

Seniority based wage and promotion system business essay



Seniority based wage and promotion system. Commitment to the firm is highly encouraged in Japan. The Japanese firm is trying to encourage capable, high skilled workers by discouraging them a desire to change their place of work in mid-career. It results in an incentive system, which has three important elements: the system of wages, which takes into account seniority and merit of the employee; promotion of individual employees based on individual merit; lump sum payments at retirement. The application of incentive system just exaggerated idealization of a relatively long period of work in Japanese firms.

The seniority based wage system has gone hand in hand with lifetime employment and takes its origins from the beginning of XX century. This system was adopted and widely used in public sector than in the private sector. Kazuo (2004) describes the seniority based wage system as a method deferring payment of wages, which made employees to remain and work in the firm for a long period of time "...by setting wages below marginal productivity for those who have been employed for a relatively short period, while offering wages greater than marginal productivity for those who have been employed for a longer period"(para. 1).

Kishita (2006) characterized the Japanese HRM system in the period from 1960 to 1980 as "an ability oriented system" which was based on seniority (p. 3). The worker, who transfers to another company loses seniority and starts from very beginning. The more employee worked in the firm – the higher his rank and hence his wage. Sugeno (2004) point out that "if an employee under the seniority wage system is to quit his job, it will be rational for him to do so at an early stage of tenure" (para. 14). According to <https://assignbuster.com/seniority-based-wage-and-promotion-system-business-essay/>

the existing traditional theory the employees with a long period of service at the company and a good reputation in terms of their skills get better opportunities for promotion. In other words, less diligent workers have much worse prospects. It means that rewards mainly related to the length of the service instead of individual abilities and skills of the worker. From the other side, there exists another traditional theory which insists that “ older workers receive higher wages because of their cost of living is higher” (Arai, 1988, p. 21). In both cases the performance and productivity of employee does not the factors of consideration in wage determination. Ono (1987) points out that an age of the worker is the most important factor for consideration while the wage determination process. Within the second model there was made the wage contracts which identified the level of wage at different ages for the worker. It is believed that that the second model is not effective from the view of modern HRM system.

The traditional theories of wage-based employment do not consider the effect of competition on wage determination. Therefore, the main negative feature of Japanese incentive system was the lack of competition within the firm. It is explained by the fact that each worker was sure in his further promotion regardless his working efficiency. Therefore, there were worked out other mechanisms for promotion of competitiveness among workers in order to climb the corporate ladder. Kishita (2006) notes:

“ Japanese employers appointed the employees to managerial positions based on the performance of their work instead of their seniority. In the successful three decades, most managers in Japanese firms were promoted internally after ten years of service. As smart employers did not tell who

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would be promoted (for this period), almost every employee thought that he (or very rarely she) would have a chance to be selected to higher positions, and thus (he) made great efforts" (p.).

Obviously, that the number of managerial positions within the company was limited and not everybody was able to become a manager and stay in the company. Japanese companies wanted to avoid a loss of enthusiasm and created affiliated companies where they transferred the non-managerial staff members as managers. Kishita (2006) explains that lifetime employment was a system focused on security of employees within a group of affiliated companies. Thus, the workers retained in the firm and continued to work in related companies in managerial positions.

Seniority based wage system has many characteristics in Japan. Arai (1982) defines it as a " form of implicit labor contracts" (p. 53). This system is used mainly in large enterprises and applicable to full-time regular workers and male workers (Sano, 1976). The regular workers paid monthly wage and additional bonuses twice a year in June and December (Kishita, 2006). The salary is based on the general classification and years of service of employees and intended to cover living expenses. The monthly salary of a worker included a basic salary and plus several types of allowances (overtime premiums, housing benefits and etc.). The basic salary was based on the ability of employee to perform a job and was called " the ability based grade system" (Kishita, 2006, p.). When it comes to the bonus system, it applies not to all workers. Each bonus is equal to one or three month's salary. Additionally, the term bonus suggests a special reward for good work.

The semi-annual bonus has become an integral part of the wage system. It is <https://assignbuster.com/seniority-based-wage-and-promotion-system-business-essay/>

also a profit sharing for companies. The size of bonus depends on the size of the company's profitability, and is subject to collective bargaining by the company's union. If company facing bankruptcy, it continues to pay reduced semi-annual bonuses. Since bonus is a part of wage package, the company withholds it from the monthly salary of employee. Japanese workers receive a bonus payment, which is predictable and substantial, and use it for major purchases and for savings.

As it was mentioned, there are two important elements of seniority-based wage system: age and length of service of worker. " Thus a worker who got employed by a firm in his mid-career receives wages lower than those for workers of the same age but with longer lengths of service in the firm" (Arai, 1982, p. 53). It is mean that payments depending on the characteristics of the employee can be determined on the basis of his seniority and merit. Assessment of the merits of the employee as a whole plays more important role in the decision on his promotion at work. Therefore, some workers could reach the highest rank in the middle of a career, and then moved on and became a manager, while the least competent workers could reach the highest rank in the usual category of only a few years before retirement. As a result of these differences there were eventually developed a significant imbalance in the basic rates of payment for employees with equal seniority. The payments of such categories of workers as artists and managers were usually not associated with specific functions performed by them. The high rank means the high status of the worker and effected on the higher annual growth rate of his salary. For the new workers the payment was set on the base of lowest rank and promotion was slow and continued from five to ten

years. There was not much difference in wage and bonuses. Wan (1999) points out, that promotion started with the higher speed when worker became a kacho. Then, the decision about promotion was made in the basis of individual performance, capability, potentiality and personality of an employee. The collective agreement between the company and the union workers stipulated the minimum and maximum rate of advance of the ladder of ranks, as well as the annual increase in base rates for employees of each rank.

Additional element in Japanese incentive system is a mandatory retirement employment system with lump sum payment. All private and public firms are obliged to retire regular workers at ages from 55 to 62. As regular employees these retirees receive pensions. The pension is divided into two types and retire can receive it, either as a large lump sum payment, or as a regular monthly pension. After retirement some retirees continue to work for a few years on a contract or part time basis. They may work for the same employer or for an affiliated firm. In post-retirement position there is no lifetime employment and seniority-based wage system.

Thus, the Japanese companies do not pay their workers for the particular jobs they perform. They maintain very broad employment categories or ranks, where employee begins with the standard basic wage and receive an increase in payment for each year of service. The seniority-based wage system keeps employee from changing jobs, since after a few years of employment they get the wage level that they could not match if they moved to another company. This system underpays young employee, however rewards them very good in later years, even if their productivity

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declines. An early retirement age also supports the seniority wage system, normally forcing employees to retire from their regular positions at early ages.

Trade unions

Organization of trade unions is being one of the principles of Japanese management. Before the pre-war period there were not organized trade unions and trade union law was not materialized. In the 1910s business leaders organized and introduced the worker representation – “ factory councils” and claimed that they were more effective than trade unions and conducted to “ labor-capital cooperation” (Moriguchi & Ono, 2004). On the fact, these councils consisted only of blue-collar employees and did not reflect the rights and status of white-collar employees. Moreover, the management refused to discuss such issues as safety, health, wage and benefits of employees. After World War I in 1921, financial crisis in 1926, and the Great Depression of 1929-1931 the Japanese economy got downturns. This period was characterized by the wage reduction, cancellation of benefits and layoffs of employee. As a respond to the critical situation, there were organized public demonstrations by workers. These protests made government to pressure on firms’ leaders to avoid dismissals. Gordon (1985) notes that there was emerged the voluntary retirement which became very effective measure in maintaining the good relations between management and employees. On the legislative level the government enacted unemployment insurance bill in 1932 which became the law in 1936. As cited in Moriguchi and Ono (2004):

“ The law mandated every employer (with 30 or more workers) to establish a retirement allowance fund for an employee and pay an allowance in case of separation. Affirming prevailing HRM practices, the law permitted employers to vary an amount of the allowance depending on an employee’s length of service and the reason for separation” (p. 10).

There were organized about 900 trade unions which included 400, 000 workers by the 1930s, however, all major firms still had no unions (Moriguchi & Ono, 2004). After 1945 the situation began to change. There was organized labor movement under the slogan of “ democratization of management” and workers formed employee unions - “ jugyoin kumiai” (Ibid.). These unions argued for the rights of workers, improvement of their status and welfare and demanded the equal treatment of all employees, employment guarantee based on contracts and participation in management. Thus, the main distinctive feature of these unions from previous factory councils was that they were consisted of both white-collar and blue-collar employees. From 1945 till 1949 many unions gained contracts with very favorable conditions for employees. Gordon (1985) notes that these contracts included the increase in wages, a variety of welfare benefits for workers and their security. In such conditions, the mistrust between labor and management developed and kept increase further which led to appearance of labor disputes in major Japanese companies. In most cases in strikes between labor and management won the last party. The disputes were ended with the division of core employees from the unions and formation of the “ second unions”, which “ became the foundation for enterprise unionism characterized by labor-management cooperation in

pursuit of corporate goals that took roots in most large Japanese firms in the following decade” (Moriguchi & Ono, 2004, p. 12).

To the team was able to represent their interests in matters of determining the overall level of payment and formation of administrative policies related to their welfare, and was able to effectively negotiate with the administration about this, there have to be a collective agreement at company level. That is why the enterprise unions of employees play an important role in the Japanese firms. They represent the collective interests of employees and integrate it into the process of addressing issues of intra-distribution and production management policy. An enterprise union is a company union and not an industry-wide union. According to estimations there exist other types of trade unions in Japan, such as industry or craft unions, however Hara and Kawaguchi (2008) report: “ more than 90 % of unions are enterprise-based unions” (p. 7). It includes all regular non-management employees – both blue collar and white collar – regardless of the work they do. It is usually led by employees who come from the ranks of white collar workers, however not yet become the part of management. Enterprise unions exclude temporary workers. They cannot join to the union and so do not enjoy the same benefits regular member unions do.

The world practice shows that in the U. S., Britain, Italy and other countries managers of industrial firms felt the increasing difficulties in managing the worker staff. It was becoming increasingly difficult to introduce new methods and techniques. Unions were always in opposition to management. In many firms the management withheld important and confidential information from the unions. There appeared the atmosphere of <https://assignbuster.com/seniority-based-wage-and-promotion-system-business-essay/>

conflict and suspicion which leads to decrease in productivity. The Japanese managers were aware of it and tried to design its management system on the base of mutual understanding and cooperation between management and unions in order to overcome these difficulties.

Japanese management considers the union as a legitimate mediator between management and workers in the questions concerning the wages. The unions in Japan are not divided with respect to occupation and represented by the union of workers of a firm. The unions in their turn share such the values of management as productivity, profitability and growth. They were fully aware that workers can improve their welfare only by increasing the productivity and therefore they began to cooperate with the management. Trade unions in Japan were constantly looking for ways and methods to improve the welfare of workers, without damaging to the company. They understood that the creation of favorable conditions for workers in the long run depended on the prosperity of the company. Unions critically examined the purposes and policy of management in order to identify any violations and constantly striving to raise awareness of the workers. Thus, they could develop a constructive relationship with management and cooperated with it.

The major problem was the absence of the law which guaranteed employment of workers. According to the Japanese Civil Code and The Labor Standard law of 1947, the employers had write to dismiss workers any time with the notification before two weeks and with equivalent payment of thirty days' wage (Moriguchi & Ono, 2004). The role of trade unions became very important in protection of employment of their workers. Moriguchi and Ono

(2004) report that: “ In exchange for their cooperation with management in rationalization and productivity improvements, enterprise unions demanded employment security of their members, i. e., all regular employees, as their first priority” (p. 13). Unions thus played the main role in creation of lifetime employment practice in large Japanese firms. There were created the statutory laws which protected the workers’ rights on employment. The judicial decisions of Japanese courts began to rule in favor of workers by establishing of minimum liabilities to employers in the cases of dismissals (Sugeno, 1992). Thus, after the 1960s the situation in the firm-level began to change in favor of employee, providing the legal base for lifetime employment.

During high growth period between 1960s and 1970s life time employment became more durable, stable and strengthened. It made possible for employers to made investments in human capital, provide systems of education and trainings of employees and developed human resources management. It resulted in stabilization of management-labor relations. In that period there was an increase and standardization of wages and minimization of wage dispersions. Appeared the “ new middle class” and the status of employee in the large firms became very desirable from the position of Japanese (Vogel, 1963).

The employment relationships suffered in the 1970s, when the two Oil crises occurred in the 1973 and 1979. The business leaders began to cut the salaries and bonuses of workers. According to Koshiro (1983) there were large-scale dismissals and more than one million employees became unemployed. According to many authors the major reason to suffer after <https://assignbuster.com/seniority-based-wage-and-promotion-system-business-essay/>

these crises laid on cooperation between labors and managers. The unions deeply cooperated with management in the questions of dismissal, reduction of wages and creation of measures to undertake the effects of crises and reach the stability (Shimada, 1992). The Spring Offensive is one of examples of wage reduction undertook by labor unions in 1980 (Takanashi, 2002). The Spring Wage Offensive is a campaign for higher wages launched by each industrial trade union and has two main objectives: “(1) to compensate for the enterprise-based unions’ lack of bargaining power as individual entities and (2) to distribute wage increases proportionately across companies and industries through simultaneous wage negotiations” (Hara & Kawaguchi, 2008 p. 8). Another reason was implementation of different projects maintained by the Government in order to sustain the economical stability in macro level. For instance, there were organized new affiliates where workers could transfer in order to escape the mass dismissals. Consequently, the collaboration between management and labor, the measures and projects undertaken by the Government assisted to mitigate the negative effects of crises and strengthened the Japanese employment system for the future decades.

After 1980s, once defined as an independent, any organization of employees or their representatives had the right to negotiate with the administration. It is theoretically possible that the employees of one company were represented in several competing unions or a union branch. Agreements at the enterprise level one industry often were coordinated by the industry federation of trade unions of enterprises. Despite the fact that Japanese laws allowed groups of employees of one company to be a member in various

organizations, trade union leaders preferred to protect the interests of all employees of one company so that they could be an effective representative of the interests in negotiations with the administration. The emergence of competitive trade unions in some way weakened it in the auction with management. However, since the majority support did not guarantee exclusive rights of representation, the union leadership had to be able to find consensus in order to secure the support of the various categories of ordinary members. Otherwise, the consistent disregard for the interests of minorities might lead to a competitive organization that reflects their interests. Consequently, the union leadership of employees should made great efforts to balance the interests of different groups, which required great political skill in the trade union leaders. Thus, the Japanese enterprise union system provides strong job security, good wages and benefits to regular employees by allowing companies to hire the contract (permanent) workers, who do not have the same job security and benefits.

To conclude, the three pillars of Japanese employment system have been lifetime employment, the seniority based wage system and enterprise unions. Only about one - fourth of the labor force enjoys all these advantages of employment. They are mainly the most privileged part of the labor force. These employment practices are expensive for companies to maintain. However, they are undertaken by large companies to reduce employers' flexibility, and small companies try to imitate them in order to keep their employee. Therefore, there is the greatest competition for jobs in large corporations that carry these benefits. They are no offered to every worker. The Japanese employment system distinguishes between regular,

who are entitled to these privileges and part-time or contract workers, who do not receive them. Both regular and contract workers may work in the same firm and do the same job, however their employment conditions will be very different.

The following part of paper focuses particularly on transformation of Japanese employment relations and the model of HRM on the whole after 1990s, under the impact of economical factors, such as the burst of the bubble economy, and prolonged recession. The process of globalization is also another main reason of transformation of Japanese HRM system. Many Japanese companies which enjoyed their competitive advantage lost it in the global economic competition. Transition to a service economy has had a great impact on Japan's employment system. Consequently, Japanese firms started to reengineering their HR practices.