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Pay System Reform in Japan since 1991

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1. Introduction

Japan's "bubble" economy collapsed in the early 1990s, and the nation's economy has been stalled from then through now (2015). Over this period, calls strengthened for reforming Japan's unique pay system, which had been the mainstream until then, and adopting a new pay system. In fact, reforms have advanced to some degree.

The purpose of this paper is to sketch the outlines of trends in pay system reform in Japan over the 25 years from 1991 through 2015. This paper draws on my book (Endo [2014]), published in Japanese, titled "Pay System in the Age to Come," in which I discussed the trends in pay system reform over these years.

2. Insisting on *seikashugi* pay or performance-related pay in place of *shokuno* pay or ability-based pay

From the 1970s through the early 1990s, the pay of regular employees consisted mainly of *shokuno* pay, or ability-based pay. *Shokuno* pay is a type of person-based pay (Milkovich, Newman and Gerhart [2013]).

Ostensibly, *shokuno* pay is paid based on the worker's ability to do his or her work. As used here, "work" was undefined and did not refer to any specific job. For this reason, management was able freely to assign and reassign workers to various jobs or job rotations. This is because even if management changed a worker's job assignment, such change would have no effect on the amount of pay the worker received. It also has been argued (for example, in Aoki [1988]) that job reassignment and job rotation, understood as worker skills

development programs, made up an important pillar of support for the high earnings of Japanese firms.

In actual use, *shokuno* pay closely resembled the system of *nenko* pay or seniority-based pay in use through the 1960s, a system in which amounts of pay were determined based on workers' ages or years of service in the company. This is because a worker's ability to do undefined work is likely to increase together with his or her age or years of service in the company. Since of course the degree of such increase will vary among individual workers, disparities among workers in the amounts of their pay increases under *shokuno* pay developed naturally (Endo [1994]).

As Japanese firms' earnings fell with the collapse of the "bubble" economy, some doubts arose with regard to the usefulness of *shokuno* pay. The first instance was Fujitsu's 1993 criticism of *shokuno* pay and announcement of its adoption of *seikashugi* pay or performance-related pay¹. Over the following 10 years or so, the term *seikashugi* pay came to symbolize pay system reforms. It should be noted that most advocates of *seikashugi* pay were pay consultants, journalists, and researchers, and that most companies other than Fujitsu were aligned with their arguments.

The *seikashugi* pay being advocated was undefined, and it was unclear just what kind of pay system was meant by *seikashugi* pay. It would be apt to describe it as having no more meaning than simply referring to a pay system in which the performance of an individual worker and his or her pay amount were more strongly linked than before, as opposed to the *shokuno* pay system in place at the time². For this reason, the actual situations of pay systems at companies that had adopted *seikashugi* pay varied widely.

In the first decade of the 21st century, some companies that had adopted *seikashugi* pay began to express the view that it did not function well. I believe that one key reason for this is the fact that the performance of an individual worker and his or her pay amount were more strongly linked than before without any change in Japanese employment practices. Employment practices and the pay system are mutually complementary, and it is not

¹ It is my understanding that the term *seikashugi* pay used by Fujitsu in 1993 is a translation of the title *Pay for Performance* of a U.S. report (Milkovich et al. [1991]).

² Cases are not rare in both Japanese and English literature of deeming *seikashugi* pay to have a definition (for example, see Keizer [2009]). However, deeming it to have such a definition does not lend itself to the focus in part 3 and later parts of this paper.

feasible to change only one of these without the other.

Under these conditions, a well-known researcher published a best-selling book criticizing *seikashugi* pay and extolling person-based pay (*shokuno* pay or *nenko* pay), arguing for a return to these latter systems (Takahashi [2004]). Since then, advocacy of *seikashugi* pay has weakened, and today only the term *seikashugi* pay itself remains in circulation.

3. Another way of thinking from the Keidanren or Japan Business Federation

It should be noted that from the 1990s through today the Keidanren, or Japan Business Federation, has not advocated *seikashugi* pay. The Keidanren is an economic organization that represents major Japanese firms.

In 1995, after the collapse of the “bubble” economy, the Nikkeiren³, one of the predecessors of the Keidanren, issued a report entitled *Shinjidai no Nihonteki Keiei* (“Japanese-style Management for a New Era”) (Nikkeiren [1995]). This report became very well known at the time for the way it proposed an employment strategy for Japanese firms in the future. Even today it is referred to from time to time. This report stated explicitly that regular employees should receive *shokuno* pay. On the other hand, it hardly mentioned *seikashugi* pay at all. Thus the Nikkeiren advocated the preservation of *shokuno* pay.

Probably it was the succession of bankruptcies of major firms in the financial industry, including Yamaichi Securities, in 1997-98 that spurred a change in this way of thinking. The Nikkeiren was quite shocked to see the bankruptcy of some major Japanese firms that should have had high earnings potential.

Following this shock, a 2002 Nikkeiren report offered a new recommendation concerning pay systems. Although the report used the term *seikashugi* in its title, this in itself is largely meaningless. What is key is the kind of pay system recommended in the text.

First, the 2002 report recommended *yakuwari* pay or mission-based pay for regular white-collar employees. While *yakuwari* pay is similar to range-rate job-based pay employing a job evaluation scheme—extremely common in Western countries—it differs on the point of the pay system. For example, Canon’s system of *yakuwari* pay emphasizes payment not only for the job but also for the employee’s duty. As used here, the meaning of “duty” can

³ Crump [2003] outlines the history and activities of Nikkeiren.

be illustrated using the following two examples: a) the worker's devotion to the company (Canon), and b) more experienced workers teaching new and less experienced workers their jobs in the workplace (Japanese on-the-job training, or OJT). Accordingly, Canon does not use the term job-based pay, preferring *yakuwari* pay or mission-based pay instead.

Second, the 2002 report recommended for regular blue-collar employees range-rate job-based pay employing a job evaluation scheme.

A book on pay systems published by the Keidanren in 2010 fully carries on this thinking from the 2002 Nikkeiren report. The 2010 Keidanren book describes the same pay system in greater detail.

Currently, the Keidanren recommends not *seikashugi* pay but *yakuwari* pay, similar to range-rate job-based pay, or even range-rate job-based pay itself. In response to this recommendation, a very large number of major firms has adopted *yakuwari* pay⁴. It is likely that *yakuwari* pay will remain firmly established among large firms for some time.

4. What is the pay system for non-regular employees ? ⁵

Up to this point, we have discussed the pay system for regular employees. But, what about the pay system for non-regular employees ? While such workers account for about 40% of employees in Japan, their employment does not have the standard features, either in whole or in large part, of Japanese employment practices.

Effectively, I was the first to identify directly the question of just what is the pay system for non-regular employees and to propose an answer at an in-depth level. There is a reason for this. It is because for a long time Japanese HRM research and labor studies have assumed that regular employees were the norm and have not shown much interest in the pay system for non-regular employees.

The answer to this question is simple at a basic level. The pay system for non-regular employees is one of job-based pay. A typical example is the Japanese-style part-time worker, a type that accounts for the majority of non-regular employees. Probably very few

⁴ Some companies refer to the adoption of *yakuwari* pay as adoption of *seikashugi* pay. However, seeing these two terms as identical makes the meaning of *yakuwari* pay unclear.

⁵ The state of non-regular employees is varied and peculiar to Japanese companies and thus is difficult to explain. For a brief description, see Keizer [2009].

researchers in Japan would object to this answer. It is simply that until now the vast majority of researchers have not taken a research interest in focusing on this issue.

My answer to this question at an in-depth level is that the pay system for the majority of non-regular employees is approaching the state of range-rate job-based pay that is extremely common in Western countries. However, there is no consciousness of a job evaluation scheme, and such a program is employed only to a partial extent.

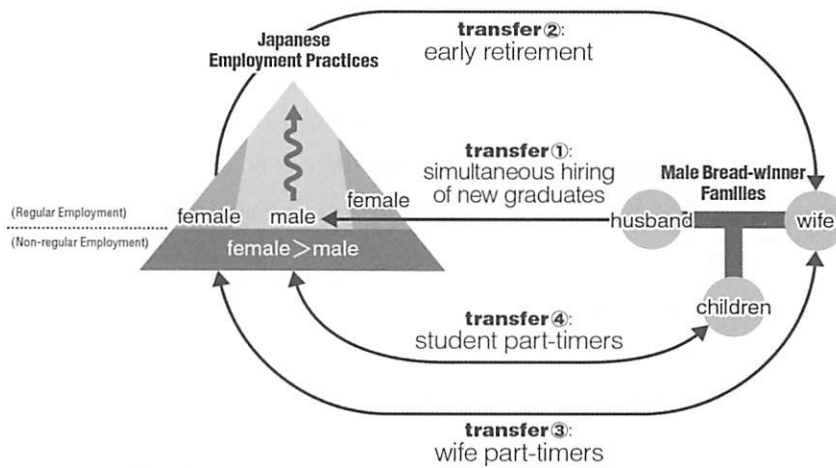
Most companies that employ large numbers of Japanese-style part-time workers, such as those in the supermarket and restaurant industries, maintain skills development programs for those employees. These programs break down the jobs assigned to these employees into lists of numerous tasks, assign degrees of difficulty to these tasks, evaluate the degree to which the workers have achieved them, and reflect the results in their pay. The workers strive to perform their tasks at a high level in pursuit of pay increases. It is my understanding that such programs include partial implementation of a job evaluation scheme, and that reflecting the degree of achievement of tasks in pay is similar to range-rate job-based pay. Whatever the case, both management and employees understand this program as having the sole purpose of skills development.

It is my understanding that, generally speaking, in contemporary Japan both pay systems for regular employees and those for non-regular employees are approaching the state of range-rate job-based pay systems.

5. Background of reforms to pay systems : Japan's 1960's system reaches a dead end

Behind these reforms to the pay system is the fact that the Japanese social system that existed from the 1960s through the years of the "bubble" economy—considered to be the source of the high earnings of Japanese firms—had reached a dead end during the 1990s. I call this social system Japan's 1960's system. This was a system under which Japanese employment practices and the male breadwinner family were tied strongly to each other and supported each other. (See Figure 1.)

Figure 1—Model of Japan's 1960's System



Source: Endo [2014] 105

There are many reasons for this dead end. Some are listed below. Reasons 1–4 are related to Japanese-style employment practices.

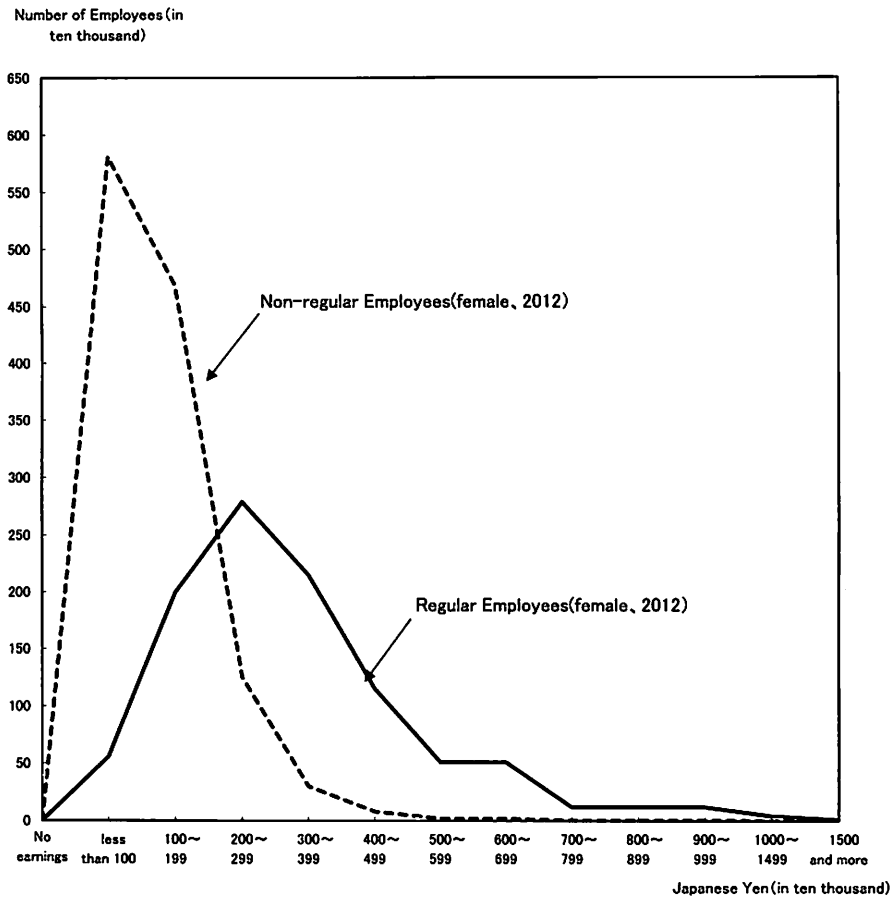
- 1) It became difficult to maintain the long-term employment of numerous employees;
- 2) Long-term employment no longer benefited employers;
- 3) It became increasingly detrimental to fail to take advantage of the job abilities of women and non-Japanese employees;
- 4) Japan's 1960's system, which involved discrimination against women and non-regular employees, was unsustainable; and,
- 5) The male breadwinner family could no longer serve as the standard model in the face of further diversification of family structures in the future.

Even though it has reached a dead end, Japan's 1960's system still persists today. As management recognizes this dead end, it begins to advocate for reforms to the pay system and moves toward range-rate job-based pay. If nobody recognizes the dead end, then person-based pay tends to be extolled.

The fact that Japan's 1960's system still persists after reaching a dead end is one of the main reasons behind the social problems that contemporary Japan faces. At the root of the Japan's 1960's system are substantial pay disparities between male and female employees and between regular employees and non-regular employees. (See Figure 2 and 3.) When Japan's 1960's system was fully functional, these disparities did not develop into problems in

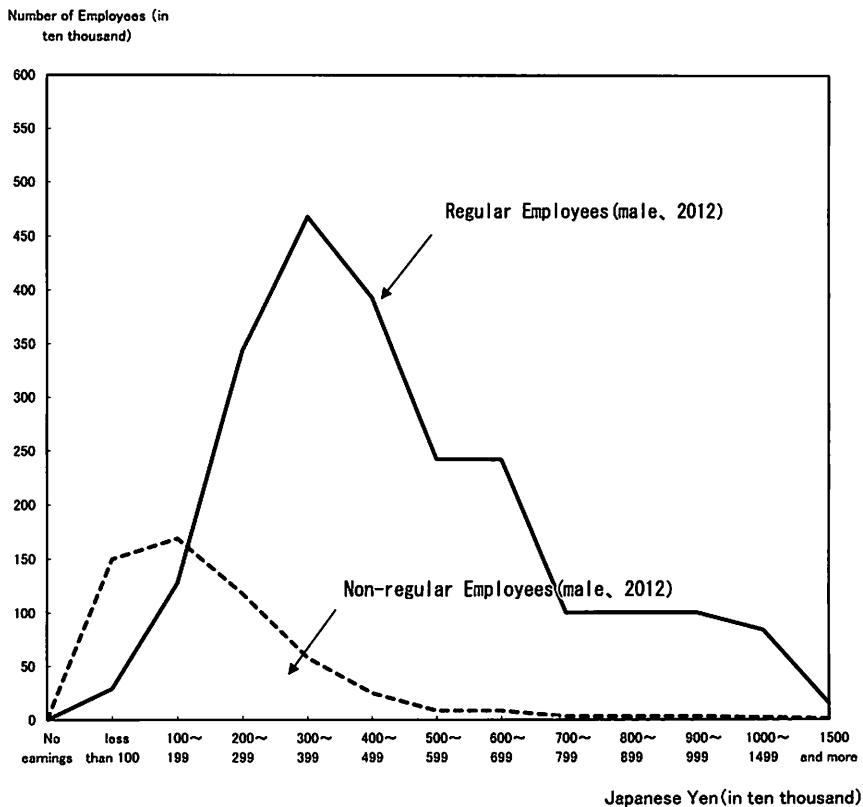
society.

Figure 2—Annual Earnings from Work (female, 2012)



Source: Annual Report of Labor Force Survey, MIC, 2012, Table II—A—4

Figure 3—Annual Earnings from Work (male, 2012)



Source: Annual Report of Labor Force Survey, MIC, 2012, Table II—A—4

However, today the number of non-regular employees has increased greatly to account for about 40% of all employees, and about one-half of these workers support their own living from their own income. Most single working mothers are in this category of employees. They must support not only their own livings but also those of their dependent children⁶. Most of them earn low pay. For this reason, their children also do not receive adequate education. As a result, poverty across generations already has begun⁷. This is a major issue in society.

⁶ Under Japanese law, in 90% of divorces with children the children are cared for by the mother. Although in such a case the law requires the father to pay for one-half the cost of caring for the children, in fact about 70% of fathers do not cover such costs.

⁷ According to a 2014 government report, the total annual income of a single-mother family was ¥2,500,000 or €19,000 in 2012. As a result, the relative poverty rate for a single-parent family is as high as 50.1%, the highest among OECD countries.

6. Equal pay for work of equal value (EPWEV): an alternative plan

The concept of EPWEV came to Japan from the United States in 1992, under the term “comparable worth.” Since then, some activists for women workers and gender researchers in Japan have begun researching and developing a job evaluation scheme based on EPWEV, gradually building up results over more than 20 years⁸.

Two major difficulties were faced in implementing a job evaluation scheme based on EPWEV in Japan. However, over more than 20 years an environment has developed in which it is possible to overcome these difficulties to a considerable extent.

The first was the difficulty of implementing a job evaluation scheme in the pay system for regular employees, since that was a system of person-based pay (*shokuno* pay or *nenko* pay). However, as seen above, in contemporary Japan the pay systems for both regular employees and non-regular employees are approaching the state of range-rate job-based pay. This environmental change has made it easier to implement a job evaluation scheme.

The second difficulty was the fact that in-house unions, which account for the majority of labor unions, were not very enthusiastic about raising the pay of women workers. This was because under Japan’s 1960’s system men, as regular employees, also made up the core membership of the in-house unions. However, as the number of male non-regular employees grew to the point where it could not be ignored, attention turned to the low level of their pay, and this led some in-house unions to focus on organizing non-regular employees and on increasing their pay. This environmental change led to a focus on job evaluation schemes based on EPWEV as an effective approach to raising the pay of non-regular employees.

A book I edited and published in Japanese in 2013, titled *Job Evaluation Scheme to Achieve the Principle of Equal Pay for Work of Equal Value: a Solution of the Government-created Working Poor*, is the latest product of this research and development amid these environmental changes. This book is a report on pilot research on development of a job evaluation scheme, sponsored by the All-Japan Prefectural and Municipal Workers Union (JICHIRO). Although JICHIRO is a labor union mainly representing regular employees, it

⁸ Endo [2012] outlines the development of the women’s labor movement, including research and development on the job evaluation scheme.

sees increasing the pay of non-regular employees to be an important goal, and it nominated me as the leader of this pilot research project.

While modeled on Britain's National Joint Council for Local Government Services Job Evaluation Scheme (NJC JES), the JICHIRO JES has developed in a way suited to conditions in Japan. The NJC JES is a job evaluation scheme agreed to by trade unions and employers in British local governments in 1997 and still in use today⁹. The JICHIRO JES's improvements over the NJC JES include 1) the fact that it makes it easier to assess employees' levels by assigning, as much as possible, objective quantitative indicators to the level of each factor and 2) the fact that it aims to increase the pay of not just women but also non-regular employees.

7. Conclusion

It is my understanding that the contemporary pay system in Japan is approaching the state of a range-rate job-based pay system. This change offers a basic condition for achieving the principle of Equal Pay in Japan.

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⁹ Wright [2011] summarizes the state of the NJC JES through recent times.

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