

# Japanese employment practices

[Sociology](#), [Empowerment](#)



| International EMPLOYMENT RELATIONS | | TO WHAT EXTENT THE JAPANESE  
EMPLOYMENT PRACTICES HAS CHANGED AFTER THE ECONOMIC CRISIS? | | |  
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REFERENCES10 INTRODUCTION In the post-war period, Japanese  
manufacturing companies significantly increased their share of the global  
market of automobiles (Automotive

News-Market Data Book, quoted in Womack, Jones, and Roos 1991, 69) as  
well as achieving more than 50 percent of the world markets in cameras,  
video recorders, watches, calculators, microwave ovens, motorcycles, and  
colour televisions (Oliver and Wilkinson 1992, 5). Much of this success was  
attributed to the forms of human-resource Management found in Japanese  
companies (Abegglen and Stalk 1987; Clark 1987; Dore 1990; Tachibanaki  
and Noda 2000).

However, during the period of Asian Financial crisis and economic recession  
for most of the 1990s, the typical Japanese features that supported  
comparatively high performance until the late 1980s came in for severe  
criticism. Considering the high performance of the US economy in the 1990s,  
Neoliberals, based on the universal relevance of liberal markets, argue that  
the Japanese model is dead, and that Japan must (and will) adopt the US

liberal market model (Lindsey and Lukas, 1998; Lin, 2001; Dornbusch, 1998; Krugman, 1996).

By contrast, many theorists of institutionalism, based on contextualized efficiency and path-dependent national patterns, claim that Japan continues its path-dependent national model due to its unique culture – taken for granted within the culture – the interconnectedness of institutions and agents' efforts to utilize the comparative advantages of their institutions (Dore, 2000; Green, 2001; Isogai et. al. , 2000; Chesbrough, 1998; DiMaggio and Powell, 1983; Hall and Soskice, 2001).

However, neither the neoliberals' argument for simple convergence towards a liberal market economy nor the institutionalists' claim for the continuation of the original Japanese model can explain the dynamic changes happening within the Japanese model at the turn of the century. In this report, the recent trends of Japanese employment relations will be examined. Two questions have been addressed here. First, why the traditional Japanese employment system has been changed.

Second, to what extent has ER system has been changed? To answer these questions we will first examine the traditional Japanese model and then after considering some issues relating to the reasons of this change, we will analysis the current trends to find out the extent of modification in a number of typical ER practices. A discussion of the implications of these changes is then be presented, followed by the conclusion. TRADITIONAL JAPANESE MODEL OF EMPLOYMENT SYSTEM

Japan is a complex, dynamic society that has undergone enormous change in the past 125 years, converting itself from a feudal state into a modern industrialized nation and an economic superpower. In doing so, the Japanese have been able to copy Western technology, science, education and politics, while still keeping their unique cultural identity. One distinct feature of Japan that separated it from other Asian countries was its collective culture which has been carried over to the companies (Kashima and Callan, 1994).

As an employee, an individual identifies with a larger entity through which one gains pride and feeling of being part of something significant, tying an individual's prestige directly to the prestige of his or her employer. Typically, the company is seen as a provider of security and welfare. To a large extent, loyalty to the company surpasses the family bond. The core principles of Japanese employment model is the so-called "THREE SACRED TREASURES" (sanshu no jingi) of Japanese management. 1) The lifetime/long term employment system (shushin koyo) The terms "long-term" or "permanent" employment are used synonymously to describe lifetime employment, which was established at many companies during the period of high economic growth during the 1960s. The concept of lifetime employment emerged as a result of the peculiar aspects of Japanese employer-employees relations that were supported by narrow labour markets during the post-war period when Japan experienced a labour shortage for the first time in her industrial history.

This system developed and was established at many large and mid-sized companies during this period of high economic growth. With rapid

technology innovation and expansion of businesses, large-sized companies hired inexperienced manpower directly from the labour market and through in-house training and development programs these workers developed various skills and techniques. (2)The system of seniority-based wage and promotion (nenko joretsu) Here status and seniority are tied to length of service, rather than to job duties or merit.

According to this system, the decisive factors determining pay are the length of service, age and educational background, not the work performed. The system goes hand-in-hand with the lifetime employment. Traditionally, the seniority-based reward system had two different aims. The first was to advance an employee's career and provide financial compensation based on a broad social considerations and personal qualifications, such as the age and education level of employees. The second was to make extensive use of non-cash fringe benefits for employees and their families. 3)Enterprise unionism (kigyobetsu rodo kumiai) Another important characteristic of Japanese employment relations are enterprise-based unions. In Japan, unions are organized at the enterprise level, collectively bargain with a single employer, and conclude collective agreements on the enterprise level. According to Inohara: " Enterprise-wide unionism specifically expresses the workplace in terms of union membership. In principle, it organizes all regular employees of a company indiscriminately into one union, i. e. it is an employee organization on the basis of where they work (company) and not what they do (occupation or skill). Such a labor union is not dominated by the company; it represents the workforce, and as such, enjoys appropriate prestige and benefits provided by the company. Relations between

management and the union are between insiders, namely, all the members of the union are company employees. Intervention by outsiders such as industrial and national labor organizations, outside business agents, or attorneys is not tolerated. ” THE CHANGING NATURE OF JAPANESE EMPLOYMENT SYSTEM

Sources of change Prior to summer of 1997, the Japanese system guaranteed easy access to low-cost capital and raw materials was supplied by a loyal and devoted labour force (at the time of labour shortage) which facilitated market expansion. However, the market became saturated and the economy slowed down, these competitive advantages were turned into liabilities. Keiretsu banks found themselves saddled with bad debts from group companies, inter-group purchasing became barriers to cost reduction, and excess size of an albeit loyal labour force was viewed as a burden to struggling companies.

Japanese companies were also reacting to the information revolution and were left behind by their American counterparts. Although, most Japanese companies have found change at a quick pace too much to ask they had to adopt foreign practices and policies in order to survive. Deregulation is another force for change. It has made Japanese markets more accessible to competitors, foreign as well as domestic. In heretofore-protected industries like financial services, distribution and agriculture few firms are prepared for the onslaught of competition and uncertainty (Lincoln and Nakata, 1997).

The aging population also has clear implications for corporate employment relation practice. With an aging workforce, the permanent employment and

seniority system burdens firms with rising numbers of higher-paid and less productive workers. Previously, these systems were more suitable to employers, since the steep seniority escalator resulted in less payment for the relatively young workforce and the permanent employment norm reduced the uncertainties and costs of high staff turnover.

Furthermore, the transition to a service economy combined with socio-cultural and socio-economic changes has had a profound effect on Japan's employment institutions. Even though leading-edge manufacturers are still competitive, their contribution to Japanese domestic employment and income is shrinking, in favor of the emerging service sector as the next great engine of jobs and wealth. Employment practices of sales and service firms are different from those of manufacturing. Their younger workforce is more mobile, less committed to work and the firm.

Furthermore, since the organization of work in service firms is less team based, individual performance is more easily evaluated. Also, occupational skills are valued over firm-specific skills, so that broad job experience becomes the main driver of wages and performance rather than loyalty to one employer (Debroux, 1997; Lincoln and Nakata, 1997; Ornatowski, 1998).  
Lifetime employment One of the distinct features of the Japanese employment relations system is lifetime employment. Japanese workers joins companies at a young age, and spend a larger portion of their life in the company compared to other countries.

The figure below can show that Japanese workers in terms of length of service, average number of years and median years compared to workers in

other countries was much higher . Table1: Comparative Length of Service [pic] Source: Adopted from Current Labour Economy in Japan. Notes: 1, 2 and 3: Average length of service based on OECD Report, 1995. Other figures from the respective country. From the middle of the economic crisis till 1990, there have been ongoing debates to reform the lifetime employment system.

Company attitudes were gradually changing due to increasing labor costs, employees' age, a growing rise in the number who unable to cope with the rapidly developing new technology and changing globalized markets.

Employers now need staff with readily usable skills and workers who have specialized abilities in order to respond to stiffer competition and handle more complex specialized operations. The older workers employed with lifetime contacts are not able to adjust rapidly to new developing technologies typified by information technology.

Many companies have begun to adopt more diverse hiring practices over past few years, taking on experienced employees in mid-career in addition to new graduates. Employers prefer to hire mid-career and non-regular workers both in large, mid- and small-sized organizations. The rate of hiring of midcareer workers in non-clerical positions is higher in small businesses. Hiring mid-career workers, on the one hand, minimizes training costs and, on the other hand, companies get workers with ready-made skills who can work with developing technology.

In fact, employers are now seeking staff with readily available skills and workers with specialized abilities who can handle more complex and specialized operations so they can respond to stiffer competition. Many



employers are arguing for some partial adjustment to the prevailing practice of lifetime employment. The table below shows how companies are changing their attitude toward lifetime employment practices: Table 2: Companies changing their attitude toward lifetime employment practices: Attitude Response | Percentage | | Partial adjustment is inevitable | 40.0 | | Will basically maintain the practice | 36.1 | | Fundamental review is necessary | 15.3 | | Do not have lifetime employment practice | 5.2 | | No response | 3.3 | Source: Labour Situation in Japan and Analysis 2004-2005, p. 26. According to the Ministry of Labour Special Survey, about 30 percent of all employees in Japan are non-regular as of 2000 (Japan Labor Bulletin, 2000: 1-2).

According to the table below, the recent trend Table 3 : Changes in Regular and Non-Regular Employees during Recession (10,000) | 1985-6 | 1991-4 | 1997-2001 | | Regular Non-Regular | Regular Non-Regular | Regular Non-Regular | | Female | 24 | 15 | 47 | 64 |-82 | 151 | | Male | 16 | 2 | 119 | 10 |-89 | 55 | | Total | 40 | 17 | 166 | 74 |-171 | 206 | Source: Wakisaka (2002).

towards using non-regular workers is in contrast to the traditional pattern in which non-regular workers decreased during recession while regular workers maintained their jobs due to their skills accumulated through in-house training. In 1997-2001, the number of regular employees in Japan sharply declined by 1.71 million, while the number of non-regular workers increased by 2.06 million.

The fact that non-regular workers are replacing regular workers indicates that Japanese companies have changed their traditional values of high skills based on in-house training and employees' loyalty supported by lifetime employment, instead considering labour costs and the flexibility of the labour

market. As a Joint Labour Management 1998 survey documents, workplace morale has declined as the number of non-regular workers has increased (Morishima, 2001). Seniority-based Pay and Promotion System Another important characteristic of Japanese employment relations system is the seniority-based pay and promotion system. To understand the main concept behind the seniority-based wage system it is important to know the wage theory presented by Koike. year) where wage refer to: a) salaries that increase in accordance with age and length of service; b) the rewards that are not paid on the basis of the job performed; and c) that are unique to Japan. The main salary determination factors are seniority and the number of years the employee has been working at the company. Salary increase based on seniority is a general labour practice, and not a “ system. ” Japanese companies rarely evaluate academic degrees such as doctorate. Yamanouchi and Okazaki-ward had tried to explain the history and practices of the evaluation system in Japan. They argue that Japanese companies had gone through different turning points in the evaluation system for the sake of pay and promotion.

The American system of job analysis and job classification was introduced as a modern, rational management system to rebuild Japanese management in the 1950s which marked the first turning point in the Japanese system. The second turning point came between the 1960s and 1970s when companies introduced a competency-ranking system which almost 64 percent of the organizations followed until 1974. The third restructuring occurred in the 1980s when the competency-ranking system did not work effectively due to

the effect of an increase in the value of yen; globalize business activities, deregulation, the maturation of the economy, and an aging workforce.

Keeping senior employees became more costly than employing younger employees, particularly those over 40 years old in 1990 due to the recession. This was driven by the need to cut cost. In recent years, growing numbers of companies are clearly evaluating ability and performance over tenure and age in salary decision. Since the early 1990s, some companies have introduced a system of job ability-based wages focusing individual worker performance over one year compared with goals set at the beginning. This new system is quite close to a true performance-based pay system. It has been termed "Annual Salary System" and has been introduced by about 10 percent of large companies.

This system is primarily used for managers and general managers, not for lower level employees. The monetary benefits to employees, if any at all, are typically small (Debroux, 1997; Lincoln and Nakata, 1997; Ornatowski, 1998). The attempt to shift to performance pay shows the dilemma between companies who worry that the resulting inequities will destroy morale and unity. Besides, most companies may not like to see younger people supervise older ones. Also, there are fears that individual merit pay will ruin the Japanese system of team-based production, where stronger team members assist weaker ones for the good of the performance of the team as a whole (Lincoln and Nakata, 1997).

The continuities in the Japanese employment systems are as striking as the changes, especially when one looks at the depth and length of the economic

recession. Based on data from 1,618 firms, Morishima (1995) highlights three different types of attitudes and actions of firms toward employment system reform. One group of companies tries to change their wage system from seniority based to performance based and these firms try at the same time to use the external labor market to recruit workers. Although they represent the highly publicized trend away from traditional Japanese employment practices, these companies only make up 10.8% of the sample. Most firms (56.%) have retained the traditional employment system representing the majority force of continuity. A third group (32.4%) shows a mixed picture consisting of firms that are reforming the wage system, while maintaining long-term employment practices. These findings highlight the striking resilience of traditional practices as well as some important changes.

Enterprise Unions Japanese unions are organized on an enterprise basis, with only permanent, fulltime employees of the company eligible to join the union. This structure has led Japanese unions to defend job security and the working conditions of their members through company-based mechanisms. The union's chances of success through such mechanisms is, at this time, somewhat diminished. This has led unions to focus on job security rather than pay increases, which has lessened their appeal to young people, and has alienated unorganized nonregular workers in large companies and the vast majority of employees in small companies (Debroux 2003a). With the decline of lifetime employment and the increase in the number of non-regular workers, not only enterprise unions but the entire union movements are now declining. For example, the unionization rate (union members divided by number of employees) declined from 34.7 percent in 1975, to 28.

9 percent in 1985, 23.8 percent in 1995 and 22. percent in 1998 (Shirai, 2000: 20). In addition, the role of conflict resolution traditionally played by Japanese enterprise unions, also declined despite the formal existence of enterprise unions. Recently, individual labour-management conflicts have increased. For example, the number of cases concerning workplace disputes over daily employment and working conditions, dealt with by the Labour Standards Inspection Offices, increased to 20,000 in 1994. Similarly, the number of cases of consultation that the Labour Administration Offices and the Women's and Young Workers Offices deal with have also exceeded 75,000 and 10,000, respectively (Shirai, 2000: 119).

It is important to note that since the economic contribution of temporary workers is increasing, it's necessary to recognize their representation in the labor market by protecting their rights. With increased cost-cut measures adopted by employers due to rising competition, there has been a substantial increase in the employment of non-regular workers in the last few years. The unionization rate of these workers is only three percent. At the same time, employers have become increasingly interested in performance-based systems on the enterprise level. These developments should influence the future role of unions in the regular wage negotiation process. CONCLUSION This report has explored the changes taking place in ER in Japanese firms.

A period of sustained economic decline, increased global competition, a rigid employment and business system, a banking system on the verge of collapse, and the occurrence of the Asian financial crisis meant that the

1990s was a catalyst for change and regeneration. While these factors were influential in providing the impetus for change, other factors, such as the aging population, declining birth rates, and the short-term horizons of younger workers, were also important. Overall I have found evidence of the flexibility in distinctive features of Japanese employment relations system, which are lifetime employment, seniority based system and enterprise-based unions.

The number of employees under lifetime contract is now in decline as Japanese companies have started to adopt more diverse hiring practices, such as: taking on experienced employees in mid-career in addition to new graduates, recruiting contingent workers e. g. part-time and other types of non-regular employees has overtaken employment of lifetime employees in recent years. In 1982, 84% of full-time workers were “ regular” workers— with long-term careers and good fringe benefits at one company. But 20 years later, the regular workers’ share had shrunk to 68%. Companies attitudes towards seniority based system have been changing as well. Many companies have changed their wage systems to reflect individual performance.

They are now adopting “ PAY SYSTEM BASED ON PERFORMANCE,” which represented by the annual salary system and “ JOB-BASED SALARY,” which mainly focusing on people occupying managerial positions or higher. An increasing number of companies are putting a stop to their practice of periodic salary raises based on seniority and introducing systems in which bonuses are influenced by evaluations. Another important characteristic of

Japanese employment relations are enterprise-based unions, which is now under threat because of the decline of lifetime employment and the increase in the number of non-regular workers. Moreover, given today's strict economic climate in which wage increases are difficult, the SHUNTO is shifting from its former policy of seeking wage increases as the highest priority to " job security and maintenance. "

No matter whether it regards performance pay, the elimination of management titles, or reductions of the workforce, the change of employment practices in Japanese companies seems to be slow and incremental, carefully avoiding unexpected or shocking breaks with the past. Furthermore, they are not changing the typical Japanese model completely, trying to make it more effective by modifying them according to the new trend of highly competitive globalized market.

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