
The Personnel Management Cases of Foreign-affiliated Companies

1 . European Companies

(Telecommunications, Medical Supplies/
Pharmaceuticals)

2002

The Japan Institute of Labour

The Personnel Management Cases of Foreign-affiliated Companies

(1) European Companies (Telecommunications, Medical Supplies/Pharmaceuticals)

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Getronics Japan, Ltd.

I . Corporate profile

Business Category:	Information and communications (manufacturing, sales and service of information systems)
Workforce:	550
Location:	2-1-24 Himonya Meguro-ku Tokyo, 152-0003
Founding Year:	1961
Capital:	5,437,500,000 yen
Parent company:	Getronics
Nationality:	Netherlands
Foreign Capital Percentage:	Getronics = 80% , Toshiba = 20%
Business Areas:	Manufacturing, sales and service of information systems

II . Main Points in the Personnel Management Scheme

- Getronics Japan, Ltd. (hereinafter referred to as “Getronics Japan”) was established in 1961 as Olivetti Japan, the Japanese subsidiary of Olivetti (Italy). Subsequently, it merged with Wang Global (United States) and Getronics (Netherlands) in 1998 and 1999, respectively. Today, it is a global enterprise with 29,000 employees worldwide. Due to its long history as Olivetti Japan, it sustained the name of Olivetti as a business strategy. However, Olivetti currently has no equity stake in the Company. On April 1, 2002, the Company renamed itself from Getronics Olivetti Japan to Getronics Japan and became a member of Getronics both in name and substance.
- Getronics Japan’s management foundation in Japan is more than 40 years old, including its days as Olivetti Japan. Due to those influences, the Company still has strong Japanese attributes especially on the personnel management front. The employee retention rate is high; the majority of employees have been with the Company since the days of Olivetti Japan, and the average age of employees is over 40. Notwithstanding such characteristics, its move towards the global arena has accelerated since Wang Global’s equity participation in the Company. In 2000, it launched a globally-common business strategy called the “GO-TO-MARKET model.” Based on a global personnel management policy referred to as “Employer of Choice,” the Company is reforming its personnel management system step by step.

III . Basic Ideas Regarding the Personnel Management System

1) Recruitment

(1) Recruitment Trends

Getronics Japan has an increasing number of foreign clients in Japan since Getronics' equity participation in the Company. Currently, American and European companies account for about 20% of the total clientele. Also, the services are dramatically becoming more international and diversified in terms of content. Such changes in the status of affairs are having a substantial impact on recruitment as well.

Firstly, as the common language for global businesses, English skills have become an important factor in the recruitment criteria. Although they are not prerequisites, an increasing amount of work requires English skills. In FY2002, there were 28 recent school graduate recruits, of which the majority were bilingual persons, including those who studied overseas. Due to the nature of work, a high ratio of employees have expertise, including SE and CE. Even such technology-savvy employees are being required to have English skills in addition to expertise.

As for mid-career recruitment, the Company had been recruiting mid-career workers in the past on an irregular basis, for the purpose of filling vacant positions. Since 2000, the Company launched a large-scale mid-career recruitment drive, aimed at beefing up their potent workforce. This is attributable to the dramatic increase in specialist positions, due to the internationalization and diversification of service content. The Company recruited more than 20 mid-career workers for 2 consecutive years, and is inclined to continue increasing the number of mid-career recruits in the future.

(2) Means, Process and Treatment of Mid-career Recruits

The Company often uses employment agencies and career websites to secure human resources. The normal process up to recruitment is in the order of: screening of a candidate by examination of his/her documents; interview with the manager of the division in which he/she wishes to work and personnel staff; suitability assessment based on a written test; workplace inspection; and final interview by the general manager of the personnel department.

In terms of treatment, mid-career recruits are not discriminated in any way. In fact, since the days of Olivetti Japan, the Company has been treating individuals free from discrimination based on nationality, sex, or otherwise. This policy is firmly fixed not only in the institution but also in communication between employees. This working environment is reflected in the high employee retention rate.

2) *New Personnel Management System*

(1) Overview of the New Personnel Management System

Based on the global personnel management policy “Employer of Choice,” the Company introduced the “Job Family System” as the globally-common job criteria (the definition and level of jobs and responsibilities) in 2000. Then, the Company studied the job assigned to each and every employee and decided their respective Job Titles, and rated them accordingly. As a result, each employee is able to acknowledge the contribution and the value of his/her defined job, and clearly have an individual performance target and an skill development target. Furthermore, the Company launched the Performance Management Process (PMP) in FY2002, with the policy to support the fulfillment of individual performance targets and company-wide business targets based on the personnel management system, while enhancing the corporate management system.

i) Job Family System

This is a globally-common position grading system used by Getronics. It consists of multiple job families and job levels. The introduction of this system eradicates seniority-based elements in the job grading system in the days of Olivetti Japan.

A job family is referred to as a group of jobs that are the same or similar in terms of the nature of the work involved. There are 5 job families, each of which are stratified into 4 or 5 levels. The Company defines accountability relating to the core job objective with respect to each level. Furthermore, the Company gives each and every employee a JOB TITLE (the smallest nominal job unit), which is defined by subdividing the job content at each level into more than 200. This arrangement makes it possible to rate each and every individual based on globally-common criteria. The Company implements various personnel management schemes based on this system.

ii) Job Grading System

Figure 1 tabulates the jobs defined under the Job Family System with respect to the salary level in the market (IT industry), at 8 grades. The job grading system is a pay-grading system applied on the basis of these 8 salary grades.

Figure 1 : Relationship Between Pay-Grade and Job Family

Pay-Grade (New Job Grade)	JOB FAMILY				
	Support	Technical Service	Business Development	Technology Consulting	Professional
8					PR5
7					PR4
6			BD3B	TC4	PR3
5		TS4	BD3A	TC3	PR2
4	SU4	TS3	BD2B	TC2B	PR1
3	SU3	TS2	BD2A	TC2A	
2	SU2	TS1	BD1	TC1	
1	SU1				

() Pay-Grade 7: Class equivalent to the general manager of an operations department in the Japanese subsidiary

Pay-Grade 8: President of the Japanese subsidiary.

iii) Performance Management Process (PMP)

PMP introduced in FY2002 is a globally-common personnel appraisal system that is directly linked with the target management system. The system attaches more importance to *convincingness* than to *objectivity* by focusing more on the individual in the course of setting the individual's performance targets based on the annual business plan and performing personnel appraisal based on fulfillment and competency.

The performance target categories consist of performance, job competency, and corporate values.

Corporate values refer to globally-common values and norms that ought to be upheld by all employees. There are 8 items defined as corporate values, including customer orientation and empowerment.

For competency evaluation, the old personnel appraisal system set 6 items common to all companies, such as understanding, judgment and negotiation ability. In contrast, PMP adopts an option scheme in which each employee can select, on an individual basis, 5 to 8 items relating to job competency (referred to as key job competency) from a job competency list of 30 types. This arrangement was made because the performance target imposed on each person is becoming increasingly individualized and diversified, in a management environment where the nature of business is rapidly changing. It is based on the view that it is important and practical to design the key job competency of each and every employee with the manager, in consideration of 2 factors: what are the effective action requirements for fulfilling individual performance targets, and what are the requirements for skill development?

(2) Salary System

Getronics Japan's Remuneration Policy

In order to achieve "Employer of Choice" on a global scale, remuneration shall:

1. Be attractive to necessary personnel and serve as a magnet for the Company;
2. Function to acknowledge and compensate for the employee's contribution on an individual basis;
3. Be linked to the business strategy; and
4. Enhance the global culture.

Getronics Japan's Remuneration Strategy

1. Remuneration equivalent to Market Average

- Achieve a competitive salary level in the market (widely in the IT industry)
- Offer an annual salary equivalent to the market average upon the fulfillment of business/individual targets.

2. Remuneration proportionate to the Company's Performance

- Link the individual's accomplishments and contributions to remuneration → Pay for Performance
- Give extra remuneration to employees who have performed outstandingly.

3. Balance within Company

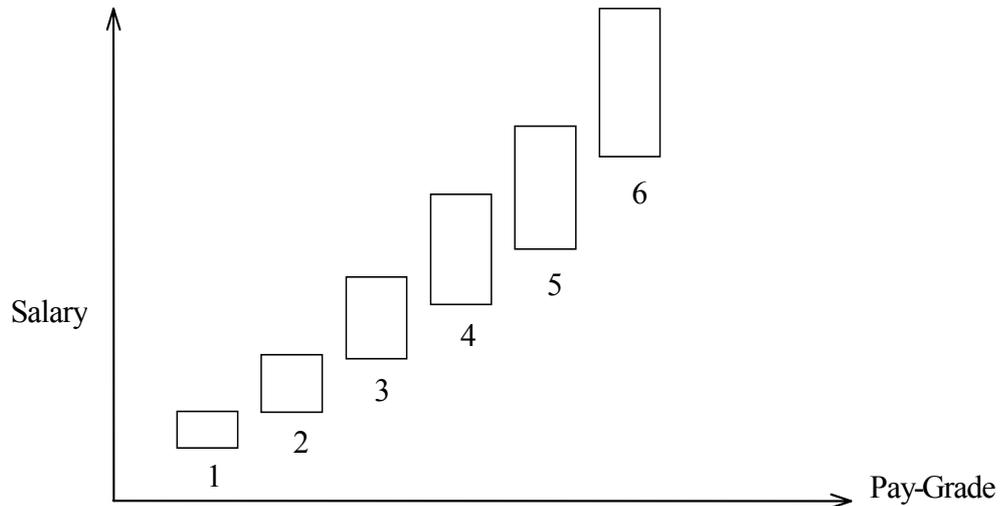
- Establish in-house criteria based on job significance (job-leveling under the Job Family System).

i) Broadband Salary Range

As shown in Figure 2, the salary is decided according to the salary range set for each grade within the job grading system. The salary has a broad range in that it may go up or down by 30% from the market average (IT industry). An individual's salary is decided within the salary range according to his/her job grade.

At present, the salary range is broad (up/down by 30%), as the Company has just migrated to the new system. As a result, an individual's salary may be lower than a person in a lower grade, or may be higher than a person in a higher grade. The Company is committed to reviewing the system so that such inversion will not occur in the future.

Figure 2 : Structure of the Salary Range System



ii) Two Salary Systems based on Job Family

The Company applies 2 salary systems based on the job family ratings.

a. Annual Salary System

The Company introduced the annual salary system, together with the discretionary work system, to non-manual level so as to implement corporate remuneration strategies in a dynamic manner. For the time being, the Company applies the system to job families under the scope of the Labor Standards Law. The Company intends to expand the scope of application in the future step by step.

Applicable to: BD2A, BD2B, BD3A, BD3B, TC2A, TC2B, TC3, TC4, PR1, PR2, and PR3

b. Pay for Work

It is difficult to apply the discretionary work system to some job families due to the nature of the job. The Company shifted such job families to a pay-for-work system linked with its corporate remuneration strategy.

Applicable to: SU1, SU2, SU3, SU4, TS1, TS2, TS3, TS4, BD1 and TC1

(3) Overview of Annual Salary System

i) Characteristics

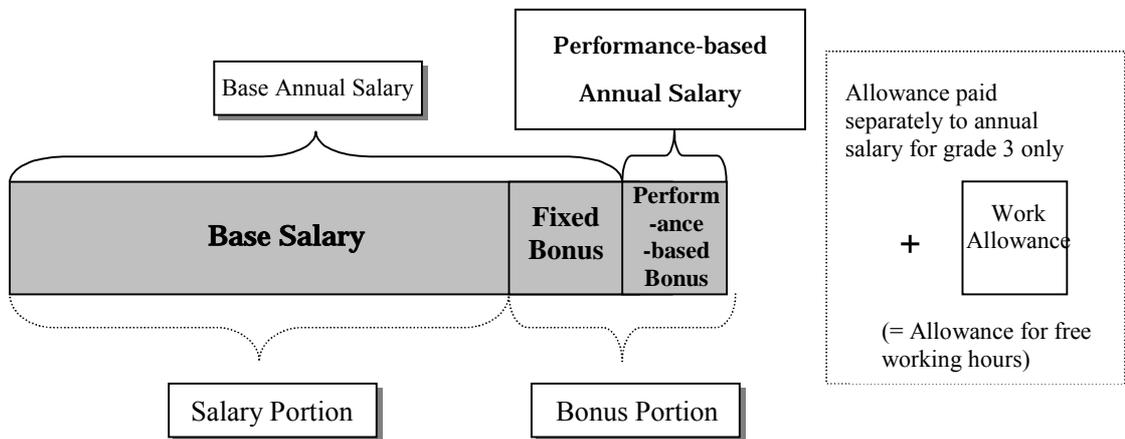
The characteristics of the Company's annual salary system are: (1) to treat employees according

to his/her accomplishments and contributions in a flexible manner; (2) to launch a performance-linked bonus that reflects the Company's performance, the division's performance and the individual's performance; and (3) to apply a discretionary work system in parallel with the above, clarifying that employees are rewarded for their respective jobs proportionately to their accomplishments and contributions rather than the number of working hours.

ii) Composition of Annual Salary

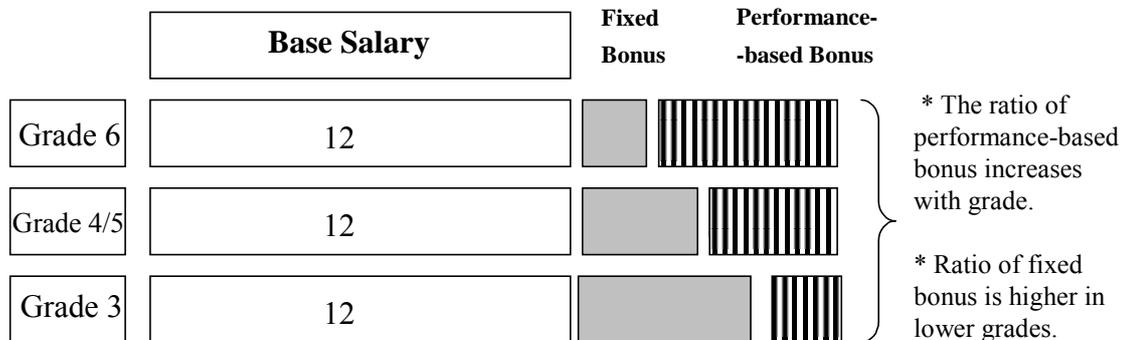
The composition of an employee's annual salary is as shown in Figure 3.

Figure 3 : Composition of Annual Salary



iii) Breakdown of Annual Salary

Figure 4 : Breakdown of Annual Salary



As shown in Figure 4, the performance-based annual salary (performance-based bonus) varies with the Company's performance, the division's performance and the individual's performance. Higher job grades are subject to more variables and the annual salary is substantially dependent on the performance-based bonus. The fixed bonus is paid regardless of performance: a certain number of month's pay is given commonly at each job grade (minimum guarantee).

Specifically, the performance-based bonus for the fiscal year is decided based on the performance in the previous year, and is paid biannually, in summer and winter.

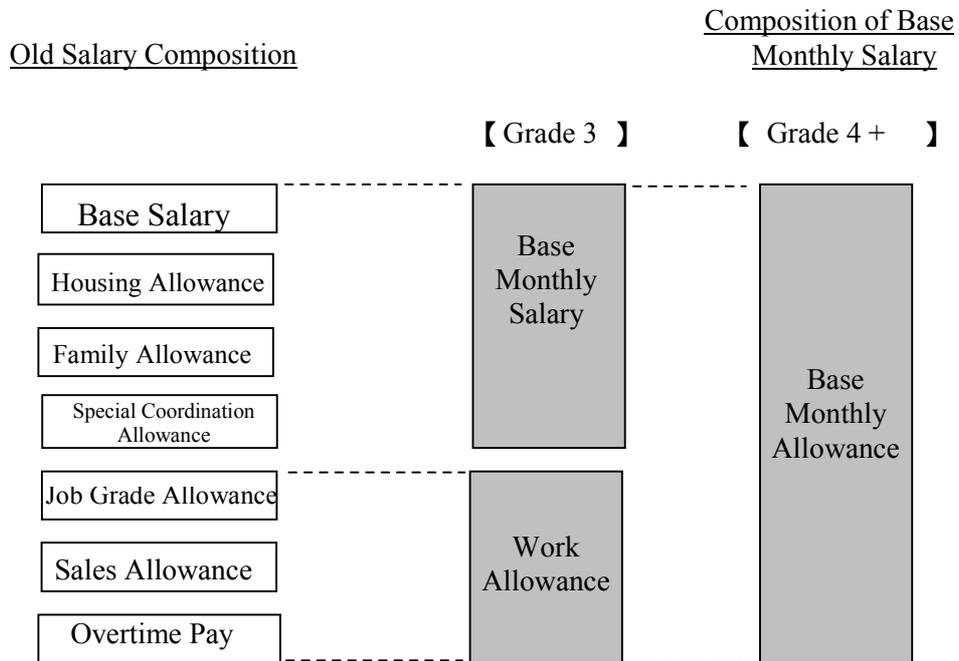
In regard to the method of deciding the bonus payable to an employee subject to pay for work, the Company decides the number of months pay as the annual bonus for those in job grade 4 or lower, based on springtime negotiations with the labor union. The performance-based portion is reflected in the year-end bonus.

iv) Composition of Base Monthly Salary

The base monthly salary refers to the portion of the base salary payable on a monthly basis. Allowances paid under the old system have been integrated with the base monthly salary since FY2001. Also, personal allowances (housing allowance, family allowance, etc.) were abolished, making the composition of the base monthly salary more focused on accomplishments and contributions.

However, the Company sustains allowances other than those specified below (commuting allowance, cold-region allowance, temporary-dispatch-without-family allowance, moving & housing subsidies, external assignment allowance, miscellaneous daily allowance, etc.) without them in the annual salary.

Figure 5 : Composition of Base Monthly Salary



3) HR Development

HR development is an important issue in terms of global management strategy. The Company implements new technology education and various training programs through “Getronics Virtual University (Web Learning System).” There are about 300 training courses per year, and all employees are required to undergo mandatory courses. The curriculum of the training program is extremely diverse, ranging from acquiring various vendor qualifications to improving the TOEIC score. Additionally, the Company actively supports those who obtain qualifications by giving awards. Also, the Company assembles employees on the same line of jobs and holds lectures upon the introduction of a new system or technology whenever necessary, regardless of scheduled working hours.

The Company also dispatches employees abroad where training programs are held, so that they can acquire SWIFT certification relating to international financial transactions.

IV . Issues in Personnel Management and Directions for Solving Them

Since its establishment as Olivetti Japan, the system and culture unique to Japan have been deeply rooted in the Company, including but not limited to benefit packages. Nonetheless, it is necessary to change such a system and culture in order to keep pace with global trends afresh as Getronics Japan. When doing so, it is considered important to arrange the system so that it can fulfill the global personnel policy “Employer of Choice,” while leaving the effective system and culture fostered in Japan as it is, rather than directly incorporating the system under the global plan.

GlaxoSmithKline K.K.

I . Corporate profile

Business Category:	Manufacturing (Pharmaceuticals)
Workforce:	3,000
Location:	GSK building 4-6-15, Sendagaya, Shibuya-ku, Tokyo, 151-8566
Founding Year:	1953
Capital:	20,270 million yen
Parent company:	Glaxo Wellcome plc
Nationality:	The United Kingdom
Foreign Capital Percentage:	80%
Business Areas:	Development, manufacturing and sales of pharmaceutical products

II . Main Points in the Personnel Management Scheme

- GlaxoSmithKline Japan (GSK) was formed in April 2001 as a result of the merger between two British companies, Glaxo Wellcome plc and SmithKline Beecham plc. There are plans to further enhance the integrated and reformed personnel management system.
- In principle, the personnel management system follows the concept employed worldwide, though it has been adapted to suit local requirements. The worldwide system is applied to some of the senior management but what this document describes are the practices applicable to the operations in Japan.
- GSK has a policy of avoiding allowances as much as possible and incorporates a “broad band system” to ensure that good performance and contributions to the Company are adequately recognized and rewarded.

III . Basic Ideas Regarding the Personnel Management System

Compensation is based solely on performance. Therefore, neither seniority nor lifetime employment is an element within the system.

1) Recruitment /Employment / Retirement

Recent school graduates and mid-career workers are both recruited periodically. While the actual number fluctuates each year, the Company recruited 42 (including 23 MRs) new graduates in 2001 and 61 (including 36 MRs) in 2002. For mid-career workers, the number was 114 (including 72 MRs) in 2001 and 100+ (including 100 MRs) in 2002.

The company does not differentiate employees by their length of service once they are employed. Since performance is the key factor in determining compensation, it is not uncommon for newly-employed mid-career workers to be well compensated regardless of their age.

All recruitment is announced through the Company's website.

Wages for newly-employed mid-career workers are determined considering their previous salaries and the Company's standard for the applicable job category. Age is not a factor. A compensation package is proposed after the recruiting decision is made and the applicant will join the Company if he/she agrees to it.

Language skills are essential for those working in administration or research & development, but sales expertise is valued over language proficiency in the sales area.

2) Wages

(1) Pay Raise and Promotion

A standard wage system based on job grades is applied to all areas. Job grades correspond to job descriptions.

In principle, job grades change only when positions change in this system. This creates complications where an appropriate position is not available for an individual with recognized abilities. The company has introduced, therefore, a personal grade as well as an official grade so as to flexibly meet the compensation requirements. Since it is difficult to define clear responsibilities for non-managerial level employees, every effort is taken to reflect performance in compensation.

(2) Bonuses

Bonuses are awarded three times a year with two fixed bonuses in summer and winter and a performance-based bonus in spring. The performance bonus can range from zero to 200% depending on the degree of achievement of corporate targets.

3) Personnel Review and Evaluations

Bonuses are based entirely on performance. GSK plans, however, to add behavior evaluations for bonuses as well, in line with its policy to place importance on behavior and process in achieving targets.

4) Education/ Skill Development

(1) Background of the Current System

GSK believes in the underlying concept that “skill should be earned not taught.” This is based on the recognition that each employee’s willingness to learn is essential in enhancing his/her abilities and independence.

The company, therefore, provides only a few compulsory programs for employees to have them learn its corporate culture, such as “New employee training,” “Manager training” and “Appraisal skills training.” Most of the other programs that the Company provides are optional.

(2) Outline and Structure of the System

i) English Training

GSK subsidizes 80% of the cost for a 6-month program at a contracted external language school. Until 2001, lessons were conducted at the Company with hired instructors but the results were not satisfactory. Therefore, the entire program was outsourced.

A distance learning program is available for MRs.

A new program using e-learning technology is under review.

ii) Performance and Development Plan

The “Performance and Development Plan” is a worldwide program for its employees at the level of general manager and above. In the program, each employee establishes and implements two plans simultaneously with the assistance of his/her supervisor. One is a target management plan which “sets targets and monitors progress” and the other is a personal development plan which “identifies the target area for improvement for the year.”

GSK’s basic approach is to encourage employees to develop their own skills and abilities. At the same time, employees in a supervisory position are required to train those working under him/her. The “Performance and Development Plan” is a program which strongly reflects this approach.

iii) Other Training Programs

Training for presentation and communication skills is offered to employees using outside

training courses and seminars. Instructors are invited to the Company to conduct the training courses if there are a large number of applicants.

IV . Issues in Personnel Management and Directions for Solving Them

Having just undergone the merger, GSK now needs to ensure that its core policy of “Recognition of Performance” is understood by all of its employees. This policy should be fully recognized as a necessary structure by each and every employee and the personnel management system must be effective in promoting their motivation. Conducting fair and adequate evaluations is the most important factor to achieve this.

An issue that the Company must face from now on is to how to arrive at evaluation results that are convincing to its employees; this should also be a crucial element for its own growth.

Nihon Ericsson K.K.

I . Corporate profile

Business Category:	Manufacturer
Workforce:	1,100
Location:	1-4-14 Koraku, Bunkyo-Ku, Tokyo, Japan 112-0004
Founding Year:	1992
Capital:	320 million (320,000,000) yen
Parent company:	Ericsson
Nationality:	Sweden
Foreign Capital Percentage:	90.0%
Business Areas:	Research and development, design, production, importation, sales and installation of electrical communication machinery and peripheral devices, procurement of electronic parts and OEM products, development and localization of applications and solutions for mobile Internet communication.

II . Main Points in the Personnel Management Scheme

- Nihon Ericsson K.K. (hereinafter called Nihon Ericsson) is the Japanese branch of Ericsson (Sweden), a company with a history of over 125 years in the telecommunication business. As Ericsson is a global company that has set up group companies in 140 countries all over the world with a total of approximately 85,000 employees, the common language of the group is English. Ericsson sets three core values as the common philosophy of the group, namely, "Stay Professional," "Respect Each Other" and "Attain Results Assiduously." These are also applied by Nihon Ericsson as its own core values.
- As Ericsson makes the details of its personnel system openly available on the Web, its group companies located all over the world design their own personnel system with reference to this information while considering local needs as well. The common slogan of all of its group companies is: "Think Globally. Act Locally."
- Nihon Ericsson applied a new personnel system based on a performance-based policy in April 2000. This system is the materialization of the idea of, as the company puts it, "Pay for Performance with Market Competitiveness." One of the prominent features of the system lies with the fact that not only quantitative results but a process of and behaviors in achieving an objective are also matters of consideration in performance points determination.
- Heralding the introduction of the new personnel system, Nihon Ericsson has set in place and

has been carrying out skill developments and mid- to long-term career designing for its employees through a process called "PD Discussion." This involves regular face-to-face discussions between an employee and his/her supervising manager based on the concept of "designing and developing one's career on his/her own."

III . Basic Ideas Regarding the Personnel Management System

1) Recruitment / Employment / Retirement

(1) Employee Composition

Employees of Nihon Ericsson can be roughly divided into two categories, namely, "Expats" or employees from overseas and local employees (local employees can be further divided into three types, namely, fulltime employees, contracted workers and temporary staff, but "local employees" used herein refer to fulltime employees unless specified otherwise). Expats have a missionary-like role of teaching the technology and/or know-how as implemented at Ericsson, and their number reaches approximately 3,500 over the whole Ericsson group companies worldwide. Among a total of approximately 1,100 employees working for Nihon Ericsson, expats account for roughly 270 (as of December 2001) who serve in a management position etc. to take charge of a broad range of technology-related segments. On the other hand, local employees are hired locally in Japan to inherit the technology know-how, management style or corporate culture of Ericsson through working together with expats.

When establishing a new business, Ericsson takes the approach of first dispatching expats who are going to work in partnership with local employees. As the business gets on the right track and the development of local employees progresses, the number of expats will be decreased accordingly. At the present time, Nihon Ericsson has the third highest number of expats in the whole group. What this implies is the high degree of emphasis that Ericsson places on its efforts to set up a new business in the Japanese market. With the number of expats being decreased since the middle of 2001, Nihon Ericsson is planning to further enhance the localization process during 2002.

Starting as a local employee and later being promoted to assume a position of expat is a typical pattern of global career development seen in human resources developments uniquely applied at Ericsson.

(2) Recruitment

i) New School Graduates

Among approximately 250 workers hired in the 2000 business year, the number of new school graduates was roughly 20. There are two reasons behind the small scale of new school graduates

recruitment at Nihon Ericsson. Firstly, typically in Japan, not only are new school graduates recruited only once a year but there is also a time gap of approximately one year between the decision to employ them and the actual start of their employment; this does not fit the speed of the IT industry, which is filled with rapid, dramatic changes.

The other reason is the reality that Nihon Ericsson cannot spend enough time to train new school graduates because it is currently in the midst of business expansion. For this reason, Nihon Ericsson seeks those, even when recruiting new school graduates, who already have skills necessary to start working immediately, just like mid-career workers. As a result, only those who have completed a Master's degree or higher are considered for employment.

Thus, the company habitually takes advantage of joint research projects with universities as a way to recruit new school graduates by, for example, directly asking cooperating faculty members to recommend their students. For the time being, the company is not planning to hire any new school graduates in and after 2002.

ii) Mid-Career Workers

The company places great importance on the recruitment of mid-career workers throughout the year as a means of securing employees who do not need any training. While the majority of such recruitment is conducted through employment agencies, a wide variety of other means are also applied. They include the granting of a reward in the amount of approximately 100,000 yen to those who introduce employees to the company and head-hunting in the case of recruiting senior manager level workers. Nihon Ericsson does occasionally hire employees of its rival companies on the condition that the company in question is not among its clientele. This policy is in place to avoid any deterioration in relationships with its customers: even when an employee of its rival company wishes to join Nihon Ericsson, it will on no account hire him/her. The company is, in principle, not planning to hire any mid-career workers during 2002.

2) *Wages*

(1) Overview of the New Personnel System "ROGAP" (Role based Grade, Appraisal and Pay)

i) Background of the New System Introduction

While the global-minded approach taken at Ericsson can be also cited as one of the triggers for introducing a new system based on a performance-based policy, what stimulated Nihon Ericsson in particular was internal voices raised from its own employees. In the hearing conducted for main managers and employees, managers voiced the needs for, to name a few, a system in which the company would be able to pay employees in accordance with the degree of their contribution,

a performance evaluation scheme to manage such a system and a skill development system to train Japanese personnel so that they could take an active part in global business scenes by serving as an expat etc. The hearing results also reflected calls of regular employees for the shift to a personnel system based on a performance-based policy and their wishes to receive necessary assistance in order to grow to become universally competent professionals.

On the other hand, the results also revealed a viewpoint of businesses and customers: amid the rapidly-changing IT industry, employees would be required not only to have the attitude of complying with manuals so that they could respond to increasingly diversified customer needs, but each and every employee would also have to have the mindset of responding promptly to issues faced by customers.

Also seen in the light of the labor market, the needs for "able personnel" are becoming greater than ever and, accordingly, a wage system that is based on a performance-based policy would be essential for any company to appeal to "able personnel" to join its workforce.

Due to the aforementioned circumstances, Nihon Ericsson reached a decision to introduce a new personnel system centered on the idea of "Pay for Performance."

ii) Basic Concept of the New Wage System

The concept of its new wage system can be summarized as "Pay for Performance with Market Competitiveness." "Performance" as used herein means an outcome that consists of three elements of "results," "process" and "behaviors." By considering the aspect of a "process" in performance evaluation, the company attempts, above all, to give consideration not only to quantitative but also to qualitative results as well as behaviors and ingenuity that an individual employee exerts to attain them. When such results are evaluated, they are separated into "expected outcomes" and "actual results": "expected outcome(s)" and "actual result(s)" lie in every one of the aforementioned three elements.

Consequently, wages of each employee are to be determined on the basis of his/her performance. In this process, "expected outcomes" are classified in accordance with the details of his/her past individual performance (involving certain results, process and behaviors) and his/her role (job and position). Classifications thus reached at the level of "expected outcomes" are called "role grades." The amount of base pay for each employee is determined by first combining his/her role grade and job category and subsequently determining a range of wages in which the market standards are reflected. In the meantime, "actual results" are evaluated in a flexible and fair manner through "Expectations Alignment" and are subsequently reflected in the amount of base pay reviews and/or that of variable pay.

(2) Details of ROGAP

i) Role Grade

a. Role Grade Structure

Role grades that are illustrated in Figure 6 each indicate a certain level of expected outcomes (expected results, process and behaviors). A total of six levels are established, including the "level at which an employee executes duties by receiving directions from his/her supervisor," the "self-sufficient level" and the "professional level." Each grade is given a company-wide definition and is also defined respectively for each of the 11 job categories.

Company-wide definitions are categorized into two groups, namely, "Contribution Mode: how results are attained and how contribution is made" and "Business Impact: what impacts the results and the contribution will have on the business of the company." For instance, the level of Contribution Mode advances from dependence to self-sufficiency and, further on, to leadership candidacy, and the range of responsibility broadens with the advancement of the level of Business Impact from a team to a department and, further on, to the whole company.

Together with such company-wide definitions, role grades are also defined as to each of the 11 job categories, respectively. Out of fear, however, that excessively detailed definitions might lead to hierarchization and, possibly, even to bureaucratization, the contents of definitions are articulated in a practical manner with reference to the Promotion Guideline or Expectations Alignment, as will be described later in this document.

It should also be noted that the fundamental perception of the company towards the new personnel system is that the system is a "tool" to make a powerful organization and powerful employees, as opposed to a "rule."

b. Functions of Role Grades

One of the functions of role grades is to determine wage amounts of Nihon Ericsson employees in line with the level of market standards. By combining the role grades with the job categories, the company can compare its wage levels with those applied at other foreign-affiliated telecommunication and high-tech companies operating in Japan. On the basis of such comparison, it further becomes possible for the company to manage a range of wages within which a wage amount of an employee varies upwards or downwards around the applicable market standards of wages (such standards are called policy lines) and to, subsequently, determine a wage amount within the set range of wages in accordance with the employee's performance. In this way, for instance, high performers are rewarded with wages in line with or higher than the market standards, and wages for low performers are adjusted with reference to the market standards while the system is also utilized as a means to motivate them to improve their performance.

Another function of role grades is its usefulness as a career guideline. As role grades serve as indexes for career advancement as a professional on the part of employees, each employee considers it to be his/her final objective to become personnel with market competitiveness. A personnel development process called "PD Discussion" is yet another system for individual skill developments of employees that commonly applies to Ericsson group companies worldwide (to be described later in this document). Starting from 2002, however, the company is planning to amalgamate the currently separate processes of performance management and personnel development management.

Figure 6 : Role Grade

Role Grade : Level of "Expected Results and Behaviors" for Individual Classified Factors : Contribution Mode & Business Impact

I	II	III	IV	V	VI
Role Level					
Dependent Contributor / Learner	Independent Performer	Professional	Ericsson Manager /Ericsson Specialist	Ericsson Manager/Specialist with a Strategic Business Impact	Top Management Member
<ul style="list-style-type: none"> · Contributes to a team through assigned tasks · Learns basics to be a professional 	<ul style="list-style-type: none"> · Contributes through own experiences · Executes assignments without detailed directions in a narrow area 	<ul style="list-style-type: none"> · Contributes through solid expertise · Take initiatives to lead projects/assignments 	<ul style="list-style-type: none"> · Achieves team goals through leading other professional competencies as Ericsson Manager/ Ericsson Specialist 	<ul style="list-style-type: none"> · Achieves team goals with distinguished impacts on division through leading other leaders/specialists 	<ul style="list-style-type: none"> · Achieves short to long-range goals of NRJ with direct and significant impacts as a top management member or an equivalent authority
Contribution Mode/Career Progression					
Dependent	Independent	Leader in the making	Leader	Leader's Leader	NRJ Leader
Growth in Business Impact/Job Requirement					
Routine Works/ Tasks under detailed instructions	Established operations	PM/Beyond established operations	Team results responsibilities	Significant impacts on division	Significant/ direct impacts on whole NRJ

ii) Promotions

An employee is promoted when his/her role grade advances to the next level, which follows either of the following two patterns. The first one pertains to "Organizational Promotion" that is implemented for organizational reasons, where, for example, an employee is assigned a position that is either newly created or becomes vacant as a result of an organizational reform, transfer or retirement of the predecessor etc. Promotion of this type is based on the recognition of the

company that the level of expected outcomes set for the employee should clearly be upgraded in consideration of his/her Contribution Mode and Business Impact. Judgment is made on a case by case basis whenever a new position is created or an existing position becomes vacant. It should, however, be noted that such upgrading does not automatically ensue from the position change alone. If the employee lacks sufficient performance or experience, his/her role grade may naturally remain unchanged.

The other pattern is called "growth promotion" or promotion based on the development that an employee has attained on his/her own. This is a case where the company recognizes the development of the employee by observing the results he/she actually realized thus far and, accordingly, judges that the level of expected outcomes set for him/her should clearly be upgraded in consideration, also, of his/her job and position. Growth promotion is, in principle, implemented once a year at the same time that Performance Appraisal (performance evaluation and wage reviews) is conducted.

iii) Performance Appraisal

a. Appraisal Criteria

Performance appraisal is conducted on the basis of three elements, i.e., "behaviors," "process" and "results," as described in Figure 7. What is unique about the system applied in Nihon Ericsson is the fact that "behaviors," "process" and "results" are all considered in performance appraisal. "Behaviors" as implied herein refer to attitudes towards work, including strict punctuality in keeping promises and appointed times, prompt transfer of all messages taken from customers and suchlike: behaviors, of which results are not readily perceivable. "Process" refers to a process taken by an employee until a result is attained. As it is now empirically known that the existence of an adequate "process" is essential for an employee to continuously show good performance, Nihon Ericsson has made the observation of a "process" one of the significant points in performance appraisal.

By adding these two elements into the appraisal process, the company can now take into account some factors that are otherwise not easily countable and can thus arrive at a fair conclusion.

Figure 7 : Three Elements of Performance Appraisal

Performance		
Behaviors	Process Results	Results
<ul style="list-style-type: none"> - Behavior(s) that the employee has taken to attain an expected outcome - Behavior(s) that the employee has taken as a team participant 	<ul style="list-style-type: none"> - What the employee has performed or any system that the employee has created as a process to make sure that an expected outcome is attained - What the employee has performed or any system that the employee has created to bring about a certain repeatable result (something that could certainly be attained if a similar approach is taken), as opposed to a result obtained by mere chance 	<ul style="list-style-type: none"> - Sales and/or profits - Customer satisfaction - Final quantitative and qualitative results attained, such as completion of a project etc.

b. Appraisal Method and Procedure

Based on these three perspectives, each employee and his/her supervising manager hold a discussion at the beginning of every business year to set an expected outcome for the employee to aim for during the year that is in keeping with the policy of the company or the applicable section. This process is called "Expectations Alignment." The employee will thereafter implement his/her daily tasks in line with the expected outcome thus agreed to. In the course of the year, the manager instructs the employee as necessary while the employee is also expected to keep up communications with the manager by, for example, reporting his/her work progress and seeking necessary assistance.

As a conclusion to these measures thus accumulated, performance appraisal is conducted in the light of comparison between the expected outcomes and actual results in the middle and at the end of the business year, respectively. The manager is to reach a fair judgment by collecting as much data pertaining to the employee's performance as possible from other managers in the same department or project managers of any project that the employee has participated in, his/her colleagues, project members etc. and also in consideration of the employee's self-evaluation. In the meantime, the employee is also required to, as opposed to simply remaining passive about the whole process, appeal himself/herself actively as a professional who could perform self-evaluation in a dispassionate manner by presenting the results that he/she has achieved throughout the year.

Recognizing that appraisal skills on the part of managers are important in this process, Nihon Ericsson had all its managers go through a special training program focused on appraisal issues when it introduced the new personnel system, and is also planning to offer such programs on a regular basis in the future. It also conducts monitoring surveys so that it can continually review

the whole system per se or any operation thereof.

iv) Pay Structure

The current pay structure at Nihon Ericsson was adopted in April 2000. Under this new system, each employee is paid a monthly base pay in the amount calculated by dividing his/her previous annual salary (that had been paid before the new system introduction) by 16 and also receives a variable pay in the amount of 4-months' worth of his/her monthly base pay as a replacement for bonuses that used to be paid in summer and winter in a fixed amount.

a. Base Pay

The amount of base pay is reviewed once every year on the basis of performance appraisal results with reference to the market standards of salaries, and each employee is paid the same amount each month.

The base pay level is determined through comparisons with the market standards¹. For the purpose of reflecting the market standards more accurately, the company determines a pay range by first classifying all the work positions existing in the company into 11 job categories and subsequently combining the job category with the six role grades (see Figure 8).

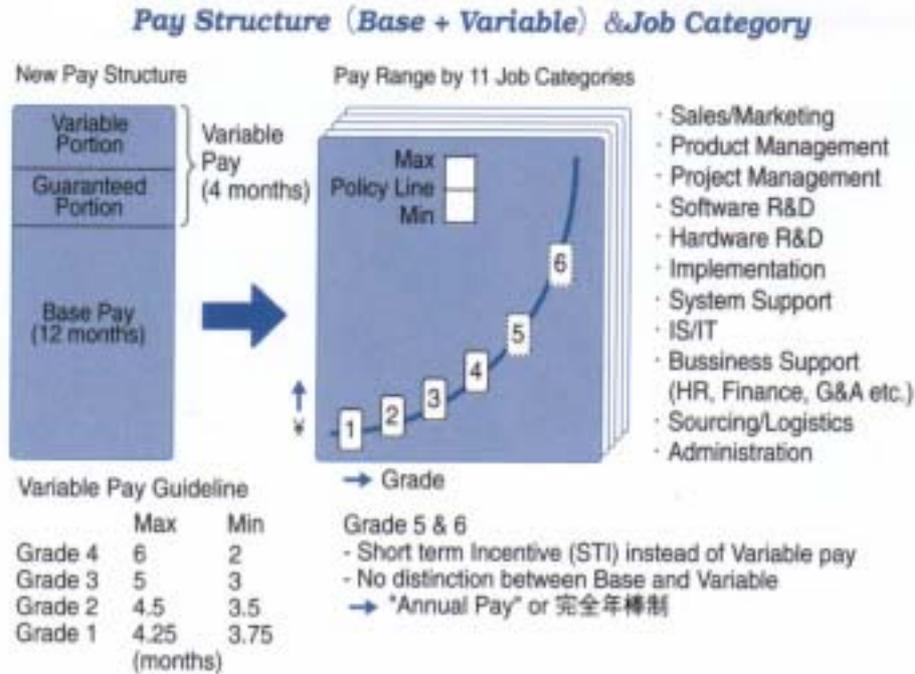
The rate of wage increases for an individual employee varies depending on where he/she is placed within the pay range, or, in other words, his/her level within the job market. For instance, the wage increase rate for an employee who is placed higher in the pay range is kept lower than that for another employee who is given same appraisal results as the aforementioned employee but is placed lower in the pay range. This is because the company intends to have the salary of the latter employee reach the fair market standards as early as possible.

b. Variable Pay

Variable pay can be divided into two portions, namely, a guaranteed portion and a variable portion (see Figure 8). Unless there is any problem with the number of working days or some other work-related circumstances, employees can receive the guaranteed portion for sure. On the other hand, the variable portion is determined on the basis of annual performance appraisal: in principle, the higher the role grade, the larger the amount of pay variation can be, as is shown in the lower left part of Figure 8 (Variable Pay Guideline).

¹ Market standards = Figures that are derived from salary-related data of 10 foreign-affiliated telecommunication and high-tech companies operating in Japan.

Figure 8 : Pay Structure and Job Category



Incidentally, the pay structure for employees with the role grade of 5 or higher (senior manager level or higher) is not based on the combination of a base pay and a variable pay as, instead of a variable pay, they are paid an STI (Short-Term Incentive). The STI is an incentive program commonly applied to all Ericsson group companies worldwide and its recipients are given separate notice regarding their compensations.

v) Overtime Allowances

With the shift from the 'time-based' pay structure to a 'performance-based' alternative since April 2000, the overtime allowance system was virtually abolished for employees with the role grade of 2 or higher except for secretaries and assistants. Under the current structure, what used to be overtime allowances are incorporated into employees' base pay as 'deemed allowances.'

(3) Miscellaneous

i) Financial Incentive System

The top 20% of key contributors among employees of Ericsson group companies worldwide are granted Ericsson stocks free of charge under the stock option system.

In addition, a stock purchase plan is also set for introduction during 2002. It is a system

resembling an employee shareholding association under the Civil Law: under this system, employees may purchase Ericsson stocks in the volume up to a certain fixed percentage of their annual salary by way of having, on their own expenses, external consultants manage the stocks through a trust agreement. The company is planning to add some special services as well, including, for example, a limited time offer where employees who purchased 100 stocks could receive another 100 stocks from the company a year later.

ii) Retirement Allowance

At Nihon Ericsson, employees who quit, upon reaching the mandatory retirement age or due to sickness etc., after being employed for six months or longer are entitled to a retirement allowance. In the case of voluntary retirement, however, the system applies on the condition that the number of years of employment should be two years or longer.

3) Personnel Development

(1) PD Discussion

PD (Planning & Development) Discussion is a process commonly applied to all Ericsson companies worldwide for the purpose of implementing employee competence developments. Under this process, an employee and his/her supervising manager hold face-to-face discussions on a regular basis concerning the employee's objectives for the current business year, competence development schemes necessary to attain them and mid- to long-term career designing. As criteria for competence development, what is called the "Competence Model" is applied during the discussion.

The Competence Model consists of three elements (to be exact, individual capacities² are also a component). The first element is "professional competence," which indicates technical skills necessary in job execution, the second one is "business competence," which indicates skills such as industry-specific knowledge or language skills that are required regardless of the job and the third one is "human competence," which indicates interpersonal skills such as presentation skills and management skills. These three competence elements are each further classified into more detailed aspects of competence (roughly 12 to 15 classifications in total), each of which is to be evaluated on a four-point scale. Based on a Competence Figure (that illustrates these details), employee career design is subsequently implemented in a fairly specific fashion.

Each employee works out his/her own competence development plan in both the short and long

² Individual capacities: types of individual, fundamental capacities that an employee is supposed to have already developed by the time he/she graduated from a school before joining the company and are deemed difficult to train employees to acquire after joining the company. Examples of individual capacities include inherent qualities such as strong aptitude for interpersonal communications, result-oriented mindset, insightfulness and high self-esteem. Observation of these capacities are considered as one of the important criteria in personnel appraisal at the time of recruitment and/or post assignment (promotion).

time span. The supervising manager, meanwhile, plays an important role of evaluating the plan. Subsequently, the manager enters in a Competence Figure the current competences of the employee and competences expected from him/her in the course of job. Based on this Figure, the employee and the manager hold a discussion to determine his/her career design. After they reach a mutually satisfactory conclusion, necessary measures are taken to bridge the gap between the employee's current and expected competences. Specifically, such measures include an assignment to a new duty, OJT, training outside of the company and participation in an applicable project.

In fact, equivalent opportunities for an employee and his/her supervisor to discuss face to face are also set in place in performance objective management under the new personnel system. The difference between these discussion opportunities and PD Discussion lies with the fact that the former is on a year-to-year basis while the latter involves a mid- to long-term perspective.

It is true that many good results may be realized when performance objectives and personnel development are managed separately, but such a system also does contain some inefficient elements including some overlapping functions. For this reason, the company is now in the process of reviewing overlaps between the two systems with the intention of amalgamating them into a single process with any existing advantages remaining intact.

(2) Promotion to expats

To be promoted from a local Ericsson employee to a global post of expat is viewed as an effective route in employee career development that each and every fulltime employee who has been employed for one year or longer has a chance to attain. An employee may be promoted to a post of expat by applying for a global, open position, information on which can be obtained in periodically-issued newsletters or on the Web. Successful applicants will be promoted by going through the following process.

At first, an employee who wishes to be posted overseas informs a manager who is authorized to fill the open position (called a hiring manager) and subsequently meets with him/her for an interview. If the employee passes the interview, the hiring manager informs the manager who supervises the employee of the intention of assigning the employee to the expat post. In this case, the supervising manager is obliged to allow the employee to leave the current post. It should be noted that a supervising manager generally already knows, through PD Discussion etc., if a worker working under him/her has the wish to be posted overseas and therefore such news is not brought out of the blue. There are rare occasions, however, where a supervising manager may temporarily refuse to let an employee go. This applies when the employee is currently engaged in a highly urgent and significant task. In this case, the matter is to be settled upon mutual consultations between the hiring manager and the supervising manager ("grandfather principle").

On the basis of agreement by and between the employee himself/herself, his/her supervising

manager and the hiring manager, the final phase of the promotion process to the expat post is to obtain approval from the Manager in charge of Overseas Assignment in the Ericsson headquarters. It is after all these conditions are met and the three parties sign an overseas assignment agreement that the employee can finally be promoted to the expat post. Although there are currently very few Japanese expats, it is hoped that the number should increase in the future in view of effective personnel placement.

4) Working Hours

A flex-time system has been introduced since January 1999, details of which are as shown in Figure 9.

Figure 9 : Flex-Time System

Standard working hours	9:00-17:30
Zone of flexible starting hours	7:30-10:00
Zone of flexible finishing hours	16:00-20:00
Core time	10:00-16:00

IV . Issues in Personnel Management and Directions for Solving Them

- At Nihon Ericsson, the role of line managers is becoming increasingly weightier than ever with the introduction of the new personnel system. Skills of a line manager matter particularly in the assigned duties of setting objectives for employees working under him/her as well as daily instructions to and fair evaluation of them: unless all the managers are capable of fulfilling these duties, the new personnel system cannot be considered to be functioning effectively. The company, therefore, implements training programs directed to managers once a year, which may, depending on the circumstances, need to be strengthened by way of OJT etc.
- Likewise, regular employees are also expected to develop an activeness high enough to, e.g., debate with their manager as they become firmly aware of "determining one's own career on one's own." It is hoped that communications between employees and managers will flourish and mutually stimulating relationships can ensue as a consequence.
- Nihon Ericsson currently has a large number of expats working in its office because it is in the process of business expansion. As, however, it pays all the personnel expenses associated with hiring expats, including their housing expenses, education and medical expenses of their family members and taxes, it is costing the company two to four times as much budget as it would for local employees. Therefore, it is an urgent issue for the company to develop local employees as early as possible and push forward the localization process.

Nihon Schering KK

I . Corporate profile

Business Category:	Manufacturer (pharmaceutical products)
Workforce:	1,740
Location:	2-6-74 Nishimiyahara, Yodogawa, Osaka, Japan 532-0004
Founding Year:	1952
Capital:	10 billion (10,000,000,000) yen
Parent company:	Schering
Nationality:	Germany
Foreign Capital Percentage:	100%
Business Areas:	Production, sales and research of pharmaceutical products

II . Main Points in the Personnel Management Scheme

- Since Nihon Schering (hereinafter called Schering) introduced a new personnel system named People (comprehensive human resources management system) in 1995, it has been implementing merit-based personnel reviews based on a result-oriented and performance-based evaluation policy.
- The company introduced a system called People (comprehensive human resources management system) in 1995, which is designed to shift from the ambiguous personnel review method that had previously been applied to the current evaluation system that is based on an agreement between an employee and his/her boss reached through personal consultations, and to directly reflect in the amount of his/her bonus and wage increase the degree of objective achievement relative to the accountability expected from his/her job. Thanks to this system, employees who achieved a good performance are now rewarded fairly for the contribution that they made to the company, thus stimulating employees to have an enhanced awareness of work objectives and motivations.
- With the introduction of People, the company succeeded in eliminating person-specific factors in the determination process of base wage amounts by transforming the job qualification-based system that had previously been applied into the current job-based system. By so doing, the previous wage system that had been strongly age seniority-oriented was converted into a merit-based alternative.
- With the introduction of People, the qualification-based wage system that had lacked in clear

promotion criteria was transformed into a more open system in which the promotion of employees would be determined on the basis of their accumulated annual performance points (as determined according to the degree of their objective achievement relative to the expected accountability). As the system has thus been made more transparent, employees now have more appreciation for the fairness in their treatment.

III . Basic Ideas Regarding the Personnel Management system

1) Recruitment / Employment / Retirement

The company has not hired any entry-level workers (recent -graduates) in the last five years but has recruited experienced workers who would not need to go through training on job postings on its homepage or through regular advertisements, employment agencies etc. From the 2002 business year on, the company intends to hire approximately 10 recent graduates who would be capable of developing their skills through internal rotations.

2) Wages

(1) Wage Increases

At Schering, wage increases pertain to job-based wages and qualification-based wages. In the case of job-based wages, the amount is determined on the basis of the degree of each employee's performance objective achievement or lack thereof through a comprehensive performance evaluation process divided into seven stages, and may vary between 80% and 120% of an applicable benchmark amount.

(2) Bonuses

There are two types of bonuses at Schering, namely, fixed summer and winter bonuses (each 2.2-months' worth in the 2001 business year) and a merit-based bonus paid in March. The amount of merit-based bonus is determined according to annual performance points as with the qualification-based wage, thus becoming more closely linked to performance than in the past.

Fixed bonus (twice a year, in summer and winter)

= (standard wage - housing allowance) x fixed number of months³

Merit-based bonus (paid in March of the following year)

= revenue source for merit-based bonuses⁴ ÷ total performance points of all employees⁵

³ The fixed number of months is determined through employer-employee consultations.

⁴ Revenue source for merit-based bonus: (standard wages of all employees - housing allowances) x variable number of months (the variable number of months is determined through employer-employee consultations; it was 2.4 months last year)

⁵ Performance points: (job description grade points x performance evaluation index)

x performance points of each employee

3) Personnel Review and Evaluation

(1) Background and Concept of the New System Introduction

In Western countries, the environment for new company creation went through a considerable change during the transition from the 80's to the 90's, allowing new companies to form that would become global market trend-setters with their innovative management style not fettered by past conventions or common sense. In Japan, it also became difficult for companies to maintain their employees' motivations simply by offering them family-like support.

In response to these changes, Schering conducted research on its corporate culture in 1991 in order to develop a personnel system that could directly weigh with employees' motivations towards work. Some of the answers obtained in the research are as follows:

- It does not make any difference (on my evaluation) whether I do my job or not.
- I want to have the performance appraisal process made more open.
- I want to receive clear directions so that I could further develop my skills.

On the basis of the research results, Schering launched a project for the development of a new personnel system and subsequently developed a system named "People (comprehensive human resources management system)," which started to be applied to managers as of 1995 and to regular employees as of 1997.

There are roughly three points that were particularly emphasized during the development process of People. The first point is the conviction that a personnel system should be capable of contributing to the achievement of company-wide performance. Previously, even employees who had not been able to achieve a good performance could be entitled to wage increases thanks to the age seniority-based system. Under such circumstances, few employees would dare to take any risk in their work, resulting in the general lack of enterprising spirit among them. The right direction for the company to reach results would remain lost forever if it allowed the situation to continue in that way. It is for this reason that Schering undertook to invent a new system in which employees could commit themselves to work with an enterprising spirit and would also be properly evaluated for any performance that they actually succeeded in showing, regardless of their age.

The second point is the openness of the system towards employees. In the past, there was no system for employees to set their formal objectives (accountability) and conclude evaluation results upon consultation with their boss. The personnel appraisal was conducted inside a black box, so to speak. For these reasons, employees were left with only ambiguous grounds for their evaluation results and, as a consequence, evaluations did not lead to generate any motivation on the part of

employees. This explains why the company aimed for a new system in which the awareness of employees of achieving their objectives could be enhanced by making their evaluations clear.

The third point is the fairness towards employees. The company intended to create a system in which employees with the same degree of contribution to the company would be evaluated equally and receive comparable wages.

As a consequence, the ideas regarding wages were modified in the following manner (see Figure 10).

Figure 10 : List of Comparison Between Old and New Systems

Old System	New System
<ul style="list-style-type: none"> - Age, number of years of employment, length of working hours and educational background - Position, number of family members, rent and potential for contribution - Impression, attitude, behaviors, official certifications and licenses - Number of employees working under the employee, performance and capabilities 	<p>Focus is placed on results</p> <ul style="list-style-type: none"> 1) Results reached in the current position = grade of job x performance 2) Accumulated results = number of years of employment x annual results

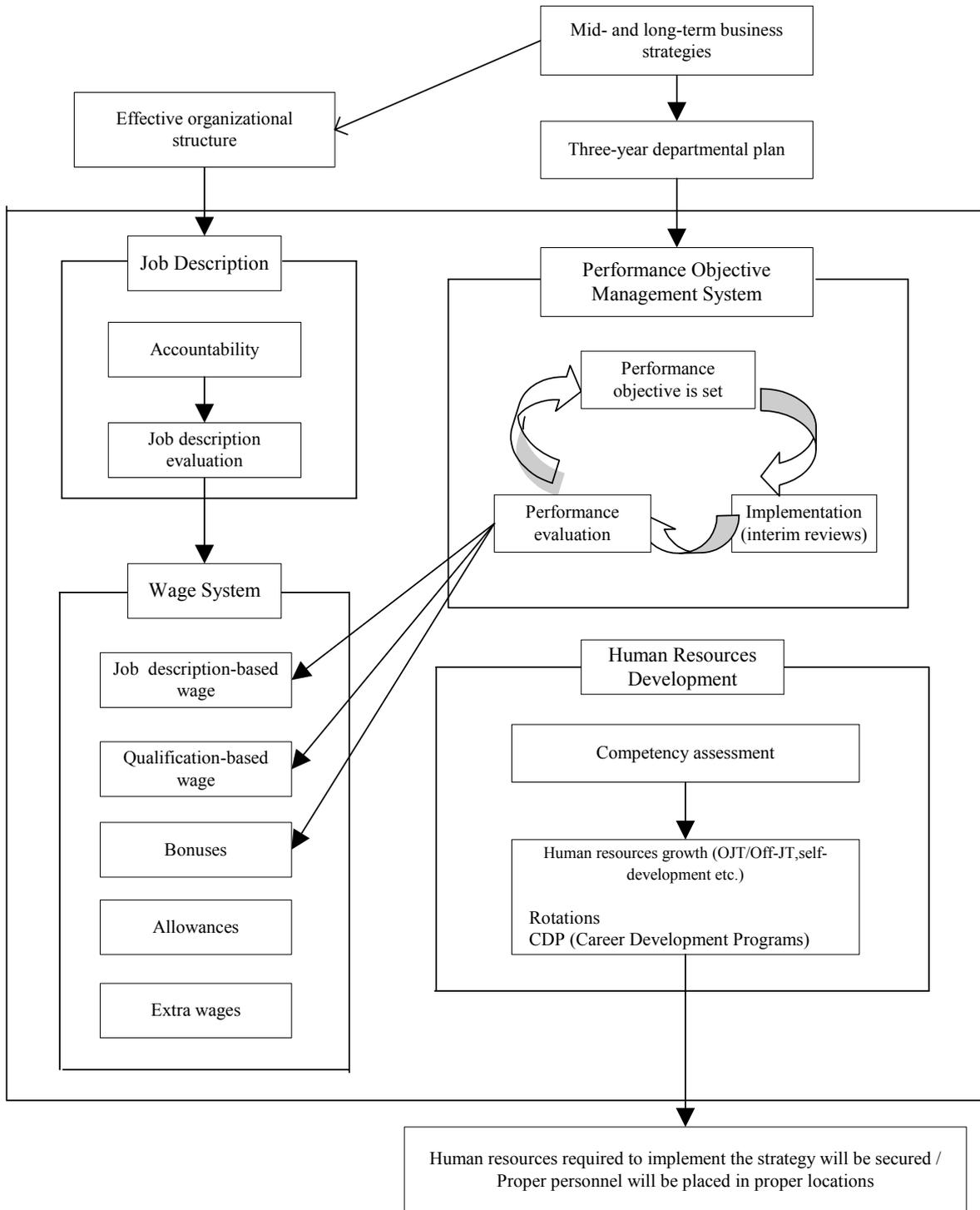
(2) Overview and Structure of the New System

The overall image of People is illustrated in Figure 12, which can be summarized as follows (see Figure 11):

Figure 11 : Overview of "People"

1. Determine an organizational structure suitable for the purpose of implementing business strategies, and articulate the contents and accountability required in each job.
2. Conduct job evaluation on the basis of the accountability, and determine the job size.
3. Under the performance objective management system, an agreement should be reached each year between each employee and his/her boss to set his/her performance objective, and conduct a performance evaluation at the end of the business year.
4. Link results of performance evaluation to wage increases.

Figure 12 : Overall Image of "People" - Comprehensive Human Resources Management System



i) Job Analysis (Accountability)

People can function only when proper accountability is defined. It does take a significant amount of labor to prepare an accountability statement, but it is this process that makes it possible to arrange different lines of work in an orderly fashion and to realize improvement of work efficiency.

If, for instance, similar work is conducted in more than two departments, no department is engaged in an important task or a task to be newly implemented, or a task that used to be necessary but is not any longer so remains, set accountabilities and job evaluations can play an important role in adding efficiency to work.

Examples of accountability are shown in Figure 13 and Figure 14.

Figure 13 : Accountability Form Example (of a Manager)

Department / Position Sales Office Director
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Please describe what you do in your job execution and how in one sentence per item, and also give a reason why you do it (accountability statement). Please also indicate the type of responsibility (P: direct responsibility or S: joint responsibility; P should apply under regular conditions) that you have towards an expected final result.			
Accountability Classification No.	Accountability Statement		Type of responsibility (P or S)
	What you do and how (your main jobs)	Why you do it (expected final result)	
1.	- Prepare a BO Action Plan (customer selection and sales objectives by MR or by group) on the basis of the NSKK Marketing Plan and Branch Action Plan, and supervise its execution; keep timely and accurate track of the state of its achievement, give proper directions and guidance and manage the process to achieve the objectives; monitor and/or manage profitability on the part of customers, - guide and/or manage the utilization of COSMOS effectively and conduct effective area marketing activities, and - carry out the guideline for direct promotions in the MR Operation Guidelines.	To achieve sales objectives of my Sales Office	P
2.	Guide and/or manage efficient and effective work operations on the basis of the sales plan, MR Action Plan, personnel plan and expenditure plan and keep timely and accurate track of the implementation progress of these plans and the state of achievement of profitability contribution objectives set for my Sales Branch and give proper directions and guidance to achieve these objectives.	To achieve profitability contribution objectives of my Sales Office.	P
3.	Guide employees working under my supervision regarding the GPMSP, give them on-the-job training (OJT) by means of accompanied visits, individual consultations, meetings etc., analyze and evaluate their performance and the contents of their work and give them training, directions, guidance and support regarding their skill development.	To develop MRs who have well-balanced academic, ethical and sales senses adjusted to the demands of the times and excel in competitions, and to improve the quality of in-house staff.	P
4.	Through promotional activities directed to opinion-leading doctors and/or influential doctors, ask them to cooperate with NSKK.	To establish a more effective foundation for MR sales promotional activities from both a short- and mid-term perspective, and to enhance sales promotions.	P

Figure 14 : Accountability Form Example (of a clerical worker)

Department oo Branch	xx Sales Office,	Position or duty (if any)	MR	Name	Taro Scheringer
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Please describe what you do in your job execution and how in one sentence per item, and also give a reason why you do it (accountability statement). Please also indicate the type of responsibility (P: direct responsibility or S: joint responsibility; P should apply under regular conditions) that you have towards an expected final result.			
Accountability Classification No.	Accountability Statement		Type of responsibility (P or S)
	What you do and how (your main jobs)	Why you do it (expected final result)	
1.	<ul style="list-style-type: none"> - On the basis of the BO sales plan, draw up my own action plan and carry it out, - check and follow up its progress and take necessary measures, - conduct DI operations for NSKK pharmaceutical products directed to my client doctors, relevant personnel in my client institutions and depots of authorized agencies that use my client institutions, - utilize COSMOS effectively and conduct effective area marketing activities, and - carry out the guideline for direct promotions in the MR Activity Guidelines. 	To achieve sales objectives regarding my client institutions.	P
2.	<ul style="list-style-type: none"> - Communicate with my client doctors, relevant personnel in my client institutions and/or influential customers in an effective manner, - give necessary information etc. to my client doctors, relevant personnel in my client institutions and/or influential customers in a timely and accurate manner, and - respond to requests from my client doctors, relevant personnel in my client institutions and/or influential customers in a timely and accurate manner. 	To establish relationships of trust with my client doctors, client institutions and influential customers	P
10.	<ul style="list-style-type: none"> - Cooperate and assist in work in my department outside the scope of my duty - Work outside the scope of the aforementioned accountabilities (for example, participation in special projects, committees etc.) 	To improve overall results of my department.	P

ii) Job Evaluation (Job Size)

With set accountabilities as the pivot, job evaluations are conducted with regard to all jobs in order to determine grades of jobs.

A total of 21 grades of jobs are defined, based on the determination by the Executive Committee that consists of managers at the departmental manager level or above.

iii) Performance Evaluation and Wage Increases

Performance evaluation based on People is conducted through consultations between an employee and his/her boss, which are held five times a year including interim reviews (see Figure 15).

Figure 15 : Performance Evaluation Schedule

January	PLAN: Performance objective is set
April	DO: Interim review
July	DO: Interim review
October	DO: Interim review
January	SEE: Performance evaluation

It should be noted that Schering does not include English skills per se in the evaluation criteria, which is based on its viewpoint that performance evaluation is different from capacity evaluation. That is to say, performance is evaluated solely on the basis of the results achieved. On the other hand, performance evaluation does position cooperative attitude as a team player as an important element by adding the "Miscellaneous" item in the evaluation list. This is intended so that employees would not lack in cooperativeness in teamwork by being absorbed too much in their own results.

4) Working Hours / Work Schedule

(1) Paid Vacations

At Schering, paid vacations are prescribed as follows:

- Up to the fourth year of employment: 14 days maximum
- In and after the fourth year: 22 days maximum
(all effective for two years)
- Year-end/New-Year vacation, Golden Week and summer vacation (called *Bon* vacation in Japan): one unbroken week

(2) Flex-Time System and Overtime Allowances

At Schering, the flex-time system is adopted for hours between 8:00 a.m. and 7:00 p.m. (with the core time set between 10:00 to 15:00). The number of regular working hours is obtained by multiplying 7 hours and 45 minutes as the daily working hours by the number of calendar work days under the five-day work week system. When the number of actual working hours exceeds that of the regular working hours, the company pays overtime allowances calculated as 130% of the regular rate.

In order to reduce costs and to add more efficiency to employees' work by utilizing the vacation system effectively, however, company-wide efforts are in place to have employees take compensatory days off to offset 100% of their overtime working hours as of October 2001, shifting from the current method of offsetting only roughly 50% of overtime working hours.

5) Employment Benefits

Schering allocates recreation expenses to each department, which is calculated on the basis of the fixed amount of 13,000 yen per employee, with a view that team communication should lead to teamwork in job operation.

Recreation expenses may not be spent at the discretion of individual employees as the whole idea is to enhance communication between employees through joint events of their team, such as baseball meets, trips and social gatherings.

6) Education and Training / Skill Development

In order to have its employees improve their English skills in response to the increasing needs for English in recent years, Schering has placed six foreigners as English teachers in its branches nationwide, who work specifically to give language training. In addition, the company also pays for registration in English language schools and fees for English proficiency tests, such as TOEIC, as part of its efforts in encouraging employees to improve their English level.

IV . Issues in Personnel Management and Directions for Solving Them

Considering that its personnel system is based on jobs, one of the issues that Schering faces is how to make progress in an attempt to make the internal labor market more fluid. The problem is that as the number of positions in the company is fixed, employees could not be promoted unless a position becomes vacant due to mandatory age-based retirement etc.; therefore, the company believes that it is necessary to establish a career development program for employees and create a system in which each position becoming vacant can be filled by an employee who would be able to show the best performance in that position. Additionally, the company is also making efforts to improve its

performance evaluation process in consideration that it is its perpetual duty to make it fairer and more vigorous.

In terms of wages, Schering is also faced with an issue of strengthening the awareness of employees in their performance by rewarding them for their achievement of corporate strategy as well as for their individual performance.

SAP Japan, Co., Ltd.

I . Corporate profile

Business Category:	Information and communications (manufacturing, sales and service of information systems)
Workforce:	1,160 (as of April 1, 2001)
Location:	Tokyo Sankei Bldg. 1-7-2 Otemachi, Chiyoda-ku, Tokyo 100-0004
Founding Year:	1992
Capital:	3.6 billion yen
Parent company:	SAP AG
Nationality:	Germany
Foreign Capital Percentage:	100%
Business Areas:	Development and sales of computer software, education and consulting

II . Main Points in the Personnel Management Scheme

- SAP Japan, Co., Ltd. (hereinafter referred to as “SAP Japan”) was not able to develop its internal systems in pace with the expanding size of the organization, and applied its systems, including the personnel management system, with a bias towards sales, based on a nothing-matters-but-sales approach. As the market slowed down and sales dropped subsequently, employees demonstrated their frustration with the personnel management system. Kiyotaka Fujii, who assumed the post of President in January 2000, launched internal reform, such as the introduction of a new personnel management system.
- The new personnel management system was completed as a HR management scheme based on up-to-date-ness (with reference to the current work and role), fairness (clarification of criteria), and transparency (disclosure of criteria and structure). This HR management scheme applies systems based on the information structure, including but not limited to the introduction of job grades for clarifying the roles and responsibilities of each employee, the thorough implementation of performance-based pay according to the evaluation of individual performance, and feedback of performance evaluation results for skill development. The HR management scheme makes it possible to evaluate the current work and performance of each employee with reference to his/her jobs and responsibilities, and realizes a transparent personnel management system linked with remuneration and feedback for skill development.

- Since the introduction of the HR management scheme, employee satisfaction has substantially increased. It has also had an effect in terms of reducing the employee turnover rate and motivating the employees.

III . Basic Ideas Regarding the Personnel Management System

For the introduction of the new personnel management system indicated as one of the action items, the basic themes raised by President Kiyotaka Fujii were *up-to-date-ness* (with reference to the current work and role), *fairness* (clarification of criteria), and transparency (disclosure of criteria and structure).

Up-to-date-ness in this context refers to the evaluation of the employee based on the job he/she can currently do as a professional, rather than his/her future potential. Fairness concerns fair opportunities and processes. Transparency is about the disclosure of processes and procedures to employees. These represent the basic principles of the new personnel management system.

The Company launched reform pursuant to the basic principles of the new personnel management system, and under Vice President Akihide Miyawaki, who joined the Company in July 2000, completed the HR management scheme incorporating an advanced information infrastructure based on best practices worldwide. For the introduction of the HR management scheme, systems were built based on the approach described below.

Figure 16 : Approach to Introduction of New Personnel Management System

- | |
|--|
| <ol style="list-style-type: none"> 1 . Job Grades based on Currently-assigned Jobs and Roles 2 . Competitive Treatment System 3 . Pay for Performance 4 . Remuneration System heeding Differences in Jobs and Responsibilities 5 . Work Evaluation focusing on Organization and HR Development 6 . Application of Various Processes and Systems using Information Infrastructure |
|--|

1) Recruitment / Employment / Retirement

Recruitment can broadly be divided into two types: the recruitment of recent school graduates and recruitment of mid-career workers.

The Company allocates a budget to each line of business in regard to the number of recruits, according to the sales generated by employees and the extent of profitability. The number of recruits

is ultimately decided according to the demand and supply in each line of business, using the budget as one of the criteria. Basically, the Company's approach is to "fill in vacant positions through recruitment."

For example, in the job category of consulting, the number of recruits is calculated in concrete terms, by multiplying the number of people required by the employee turnover rate. In addition, the Company determines a recruitment plan in concrete terms on an annual basis, defining how many new recruits to be trained from scratch will be allocated to each position, how many mid-career recruits who can immediately demonstrate their abilities will be allocated to each position, and what their specifications will be. As recruitment is solely based on demand, the number of recruits and the pace of recruitment vary with the Company's performance.

Last year, the Company recruited about 60 recent school graduates (including both graduates of universities and graduate schools). This year, it recruited some 70 recent school graduates. The Company plans to recruit about the same number or a little more next year, between 70 and 80. The Company recruited about 250 mid-career workers last year.

Of those mid-career workers recruited last year, half were employed through employment agencies and headhunting companies to which the Company had made specific requests, about 25% were recruited through media advertisements, and some 20% were employed through referral by employees. As referral by employees is highly reliable, SAP Japan encourages the practice by paying awards in return.

The recruitment process differs between mid-career candidates and recent school graduate candidates. A recent school graduate candidate must pass one written exam and three interviews, while a mid-career candidate has to pass three interviews (no written exam) to be recruited.

The employee turnover rate is about 10%, which is low by industry standards. According to statistics, more than 90% of those who left the Company did so because of "personal reasons" or "for career advancement."

At SAP Japan, recent school graduate recruits are assigned to engage in consulting and sales activities within 2 or 3 years of joining the Company, which leads to the growth of experienced employees. They are, however, prone to be headhunting targets, and some of them leave the Company for "career advancement" reasons if the terms and conditions offered by another company is better.

Sudden layoffs and restructuring are not practiced at the Company's convenience. The Company's policy is that if there are areas in which an employee should make improvements, the employee is always informed of them and is required to tackle them accordingly.

2) Wages

The salary and bonus at SAP Japan are institutionalized and implemented in a systematic fashion

based on a new system of personnel review and evaluation, as described below. The wage system will be reviewed in the following pages.

3) Personnel Review and Evaluation

(1) Background and Concept of Implementing New System

SAP Japan was established in 1992, as a wholly-owned subsidiary of SAP, which is a German company and the world's biggest general business applications vendor.

Since its establishment, it has doubled its performance on an annual basis until 1998, favored by the "ERP Boom." During this period, the organization size rapidly expanded: the workforce expanded from 85 in 1994 to 475 in 1996, and to 1,066 in 1999. The workforce was supplemented by recruitment from other companies, and substantially relied on relatively young workers.

At the time, the Company's strategy was concerned with "how to maximize its market share quickly" and "how to establish its No.1 position overwhelmingly." Internal programs centering on the personnel management system characterized by remuneration, evaluation, promotion and recognition were administered with a bias towards sales, based on a nothing-matters-but-sales approach. As the Company's culture, the personnel management system served to support sales as well.

When the Company was a new entrant to the market, it was not a mistake to run the personnel management system and organization in a manner that focuses on core divisions centering on sales staff. However, the ERP market became dull by 1998, as Japanese major companies had been forced to reduce their investments in the IT sector due to the impact of the Heisei recession, and SAP Japan's sales fell short of their peak years.

An analysis of the results of the Employee Satisfaction Survey—which is commonly conducted every two years at SAP subsidiaries in all countries—and other studies on SAP Japan's condition at the time shows that the employees were highly frustrated with the personnel management system, according to many complaints, such as "individual's jobs are not clarified," "the Company's vision is difficult to understand," "sufficient information is not given," "remuneration is not satisfactory," "evaluation and remuneration systems are unfair," "promotion criteria are unclear" "accomplishment-based grading principle is too extreme."

As SAP Japan faced a turning point both internally and externally, Kiyotaka Fujii was appointed to the post of President in January, 2000. He swiftly started working on reform, hammered out an action plan to strengthen SAP Japan, and introduced a new personnel management system as part of the plan.

Figure 17 : SAP Japan's Action Plan

- Improve customer satisfaction
- Form a powerful management team
- Construct a process and organization in harmony with the new strategy
- Advocate 5 action principles
 - 1 . Be the Owner. Engage in work with a sense of ownership.
 - 2 . Be Positive. Always take a positive, constructive stance.
 - 3 . Be open. Take an open stance, be open-minded and make comments openly.
 - 4 . Take Smart Risks. Do not be afraid to take risks to make bigger accomplishments.
 - 5 . Act with Integrity. A respected individual is the origin of a respected company.
- Introduce a new personnel management system

(2) Overview and Structure of New System

i) Introduction of Job Grades

SAP Japan's old personnel management system had only 4 job grades for its workforce of 1,000.

While normal companies tend to give a looser definition of duties, job ranks, etc. in the name of "broadband," SAP Japan set forth the duties and job ranks in greater detail in order to clarify the roles and responsibilities of each individual and thereby perform evaluation in a manner that reflects the actual conditions, and introduced 12 job grades based on the idea of "job grades based on currently-assigned jobs and roles."

Upon the introduction of these job grades, the Company identified the major job assignments and roles within the Company and redefined them for each and every employee, in terms of 12 job grades, starting from entry-level administrative staff to the President. The Company defines and discloses the roles and responsibilities in writing, which were lacking in the past.

The redefinition was carried out with the employees' consent and understanding, by actively holding meetings to explain about the introduction of the new personnel management system to them. For the first 6 months of introducing the new system, the redefined job grades themselves were assigned but the salary was not reviewed in any particular way, in order to check whether the grade given to each individual matched his/her ability. The grades were ultimately decided upon the pay raise in FY2001. The Company then resolved to periodically review the grades twice a year, in July and January. In July 2001, the Company set forth the criteria and the process for reviewing the grades, which had not been addressed up until then.

ii) Decision of Treatment considering the Remuneration Level of Rival Companies

In the IT industry, the competition for acquiring human resources is fierce. As the pay range and the remuneration level need to be competitive in comparison to rival companies, the Company decided to sustain the salary at a level that ranks between the top 10 and top 25, based on salary surveys conducted by a number of consulting firms.

iii) Thorough Implementation of Performance-based Pay according to Evaluation of Individual Performance

The new system, which is based on the “Pay for Performance” approach, thoroughly implements remuneration based on the evaluation of individual performance i.e. highly performing and accomplishing individuals are rewarded by means of proportionate remuneration and treatment, while others are given opportunities to make improvements, and in some cases, penalized. It sets forth variations in remuneration according to the difference between job categories and the degree of responsibilities.

Remuneration consists of the base salary based on the job grade, and variable pay such as the bonus and commission that substantially vary with performance. Performance evaluation is decided by individual performance –which is measured in terms of target management, skills, competency and skill development– and the performance of the Company/organization.

The index applied for the evaluation of accomplishments in target management depends on the job category and responsibility. SAP Japan intensively studied the evaluation indexes so as to implement performance-based pay in a more practical manner until mid-2001, and finally systematized a compensation plan with 20 variations (combination of base salary + variable pay index, decision function and payment method).

iv) Remuneration System heeding Differences in Jobs and Responsibilities

Traditionally, SAP Japan was primarily based on a structure giving big rewards for winning orders. As the Company switched its corporate strategy from a nothing-matters-but-sales approach to an improve-added-value-to-service approach, it made improvements in the remuneration system as well.

Its reform included (1) reflecting customer satisfaction, which is one of the indexes for measuring the value added to services, in the decision of variable pay, and (2) reflecting the performance of the Company as a whole, the team, in addition to individual performance in order to reflect the increasing importance of services provided by the team as a whole, such as user support.

For individuals with a higher job grade, more weight is placed on the Company’s performance and the organization’s performance than individual performance. Individuals with a job grade of

10 or higher (Vice President or higher) are also evaluated based on balance score cards and employee surveys.

v) Application of Various Processes and Systems Using Information Infrastructure

SAP Japan has constructed a structure that enables highly efficient and productive personnel management harnessing enterprise solutions, which are the Company's bread and butter.

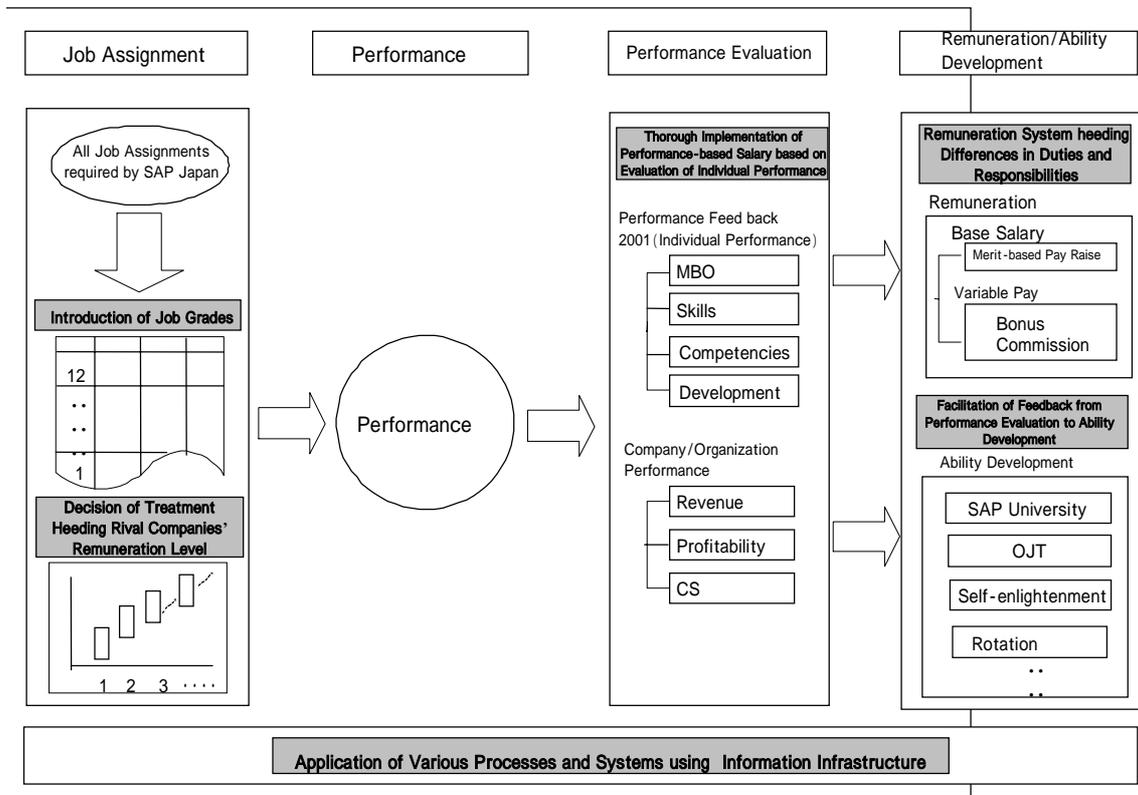
The manager and employees can access the personnel management system using the manager's desktop and employees' desktop, respectively.

The manager's desktop can view the information of subordinates, including such basic attributes as date of birth and absence rate, as well as skills and competence. It can also search individuals by skills. It also updates the training log at real-time, and enables the determination of costs and time incurred in training on the desktop.

The employees' desktop can access organization information, education & training information, information on the evaluation system, etc.

Additionally, efforts made in the new system include "Performance evaluation and feedback focusing on organization and HR development." For the details, refer to 6) Education, Training and Skill Development.

Figure 18 : Full Picture of SAP Japan's Personnel Management System



(Source: Reference materials of SAP Japan)

4) Working Hours and Work Pattern

(1) Working Hours

From 9:00am to 5:45pm

(2) Flexitime

The Company used to have a complete flexitime system. In January 2002, it introduced three systems: (1) flexitime system with core working hours; (2) work-outside-office system; and (3) discretionary work system.

The Company's basic approach is to implement these systems assuming self-responsibility-based management and system-based management, with no distinction between management-level employees and others.

There are hardly any employees in the work-outside-office system. Those in the discretionary work system are limited to consultants and developers. Other job categories are in the flexitime system, apart from those in special positions (such as reception staff).

5) Benefits

The company fully provides for social insurance, employee pension insurance and retirement allowance. Welfare facilities are made available by outsourcing.

6) Education, Training and Skill Development

The weakest point in the conventional personnel management system was the feedback of performance evaluation for skill development purposes. In contrast with the typical image of foreign IT companies, the German head office of SAP Japan has the culture of encouraging the growth of personnel in the medium/long run. The Company endeavors to construct a structure that can give feedback genuinely for the growth of individuals, incorporating such corporate culture.

The Company has schemes that enable individuals to engage in internal education & training programs, e-learning lectures and external training programs to close the gap between the level of their abilities and skills and the level required for making the accomplishments expected by the Company.

For example, SAP Academy obliges recruits —regardless of whether they are recent school graduates or mid-career workers to undergo, for a period of 4 to 6 weeks, an education program customized for the division to which he/she is assigned.

IV . Issues in Personnel Management and Directions for Solving Them

SAP Japan conducts a unique employee satisfaction survey twice a year. The employee satisfaction survey addresses issues such as “the satisfaction with the Company,” “the clarity of the work target,” “the specific instructions from the manager” and “the Company’s direction and vision.” In the two surveys conducted since the introduction of the HR management scheme, employee satisfaction has substantially improved from the previous surveys.

Moreover, since the introduction of the HR management scheme, frustration expressed and questions asked to the Company in regard to treatment and evaluation have decreased considerably. Apparently, it has already had an effect on reducing the employee turnover rate and motivating the employees.

V . Difference in German and Japanese Personnel Management

The origin of SAPAG is a venture business in Germany. SAP Japan has more things in common than differences with its German parent, as far as the German mentality and the Japanese mentality are concerned. Due to the Company’s background, as small group that has grown into a big one, the team spirit is strong and is generating synergy effects.

Vodafone Japan

I . Corporate profile

Business Category:	Information and communications (mobile communications)
Workforce:	30 (of which 8 are Japanese staff)
Founding Year:	The Tokyo office was established as Vodafone's Japanese branch, based on the business alliance accord between Japan Telecom, which launched mobile phone services nationwide, and the former AirTouch Communications, Inc. (currently Vodafone) in 1990. (Japanese subsidiary is unregistered.)
Parent company:	Vodafone Group plc (United Kingdom)
Nationality:	Mobile phone service

NOTE: This information was current in September 2001 when Vodafone was a minority shareholder in Japan Telecom and J-Phone. In November 2001 Vodafone acquired control of both companies through a majority shareholding. The Vodafone Japan office has become the Vodafone Asia Region office. The majority of staff covered by this report work in either Japan Telecom or J-Phone. Vodafone is working closely with the HR staff in these subsidiaries to develop a new Personnel Management Scheme, which is consistent with Vodafone's global policies, Japanese law and Japanese market practice. It is too early to report details of the new scheme at this stage.

II . Main Points in the Personnel Management Scheme

- Vodafone Group is the world's biggest mobile phone business group, and is a multinational corporation group with bases in 28 countries worldwide. In Japan, the group is actively engaged in sales activities, including its investment in Japan Telecom Co. Ltd. and J-PHONE Co., Ltd. in the amount of more than 1 trillion yen. Vodafone Japan is the Group's base in Japan.
- Vodafone's Vision is to be the World's mobile communications leader. The company Values are Passion for our customers, Passion for our people, Passion for results and Passion for the world around us. The Vision and Values are integrated into every aspect of the Personnel Management System.
- Through headhunting companies, the Company recruits individuals who are able to immediately demonstrate their abilities. Wage policy is set at the headquarters in England, and the Company calls it the Market Reference Zone (MRZ).
- MRZ is decided on an annual basis with reference to the market rate, which is determined by

participating in a wage survey conducted by a consulting firm.

- Personnel review is performed based on the criteria decided by the headquarters. For employees of USA origin the bonus decided may vary, from 7% to 82%.
- Separately to the normal bonus, the Company has an accomplishment-based remuneration adjustment to annual salary called “the merit budget.” Employees who have performed well are given a “merit” increase and remunerated accordingly. The merit budget in the previous fiscal year was set at 4.9% of the prospective wage of all employees. As the amount of pay may vary even among merited persons, this system highly motivates employees.

III . Basic Ideas Regarding the Personnel Management System

1) Recruitment

(1) Frequency and Means of Recruitment

Vodafone firstly advertises positions internally over the Intranet to fill vacant positions in the local subsidiary (Japanese subsidiary). This is because Vodafone Group, which has bases around the world, has no national boundaries, and quite a few employees ask to be relocated to another office in search of more possibilities.

If no applications are received or no suitable candidates are found through advertising on the Intranet, Vodafone outsources the recruiting task to headhunting companies. If a reasonable and suitable candidate is found after screening candidates by examining their papers and/or based on the judgment of headhunting companies, he/she is interviewed 2 or 3 times by a Vodafone manager and the final decision on recruitment is made.

In addition to the use of the Intranet and headhunting companies, recruitment is also done over the Internet on a constant basis. Vodafone had previously resorted to newspaper advertisements, etc., which requires a few weeks even for making an appointment. Now, recruitment through the media is limited to the Internet, as the entire process –from screening candidates by examining their papers to appointing them– can be instantly done over the Internet.

(2) Wage Arrangement

Vodafone sets the standard wage at each workplace based on its unique wage system called the Market Reference Zone (MRZ). Vodafone participates in a wage survey conducted by a consulting firm each year, and acquires information on the market rate of wages in each workplace and trends in the labor market. For senior staff the headquarters in England decides the MRZ and applies it to bases worldwide after studying the company’s performance, trends among rival companies, the labor conditions and trends in local subsidiaries based on this information.

MRZ serves as the foundation of the Vodafone Group’s wage system at times other than recruitment as well, such as wage assessment in personnel review.

2) Personnel Review and Bonus System

(1) Personnel Review System

Vodafone uses a unique performance measurement system that quantifies the targets, and evaluates the extent to which the targets have been fulfilled in mid-year and year-end. The evaluation is decided by rating an employee at 6 levels according to the extent to which he/she has fulfilled the target.

With respect to Japan and other overseas local subsidiaries, an important factor is the extent to which they are working with the understanding of the headquarters’ views.

(2) Bonus System

i) Team Award

Vodafone’s bonus program is called a “Team Award”. The team award is set forth as an award given to an employee for the performance of the Business Unit to which he/she belongs, and varies in amount according to the accomplishments.

Vodafone adopts a system called “Broad-banding” to categorize the jobs into 5 bands and decide the percentage of the team award with respect to the base salary.

Figure 19 : Team Award

Band	Job	Team Award
Band A	Customer care staff, engineer and secretary	7%
Band B	Specialist	11%
Band C	Senior specialist, mid-level manager	18%
Band D	Director-level job	31%
Band E	Executive	41%

The team award is a bonus allocated when the target has been fulfilled 100%. Thus, if the target has not been fully fulfilled, the amount is reduced according to evaluation, whereas if the target has been more than fulfilled, the amount is increased. The rate of increase/decrease is set between 0% and 200%.

For example, if an employee in Band A belongs to a Business Unit that has exceeded its target by 15% the employee will be able to get a team award of 14%, which is two times 7%.

The team award is paid twice a year to employees in Bands A through C, and once a year to those in Bands D and E.

ii) Merit Budget

Vodafone adopts an award system called the “Merit Budget” to boost its employees’ motivation. This is a system in which the manager secures a budget, qualifies employees who have performed well for higher merits and pays awards accordingly.

The merit budget in FY2000 was set at 4.9% of the total salary paid to all employees who were qualified for higher merits. This Figure is decided in consideration of the Company’s financial status and performance, general economic factors, wage composition at rival companies, etc.

As for the merit budget, employees with better performance are paid a larger amount, while those with poorer performance are paid less (or zero).

iii) Other Award Systems

Vodafone introduces the following award systems in addition to the above.

a. Sign-on bonus

This is a system of paying a certain amount in full upon recruitment. The aim is to boost the new employee’s motivation.

b. Retention Bonus

When paying an award, half of the total amount is paid after 1 year, and the remaining half after 2 years under this system. The aim is to keep talented employees.

c. Stock Option System

3) Issues

Vodafone has 3 issues relating to recruitment.

- (1) Vodafone uses consulting firms and headhunting companies to recruit highly capable individuals. This costs too much.
- (2) In some cases, Vodafone recruits individuals from other companies by offering high wages. Such wage arrangement could frustrate existing employees, who might leave the company because of the resulting sense of unfairness.
- (3) Recruitment of a highly capable individual on the condition of exceptional treatment undermines the existing employees’ motivation and morale.

Vodafone takes the following measures to tackle these issues.

- 1) Vodafone participates in the wage survey of a consulting firm on a continual basis to

identify the trends in the labor market and adjusts salaries of existing employees through the merit budget to maintain equitable treatment of all employees.

- 2) Strives to listen to employees' opinions at all times
- 3) Takes advantage of best practice of other companies discovered by participating in the wage survey in order to improve its system.

Furthermore, Vodafone has the following targets in regard to personnel management.

Aim to be a diverse, international company that suits its status as an enterprise operating in 28 countries worldwide.

Be a company that carefully listens to employees' opinions, complaints and criticisms.

Be a company that values and takes care of people more than anything else.