

Chapter 1: From a Japanese-style Employment System to a Performance- Based Employment System

1. Introduction

The globalization of the world economy is accelerating with the progress of the information technology (IT) revolution. At the same time, the remarkable economic growth of emerging economies in Asia is shifting the center of economic activity from Europe and the United States to emerging economies in Asia.

In Chapter 1, you will learn about the socio-economic context surrounding Japanese companies and how they have shifted their HRM approaches from a traditional Japanese employment system to a performance-based employment system which is now mainstream around the world.

2. The Global Age and Global Human Resources

With the establishment of the Internet as the center of society, the world has created a new world called the "global society." As a result, English has become the common language of communication. As business becomes more globalized, global human resources are increasingly viewed as human resources who will drive the engine of global business, in terms of both their capabilities and the roles they will take.

Japan's response to the increasingly global society is currently underway, especially by companies trading in overseas markets. For example, it is well known that *UNIQLO* (First Retailing) and *Rakuten*, both of which have proactive global strategies, have made English the official language of their companies. In addition, *Hitachi*, one of Japan's leading manufacturers, has a policy of hiring university graduates from social science backgrounds and with half of the recruits from science and engineering backgrounds on the assumption that they will be posted overseas in the future. *Shiseido*, *Mitsui & Co.*, *Fujifilm*, and others have also introduced a unified global personnel system to utilize talented human

resources on a global level. Japanese companies aiming to become global companies are actively working to globalize their human resources and workplaces.

2.1. "Japanese-style" employment systems and "Performance-based" employment systems

After World War II, Japanese companies adopted unique employment practices based on long-term employment, seniority-based wages, and company-based unions. Based on their long-term business strategies, companies hired new graduates in bulk (lump-sum hiring of new graduates every spring through the traditional *shukatsu* system) and trained them to become human resources necessary for the company. This employment practice, which is unique to Japan, is known as the Japanese-style employment system, in which companies guarantee the employment of newly hired employees until their mandatory retirement age.

When hiring under the Japanese-style employment system, emphasis is placed on basic academic skills and the existence of latent abilities. The content of undergraduate and professional studies at university is rarely questioned. When reviewing for promotion, not only performance but also personality and age are taken into consideration. When a company needs human resources in a new field, efforts to develop the necessary human resources within the company and to hire mid-career specialists from the external market have been introduced but are still not common.

During the period of high growth after World War II, it was difficult to secure the necessary human resources, and the Japanese-style employment system described above was a rational method for companies, although it was costly. However, with the collapse of the bubble economy after 1990 and the intensification of international competition, large Japanese companies shifted their approach to human resource utilization from the Japanese-style employment system to a performance-based employment system.

How do non-Japanese companies hire human resources? The basis of human resource management in non-Japanese companies is the job (role) that the new

employee will undertake. The most suitable person who can perform the required duties is usually hired from the external market. Applicants are required to have specialized education related to the open position or work experience in a related field. New graduates are not valued as highly because they do not have relevant work experience at the time of application. In addition, under the performance-based employment system, employment is generally offered on a contractual basis with a fixed term, and continuity of employment is not guaranteed.

2.2. The shift from a Japanese-style employment system to a performance-based employment system

The end of the Cold War and the collapse of the Soviet Union in 1989 accelerated the move toward free trade, and the business environment for Japanese companies changed dramatically. As a result, quite a few Japanese companies were forced to close. Consequently, Japan's large corporations have shifted to minimize the employment of high cost (long-term employment, investment in education, social insurance, etc.) regular employees and increase the number of low-cost (short-term employment, seniority wages not applicable) non-regular workers. This trend was also the result of the need for Japanese companies to review the way they utilize human resources as the economy becomes increasingly globalized and the industrial structure changes.

In 1995, the Japan Federation of Employers' Associations (now *Nippon Keidanren*) published a report titled "*Japanese-style Management in the New Era: The Direction to Challenge and Its Specific Measures*" to promote the above change in employment policies. In the same report, *Nikkei-ren* advocated an employment portfolio model and the need to review the conventional employment management centered on regular employees and actively utilize non-regular workers in order for companies to survive. It was argued that in light of the changing business environment, companies need to realize corporate management that provides the most appropriate combination of work, people, and cost, while developing human resources and improving operational efficiency for companies in the midst of severe corporate competition. Specifically, it recommended a shift in employment strategy, in which the difficult-to-adjust, high-cost regular employee would be limited to a portion of the company's core human resources, and external human resources such as fixed-term employment and temporary workers would be actively employed to promote the elasticity of the

workforce, thereby saving labor costs and reducing costs. The three groups that make up the employment portfolio are as follows:

(1) Long-term accumulated ability utilization type employees: A group of employees who are willing to work as employees (without a fixed employment period) based on the conventional concept of long-term continuous employment by the company.

(2) Highly specialized skills utilization type employees: A group of people with a fixed term of employment who can solve problems faced by the company with their specialized skills and abilities, without necessarily assuming long-term employment.

(3) Flexible employment employees: A group of people who can perform a variety of tasks, from routine to specialized, depending on their duties, and whose employees also have a variety of employment types (with a fixed employment period), from utilizing leisure time to utilizing professional skills, which includes temporary and part-time workers.

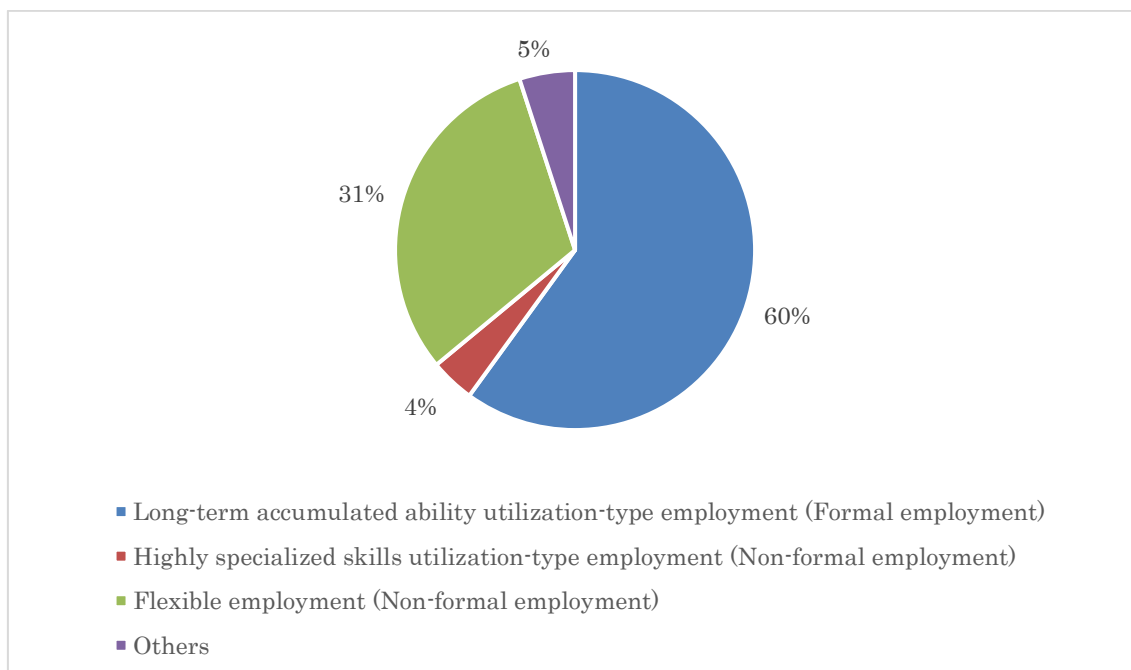
Since the late 1990s, when the above three employment portfolio models were announced, Japanese companies, especially large corporations, have adopted the performance-based employment system, which is the mainstream in Europe and the United States, in a global and highly competitive environment.

Let's take a look at how the employment portfolio model is currently operating. As can be seen from Figure 1, the Japanese-style long-term accumulated ability utilization type employees accounts for 60% of the total number of companies, and highly specialized skills utilization type employees account for only 4%. Flexible employment employees, including part-time workers and temporary workers account for about 36% of the total.

The Japan Federation of Economic Organizations (*Nippon Keidanren*) has proposed three types of employment portfolios to shift to a Western-style, performance-based labor market. However as you can see from the data, the labor market is divided into two types: long-term skill accumulation type and flexible employment type. In addition, the problem of non-regular employment of

young people who remain in the flexible employment type has become a major social problem, as the shift from the flexible employment type to the long-term accumulation of skills or the highly specialized skills type has not taken place.

Figure. 1. Current Situation of the Employment Portfolio System



Source: Ministry of Internal Affairs and Communications, Statistics Bureau e-Stat (GLO8020101), Comprehensive Survey on Diversification of Employment Status, 2014.

3. The Necessity of Career Planning

In Japan, it has often been considered that a good way of life is to obtain a job at a well-known company after graduation and live a stable life at the same company until retirement. Under the Japanese-style employment system, Japanese companies guarantee employment to regular employees until retirement, but the company's human resources department has been centrally responsible for managing employee assignments and promotions based on the organization's long-term growth strategy. As a result, employees have entrusted their professional lives to the personnel policies of their organizations in exchange for job security.

As mentioned above, Japanese companies have shifted from a Japanese-style employment system to a performance-based employment system, which means that companies no longer need to guarantee employment for all employees. At about the same time, the idea of career planning, which is widely accepted in the U.S., was introduced into Japanese school education, and the idea that one is responsible for one's own professional life also became widely accepted. In addition, an increasing number of young people are aspiring to a variety of lifestyles and it is increasingly common to hear students talk about wanting to make their own decisions about their life and how they want to be impactful in their work.

3.1. What is a Career?

The term career has become widely used in Japan recently, but research on careers began in the U.S. about 100 years ago. Super, D.E., a leading expert in the field of career studies, defined a career as "*a series of roles and combinations of roles played by an individual during his or her lifetime.*" In a narrow sense, a career can be thought of as "*an occupation, a job, a position, a history, a career path,*" but in a broader sense, it is more widely known as "*a life, an individual's life, the way he or she lives it, and the way he or she expresses it*" (Schein, 1991).

In the middle of the 20th century, Super (1986) proposed the life stage theory, which divides life into five developmental stages (growth stage, exploration stage, establishment stage, maintenance stage, and downward stage) and states that the occupational developmental tasks of individuals differ in each life stage. Super argued that we achieve human growth by addressing developmental issues at each stage in life. In particular, the exploratory stage between the ages of 16 and 25 is the time when one begins to formulate and practice one's career aspirations, and is positioned as an important time to find one's lifelong career through practice and trial and error. Super's life stage theory will be explained in detail in Chapter 10.

On the other hand, Schein, a researcher in organizational psychology, proposed the concept of a career anchor, which he defined as "*a person's work throughout his or her life*" and "*the way a person lives and expresses himself or herself throughout his or her life*" (Schein, 1991). He defined "career anchor" as a "*rock upon which one's long-term professional life rests.*" In addition, Schein pointed

out the role and importance of a "mentor", meaning a good guide or advisor, in career development.

As a result of the Japanese private sector's shift from a Japanese-style employment system to a performance-based employment system, companies no longer need to guarantee long-term employment for all employees. Individuals must now assume their own professional responsibilities. In response to this change, research on careers in Japan has become a focus of attention.

3.2. The Development of Multinational Companies

In the field of international management, 1969, H.V. Perlmutter classified the levels of corporate multinationalization into three categories:

- 1) home country oriented (Ethnocentric)
- 2) locally oriented (Polycentric), and
- 3) globally oriented (Geocentric).

The theory of multinational enterprise development advocated by Perlmutter is widely known as a basic concept in international management research.

In the home-country oriented (Ethnocentric) organization of multinational companies, the home-country employees are excellent and trustworthy, but the local employees working in the organization are unmotivated and unreliable. Most American and Japanese companies belong to the Ethnocentric type.

The second type of organization, locally oriented (Polycentric), believes that the local people know the local situation best and that it is better to leave the management of the subsidiary to the local people. As long as profits are being made, the head office rarely interferes in the management of the subsidiary. Most European companies are locally oriented.

Perlmutter proposed that the ultimate in multinationalization is geocentric. In the case of the geocentric approach, the best people are placed in the right places regardless of nationality. Regardless of whether it is the headquarters or a subsidiary, when human resources are needed, they are acquired to meet the their needs.

As the world becomes increasingly globalized, Japanese companies need to take the world-oriented human resource development approach advocated by Perlmutter when developing human resources who can compete on the global stage.

3.3. Diversity Management

Diversity refers to the idea of utilizing human resources without regard to race, nationality, gender, age, or other factors. Diversity management is a new field of study in business administration, and it came to be regarded as a human resource strategy in the United States in the 1990s.

As corporate activities became globalized and society became more complex, the reason why IBM, for example, promoted diversity was to create a strong company with high performance and higher profits by utilizing the abilities of diverse human resources.

On the other hand, in Japan, the most commonly discussed topic in the field of diversity management is the "utilization of women. In order to promote the "utilization of women," the government is making efforts to achieve equal employment opportunities for men and women through the enforcement of laws such as the Equal Employment Opportunity Law. However, compared to other developed countries, the utilization of women in the private sector in Japan has not progressed.

According to the Basic Survey on Wage Structure conducted by the Ministry of Health, Labor and Welfare in 2016 (MHLW, 2016), 8.2% of women hold the position of section manager or higher in companies with 100 or more employees as shown in Table 2. Although the ratio of women in Japanese companies has been improving, the percentage of female employees with a university degree or higher is 45% in the international organization where the author worked, which has a performance-based employment system. Of course, there is no simple comparison between the two statistics, but women are not being utilized in the Japanese workplace. In Japan, only 4.5% of managers are women, while the percentage of female managers in international organizations is 41%.

In Japan, some private companies hire some women graduating from four-year

universities into what are known as career-track positions. However, according to a survey conducted by the Ministry of Health, Labor and Welfare in 2014, on 118 companies that have introduced a course-based employment management system, only 22.2% of women are expected to be hired for career-track positions.

Furthermore, approximately 40% of women in Japan continue to work after taking childcare leave and giving birth to their first child, and the remaining 60% of women resign from their jobs, indicating that the major problem of creating an environment where women can work for a long time remains unresolved.

To summarize, as corporate activities become more globalized and society more complex, U.S. companies are adopting corporate strategies that promote diversity, aiming to create higher-performing and more profitable organizations. From the perspective of diversity management, the government has taken various measures, but the measures for the utilization of women have not been effective and women's activities have lagged.

Table 2. Number and Composition of General Workers by Gender, Education, and Position (Companies with 100 or more Employees)

	Executives				Non-official	Total Employees
	Above Director	Division Head	Section Chief	Chief of Staff		
Female	122,640	13,750	41,460	67,430	1,281,930	1,404,570
University / Graduate school	(8.2%)	(4.5%)	(6.0%)	(13.5%)	(31.0%)	(25.0%)
Male	1,366,100	290,370	644,550	431,180	2,849,340	4,215,440
University / Graduate school	(91.8%)	(95.5%)	(94.0%)	(86.5%)	(69.0%)	(75.0%)
Female / Male	1,488,740	304,120	686,010	498,610	4,131,270	5,620,010
University / Graduate School	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)

The figures in parentheses represent the percentage of total workers. Source: Compiled by the author from the Basic Survey on Wage Structure, Ministry of Health, Labor and Welfare (2016).

3. Summary

In Chapter 1, we learned about the background of the shift from the Japanese employment system to the performance-based employment system that is considered mainstream around the world. Japanese companies have been bulk hiring new graduates each spring and then repeatedly reassigning them within the company to develop their skills. However, as we move forward, young people, who will be the leaders of the 21st century, are expected to look to the future and acquire the abilities necessary to compete with their overseas counterparts.

In Chapter 2, we will learn about Southeast Asia, a region with remarkable economic growth and future potential.

Tasks

1. Use the internet and library to do further research and compare the Japanese employment system to the performance-based employment system.
2. Through finding real world examples, please explain why diversity management is important in Japan.
3. Please explain your dream and future professional life/career.

Notes

1 Akio Tsuchida et al. (2011) "Developing and Utilizing Global Human Resources to Win in the World," Chuokeizai-sha, Inc.

2 Perlmutter, H.V. (1969) "The Tortuous Evolution of the Multinational Corporation" The Colombia Journal of World Business.

3 Prepared from United Nations System Chief Executives Board for Coordination PERSONNEL STATISTICS Data as of 31 December 2018 CEB/2019/HLCM/HR/17. How to Become an International Civil Servant (2020). Page 80.

4 Ibid.

5 Yokoyama, K. (2014). Human Resource Management. pp24.

6 Ministry of Health, Labor and Welfare: <https://www.mhlw.go.jp/stf/houdou/0000101661.html> retrieved on June 20, 2021.

7 Gender Equality Bureau, Cabinet Office, Government of Japan, "Continuous Employment Rate of Women Before and After the Birth of Their First Child" and "Childbirth, Childcare and Women's Employment Status," p. 1. Note that the continuous employment rate of women whose children were born between 2010 and 2014 increased to 53.1%. http://www.cao.go.jp/wlb/government/top/hyouka/k_45/pdf/s1.pdf (retrieved on June 21,

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