

Human Resource Management in Japan

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Abstract

Japanese economy has been on the threshold of a mega structure growth curve for a couple of decades. This decline has led to a shift in human resource management practices from a traditional approach to a Westernized style. The changes are certain and observable but are limited by a strong Japanese culture ingrained in the history of institutional organisations.⁵

This study discusses seven most important management practices in their traditional approach and how the increasing influence of globalization and liberalization play a key role in their transformation. The research then reflects on the economic development of Japan leading to the evolution of human resource management systems and how these are being implemented. It is notable from the research that there are obstructions in harmonizing the two different cultures in Japanese HRM practices: the economic need of a change versus highly entrenched culture and mindsets is a constant conflict prohibiting the fast and stable execution of the shift in conduct.

Keywords: Human Resource Management, Economy, Culture, Japan.

Introduction

Post second world war, Japanese economy experienced an exponential growth. It was attributed to the human resource practices in Japan that were highly influenced by rich and strong Japanese customs². It was during this period, some worldwide reputed HRM models were established³⁰. Before the war, there was significant workforce discrimination between blue-collar and white-collar employees. This was balanced by setting workforce unions to facilitate communication channels between the two labour subclasses¹³. The very idea of harmonizing the labour force gave rise to lifetime employment and seniority plus merit pay practices to safeguard lower level employees and reward wisdom and expertise¹⁶. Pay In 1980, Japan entered the global market and became an instant sensation in its HRM models influencing other culture to bring in changes²⁴. However, an economic downturn in 1990s coupled with recession of 2008 and couple of natural disasters in early 2010s has left Japanese economy in a long-lasting recession³.

The severe economic distress call is being regularly assessed and the reform in human resource management practices is a leading factor in Japan's economic development. Japanese

institutional organizations are inclining towards a more flexible approach to human resource management influenced by both Japanese culture and Westernized style of practices¹⁰.

Evolution of Japanese Human Resource Management Systems

Japan is an old, complex and a highly respected culture¹². The human resource management practices are derivatives of their lush civilisation and are at the core of any institutional organization's work culture. "The Three-Pillars" of Japanese HRM practices: Lifetime Employment, Seniority plus Merit Pay and Enterprise Unions have been the most formidable support system of Japanese human resource systems¹⁶. In addition, practices namely Consensus decision-making, Quality Management System, Employee loyalty and Lack of Gender Equality are common and some of the most influential practices present in all Japanese corporations.

Lifetime Employment: "Sushin Koyo" (Lifetime Employment) was an important and necessary part of traditional Japanese HRM model as it involved practices where graduates were recruited with the guarantee that they will remain employed as long the employee desires²⁷. The practice was used because it provided numerous advantages to both employees and the company. The long-term promise bought the company the loyalty of its employees. The employees in turn perceive the guarantee as a lifetime worth of stable opportunities and are devoted to the companies¹⁴. The safety of monetary remunerations both during and post-employment results in improving employee work performance and yielding high returns for the company on its investment in human resources²⁷.

The practice is so ingrained in Japanese mindset that it is carried through by almost all organizations without any legal enforcement and/or requirement¹⁴. It is understood that the practice limits one's abilities for a more flexible and opportunistic career, but the sense of family security hovers high above the need of such a prospect in Japanese culture²⁷. The younger and upcoming generations of workforce may be inclined towards a more lenient career path, but their desire in change in the practice is limited by the senior level employees who started out with the expectation of lifetime secure career and are not willing to relinquish the sense of stability²⁷. From an economic perspective, the cost to companies under a lifetime contract is relatively high resulting in inefficient and unsatisfactory financial performances. This leads to a lack of interest in providing incentives for innovations, hindering the employee efficiency⁴.

From an economic standpoint, the change in this practice is highly sought after. It is believed that change in this practice would not only bring the costs for companies to accepted level but would also result in much more effective allocation of human resources. However, cultural mindset still influences about 35% of Japanese work force that seek and prefer Lifetime employment to a flexible career path (as of 2011)¹⁶.

Seniority Plus Merit Pay: “Nenko” (Seniority plus merit) is a practice derived from the very roots of Japanese culture. Respect for elders and their wisdom is prevalent in every aspect of life²⁴. The institutional organizations follow the same philosophy. Senior staffs that have stayed with the company for long durations are presented with constant pay increases and career development opportunities in lieu of their growing knowledge and expertise within the organization¹⁶.

Both economic pundits and upcoming younger generations have constantly criticized this practice in Japanese market¹⁷. Japan has an increasing ageing population. It has a direct economic impact; the labour costs are forever increasing with higher number of senior staffs earning higher wages¹⁷. As for the younger workforce, they naturally resist a system where their skills, abilities and performance are not appreciated or remunerated adequately. The exponential growth of globalization has younger employees either seeking foreign opportunities or demanding a performance-based wage system⁴.

Japan has accepted the need of change in the wage system. 60-70% organizations today follow a role-based wage system over Seniority pay^{3,24}. Japanese institutions have realized that if the change is not brought about, they will lose younger talent to global competitors and would make it hard for them to sustain in a rapidly expanding global market. There are still limitations however, with more than a few organizations facing resistance from senior employees to implement a performance-based wage system¹⁰.

Enterprise Unionism: “Kigyo-nai kumiai” (Enterprise unions) have a very common presence, long prevailing in Japanese corporations. These unions act as an intermediary between the blue-collar and the white-collar staff¹⁶. Senior staff regularly meets with the unions to understand lower level staff’s requirements, issues and salary expectations¹³. Unions also negotiate on behalf of the employees to resolve issues, reflecting a cordial and cooperative mannered approach to maintain harmony between management and the staff, thereby benefitting the enterprise itself.

Current scenario has however drastically changed. The unions always had a negligible representation in the service sector. In 2015, 75% of the Japanese GDP was represented by service sector²¹. This massive increase in the service sector in the economy made enterprise unions nearly redundant. Some also attribute the decline of enterprise

unions to the decline of Japanese economy in 1990, causing these unions to lose their collective bargaining powers, as higher wage negotiations could not be met following a low demand³. Statistics reflects enterprise unions have seen a decline of 21% during Asian financial crisis till last decade⁷.

Consensus based Decision Making: “Ringi System” (Consensus based decisions) is one of the most important elements in Japanese culture and has a long association with Japanese HRM model¹⁸. Traditionally, HRM model was ingrained with the concept of ‘ringi’ wherein all conflicts are dealt with a cooperative discussion and mutual agreement between all parties regarding company’s objectives and decisions¹. The discussions are structured in a rational, analytical and thoughtful flow to reach to a collective logical decision. Furthermore, long-term perspectives of such decisions are taken into consideration rather than having a short-term insight.

The consensus decision making is a practice deeply rooted in the Japanese mindset and cannot be easily forgotten. In the more recent market, younger workforces, particularly graduates, are demonstrating increased individualistic approach towards decision-making but is nearly negligible in its progress¹⁶. Although this collective decision-making process is wide-ranging and beneficial but the time taken in this approach causes much interference in an efficient workflow. With increasing global impact on Japanese markets and a greater number of international firms entering the competition, the Japanese decision-making system is taking a shift to a U-shaped system where the process starts at the top management level, flows down to the employee level and then backs up to management for a final decision²¹. The whole idea is to avoid conflict between white-collar and blue-collar level employees as the former were very assertive in the traditional practice of *ringi*^{21,30}.

Quality Management System: Japan has always been reputed as one of the most quality centric economies of the world³³. Traditional model suggests that the core of quality production systems, however, lays in the human resource quality management practice. The most common of these practices is quality control circles. More or less all-Japanese companies establish these circles with six to twelve members ranging from low-level staff to senior managers, who participate it voluntarily²⁶. The circle meets regularly in respect with each production stage to discuss new innovations to improve the quality and competitiveness of the business⁶.

The benefits of these quality control circles are three-fold. Additional to the improvements at the company level, these circles develop a sense of professional relationship and mutual respect among the employees at different ranks²⁸. The members encourage each other to provide feedback and new ideas, and anyone who is likely to carry and see through the idea, is given the ownership of the same, nurturing a sense of commitment and trust of the employees²⁶.

The traditional HRM model of quality management is believed to see a decline in the near future. The whole idea of quality control circles is based on collective decision-making and cannot be easily implemented in an individualistic atmosphere⁸. From a study conducted on foreign companies who tried to implement Japanese quality systems, eighty per cent of the sample reflected that in an individualistic work culture, such quality control programs lead to a “blame-game” scenario among employees, rather than fostering mutual respect³¹. With more Japanese graduates and younger workforce inclined towards individualism, the idea of quality control circles might lose its importance; but is still prevalent as the practice is ingrained in senior Japanese workforce⁵.

Employee Loyalty: In 2015, about 22 per cent full-time employees worked overtime making working more than eighty-nine hours a week without any compensation¹⁵. The family values are rich and omnipresent in the Japanese culture. The same philosophy is what drives these employees to work irrespective of the remunerations³². Employees are extremely loyal to their companies and prioritize company’s performance over self-interest. The sense of belongingness and collectivism nurtures goal congruence for each employee and any employee rarely takes a blame or appreciation as an individual.²²

It can be argued that employee loyalty is a derivative of lifetime employment practice and is often perceived that the

loyalty will decline with decline in lifetime employment practice. As noted above, younger workforce is inclined towards flexible and opportunistic career path over employment with one organization³². That being highlighted, loyalty is highly regarded by senior management, as it is a fundamental value in Japanese culture so influenced by collectivism and family values.

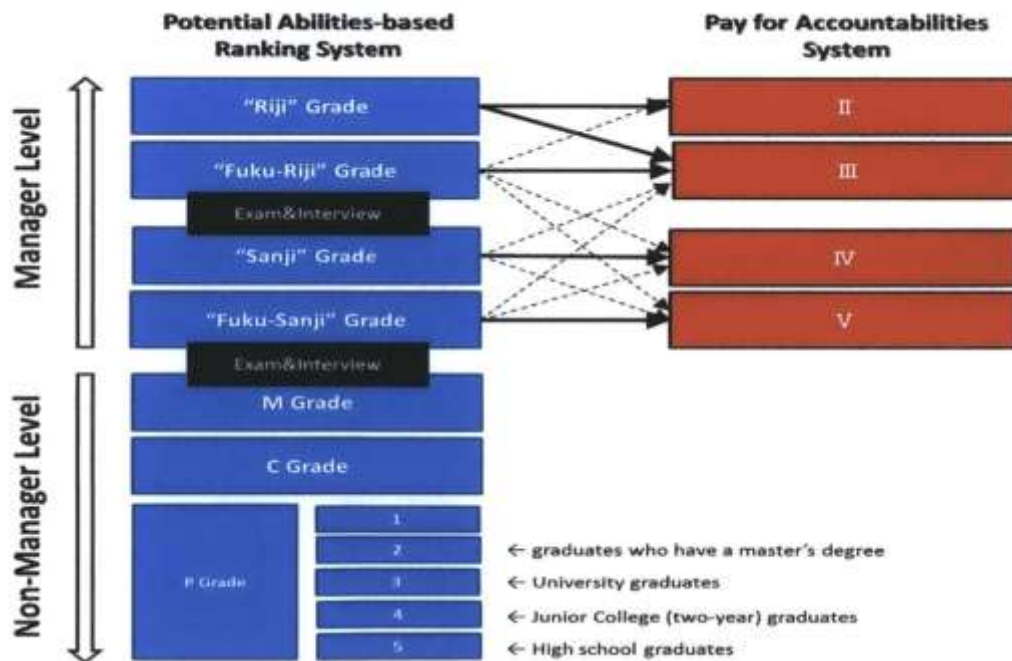
Recently, Mitsubishi UHJ financial group, the biggest bank in Japan has appointed two non-Japanese presidents first time in the history of its operations⁹. This can be seen as a direct result of foreign competition and liberalization of Japanese market making it difficult to sustain competitiveness globally. Government restriction on work time may moreover increase more employee loyalty as the quotient of job satisfaction will increase in near future.¹⁵

Gender Equality in Japan: The strong family values entrenched in Japanese culture have led to believe that women cannot handle family and career responsibilities at the same time³⁴. This results in rigid and unaccommodating Japanese work customs for women, creating an environment where female graduates find it very difficult to get opportunities that match their skills. For example, out of 40 foreign pharmaceutical companies operating in Japan, only one is led by a female president in contrast to none of the local Japanese pharmaceutical companies with women at a senior management level¹⁹.

Appendix 1
Changing Traditional Seniority Plus merit Pay to Role Based Pay

Remuneration model based on career stage			
	Seniority-based pay	Skill-based pay	Performance-related pay
Non- managerial employees (aged 20-30)	Principal component	Secondary component	Not applicable
Lower manager (aged 30-40)	Secondary component	Principal component	Not applicable
Section head (aged 40 - 50)	Not applicable	Principle component	Secondary component
Department head (aged 50plus)	Not applicable	Secondary component	Principal component

Appendix 2
Ability Based Ranking System (An example of Kirin Group Using New HRM practices)



There is a huge difference in women workforce statistics in the Western world and Japanese economy. In Japan, female participation in work force is sixty-three per cent out of which seventy per cent leave work post marriage compared with 30 per cent leaving work post marriage in USA.³¹

However, with the increasing ageing population and sinking workforce in Japanese economy, the female participation in labour force is deemed critical for economic growth²⁰. The Japanese government has identified the anomaly and has promised a better female participation in near future¹⁹. Japan has adopted a two-income family model where more than sixty per cent depends on at least two sources of income, resulting in increasing female family members involvement in the business²³. There is a clear and indicative change in the gender diversity in Japanese workforce, but it is expected to be slow due to traditional family values and strict female's responsibilities expectations.

Conclusion

Considering the economic downturn in Japan and the increasing influence of global market, Japanese human resource management models are certainly taking a shift to a more flexible and westernized approach from strongly ingrained Japanese customs.

Practices that are at the core of human resource management models, namely, lifetime employment and seniority plus merit pay are declining, as these are not economically viable. The decline is slow and limited because there is strong resistance from senior level staff who are not willing to lose their long-held expectations, and clearly have more

presentation in the workforce demographics. Seniority plus merit pay is a fast-declining practice. There is immense internal pressure as the younger and more liberal workforce demands a performance-based pay practice. From an economic standpoint too, the practice itself is very costly resulting in lower levels of profitability compared to the global market making it hard for Japanese company to sustain competition.

With a younger workforce's growing inclination towards an individualistic approach, management practices like consensus decision-making, quality control circle management practice and employee loyalty have too experienced a slowdown and are deemed to decline in near future.

Furthermore, the increasing ageing population in Japan, and a constantly sinking workforce has made it necessary to improve female presentation and participation in the workforce. Gender equality is a constant increasing practice highly supported and facilitated by the government but experiences limitations from the very mindset of Japanese family values and expectations of females.

It is easy to conclude that considering the economic slowdown and increasing influence of globalization and liberalization, the changes in human resource management practices are preordained. The new practices do experience limitations and challenges from a strong and complex Japanese culture but with increasing involvement of the next generation in workforce, the evolution of human resource practices is definitely underway.

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