

**Performance-Based Pay and Work Satisfaction: An Analysis from Retabulation of the
JILPT's "FY2004 Survey on Workers' Motivation to Work and Human resource
Management"**

Summary

Contributing Author

Hiroaki Kawada Researcher, Research and Investigation Department, Research
Institute, Mitsui Knowledge Industry Co., Ltd.

Shingo Tatsumichi Assistant Senior Researcher, the Japan Institute for Labour
Planning and Training

Akira Motokawa Director, Statistical Information Analysis Department, the Japan
Institute for Labour Planning and Training

Research Period

October 2004 to July 2005

Objective of the Research

From the latter half of the 1990s, performance-based system has spread among companies. After the turn of the century, it seems that the momentum is rising for the reevaluation or review, as many books are published to either criticize or support the system. To properly address this question, one must examine how work satisfaction, motivation, and corporate performance relate to human resource management. This point of view is particularly important when analyzing today's youths, who apparently place importance on the type of work they do but the number of *freeters* among them is also on the rise.

In addition to carrying out research activities on specific topics, the Japan Institute for Labour Planning and Training (JILPT) has been conducting large-scale statistical surveys on companies and workers with the objective of collecting data on labor in general. Many of the data are valuable findings that can be put to greater use than offering them to the press in a single release.

This research was started to conduct an analysis from the abovementioned viewpoints and by making the best use of the existing resources of data. As a research method, the JILPT's "Survey on Workers' Motivation to Work and Human Resource Management," conducted in 2004, was retabulated.

Contents of the Report

This research report consists of “Chapter 1. Human Resource Management Strategies and Corporate Performance,” which focuses on performance-based system, “Chapter 2. Work Satisfaction and Attributes of Individuals and Companies,” which centers on work satisfaction, and “Chapter 3. Young Regular Employees’ and *Freeters*’ Perceptions about Work and Human Resource Management,” which focuses on the youth. The outline of each chapter is shown below.

It is described throughout this report that there was no direct relation, over the short term, among performance-based system, corporate performance, and work satisfaction. On the other hand, it was found that the appeal of work, such as the opportunity to exercise one’s capabilities, having a sense of achievement and personal growth, was closely related to work satisfaction as well as to corporate performance. This seems significant particularly with respect to young people, who place particular importance on the kind of work they do.

The main purpose of this research was to statistically confirm and set in order the facts, and there was not intent to directly present any proposals on policy. However, we were able, in this research, to (1) examine the advantages and disadvantages of the so-called performance-based system and the relation between work satisfaction and corporate performance through mass observation; (2) succeed in identifying some of the characteristics of companies whose employees had a high level of work satisfaction; and (3) clarify the perceptions of young regular employees and *freeters* on work. These are interesting findings that may well be of value to companies’ personnel officers. We hope to set these findings in order, complement them with the results of fact-finding interview surveys and other research results, and develop them into policy proposals within the framework of the JILPT’s research project, “Research on the Comprehensive Analysis of Corporate Business Strategy and Personnel Treatment Systems .”

Chapter 1. Human Resource Management Strategies and Corporate Performance

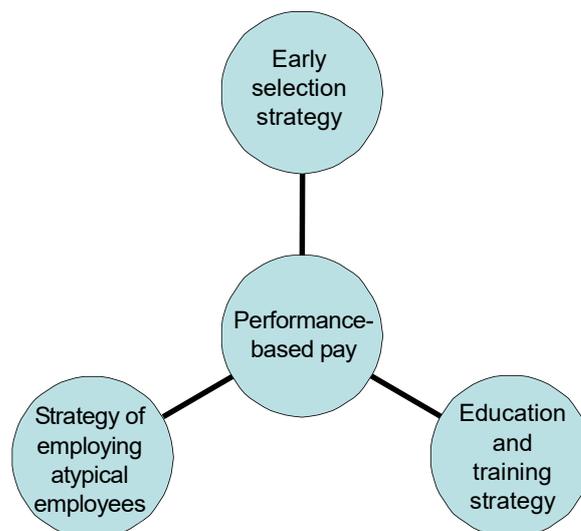
In Chapter 1, we focused on performance-based pay and conducted analysis on (1) what are the factors and conditions that set companies to introduce performance-based pay and (2) is there a relation between corporate performance and human resource management policies (does performance-based pay improve corporate performance). For the purpose of this report, performance-based pay is defined as a type of human resource management measure in which “performance is given more emphasis than age or length of service as a measure of assessment of employees.”

As a result, it was found that, with respect to the question of (1) above,

performance-based pay was often adopted by companies that had the early selection strategy (differentiation in the allocation and training of employees from the early stages of their careers based on their ability and aptitude), the strategy of employing atypical employees (actively utilizing part-time workers and other atypical employees), and the education and training strategy (planned OJT and off-JT as beneficial systems) as well as among wholesalers and retailers. On the other hand, there was no relation observed between personnel cost reduction and performance-based pay. From these results, it is clear that performance-based pay is adopted as part of a number of human resource management strategies (Figure 1). This result implies that each human resource management strategy should not be considered separately, but as a bundle of strategies.

On the question of (2) above, we have found no statistically significant relation between corporate performance and human resource management policies/strategies including the introduction of performance-based pay system. The results can be interpreted several ways. One may be that there is no strong linkage between companies' business strategies and human resource management policies, resulting in no or little relation between performance and human resource management. The other may be that since it requires considerable time for the effect of human resource management policies to be reflected on performance, the changes in performance could not be measured during the short survey period. Thus, it was found that the relation between human resource management and performance, if any, was something that did not show noticeable effect in a short period.

Figure 1. Human Resource Management Strategies Surrounding Performance-Based Pay



Chapter 2. Work Satisfaction and Attributes of Individuals and Companies

In Chapter 2, we focused on work satisfaction¹ and investigated on the attributes of companies and employees that were associated with high levels of work satisfaction. The results are as follows:

- (1) The nature of the work is more closely related to work satisfaction than wages, working hours, and other working conditions (in particular, the opportunity to exercise one's capabilities and have a sense of achievement and personal growth is closely related to the appeal of work).
- (2) There are separate mechanisms in how wages and working hours relate to work satisfaction. (As for wages, the average wage of the entire company is closely related to work satisfaction, whereas, for working hours, the difference in working hours with other employees in a company is closely related to work satisfaction. The causal relation between wages and the level of work satisfaction may also be varied and complex, whereas the causal relation between working hours and work satisfaction is relatively simple.)
- (3) The level of satisfaction is high among companies that give employees the opportunity to express their views and that put energies into employee training (see Figure 2, "Self-evaluation system," "In-house staff recruitment system," "Hearing of complaints regarding allocation and treatment," "Planned OJT," "Off-JT system," "Differentiation in allocation and training from early career").
- (4) The relation between performance-based pay and the level of work satisfaction is not clear.
- (5) Companies with high levels of work satisfaction among employees perform well.

From the above, it can be surmised that many workers would rather have work that is challenging than work that is easy to perform. In relation to the finding of (5) above, it is evident that the quality of employment as perceived by companies, that is "employees contributing to the company's performance," and the quality of employment as perceived by employees, namely, "a high level of work satisfaction," essentially point to the same direction.

¹ We intended to analyze job satisfaction in a wide sense without being obsessed with existing studies. Therefore, in this book, we used terms of "work satisfaction".

Figure 2. Relation between Work Satisfaction and Companies' Attributes

Type	Question	Relation with Work Satisfaction
Corporate policy	q3_1 Maintenance of long-term employment centered around regular employees	+
	q3_2 Differentiation in allocation and training from early career	+++
	q3_3 Active employment of atypical employees	+
	q3_4 Optimum allocation of human resources	++
	q3_5 Emphasis on performance over age and length of service	
	q3_6 Set differences in promotion earlier in employees' careers	
	q3_7 Reinforcement of ability development	++
	q3_8 Work-life balance	+
	q3_9 Promotion of equal treatment of men and women	++
Communication of management policies	q19 Communication of management policies to employees	
Atmosphere within the workplace	q4_1 Atmosphere to nurture subordinates	++
	q4_2 Atmosphere to utilize each employee's competence	++
	q4_3 Atmosphere to do work without too much time constraint	
	q4_4 Atmosphere to strive towards improving the performance of the workplace	
	q4_5 Competitive atmosphere among employees	+
	q4_6 Cooperative atmosphere among employees	
	q4_7 Atmosphere in which each employee can freely express oneself	+
	q4_8 Atmosphere that values each employee's private life	
Human resource management system	q5_1 Management by objectives	
	q5_2 Performance-based pay	
	q5_3 Stock option	
	q5_4 Annual salary scheme	
	q5_5 Self-evaluation system	+++
	q5_6 In-house staff recruitment system	+++
	q5_7 Hearing of complaints regarding allocation and treatment	+++
	q5_8 Planned OJT	+++
	q5_9 Off-JT system	++
	q5_10 Assistance in self-development	+
	q5_11 System of paid leave for education and training	++
	q5_12 Assistance in obtaining qualifications	
	q5_13 Provision of information on education and training opportunities outside the company	
	q5_14 Professional occupation system	+
	q5_15 Free working hours system	
	q5_16 Transfer between typical and atypical employment	
	q5_17 Flex-time system	
	q5_18 Short working hours system	
	q5_19 Modified work time system	
	q5_20 Telecommuting	
	q5_21 Long-term leave system	++
	q5_22 Childcare leave of a year or longer	
	q5_23 Nursing care leave of three months or longer	
	q5_24 Reemployment system for employees who stopped working to provide childcare or nursing care	
	q5_25 Moving working hours forward or backward to suit childcare or nursing care	
	q5_26 Exemption of overtime and working on holidays for those providing childcare or nursing care	

	q5_27	System of fixing place of work	
	q5_28	Reemployment of retirees, moving of the mandatory retirement age to over 60	
Recruitment policies	q11_1	Emphasis on employment of new graduates	+++
	q11_2	Emphasis on mid-career recruitment	
	q11_3	Emphasis on continued employment or reemployment of senior workers	
	q11_4	Active employment of women	+++
	q11_5	Emphasis on in-house nurture of talent	
	q11_6	Others	
Number of employees	q7_1	Increase in regular employees	+
	q7_2	Increase in atypical employees	
Recruitment of regular employees	q12_1	Increase in recruitment of new graduates	++
	q12_2	Increase in mid-career recruitment	
Composition of employees	f11_1	Percentage of managers	+
	f11_2	Percentage of employees in research and technology-related fields	
	f11_3	Percentage of clerical employees	
	f12_1	Percentage of woman managers	
	f12_2	Percentage of middle-aged and senior employees	
	f12_3	Percentage of university graduates	
	f12_4	Percentage of atypical woman employees	
Changes in the company	q20_1	Flattening of corporate structure	++
	q20_2	Organizational consolidations	
	q20_3	Break-up of company	+
	q20_4	Corporate merger and integration	
	q20_5	Increase in outsourcing	---
	q20_6	Wage cut	
	q20_7	Workforce reductions	
	q20_8	Others	
Productivity	q1a	Awareness of labor productivity (today)	
	q1b	Awareness of labor productivity (in comparison with three years ago)	
Motivation	q2a	Awareness of employees' motivation (today)	++
	q2b	Awareness of employees' motivation (in comparison with three years ago)	
Performance	f3	Increase/decrease in sales from three years ago	+++
	f4	Increase/decrease in recurring profit from three years ago	+

Note:

- 1) For each question, the number of companies whose employees had above average level of work satisfaction and the number of companies whose employees had below average level of work satisfaction were added up.
- 2) After adding up the numbers, the questions with significant difference between the two groups on the level of 1% were marked with +++ (positive relation) or --- (negative relation), on the level of 5% were marked with ++ or --, and on the level of 10% were marked with + or -. The Wilcoxon's rank sum test was used for questions with the options in ordinal scale, and the chi-square test was used for questions with the options not in ordinal scale.
- 3) The subject of the tabulation, in principle, was 940 companies with employees who gave their answers on the level of work satisfaction. For each question, the number of no response was excluded from the tabulation.

Chapter 3. Young Regular Employees' and *Freeters*' Perceptions about Work and Human Resource Management

In Chapter 3, we focused particularly on the youth and analyzed what they consider to be important in their work and the level of work satisfaction. As a result, it was found that, relatively speaking, young people consider balance between work and private life, ways of working suited to each life stage, the type of work they do, and expertise as important, while they are not too much concerned about long-term employment. Moreover, although young regular employees are not necessarily strongly dissatisfied, it can be pointed out that the work environment in which they are placed is becoming more rigorous for them as the amount of work and required competence and knowledge increase.

In comparison with young regular employees, young *freeters* are choosing their occupations based on short-term considerations, such as “can choose the working hours and days of work,” “can gain money to contribute to household income or pay for tuition,” and “short time of commuting” (Figure 3). They were also generally lacking in their effort at self-development, as more than 60 percent of them were not involved in any ability development (Figure 4).

Figure 3. Young Regular Employees' and *Freeters*' Reasons for Choosing Their Current Work

	Young regular employees	<i>Freeters</i> (in work)	Total	(%)
Can do the kind of work I want to do	20.8	9.1	17.5	***
The work is challenging	22.9	10.0	20.8	***
Offers stable employment	33.8	15.5	31.9	***
The income is stable	25.4	8.2	23.8	***
High wages	3.8	8.2	4.5	***
Can make use of specialized skills and qualifications	11.4	9.1	13.3	
The company offers a range of benefits	8.4	16.4	6.9	***
The work is suited to my level of ability	9.9	12.7	14.6	
Can choose the working hours and days of work	1.3	13.6	4.5	***
It seemed I could enhance my capability through work	19.9	16.4	17.1	
Good work environment	15.2	19.1	14.2	
Short time of commuting	20.1	34.5	23.2	***
No job openings at other companies	21.4	25.5	20.6	
Can gain money to contribute to household income or pay for tuition	2.9	18.2	11.1	***

Note:

- 1) The total is the percentage among all employees including young regular employees and *freeters* (in work.)
- 2) As a result of the chi-square test, *** indicates significance on the level of 1%, ** indicates significance on the level of 5%, and * indicates significance on the level of 10%. Blank space indicates no significance.

Figure 4. Ability Development of Young Regular Employees and *Freeters*

(%)

	Education and training provided by companies	Self-development	Nothing in particular
Young regular employees	45.3	38.9	33.9
<i>Freeters</i> (in work)	24.5	20.0	63.6
Total	38.0	37.4	38.5

Note:

The total is the percentage among all employees including young regular employees and *freeters* (in work.)

Composition of the Report

Introduction

Chapter 1. Human Resource Management Strategies and Corporate Performance

1. Introduction
2. Factors in the companies' introduction of performance-based pay
3. Results of analysis
4. Do human resource management policies contribute to improving corporate performance?
5. Results of analysis
6. Summary: human resource management strategies and corporate performance

Bibliography

Chapter 2. Work Satisfaction and Attributes of Individuals and Companies

1. Introduction
2. Overview of the ground total
3. Regression analysis on work satisfaction, etc.
4. Relation with sales
5. Analysis of the tabulation of each attribute
6. Summary
7. Supplement: overview of existing surveys

Bibliography

Chapter 3. Young Regular Employees' and *Freeters'* Perceptions about Work and Human Resource Management

1. Introduction
2. Framework of analysis
3. Results of analysis
4. Conclusion

Reference: Questionnaire sheet of the "Survey on Workers' Motivation to Work and How Human Resource Management Should Be"

1. Survey on companies
2. Survey on employees