

Pay System and Employment Practice of the Japanese Firm in Transition

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The monthly salary based on seniority and personnel assessment has been the most popular pay system in the Japanese large firm since the end of the WWII. The amount of monthly salary is decided mainly by two attributes of each employee. The one is the age of each employee or years of their service with the firm. The other is their improved “capacity of work” during the course of their service with the firm, which is assessed by personnel assessment. As the result of above decision by two attributes, there is annual regular increase in the amount of monthly salary for each employee, with the dispersion of increasing amount in monthly salary among employees.

The system applies to all the full time standard employees, not only white collars but also blue collars. They are union members when the enterprise-wide trade union organizes the firm. The system also implies the promotion based on seniority and personnel assessment. The employees to whom the system applies can enjoy the long-term employment security with the firm.

The above system has contributed to high performance of the firm in many ways, which had been discussed in English literatures such as Aoki(1988) until the collapse of bubble economy in the mid-1990s. I add here an important feature of the above system, which has been often ignored in the discussion in English literatures so far, however. The above system actually applies only to men employees. Many women employees quit early in their young days from the firm for childbirth and childcare and they are hard to re-enter the large firm as full time employee after the childcare ends. They are expected to be housewives to support their husbands who are working as full-time employees, while their husbands are expected to work with “flexibility” such as frequent transfer between branches and long overtime work at the request of the firm.

Since the collapse of bubble economy in the mid-1990s, however, the employers have been thinking that the above system has got inadequate. Most researchers agree to point out two major factors forcing the employers to realize the necessity of reforms (Endo 2006).

The first and decisive factor lies at the demand side of labor market. The competition among corporations, or nations, is getting hotter and hotter in the global market. It is accelerated by the revolutionary development of information technology. Japanese economy continues to be stagnated after the collapse of the bubble economy, however. Many of Japanese employers understand how hard their current position is and are urged to reform their personnel policy to better it. They are thinking that the seniority-based salary and promotion system is at a competitive disadvantage after the collapse of the bubble economy and that its reform can enhance their competitiveness.

The second factor lies at the supply side of labor market. The population in Japan is aging rapidly, or the ratio of productive-age population is decreasing rapidly to elderly population. The aging society is increasing the expenditure for social security and decreasing the fundamentals for Japan's national competitiveness. It also gets employers to foresee the shortage of labor force in the near future and to think they will be required to improve the labor productivity more than now.

The employers are now carrying out rapidly several reforms of personnel policy.

a) On one hand, they are reducing the number of full-time standard employees of white collars and blue collars, both of whom the above system has been applied to. On the other hand, they are increasing rapidly the number of atypical non-standard employees such as part-timers, fixed-term employees, and agency employees, to whom the above system has not been applied.

The change appears abruptly and astonishingly in the composition of employee population (Chart 1).

(Chart 1)

Both men and women full time employees had decreased from 1997 to 2002 in the national statistical survey at 5-year interval shown in Chart 1, with women having decreased more rapidly. Atypical non-standard employees such as part-time, fixed-term and agency employees, who are excluded from the above system, are rapidly increasing. This is particularly among women, with fixed-term women employees doubled and agency women employees tripled in 5 years. More than half of paid women employees were not full time employees in 2002 and much more will not be in the next national statistical survey in 2007.

b) They are disusing monthly salary system, or annual regular salary increase for the full time white collar employees, particularly those in the middle and upper management positions (MHLW 2005). They are introducing “annual pay” system for them instead (Endo 2005a: 153-158). By the word “annual pay,” they often mean “role based pay” and “output oriented pay,” the concept of which is vague and different firm by firm. I think “role based pay” is somewhat similar to “job based pay” of western world, together with the payment for the motivation of employees in the job. I also think “output oriented pay” is the payment according to the result of assessment through the modified Management-By-Objectives (MBO) method.

c) It is believed that the employment of full time white collars is less secured than it was before, as the dismissal of them and “tapping shoulder” of them for voluntary retirement have been very popular these days. MHLW announced in May, 2005, that both dismissal and “tapping shoulder” became major reasons of individual labor disputes, or labor disputes not involved by trade unions (Endo 2005b, 2006), although there were not any statistics to demonstrate exactly how many dismissals or “tapping shoulders” of them had increased.

d) The share of hourly job based pay, which is similar to that of the western world, is rapidly increasing in the whole payment in the society of Japan, due to the result of increasing number of atypical non-standard employees described above a). This reform is not the change in payment system, but the change in share of payment system (Endo 2005a: 161-162).

e) Interestingly, the employers seem to continue to apply the system of monthly salary based on seniority and personnel assessment to the full time production employees (Endo 2005a: 159). A few employers, such as TOYOTA for example, who continue to hold leading competitive positions in the global market after the bubble economy, announce repeatedly that they will keep traditional personnel policy almost intact, which will result in keeping the above system intact.

The point is, however, many employers are reducing the number of full time production employees, either by replacing them with atypical non-standard employees in the domestic factory or by transferring the factory itself to the foreign countries.

It has not been clear yet that these reforms can rehabilitate the Japanese firms or Japanese economy ultimately. Most of enterprise-wide trade unions organizing full time standard employees in the large firms accept these reforms willingly or unwillingly, as the trade unions are losing the member and their power of bargaining. Some employers and researchers are worrying that these reforms, by contraries, may weaken the employees’ motivation to work diligently and to improve their "capacity of

work”, resulting in the loss of competitiveness particularly in the manufacturing industries. Others are worrying that these reforms may cause new social problems. The number of individual employees is increasing who carry the grievances and disputes to the civil court independently from the declining enterprise-wide trade unions (Endo 2005b, 2006). The women employees are being concentrated into the atypical non-standard employment, widening the gender gap in employment status, pay amount and pay system.

Chart 1, Number of Employees, 2002, and Its Fluctuation from 1997

in thousand

	Number in 2002			Fluctuation from 1997		
	Total	Male	Female	Total	Male	Female
Full-time employees	34,557	24,412	10,145	-3,985	-2,375	-1,610
Atypical employees	16,205	4,781	11,425	3,615	1,423	2,194
Part-time employees called “Pato”	7,824	628	7,196	826	192	634
Part-time employees called “Arubaito”	4,237	2,096	2,141	893	444	449
Agency workers	721	204	517	464	151	313
Fixed-term employees	2,477	1,309	1,169	1,511	704	808
Misc.	946	544	402	-79	-68	-10
Total employees	50,838	29,245	21,593	-310	-912	603

Source: MIAS(2002)

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