

1. Summary of Study

A. Changes in Japanese companies since the 1990s

Human Resource Management (HRM) in Japanese companies has changed substantially since the late 1990s. There are three main aspects of the change: (1) the change in long-term employment practice. New graduates work for a single company or its affiliated companies until the official retirement age. This employment practice had been broadly adopted particularly among major companies. This is the one of the characteristics of personnel policy called “Japanese employment practice,” also known as “lifetime employment practice.”¹ However, the custom of the long-term employment has been gradually changing even in the major companies with narrowing down the number of employees who are eligible for the long-term employment; (2) the change in employee assessment and compensation system. Under the traditional Japanese employment practices, seniority-based wage, personnel and grade systems had broadly been adopted. Since the 1970s, the basic principles of conventional employee assessment and

compensation system were a merit-based personnel system and/or ability or skill development-oriented personnel system that took over the seniority system, e.g., extended dissemination of an ability-based grade system. However, since the early 1990s, “*Seikashugi*,” a performance-oriented employee assessment and compensation system, has rapidly become popular. What makes *Seikashugi* different from the merit pay plan in the U.S.? In Japan, *Seikashugi* means “to assess and offer benefits based on short-term individual business results and performance of each individual.”² That is, while wages are determined based on corporate performance or group performance in most merit pay plans in the U.S. companies, the *Seikashugi* focuses on individual’s short-term performance and also has an impact on his/her promotion and salary raise through personnel evaluation. This makes the *Seikashugi* different “from a “pay by the job” plan in this regard;³ and (3) many companies have come to actively utilize the so-called “employment portfolio,” combination use of diverse personnel groups. This change has its roots in highly-compatible personnel management measures that had been utilized by

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- 1 The term “lifetime employment practice” is better put “long-term employment practice” due to its meaning that employees are employed until the official retirement age.
 - 2 Okunishi (2001) argues that the *seikashugi* needs to fulfill the following three elements: (1) Emphasize on business results rather than variables such as skill, knowledge and effort for wage determinant; (2) Place more emphasis on short-term business results and less on long-term business results; and (3) Implement a major wage differentials in actual wage. In this paper, whether *Seikashugi* widens the wage gap is being examined, so that the element (3) is excluded from the discussion. Therefore, the meaning of *Seikashugi* used here doesn’t fully describe the performance-oriented treatment system currently implemented in Japan.
 - 3 After World War II, many Japanese companies which advanced managerial modernization reflected business performance to the term-end allowance to be distributed to employees. They reflected individual performances in the term-end allowance as well. In this regard, they clearly focused on individual performance like *Seikashugi* (see reference by Matsushima, 1962). So what is the essential difference between *Seikashugi* and individual performances reflected in the term-end allowance? There are two differences those can be pointed out: (1) companies traditionally reflected individual performance in the term-end allowance in addition to base salary that was based on individual long-term performance such as seniority-based wage, it was sort of “two-storied” payment system. However, *seikashugi* is not based on such long-term performance but individual short-term performance; and (2) there is a historically major difference between two. In the case of term-end allowance, individual merit pay that focuses on individuals had been determined based on collective merit pay that is collectively determined. In the case of *Seikashugi* in Japan, it is believed that since the first object persons were supervisory employees, the effect of collective labor-management relations on wages (i.e., the effect of labor unions) was extremely small.

companies for their management and business strategies since the late 1990s. Until the early 1990s, non-regular employees were used mainly for employment adjustment due to strict regulations on dismissal in Japan. Non-regular employees meet the requirement of high numerical flexibility (Atkinson, 1985) as well as having more financial flexibility compared with regular employees who need fixed labor cost. In addition, business strategies centering on such non-regular employees' numerical flexibility have been drastically changed retail trade and eating and drinking places since the 1990s. By keeping the number of regular employees as small as possible and hiring non-regular employees as needs arises, it has contributed significantly to the improvement of business performance especially in profit margins. Non-regular employees are foundation of competitiveness for making profits, they aren't just substitutes for regular employees. As a result of such business model's success, it shows higher ratio of non-regular employees especially in the retailing industry and the eating and drinking places.

Non-regular workers have also been actively used in manufacturing industry with intensifying international competition, for instance: (1) a lot of contracting business employees take part in manufacturing lines; and (2) the ratio of dispatched workers in manufacturing premises becomes high with the regulatory reform in dispatched work in manufacturing industry. It can be said that as a result of these manufacturing companies' management strategies which do not shift their production to overseas, many domestic non-regular workers were employed. In addition, in response to the demands of the times, media and personnel business have been rapidly developed to secure non-regular employees. As a result of above changes, the demand for non-

regular employees became high and created mismatches between job seekers and positions provided. Even a competent job candidate had to accept a position as a non-regular employee due to a shortage of permanent job. Ironically, this situation brought an acceleration of the rapid matching of the supply and the demand in job market.

In spite of the increase in employment opportunities for non-employees, wages were still kept low. One of the reasons was that a regular employee has historically been regarded as a sole "breadwinner" of the family while a non-regular employee who earns supplementary income under the logics of life security that were fundamental thoughts in human resources management of Japanese companies. The labor policy similarly regarded them and did not bear in mind that a non-regular employee solely maintains a household. It can be said that it is only natural for companies to use non-regular employees to pursue profits and reduce costs.⁴

Shifting corporate governance structure caused the three changes: (1) decline in long-term employment; (2) dissemination of *Seikashugi*; and (3) increase in the ratio of non-regular employees. Changes in the corporate governance structure in Japan since 1990s are described in the next section.

B. Changes in the corporate governance structure

Previously, the corporate governance structures in Japanese companies tend to focus on a long-term profit for stakeholders such as main financing banks, management and employees. In contrast, shareholders' influence was extremely limited and there were few shareholders value-oriented companies as seen in the U.S. Both employers and employees were able to pursue each profit under

4 This paper regards that the rise of non-regular employees was due to changes in business strategies and governance structures. However, cause of the increasing number of "freeters (young part-time workers those who flit from one menial job to the next)" was historically considered as a problem for each individual, especially social misfit and/or developmental impairment. This view had long led studies on youth employment issues since 1990s in Japan. In Japan many people of "lost generation" who graduated from college and high school around 1995 to 2005 (known as a "hiring ice age") were having hard times to find permanent jobs. Moreover, though many of the lost generation were competent as same as people from other generations, the term freeters gave a image of being less competent. Therefore, their abilities were underestimated, and it lead them having a hard time finding a full-time job. It is well known that there is a practice of laying disproportionate emphasis on recruitment of new graduates especially among major companies in Japan. If a new graduate cannot find a job as a regular employee on graduation, the chance for good employment opportunities decreases in the future. Such peculiar circumstances put people from the lost generation in a more wretched situation.

strong influence of main financing banks that focused on long-term management stability and development. It is believed that such influence of main financing banks contributed to the long-term corporate management stability through securing of long-term shareholders and reinforcement of customer relationship. After the bubble economy burst, however, since the accounting standard was shifted from historical cost accounting to fair value accounting in addition to banking realignment, the cross-shareholding was dissolved at a stretch. As a matter of course, massive shares held by many banks as assets were sold off. As a result, monitoring functions by shareholder voting rights at the shareholder meeting has been strengthened and individual and institutional investors are allowed to buy out shares and launch a hostile takeover. It can be said that investment funds which aim to heighten corporate values are growing and it is the coming of “age of great acquisition” in which corporate management focuses on shareholder values. “Who owns a company?” Many Japanese used to answer, “Its management and employees.” However, companies that are exposed to strong scrutiny from the market are no longer able to hold surplus funds and dormant assets, and preserve excess personnel and underperforming businesses. Japan reached a crucial turning point of long-term profit-oriented governance to short-term-oriented governance aiming to improve shareholder value. In this regard, companies finally reviewed the once untouchable labor cost. Entire business management had to be reconsidered from the viewpoint of paying enough labor cost for necessary businesses. At present,

companies are not for their employees’ bread and butter. If this statement is true, it won’t be surprised if long-term employment and seniority-based wage that embody win-win relationship between management and labor are interpreted as opponents of shareholder value. That is, as a result of changes in the governance structure, HRM in Japanese companies is going to change tremendously.

C. Need for reality check—“Comprehensive analysis of firms’ management strategies, personnel treatment systems, etc.”

Based on the above situation, the Japan Institute for Labour Policy and Training (JILPT) carried out a project study “Comprehensive Analysis of Firms’ Management Strategies, Personnel Treatment Systems, Etc.”⁵ (period: October 2003 to March 2007) with the primary objective of understanding the reality of rapidly changing HRM in Japanese companies from the comprehensive and panoramic viewpoint to prepare basic data for consideration of labor policy. So far, JILPT carried out the following: (1) the identification of issues through survey on earlier study documents; (2) the questionnaire of persons in charge of human resources in companies; (3) the questionnaire of workers;⁶ and (4) the interview of persons in charge of human resources or corporate planning in companies. The results were compiled in the following six reports:

a. *Kigyo no keiei senryaku to jinji shogu seido-to ni kansuru kenkyu no ronten seiri* [Identification of Issues for Research on Corporate Management Strategies and Personnel Treatment Systems]. 2004. JILPT Research Report, no.7.

5 Participants in this project study are as follows: Prof. Mitsuharu Miyamoto, School of Economics, Senshu University, Prof. Motoharu Morishima, Graduate School of Department of Economics, Hitotsubashi University, Tadashi Kudo, Former General Researcher, JILPT, Takashige Komoda, Former Deputy Research Director-General, JILPT, Akira Motokawa, Former General Researcher, JILPT, Mari Okutsu, General Researcher, JILPT, Ryoji Nakamura, Assistant Senior Researcher, JILPT, Shingo Tatsumichi, Deputy Senior Researcher, JILPT, and Makoto Fujimoto, Researcher, JILPT.

6 “JILPT Corporate Survey” of persons in charge of human resources and “JILPT Employee Survey” of employees working for companies which answered to JILPT Corporate Survey were carried out in the following manner: As for JILPT Corporate Survey, top 11,865 companies in order of the number of employees listed on the company list of private credit agencies were extracted and questionnaires were sent out to persons in charge of human resources by post. The collection period was from October to December 2004 and 1,280 questionnaires were collected (effective collection rate: 10.8 %). The average number of employees of companies which answered the questionnaire was 781. As for JILPT Employee Survey, 30 questionnaires were sent out to each person in charge of human resources in 1,280 companies which answered JILPT corporate survey to ask to distribute to employees with designated conditions. The collection period was from February to April 2005 and 2,823 questionnaires were effectively collected from workers of 239 companies.

- b. *Henbo suru jinzai manejimento to gabanansu* [Transforming Human Resource Management and Governance/Corporate Strategies]. 2005. JILPT Research Report, no.33.
- c. *Henkakuki no kinrousha ishiki:“ Shinjidai no kyaria dezain to jinzai manejimento no hyoka ni kansuru chosa” kekka hokokusho* [Workers’ Changing Perceptions: Report on the Results of the “Survey on Career Design in the New Era and Perceptions on Human Resources Management]. 2006. JILPT Research Report, no.49.
- d. *Gendai Nihon kigyo no jinzai manejimento: Purojekuto kenkyuu“ Kigyo no keiei senryaku to jinji shogu seido-to no sougoteki bunseki” Chukan torimatome*. 2006. JILPT Research Report, no.61.
- e. *Nihon no kigyo to koyo: Choki koyo to Seikashugi no yukue* [Japanese Companies and Employment: Prospects for Long-term Employment and Seikashugi]. 2007. Project Research Series, no.5.
- f. *Keiei senryaku, gabanansu to HRM ni kansuru kigyo jirei chousa* [Corporate Case Research on Corporate Strategies/Governance and HRM]. 2007. Material Series, no.28.

“Human Resource Management of Today’s Japanese Firms: Interim Report of the Research Project ‘Comprehensive Analysis of Firms’ Management Strategies, Personnel Treatment Systems, Etc.” (JILPT Research Report no.61) is an interim report of entire project study and “Japanese Companies and Employment-Prospects for Long-term Management and *Seikashugi*” (Project Research Series no.5) is a final report. In this paper, the summary of major findings of these two reports are briefly introduced in 1., and the reality of *Seikashugi* that is a central theme in recent HRM reform is

described in 2. The analysis of relationship among companies’ business strategies, HRM and corporate performance are introduced in 3.

D. Major findings-Summary

i. Majority is New Japan type (*Seikashugi* + long-term employment)

According to the result of corporate survey “Attitude to long-term employment for regular employees” (see Figure 5-1), 69% of companies said “Long-term employment should be maintained for as many employees as possible,” 21% said “Long-term employment should be maintained for selected employees,” and 9% said “Long-term employment is not a priority issue for management.” In short, about 30% of companies have reviewed the long-term employment in some way.

On the other hand, as for introduction of *Seikashugi* (see Figure 5-2), 58% of the companies have introduced *Seikashugi*. The larger the company size is, the higher the introduction rate becomes. Among companies with 1,000 or more employees, 71% of those have introduced *Seikashugi*.

There are two notable changes: (1) decline in long-term employment; and (2) development of *Seikashugi*. Using these two, I have classified employment systems into four types. Figure 5-3 outlines four types of employment systems obtained by placing two axes: (1) long-term employment is maintained or not; and (2) personnel treatment system with *Seikashugi* is introduced or not.

According to the result from corporate survey, 30% of companies were classified as “Japan type” (hereinafter referred to as “J” type) with long-term employment and non-*Seikashugi* which are

Figure 5-1 Attitude to Long-term Employment for Regular Employees

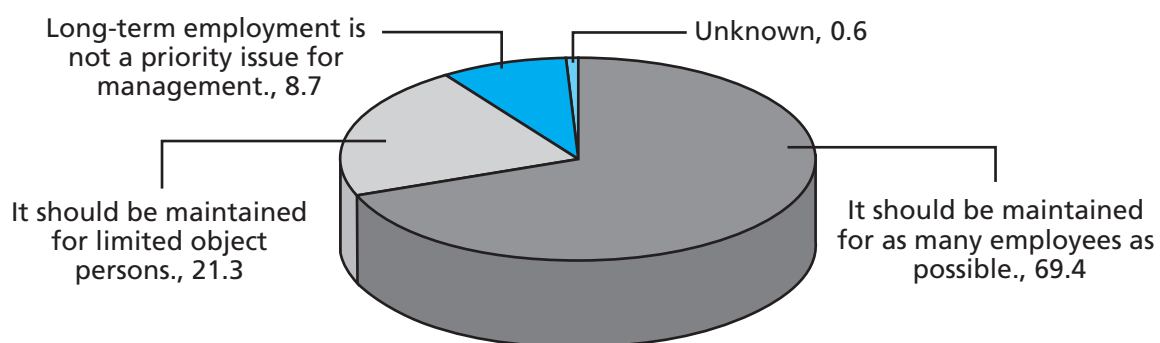


Figure 5-2 Ratio of Companies Introducing *Seikashugi* by Company Size

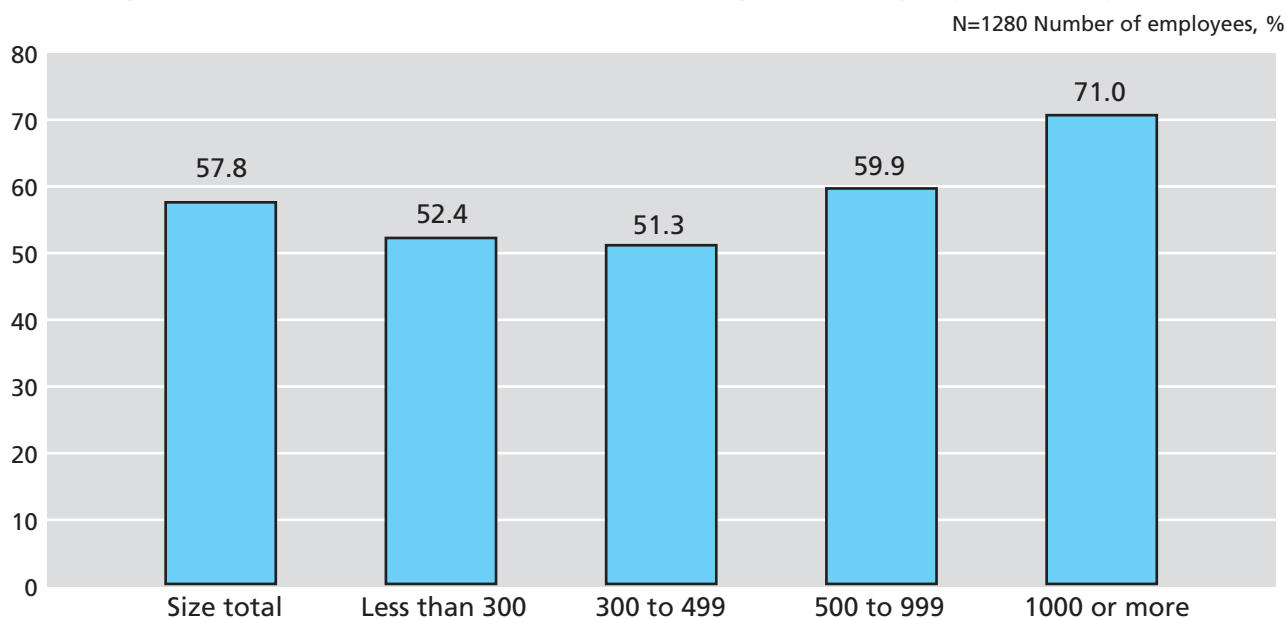
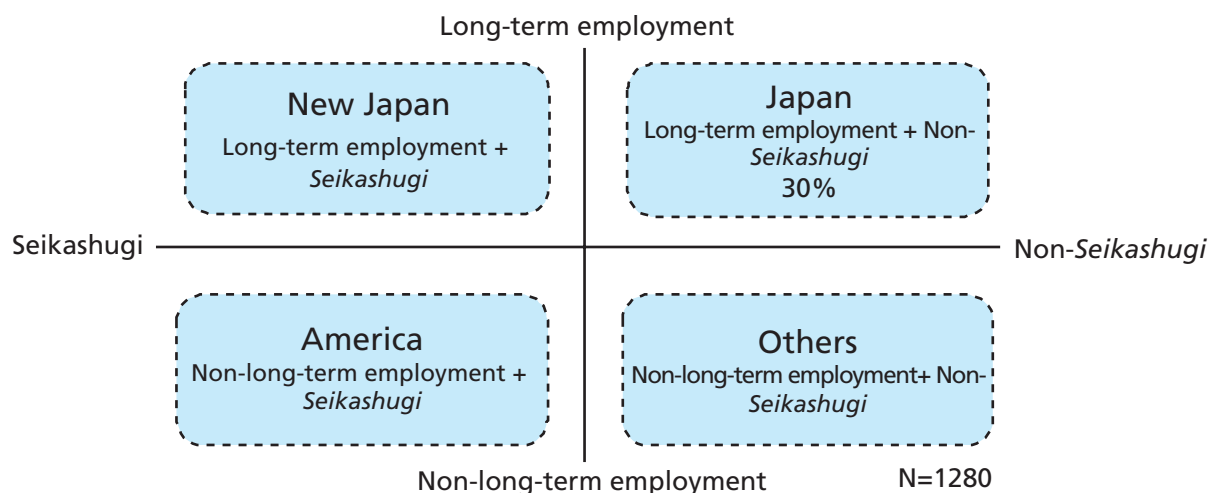


Figure 5-3 Ideal Types of Employment System in Japanese Companies: Classification by Long-term Employment and *Seikashugi*



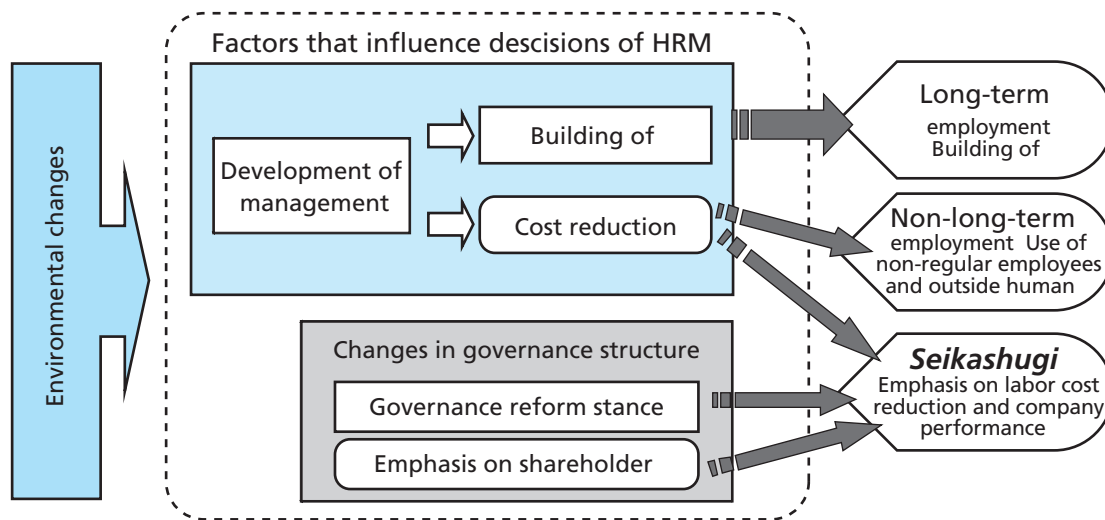
characteristics of conventional Japanese employment practice, 39% were classified as “New Japan type” (hereinafter referred to as “New-J” type) with long-term employment and *Seikashugi*. Eighteen percent were classified as “America type” with non-long-term employment and *Seikashugi* as often seen in the U.S. capital companies and 12% were classified as

“Other type” with non-long-term employment and non-*Seikashugi*.⁷

How dose such classification of companies’ employment systems occur? (See Figure 5-4) Environmental changes outside companies force companies to change the business strategies and also influence the governance structure. Changes in

⁷ Jackson who classified Japanese companies by finance and governance shared the same view. Jackson, G. 2004. The Changing Role of Employees in Japanese Corporate Governance: Participation, Adjustment and Distributional Conflict. In Aoki, M., Jackson, G., & Miyajima, H. [Eds.], *Corporate Governance in Japan*. Submitted to “RIETI Policy Symposium: Diversified Japanese Corporate Governance-Converging with specific mode” held October 22, 2004.

Figure 5-4 Factors that Influence Decisions of Human Resource Management: Strategies and Governance



business strategies and governance structure influence the human resource management measures. For instance, when aiming to reduce costs for business strategic reasons, the employment system moves to non-long-term employment or *Seikashugi*, when building long-term competitiveness through human resource development, the system moves to long-term employment. As for the governance structure, however, it was found that orientations toward governance reform and emphasis on shareholders such as introduction of operation officer system promote the introduction of *Seikashugi*, but they do not influence long-term employment.⁸

ii. Human resource management measures for high business performance: Do they converge with New-J type?

When focusing on the relationship between

Seikashugi and business performance from the standpoint that how companies' human resource management contributes to the business performance, the result showed that the introduction of *Seikashugi* made the business performance (sales per employee) higher.⁹

According to the analysis using four Japanese companies' employment systems, it became clear that business performance (ROE) of New-J type companies with *Seikashugi* and long-term employment from 1999 to 2004 was improved the most.¹⁰ It is believed that New-J type companies have an organizational character that achieves solid results such as motivated workers of high moral character.¹¹ As above, introduction of *Seikashugi* and combination of *Seikashugi* and long-term employment may have a good influence on companies' performance.

8 As a result of logistic regression analysis, both governance reform (0.1 % level) and emphasis on shareholder value (5 % level) had a statistically-significant impact on the introduction of *seikashugi*, but long-term employment policy didn't.

9 A multiple regression analysis was conducted for companies which introduced *seikashugi* and those which didn't with using a change ratio of sales per employee in 1999 and 2004. It was found that the introduction of *Seikashugi* made business performance higher (5 % level, statistically-significant). For details, see Part II of this report.

10 When focusing on changes in ROE in 1999 and 2004, business performance of New-J type companies was most improved (10 % level, statistically-significant).

11 As for changes in workplaces, three parameters of "morale and motivation," "individuate of workplaces (education and cooperation)" and "stress and turnover" were set on an ascending risk scale of 1 to 5 and each type's average was evaluated. As a result, New-J type companies' point of "morale and motivation" was at 0.1 % level and more statistically-significant than other types.

On the other hand, it is highly possible that human resource management which is opposed to long-term employment such as employment of non-regular employees and use of outside personnel for the purpose of reducing costs also contributes to business performance.¹² Therefore, we are currently unable to give a definite direction whether Japanese companies' human resource management converges with New-J type or use of non-regular employees and outside personnel makes further progress.

iii. Role of human resource development that revitalizes an organization and makes *Seikashugi* a success

It became clear that companies which emphasize on education and training for the purpose of upskilling all employees enhance higher morale among workers (see Table 5-5). It is noteworthy that work ethic is higher among companies which

provides company-wide education than companies offer selective education.¹³ It also showed that in companies which introduced *Seikashugi*, the higher the level of workers' satisfaction with companies' education and training is, the higher the companies keep workers' morale high.¹⁴ That is, these results show that when companies emphasize on human resource development and education and training, they may keep workers' morale high, revitalize workplaces and lead directly to make *Seikashugi* a success.

iv. Acknowledge gap between labor and management: Human resource policies are not properly recognized among workers

When focusing on a gap between companies' human resource management policies and workers' acknowledgement, it became clear that companies' human resource management policies are not

Table 5-5 Morale and Motivation Points to be Emphasized

Indipentent variable	Morele and motivation
Differentiation of employee compensation and assessment by performance	0.081*** (0.028)
Implementation of training for upskilling of all employees	0.051** (0.024)
Implementation of training for selected employees	0.027 (0.025)
Clear distinction between supervisory careers and professional careers	0.084** (0.038)
Mental health care for employees	0.064** (0.029)
Communications between labor unions or employee representatives and top management	0.067*** (0.025)
Communication of business objective and management principles to employees	0.103*** (0.025)
Number of samples	1084
Adjusted R ²	0.134

Notes 1) Multiple linear regression analysis. Values in parentheses are standard errors.

2) *.05<p<.10., **.01<p<.05, ***p<.01.

12 As a result of multiple regression analysis of impact on business performance by cost strategy and use of non-regular employees, both had a statistically significant positive impact on business performance (sales per employee) at 5 % level.

13 As a result of multiple regression analysis with a dependent variable of morale in workplaces, it was statistically significant at 5 % level.

14 As a result of multiple regression analysis with a dependent variable of morale (motivation), it was statistically significant at 5 % level. Companies which did not introduce *seikashugi* did not show any statistical significance.

properly communicated to employees. While management side thinks “long-term employment should be maintained for as many employees as possible,” only 44% of employees of those companies had correct recognition of their companies’ employment policy. Nineteen percent answered “It should be maintained for limited object persons” and 21% answered “Long-term employment is not a priority issue for management” (see Figure 5-6). It became clear that about 40 % of workers had misunderstandings about their companies’ employment policy.

There was also an acknowledge gap of *Seikashugi*. Though companies have introduced *Seikashugi*, 25% of employees did not acknowledge its implementation. It tells us that human resource management policies such as long-term employment policy and *Seikashugi*, which mean a lot to employees, are not always properly understood. Not a few workers are concerned about their employment but do not correctly recognize their companies’ assessment and treatment system. Since communication between labor and management are incomplete, this may cause some frictions. Especially complicated assessment and treatment system as typically seen in *Seikashugi* may bring a severe

impact on the labor-management relationship.

v. Acknowledge gap of governance

There is also a large acknowledge gap of corporate governance between labor and management. Table 5-7 shows the answers about emphasis on shareholder value from both labor and management. While 55% of the employees answered “positive” to the question, only 13% of the management answered the same. Fifty-nine percent of the management answered “neither” and 23 % answered “negative.” As for emphasis on shareholder value, the most common answer of the labor side was “positive” but the most common answers of the management side was “neither” and “negative.” A conflict is likely to occur between stakeholders, but there is no such serious conflict between the labor and the management. Then why was such peculiar relationship developed?

Figure 5-8 shows the answers of employees’ perception toward shareholders and management.

More than half of employees answered, “Shareholder value should be increased.” More than 30% answered, “Shareholders should keep a closer watch on management.” Even in Japanese companies that have maintained cooperation between labor and

Figure 5-6 Perceptions of Employees Working for Companies that have a Long-term Employment Policy

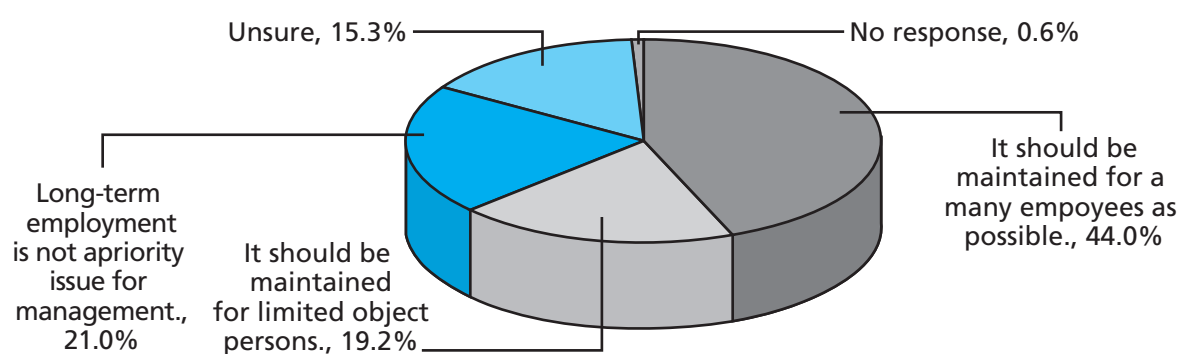
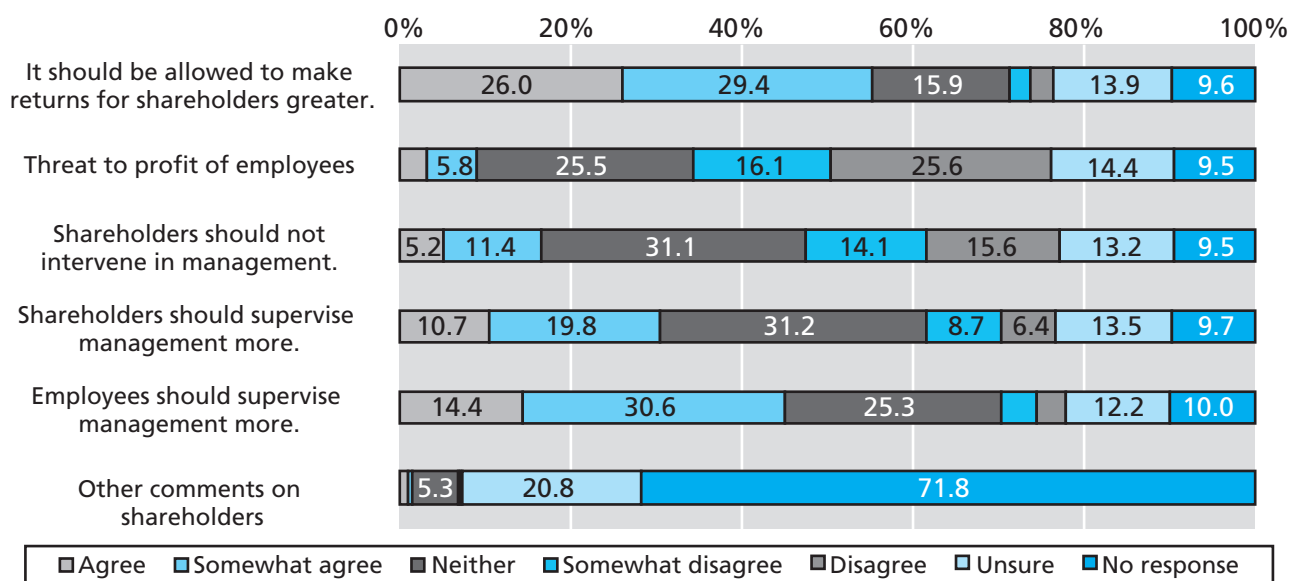


Table 5-7 Perception Gap of Corporate Governance: Ideas on Emphasis on Shareholder Value (%)

	Positive	Neither	Negative	Unsure	No response
Answers from labor side	55.5	15.9	5.1	13.9	9.6
Answers from management side	13.5	59.2	23.4	—	3.8
All responding companies	17.0	50.2	26.3	—	6.5
Public companies	54.6	39.3	5.1	—	1.0

Figure 5-8 Employees' Perception Toward Shareholders and Management



management, mistrust of management is still observed. More surprisingly, nearly a half of employees answered, “Employees keep a closer watch on management.” Labor side wishes to strengthen two supervising systems; supervising management by shareholders and employees themselves in the governance structure. As symbolized by such results, the mistrust of management side seems to be very strong. The relative advancement in the governance structure among the Japanese companies indicates the possibility that the governance structure will be the one which employee representatives carry a lot of weight as often seen in Germany. In this respect, Japanese society is facing a turning point.

vi. Impact on the entire society

As above I introduced some of the interesting findings from the project research that our team had carried out. In closing Part I, let me discuss future issues based on these findings.

Recent transformation of Japanese companies' human resource management is not only the phenomenon within companies but is also expected to have a strong impact on the whole society. It is believed that such impact is caused by the following three aspects: (1) *Seikashugi* wage brings an impact on workers' life security and long-term life plan.

Japanese companies had maintained wage systems that ensure the livelihood of regular employees since wartime until recently in diverse ways. However, *Seikashugi* is a driving force of reducing or eliminating life security part from wage determining elements. Before *Seikashugi* became popular, people were able to make their life plan such as having children and building a home based on the predetermined harmony that living standards gradually improve with the length of service. However, since wages vary according to short-term performance in *Seikashugi*, the society may bear some segments of people who cannot make their life plan with long-term perspective or have to live from hand to mouth. It can be said that it is time for the government, labor and management to seriously consider how people's future be equally ensured in aspect of wages; (2) the transformation of long-term employment. As seen in J type and New-J type, long-term employment still remains in today's Japanese companies. During the prolonged recession after the collapse of the economic bubble, Japanese companies greatly reduced the number of new recruits and screen carefully and then selected some people who would become core personnel. The long-term employment may be maintained for such personnel. However, companies also hired mid-career workers who possess adaptable fighting potential while

carefully hiring new recruits. Some of the works previously assigned to regular employees were shifted to non-regular employees. Is the long-term employment also guaranteed for those people? A “new long-term employment” would end up dividing people in a group with stable employment from a group with unstable employment. It is also the time to consider what measures are needed for maintaining the employment stability for all; and (3) equality of educational and training opportunities in companies should be achieved. In the midst of a low-cost competition, it is practically very difficult to conduct education and training for all employees. However, it is important for all workers to have the equal opportunities of education and training as a protection from unemployment and poverty. In order to eliminate the inequality of opportunities, it is also necessary to discuss all resources related to educations and training such as education through inter-company careers, public job training, education and training in private sections and enhancement of school educations.

As described above, changes in companies’ human resource management may have a considerable impact on the society and livelihood of workers. Therefore, the government is expected to continue to conduct steady experimental studies and develop policies based on the reality more than ever.

Notes: The sources of this paper are the following author’s documents with some additions and alters.

Tatsumichi, S. 2006a. *Nihon kigyo no jinzai manejimento no henbo* [Transformation of Japanese Companies’ Human Resource Management]. *Business Labor Trend*, October. The Japan Institute for Labour Policy and Training.

Tatsumichi, S. 2006b. *Seikashugi no genjitsu* [Reality of Seikashugi]. 36-98. The Japan Institute for Labour Policy and Training.

Tatsumichi, S. 2007. *Nihon no kigyo to koyo-Nihon kigyo no jinzai manejimento no jittai* [Business Strategy and Human Resource Management in Japanese Companies Today]. *Japan Labor Review*, 4(1). The Japan Institute for Labour Policy and Training.

2. Reality of *Seikashugi*

A. Background of spread of *Seikashugi*

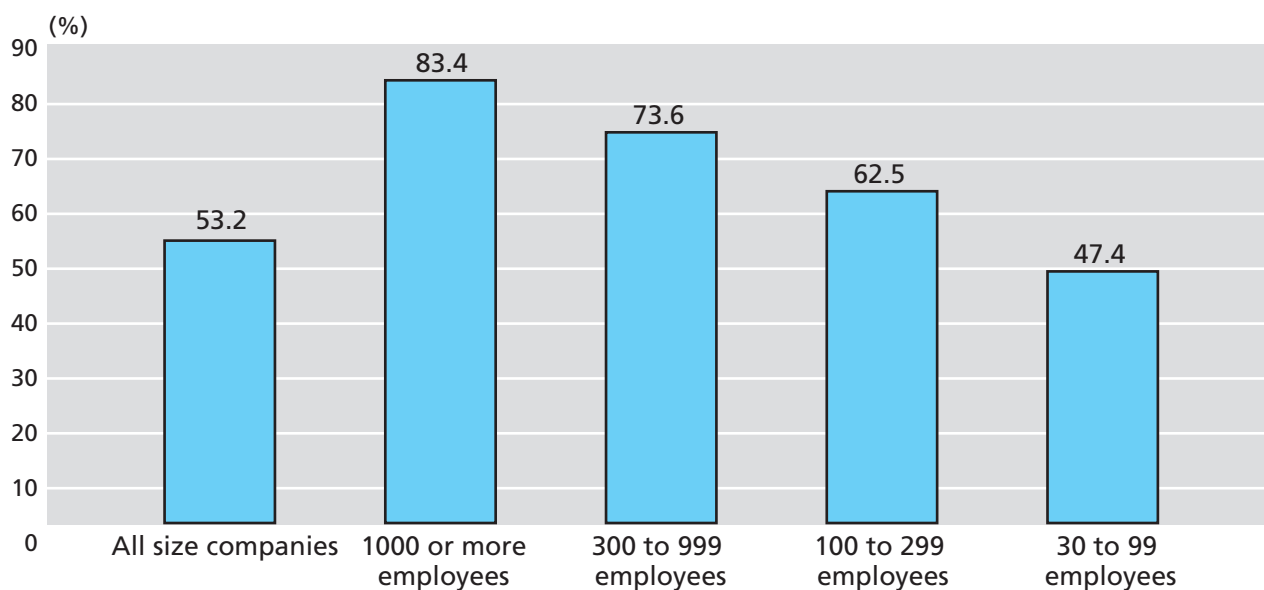
Since domestic major IT companies have introduced *Seikashugi* in the early 1990s, the number of companies which introduced *Seikashugi* is demonstrating an upward trend. According to Ministry of Health, Labour and Welfare, “General Survey on Working Conditions 2004” (see Figure 5-9), the proportion of companies reflecting individual achievement in employee wages is 53.2% in total. The survey also shows the *Seikashugi* has been implemented among companies of 1,000 or more employees at a high rate of 83.4%. If “reflecting individual achievement to his/her wage” is taken as synonymous with *Seikashugi*, one could say that *Seikashugi* is growing popularity, particularly in major companies.

Moreover, according to the JILPT Corporate Survey of companies with 200 or more employees in 2004,¹ 57.8% of companies that answered the questionnaire had introduced *Seikashugi* and 41.8% didn’t. According to the results of the corporate survey by company size, the larger the company size is, the higher the introduction rate becomes. *Seikashugi* has been introduced especially among major companies.

Fujitsu Ltd., a major domestic electronics manufacturer, introduced *Seikashugi* in 1993, and it was the time the system first drew attention in Japan. Fujitsu was attempting a major change in their line of business from hardware manufacturing to software development and sales. In the software development, engineers’ skill vary greatly from individual to individual in terms of productivity. For example, most skilled engineers are as 200 times productive as those who aren’t per month. At the time, profit distribution through working hour system also seemed to reach its limit. Through technological innovation centered on information technology, they attempted to change wage distribution rules. There was a major turning point in the personnel system

¹ “Comprehensive Survey on Management Strategy and Human Resource Management” was a questionnaire targeting persons in charge of human resources, and was conducted in November 2004 based on JILPT Research Project “Comprehensive Analysis of Firms” Management Strategies, Personnel Treatment Systems, Etc.” About 11,850 companies with 200 or more employees were targeted and 1,280 companies answered the questionnaire. For details, see JILPT (2005).

Figure 5-9 The Proportion of Companies Reflecting Individual Achievement in Employee Wages



Source: Ministry of Health, Labour and Welfare, General Survey on Working Conditions, 2004.

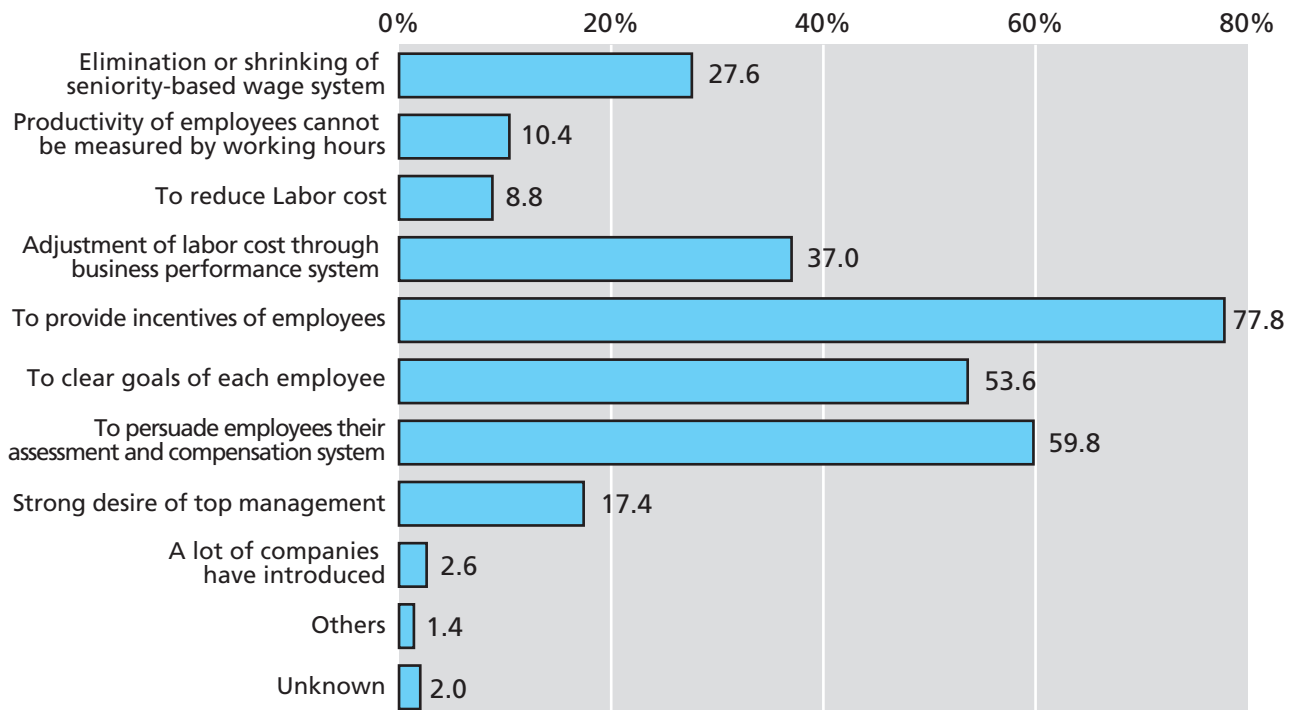
reforms of Fujitsu with the concept of a salary based on performance instead of working hours.

As for the subsequent reaction in economic circles, Nikkeiren (Japan Federation of Employers' Associations) released a proposal in 1995 titled "Japanese-style management in the new era" that described the future employment and wage system. As a means of revitalizing corporate management, they proposed a wage system stressing the need for transition from the idea of determining wages in accordance with occupational ability and job performance but age and years of service. Clearly the emphasis on business results in addition to the conventional idea of a merit-based personnel system was an epoch-making and strategic turning point, much like the Nikkeiren's recommendation described below that distanced itself from the seniority system.

It is not peculiar to Japanese companies that organizations have follow-the-leader mentality. Many companies may say they introduced *Seikashugi* because other companies did. DiMaggio and Powell (1983) who support for institutional theory of organizations in sociology explained rationale for such lock-step behavior. They introduced the notion of organizational isomorphism in order to explain why some forms of organizations decline but others

survive. The organizational isomorphism means a process which changes the form of its own organization into the same form of other organizations when one organization faces a new environment. There is an imitative isomorphism as a model to explain this lock-step behavior. This occurs when an organization facing unknown environmental models in order to avoid the uncertainty. When technical changes occur or goals are unclear, organizations imitate other organizations' behaviors. *Seikashugi* may have been introduced from major companies to small and medium-sized companies. Nikkeiren's recommendation may have functioned as a driving force toward the isomorphism.

Next, let me take a closer look at management side's incentive to introduce *Seikashugi* with recent survey results. According to the corporate survey (see Figure 5-10), 77.8% of people in charge of human resources answered the reason why they introduced *Seikashugi* was to "provide incentives of employees." More than half of those answered to "to provide fair and convincing assessment/compensation system" and to "set a clear-cut goal of each employee." In short, the three main reasons of introducing *Seikashugi* are: (1) to improve employees' morale; (2) to provide fair and convincing assessment/compensation system; and (3)

Figure 5-10 Reasons why Companies Introduced *Seikashugi* (Corporate Survey)

Source: JILPT Corporate Survey.

to set a clear-cut goal of each employee.

However, since *Seikashugi* is a performance-based payment system, if workers cannot increase productivity, their wages will be either lowered or unchanged. According to the survey results, companies seem to be reviewing the conventional wage system; for instance, “Elimination or shrinking of seniority-based wage system (27.6%),” “Reduction of labor cost (8.8%)” and “Adjustment of labor cost through business performance system (37.0%).” It is impossible to overlook the incentive to introduce *Seikashugi* for reduction of labor cost. Nikkeiren’s recommendation on “emphasis on performance” also indicates the limit of seniority-based system. A serious problem that has occurred in many companies since the 1990s was the increased babyboomers’ labor cost. This is called “babyboom generation problem.” Compared with other generations, the number of births in this group is extremely high, particularly in the periods from 1947 to 1949. According to Yoshio Higuchi and the Policy Research Institute of the Ministry of Finance (2004), the babyboomer workers are characterized by: (1) having

a higher level of education; (2) their wage is located close to the highest level on the “seniority wage curve;” and (3) years of service is longer compared with other generations. It can be easily imagined that with these characters, the increased babyboomers’ labor cost is a major obstacle to the maintenance of seniority-based wage system. If so, the most important purpose of introducing *Seikashugi* is to take measures against the babyboom generation problem especially for companies with many babyboomers. The previously mentioned reasons of: (1) to improve employees’ morale; (2) to persuade employees their assessment and treatment system better; and (3) to set a clear-cut goal of each employee, might be other reasons for the introduction of *Seikashugi*. As a matter of course, such reasons are important conditions for the function of *Seikashugi* personnel system. I would emphasize that many Japanese companies had a common issue on labor cost of babyboomers. This means that many companies acknowledged common goals of reviewing wage systems at around the same time.

If the introduction of *seikashugi* played a role of

measures against labor cost of baby boomers, it would mean deteriorating working conditions for baby boomers, and would become a point of labor-management dispute.

Then what did labor side think of *Seikashugi*? Tsuru (2002) redefined the contexts of Japanese employment system and labor-management relations. He mentioned the following three points as stylized facts of Japanese labor-management relations: (1) traditional employment relationship is changing due to *Seikashugi* personnel system; (2) Japanese labor unions have flexibly responded to changes in market environment and technical innovations, but have not succeeded in organizing employees with new employment patterns and employees of new companies; and (3) the spring offensive which played a role of supplementing decentralized negotiations is being less important due to inefficient negotiations in the period of low growth and increased impact of the *Seikashugi* on the wage determination.

There are some ideas that how labor unions actually decide their attitude to *Seikashugi*. According to Ohmi (2003), Japanese Electrical Electronic and Information Union stated in the fifth wage policy proposed in 2000 that it is preferable that *Seikashugi* is applied to employees those who work under discretionary labor system such as executives, specialists and researchers. Japanese Federation of Textile, Garment, Chemical, Mercantile, and Allied Industry Workers' Unions stated in the comprehensive labor policy in 2000 that if *Seikashugi* is introduced, it leads to wage cut when workers cannot achieve their goals so that *Seikashugi* should be applicable only to non-union members and management. In addition to such opinion that *Seikashugi* should be applied to limited personnels, Japanese Trade Union Confederation (JTUC) has announced a policy to focus on maintaining "wage curve," not demanding a raise since the spring of 2002. Such attitude seems to counter *Seikashugi* by maintaining seniority wage curve even casting a raise aside.

According to recent views of labor unions, Japan Council of Metalworkers' Unions (IMF-JC)

displayed a stance to watch both *Seikashugi* wage and conventional cost-of-living wage while labor unions positively intervene *Seikashugi* in "Offensive Mini White Paper 2005" such as: (1) labor unions are positively involved in wage system design and operation; (2) Improvement of labor unions' compliant processing functions; and (3) it is essential to ensure a stable cost of living as a condition of exercising abilities at work.² Even though labor unions have recently taken an active approach to *Seikashugi*, it is also true that *Seikashugi* does not fit in so easily with collective labor relations that were the main stream of conventional labor-management relations. Because it is expected that there are various conflicts of interest such as persons who achieved results versus those who did not and baby boom generation versus other generations, the role of labor unions that were negotiations of collective labor relations must be limited. In fact, JTUC confirmed the basic policy to ask "wage improvement" which is substantial wage hike and urged each labor union to strengthen efforts in Central Executive Committee in the annual spring offensive 2006. Though "wage improvement" has several meanings, it clearly shows that *Seikashugi* has rapidly penetrated the labor-management relations that the offensive policy has changed from horizontal raise system to wage improvement including wage gap adjustment. However, under *Seikashugi* wage, labor unions cannot intervene how to distribute wages to individual workers. In that sense, the development of *Seikashugi* has contributed to transform the trend of labor-management relations from collective labor relations to individual ones.

B. Elements of *Seikashugi*

i. Types of *Seikashugi*'s personnel system and wage system

We have discussed "*Seikashugi*" as a system which reflects short-term performance to employee assessment and treatment. Let me discuss some patterns of how *Seikashugi* is actually operated in companies.

2 Source: Arai, E. (2005) "Present Situation and Issues of *Seikashugi* Based on Survey Data," *Business Labor Trend* March issue

Seikashugi has diverse patterns and is operated variedly depending on companies. Therefore, the purpose of this section is to extract and study common patterns observed in *Seikashugi*. Firstly, let's take a look at Table 5-11 (Source: Japan Productivity Center for Socio-Economic Development, 2000).

This table shows *Seikashugi*-based treatments by types of personnel and wage systems. There are enormous numbers of combinations of elements, *Seikashugi*-based elements are not simple combinations of such elements but may be stipulated by the context of human resource management which was actually conducted by companies. If those were totally imported system from the U.S., they may be stipulated by the context of human resource management of the U.S. companies. Therefore, let us get closer to the reality of *Seikashugi* by organizing these elements from a certain context.

The elements indicated in table 5-11 can be categorized by the following three criteria: (1) Departure from the seniority and skill development systems; (2) Making wages as a variable cost and performance-coupled wages; and (3) Strict and

precise evaluation. As for (1), basic salary is the typical example and its trend is roughly performance-oriented, departure from the seniority system and widening gap between individuals. In addition, this also points out "elimination of merit-based wage" and "elimination of proficiency-based raise" so it draws a sharp contrast between ability and performance. The results reflecting policies of departure from seniority and skill development systems are also seen in other items. In other words, departure from the seniority and skill development systems formed the basis of *Seikashugi*-based treatment in Japan.

As for (2), typical examples are widening gap caused by introduction of annual salary system and bonus assessment, and introduction of performance-based bonus by section.

As for (3), typical examples are introduction of performance-based wage, bonus assessment, personnel evaluation, wage table and introduction of annual salary system.

As above, it can be said that Japanese *Seikashugi*-based personnel system and wage system are formed

Table 5-11 Types of *Seikashugi* Personnel and Wages

Item of wage system	Types of systemic reform	
Base salary	Merit-based wage	Reduction or elimination of proficiency raise, elimination of merit-based wage, expansion of promotion raise and fixed allowance by qualification
	Age-based wage	Elimination or reduction of age-based wage and reduction of object persons for age-based wage
	Comprehensively determined wage	Widening gap in wage hike
	Service allowance	Introduction of service allowance, duty allowance and role-based wage
	performance-based wage	Introduction of performance-based wage
Benefit package	Transfer of livelihood allowances such as family allowance to base salary	
Bonus	Reduction of across-the-board part and expansion of assessment part, widening gap in assessment and introduction of performance-based bonus by section	
Personnel evaluation	Improvement of personnel evaluation system, introduction of objectives management and use of competency (behavioral assessment)	
Ability-based grade system	Change from graduation system to entrance system, reduction of the number of qualifications, elimination of seniority system, implementation of demotion and clarification of functional requirements	
Annual wage hike	Reduction or elimination of automatic annual wage hike, expansion of assessment raise, elimination of annual wage hike and introduction of annual wage reduction	
Wage table	Single rate and change from simple wage table to step wage table or multiple wage rate table	
Others	Introduction of annual salary system	

Source: Japan Productivity Center for Socio-Economic Development (Sasajima, 2000)

by three principles: (1) departure from the seniority and capacity development systems; (2) making wages as a variable cost and performance-coupled wages; and (3) strict and precise evaluation. Japanese companies promoted *Seikashugi* by combining such elements.

ii. Annual salary system: A typical example of *Seikashugi*

Annual salary system is a typical example of the wage system based on *Seikashugi*'s elements in the early stage of disseminating *Seikashugi* in Japan.

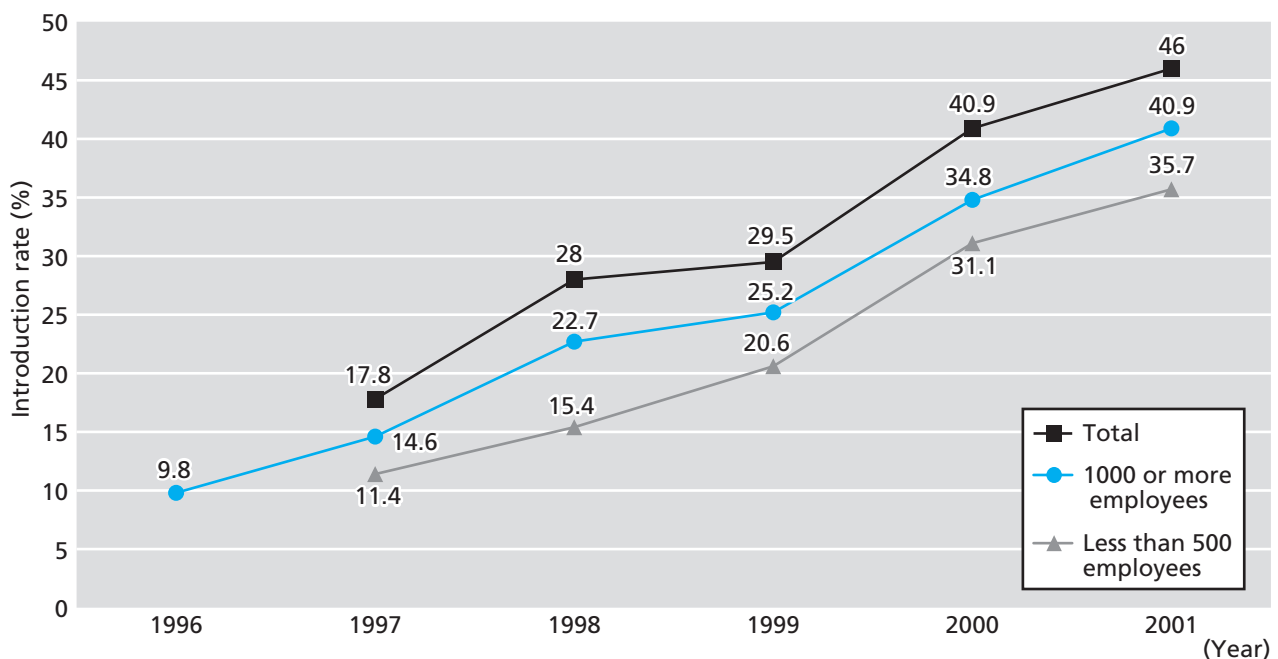
Let us confirm the trend of recent situation of introducing annual salary system from "Survey on Transformation of Japanese Personnel system" in which Japan Productivity Center for Socio-Economic Development conducted to understand recent changes in Japanese employment practice (see Figure 5-12).³ Though it is necessary to keep in mind that the surveyed are listed companies and most of them are major corporations, the ratio of those which introduced annual salary system is substantially

increasing from 9.8% in 1996 to 40.9% in 2002. That is: (1) this survey data shows the rapid dissemination of annual salary system, in other words, rapid dissemination of *Seikashugi*, since the late 1990s; and (2) the core of *Seikashugi* is annual salary system in Japan. As mentioned above, *Seikashugi* becomes more complicated depending on combination of the elements. Factors behind the rapid dissemination of annual salary system may be its natures of understandability and simplicity.

As already mentioned, labor unions asked to limit targets of *Seikashugi* to non-union members and management since if workers cannot achieve their goals, it would lead to wage cut. This may have been also the factor of disseminating annual salary system.

Then what is a general mechanism of such annual salary system? According to Imano (1998), the annual salary system consists of the following two parts: (1) basic annual salary based on monthly basic salary; and (2) performance-based annual salary which varies depending on the performance. In

Figure 5-12 Trend of Annual Salary System Introduction Rate (1996-2002)



Source: Japan Productivity Center for Socio-Economic Development 2003.

³ Summary of the 6th Survey on the Transformation of Japanese Personnel System. Period: Mid-October to early December 2002. Method: Mail-in survey. Target: Persons in charge of human resources in 2,547 listed companies. Respondents: 303 companies. (Collection rate: 11.9 %)

theory, it can be full performance-based annual salary,⁴ but in most cases it consists of basic annual salary and performance-based annual salary except some special and professional jobs. Since basic annual salary is based on the basic salary in most cases, the principle of the payment system is based on ability-based grade system or job contents or a combination of both. However, since its operation is different depending on each company, it is hard to figure out a general form. In addition, the performance-based annual salary is linked to individual performance and company/sectional performances (other than individual ones) so its operation is also different depending on companies. Let us see the case of Fujitsu which was among the first to address *Seikashugi* (See Figure 5-13).

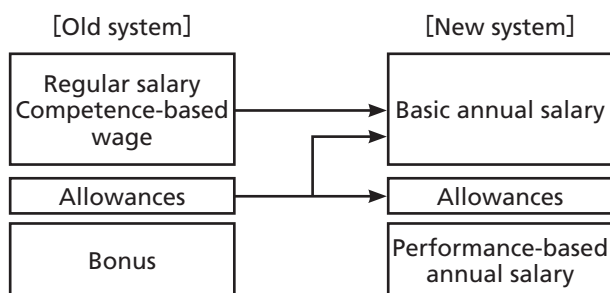
In the case of Fujitsu, regular salary based on annual wage hike and competence-based wage in the old system were embedded in basic annual salary after the introduction of *Seikashugi*. Allowances were divided into two parts: basic annual salary and allowances. Bonus was shifted to performance-based annual salary. In short, Fujitsu’s annual salary system consists of basic annual salary and performance-based annual salary. The basic annual salary is a cumulative system which is ranked based on achievement evaluation under the objective management system. On the contrary, the performance-based annual salary is a

short-term-oriented system in which performance is evaluated on a single-year basis and the salary is paid based on the evaluation.

It seems an annual salary system forms such basic mechanism just having different levels of reflecting individual, sectional and corporate performances. That is, wages became flexible based on short-term achievement by setting up performance-based part added to regular salary. According to Furukawa (2000), Japanese annual salary system model is a combined annual salary system of both the basic wage that consists of basic salary embedding performance evaluation of previous year or merit-based wages and wages based on roles and the performance-based bonus that is based on performance evaluation of this year.

In other words, *Seikashugi* can also be applied to persons who are exempted from annual salary system based on this concept (See Table 5-14). This is because even a combination of conventional fixed monthly salary and allowances and variable bonus, the idea is the same as annual salary system. In addition, since monthly salary and bonus in the next term are varied based on the performance in the previous term when performance fluctuation is set by a certain period shorter than a year, for instance; quarterly, a short-term-oriented *Seikashugi* than annual salary system is possible in a theoretical

Figure 5-13 Fujitsu’s Old-versus-new Wage Systems



Source: Imano (1998) P.210

Table 5-14 Variations When Adding Performance-based Wage to Basic Salary

Case 1	Basic salary=Seniority-based regular salary (34%)+Age-based wage (46%)+performance-based wage (20%)
Case 2	Basic salary=Performance-based wage (20%)+contribution-expected wage (fixed wage by qualification (80%))
Case 3	Basic salary=Seniority-based regular salary (40%)+merit-based wage (nearly fixed wage by qualification, 30%)+performance-based wage (30%)

Source: Japan Productivity Center for Socio-Economic Development (Sasajima, 2000), P.5

Note: In above cases, the amount of performance-based wage is determined when personnel evaluation is determined in accordance with fixed amount of performance-based wages based on the personnel evaluation by ability-based grade.

4 According to Furukawa (2000), there is a legal issue concerning reduction of annual salary. Adjustable annual salary system makes difference between fixed performance-based annual salary and expected annual salary and wages are unsettled yearlong so it is offensive to public order and morals and is against the spirit of Labor Standards Act.

sense. As above, from the aspect of mechanism, *Seikashugi* was initially applied to supervisory personnel but gradually became applicable to non-supervisory personnel at lower levels. It can be said that *Seikashugi* was disseminated in a slightly different form depending on companies.

C. Criticism of *Seikashugi*

Seikashugi is growing popularity, but criticism against it has also been growing rapidly since the publication of “*Kyomo no Seikashugi* (Delusion of performance-oriented management)” by Nobuo Takahashi in 2004. At the same time, a revealing book written by an ex-employee who left the personnel section of a major company which introduced *Seikashugi* caught the attention. There are two aspects in Takahashi’s (2004) chief criticism of *Seikashugi*. One is mainly a psychological aspect based on the research of Deci (1975) who states: (1) if one is given more right to self-determination at work, his/her job satisfaction is also enhanced; and (2) external rewards place a control of the degree of self-determination (self-motivation).⁵ Deci offers a definition of self-motivated action as “an action wherein the person engaged considers oneself capable and self-determined.” Deci criticizes that with *Seikashugi* there is a low degree of self-determination that causes a drop in the level of satisfaction and subsequently in the morale of each individual.

Moreover, Takahashi (2004) criticized *Seikashugi* from the perspective of its flawed disregard for “weight on the future” that encourages a person not to be opportunistic and draws a time line into the future. He bases these criticisms on: (1) Axelrod (1980a, 1980b) who evolved the long stalled Game Theory from the perspective of “cooperation;” and (2) Takahashi’s own theory “leaning on future principle” (1997). Based on Axelrod’s arguments, prolonged competition necessitates “cooperation” in order to sustain success; however, in *Seikashugi* where short-term work results are linked to

assessment and compensation, there is no means of obtaining long-term success. Takahashi’s “leaning on future principle” suggests that long-term relationship between companies and individuals are the key to providing companies with positive business results. He stresses that if companies introduce *Seikashugi* to improve corporate performance, they will never accomplish their goal.

Aside from the above, there are some additional criticisms against *Seikashugi*: The first is criticism from the point of harmonizing Japanese employment practices and business strategies primarily designed for manufacturing. It is a prerequisite for retaining highly skilled workers in Japanese companies when their business strategy is primarily designed to produce high-quality goods that other companies cannot imitate. Thus, cultivating such highly skilled workers within the company and maintaining their long-term employment are the key to success especially for the manufacturing industry. The more specific the skill is to the company, the larger the degree of differentiation with other companies is achieved. In addition, the more specific the skill functions as the source of competitiveness, the more the long-term employment and skill formation within the company become requirements of their business strategy which is primarily designed to produce goods.

Japanese major companies had historically operated the ability-based grade system that was a rating system for employees centered on ability development of workers. It was not until the report on merit-based personnel system management by Nikkeiren in 1969 that the ability-based grade system derived from a merit-based personnel system started spreading as the new assessment and compensation principle, replacing the pre-war seniority system that was based on age and years of service.⁶ Taking this opportunity, Japanese major companies started to operate the ability-based grade system including a rating system for abilities of workers and an ability development function. As for economic background,

5 Kohn (1993) reviewed the research alleging that wages determined by business results performance do not improve productivity. For abstract of these studies, see Tatsumichi (2004) pp.55-61, document survey conducted in the first year of this project study.

6 For details, refer to Nikkeiren Noryokushugi Kanri Kenkyukai (1969).

stable-growth period was sustained after high economic growth, and it supported an ascending wage curve. That is, many major companies have offered support based on the personnel system, assessed and compensated workers over the long-term, and supported their growth and ability development while applying an ability-based grade system over the long-term. This confirms that intellectual skill, as shown in the research of Koike (1991a, 1991b), has typically been the source of competitiveness for major companies in Japan. *Seikashugi* assessment and compensation system, however, reflects the short-term business results is said to be contradictory in nature to a system that generates long-term assessment and ability development.

D. *Seikashugi* from an employee perspective

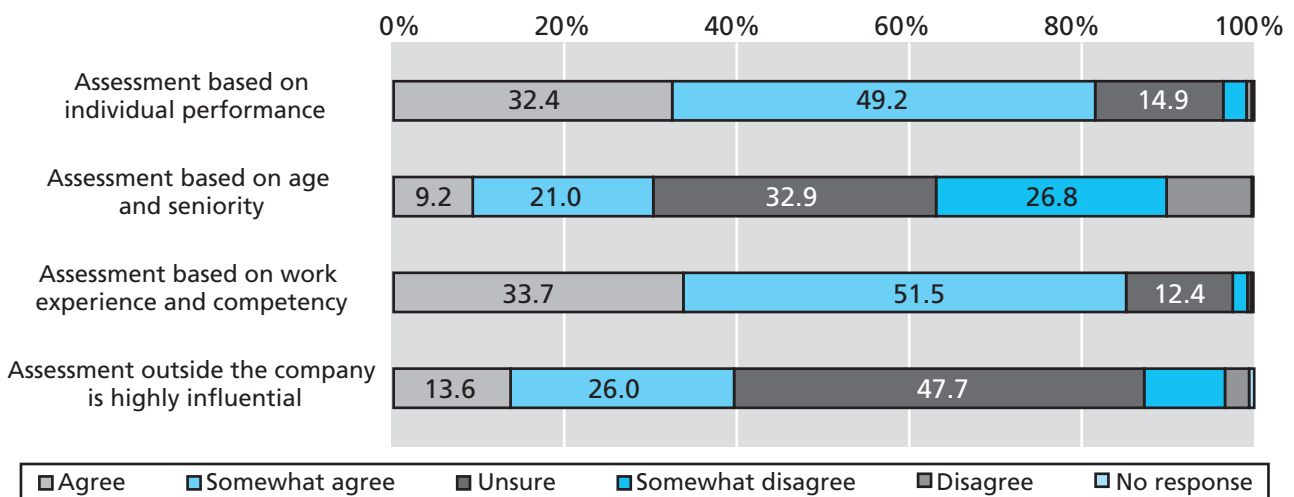
i. General attitudes of workers toward *Seikashugi*

I have already reviewed labor unions’ attitudes toward *Seikashugi*. Then how do individual workers generally perceive *Seikashugi* not as a member of the union? Let us review Japanese people’s attitudes toward distributive justice.

In “The Survey on Workers’ Attitude” conducted by JILPT in 2001 (survey of 4,000 men and women nationwide aged 20 years or over with a two-stage stratified sampling conducted using the Basic Resident Register), questions regarding four kinds of resource distributive principles such as achievement principle, effort principle, necessity principle, and equality principle were posed. Among all survey respondents 83% agreed with *Seikashugi*’s theoretical performance principle, which is described as “the higher the individual performance is, the higher the reward should be”; 83 % supported the effort principle, almost identical to the performance principle ratio; 32% supported the necessity principle; and 20% supported the equality principle. The latter two cases showed a major disparity from the performance principle, indicating that many Japanese support the performance principle that corresponds to the basic philosophy of *Seikashugi*.

Next, using data from the JILPT employees survey,⁷ let us take a look at the assessment of *Seikashugi* based on general attitudes regarding how a worker’s salary should be determined. Here it is important to note that the question was not about how

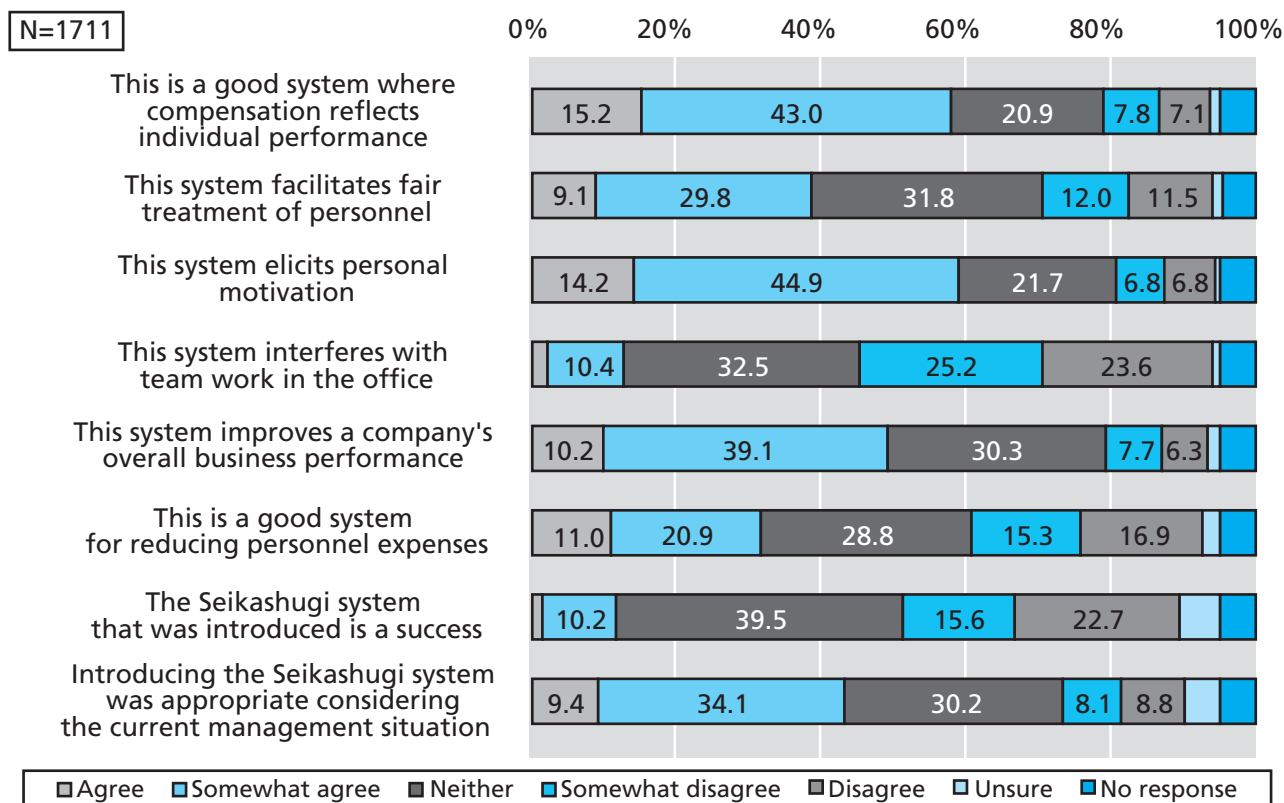
Figure 5-15 General Attitude Regarding Method for Determining an Employee’s Salary



Source: JILPT Employees Survey

7 Method of JILPT employee survey was as follows: (1) Target companies: 1,280 companies which responded to corporate survey; (2) Distribution method: 30 questionnaires were sent out to each person in charge of human resources in above 1,280 companies to ask to distribute to A: Back-office department (general affairs, personnel, etc.), B: Sales department and C: Product development/R&D/information processing department 10 questionnaires each. The following three conditions were set for selection of targets in each department: A. Select targets from 20’s, 30’s, 40’s and 50’s age groups as evenly as possible. B. If there is no such generation in the department, select targets except that generation. C. Targets must include one or more persons at the manager and deputy manager levels; (3) Survey period: February 25 to April 28, 2005; and (4) The number of valid collected questionnaires: 2,823.

Figure 5-16 Workers' Attitude to *Seikashugi* Introduced in Their Companies



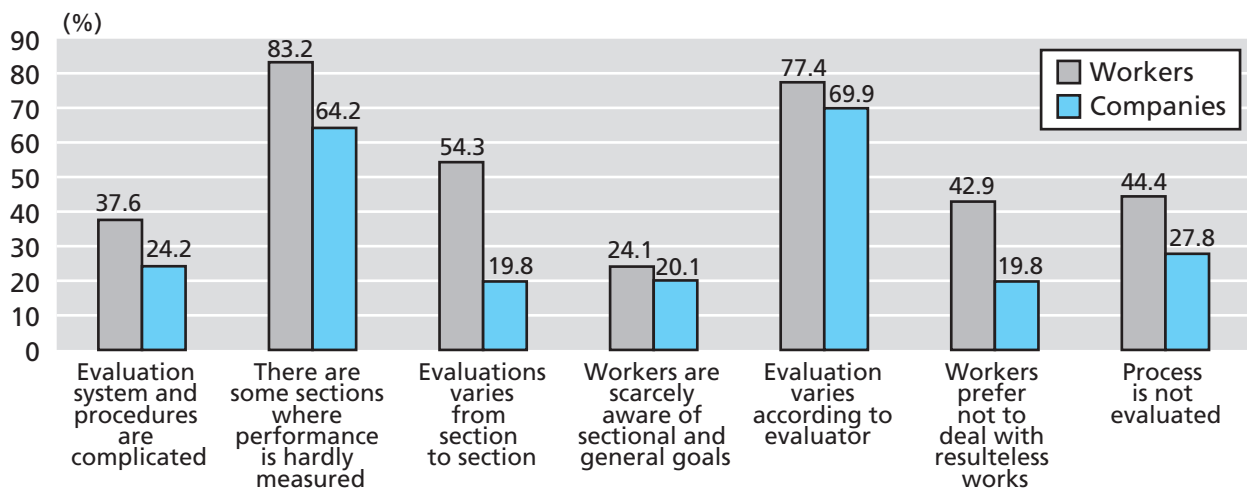
Source: JILPT Employees Survey

workers perceive *Seikashugi* system in their own companies, but how it is perceived as a whole, including the opinions of those working in companies where *Seikashugi* is not being implemented. The top bar on the graph in Figure 5-15 shows that over 80% agree or somewhat agree (hereinafter referred to as “approval group”) with *Seikashugi* wages described as “assessment based on individual performance.” On the other hand, as low as 30% of the approval group supported “assessment based on age and seniority.” These results indicate that workers prefer *Seikashugi* to a mechanism where wage is determined by a seniority system. However, the ratio of the approval group supporting “assessment based on work experience and competency” exceeded 80%. Therefore, they highly favored assessment based on performance as well as work experience and competency. In light of this, it is believed that workers prefer a wage system which rewards are given to highly competent individuals with satisfactory performance levels.

ii. Assessment of *Seikashugi* system in one’s company

How do employees feel about introducing *Seikashugi* in the company where they work? The assessment of such workers can be seen below:

First, we shall look at the positive assessments (refer to Figure 5-16). Within the “approval group” (total ratio of persons who “agree” and “somewhat agree”), 60% agreed with “*Seikashugi* elicits personal motivation” and “Compensation reflects individual performance in *Seikashugi*.” Also, nearly half of the approval group agreed with “*Seikashugi* improves a company’s overall business performance.” In general, *Seikashugi* is often recognized as “(*Seikashugi* is) a labor-cost-reducing measurement.” Though the ratios of the approval and disapproval on this question were about the same, 31% and 32% respectively. For “Introduction of *Seikashugi* was appropriate under the current management situation,” the ratio for the approval group far exceeded that of the disapproval group at 43% to 16% respectively. However,

Figure 5-17 Problems When Managing *Seikashugi* in Current Companies

Source: JILPT Employees Survey

regarding “Introduction of *Seikashugi* was a success,” the disapproval group’s ratio of 38% far exceeded that of the approval group at 11%.

In other words, workers seem to agree with the specifics of *Seikashugi*, but don’t compromise with the general theory. This indicates that many workers support the introduction of *Seikashugi*, but disagree with how it is being implemented in their companies. These results also suggest that the introduction of *Seikashugi* may have some influence on labor-management relations.

iii. Problems regarding *Seikashugi* introduced in their companies

We asked persons in charge of human resources and workers about the same questions for problems regarding *Seikashugi* (see Figure 5-17). Let us compare differences in awareness of problems regarding *Seikashugi* between workers and persons in charge of human resources.

As a result, many of both labor and management side pointed out operational problems regarding *Seikashugi* such as “There are some sections where measurement of performance is difficult” and “Evaluation varies according to evaluator.” Labor side’s problem recognition rate is generally higher than that of management side. It tells us that workers to be evaluated and treated based on *Seikashugi* recognize problems more seriously than management

side. Such problems were also reported by other surveys conducted in Japan. Serious problems for both labor and management sides have occurred in operating *Seikashugi*.

3. Business Strategy, Human Resource Management and Corporate Performance in Japanese Companies

A. Business strategy, human resource management and corporate performance

In business activities, companies determine long-term and mid-term policies for achieving their goals—this is a so-called “business strategy.” It would appear that business strategies have a major effect on the human resource management of companies. However, many researchers working on labor issues understated the importance of the correlation between business strategy and human resource management (HRM). This may be because of the historical background that the study approach on labor issues started from labor movement in Japan. Despite the fact Japanese labor-management relationship is characterized as an “enterprise union” that are unique to Japan, many conventional labor studies has been observing macro elements (e.g., labor demand and supply) and micro elements” (e.g., workplace environment) with relatively little regard for a “business enterprise” that is a decision-making entity.

Therefore, we decided to focus on workplace change from the aspect of management strategy, business strategy, and corporate performance in our study.

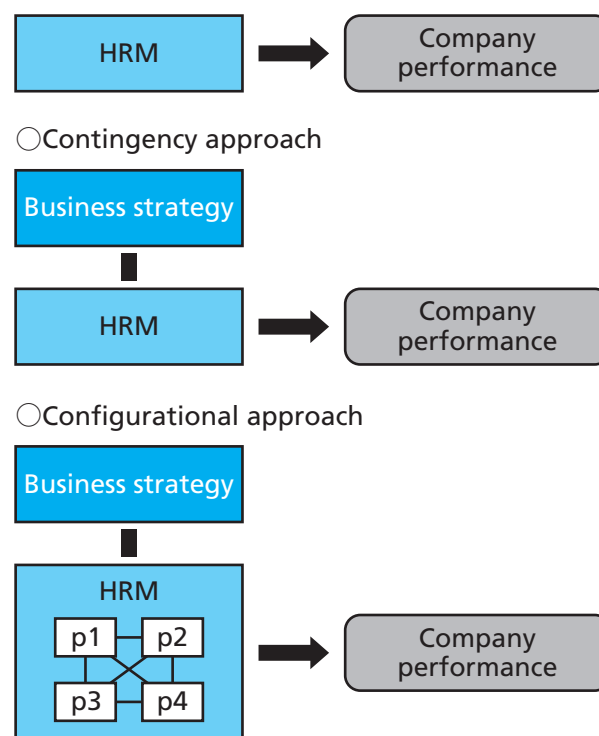
In this report we introduce some of the results obtained from the analysis of the research project, including: (1) correlation between business strategy and HRM; and (2) correlation between HRM and corporate performance.

As mentioned above, starting from the late 1990s, *Seikashugi* has been rapidly adopted in many Japanese companies. According to our corporate survey, 57% of companies adopted *Seikashugi*. What is the reason for *Seikashugi* being adopted to this extent? One of the possible reasons is that introduction of *seikashugi* improves the productivity of workers with the consequence of improvements in corporate performance, an idea that was promoted in the mass media and human resource consultancy. In reality, however, no scientific verification had been made until recently for the correlation between *Seikashugi* and corporate performance. In the late 1990s, *seikashugi* was propagated only by the expectation that the idea might be effective.

Then, does *Seikashugi* really improve corporate performance? Some claim that HRM practice constitutes only part of the activities that companies perform for their business management. From this viewpoint, the introduction of *Seikashugi* provides limited influence on the corporate performance. In the theory of the “Strategic Human Resource Management (SHRM),” workers (human resources) and HRM practices are considered as resources or tools used to achieve competitive advantage. From the viewpoint of assuming this idea, *Seikashugi* is one of the tools that may improve corporate performance.

In the traditional SHRM theory, the correlation of three elements, “business strategy, HRM and corporate performance,” is explained by different approaches that can be roughly divided into three groups: Best Practice Approach; Contingency Approach; and Configurational Approach. According to Iwade (2002): (1) best practice approach assumes that looking at the relationship between HRM and corporate performance, there should be “the best HR

Figure 5-18 Categorization of Strategic Human Resource Management Theory



Source: Iwade (2002) p.69. There is a comment “Quotation from McMahan et al. (1999) with modification by the author” in the original note.

practice” that is universally suitable to any situations or organizations; (2) contingency approach takes importance on the consistency between business strategy and HRM, that HRM must be consistent with other aspects to be effective in improving corporate performance based on the idea of “external/vertical fit” [some parts omitted]; and (3) configurational approach seeks for “the best bundle/configuration” of HRM practices that has “internal/horizontal fit” focusing on systematic synergy effect with the contingency approach in mind at the same time” [some parts omitted]¹ (See Figure 5-18).

Based on the above categorization, it is clear that the theory of “introduction of *Seikashugi* will improve/reduce corporate performance” is related to only a part of the correlation among business strategy, HRM and corporate performance. In reality, the

1 Quotation from Iwade (2002) p.67-68

Table 5-19 Verification on *Seikashugi* and Corporate Performance

Data used	Verification issue	Result	Type of improvement of company performance	Number of cases examined	Method
Analysis 1	Whether or not the company with <i>Seikashugi</i> performed well in the period from 1999 to 2004	Companies with <i>Seikashugi</i> are more likely to perform well than those that did not introduce <i>Seikashugi</i> .	We asked the human resource personnel to select one of seven patterns that best describes the change made in the company performance in the past five years. We used a dummy variable defined as "a company that performed well" when the company performance indicates one of the three patterns, (1) upward, (2) high and stable and (3) downward to upward.	1214	Logistic regression analysis
Analysis 2	Whether or not the company performed well when introducing <i>Seikashugi</i> in the period from 1999 to 2004	Companies that introduced <i>Seikashugi</i> in recent years (between 1999 and 2004) are more likely to have "good company performance" than those that introduced the system before 1999.		1214	

Note: For details, see JILPT (2004) p.163-166.

consistency between HRM and business strategy and the synergetic effect between HRM practices also need to be taken into account. Even when the introduction of *Seikashugi* proves to have a positive influence on the corporate performance, it is difficult to determine if the performance is improved only by the introduction of *Seikashugi* or if it is achieved through interaction of *Seikashugi* and other practices and strategies. In order to prove that *Seikashugi* is the best practice,² complicated verification processes are required, and a vast amount of data needs to be analyzed to confirm the interaction. With the limited amount of data obtained through the survey, we can analyze only a specific part of the correlation of HRM, business strategy and corporate performance. In this report, therefore, we attempt to (1) clarify the direct relationship between *Seikashugi* and corporate performance, and then (2) indicate the correlation of

business strategy, HRM and corporate performance.

We have obtained the following data from our research on the relationship between *Seikashugi* and corporate performance (see Table 5-19).

In the early stage of our analysis, objective quantitative data was not available for the corporate performance. Alternatively, we used the following method to understand the changes in the corporate performance. First, we asked respondents to the survey-people in charge of HRM-to select one of the patterns that best fitted the trend of their corporate performance, in relation to the changes that occurred in the corporate performance in the five-year period from 1999 to 2004. Respondents were asked to select one of the seven predefined patterns (upward, high and stable, downward to upward, large fluctuation, upward to downward, low and stable, and downward).³ Logistic regression analysis⁴ was

2 As typified by Pfeffer (1994), the existing body of research on the SHRM theory often indicates that the best practice forms part of the measure to enhance commitment of workers in one way or another. In this report, *Seikashugi* is considered as "the best practice" literally meaning the "best universal practice" Therefore the interpretation used in this report is somewhat different from those used in the preceding researches on the SHRM theory. For details, refer to Iwade, *ibid.*, 86.

3 The upward trend indicates the situation in which the performance continuously increases with time. The high and stable trend indicates the situation in which the performance remains at a high level. The downward to upward trend indicates the situation in which the performance once declined but began to increase again. The large fluctuation trend indicates the situation in which the performance curve frequently moves up and down. The upward to downward trend indicates the situation in which the performance increased at one point but then began to decline. The low and stable trend indicates the situation in which the performance remains at a low level. The downward trend indicates the situation in which the performance continuously declines over time.

4 Logistic regression is one of statistical regression models with dependent variable of Bernoulli distribution. It is also one of generalized linear models (GLMs) using logit as a link function.

performed using the dependent variable of “company that performed well” dummy as a dummy variable that indicates selection of three types of changes: (1) upward; (2) high and stable; and (3) downward to upward. Therefore, the corporate performance is not a quantitative variable but it is qualitative variable reflecting the objective view of the personnel staff. As a result, some may criticize this analysis for containing bias and error. Such criticism, however, can be countered with the following two arguments: Firstly, acquisition of corporate performance data is somewhat restricted in reality, and appropriate data may not be obtained. Apart from the indices that listed companies are obliged to release, it is basically at the discretion of companies to determine which indices to release. Secondly, objective indices that appropriately reflect corporate performance are not always available. While sales volume provides solid information as an objective fact, profits may vary depending on the way they are handled in the accounting process. Consequently, it is highly probable that subjective evaluation of the personnel working in the company provides the most true and accurate picture of changes of the company. Therefore, the result shown in Table 5-19 is not completely irrelevant. To respond to the possible criticism described above, however, we also used and examined the quantitative corporate performance data

as in this report.

The procedure is summarized as follows: Firstly, we collated the corporate performance information collected by a private credit research agency with the information collected in our survey. The corporate performance data consist of sales, profits, total assets and shareholders’ equity in the years of 1999 and 2004. Later, ROA and ROE were calculated. However, information on the total assets and shareholders’ equity (including ROA and ROE) was obtained only for less than 40% of all those surveyed. Therefore, to increase the number of samples for the analysis, sale amount was selected as the index, and we calculated the change in the sales per employee and used it in our analysis.

B. Direct relationship between *Seikashugi* and corporate performance

Quantitative data on corporate performance are used to verify the influence of introduction of *Seikashugi* on the corporate performance. For the dependent variable, we used the rate of change in the sales per employee in the years of 1999 and 2004. The following procedure was used for calculation: The sales per employee of the year 2004 were divided by the sales per employee of the year 1999 and logarithmic transformation was applied. The independent variable is the dummy variable that

Table 5-20 Analysis Using the Rate of Change in the Sales per Employee (2004/1999) as a Dependent Variable (OLS)

	Unstandardization factor	Standard error	Significance probability	Significance level
Company with <i>Seikashugi</i>	0.054	0.027	0.045	*
Construction	-0.155	0.052	0.003	***
Information & communications	0.102	0.059	0.086	
Transport	0.029	0.049	0.554	
Wholesale and retail trade	0.073	0.040	0.069	
Finance and insurance	-0.159	0.056	0.004	**
Services	0.079	0.041	0.050	
Other industries (except manufacturing)	0.146	0.074	0.047	*
Logarithm for regular employees	-0.011	0.021	0.605	
Coefficient	0.038	0.027	0.156	

Note: *** p<0.001. ** p<0.01. * p<0.05. Logarithmic transformation applied for the rate of change in the sales per employee. N = 1146. Adjusted R² = 0.029. Significance probability of the ANOVA (analysis of variance) = 0.00

indicates companies which introduced *Seikashugi*, and the control variables include the number of regular employees (after logarithmic transformation) and industry (manufacturing industry as the reference group). Table 5-20 shows the result of multiple linear regression analysis (OLS), indicating that the introduction of *Seikashugi* has a statistically-significant positive influence on the corporate performance (rate of change in sales per employee) at the level of 5%. Considering the low value of the coefficient of determination, it is difficult to define that *Seikashugi* is the best practice. However, despite the fact that the corporate performance is affected by other factors, we emphasize that *Seikashugi* has a positive influence on the corporate performance when it is introduced.

The result of this analysis does not indicate whether the corporate performance improved after *Seikashugi* was introduced, or if *Seikashugi* was introduced to a company that already performed well; nor does it accurately identify the cause-and-effect relationship. This is because no perfect conditions can be obtained unless we create a situation in which two groups of companies are set up and *Seikashugi* is introduced to one of them to monitor the change in

the corporate performance with all other conditions remaining the same. However, by controlling the corporate performance at the time before the introduction of *Seikashugi*, it is at least possible to compare those companies that introduced *Seikashugi* with those that did not, and to see whether the companies that introduced *Seikashugi* generated better performance than the others or not. Consequently, the following method was used: Multiple regression analysis is used to see the influence, by looking at the rate of change in sales between 1999 and 2004 and controlling the sales per employee of the corporate performance in 1999. The analysis included two groups of companies, one that introduced *Seikashugi* in 2000 or later and the other that did not introduce *Seikashugi* before the end of the second half of 2004, which was the time of the survey conducted.

The dependent variable is the rate of change in the sales per employee from 1999 to 2004, the independent variable is the dummy variable that indicates the companies that introduced *Seikashugi* in 2000 or later, and the control variables are the sales per employee (logarithm), industry type and the number of employees (logarithm) in 1999. The result of the multiple regression analysis (see Table 5-21)

Table 5-21 Multiple Linear Regression Analysis Using the Rate of Change in the Sales per Employee (2004/1999) as a Dependent Variable (OLS): Companies that Introduced the PEP in 2000 or Later and Those that Did Not

	Unstandardization factor	Standard error	Significance probability	Significance level
Companies that introduced <i>Seikashugi</i> in 2000 or later	0.118	0.029	0.000	***
Rate of change in the sales per employee in 1999 (log)	-0.205	0.015	0.000	***
Construction	-0.028	0.056	0.623	
Information & communications	0.022	0.065	0.738	
Transport	-0.085	0.054	0.116	
Wholesale and retail trade	0.152	0.043	0.000	***
Finance and insurance	-0.235	0.059	0.000	***
Services	-0.121	0.045	0.007	**
Other industries (except manufacturing)	-0.047	0.080	0.551	
Logarithm for regular employees	0.038	0.023	0.094	
Coefficient	2.278	0.162	0.000	**

Note: *** p<0.001. ** p<0.01. * p<0.05. Logarithmic transformation applied for the rate of change in the sales per employee. N = 917. Adjusted R² = 0.206. Significance probability of the ANOVA (analysis of variance)= 0.00

shows that a company that introduced *Seikashugi* in 2000 or later has a statistically-significant positive influence at the level of 0.1%. In short, it indicates that the corporate performance improved for the companies that introduced *Seikashugi* in 2000 or later, compared with those that did not, when the corporate performance in 1999 is the control variable.

C. Business strategy, HRM and corporate performance

In this section, another variable is added to see the correlation of business strategy, HRM and corporate performance. According to Porter (1980), the business strategy falls into three categories: (1) overall cost leadership; (2) differentiation; and (3) focus. Since our survey data do not provide any information on the method of focus or the extent of focus applied by companies, in the analysis described below we limited business strategies of companies to only two types—the cost leadership and differentiation strategies.

For the companies that selected both (1) development of new technology/product and (2) differentiation of competitive service/product as their business strategy in the survey questions on business strategy, a dummy variable is used to indicate that these companies are applying the differentiation strategy. The companies that selected the reduction of product/service price are considered as applying the cost leadership strategy. As a result, the differentiation strategy is used by 35% of the total number of companies, and the cost leadership strategy by 41%.

In addition, as HRM practices that may fit into the business strategy, dummy variables are used for the following four practices: (1) introduction of *Seikashugi*; (2) emphasis on education and training of all employees; (3) emphasis on education and training for selected employees only; and (4) use of non-regular employees and external work forces.⁵ Table 5-22 shows the result of multiple regression analysis, using

Table 5-22 Analysis Using the Rate of Change in the Sales per Employee (2004/1999) as a Dependent Variable (OLS)

	Unstandardization factor	Standard error	Significance probability	Significance level
Companies that introduced <i>Seikashugi</i>	0.045	0.027	0.100	
Education & training to all	-0.010	0.027	0.702	
Selective education & training	0.030	0.028	0.284	
Use of non-regular employees	0.072	0.031	0.018	*
Differentiation strategy	0.003	0.030	0.930	
Cost strategy	0.052	0.028	0.063	
Construction	-0.136	0.053	0.011	*
Information & communications	0.122	0.060	0.042	*
Transport	0.036	0.050	0.470	
Wholesale and retail trade	0.083	0.041	0.043	*
Finance and insurance	-0.147	0.057	0.010	*
Services	0.091	0.041	0.028	*
Other industries (except manufacturing)	0.166	0.074	0.025	*
Logarithm for regular employees	-0.015	0.021	0.467	
Coefficient	0.178	0.073	0.014	

Note: *** p<0.001. ** p<0.01. * p<0.05

N = 1146. Adjusted R² = 0.035. Significance probability of the ANOVA (analysis of variance) = 0.00

⁵ The company is categorized in group (2) when it "provided education and training to improve capability of all employees" (53.1 %) as part of their key human resource practices in the last five years, in group (3) when it "provided education and training to only selected employees" (37.3 %), and in group (4) when it put importance on "use of non-regular employees and external work forces" with an increase of non-regular employees by 10 % or more in the last five years (27.4 %).

the independent variables, including the variables related to the business strategy and to HRM practices. Although the value of determination coefficient is small, the dummy variable indicating non-regular employees and external work forces is the only variable that has a statistically-significant positive influence on the rate of change in the sales per employee. In this model, in which HRM practices, except the business strategy and *Seikashugi*, are controlled, *Seikashugi* does not have a statistically-significant influence. Other HRM practices and the business strategy do not have a statistically-significant influence either. In other words, when strategies and HRM practices are controlled, non-regular employees and external work forces contributed to the improvements made by the companies surveyed in the period of five years since 1999.

However, we have two agendas to be considered: (1) How did the use of non-regular employees and external work forces contribute to the improvement of the corporate performance?; and (2) Are there any business strategy and/or HRM practice that works with *Seikashugi* in a mutually reinforcing way?

For the first agenda, after examining multiple models by replacing the independent variables, we found one model that had statistical significance for multiple variables of strategies and practices.

Looking at Table 5-23, a combination of the use

of non-regular employees and external work forces and cost leadership is statistically-significant independent variable. Although the value of determination coefficient is small, both have a statistically-significant influence on the corporate performance. From this result, it is possible to say that the company promoted the use of non-regular employees and external work forces when applying the cost leadership strategy. While the use of non-regular employees and external work forces may include the use of highly-skilled external professionals, the contribution made in the period between 1999 and 2004 was based on another pattern, which was focused on cost-reduction orientation with the use of non-regular employees and external work forces.

D. Compatibility of *Seikashugi*, business strategy and HRM practice

In general, companies use new HRM practices such as *Seikashugi* based on a certain business strategy while simultaneously developing other HRM practices to manage human resources required for their business operation. In this section, without considering the influence on the corporate performance, we analyze the correlation of *Seikashugi*, business strategy and HRM practice, which is the second agenda posted in the previous section.

Table 5-23 Cost Leadership Strategy, Use of Non-regular Employees and External Work Forces and Rate of Change in the Sales Per Employee (OLS)

	Unstandardization factor	Standard error	Significance probability	Significance level
Use of non-regular employees and external work forces	0.077	0.030	0.011	*
Cost strategy	0.058	0.027	0.035	*
Construction	-0.134	0.052	0.011	*
Information & communications	0.132	0.059	0.026	*
Transport	0.032	0.049	0.512	
Wholesale and retail trade	0.087	0.040	0.030	*
Finance and insurance	-0.154	0.056	0.006	**
Services	0.087	0.041	0.031	*
Other industries (except manufacturing)	0.172	0.074	0.020	*
Logarithm for regular employees	-0.008	0.021	0.687	
Coefficient	0.208	0.071	0.003	

Note: *** p<0.001. ** p<0.01. * p<0.05. Logarithmic transformation applied for the rate of change in the sales per employee. N = 1146. Adjusted R² = 0.035. Significance probability of the ANOVA (analysis of variance) = 0.00

Firstly, in order to find out the type of business strategies and HRM practices used in the companies that introduced *Seikashugi*, the following logistic regression analysis is presented, in which the dependent variable consists of a dummy variable that indicates the status of introduction of *Seikashugi* (1: *Seikashugi* is introduced, 0: *Seikashugi* is not introduced) (see Table 5-24). Among the business strategies, the differentiation strategy had a statistically-significant positive influence on the introduction of *Seikashugi*. Among the HRM practices, selective education and training had a statistically-significant positive influence. As for the odds ratio⁶ for companies that introduced *Seikashugi*, the number of companies that applied the differentiation strategy is 1.6 times higher than that of

companies that did not. As for the companies that introduced *Seikashugi*, the number of companies that introduced the selective education and training is 1.3 times higher than that of companies that did not. In other words, there is consistency both in the relationship between *Seikashugi* and differentiation strategy, and between *Seikashugi* and selective education and training practice. Considering this result as characteristics of the company that introduces *Seikashugi*, we could assume that some kind of interaction is generated from the simultaneous execution of *Seikashugi*, differentiation strategy and selective education and training. In particular, it is possible that they are used systematically in a mutually reinforcing way.⁷

Table 5-24 Logistic Regression Analysis Using *Seikashugi* as the Dependent Variable

	Unstandardization factor	Standard error	Significance probability	Odds	Significance level
Differentiation strategy	0.477	0.132	0.000	1.611	***
Cost strategy	0.050	0.124	0.685	1.052	
Education & training to all	0.088	0.118	0.456	1.092	
Selective education & training	0.302	0.123	0.014	1.353	*
Use of non-regular employees	0.111	0.134	0.406	1.118	
Construction	0.553	0.248	0.026	1.738	*
Information & communications	0.627	0.280	0.025	1.872	*
Transport	-0.148	0.211	0.483	0.862	
Wholesale and retail trade	0.469	0.183	0.010	1.598	*
Finance and insurance	-0.226	0.251	0.369	0.798	
Services	-0.062	0.174	0.721	0.940	
Other industries (except manufacturing)	0.686	0.352	0.052	1.985	
Logarithm for regular employees	0.325	0.089	0.000	1.384	***
Coefficient	-0.418	0.155	0.007	0.658	

Note: *** p<0.001. ** p<0.01. * p<0.05. N=1280. Significance probability for omnibus verification of the model coefficient = 0.000. Cox & Snell R² = 0.05, Nagelkerke R² = 0.07. Significance probability of Hosmer and Lemeshow verification = 0.36.

6 The odds ratio is a measure to indicate an incidence of event by comparing two groups. Odds are value of $p/(1-p)$ where p is an incidence rate of event. In this paper, it compares the ratio of introducing *seikashugi* in companies which adopted a differentiation strategy with that in those which did not.

7 According to this logistic regression analysis, (1) the rate of introduction of *Seikashugi* is the highest in the information and communication industry, followed by construction and wholesale and retail industries, and (2) the larger the company (number of regular employees), the higher the ratio of introduction of *seikashugi*.

The idea that these strategies and HRM practices work in a bundle or as a system is discussed by Arthur (1992) and MacDuffie (1995), the main advocates of the configuration approach in the SHRM theory described above. In the same way as it is discovered in this report, Arthur pointed out that a cost reduction industrial relation system was preferred in promoting the cost leadership strategy, using the result of the survey conducted at steel works.

E. Two trends among modern Japanese companies: Business strategy and HRM

In this section, we will consider the mechanism of interaction between the two sets of ideas—the differentiation strategy and *Seikashugi*, and *Seikashugi* and the selective education and training. In this report, a company is defined as selecting the differentiation strategy if it places emphasis on both (1) development of new technology/product and (2) differentiation of competitive service/product. The manufacturing industry, for example, must ensure good human resources to develop new technology or a new product. To do that, they need to introduce a practice with high incentives in their human resource system such as *Seikashugi*. From this point of view, it is highly probable that *Seikashugi* contributes to the differentiation strategy.

To this end, the following consideration can be made for *Seikashugi* and the selective education and training: In addition to obtaining good human resources with a highly incentive system of larger wages, it is likely that companies that introduce *Seikashugi* also invest in the concentrated education and training programs for a selected group of people who have potential to generate and increase the competitiveness of the company. As representatively seen in Takeuchi (1995) who has carried out several studies on Japanese society which places excessive emphasis on academic records, Japanese major companies had mostly selected brand-name college graduates among all employees at a relatively early career stage, and trained them separately to become executives. This is a part of the character of Japanese meritocracy. However, since *Seikashugi* focuses on the performance achieved after joining companies,

the dissemination of *Seikashugi* may transform Japanese meritocracy.

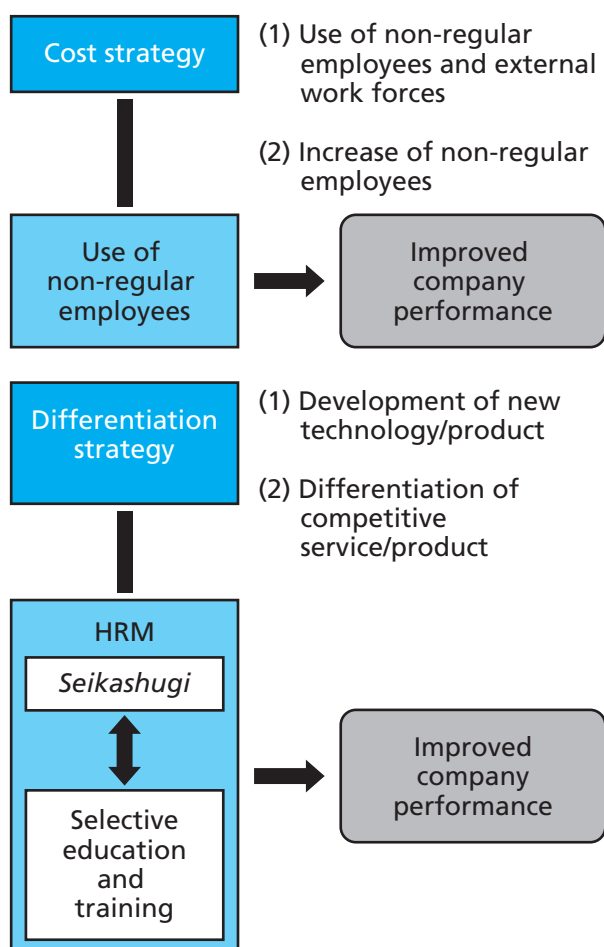
In other words, it is conceivable that companies are both “buying” and “building up” good human resources as the source of their competitiveness. Furthermore, it is possible that synergetic effects are generated (and companies expect such effects to be generated) with a combination of *Seikashugi* and the selective education and training, which interact with each other to create a positive influence.

While companies attempt to achieve an advantageous position over their competition by using the differentiation strategy, the combination of *Seikashugi* and the selective education and training is implemented in the human resource management, creating an interactive influence of the strategy and human resource measures and consequently maintaining the competitive edge. This scenario seems quite convincing.

To summarize our analysis on the business strategy and human resource measures, two trends are identified (see Figure 5-25). For the business strategy of Japanese companies, we assume there are two strategies—the cost leadership and the differentiation strategy. Companies that apply the cost leadership strategy use non-regular employees and external work forces in their HRM, which serves to reduce cost. Since there is a limit on how far cost competition can go, companies may not be able to continue the cost leadership strategy in the long term. For the short term, however, this method may provide advantages over other companies, and in fact the analysis of our survey data showed it actually contributed to improve the corporate performance.

On the other hand, companies that apply the differentiation strategy ensure good human resources through introduction of *Seikashugi*. They also tend to provide concentrated education and training to a select group of competent people. It is possible that synergetic effects are obtained through an interaction of the differentiation strategy, *Seikashugi*, and the selective education and training that is congruous with *Seikashugi*. Although the set comprising of the differentiation strategy, *Seikashugi* and selective education and training did not show a statistically-significant correlation to the corporate performance,

Figure 5-25 Two Patterns of Business Strategy and HRM Practice



as a system it may have some logic for improving the corporate performance in the long term.

Conclusion

Traditionally, business strategy and HRM were handled separately. Analysis of the survey data, however, revealed that there is a strong organic linkage between the business strategy and HRM in Japanese companies today. Also, this result provides us with a labor policy implication.

Needless to say, the demand and supply balance of the labor market is determined by factors of both the demand and the supply side. The demand forecast, however, was made based on relatively

short-term changes in the recruitment behavior of companies or the time-series macro data such as changes in the number of people entering/leaving companies and the employment rate of non-regular workers. The analysis in this report, however, indicates that Japanese companies today apply HRM that fits their business strategy. This implies that a change in the long-term demand of the labor market can be explained mostly by identifying the business strategy of companies. It is very important to understand that the business strategy of companies in forecasting the changes in the labor market. Information will make an important contribution for planning and drafting of labor policies, and the viewpoint of future surveys and researches should be widened to include corporate business strategies in addition to HRM.

Another finding in this report is that the corporate performance is improved by application of the cost leadership strategy and the use of non-regular employees and external work forces. It is difficult to forecast the extent to which companies are able to compete with each other over cost. As long as competition continues, however, the utilization of non-regular employees and external work forces will be further promoted. The White Paper on the Labor Economy 2006, published by Ministry of Health, Labour and Welfare, points out that the number of non-regular employees will most likely increase in the future. One of the important problems that drew attention recently in Japan is the widening of the income disparity between regular workers and non-regular workers.⁸ As was pointed out by some analysis in this report, such income gap is actually generated within the context of corporate management behavior so that continued observation is highly necessary.

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⁸ Ministry of Health, Labour and Welfare, 2006, *White Paper on the Labour Economy*, p. 246-247. This also emphasized the necessity of measures against economic gap between workers with different employment patterns.

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