

Compensation Policies of Japanese Employers' Organizations

From 1990s to 2000s: What Changed or Not?

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This paper examines the compensation policies proposed by Japan Federation of Employers' Associations (NIKKEIREN), especially focusing on the "regular wage hike system (Teikisyokyu)". NIKKEIREN has proposed to its members of Japanese employers many kinds of compensation system, such as pay for performance or multi-path pay scheme based on "employment portfolio". As shown in the change of NIKKEIREN's policies in 1990s, the appearance of Japanese compensation system looked drastically changed, comparing with that of 1980s, which was usually known as the "seniority wage system". However, there is one thing that Japanese employers' organization does not give up: the regular wage hike system. The essential reason was that it was regarded as the indispensable element to keep the employee's order in a Japanese company's organization. The paper investigates the detail of the compensation policies of NIKKEIREN and makes it clear how the Japanese employers' organization tried to update the regular wage hike system, especially taking up the era of 1990s and 2000s when Japanese employment systems changed.

Keywords: regular wage hike system, the hike by personnel appraisal, the automatic hike, pay for performance, pay for role, pay for seniority, pay for ability, employment portfolio

Preface-Research Questions and the Background

The research question of this paper is to confirm the function of "regular wage hike system" (Teikisyokyu) since 1990s in Japan. Many kinds of compensations policies have been proposed in Japan since the end of World War II. However, "regular wage hike system" has been at the center of Japanese compensation policies for half century. This paper makes clear why it has survived even in the era of "pay for performance" and other compensation policies proposed since 1990s.

A lot of scholars said that Japanese compensation policies drastically changed since 1990s. For example, Dr. Mitsuo Ishida (2009) explains that Japanese compensation policies changed from supply-side (internal labor market) oriented to demand-side (external labor market) oriented recently. As a result, Ishida says that Japanese employers found "pay for role" (Yakuwarikyu) compensation policy, which is closely related to market economy.

However, Ishida's definition of "pay for role" is different from Japanese employers who really run personnel management. Of course, employers are conscious of market economy more than ever. But "pay for role" is more comprehensive idea than Ishida indicated: "Pay for role" is a kind of "melting pot" of Japanese employers' compensation policies.

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This paper discusses the detail of the compensation policies of Japanese employers represented by NIKKEIREN and makes it clear how the Japanese employers' organization tried to update the regular wage hike system, especially taking up the era of 1990s and 2000s when Japanese employment systems changed. Through the process, it is confirmed that "regular wage hike system" is the most important factor and regular wage hike system conquers all the Japanese compensation policies, including "pay for performance" and "pay for roles" in 1990s and 2000s.

Firstly, some statistics should be checked. Figure 1 shows the chronicle of wage hike of Japanese companies. Until 1990s, the share of base up was very high, thanks to Japanese economic growth. But it has been shrunk for 20 years; nowadays almost zero. On the other hand, regular wage hike has been constant: 5% in 1960s and 2% since 1970s. Since 1990s, Japan has suffered from prolonged deflation. As a result, base up is very difficult for Japanese employers, because it puts severe pressure on compensation management. But Japanese employers have preserved regular wage hike system, even in stagnated economic conditions.

Figure 2 shows the share of the factors in regular wage hike. The share of appraisal has been highest though all years. Job and rank are also included partly in appraisal, because it is a result of appraisal, while "genuine" appraisal's share is recently increasing. The part of automatic(s) has been constant.

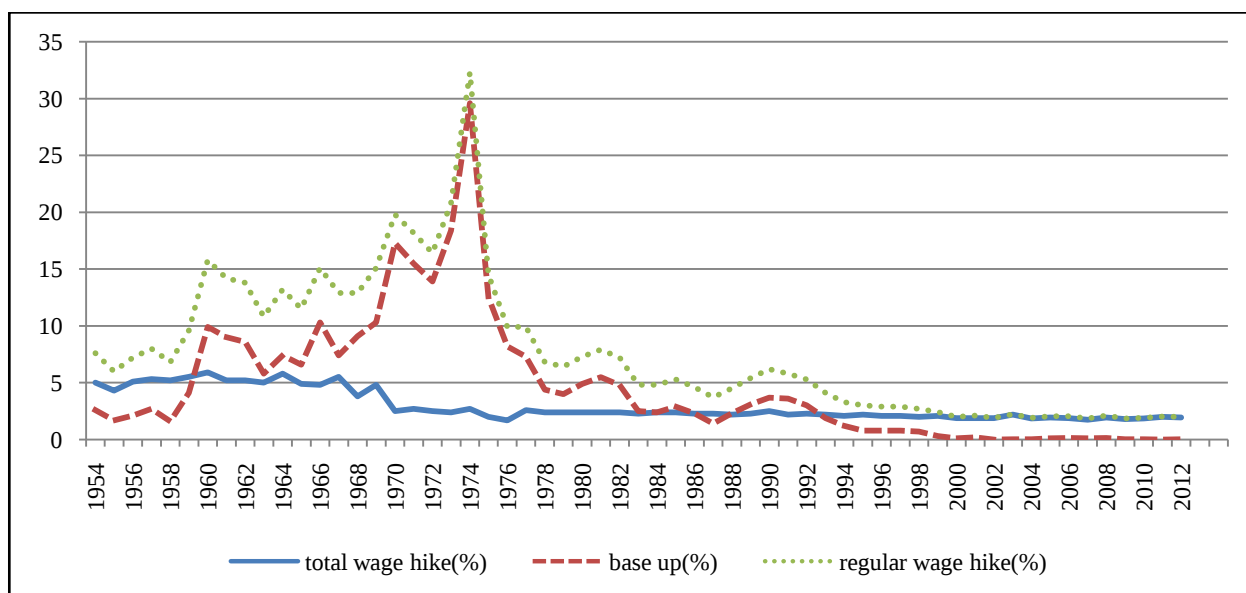


Figure 1. The chronicle of wage hike of Japanese companies, source: Nikkeiren and Nihon-Keidanren survey.

"Regular wage hike system" consists of two parts. One is "the hike by personnel appraisal". The better employees get the appraisal, the more pay can be given to them. Personnel appraisal is controlled by employers. In other words, whether wage hike should be done is initiated by the management side.

The other is "the automatic hike". It means that the more seniority (length of service or age), the higher wage hikes. This hike mainly covers living costs for workers, while the seniority is also reflection of skill level, degree of ability and loyalty to an organization. Sometimes these two parts are separately decided and sometimes they are mixed and borderless. The reason is that high appraisal and long length of service are often related each other. But even though roughly, two parts are separately considered, at least according to NIKKEIREN's statistics.

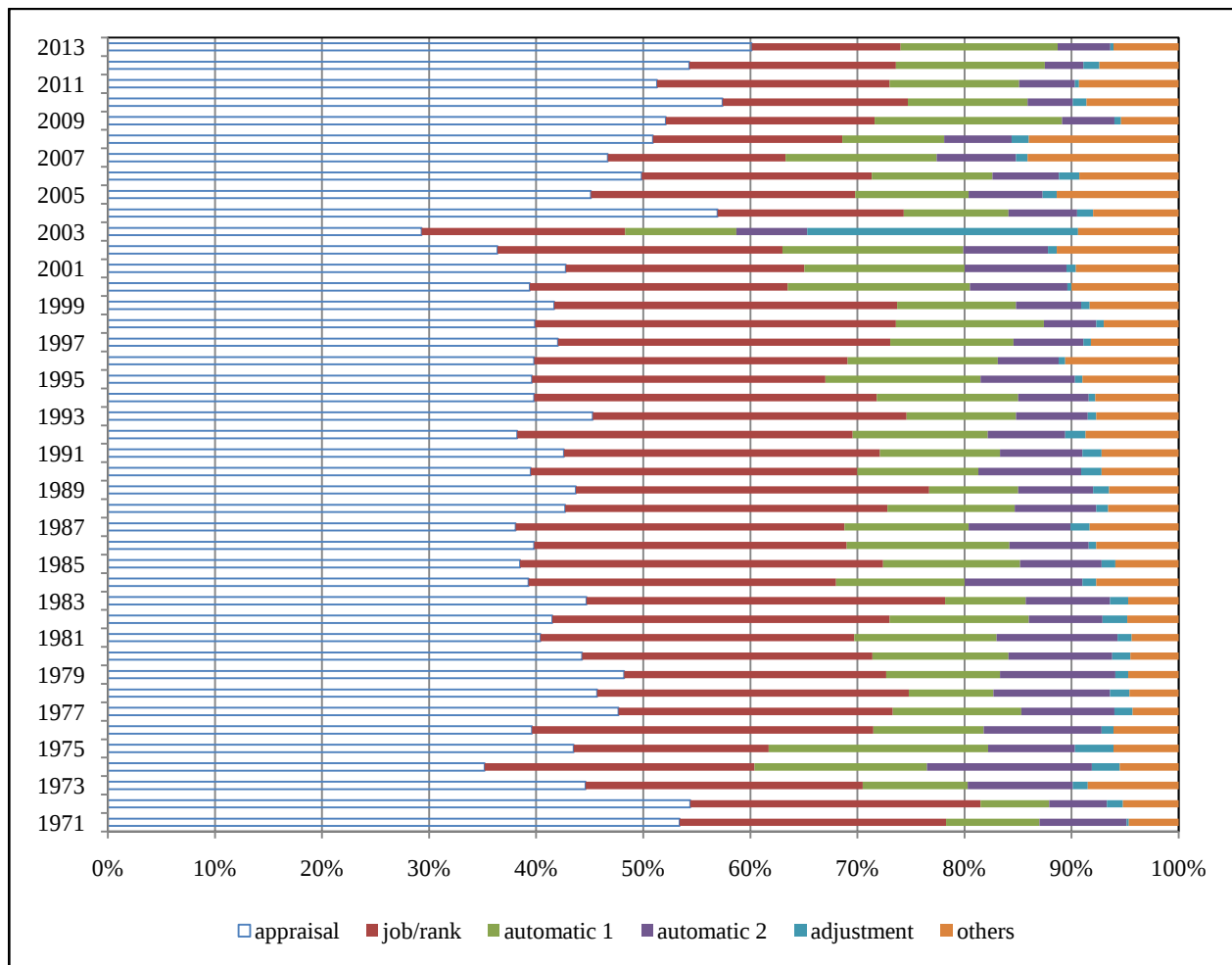


Figure 2. Share of factors in regular wage hike, source: Nikkeiren and Nihon-Keidanren survey.

Secondly, go back to the history for a while. Regular wage hike system was “officially” recognized as a main compensation policy by Japanese employers in 1954, when NIKKEIREN advocated the introduction of the system to Japanese companies. NIKKEIREN was established in 1949 by Japanese employers in order to fight against such radical labor movements and to realize industrial peace in Japan, in the name of “Employers, be righteous and strong”.

From its establishment, NIKKEIREN tried to recapture the initiative of the company management from labor unions. Promoting regular wage hike system was one of the most indispensable factors to stabilize wage orders of employees in organizations. Comparing with base up, employers can control wage hike rate with regular wage hike system by themselves. So, recognition of regular wage hike system at the center of Japanese compensation system is an essential issue for Japanese employers.

Wage Determination in Japanese Companies During 1990s—From “Pay for Seniority” to “Pay for Performance”

“Pay for seniority” and “pay for ability” were actually popular wage determination policies in many Japanese companies until 1980s. However, the economic environment changed dramatically from 1990 worldwide.

In Europe, the Cold War ended and the communism block led by USSR was broken. In Asia, a lot of countries took off for higher economic development. As a result, the number of actors in worldwide market economy increased. These phenomena caused “mega competitions” among market actors.

In Japan, the bubble economy burst in 1990, causing the long-time stagnation and deflation for more than 20 years. The pace of economic growth slowed down and the valued added created by a company kept on shrinking for many years. Japanese employers had to change the idea to divide the pie between labor and management and among labors.

“Pay for performance” was introduced to a lot of Japanese companies at the time, which was generally based on “objective” appraisal to employees’ results and performance. This pay system seemed to deny “seniority”, including length of service, age, living costs, etc. Under pay for performance, the wage of each personnel may be declined theoretically, which is up to the result and performance of employees.

NIKKEIREN proposed pay for performance through 1990s, linking wage system to the new employment system, called “employment portfolio”. In “employment portfolio”, employees are divided into three kinds: regular workers, specialists, and atypical workers. Pay for performance should be applied to regular workers and specialists. NIKKEIREN aimed at more effective division of value added among employees, based on their contribution to companies. The concept of “employment portfolio” became popular in those days and it is still discussed sometimes by parties concerned.

The purpose of NIKKEIREN’s introducing pay for performance is not for inducing tough competitions among employees, but for developing “human-oriented” management that NIKKEIREN and Japanese employers have advocated for a long time. Under “human-oriented” management, employees should contribute to their companies, making full use of their abilities. It was thought to be a kind of “self-actualization” of employees by NIKKEIREN and Japanese employers. NIKKEIREN also thought that placing them to their suitable positions and paying to them based on their contribution to their companies is the best way to vitalize both companies and employees.

NIKKEIREN also invented the idea of “multi-path pay schemes”. Employers prepare some kinds of pay schemes, according to the employment styles such as shown in “employment portfolio”. As for regular workers, pay for performance should be applied; as for atypical workers like part time workers, dispatched workers, et al., hourly wage payment should be applied. In those days, one measure for payment was applied to all kinds of employees. What was new in those days was that NIKKEIREN divided employees into some types and suitable measures should be applied to such kinds of workers. This was advancement of compensation policies under the idea of “employment portfolio”. The idea was accepted to Japanese employers and their styles were transformed to each company through 2000s.

Pay for performance system became notorious in Japan, mainly because of employers’ lacking the measures to appraise personnel performance objectively. In other words, Japanese business style was not so suitable as to adapt pay for performance system, owing to their implicit and tacit ways of management. The word “pay for performances system” almost disappeared until the middle of 2000s as a “buzzword”.

However, the idea of pay for performance system became linked to the “regular wage hike system”. What pay for performance system left was more emphasis on the part of “pay by personnel appraisal” in “regular wage hike system”. In other words, the part of “pay by personnel appraisal” in “regular wage hike system” was strengthened by “pay for performance” through 1990s.

Also, it should be born in mind that shrinking of base up, nearly zero nowadays, was the opportunity of draw the attention to “regular wage hike system”, which guaranteed constant payment to employees, even though it was connected to personnel appraisal. NIKKEIREN made full use of regular wage hike system, in order to retain their initiative to control the wage level in their companies, even under the boom of “pay for performance system”.

Wage Determination in Japanese Companies During 2000s—Why “Regular Wage Hike System” Dies Hard?

During 2000s, Nihon-Keidanren (succeeding NIKKEIREN, by the merger of NIKKEIREN and KEIDANREN) started to introduce a kind of “pay for role” system to Japanese companies.

As mentioned before, the “role” defined by Ishida is market-oriented idea, which prefers performance to seniority and ability. But the “role” mentioned by Nihon-Keidanren is more comprehensive jargon. Job description in the “role” is not so strict as “job”. It reflects not only result and performance but also abilities and length of service. It is a kind of hybrid of pay for job, pay for performance, and pay for ability. Reconsidering the failure of “genuine” pay for performance, Japanese employers focused not only on visible performance but also on invisible process to create the results, employees’ abilities to make performance.

Different from Ishida’s market-oriented idea of “pay for roles”, Japanese employers still make much of “seniority” or “length of service”. Nihon-Keidanren refers to the importance of long-term employment. Nihon-Keidanren explains the point in the paper as below. “The compensation policies should make full use of advantage of long-term employment. Especially it is important to include human resource development and motivation factors in compensation policies, in order to activate long-term/regular workers” (2008).

Excerpt from Nihon-Keidanren’s report named “Establishment and Practice of Wage System Based on Job, Role and Contribution” (2008). It means that “pay for role” taken by Japanese employers is not mere market-oriented defined by Ishida but more comprehensive idea.

Figure 3 shows the important issue to be considered in compensation policies by Japanese employers. As for supervisors, ability, role, and performance are important. As for rank and files, ability, job, and role are emphasized. Especially, ability is most prioritized both for supervisors and rank and files. The share of “role” is not so large as expected.

In reality, the interpretation of “pay for role system” differs by company. Some put priority on ability of workers and the other emphasize their performance. Even length of service is not completely denied as a factor to be considered, because it was still regarded as the source of living costs, symbol of loyalty, etc.

	Total	Job	Ability	Role	Performance	Age/seniority
Supervisors	100	15.4	30.2	28.9	23.2	2.3
Rank and file	100	15.6	52.7	13.9	8.1	9.8

Figure 3. Important issue to be considered in compensation policies by Japanese employers (%), Source. Nihon Keidanren survey (2014)

Now back to “regular wage hike system”. As shown in Figure 1, “regular wage hike system” has died hard among Japanese companies for half century. Even in the era of pay for performance in 1990s and pay for role in 2000s, it keeps the presence steadily.

There are some reasons why it has survived.

Firstly and mainly, Japanese employers have clung to taking initiative to determine wage hike rate, in order to keep the order of in-house organizations. Base up is determined by collective bargaining between labor and management in Shunto (Annual Spring Wage Negotiations), while “regular wage hike system” can be determined by the initiative of management, based on their office regulations, labor contracts, and personnel appraisal, as far as it is not against laws. All in all, Japanese employers have consistently strengthened “the part of the hike by personnel appraisal” in regular wage hike system, by introducing some kinds of pay systems such as pay for job, pay for ability, pay for performance, and pay for role. Whatever compensations policies they take, “regular wage hike system” has never discarded by Japanese employers. The above compensation policies are kinds of “appearances”. Regular wage hike system has been at the very core of compensation policies in Japan for a long time.

Secondly, the part of automatic pay in “regular wage hike system” has played the role of safety net for employees, by guaranteeing living costs for them. Employers were not able to ignore the factors which stabilize employees’ standard of living, induce the loyalty of employees to them, and keep the talents in their organizations.

Conclusions

“Regular wage hike system” will continue to live, as long as Japanese employers want to retain their initiative to run their company management, especially from the view of personnel management. But nowadays, there are some factors to change the current situations.

Firstly, labor unions want “regular wage hike system” to be included in an agenda of their collective bargaining. Base up is almost zero recently (see Figure 1), owing to prolonged deflation. Labor unions are required to show their presence in wage negotiations to their member workers. They expect that participation in the process of “regular wage hike system” is regarded as one of their effective ways.

Secondly, “regular wage hike system” is applied to “full-time” regular workers, while “part-time” non-regular workers are not included in the system. The percentage of non-regular workers is nearly 40% in Japanese employed workers in recent statistics. Whether this “unfairness” can be allowed in the near future will be a problem, in the view of “Equal Work, Equal Pay Principle”. The government started to discuss this issue recently. Some kinds of “comprehension” may be necessary.

“Regular wage hike system” will survive as a compensation control way in Japanese companies also in the future, while employers may want to narrow the hike rate, even zero, by strengthening personnel appraisal under the current tough economic conditions. However, some modifications, considering the change of Japanese society, might be necessary from the view of equal treatment among employees.

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