in the skill-grade system places him or her in a pay grade or range of pay within which his or her pay is determined.

Another indication of the greater emphasis placed on performance by Japanese employers is the increased use of management-by-objectives (MBO) as a method for evaluating white-collar managers. The FRI survey found that 62.7 percent of firms use MBO with at least some of their managerial staff. Even when differences in samples are taken into account, this represents a huge increase from the 28.0 percent of firms using MBO, a result obtained in a Ministry of Labour survey conducted in 1996. In a similar survey conducted in 1997, Tsuru, Morishima and Okunishi (1998) report that 54.0 percent of their sample of 450 firms have adopted MBO for managerial evaluation and that another 23.1 percent are planning to adopt the MBO framework within the next five years. The sample in Tsuru et al. is closer to that used by the Ministry of Labour than the FRI sample. Tsuru et al. report that the average firm adopted the practice in 1990 (standard deviation = 7.6 years). This suggests that the use of MBO with managerial staff is a relatively recent phenomenon.

#### 4.0 The Importance of Procedural Fairness in Schemes for Employee Evaluations

Given the increased use of MBO, it is important to ask whether middle-level white-collar managers are willing to accept these practices that more carefully assess their contribution to their firms. A survey conducted by the Japan Productivity Center (JPC) may give some answers. In 1998, the JPC surveyed 1,192 white-collar middle managers who worked for firms employing at least 1,000 regular employees (*seishain*).

Two questions were used. First, managers were asked whether they thought their evaluation had come to depend more on "contribution-oriented criteria." Out of 1,174 responses to this item, 496 (42.2%) thought that the evaluation criteria applied to them was NOT becoming more "contribution-oriented." However, the majority of respondents (57.8%) answered positively.

Those who answered positive were asked whether they were satisfied with the change. Table 3 shows the proportion of managerial employees who were satisfied. To examine for factors that might explain whether the respondents would be satisfied with the new approach to their evaluation, the response on satisfaction was cross-tabulated against a number of variables.

Table 3. Proportion of Managers Satisfied with an Evaluation System Using "Contribution-Based" Criteria

Firm and Manager Characteristic	Levels	% satisfied
Employer size (number of regular employees)	5,000+	56.0%
	1,000-5,000	40.0%
Is the employer unionized?	Yes	44.4%
	No	43.5%
Was the manager a mid-career hire?	Yes	45.5%
	No	45.6%
Is the manager in a line or staff position	Line	44.1%
	Staff	46.0%
Satisfied with the employer?	Yes	44.7%
	No	45.3%
Procedural fairness practice	Levels	% Satisfied
Evaluation criteria disclosed?	Yes	50.0%
	No	38.3%
Have a way to appeal evaluation decisions?	Yes	55.0%
	No	40.2%
Have a system of discussing evaluation results with bosses?	Yes	51.8%
	No	38.7%

In the left-hand column of Table 3, a variety of firm and manager characteristics are cross-tabulated with managers' satisfaction with contribution-based evaluation. Employer size and unionization are the characteristics of the firms where the managers are employed. The next three factors are the characteristics of the managers themselves. Generally, the data indicate that these firm and manager characteristics are not significantly related to whether the managers are satisfied with contribution-based evaluation.

In addition, although not shown in Table 3, average age and years of continuous employment were also calculated for those who were satisfied with the new evaluation criteria and for those who were not. Differences in both average age and tenure were less than

a year between those managers who were satisfied with the new practice and those who were not. Thus, age and tenure are not important correlates of manager satisfaction.

In contrast to the types of variables considered so far, the perceptions of "procedural fairness" seems to be a stronger determinant of a manager's satisfaction with the shift toward contribution-based evaluations. When managers know their evaluation criteria, can appeal their evaluation results, and discuss their evaluation results with their bosses, they are much more likely to be satisfied with increased weight given to contribution-linked criteria in the evaluation of their work.

In this connection, another issue is whether the demand for procedural fairness practices differs according to whether the managers consider the evaluation practices applied to them are becoming more contribution-based. The results shown in Table 4 partially answer this question: The proportion of managers who want two kinds of procedural fairness practices (disclosure of the evaluation criteria and opportunities to discuss evaluation results with their bosses) is shown. These results indicate that managers who think their evaluation is based on their contribution are more likely to want transparency built into the evaluation system.

Table 4. Employee Demand for Procedural Fairness in Evaluation Practices: Percentage of Managers Wanting Fair Procedures

Employee Demand for Fairness	Are Evaluation Practices Becoming More "Contribution-Based"?	
	Yes	No
Percentage of managers who want criteria for employee evaluation to be disclosed	63.9%	56.8%
Percentage of managers who want opportunities to discuss evaluation results with their bosses	63.1%	56.0%

Another way of examining the importance of procedural fairness practices is in the degree to which managers are willing to accept larger wage disparity when transparency is incorporated. Previously, similarly skilled workers were paid relatively equally within the skill-grade system. However, one important consequence of introducing individualized wages and other working conditions is increased reward disparity (particularly wage disparity) among similarly skilled employees. Are employees more likely to accept large wage disparity if their firms have in place procedures that seem fair?

Table 5 presents some findings, suggesting that managers in firms that disclose evaluation criteria and provide opportunities to discuss evaluation results with their bosses are slightly more likely to accept wage disparity larger than 20 percent. The findings point to

the importance of building transparency into contribution-based evaluation systems and reward practices.

**Table 5. Employee Acceptance of Wage Disparity**

Whether Fair Procedural Practices are in Place	Proportion of Managers Who Accept Wage Disparity Larger than 20 Percent	
The disclosure of evaluation criteria	Yes	52.7%
	No	47.2%
Appeal mechanisms for evaluation decision	Yes	52.5%
	No	47.4%

## 5.0 Procedures for Fairness in Employee Evaluation

The previous section indicated that the sense of procedural fairness is important to the successful implementation of contribution-based evaluation and reward systems in Japan. Employees are also likely to demand more procedural fairness in the evaluation of their performance. How are Japanese firms responding to this new requirement? Here two facets of transparency are discussed: information disclosure and provisions for appeal and feedback.

### 5.1 Information Disclosure Practices

The first step to ensure that procedural fairness is injected into an employee evaluation system is the disclosure of information about the evaluation process. The FRI survey asked about the extent to which firms disclosed information about the way they evaluated their white-collar managers. Some results from that survey are presented in Table 6.

**Table 6. Information Disclosed to Employees Concerning Their Evaluation**

Type of Information Shared with Employees	Percentage of Firms Providing Specific Type of Information to Employees (N=552)
Evaluation criteria	83.6%
Specific evaluation measures used for each criterion	68.6%
Weights attached to each criterion	55.0%
The names of who conducts the evaluation	71.1%
The procedures used in the evaluation	62.3%
The evaluation outcomes for individual employees	62.3%

Source: FRI (1998), p.63

The most commonly revealed feature of the employee evaluation process is the criteria used in the evaluation of employees. Almost 84 percent of the firms responded that they disclosed the criteria by which their managers were evaluated. However, information regarding *how these criteria are actually used* (e.g., the keys for judgment, the weights for each criterion, procedures by which judgment on each criterion are translated into an overall evaluation) is disclosed by about two-thirds of the firms.

Moreover, in only about one-third of the firms are individual employees informed of their evaluation results. In the remaining firms, employees are not aware of how they were actually evaluated by their bosses. In some firms, employees are expected to infer the outcomes of their evaluation using an increase that appears in the monthly paycheck. However, this type of signaling does not tell employees why they did or did not receive an increase. As such, wage outcomes are not a substitute for disclosing to an employee the results of his or her evaluation.

In most firms, the disclosure of evaluation results and the feedback associated with such disclosure are conducted in supervisor-subordinate meetings. Previous surveys (such as the 1996 survey conducted by the Ministry of Labour) have indicated that a formal system of outcome disclosure is in place in only a small minority of firms. In other firms, supervisors are responsible for informing subordinates of their evaluation outcomes.

Then, an important question is to what extent employees' evaluation outcomes are disclosed in these supervisor-subordinate meetings. The survey conducted by Tsuru et al. examined this question among the firms that responded that they disclose evaluation outcomes via employees' supervisors. Their findings are shown in Table 7.

Table 7. The Extent to which Evaluation Outcomes are Disclosed to Managers

Extent to which Evaluation Outcomes are Shared with the Manager	Total Sample	Firms that Have Adopted a Contribution-Based Approach to Compensation	Firms that Have Not Adopted a Contribution-Based Approach to Compensation
	(N=272)	(N=124)	(N=148)
Evaluation results are explained in detail and discussed with employees.	34.9%	46.0%	25.8%
Evaluation results are explained in detail, but not discussed with employees.	2.6%	1.6%	3.4%
Only an outline of evaluation results are explained.	15.1%	16.1%	14.2%
Evaluation results are explained only when necessary.	47.4%	36.2%	56.8%
Totals	100.0	100.0	100.0

Their results indicate that 34.9 percent of the firms that disclose evaluation outcomes in supervisor-subordinate meetings (N=272) explain evaluation results in detail and discuss them with their managers. In contrast, 47.4 percent explain evaluation outcomes or results to individual employees only when necessary or demanded. The desire of individual employees for "open" evaluation processes is unlikely to be satisfied in those firms.

When firms are classified according to their evaluation criteria, however, an interesting

pattern emerges. Firms that reward managers on the basis of "contribution" are much more likely to inform employees of their own evaluation results in detail and to discuss those results with their employees. It appears that firms which attach relatively more weight to performance- or contribution-based criteria in their evaluation of managers are much more likely to have more sophisticated mechanisms in place for disseminating information on evaluation procedures and outcomes to their employees.

Finally, one might expect that more information would be disclosed when supervisors meet their subordinates more frequently in formal evaluation reviews. The FRI survey asked the number of times a year managers meet their subordinates for an evaluation review. The most common answer was twice (53.5%), followed by once (22.3%) and by three times (11.9%). In 24.1 percent of the sample firms, formal guidelines had not been established and managers were left to their own discretion in determining how many times they should meet their subordinates. Review meetings held with supervisors twice a year may provide only limited opportunities for managers to obtain information on the perceptions of their superiors as to how they are performing.

## **5.2 Appeal and Complaint Handling Practices**

Another major component of a fair evaluation system is the mechanism for handling appeals and complaints. When employees have a way to voice their discontent with the outcome of their evaluation, it is more likely that the evaluation system will be seen as being fair by employees.

In the FRI survey, only 23.0 percent of 522 firms responded that they had a formal system for dealing with an employee's complaints regarding his or her evaluation. More than two-thirds of the firms did not have such a system. In very large firms with more than 5,000 employees and in manufacturing firms, the figures are 32.3 and 26.1 percent, respectively.

These figures are also generally corroborated by manager responses. In the 1997 JPC survey of 1,192 middle managers, 23.4 percent responded that there were formal ways in their firm for middle managers to submit complaints about their evaluation (see Table 8). In the same survey, 40.4 percent indicated that they had opportunities to discuss their evaluation results extensively with their immediate superior. Another 11.0 percent said that they have opportunities to discuss evaluation results with the superior of their immediate superior.

Table 8. Provision of Opportunities to Appeal and to Question Performance Evaluations

Statement to Which Respondents Would Agree (i.e., answer "yes")	Percentage of Managers who Responded "Yes" (N=1,192)
In my firm, there is a formal mechanism for middle managers to complain about their evaluation.	23.4%
I usually have opportunities to discuss extensively my feelings about my evaluation results with my immediate superior.	40.4%
I usually have opportunities to discuss my feelings about my evaluation results with the superior of my immediate superior.	11.0%

Note: The proportion of managers who responded "yes" to none of the above was 39.0 percent.

These findings indicate that only a small number of firms provide formal mechanisms to handle complaints, and that dissatisfaction with evaluation outcome is handled through informal interactions with one's supervisors.

Another indication that complaints regarding evaluation outcomes are handled interpersonally through face-to-face interaction may be the extremely limited use of formal mechanisms by managers. In the JPC survey, only 10 of the 279 managers who said that their firms had formal mechanisms for handling complaints (i.e., who answered "yes" to item A in Table 8), report they have used the system.

## 6.0 Conclusions

The above discussion leads to four conclusions. First, Japanese firms are starting to place more emphasis on the current contribution of managers to the firm when evaluating and rewarding them. Second, the importance of having mechanisms that appeared to guarantee procedural fairness is increasing under the current shift toward contribution- or performance-based evaluation and reward practices. Third, Japanese firms have responded to some extent by instituting ways of disclosing to their managers information on the evaluation processes and outcomes. Firms that have adopted more performance-based compensation schemes tend to have a more developed approach to sharing information. Fourth, complaints and dissatisfaction regarding evaluation results are more likely to be dealt with through informal interaction with superiors than through formal mechanisms.

As more Japanese firms shift to contribution-linked evaluation and reward practices, we should expect that firms will disclose more information to their employees and that there will be more emphasis on informal interaction with superiors as the main mechanisms by which managers resolve dissatisfaction with the outcomes of their appraisals.



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## Opinion

### Evaluating the Revised Labour Standards Law and Rengo's Future Endeavor Toward It

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#### Rengo's Evaluation of The Labor Standards Law

The Labor Standards Law (LSL) was amended in response to management calls for the deregulation of working hours. The amendments will allow discretionary work schemes to be applied across a broader range of occupations. They also allow for labor to be hired on fixed-term contracts for up to three years. In requesting more flexibility, management follows the deregulation of working hours in Europe and the United States, and the increasing diversification of employment patterns and working hours in Japan. The intensification of international competition and the widening range of values to which workers subscribe also contribute to the demand for such amendments.

Rengo concentrated its efforts on obtaining a ministerial ordinance that would allow labor unions to be involved in the implementation of new arrangements for working hours. Rengo took the opportunity to call for improvements in the present labor legislations. The revised LSL coming into effect, largely, though not wholly, meets the demands of Rengo. Rengo's general secretary was quoted as saying on September 25, 1998, that Rengo can now

live with the revised law.

With regard to the expansion of provisions allowing for more discretionary work, which was strongly supported by management, for example, the new scheme of discretionary work envisaged for white-collar workers has been adopted, but will actually be implemented from April 2000. Therefore, there is sufficient time for the views and opinions of labor unions, and employers' organizations to be heard. Moreover, a special body will be established to study how best to implement the extended system. Concerning the averaging working hours system as it relates to annual hours of work, the upper limits placed on work hours were 10 hours a day, 52 hours a week, and not more than three consecutive weeks within a three-month period. Prior agreement with a labor union will be necessary for a work-hour averaging scheme to be introduced. Also, management must report to the Labour Standards Bureau whenever such a scheme is introduced. Extension of fixed-term employment contracts to a maximum of three years will be limited to jobs that require sophisticated and professional knowledge.

When the revised LSL became law, Rengo took the position that a strong union effort would be necessary on these issues in the future. In comments to that effect, there may be subtle insight into what Rengo's stance will be in the future.

### **Rengo's Task and the Importance of Taking a Firm Stance**

In Japan, employment conditions are not clearly written down in many cases. Workers are in an extremely vulnerable position when they work on a part-time basis, for limited periods of time, or for firms without labor union representation. In deliberations on the revision of the LSL, Rengo pushed for regulations that would obligate employers to inform employees of their working conditions in writing. Rengo will redouble its efforts at monitoring whether the employer fulfills its duty in this regard, and will continue to work to improve the employment and working conditions that appear in employment contracts. These activities are instrumental if the working conditions and rights of workers in the peripheral labor force are to be improved.

In some areas the LSL calls for an agreement to be reached between the employer and the labor union or a person representing a majority of the employees. With regard to the introduction of the averaging working hours and discretionary work schemes, the employer is obligated to reach an agreement with or hold consultations with a person representing a majority of the employees. Under the revised LSL, it is safe to say, the employer and workers are more strongly required to consult each other. The Ministry of Labour has already instructed them to select worker representatives by election. Rengo and its affiliated unions will do their utmost to ensure that the representatives are elected in an appropriate manner

and that they are able to consult with employers on an equal footing.

Getting employment and working conditions clearly stated, appropriately electing representatives, and supporting them in their interaction with management will be important activities for unions in the future. It is fervently hoped that these kinds of activities will attract part-time workers and workers in the service sector and smaller-scale firms, who are currently very unlikely to be unionized. By instilling in those workers good appreciation of the union movement, it is hoped that they may come to be interested in forming their own labor unions.

## Conclusion

Whether unions like it or not, Japanese labor legislation is being drastically changed. The changes reflect the diversification of employment relations, the aging population and globalization. Rengo has recognized that revision of the LSL can be a significant step toward establishing fair labor-management relations suitable for the 21st century. The union movement believes that the active participation of the elderly and women in various societal domains, and the truly equal treatment of men and women are vital for the nation's future.

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## Revision of the Labour Standards Law Legalized: A View from Nikkeiren

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The Labour Standards Law (LSL) has been seriously revised for the first time in 50 years. The amendments contain the following three thrusts: an emphasis on rules that facilitate the independence of those actually doing the work; an emphasis on having a balance between work life and family life (including the shortening of working hours); and an emphasis on accommodating individualized needs in labor contracts.

Do these emphases provide the best possible outcome for a revised LSL? First, the length of time for which labor might be contracted has been extended from one year to three years in a bid to provide a framework that would allow for more independent work arrangements. To limit the contract to one year is no longer an adequate way to secure labor as the situation has changed immensely since the LSL was first enacted 50 years ago. The demand for longer-term

certainty in contractual arrangements has come from foreign engineers and scholars, as well as professional ballplayers and ordinary workers.

To respond to these calls, employers have argued that labor contracts should be governed by the principles of the civil code instead of by the LSL, which stresses penalties. Employers called for an extension of work-related contracts to five years. They will be concerned that the revised LSL restricts the use of the three-year contract to an excessively limited number of job categories. Perhaps reflecting a concern that such provisions may be abused by employers, the revised LSL has too many restrictions that are complicated and unclear. The same is true of the new discretionary work scheme. In order for corporations to adequately respond to intensified international competition, it is essential that workers' productivity be raised. The shift from the seniority-based wage systems to performance-based systems is a trend of the times. The expansion and strengthening of the discretionary work scheme is well timed. It was unfortunate, therefore, that the enforcement of the revised LSL was delayed for one year. In this regard, it is appropriate that decisions on the new discretionary work scheme be made by labor-management committees and details of the new discretionary work scheme should be left to such committees. To give an example, only those jobs that should not come under the discretionary work scheme should have been governed by the law. Individual matters, such as the allocation of work, should have been left to labor and management to decide at their discretion. Meticulously detailed provisions for the scheme will mean the productivity benefits are less likely to be realized. A system of reporting to the local labor administrative office would have provided a sufficient means of preventing abuses to the scheme. The new scheme requires employers and employees to swim with their hands and feet tied behind their backs.

Next come the revisions concerning the harmonization of work and family life, and shorter working hours. They involve changes in the scheme for averaging working hours on an annual basis, measures to mitigate the effects of a relaxation of the protective provisions applicable only to women workers in the LSL, and an increase in annual paid leave. Workers values have diversified and more people are seeking to balance work and family commitments. The discretionary work scheme has been revised in line with these shifts. However, the 40-hour workweek was put into place only in 1997. One can thus question the wisdom of pushing for further reductions just when corporations are suffering from the prolonged recession. Changing work hours by introducing the annual averaging scheme has contributed some to deregulation, by allowing for more flexibility in daily and weekly maximum working hours. Nevertheless, the regulation of hours of work has been increased as a whole. Proprietors of golf courses, for instance, who can hardly do business during the winter months, may well complain that they cannot do business under the revised scheme. What is more, for

employers overtime work has been a safety valve in terms of adjusting employment levels; many employers will find it more difficult to keep certain workers on their payrolls under the new scheme. Moreover, many workers will want to work overtime. The income from working overtime is already seen by many employees as being a special part of their subsistence wages. They do not see their wages increasing given the prolonged recession. We cannot help question whether workers really want shorter working hours. Accordingly, three revisions to the LSL may not serve the true needs of either labor or management.

To respond adequately to the need for more individualized labor contracts, several provisions have been established. Employers must now clarify in writing working conditions; deliver a certificate stating a reason for the termination of employment and the like upon a worker's leaving employment; be responsible for ensuring that workers know the relevant laws and ordinances; and inaugurate a support system for dealing with industrial disputes. This, however, will only tighten restrictions and will likely run against the master trends toward deregulation and the principle of administrative non-intervention in civil affairs. The supervisory system under which a right to punish is exercised is no longer suitable to labor contract legislation. In this regard, employers recommended that criminal penalties be abolished.

For the reasons outlined above, many employers will have doubts about the new revisions to the LSL. While employers will prefer deregulation, there is a feeling that on the balance regulations were further tightened and the "capping" of administrative rights was further reinforced.

## **JIL News and Information**

### **Opening of the Japan Institute of Labour Europe Office**

On November 1, the Japan Institute of Labour inaugurated its Europe Office within JETRO's Paris Center. The office was established to promote obtaining information on European Labor, to extend closer relationship among those concerned in labor affairs and in labor research in Europe and Japan, and to facilitate the building of networks in this area.

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## Focus on Japan's Labor Policies(1): Employment

### Outline of Measures to Cope with the Severe Employment Situation

The nation's unemployment rate rose to a record 4.3 percent, and the ratio of active job openings to active job applicants slid to an all-time low of 0.48 in October, 1998. The gloomy figures show that the recent employment situation continues to deteriorate. This trend is likely to remain unchanged for some time since employment recovery normally follows economic recovery.

To cope adequately with the situation, the government formulated general economic measures in April to stimulate the economy and has been implementing them since June. In addition, the government has been pushing ahead with an emergency employment development program. On June 2, the Cabinet's Committee for Industrial Restructuring and Employment Policy met to decide on a policy to cope with the current employment situation. The government will implement measures for industries and age groups for which employment opportunities seem to be particularly limited. The government is actively designating emergency areas and job categories for which Employment Adjustment Subsidies will be made available.

Grants for Development of Employment for Specified Job Applicants were made available from June to October to about 50,000 people aged between 45 and 55. In addition, those who will be laid off or undergo education and training programs, and who are expected to be offered the Employment Adjustment Subsidies increased six fold from May to October, when the Emergency Employment Development Program began to be implemented. Thus, the measures have begun to be implemented.

To ensure that the economy will recover in a year or so and to create jobs for one million people, on November 16, 1998, the government decided on an emergency stimulus package that calls for an expenditure of ¥23 trillion.

The government also formulated a "comprehensive plan to raise employment levels." The plan consists of the following five pillars:

- 1) The creation of new jobs, including support for the creation of job opportunities in smaller firms;
- 2) Support for programs that will train and improve the employability of unemployed/job-changing white-collar workers, middle-aged and elderly workers so they can be redeployed and re-employed;
- 3) Steps to overcome any mismatch in labor supply and demand;
- 4) The provision of safety nets for jobless workers, including the expansion and strengthening of measures related to the extension of the period during which unemployment benefits may be paid to people undergoing job training; and
- 5) Extensions to the period for implementing emergency employment development

program.

By moving ahead to implement these various measures in a quick and effective manner, the government hopes it can ease the nation's anxiety about unemployment and build confidence in the economy.

## Statistical Aspects

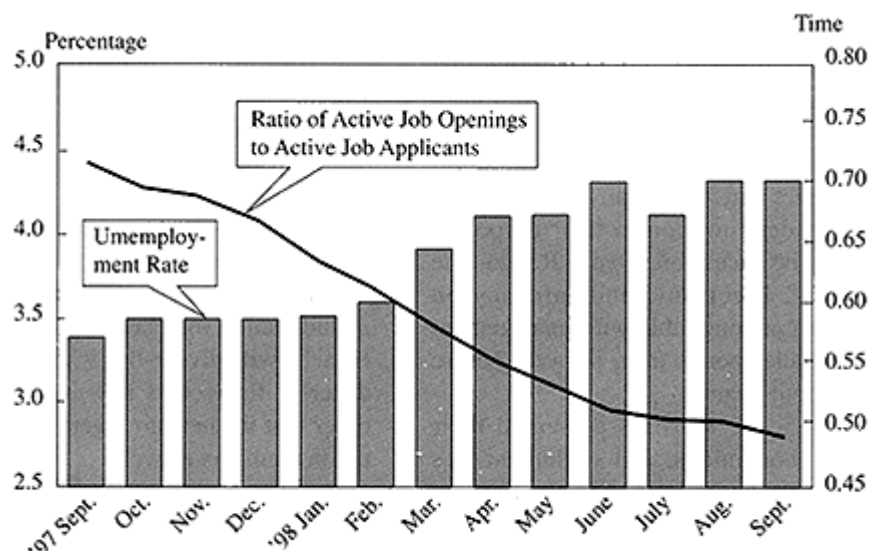
### Recent Labor Economy Indices

	October 1998	September 1998	Change from previous year
Labor force	6,816 (10 thousand)	6,821 (10 thousand)	17 (10 thousand)
Employed	6,526	6,526	71
Employees	5,380	5,347	10
Unemployed	290	295	54
Unemployment rate	4.3%	4.3%	0.8
Active opening rate	0.51	0.51	0.23
Total hours worked	160.8 (hours)	155.1 (hours)	0.1
Total wages of regular employees	(¥thousand) 270.2	(¥thousand) 269.2	0.2

Note: \*denotes annual percent change.

Source: Management and Coordination Agency, Ministry of Labour.

### Trends in the Unemployment Rate and the Ratio of Active Job Opening to Active Job Applicants



Source: Labor Force Survey and Survey on Job Placements