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Changes and Trends in Japanese HRM

This article deals with the changes taking place in the traditional Japanese model of human resource management. Even though the traditional model and specific Japanese approach to human resource is the result of long years of practice, culture, beliefs, and traditions that are deeply rooted in the society, world trends, economic fluctuations, foreign capital investments, the free flow of workforce, know how exchange, and the internationalizing environment, all influence the future shape of Japanese human resource management. Demographic changes and an ageing society are the challenges that have to be met. Implementation of new strategies is the only solution for Japanese companies if they want to be able to compete both globally and on the national market. The author tries to anticipate the main directions of the Japanese HRM changes in the future, on the basis of the research and thorough studies on the extent of Japanese HRM evolution in recent years and own experience gained in Japan.

Introduction

The contemporary world is undergoing permanent changes. Globalization, information media, a changing economy, and the growing importance of skills and knowledge—these are influencing all aspects of life, business, and management. Human Resource Management is also subject to these influences in organization cultures, value systems, working techniques, and methods, where all these areas are constantly evolving.

Many experts and researchers have discussed the impact that these changes have on human resource management. They have all tried to answer the questions posed by choosing the best practices and strategies to help deal with contemporary world challenges. They discuss the trends that can be seen in this globalizing yet still diversified world and try to anticipate the future direction and driving force of HRM evolution.

Although the above mentioned trends have a worldwide spectrum of influence, a greater focus is concentrated on Japan in this report. In recent decades Japan has under-

gone processes of modernization, globalization, technology development, political transformation, and economic crisis; it has faced such issues as improvement in job efficiency, job cost rationalization, and dealing with changing macro and microeconomic environments.

This report is an attempt to show the main directions of Japanese HRM changes. Its main goal is to present the most important changes and trends in the human resource management approach based on Japan as an example. This work also presents the results of thorough studies on the extent of Japanese HRM evolution in recent years.

By examining the example of Japan and Japanese culture it was possible to outline trends and directions of human resource management evolutionary models in that part of the world. It is on the basis of such evolution that it is possible to anticipate future directions of changes and future trends. Conclusions, based on a wide range of world literature as well as personal experience, should provide positive proof of expected changes in human resource management.

Issues discussed in this work were the subject of much research, and many publications and books. The complexity of the subject matter leads to many questions, creating problems and generating discussions among authors. This work tries to sum up their different points of view and present a conclusion based on the theories and studies conducted by experts world wide. Nevertheless, there are still many areas which need thorough and in-depth studies.

The Traditional Model

What is referred to as “Japanese Human Resource Management” is determined by many factors, where the most important ones are national culture and history. It is impossible to follow and understand the Japanese HRM evolution without having a basic knowledge of the cultural, historical, and political background as the transformations were a specific combination of changing Japanese international relations and policies and unchangeable Japanese traditions and culture.

Even though human resource management models are dependant on specific national features such as culture, value systems, beliefs, religion, and history, HRM models in each country are also dependant on state regulations, legislation, and public opinion, all of which determine management structures. Accordingly, diverse national cultural differences determine HRM in each country. This is not consistent with rapid evolution. A Japanese system that has resulted from a history, beliefs, and moral code cannot be easily modified. Nevertheless, many changes can be notice in recent years.

The Traditional Model can be described by three main characteristics:

- Lifelong employment,
- Seniority based wage system, and
- Trade unions organized inside the company

Companies recruited high school and university graduates without expecting the new employees to possess any experience or specialist knowledge. The employer only required them to be willing to learn, be flexible to change positions within the company, to gain additional skills while working, to stay with the company until retirement, and to adapt easily to the new environment—to become a part of the “community.” The new employees were treated with care, like new born children in the family. Of course, their abilities and skills were previously assessed through entrance examinations. References and information provided by the school about the student were used as well. The newcomers were employed for a trial period, which usually lasted from six months up to two years [Płoszajski, p. 59].

The longer an employee stayed with one company, the stronger and more intense was that employee’s feeling of being a part of a community. The Japanese employee when asked: “What are you doing for a living?” would not answer by giving his job title or position. In most cases he would simply give the name of the company he works for.

As seniority was attained, wages grew and the employee changed his position within the company hierarchy. In this system, senior employees derived advantage from a prestigious position, higher wages, and guaranteed employment. The seniority based wage system was also introduced to assist the employees. Wages grew in proportion to the increase in costs incurred with the growth of the children in the employee’s family.

Lifelong employment and related benefits helped to build an emotional relationship between the employee and the company. This led to a certain degree of stability of human resources within the company.

This situation was also reinforced by internal trade unions. Guarantees of employment were among the main goals of the trade unions. It is for this reason that they were deeply interested in preserving lifelong employment, which, on the other hand, also ensured the growth and survival of the company. With similar objectives, the trade unions and the management were cooperating rather than fighting each other [Kostowska-Watanabe, Ishikawa, 1990, p. 9].

Despite the fact that Japanese companies met all the requirements prerequisite to be called capitalist organizations concentrated on bringing long term financial profit to all stakeholders, they also had, and still have, something specific that distinguishes them from Western companies. A number of values, concepts, ideas, and practices that became the key features of the Japanese HRM system could not have been introduced without a certain type of employee—an employee who became a key success factor, a devoted

worker who trusted in the business system, an archetypal Japanese employee. This employee spent time commuting in extremely crowded trains, working long hours, working unpaid overtime, hardly ever taking any holidays, and spending weekends and evenings on team building activities or with company clients.

In modern Japan, even though employment law and practices have changed, this type of the employee remains the symbol of Japan's postwar success. To explain the nature of the corporate Japanese environment and its evolution to a new paradigm, it is crucial to understand the values of this key factor as the basis for decisions, organizational behavior, and work environment relations [Debroux, 2003, p. 25].

Recent Trends

Lifelong Employment Displacement

So far one of the traditional pillars of the Japanese employment model was lifelong employment. However, Japan's struggling economy and the increasing cost of labor forced many companies to abandon their lifetime employment practices. This process can be observed as of the 1990s. Now, non-regular workers account for over 30 percent of the total work force in Japan. Today, Japanese people still tend to look for employment that will give them job stability, provide them with opportunities for promotion, and follow their entire career path within a single company. However, as many foreign companies now operate on the Japanese market—applying Western patterns and methods for attracting the best employees—this traditional model of Japanese lifelong employment is slowly changing. Employees are beginning to understand that even if they change their job, it will not necessarily mean being downgraded to a lower position, and accepting worse conditions and reduced salary. Change need not necessarily be a backwards step as it used to be perceived, but it could now be connected with better career opportunities.

Non-regular employees enable a company to adjust easily to changing labor force demand. They also facilitate a reduction in the number of hours worked by an employee and the costs connected with this work. Another advantage of the part-time workers is the fact that companies do not have to provide them with the full set of benefits payable to their regular workers. However, if the trend continues and the number of irregular worker keep up its growth, then companies may have to provide this increasing number of part-time employees with some kinds of incentives, benefits, training opportunities, and social security.

Freeters

A new group of workers, known as “freeters,” has evolved in a response to changes in employment norm. “Freeter” is a Japanese word combining the English word *free* and the German word *Arbeiter* (laborer). Most freeters are young people who do not have a permanent fulltime job, but have one or more part-time jobs or move from one short-term job to another. Many freeters say that they feel more comfortable living this way and prefer having more time for themselves. Instead of seeking out a reliable company after graduating from college and staying with that company for twenty or thirty years until retirement, some Japanese change jobs every few years. It is mostly young workers who become freeters. Nevertheless, there is also a growing number of older workers who become freeters. Many of them have lost their jobs due to corporate restructuring, in which companies lay off managers and high-salaried workers to save costs. As the Ministry of Health, Labor and Welfare survey conducted in 2004 shows, over 30 percent of Japanese companies view job-hoppers as workers who have no sense of responsibility, no specific or developed skills, and could quit their job at any time.

“Core-Periphery Model”

As mentioned before, core workers enjoy employment security. However, there is a growing number of part-time, temporary and contractual workers who were not covered by this system. This divided the labor market into two parts. This “dual labor market” was named the “core-periphery” model [Begins, 1997, p. 54].

Nevertheless, as the survey showed, lifelong employment actually turns out to be 20–25 years of permanent employment in one company. It also revealed that for workers under 25 years of age, the separation rate is 20 percent. This rate declines to 6–7 percent for workers in their late twenties and then rockets to 40 percent for the workers who have reached their early fifties (due to obligatory retirement and more frequent layoffs of the senior workers). [Koike, as cited in Begins, 1997, p. 54]. These separation rates do not include all the buffering strategies (when there is an internal workflow, or when the workers are moved to subsidiaries, training, or different divisions) or diversification of the company and re-qualification of the workforce. Ultimately, the security pattern of employment in Japan means that market processes play a much smaller part and administrative processes a much larger part in adjustments, than in most other societies. Cyclic adjustment is more a matter of adjusting work hours and less a matter of hire and fire [Dore, as cited in Begins, 1997, p. 55].

Dismissal: Towards Social Responsibility

Another trend had been observed since the difficult economic period of the early and mid 1990s: Japanese companies have started to move towards layoffs.

Before this time, a strict law almost prevented an employer from dismissing any workers, or at least turned it into an extremely complicated process. The role of the existing special “cause test” for the employers was to check whether the decision to lay off workers was reasonable, whether there were suitable economic reasons supporting this decision, and whether the employer had used all available means to prevent the layoffs. The employees had to be informed about their proposed dismissal at least 30 days in advance. In addition, the unions had to be informed about the number of dismissed workers, the criteria used in the selection process, and all accompanying procedures.

Having been in use for many years, this mechanism resulted in specific behavior on the part of employers. They felt responsible for their employees and thus, tried to help them and find alternative positions, occupations, or training. Older employees have broad knowledge and experience as well as a wide range of personal contacts, so some Japanese firms attempted to convert these advantages into business opportunities. For example:

- Establishing a business through joint investment between the company and the middle-aged and older employees to provide a welfare program;
- Setting up a subsidiary hiring retired employees and subcontracting business such as transportation and janitorial tasks to such a company;
- Establishing a company specializing in training young employees, using retired employees as lecturers;
- Sending the older staff and retired employees to overseas factories as support and to provide training for local staff;
- Leasing a restaurant chain to a group of retiring employees and entrusting them with management;
- Making contact with an outplacement company that helps middle-aged and older employees find employment [MCB University Press, 1996].

The company is treated as family in Japan. In such a paternalistic system the employer is responsible for his employees. For this reason, it is obvious to companies that when they are forced to lay someone off, they continue to bear responsibility for his future. This kind of father company–child employee care relationship leads to a situation in which outplacement is treated as a standard function of a company’s human resource management. Laid off employees are provided with training that enables them to re-qualify and find another job. They may also be offered another position in a company subsidiary, supplier, or cooperating company. Even though this might be connected with

a salary decrease, the system does not allow the employee to be left with no means of livelihood. Even the government has a special support mechanism through which it partially pays for employees who, due to the economic downturn, are not needed in a company. Government policy was to subsidize workers on the job. Basically, the employees were jobless, but still on the company payroll, and the government paid a part of their salaries. Such social responsibility in Japan can be given as an extreme example, because it may lead to company bankruptcy. The situation is changing, however. Many foreign companies entering the Japanese market are not willing to sacrifice themselves to such extent for the sake of the employees. Consequently, the Japanese social responsibility system is slowly becoming less paternalistic.

Aging Society: The Pension System

The worldwide trend of an aging society can be clearly seen in Japan. The Japanese birth rate has been negative over recent years. Following the shrinking of the labor force, the total costs of pensions as well as medical and nursing care are rapidly increasing.

To deal with this problem, Japan is planning to increase the per capita social insurance premiums (Employee Pension Plan). Both employees and employers will bear this cost. It may turn out to be just a short term solution as increased costs may negatively influence workers motivation while coincidentally, they may increase labor costs for companies. In its turn, this may reduce the labor force to equalize those losses. Another solution could be to increase the retirement age. The Japanese government is already gradually moving the mandatory retirement age up to 65 years. This too, causes many problems for companies that are trying to adjust the labor force to economic cycles and have just started to launch early retirement incentives. This two sided struggle will eventually result in fewer jobs available and lower salaries paid by companies, which are forced to re-employ older people. Other ideas and solutions could include a decrease in benefits for pensioners or increasing the number of those who share pension costs by encouraging women and elderly people to stay employed.

Changes in the Pension System: New Pension Legislation

Due to the declining birth rate, aging society, and citizens who avoided paying their pension contributions, Japan faces the prospect of falling pension financial resources. The growing ratio of retirees to the working population is the main concern of the government, especially as the number of citizens above the age of 65 totaled 20 percent of the population in 2003. [Pacific Bridge, 2004]

In June of 2004, the Japanese government passed new legislation reforming the pension system. Under this new law, employees were faced with increased pension premiums

and a reduction in retirement benefits. This system is to remain in effect from 2005 to 2023. Several changes in the pension system have been proposed. The government set up several committees to review the social security system. These committees should also try to find a way to combine the National Pension System, Employee Pension System, and the Mutual Aid Pension System into a single system. To date, all the employees made payments into the National Pension System, while the two other systems were created for private employees and public servants. Having one scheme integrating all three systems should reduce the number of the non-complying citizens. In addition, the actual value of pension payments would be reduced by about 13 percent until 2023. [Pacific Bridge, 2004].

Another step leading to an improvement in the pension system was an investigation launched by the Social Insurance Agency. Its goal was to find corporations that were illegally avoiding payments to the Employee Pension System. According to the new pension scheme, all companies with five or more employees should participate in the Employee Pension System. To increase the number of employees covered by the pension program, Japan's Social Insurance Agency started to mail pension payment records to all citizens covered by the system. The Agency believes that this will increase public awareness of the pension system and the need for workers to participate. Moreover, since January of 2004, all the workers who contribute to the pension fund have the right to obtain information on the exact amount they are eligible to receive at the age of 55. Previously, only those 58 and older were entitled to this information from the Social Insurance Agency. [Pacific Bridge, 2004].

Legislation Governing Employment Stabilization for Older Persons: The 2004 Revision

As the number of retiring employees rises and companies struggle with a shortage of experienced workers as well as an overall lack of manpower, it is convenient that the Elderly Persons Employment Security Law states that employers may not set a mandatory retirement age below the age of 60.

In June of 2004, the Japanese government revised the Law on the Stabilization of the Employment of Older Persons, under which companies were obliged to employ workers for an additional five years (until the age of 65), if an employee asks to work the additional years. Even though the revision came into effect in 2006, 65 percent of Japanese companies had already implemented its provisions as early as the year 2004. Nevertheless, as companies cannot re-hire all their retired workers, they are setting specific standards that the employee must meet in order to be re-employed. The new revision provides companies with flexibility—there is no obligation to rehire all employees that request to continue working and the employer may choose only a select number of the employees. Since Japan has no age discrimination laws, it is common for older Japanese

workers to receive only two-thirds or half the regular pay. However, many are eager for these jobs in order to cover pension losses and obtain extra money [*Wall Street Journal*, June 15, 2005].

The Fight for Employee Rights

As mentioned before in case of Japan, thus far it has been the government that, treating society with its paternalistic care, has implemented regulations in line with society's needs and world trends. Only recently have the Japanese trade unions started to be more demanding. Starting as just an opinion-generating body, the trade unions have slowly become a bargaining party that secures its own rights and the rights of employees. This transition has taken place as a result of the lack of governmental care and increasing concerns with respect to the labor force.

The most desired direction of change would be for the trade unions to become a meaningful partner for the government and employees—an institution that does not have to fight for its members' rights, but reaches consensus through constructive trilateral debate to develop agreements acceptable to all sides. However, as these trends continue, the trade unions in Japan may become just as strong and influential as their European counterparts. Even in today's modern Japan, it is still almost impossible for employees to organize. Nevertheless, if the government and companies continue to neglect the paternalistic care approach towards society, it should be expected that employees and trade unions will begin to exercise their rights.

Women: Exercising Labor Market Rights

It is extremely difficult for a woman to be promoted or advanced in the workplace in the Japanese male-dominated culture. Traditionally, women work in less important positions; half of the working population of women is employed part-time. The seniority based system made it impossible for women to leave work for maternity purposes and then return to work. Their child leave absence pushed them back to the very bottom of the career path. The first system that enabled women to be promoted and achieve a balance between family and professional life was a multi-career path. Women in support positions within the company are not subject to frequent transfers, changes in workplace, or residence. This gives them a kind of job security, while at the same time not preventing the potential for promotion. As a result of such improvements, the number of women in the workforce is steadily increasing.

In the 2003, government agencies and ministries hired a record number of women, totaling almost 17% of all new hired employees. However, as Japan is still a male-dominated culture, it is difficult for Japanese women to be promoted or to advance in the

workplace. A survey conducted in 2002 showed that only 50 percent of women were full-time employees (versus 85% of men). [Pacific Bridge, 2004]

Management Positions

Even though the employment system is respecting all the basic provisions of the Equal Employment Opportunity Law, only nine percent of managerial positions in Japan are occupied by women. There are several opportunities for women to prove they have the necessary skills and can be a valuable asset to the company. Multinational education and an ability to communicate with foreign employees makes them a valuable resource for multinational and international companies, for example. Furthermore, an MBA can be an important reason for both hiring and promotion. In spite of the growing number of opportunities for women in Japan, the MHLW has recorded approximately 25 cases of violations of the Equal Employment Opportunity Law. These mostly concern the unfair treatment of women workers. In most of these cases the companies were accused of establishing separate career tracks for men and women.

In many cases women are better qualified and educated than the men, but it is still difficult for most of the traditional Japanese companies to treat women as a valuable asset. Many discriminatory practices and cases of unfair treatment have been recorded. Faced with this situation, women became more aware of their rights and started to assert themselves. This clearly seen in the growing number of legal actions brought by women against companies after unfair treatment. Nevertheless, such cases are not very frequent so far. The attitude towards country and employer still prevents women from acting against the company in a majority of cases. However, the new legislation is believed to be slowly changing this situation.

Childcare

Another step taken by the Japanese government concerns encouraging Japanese professional women to stay in the workforce, even after having a baby. Up to now, one-third of women resign from work after the birth of their first child. Being successful in both family life and career building proved impossible for them. The government issued further directives to deal with this problem. For example, companies with more than 300 employees are obliged to provide more family-friendly regulations. Another solution implemented by the government is cash payouts: For couples earning less than 7.8 million yen per year, the state will pay monthly allowances of 5,000 yen for the first two children, and 10,000 yen for the third child until the third year of elementary school. Previously, it covered only children up to preschool age. Also, local authorities are considering additional allowances [*Wall Street Journal*, June 15, 2005].

Another amenity was the 1992 law that enabled both women and men to take child care leave [Sasajima as cited in Begins, 1997, p. 67]. However, the most important change that employers were told to implement was the job security for women taking childcare leave.

Moreover, the women themselves started to assert their rights. There has been a growing number of the legal actions brought by women against the companies after unfair treatment they experienced when becoming pregnant or giving birth for several years now. In spite of this fact, women between the age of 30 and 34 are still the largest group of the unemployed women. They continue to leave the job to raise children. According to ministry estimates, if those women did not give up their jobs, it would increase the workforce by one million employees [*Wall Street Journal*, June 15, 2005].

The situation of women at work is slowly changing. Both the government and employers have become more aware of the necessary changes that need to be implemented as well as of the old-fashioned stereotypes that need to be given up. In addition, the women themselves have become more aware of their rights and less afraid to assert them. As any changes in this area need the involvement of three parties (government, employers, and women), it is going to be a time consuming process. Nevertheless, the process has already started and recent years have shown that it is not going to stop.

Unemployed Youth

The largest group of unemployed in the Japan consists of the young people between the ages of 15 and 25. The unemployment rate among this group reaches 10 percent [MHLW, 2004]. Some unemployed are not able to find any suitable job as they lack the necessary skills and education. On the other hand, there is also a huge number of young people who do not even look for employment. Those are the NEET youths (“Not in Education, Employment, or Training”). Several programs have been launched by the MHLW, private companies, and non-profit organizations to encourage, train, and provide these youths with assistance in entering the workforce.

Certificates: Job Training

One of the programs launched to improve business skills was conducted by the MHLW Certification System and called the “Certificate of Basic Business Skills for the Younger Generation.” It clearly defines the skills, abilities, and job training experience required from the person applying for a job. The courses shall be conducted in special schools or job training centers. These certificates will prove that a person has all the skills needed to work as a white-collar employee, clerk, or a sales person in a professional environment. In order to obtain such certification, the participant is obliged to attend the required

courses and pass competency examinations. Those who hold such certificates should have fewer difficulties in finding an interesting job and can feel more confident with respect to job security.

NEET Youths

The MHLW report for the year 2004 showed that the number of registered NEET youths increased by 10 percent since 2003, reaching a total of 500,000. These young people can be divided into four subcategories: youths who withdraw from society, youths who spend time with friends after graduating or dropping out of school, university graduates who cannot decide on a career path, and youths who previously had a full-time job, but left their job due to a lack of confidence. Bearing in mind the paternalistic system prevalent in Japanese companies and the overprotective approach of parents, many of these NEET youths feel no pressure relating to finding a job and becoming independent, as they continue to be financially supported by their parents.

As the above mentioned group does not pay taxes, does not contribute to the national social security system, and will not benefit from retirement plans, it is becoming one of the major concerns of the Japanese government. A great number of Career Centers have been opened throughout the country in the major cities to deal with this problem. These organizations provide information about full and part-time jobs available locally. They also try to encourage NEET youths to plan their career paths.

Working Hour "Bending"

Since the late 1980s, the law in Japan has allowed the employers to decide freely with respect to working hours. Japan is perceived as the country with the longest working week in the world. Even though the norm is supposed to be 46 hours per week, in many cases it reaches even up to 20 more hours per week. Companies have the right to regulate working hours and adjust them in line with fluctuations in the economy. Employees may be asked to work overtime during periods of increased demand, while during downturns in the economy, they might be asked to work significantly less than 46 hours per week. These flexible working schedules are used by companies as a buffer system that enabled them to save costs. Even though overtime is paid only 25 to 50 percent above the base salary, many companies were abusing the employees by not paying even such overtime rates. Even though the labor standards law established a fine for the violation—which can be up to 300,000 yen (or 6 months in prison)—MHLW inspections revealed that more than 18,000 companies (which equaled 15 percent of all examined businesses) were not paying workers for overtime in 2003.

Only in recent years has the situation begun to change. The government has created

special commissions that monitor and check companies. There are serious fines for those abusing their employees and not paying for overtime. Moreover, the trade unions have managed to negotiate larger overtime premiums. All this may eventually lead to a situation in which employees will either work only as many hours as standards allow, or they will be well paid for any overtime hours worked.

Immediate steps are also taken when a death from overwork (*karoshi*) is reported in order to protect other employees in the company. The MHLW is also considering implementing some changes in the Industrial Safety and Health Law. The Ministry intends to put more responsibility for overworked employees on the company. The main idea of the revision would be to provide all employees working above 100 overtime hours per month (or 80 hours overtime a month for a longer period) to be examined by a doctor and a psychiatrist. Bearing in mind the growing number of suicides in Japan, it is reasonable to not only check the physical health of employees, but also their mental health to prevent or treat cases of depression. If the examination reveals that the employee is overworked and this fact is having serious impact on his health, the doctor may issue a recommendation for the employer to give the worker a paid holiday to recuperate or to decrease his working hours.

The Japanese are still not willing to act against their companies. Even when being abused and presented with opportunities to enforce their rights, a majority is still not willing or capable of striving for what they should be given. This situation will slowly change and evolve towards greater observance of employees rights.

Evaluation: The Growing Importance of the Merit Based Salary

Skill-Grading System

The traditional wage system used the number of years worked as a basis for the rate of remuneration. This seniority-based wage system made its appearance in the 1920s and was created to raise wages along with age and years of service (as well as the cost of living). Nevertheless, as a response to stagnation in the economy and with pressure to reduce company spending, some companies in Japan adopted a performance-based pay system. The number of companies adopting this solution has been growing for past several years. A performance or merit based system allows companies to pay wages based on productivity and quality of work, rather than age and seniority [Pacific Bridge, 2004].

The employers were searching for a new system that would optimize the skills of the employees and put a greater emphasis on motivation. This was to be achieved by the fair treatment of all the workers and just criteria. The new system is based on the actual use of the skills and clear evaluation of performance, it rejected the “old” criteria of credentials and seniority. There are also two hierarchies and two worlds describing the path to pro-

motion in the skill-grading system: *shosbin*, promotion associated with occupation and *shokaku*, related to ranking. The base part of remuneration is related to the ranking. It increases when the employee moves in the ranking structure to a higher position.

The use of this system enables the company to control labor cost through the regulating of total ranking in the company. The skills and abilities of an individual determine ranking. The skill-grading system facilitates rotation within the company because it is possible to move the employee to lower position while not changing his wage. Such allocation is treated as a skills acquisition period and reflects expected future remuneration. It also allows the company to control the overall workforce demand and balance among departments inside the organization [Debroux, 2003, p. 46].

Performance Appraisal

Performance appraisal is not only based on work results. It also encompasses educational attainment, communication skills, and cooperativeness or the sense of responsibility. Assessments are mostly conducted by supervisors and affect levels of pay increase and bonuses.

Another component of compensation used in around 80 percent of companies is skill-based pay, where the worker is appraised relative to his value as an employee rather than by job performance. Skills such as adaptability to a changing environment, loyalty to the company, contribution to teamwork, job diligence, and the ability to learn and gain knowledge and experience are assessed.

The evaluation is not usually taken in the absolute, but in relative terms. Its role is not to discourage workers that are not able to work up to the required standards. Usually, under-performance was caused by de-motivation. Employees are aware of the fact that if they under perform, they can easily be transferred to the company's subcontractors or affiliated companies and work under different conditions.

However, even though the system reflects performance in some ways and is much more efficient than the seniority-based system, there has been increasing criticism that seniority mostly reflects qualifications and that the superior's evaluations lack objectivity.

Merit-based pay is expected to solve these problems.

Merit-Based Salary

This system has become increasingly popular in Japan. Wages are calculated on the basis of the importance of the worker's duties, rather than on qualifications and titles. Companies grade employees in accordance with the degree of the responsibility, task difficulty, and the number of subordinates, for example. It is easier for the company to determine the importance of a worker's duties. Under this system, it is possible for the employer to promote

younger employees to more important positions. According to a survey conducted by the Japan Institute for Labor Policy and Training in January of 2004, “around 60 percent of companies surveyed had switched over to a merit-based pay system (rather than seniority-based). However, over 30 percent of the employees at these companies reported that the atmosphere in their workplace had become less favorable” [Pacific Bridge, 2004]. This personal assessment system increases peer competition and the level of stress, as the employees try to work harder and longer. Some employees also display unhappiness about the negative changes in their pay after implementation of the merit-based system, as less than 10 percent of employees are rewarded under this system. Many reports show that less than 10 percent of employees are enjoying benefits due to the application of the merit-based system. This happens due to the fact that the majority of employees cannot produce acceptably good results and so they permanently remain on lower salaries. Even though the use of the system may seem controversial—there is an ongoing debate on how to estimate employee results and who should do it—this system is becoming more and more popular among both Japanese companies and those with the foreign capital.

Conclusion

Along with the many fluctuations taking place in the economic situation, Japan is continuously experiencing changes in human resource management norms. Some companies are still managing their workforce using traditional practices, many others are moving away from such employment systems. The main reasons behind such decisions include possible cuts in the number of employees and a reduction of expenses. On the other hand, society is aging, there are more and more foreign companies investing in Japan, and a growing number of the Japanese enterprises is expanding globally. All of this influences the future shape of Japanese Human Resource Management as it is strongly determined by the growing internationalization of the environment.

The globalizing world leads to cultural mixing and creates a demand for solutions that fit culturally diversified environments and organizations. Major global competition forces companies to look for new solutions if they want to be successful. For this reason, they adopt best practices available. Also, companies and government are facing demographic changes and the problems of an aging society. Increasing mobility of the workforce, increasing number of part-time employees, and flexible working hours are trends that can be clearly seen. Employees are becoming more involved and have started to enforce the law and their rights. This is even true of Japan—the country of sacrificing employees, and obedience to supervisors and the company. On the other hand, the companies are also becoming more socially responsible, treating outplacement and responsibility for the laid off employees as standard practice.

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