

Pay reform in the 1990s and slow-burn career development process in Japan

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わが国における1990年代の賃金制度改革と遅いキャリア形成

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ABSTRACT

In the 1990s, increases in merit-based pay were termed *seikashugi* pay (performance-based pay). This paper addressed the case of pay reform in XYZ Ltd. (the real name was disguised) from both the enterprise union and management. The pay reform was led by management, not by union. In the interview it was stated how an enterprise union reacted to the pay reform. The explanation revealed the nature of an enterprise unionism. On the other hand, management showed the aim of pay reform and its limited changes. This resulted in the continuity of “slow-burn career development process”.

要 旨

1990年代、わが国においては成果主義賃金の導入がひろがった。本稿はXYZ社（仮名）の賃金制度改革を労使双方から示すものである。賃金制度改革は組合側ではなくマネジメント側が主導した。それに対して組合がどのように対応したかインタビューにおいて語られ、企業別組合というものの性質が明らかになった。一方、マネジメント側は賃金制度改革の目的と限界（限定的な変化）を説明した。その結果、日本企業特有の遅いキャリア形成という特徴は保持されていることが明らかに示された。

Introduction

Many researchers have argued that the prolonged economic recession, together with an ageing population, were the main reasons why firms have had to reduce their total labour costs in the 1990s by decreasing the proportion of seniority-based pay in monthly salaries (for example, Genda 1999; Koshiro 2000; Shimazu 2002; Tanaka *et. al.* 2001). Despite the decrease in Japanese national income, as a whole, labour costs have increased, and will continue to increase with the existence of seniority wages which automatically increase as the workforce ages. Clearly, relatively high labour costs negatively affect Japanese firms in terms of worldwide competition. It was, therefore, natural that Japanese firms recognise the necessity of

decreasing the proportion of seniority-based pay and increasing the proportion of merit in pay, in order to maintain their competitiveness.

In the 1990s, increases in merit-based pay were termed *seikashugi* pay (performance-based pay). The Japan Federation of Employers' Associations also stated in its pay policy in *Shinjidān no nihonteki keiei* (Japanese Management in New Era) (1995) that merit should be reflected more within pay, as a consequence of economic depression, an ageing population, and intensified world competition. Different firms have different business conditions, and so, there should be specific objectives for pay reform in each firm, accordingly. The following sections explore pay reform in the 1990s and “slow-burn career development process” which is closely related to the Japanese employment system (long-term employment and up-

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ward age-wage profiles), and also focus on how an enterprise union reacted to the 1990s pay reform.

In this research, interviews of XYZ Ltd. (the real name was disguised) were carried out in 1998 with a senior representatives of company management (personnel department) and the company union. In each case I focused on the incidence of recent pay reform and questioned them about the reasons for this reform, the nature of pay reform in the company, and the advantages and disadvantages of both the old and new pay systems in relation to the Japanese employment system.

XYZ is a manufacturer of construction equipment, industrial machinery, mining equipment, underground machinery, electronic equipment and components. There were 11,000 standard employees approximately (white-collar workers were 4,300, blue-collar 2,000, dispatched to subsidiaries 5,400). In terms of gender, there were 10,300 male workers and 700 female workers.

XYZ is a manufacturer. This offers an advantage in investigating the differences in pay policy according to job track. In addition, manufacturing industry is suitable for a discussion of human capital theory. This theory argues that skills are linked to tenure. It would be interesting, therefore, to discover how a large firm, which shows particularly long tenure among Japanese firms, considers the issue related to job track. Needless to say, in the 1990s manufacturing was a vital part of the Japanese economy, and the gross domestic product of manufacturing was the highest of all sectors. In addition, manufacturing employed the greatest number of people up until the early 1990s (it is in the third place in the 21st century) (Statistics Bureau and Statistics Centre, Japan, 2002).

1. XYZ Ltd. and Pay Reform

XYZ extended performance-based pay (*seikashugi* pay) to non-managers in 1998. On the other hand, it was reported by newspapers and professional magazines that the Award for Challenger was established in order to recognise those who were involved in difficult long-term tasks, but who could not demonstrate results in the short term (e.g. *Nihon keizai shinbun*, 1998). This raised questions as to whether the award was established in order to offset the disadvantages of performance-related pay which rewarded short term results (the normal appraisal period being 6 months). Under the long-term employment of XYZ, there was

clearly a problem that some people's motivation during their mid career was failing, due to low appraisal marks in the short term. Whether pay for results is suited to long-term employment is an essential question. It is also pertinent to the late selection hypothesis which concerns long term morale. I, therefore, posed these questions to XYZ, relating to the Award for Challenger, the objectives of pay reform and details of the new pay system.

As we have seen, economic depression and the labour costs of the ageing employee structure were the major reasons for pay reform in the firm interviewed. This is consistent with considerable research on the wider 1990s pay reform in Japan. Economic factors (i.e. changes in productivity and ability to pay) have always been the greatest concern for management. The great majority (89%) of firms said that changes in productivity and ability to pay are the main factors taken into account when determining pay, and there is a significant gap between those and other contributing factors, such as balancing average pay (34%), maintaining stable labour-management relationships (23.6%) and protecting employment (23.6%) (Japan Employers Association, 2000)². According to an opinion survey carried out among personnel departments of major firms affiliated with the Japan Employers' Association, management normally considered these factors more than either employees or unions. It is, therefore, no surprise to learn that the 1990s pay reform was initiated by management. The Director of the Department of Working Conditions for the Japan Confederation of Trade Unions (JTUC-Rengo), for example, stated that management worried about the consequences of ageing employees more than anything else, and that the slopes of age-wage profiles had been amended to prevent a disaster.

2. XYZ Enterprise Union and Pay Reform

These points can be clearly seen in an interview with a senior personnel manager at XYZ. He claimed that pay reform was motivated purely by economic factors, and also argued that the pay reform did not result from an intention to enhance work incentives :

“Pay reform was carried out by the Department of Human Resource Management. Employees have never asked us to increase merit elements. We do not hold the belief that widening discrepancies in pay and promotion can improve

² In this opinion survey, respondents (who were from personnel departments of major Japanese firms), gave two factors as being most important for pay determination. N = 333

work incentives. We think that the new pay system is better for sharing a limited-sized pie among employees. If there are lots of funds, the old pay system, with its large seniority elements, is better." (Project Manager, Personnel Section, Personnel Department, XYZ)

So, as we have seen, as a consequence of pay reform, the influence of merit on pay was intensified and the proportion of seniority-based pay decreased. Increases in merit factors might, therefore, result in decreases in monthly salary as well as delays in promotion. Were enterprise unions afraid of such a decrease in guaranteed lifetime earnings? The manager and the union officer stated that union-management relationships are not at all adversarial. Co-operation seems to be a concept which is embedded in enterprise unionism. It is, however, still assumed that, naturally, unions also try to arrange advantageous deals for themselves and their members. In the light of this assumption, one could ask why unions, which represent employees' interests, co-operated with the pay reform, and how did they respond to it? Interviews with the officers of enterprise unions revealed that :

- (1) Performance-based pay is not related to decreases in the present pay fund.
- (2) With pay reform, the unions negotiated various conditions with management, concerning both sustaining the firm's competitiveness and maintaining the stability of their members' employment.

Firstly, it was argued that performance-based pay is not related to decreases in the current pay fund. The Director of the XYZ Workers' Union explained why increasing the influence of merit is not a matter for the Union. He claimed that performance-based pay (*seikashugi* pay) plays a part in one's pay increases, and does not lead to decreasing total wages for members. For example, if, in their annual wage bargaining, the management and the Union agreed that the annual pay increase would be 7,000 yen, the management would allocate a fund which equals 7,000 yen for each employee. This then signals the conclusion of the labour-management debate. Performance-based pay is, therefore, a question of "*how to cut the cake*" (i.e. how to distribute the fund), in the words of the Union Director. He, therefore, argued that the real significance of pay reform is, in fact, labour-labour conflict, and not labour-management conflict. According to him, union members are actually happy to be paid in relation to merit, rather than receiving only a

small, blanket increase. Also, employees are aware that it is pointless seeking high pay increases for everyone in a period of economic recession.

Performance-based pay does not go against the Union's pay policy. The Union's first concern is the total labour fund. Performance-based pay is simply a modification in distributing the fund among employees.

It is, however, noteworthy that enterprise unions clearly work on behalf of employees, and that co-operation does not equal obedience. Wage bargaining is not radical in Japan, as there is mutual understanding between the two sides and, in most cases, management will provide the union with confidential information relating to the firm's profitability and productivity per employee, before entering into the annual wage negotiations (Morishima, 1992). The Union Officer of XYZ admitted that the Union asks to see promotion data, and continuously assesses whether the merit system is being used as an excuse to decrease the total labour cost. In addition, they mainly negotiated with management with a view to obtaining fairness in personal assessment. According to a large-scale opinion survey, completed by unions (N = 15,729), most unions (94%) were involved in the modification of salary and pension details (Ministry of Health, Labour and Welfare, 2001). In particular, the respondent unions claimed to work particularly for transparency and fairness in personal assessment, and consideration of the inequity that results from widening wage discrepancies.

Secondly, it was found that enterprise unions have two main constraints, i.e. achieving the stability of members' lives, and simultaneously sustaining the firm's competitiveness. It is natural for unions to work to improve the stability of members' lives, but, on the face of it, it seems unnecessary to worry about the firm's competitiveness. The reason unions pay considerable attention to their firm's competitiveness was described as the ethos of enterprise unions.

Furthermore, the Director of the XYZ Workers' Union claimed that there is a psychological aspect to take into account, in order to understand the co-operative nature of the Union's attitudes. As with normal enterprise unions, the XYZ Workers' Union includes all standard employees who are not managers. Accordingly, the Union always includes potential executives and managers of the future, as internal promotion is common in XYZ (as in all large firms). Therefore, as an example, the President and the Vice President both used to belong to the XYZ Workers' Union in their younger days. The Director explained that, as a result of this, it is unlikely that labour-management

relationships will become hostile.

Although enterprise unions are co-operative, normally management are first to suggest pay reform. Subsequently, they implement it in conjunction with the enterprise union.

Workers in large firms are aware of their superior working conditions compared to those of small and medium firms, and that therefore co-operation with management and helping to promote corporate growth leads to their own economic gain (Koshiro, 2001).

3. XYZ Management and Pay Reform

In the post-war period, the *Densan* wage was calculated based on an assessment of the necessary caloric intake of employees. Subsequently, the Japanese economy went on to grow sharply, and living standards dramatically improved. Therefore, despite periods of economic depression, the living wage concept should not be the same as when it was originally introduced. The interviews of XYZ, however, highlighted the fact that the firm has not abandoned the living wage concept that wages must increase with age to some extent. As the living wage concept lends support to upward sloping age-wage profiles. To do this, it is necessary to identify precisely to what extent pay systems have changed as a result of pay reform. The next section, therefore, demonstrates the real changes that were brought about by the pay reform of the 1990s, and discusses whether the changes are fundamental or transitory in nature.

In the 1990s pay reform, recognition of merit increased. The proportion of person-related pay decreased, and job-related pay (e.g. performance-based pay or *seikashugi* pay) increased. The Annual Salary System (*nenpou*) is a type of performance-based pay, and Management by Objectives (*mokuhyou kanri seido*) is usually aligned with performance-based pay. The Annual Salary System is defined as follows: (1) annual pay is determined solely by job assignment and performance; (2) pay varies greatly according to the results of personal assessment by supervisors; (3) age-related pay is abandoned (Ariga *et. al.*, 2000).

This section considers to what extent pay systems changed. An assessment will be made of whether the changes were fundamental or merely transitory. As pay normally varies according to status, I will focus mainly on the pay of non-managers. XYZ abandoned it. This, however, raises the question of whether this firm, which appears to be relatively merit-oriented, abandoned the custom of almost automatic pay in-

creases. In fact, there is a tendency for pay to gradually increase with age to some extent in XYZ, even though these firms allegedly abandoned age-related pay. Bearing this in mind, how has this come about? This issue is closely related to the custom of personal assessment correlating to promotion. So, does this signal the death knell for performance-based pay? To discuss this question, the following sub-sections will outline: the real changes in pay reform and slow-burn career development process.

Table 1 illustrates the changes in the components of pay for all grades of standard employee at XYZ. "Age allowances" were retained for non-managers in the old pay system, but subsequently abandoned. Furthermore, XYZ increased the proportion of appraisal-based pay for all employees. Essentially, the higher the job grade, the greater the level of appraisal-based

Table 1 The Average Proportions of Pay Components at XYZ

(a) Managers			
Old	%	New	%
Base pay	90.3	Job-grade	41.1
Pay for a title	7.9	Performance	45.4
Accommodation allowances	1.8	Adjustments	3.5
		Special adjustments	0.3
Total	100.0	Pay for a title	7.9
		Accommodation allowances	1.8
		Total	100.0

(b) Non-managers (white-collar workers)			
Old	%	New	%
Job-grade	39.0	Job-grade	59.1
Age allowances	28.0	Performance	37.0
Performance	22.0	Adjustments	0.1
Rate for a job	7.0	Accommodation allowances	3.8
Miscellaneous allowances	4.0	Total	100.0
Total	100.0		

(c) Non-managers (blue-collar workers)			
Old	%	New	%
Job-grade	34.0	Job-grade	54.3
Age allowances	33.0	Performance	33.4
Performance	20.0	Adjustments	6.6
Rate for a job	7.0	Accommodation allowances	5.7
Miscellaneous allowances	6.0	Total	100.0
Total	100.0		

Note: Miscellaneous allowances include accommodation allowances.

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Source: 1998 Case study

pay in the salary. In XYZ, the top grade of blue-collar workers are managers. Management by Objectives applies not only to managers and white-collar non-managers, but also to blue-collar non-managers. The appraisal criteria consist of difficulty and achievement of objectives. There are three types of pay formulae, namely, for managers, white-collar non-managers and blue-collar non-managers (see Table 1).

All managers receive *nenpo* (Annual Salary) which consists of both a fixed part and a contingent part, and the proportion of contingent pay increases with promotion. There have never been seniority factors (e.g. age allowance) in their wage formulae, even before the pay reform. Yet, in the old pay system, contingent pay was consolidated annually and age/tenure positively affected pay. In the new pay system, this practice is no longer retained, except for blue-collar managers. As a result, white-collar managers obtain pay increments only as a result of promotion, and the system became more merit-oriented.

White-collar non-managers also lost the seniority factor from their monthly salaries. The age allowance, which comprised 28% of the average monthly salary, was abandoned. The new wage formula was composed of a stable part (reflecting job grade) and a variable part (reflecting personal appraisal). The variable part (Management by Objectives) is consolidated the following year, to some degree, and from then on, monthly salary tends to increase with time.

Similarly, the monthly salary of blue-collar non-managers was modified. The age allowance (33% on average) was abolished, and the new pay formula was based on the same factors as those for calculating white-collar non-managers' pay. Yet, the elements which relate to performance make up a smaller proportion of blue-collar workers' pay. In addition, as with the old pay system, biannual personal appraisals determine the amount of increment for the following year, and this is integrated into the monthly salary for blue-collar workers. As a result, pay for blue-collar non-managers increases steadily, even if they fail to win promotion. Moreover, blue-collar workers are not assessed using Management by Objectives, as the management decided that it was not appropriate for those employees on the same production line to set their personal objectives. Accordingly, the effects of pay reform were modest for blue-collar workers. However, this did not mean that other employees lost their steady pay increases that come with age. As the next sub-section will show, gradual promotion was guaranteed for all employees to some extent.

There are promotion guidelines for union members (non-managers) at XYZ.

In this firm, recruitment relies mainly on new university graduates and high school leavers, and mid-career recruitment amounts to less than 10 people per year. Turnover rate (excluding retirement) is approximately 1% a year, and this rate is almost the same across all job tracks, according to a Senior Manager in the Personnel Department. It is therefore possible that the employees assume typical promotion patterns over the long-term.

All new university graduates (aged 22) start their careers at Grade 7. This is higher than the grade of high school leavers (Grade 9) of the same age, though high school leavers will have caught up with them by their fourth year. All high school leavers are also placed on the same grade in the first instance regardless of job track. University graduates are promoted faster than high school leavers, and are expected to become managers. The table for university graduates ends at 35 years of age. This is because they normally become middle managers after this point, and therefore further guidelines are excluded. In contrast, high school leavers advance slowly until they are 40-45 years old. The gap between high flyers and slow trackers is wider among white-collar high school leavers than blue-collar high school leavers.

In XYZ, it is at 30 years of age (i.e. in their 12th year) that high school leavers' promotion is first differentiated, whereas in the other firms this would be in their early twenties.

At 30 years of age, there is an interesting difference in promotion guidelines for white-collar high school leavers and blue-collar high school leavers. In the case of white-collar workers, high-flyers and the average employees are at Grade 6, and only slow trackers are held back for promotion at Grade 5. Thus, XYZ does not select outstanding people in the early stages, but separates out underachievers. In contrast, in the case of blue-collar workers, outstanding people are selected at 30 years old. The average employees and slow trackers stay at the same stage, Grade 7. As in the case of white-collar high school leavers, the slow trackers are selected and held back when amongst university graduates on the managerial track. The majority of university graduates are high-flyers and average employees, and they are promoted simultaneously until they are 35 years old. Therefore, high-flyers are not distinguished, and only slow trackers are identified in their first 14 years after university graduation.

At the beginning of their careers, most people proceed up the career ladder together, and it is only later that the system becomes competitive. Age and merit are taken into account initially, and the importance of

merit increases gradually. A Senior Manager described the promotion system as follows :

“The majority of university graduates become lower managers in their ninth year at 30 years of age. Until then, a peer-cohort is hardly differentiated, only underachievers are separated out. The proportion of underachievers is about 10-20% of a peer-cohort.” (Project Manager, Personnel Section, Personnel Department, XYZ)

Moreover, the Senior Manager also explained why most people are promoted equally in the early stages of their career, as follows :

“We cannot see significant differences in ability among a peer-cohort in the early stage of their careers. Honestly, it is difficult to identify who is talented, but we have to select in some way. Therefore, we pick up underachievers, since it is rather easier. Also, we hesitate to identify stars among a peer-cohort in the early stage of their careers. Because we may make a mistake, we like to take time in selecting the high flyers among a peer-cohort. This is why a peer-cohort is rarely differentiated between in the first 8 years. Therefore, the real competition starts from the 9th year for university graduates. From this year, the rule of selection changes, and the real competition, which aims to select outstanding people, starts at this stage. Outstanding people, who form 20-30% of the same age cohort, are selected and promoted earlier than the rest of the group. The ranges of promotion increase gradually among the same age cohort on a particular track. Blue-collar workers also have this kind of two-tiered selection. Similarly to white-collar workers, there are rough guidelines for the number of years it takes to climb grades for blue-collar workers as well.” (Project Manager, Personnel Section, Personnel Department, XYZ)

This promotion system at XYZ resembles typical promotion patterns and represents a traditional “slow-burn career development process” (Storey *et al.*, 1997, p.53). Competition among peers gradually grows in intensity, with age.

Consequently, XYZ shows a typical pattern of promotion, the “slow-burn” system. In particular, age-related pay was removed from XYZ’s pay formulae. Nevertheless, seniority remained relevant to promotion. As described above, the Senior Manager of XYZ

justified this phenomenon by stating that it takes time to recognise people’s true abilities.

In addition, the link between seniority and promotion is supported by the brief distribution guidelines for personal assessment marks. The guidelines show there is a tendency for the majority of people to be marked around the mid-range, and thus this acts as a moderator in merit-oriented pay formulae. Among the firms without age-related pay, XYZ had guidelines regarding mark distribution. In XYZ, it consists of five rankings (S : 5%, A : 10%, B : 30%, C : 55% and D : exceptional case).

Conclusion

This paper addressed two questions : (1) What was the aim of pay reform?, (2) To what extent did the pay systems change? The discussion was based on two main players of XYZ Ltd., i.e. the management and enterprise union.

Firstly, the major aim of pay reform was to remedy future problems set to arise from economic depression and an ageing employee structure. In this regard, the findings of this research were consistent with those of considerable other research, outlined in Harada (2016). However, there were also firm-specific reasons for pay reform. The enterprise union was co-operative with management, participating in reasonable and fair negotiations. The tolerance of the enterprise union resulted from the nature of the enterprise union, and also the relatively superior working conditions in large firms.

Secondly, whether the 1990s pay reform brought about fundamental change was evaluated by examining both wage formulae and related information (i.e. personal assessment and promotion). As a result, it was identified that the consequences of pay reform were, in fact, modest and limited. In particular, the mechanisms for supporting slow-burn career development process were clearly retained by the firms.

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