

The Trend towards Performance-Based Pay and its Impact on Japanese Employment Practices

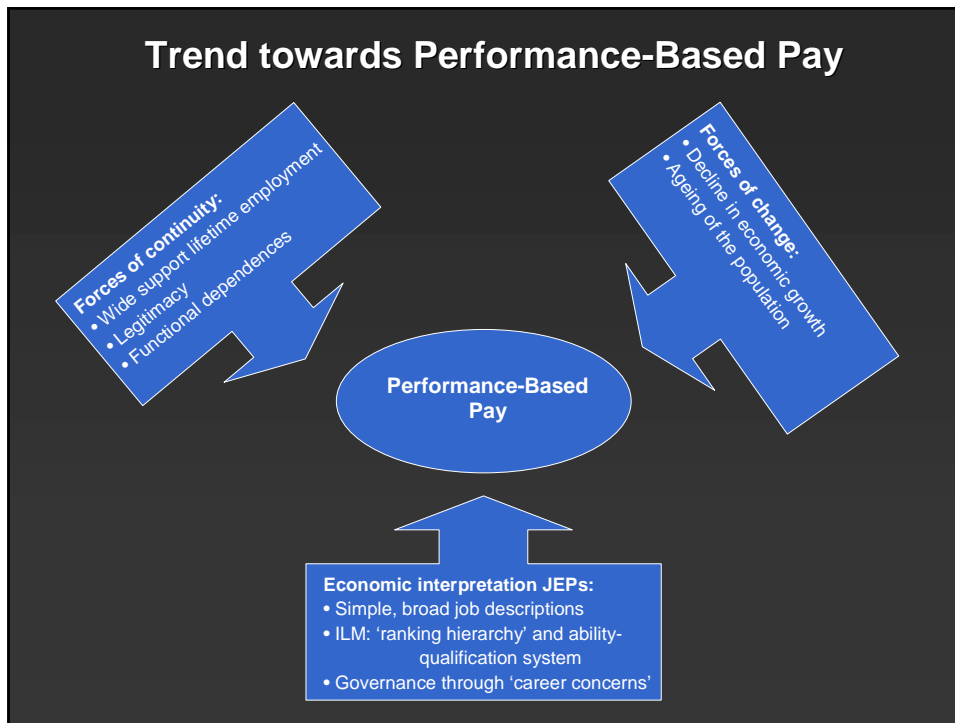
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The Study: economic discussion of change in Japanese employment practices

- Theories of the firm (TCE, RBV, etc.) and theories of institutional change
- Past analyses of Japanese employment practices
- Statistics on the Japanese labour market and employment practices
- Case-studies of large firms in a number of different industries
 - Automobiles (3)
 - Electronics (6)
 - Construction (2)
 - Retail / Restaurants (3)

Trend towards Performance-Based Pay



	1999	2003
(Basically) maintain the practice	34	36.1
Partial adjustment is inevitable	44	40.0
Fundamental review is necessary	17	15.3
Do not have lifetime employment	4	5.2
Can not forecast	1	-
Unknown, no response	-	3.3

Attitude of firms towards the future viability of lifetime employment

Sources: Hattori and Maeda, 2000, chart 15 (research by *Kigyō Keiei Koyō Kankō Senmon linkai*) and Japan Institute of Labour, 2004.

	Total	Construction	Consumer Manufacturing	Machinery manufacturing	Wholesale, trade, food	Finance, Insurance
Natural attrition	81.6	81.0	81.5	85.0	81.3	89.9
Employment restraint	76.9	82.8	78.5	81.3	77.8	77.2
Voluntarily retirement invitation & early retirement preference	34.2	48.3	36.9	44.9	19.6	25.3
No Contract renewal for contract and part-time employees	29.7	22.4	35.4	42.1	27.1	11.4
Expansion of <i>shukkō</i> and <i>tenseki</i>	26.0	46.6	18.5	30.8	29.2	24.1
Dismissal	6.9	1.7	10.8	5.6	7.6	2.5
Others	1.3	0.0	0.0	2.8	2.1	2.5

Strategies for personnel adjustment by industry

Source: *Nihon Rōdō Kenkyū Kikō* [Japan Institute of Labour], 2002

Strategies to Link Performance to Pay

- 'Open' management-by-objectives forms
- 'Closed' management-by-objectives forms
- Job-based pay
- Competence pay

(1) 'Open' management-by-objectives forms

Organisation / Division Objectives:							
	Weight	Assignment / Task (task – deadline – process)	Evaluation Comments		Level of difficulty	Level of achievement	
			Objectives	%		Empl.	
Mgr.		Pts.				Pts.	
%		Empl.			Pts.	Pts.	
		Mgr.			Pts.	Pts.	
%		Empl.			Pts.	Pts.	
		Mgr.			Pts.	Pts.	
%		Empl.			Pts.	Pts.	
		Mgr.			Pts.	Pts.	
Employee Self-evaluation				Evaluation by the manager			
Total Score	Difficulty	Achievement		Total	Difficulty	Achievement	Total
	pts. *	pts. =		pts.	pts. *	pts. =	pts.

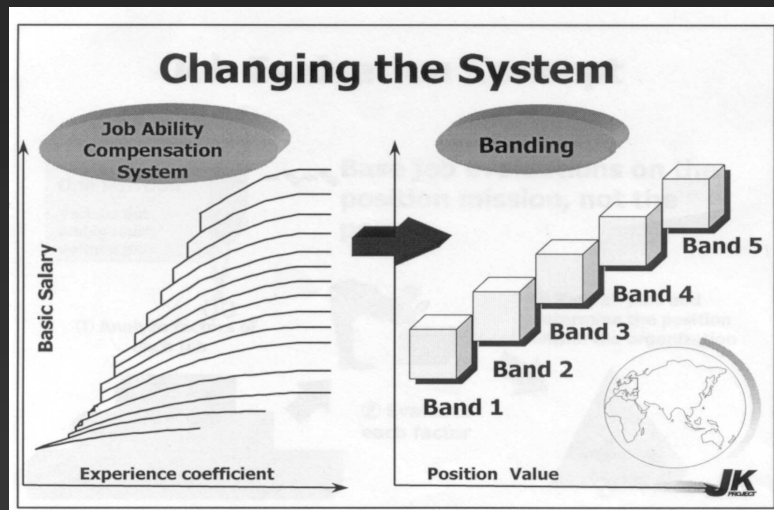
Management-by-objectives evaluation form at a major electronics firm

(2) 'Closed' management-by-objectives forms

Item	Evaluation content	Kinds of ability under consideration
1	Does the candidate pursue new objectives on a regular basis?	Ability for self-renewal, ability to direct policies, goal-awareness, customer satisfaction awareness, creativity, vision.
2	Does the candidate solve the objectives in a systematic way?	Ability to apprehend the situation, ability to foresee problems, ability for strategic planning, ability to solve problems.
3	Does the candidate have proper specialist knowledge?	Specialist knowledge, specialist skills.
4	Does the candidate have enough / proper drive and flexibility to pursue the objectives?	Decision-making ability, implementation ability, persuasive ability, negotiation ability, speed, sense of balance, mental strength.
5	Does the candidate utilise his full capacity to the organisation?	Communication skills, ability to lead and train.

**Ability evaluation form at a major construction firm
(employees grade 4 – 7)**

(3) Job-based pay



Change from ability- to job-based wages at a major electronics firm

The Rise in Performance-Based Pay

The introduction of performance-based pay to reduce labour costs can be considered sensible or even inevitable

Q: Are employees still motivated to develop broad skills?
A: Impact performance is limited to more senior employees

Q: Are employees still motivated by career concerns?
A: Yes but weakened by earlier selection along more explicit criteria

The 'new' is combined with the 'old': the current criteria for evaluation are varied and exist in combination

Wider developments and implications

Other developments that also affect the internal labour market:
rising labour mobility and the diversification of employment (Nikkeiren)



The three developments can reinforce one another, suggesting a new constellation of employment practices



However, no real change as lifetime employment remains strongly supported



The flexibility in employment practices has been surprisingly large and the employment logic remains in spite of adjustments.

The Economics of Changing Employment Practices

Environmental Change



Employment Practices



Capabilities & Efficiency



Competitive Strength

← Environment

1. How and to what extent do changed circumstances inspire adaptations in employment practices?

2. How do changed circumstances and adaptations in employment practices influence the competitive strength of Japanese firms?