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Investigation of change in Japanese HRM focusing on seniority-based system and person-based system, and decision-making on HRM issues

**Abstract**

This research investigates the current characteristics of Japanese human resource management (HRM) by focusing on two HRM areas: HRM policies and decision-making on HRM issues. Seniority-based system and person-based system are focused among various characteristics of HRM policy area, as these two characteristics have more changed than other characteristics in HRM policies. Method used to the investigation is comparison between Japanese-owned companies and foreign-owned companies. As a result, the research found that although Japanese-owned companies have been changing towards job-based system and performance-based system characterised by Western HRM, foreign-owned companies focus more on job-based system and performance-based system and less on seniority-based system than did Japanese-owned companies. Centralised decision-making in decision-making on HRM issues is also characteristic of Japanese HRM, and this research found that this characteristic is strongly maintained. Therefore, complementarity among various characteristics of Japanese HRM may be broken.

Track 7: Human Resource Management

## 1. INTRODUCTION

The strengths of Japanese human resource management (HRM) were praised until the early 1990s, when the Japanese economy was strong. However, the weaknesses of Japanese HRM have been pointed out since the mid-1990s, with the decline of the Japanese economy, and the characteristics of Japanese HRM have been shifting towards Western HRM (Hirano, 2006, 2009; Miyamoto, 2014; Olcott, 2008, 2009; Suda, 2007, 2010, 2015). Changes of Japanese HRM started in area of seniority-based system in the mid-1990s (JPC, 1997, 1999; SIM, 1986, 1990, 1995; ILA, 1996, 2000, 2004; Nippon Keidanren, 1995). Change of seniority-based system influenced person-based system, and person-based system started to change since around 2000 (JPC, 1997, 1999, 2000, 2001, 2002; ILA, 1996, 2000, 2004; Nippon Keidanren, 1999, 2002). However, Japanese HRM has not completely changed towards Western HRM, and now it is somewhere in the middle position between Japanese HRM and Western HRM (Hirano, 2006, 2011; JILPT, 2005, 2008, 2015; Miyamoto, 2014; Suda, 2007, 2010). Therefore, this research investigates the extent to which characteristics of Japanese HRM has changed towards Western type of HRM, focusing on areas in seniority-based system and person-based system in area of HRM policies, because these characteristics have been more changed than other HRM policies (JPC, 1997, 1999, 2000, 2003, 2005, 2007, 2009, 2012, 2013, 2016; ILA, 1996, 2005, 2010, 2014). This is the first purpose of this research.

The second purpose is to investigate whether or not complementarity among various characteristics of Japanese HRM is still maintained. In the past, various characteristics of Japanese HRM are complemented among others, and this made strengths of Japanese HRM (Hirano, 2006, 2011; Miyamoto, 2014; JILPT, 2005, 2007, 2010; Suda, 2007, 2010, 2015). However, changes in some parts of Japanese HRM towards Western HRM may break down complementarity of Japanese HRM, because changes do not occur uniformly among various characteristics which configure social institutions during the process of changes (Hall & Thelen, 2009; Mahoney & Thelen, 2010; Streek & Thelen, 2005; Storz & Schafer, 2011; Thornton & Occasio, 1999; Thornton, et al., 2013; Hardy & Magure, 2017). Some characteristics of social institutions may initiate the changes. Some other characteristics may follow the changes and/or some other characteristics may not follow and remain static. Therefore, complementarity of social institutions can be broken down during process of changes (Hall & Thelen, 2009; Mahoney & Thelen, 2010; Streek & Thelen, 2005; Storz & Schafer, 2011; Thornton & Occasio, 1999;

Ocasio, et al., 2017). In case of changes in Japanese HRM, many researchers found that seniority-based system and person-based system have changed in larger extent than other characteristics of Japanese HRM (JPC, 1997, 1999, 2000, 2003, 2005, 2007, 2009, 2012, 2013, 2016; ILA, 1996, 2005, 2010, 2014), and some researchers called this situation as “hybrid type of HRM” (Hirano, 2006, 2011; JILPT, 2005, 2008, 2015; Miyamoto, 2014).

One of the characteristics which hardly changed may be centralised decision-making on HRM issue. Whilst some researchers point out that centralised decision-making on HRM issues is one of the characteristics of Japanese HRM (Jacoby, 2005; Hirano, 2006; Suda, 2010, 2015), there are few empirical researches for characteristics of decision-making on HRM issues. Jacoby (2005) may be one of the exceptional empirical research which compared decision-making on HRM issues between American companies and Japanese companies. The reason why there are few empirical researches about decision-making on HRM issues may lie in little interests in both of academics and practitioners so far.

However, the research team believes that investigation for changes of decision-making on HRM issues in Japanese HRM should be important. Japanese HRM in areas of seniority-based system and person-based system have been changing since the mid-1990s (JPC 1997, 1999, 2000, 2003, 2007, 2009, 2013, 2016; JILPT, 2005, 2008, 2015; ILA, 2005, 2010, 2014, SIM1991, 1995, Nippon Keidanren, 1995, 1999, 2002). If characteristics of decision-making on HRM issues have not changed, and remains static, complementarity between characteristics of seniority-based system and person-based system, and characterised of centralised decision-making on HRM issues in Japanese HRM, which was established in the past, can be broken down. Then, the research team decided to investigate on this issue as one of unexplored research areas. This is the second purpose of this research.

The paper clarifies areas of HRM which configure whole HRM systems here, because it is the base of this research. The paper categorises areas of HRM as three: HRM policy, decision-making on HRM issues, and labour market (Suda. 2010, 2015). The main characteristics of Japanese HRM in the three areas are: organization-based employment system based on spread of long-term employment, seniority-based system and person-based systems in area of HRM policies (other main characteristics are discussed in next section), centralised decision-making on HRM issue in area of decision-making

on HRM issue, and low level of turnover in area of labour market. The main characteristics of Western HRM in the three areas are: market-based employment system, job-based system and performance-based system in area of HRM policies, decentralised decision-making in area of decision-making on HRM issues, and relatively high level of turnover in area of labour market. As these characteristics of the three areas are complemented among others in both of Japanese HRM and Western HRM, whole HRM systems in the two types of HRM are stable and they have established as social institutions (Suda, 2010, 2015).

This research focuses on two characteristics of Japanese HRM: one is the characteristics of seniority-based system and person-based system as the characteristics which may represent change of Japanese HRM, and the other is the characteristic as centralised decision-making as the characteristic which may represent no or little change of Japanese HRM.

Method used in this research is comparative study between Japanese-owned companies and foreign-owned companies. As foreign-owned companies are influenced by both of local environments (called as “host country effect”) and head office (called as “home country effect”), foreign-owned companies may be somewhere in the middle position between Japanese companies and foreign companies (Ferner & Quintanilla, 1998; Rosensweig & Nohria, 1994; Tayeb, 2009). Thus, the research team judged foreign-owned companies are suited to subjects of the comparative study

Structure of this paper is as follows. The second section introduces the main characteristics and complementarity among the main characteristics of Japanese HRM. Then, contents of the changes in seniority-based system and person-based system are described in the third section. The four section is regarding foreign-owned companies as the subjects of this comparative study. The fifth section discusses purposes and methods of the research, and hypotheses set in this research are also mentioned. Research findings and results of hypothesis testing are pointed out in the six section, and conclusion and future directions of the research are mentioned in the final section.

## **2. COMPLEMENTARITY BETWEEN THE MAIN CHARACTERISTICS OF JAPANESE HRM**

### **2-1. Main characteristics of Japanese HRM**

The main characteristics of Japanese HRM often pointed out are such as organisation-based employment system, seniority-based system, late promotion system, person-based system, *shinsotsu ikkatusaiyou* (new graduates are recruited simultaneously as a lump-sum regardless of such as jobs, job families and individuals' abilities, and the same pay levels are applied to all new graduate employees with the same academic levels who joined to the same companies in the same year), internal development and promotion with spread of rotation policy, and centralised decision making on HRM issues (Table 1) (Imano, 1991, Imano & Sato, 2014; Koike, 1993, 1994; Hirano, 2006, 2011; Yashiro, 2009, 2014; Suda, 2010, 2015, 2018). The main characteristics except centralised decision-making on HRM issues pointed out in here are categorised as the characteristics on HRM policies.

Table 1: Main characteristics of Japanese HRM

Organisation-based employment system
Seniority-based system and late selection system
Person-based system
<i>Sinsotsu ikkatsusaiyo</i> as unique new graduate recruitment system
Internal development and promotion with spread of rotation
Centralised decision-making on HRM issues

These characteristics are complemented among others, and this made strengths of Japanese HRM in the past. Concrete reasons why complementarity was established among the characteristics are described in following part of this section.

## **2-2. Complementarity between organization-based employment system and seniority-based system**

The first is concerned with complementarity between organization-based employment system and seniority-based system. Provision of job security is promise for seniority-based system. If companies dismiss many middle- and/or old-aged employees, who have difficulties to change their careers and/or companies which they work for, we hardly believe that many employees continue to work for a long-time in such companies. Skills needed to performing jobs are largely divided into firm specific skills and general skills (Becker, 1975; Lazear, 1998). General skill is type of skills which can be generally used to labour market as a whole, and firm specific skills is type of skills

which can be used only in the specified companies where the workers work for. If workers continue to work for the same company for a long-time, they tend to acquire large amounts of firm specific skills, but they tend to be weak for general skills. As a result, they may have difficulties to change their careers and/or companies which they work for after long years of service. On the other hand, if they often change their careers or jobs, they should have opportunities to acquire large amounts of general skills. Therefore, if workers change their careers or jobs when they are young, their employability tend to be high during their whole work life, and they are relatively easy to change their careers or jobs even though they get old. Seniority-based system is the system that pay levels are lower than performance levels of workers when they are young, and pay levels are higher than performance levels of workers after they get old (Lazear, 1979, 1981, 1998). Therefore, companies should have difficulty to retain young employees, if job security is not high under the seniority-based system. As described, seniority-based system needs organisation-based employment system which provides high job security for all or most employees.

Further, seniority-based system is suitable system where organization-based employment system is implemented. The paper discusses using two types of analysis: sharing the cost to acquire firm specific skills and prevention of workers' laziness. Firstly, sharing the cost to acquire firm specific skills is discussed. Employers mainly share the cost to acquire firm specific skills, because workers should have risk, if they share large amounts of cost to acquire such skills. Method used share the cost by employers are seniority-based system such as seniority-related promotion and pay increase. Then, do employers are willing to share the cost acquire firm specific skill to what type of workers? That is workers who continue to work in the same companies for a long-time. Because employers can use these workers with firm specific skills for a long-time, and employers can get benefit for a long-time. Next is regarding workers' point of views. Are what type of workers positive to acquire firm specific skills. That is workers who work for the same companies for a long-time, since they can use firm specific skills for a long-time and get benefit for a long-time. In addition, these workers with large amounts of firm specific skills should want to retain in the same companies for a long-time, because they have difficulties to change their career and/or jobs<sup>1</sup>. As a result, they should increase royalty and commitment to companies which they belong to. Therefore, seniority-based system is suited to organisation-based employment system

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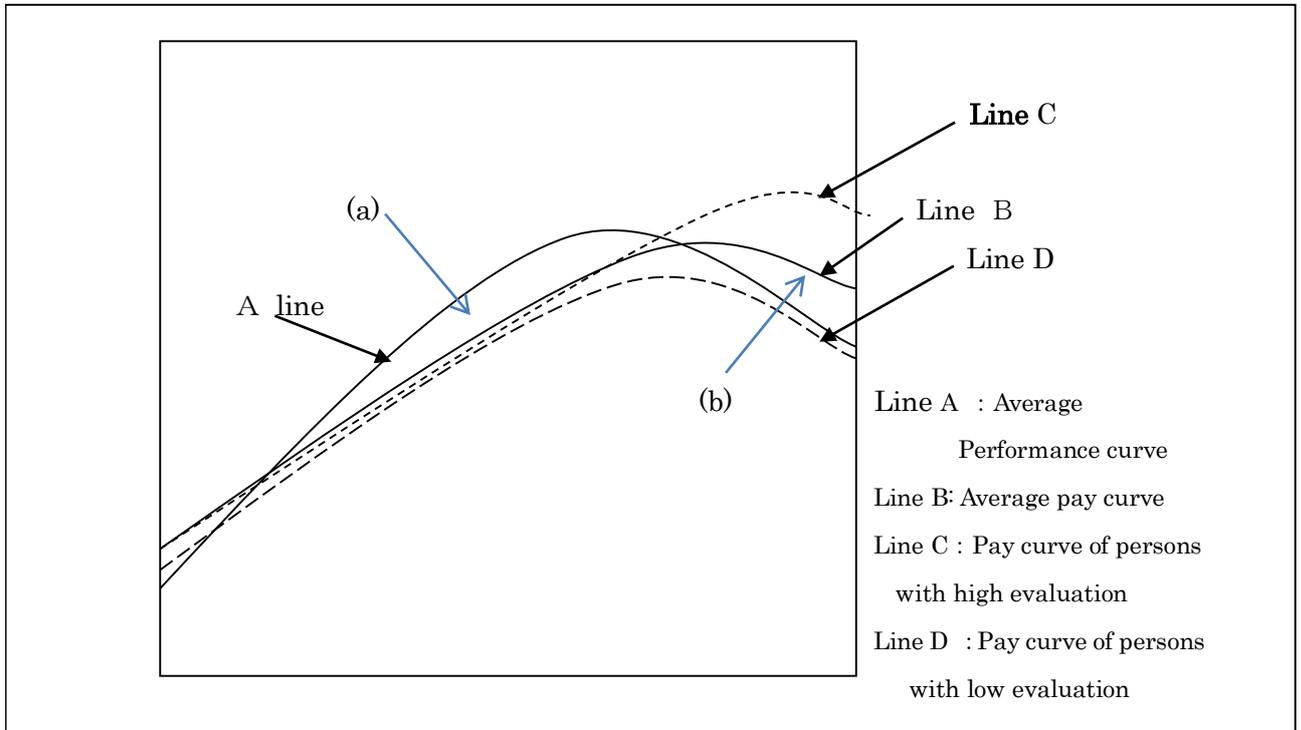
<sup>1</sup> Change their career or jobs means "workers change companies where they work for" or "job hopping"

(Becker, 1971; Becker, 1975; Lazear, 1998). In fact, Doeringer & Piore (1971) found that the main cause of seniority-related promotion and pay increase in internal labour market was firm specific skill. Organization-based employment system provides promise for seniority-based system, and if organization-based employment system is implemented, rewards for employees such as pay and promotions should be seniority-related. Organisation-based employment system and seniority-based system are complemented each other.

Secondly, prevention of laziness using shirking theory is discussed (Lazear, 1979, 1981). Shirking theory explains economic rationality of seniority-based system by focusing on prevention of workers' laziness. Pay levels are lower than performance levels in early career stage, and pay levels are higher than performance levels in late career stage under seniority-based system. If workers' laziness is discovered before reaching to the late career stage when their pay levels exceed their performance levels, and if they are dismissed under seniority-based system, they lost larger amounts of money under seniority-based system than the amounts of money under performance-based system (no use of seniority-related pay increase). Then, seniority-based system can prevent workers' laziness, and workers should work harder in seniority-based system than performance-based system.

These are essence of shirking theory developed by Lazear (1979, 1981). We shall apply concept of the shirking theory to Japanese situation. Please look at graph 1 which indicates relationship between performance levels and pay levels in seniority-based system (graph 1) (Suda, 2010, 2015, 2018). Line A indicates the performance curve which assumes average performance level through whole working career. Line B indicates the pay curve under seniority-based system. As graph 1 shown, line A is in higher than line B (pay levels are lower than performance levels) in early career stage, and portion indicated as (a) is the amounts of money which are not paid under seniority-based system. On the other hand, line B is in higher than line A (pay levels are higher than performance levels) in late career stage, and portion indicated as (b) is the amounts of money paid beyond their performance under seniority-based system. In other words, unpaid money indicated as (a) in early career stage can be considered as deferred payment that workers can get in late career stage. However, payment of deferred payment is not guaranteed. If workers quit (or are dismissed) their companies before they get higher pay levels than their performance levels, they cannot get money that they thought as deferred payment.

**Graph1 : Large divergence of pay levels happens in late career stage**



Note: Horizontal axis = age and years of service  
Vertical axis = performance and pay curve

Furthermore, if workers continue to work in the same companies, only high performer, or continuously highly evaluated workers through whole their work career, can get the deferred payment. Pay curve indicated by line B is pay levels provided to workers who increased their pay levels on average. All workers do not necessarily receive this pay levels. As shown in graph 1, workers who get higher pay levels get larger amounts of money than money they thought as deferred payment (line C). Workers who get lower pay levels get smaller amounts of money they thought as deferred payment (line D). In this situation, we can easily imagine that workers should work hard in order to get high level of pays in their late career stage. Particularly, in society where changing career or jobs is difficult like Japan under spread of organization-based employment system, workers should be highly motivated that they are continuously highly evaluated in their companies throughout their working career. As a result, workers work very hard. As discussed, organization-based employment and seniority-based system are complemented each other.

### **2-3. Late selection system facilitates competition among employees**

If we look at seniority-based system from another side, seniority-based system is the system that companies do not make large differences in decision of HRM issues such as promotions and pay increases among cohorts who join the same companies with the same academic levels at the same time. In other words, seniority-based system can be considered as “late selection system”. The late selection system is the system which does not make large difference among cohorts, and promotion levels and pay increase rates are almost same in the early career stage. This “late selection system” is one of the main characteristics of Japanese HRM (Koike, 1993, 1994; Suda, 2004, 2010, 2015, 2018). Large amounts of employees continue to stay in promotion competition under the late selection system, and this situation intensifies promotion competition among employees. This prolonged intensified promotion competition is one of the strength of Japanese companies (Koike, 1993, 1994; Suda, 2004, 2010, 2015, 2018). The late selection system needs seniority-based system which does not make large difference among cohorts in the early career stage. That is, seniority-based system is promise for the late selection system, and organization-based employment system is promise for seniority-based system. Organization-based employment and seniority-based system establish complementarity in this respect again.

### **2-4. Complementarity among three characteristics of Japanese HRM: organization-based employment, new graduate recruitment system as *shinsotsu ikkatsu saiyou*, and internal development and promotion**

If companies implement organization-based employment, new graduate recruitment rather than mid-career recruitment becomes the main method of recruitment. As new graduates with no working experience do not have speciality for particular jobs and/or job families such as HR, accounting and sales, *shinsotsu ikkatsu saiyo* (new graduates are recruited simultaneously as a lump-sum regardless of such as job, job family and individuals’ abilities, and the same pay levels are applied to all new graduates with the same academic levels who joined to the same companies in the same year) is suitable method, job-based and/or job family-based recruitment is not suited to. After the recruitments, employees are internally developed and promoted, and the main skills acquired in the internal developments are firm specific skills rather than general skills. Because it is important for employers to increase performance in their own companies, focusing on development of firm specific skills are rational decisions (Becker, 1975;

Lazear, 1998). Employees recruited as *shinsotsu ikkatusu saiyo* are developed to hold wide areas of knowledge and skills needed to specific companies where they belong to through job rotations. Whilst rotation policies are spread in large Japanese companies, many employees do not experience wide areas of job rotation in terms of across job families and business areas. At least, areas experienced by Japanese employees are smaller than areas experienced by small number of selected employees in Western companies under early selection system (Storey, et al., 1997; Yashiro, 2002). In fact, many employees in large Japanese companies are developed in the middle position between generalists and specialist (Suda, 2010, 2015, 2018). If employees are developed as generalist, they can change their careers or jobs as general managers, and if employees are developed as specialists, they can change their careers or jobs as specialities. However, workers with knowledge and skills characterised by the middle position between generalists and specialists have difficulties to change their careers and/or companies which they work for. Therefore, these workers who have difficulties to change their careers or jobs are likely to strongly desire to retain to their companies which they work for (Suda, 2010, 2015, 2018).

## **2-5. Complementarity between seniority-based system and person-based system**

On one hand, job-based employee grade and pay systems are spread many countries around the world. On the other hand, unique person-based employee grade system named *shokunou shikaku toukyu* (employee grade based-on job related abilities) and pay system named *shokunoukyu* (pay for job-related abilities) have been spread since the 1960s in Japan (Oyamada, et al., 1997; Shimizu, 1991; Nippon Keidanren, 1969). There was almost only one system until around 2000 in Japan. Small number of companies started to introduce job-based system in the mid- or late-1990s (Ono & Suda, 1997; Suda 1996; Yanashita, 2001, 2003). For example, a survey of Institute of Labour Administration (ILA after here) regarding employee grade in 1996 only asked person-based employee grade. A surveys of Japan productivity Centre (JPC after here) regarding pay system in 1997 and 1998 only asked person-based pay, and the same series of survey started to include job-based pay in the questionnaires from the 1999 survey. Although job-based system has been introducing since around 2000, person-based system is still major characteristic in Japanese HRM (JPC, 1997, 1999, 2000, 2003, 2005, 2007, 2009, 2012, 2013, 2016; ILA, 1996, 2005, 2010, 2014). Characteristics of person-based system spread until around 2000 are described here, and changes of person-based system will be discussed in the next section.

Firstly, employee grade system is described. The most spread person-based grade system since 1970s and/or 1980s is *shokunou shikaku toukyu* (employee grade system based on job-related abilities) (Oyamada, et al., 1997; Shimizu, 1991; Imano, 1991; Imano & Sato, 2014; Suda, 2004, 2007, 2010, 2015). This grade system divides employees into grades according to their job-related abilities, and each employee is classified into a certain grade in this system. The grade is loosely related to jobs and/or positions not directly linked (Sasajima, 2001, Shimizu, 1991; Imano, 1990; Imano & Sato, 2010; Hirano, 2006; Horita, 2010, Suda, 2004, 2010, 2015; ILA, 1996). This relationship between job and positions of the employee grade system based on job-related abilities is called “dabble ranking system” (Imano, 1990; Imano & Sato, 2010; Shimizu, 1991; Horita, 2010; Hirano, 2006; Suda, 2004, 2010, 2015, 2018).

Grade levels of individual employees are nominally determined according to *shokumu suikou nouryoku* (job-related abilities). However, criteria for the job-related abilities tended to be general and abstract (ILA, 1996; Shimizu, 1991; Hirano, 2006; Horita, 2010; Suda, 2010, 2015). Example of criteria for the job-related abilities is shown in Appendix (Shimizu, 1991). Source of this example is a text book for business persons published in the early 1990s, when employee grade system based on the job-related abilities were widely spread. This example indicates that the criteria are general and abstract, and not concrete nor specific. Further, meanings of the criteria are unclear in original Japanese version as well as English version. These unclear criteria were made deliberately in order to achieve seniority-related promotions in the employee grade.

Assessments based on the criteria of job-related abilities are difficult due to unclearness of the criteria. Instead of the assessments based on the criteria, two methods were mainly used to decided individual grades: acculturation of rating points and years of service in one grade. The first is accumulation of rating points. Appraisal ratings expressed by rating categories such as S, A, B, C and D (S is the highest and D is the lowest rating) are translated into numbers such as S = 5, A = 4, B = 3, C = 2 and D = 1. The rating points expressed by number at each appraisal are added together. The resulting rating points is considered as each employee’s own point for the grade promotion. For example, if employee A takes rating point 4 in the first appraisal after joining the company and he/she takes rating point 3 in the next time, his/her own point is 7 (4 +3). A criterion is set as a threshold limit for appraisal rating points for promotion of employee grade. For example, if 15 points is set as a criterion for

promotion to employee grade 2, the sum of rating points must exceed 15 points in order for employee to be promoted to grade 2 (or to become a candidate for the grade promotion).

The second is years of service in one employee grade. There are three types of conditions for grade promotion: minimum, standard and maximum. In a survey by the ILA (1996), 79.7 % set guideline for minimum years of service, 41.2% set guideline for standard years of service and 31.1% set guidelines for maximum years of service for all grades or some grades.

Grade promotions in employee grade based on job-related abilities are relating to years of service by use of accumulation of rating points and setting guideline for years of service staying in one grade described above. In Japanese case, years of service are almost proportional to age under spread of recruitment for new graduates particularly in large companies. Therefore, promotions of employee grade based on job-related abilities are relating to age and years of service.

The second is regarding pay system. While pays compose some elements, the research focuses on base-pay. Personal elements in Japanese base-pay are largely into *zokujinkyu* (pay for personal characteristics) and *shokunoukyu* (job-related ability pay). The personal characteristics often considered to decide *zokujinkyu* are such as age, years of service and academic levels. Job-related ability pay is determined based on employee grade based on job-related abilities. Therefore, decisions of job-related ability pays are related to seniority elements, since decision of grade levels in employee grade based on job-related abilities are related to seniority elements by use of accumulation of rating points and setting guideline for years of service staying in each grade. As indicated so far, person-based system in Japan realised seniority-based system.

## **2-6. Complementarity between organization-based employment system, seniority-based system and person-based system**

Person-based system complements with organization-based employment as well as seniority-based system. If job-based system is implemented, number of jobs is determined according to business needs in each time, and the number of jobs does not necessarily match number of employees. Where the number of employees exceeds the number of jobs, redundancy occurs at least in theory. However, as abilities of employees

is not specified by number, and occurrence of redundancy can be prevented at least in theory too (Imano, 1990; Imano & Sato, 2014; Hirano, 2006, 2011; Suda, 2010, 2015, 2018)

Regarding complementarity between seniority-based system and person-based system, job contents of individual employees can change, in particular, where job rotation policy is implemented for many employees in large Japanese companies, job contents of individual employees can change within several years, and degree of such as scope, importance and difficulty of jobs may also change. If job-based employee grade and pay systems are implemented, demotions of employee grade and reduction of pay levels are theoretically happened. If person-based employee grade and pay systems such as *shokunou shikaku toukyuu* (employee grade based on job-related abilities) and *shokunoukyu* (job-related ability pay) are implemented, even though job contents of individual employees change towards lower levels, they are not demoted and their pay levels are not decreased. Thus, person-based system complements with seniority-based system (Imano, 1990; Imano & Sato, 2007; Suda, 2004, 2010, 2015; Hirano, 2006, 2011; Miyamoto, 2014; JILPT, 2005, 2008, 2015).

If employees face redundancy or demotion or pay decrease in societies where levels of employee turnover are high, they can relatively easily change their career or jobs. However, where many companies especially large companies implement organization-based employment system like Japan, as job hopping is difficult, person-based employee grade and pay systems are suitable methods (Imano, 1990; Imano & Sato, 2014; Suda, 2004, 2010, 2015).

## **2-7. Complementarity between characteristics of HRM policies and centralised decision-making on HRM issues**

The paper described characteristics and complementarity of Japanese HRM in terms of HRM policy area. Next, the paper discusses centralised decision-making on HRM issues and complementarity between the main characteristics in HRM policies. Firstly, centralised decision-making on HRM issues in Japanese HRM is shown based on international comparative study. The CRANET survey (2011), in which 31 countries participated, gathered data on who has the main role with respect to various HRM issues by asking participants to select among four options: “line managers”, “line managers in consultation with the HR department”, “the HR department in consultation with line

managers”, and “the HR department”. As a result, the survey revealed highly centralised decision-making in Japan compared with that in other countries. As an example, the results of the main role with respect to pay and benefits are shown in table 2. We can know that HR departments in Japan have strong power compared with their counterparts in other countries in terms of decision-making on HRM issues.

Table 2: Who has the main role with respect to pay and benefits

	France	Germany	UK	Russia	Japan	US	Taiwan
Line managers	7%	9%	20%	48%	4%	4%	9%
Line managers in consultation with the HR department	29%	45%	28%	20%	10%	16%	22%
The HR department in consultation with line managers	50%	38%	34%	21%	9%	39%	39%
The HR department	14%	8%	18%	0%	77%	41%	30%

Data Source: CRANET Survey (2011)

Note: Seven countries are selected among 31 participant countries, as the number of the participant countries is large. None of the countries omitted in table 2 have characteristics similar to those of Japan. Only Japan shows that HR departments have a strong position compared with line managers among the participant countries.

There are some arguments that centralised decision-making on HRM issues is complemented characteristics of Japanese companies. For example, Jacoby (2005) compared the decision-making power held by HR departments between American companies and Japanese companies and found that HR departments in Japanese companies had stronger decision-making power than did HR departments in American companies. Jacoby further pointed out four characteristics of Japanese companies: (1) the organization-based employment system, (2) less diversified business areas focusing on the main business, (3) enterprise trade unions, which include large hierarchical levels of employees from new employees to middle managers, and (4) a corporate governance system characterised by stakeholder type. Then, Jacoby concluded centralised decision-making on HRM issues is complemented with the four characteristics in Japanese companies (Jacoby, 2005).

Aoki (1986, 1989) claimed the economic rationality of centralised decision-making on

HRM issues in Japan based on an analysis of compatible patterns between the information system and the incentive system. According to Aoki (1986, 1989), there are two types of compatible patterns between the two systems: one is a centralized (or vertical) information system and a decentralised HRM system, and the other is a decentralized (or horizontal) information system and a centralised HRM system. It has been pointed out that American companies show complementarity between a centralised (or vertical) information system and a decentralised HRM system, whereas Japanese companies show complementarity between a decentralised (or horizontal) information system and a centralised HRM system. Thus, the centralised decision-making on HRM issues in Japanese companies is considered economically rational.

There are other explanations based on characteristics of Japanese HRM: one is complementarity with seniority-based system, and the other is prevention of runaway by line managers. The first is complementarity with seniority-based system. As promotions of employee grade based on job-related abilities are actually conducted relating to years of service as described before, site information held by line managers such as job contents and performance of their members is not needed to judge the grade promotions. Therefore, centralised decision-making on HRM issues are complemented with seniority-based system.

The second is prevention of runaway by line managers. Runaway by line managers means that management is carried out according to line managers' own interests and/or preference. For example, line managers do not allocate jobs and/or give low rating to particular members, because line managers think that these members are superior than themselves, and they feel threat for these members. One of the solutions for these problems occurred by line managers are that these members change their career or jobs to realise what their abilities are properly evaluated. That is, market principle solves the problems. However, market principle hardly functions in society such as Japan where organization-based employment system is spread. Powers of line managers are very strong in power balance between line managers and their members, and it is difficult to prevent runaway by line managers (Suda, 2004, 2010, 2015). An alternative solution is centralised decision-making on HRM issues as HR departments have strong power. As HR departments do not have direct interests with individual employees, their judgements for individual employees tend to be fair. Therefore, centralised decision-making on HRM issues conducted by HR department with strong power is complemented with organization-based employment system.

### 3. CHANGES IN JAPANESE HRM

The paper introduced the main characteristic of Japanese HRM, and described how they were complemented among others in the previous section. Japanese HRM had strengths in the past by the established complementarity among the characteristics. However, some characteristics have caused problems since the mid-1990s. In particular, the seniority-based system was heavily criticized and *seika shugi jinji* (performance-based HRM) started to spread from the mid-1990s to overcome the problems, and such changes facilitated changes of person-based system since around 2000. Although other aspects of Japanese HRM have also changed to some degree, the extent of changes is larger in seniority-based system and person-based system (JPC, 1997, 1999, 2000, 2003, 2005, 2007, 2009, 2012, 2013, 2016; ILA, 1996, 2005, 2010, 2014; SIM, 1991, 1995). Therefore, the research focuses on changes in seniority-based system and person-based system in terms of changes of Japanese HRM.

The paper starts the discussion of changes in seniority-based system towards performance-based HRM. The concrete method for realizing performance-based HRM was management by objectives (MBO). In 1965, the introduction rate of MBO schemes was 24%, increasing to 45% in 1970, according to surveys conducted by JPC. In 1990, the introduction rate reached 50%, increasing to 64.8% in 1991 and to 82.6% in 1995, according to surveys conducted by the Sanno Institute of Management (SIM). Furthermore, the purpose of the MBO schemes shifted from development towards the measurement of individual performance in the 1990s (SIM, 1995). In the 1980s, the primary purpose of MBO schemes, based on the purpose with the highest rate (50.0%), was “motivation by participation” (SIM, 1985); however, this primary purpose was replaced by “method of performance measurement”, whose rate was 32.9% in 1991 and increased to 60.3% in 1995 (SIM, 1995).

In the 1990s, many MBO schemes were introduced under the person-based grade and pay systems, which caused problems. The main reasons for these problems were difficulties in choosing objectives that provide the basis for performance measurement, because person-based grade and pay systems are not directly linked to job levels but, rather, are loosely related (Shimuzu, 1991; Imano, 1991; Imano & Sato, 2014; Horitani 2010; Suda, 2004, 2010, 2015; ILA, 1996). A solution to this problem was the introduction of a job-based grade and pay system. The introduction rate of job-based

grade and pay systems has increased since around 2000. According to a series of surveys by the JPC, the introduction rates of person-based pay systems were 87.0% in 2000, 70.1% in 2005, 80.7% in 2009, and 78.3% in 2016 for non-managers, and 82.4% in 2000, 57.5% in 2005, 69.9% in 2009, and 66.9% in 2016 for managers. The introduction rates of job-based pay systems were 24.9% in 2000, 40.9% in 2005, 51.1% in 2009, and 56.4 % in 2016 for non-managers, and 24.9% in 2000, 61.0% in 2005, 70.5% in 2009, and 74.4% in 2016 for managers. These results are shown in table 3. (The reason why the total percentage of person-based and job-based pay systems exceeds 100% is that many firms used *heizongata chingin*, which is base-pay composed of more than two forms of pay.)

Table 3: Changes in base-pay system: introduction rates of *shokunoukyu* (job-related ability pay), job-based pay, age-based pay (%)

	1999	2000	2003	2005	2007	2009	2012	2013	2016
Job-related ability pay (managers)	80.9	82.4	60.6	57.5	74.5	69.9	65.8	69.2	66.9
Job-related ability pay (non-managers)	85.2	87	69.3	70.1	80.9	80.7	77.3	81.1	78.3
Job-based pay (managers)	21.1	43.9	53.4	61	72.3	70.5	79.2	76.3	74.4
Job-based pay (non-managers)	17.7	24.9	34.3	40.9	56.7	51.1	58.4	58.0	56.4
Age-based pay (managers)					33.5	27.3	22.7	25.8	24.8
Age-based pay (non-managers)	78.2	72.8			61.9	59.1	48.1	62.3	49.6

Data source: Japan Productivity Center “Survey for Changes in Japanese HRM”

Note: Both job-related ability pay and age-based pay are categorised by person-based pay. Seniority element as age is directly linked to age-based pay, and seniority elements as age and years of service are indirectly linked to job-related ability pay through grade promotion of *shokunou shikaku toukyu* (employee grade based on job-related abilities)

As described above, person-based pay systems have been in decline, whereas job-based pay systems have been on the rise. Therefore, we consider that the characteristics of Japanese HRM concerning the seniority-based system and the person-based system

have been shifting towards Western HRM, which is characterized by job-based system and performance-based system. However, the seniority-based system and person-based pay system still exists. In other words, age-based pay and job-related ability pay are still implemented as indicated in table 3. Japanese HRM is in the middle position between traditional Japanese HRM and Western HRM.

#### **4. CHARACTERISTICS OF FOREIGN-OWNED COMPANIES**

Method used in this research is comparison between Japanese-owned companies and foreign-owned companies operating in Japan. Therefore, the paper discusses characteristics of foreign-owned companies. The first is about “home country effect” and “host country effect”. As foreign-owned companies are subsidiaries of parent companies operating in other countries, both characteristics of HRM spread in their parent companies, which is as called home country effect, and characteristics of HRM spread in their local environment where they are operating, which is called as host country effect, influence foreign-owned companies. It can be considered that foreign-owned companies are located in the middle position somewhere between home countries and host countries (Ferner & Quintanilla, 1998; Taylor, et al., 1996; Rosensweig & Nohria 1994; Sparrow, et al., 2004). Therefore, foreign-owned companies are suited to subjects of comparative study with Japanese companies.

The second is about the particular characteristic of foreign-owned companies called as “footloose nature” (Marginson, 1994; Gorg & Strobl, 2003; Hutchinson & Persyn, 2012; King & Welling, 1991). That is, foreign-owned companies tend to have larger risk for host countries, because they are more likely to withdraw and/or shrink their investment to their host countries than companies located in home countries. Multinational companies invest to overseas countries according to their judgement that these countries are superior more than other countries in terms of such as cost, market, workers’ skill, quality and productivity. Comparative advantages held by each country can change according to such as change of position in the global market and strategic changes of particular multinational companies (Marginson, 1994; Gorg & Strobl, 2003; Hutchinson & Persyn, 2012; King & Welling, 1991). As a result, the footloose nature of multinational companies influences foreign-owned companies towards destabilization of employment, and foreign-owned companies tend to focus on mid-career recruitment and not to focus on internal development (Marginson, 1994; Gorg & Strobl, 2003; Hutchinson & Persyn, 2012; King & Welling, 1991).

“Country of origin effect” as particular characteristics of each home country influences foreign-owned companies is also important. There are much discussions about “country of origin effect” (Hall & Soskice, 2001; Whitley, 1992a, 1992b, 1999, 2007, 2010; Marginson & Sisson, 1994; Bartlett & Goshal, 1992; Ferner & Quintanilla, 1998). For example, Whitley (2007, 2010) argues that country-origin effect exists in only advanced countries where they have established institutional frameworks including characteristics of HRM. Bartlett & Goshal (1992) categorised management style against overseas subsidiaries among advanced countries into multinational, international and global. “Multinational” companies transfer decision-making to large extent and overseas subsidiaries have autonomy to large extent. Head offices in “international” companies influence to their overseas subsidiaries more strongly than “multinational” companies, and they control their overseas subsidiaries to larger extent than “multinational” companies. Head offices in “global” companies have the strongest power and they control their overseas subsidiaries to the largest extent. European companies are categorised by “multinational” companies, American companies are categorised by “international” companies, and Japanese companies are categorised by “global” companies (Bartlett & Goshal, 1992). Marginson & Sisson (1994) categorised management style in HRM area for overseas subsidiaries as “innovator” and “adopter”. “Innovator” companies tend to introduce HRM spread in the home countries to overseas subsidiaries, and “adopter” companies tend to adopt HRM spread in host the countries. American companies and Japanese companies are categorised by “innovator”, and European companies are categorised by “adopter” (Marginson & Sisson, 1994).

There are various types of international comparative studies which categorise type of capitalism or business system (Hall & Soskice, 2001, Whitley, 1992a, 1992b, 1999, 2007, 2010; Amable, 2003), and these international comparative studies have identified national institutional characteristics of each country or each region. These national institutional characteristics also influence foreign-owned companies.

In addition, this research uses Western HRM as the comparative type of HRM against Japanese HRM. Foreign-owned companies operating in Japan include not only Western-owned companies but also foreign-owned companies whose home countries are located in other than Western countries such as newly developed countries. Although the authors recognise that national characteristics of HRM except advanced countries have not been established and have not also well researched, this research included

foreign-owned companies whose home countries are not Western countries. This is because the authors consider that Japanese HRM are very unique around the world, and characteristics of HRM in other countries except Japan are more similar than Japanese HRM.

## **5. PURPOSE AND METHOD OF THE RESEARCH**

### **5-1. Purpose of the research**

There are two main purposes of this research. The first is to investigate the extent to which Japanese HRM has been changing towards Western HRM in terms of seniority-based system and person-based system in HRM policy area, since they might have been changing in the largest extent among various characteristics of Japanese HRM. The second is to address whether or not complementarity among the main characteristics of Japanese HRM still exists. On one hand, seniority-based system and person-based system have been changing since the mid-1990s or around 2000 (JPC, 1997, 1999, 2000, 2003, 2005, 2007, 2009, 2012, 2013, 2016; ILA, 1996, 2005, 2010, 2014). On the other hand, centralised decision-making on HRM issues is hypothesised as it is static, because decision-making on HRM issues has been little discussed in Japan. Therefore, complementarity between HRM policy area especially seniority-based system and person-based system, and decision-making on HRM issues can be broken out.

### **5-2. Method of the research**

The first purpose is to address the extent to which Japanese HRM has been changing towards Western HRM. The method used for the first purpose is comparison between Japanese-owned companies and foreign-owned companies operating in Japan. This is because foreign-owned companies can be considered as the middle position between their home countries (home country effect) and their host countries (host country effect). In particular, the comparison is suited to examine for the argument that Japanese HRM are somewhere in the middle position between traditional Japanese HRM spread until the early 1990s and Western HRM.

Regarding the first purpose, this research focuses on seniority-based system and person-based system which may represent changes of Japanese HRM within area of

HRM policies. As concrete questionnaire regarding changes of seniority-based system and person-based system, “important elements to determine individual base-pay levels” are asked. The research sets age, years of service, *shokumu suikou nouryoku* (job-related abilities), job value, role, performance and behaviours (assessed by competency). The questionnaire asked the participants to select the most appropriate response indicating the situation of their companies with regard to the degree of importance of each element to determine individual base-pay levels on a scale ranging from 1 (not important at all) to 6 (very much important).

The second purpose is to examine whether or not complementarity among the main characteristics in Japanese HRM is still maintained. In order to achieve this purpose, this research examines whether centralised decision-making on HRM issues remains static or it has changed, and this research compares current situation of seniority-based system and person-based system, and that of decision-making on HRM issues. As concrete questionnaire regarding decision-making on HRM issues, “the power balance between HR departments and line managers regarding the final decision making on HRM issues” is set to investigate situation of decision-making on HRM issues. Concretely, the questions address (1) the final decision making on new graduate recruitment, (2) the final decision making on mid-career recruitment, (3) the final decision making of staff assignments within the same function or division, (4) the final decision making of staff assignments across functions or divisions, and (5) the final decision making on personnel promotions. The surveys asked the participants to select the statement closest to the situations of their company, with four response options: “1=decision by HR”, “2= decision by HR rather than line managers”, “3=decision by line managers rather than HR”, and “4=decision by line managers”. The answers were translated into numbers ranging from 1 (decided by HR) to 4 (decided by line managers) to conduct statistical analysis.

This research used survey research as data gathering method. Two surveys were conducted: one is for Japanese-owned companies in Japan, and the other is for foreign-owned companies operating in Japan. The research targeted Japanese-owned companies listed to Japanese stock exchange market with more than 500 employees as consolidated number, since Japanese HRM is mainly applied to large companies rather than small companies (MHLW, 2017; Nippon Keidanren, 2017). The number of target companies was 2165 companies, and 170 companies participated in the survey, for a response rate of 7.9%. Regarding foreign-owned companies, the research targeted

companies with more than capital 50,000,000 yen. Large companies are suited to the target company to compare large Japanese-owned companies. Further, small companies are less likely to have formal system for HRM. The number of target companies was 1674 companies, and 215 companies participated in the survey, for a response rate of 12.8%. The surveys for Japanese-owned companies were conducted between December 2016 and January 2017, and survey for foreign-owned company was conducted between October 2017 and November 2017.

### **5-3. Hypotheses set in this research**

Firstly, hypothesis is concerned with Japanese-owned companies is mentioned. If criteria of *shokumu suikou nouryoku* (job-related abilities) are still general and abstract as same as the criteria in the past, the job-related abilities were complemented with seniority-based system, correlation among three elements (job-related abilities, age and years of service categorised) categorised by seniority-related and person-related elements should be high, and correlation among four elements (job value, role, performance and behaviour) categorised by job-related and performance-related elements should be high. On contrary, if criteria of the job-related abilities have changed towards more concrete criteria, correlation among two elements (age and years of service) categorised by seniority-related elements should be high, and correlation among five elements (job-related abilities, job value, role, performance and behaviour) categorised by job-related and performance-related elements should be high. Then, the following two hypotheses are set.

Hypothesis 1: Factor analysis on answers against questionnaire of “important elements to determine individual base-pay levels” gathered from Japanese-owned companies should extract two factors: seniority-related and person-related factor, and job-related and performance-related factor, if criteria of job-related abilities are general and abstract as same as the criteria in the past.

Hypothesis 2: Factor analysis on answers against questionnaire of “important elements to determine individual base-pay levels” gathered from Japanese-owned companies should extract two factors: seniority-related factor, and job-related and performance-related factor, if criteria of job-related abilities have changed towards more concrete criteria.

Secondly, hypothesis is concerned with foreign-owned companies. In Western HRM, jobs provide the base of pay levels under spread of job-based pay system. Pay systems such as skill-based pay, Performance-based pay and competency-based pay have been increasing since the 1980s and 1990s (Armstrong & Brown, 2001; Kessler, 1994, 1995; IRS, 2002; Schuster & Zingheim, 1992). These types of pay systems are often considered as different types of pay from job-based pay, because these types of pay systems are determined based on person-related elements. For example, skill-based pay is determined based on such as knowledge, skill and experience held by individual employees, performance-based pay is determined based on performance achieved by individual employees and competency-based pay is determined based on behaviours carried out by individual employees (Newman, et al.,2017; Armstrong, 1996, 2015, Thorpe & Homan, 2000). Further, concept and contents of job-related abilities are also different between Western HRM and Japanese HRM. Because job analysis extracts person specification required to perform jobs, job-related abilities are specified according to contents of jobs in Western HRM. The authors consider that job-related ability pay is similar to skill-based pay in Western HRM. Therefore, the seven elements for important elements to determine individual base-pay levels should be divided into three categories as job-related element (job value and role), person-related element (job-related abilities, behaviour and performance) and seniority-related elements (age and years of service). Then, the following hypothesis is set.

Hypothesis 3: Factor analysis on answers against the questionnaire of “important elements to determine individual base-pay levels” gathered from foreign-owned companies should extract three factors: job-related factor, person-related factor and seniority-related factor.

Thirdly, answers gathered by Japanese-owned companies and foreign-owned companies on “important elements to determine individual base-pay levels” are compared. According existing research, although Japanese HRM characterised by seniority-based system and person-based system have been changing towards Western HRM characterised by job-based system and performance-based system, Japanese HRM has not completely evolved towards the Western-type of HRM. Now Japanese HRM is somewhere between traditional Japanese HRM and Western HRM (Hirano, 2006, 2009; Miyamoto, 2014; JIPLT, 2005, 2008, 2015, Suda, 2010, 2015, 2018). Thus, Japanese-owned companies should have higher score for seniority-related elements (age and years of service) than foreign-owned companies, and foreign-owned companies

should have higher score for job-related and performance-related elements (job value, role, performance and competency). (Whereas this research categorises two elements as job-related and performance-related elements, and seniority-related elements for Japanese-owned companies, and three elements as job-related elements, person-related elements and seniority-related elements for foreign-owned company in hypothesis 1, 2 and 3, categories used here is categories used in the hypotheses for the Japanese-owned companies).

Further, whether Japanese-owned companies are higher or foreign-owned companies are higher on the job-related abilities depends on the extent which the job-related abilities have changed towards concrete and specific criteria according to jobs in Japanese-owned companies. If criteria of the job-related abilities are concrete and specific according to jobs like person specification, scores of foreign-owned companies should be higher than those of Japanese-owned companies, and if criteria of the job-related abilities are general and abstract as same as the job-related abilities in the past, scores of Japanese-owned companies should be higher than those of foreign-owned companies. As a result, the following four hypotheses are set.

Hypothesis 4: Scores of Japanese-owned companies are higher in seniority-related elements (age and years of service) than those of foreign-owned companies, and scores of foreign-owned companies are higher in job-related and performance-related elements (job value, role, performance and behaviour) than those of Japanese-owned companies in the answers for the questionnaire of “Important elements to determine individual base-pay levels”

Hypothesis 5: Scores of Japanese-owned companies are higher of *shokumu suikou nouryoku* (job-related abilities) than those of foreign-owned companies, if criteria used in the job-related abilities are still general and abstract as same as the criteria in the past in Japanese-owned companies

Hypothesis 6: Scores of foreign-owned companies are higher of *shokumu suikou nouryoku* (job-related abilities) than those of Japanese-owned companies, if criteria of the job-related abilities have changed towards concrete and specific criteria according to jobs in Japanese-owned companies

Fourthly hypothesis concerning decision-making on HRM issues is addressed. On one

hand, as seniority-based system and person-based system have been changing towards job-based system and performance-based system. On the other hand, centralised decision-making on HRM issues may be no or little change. Thus, the following two hypotheses are set.

Hypothesis 7: The answers against the questionnaire of “important elements to determine individual base-pay levels” have more changed towards Western HRM such as emphasis on job-related and performance-related elements than the answers against the questionnaire of “power balance between line managers and HR departments regarding the decision-making on HRM issues” in Japanese-owned companies.

Hypothesis 8: The extent of difference between Japanese-owned companies and foreign-owned companies is larger in the answers against the questionnaire of “power balance between line managers and HR departments regarding the decision-making on HRM issues” than the answers against the questionnaire of “important elements to determine individual base-pay levels”.

## 6. RESEARCH FINDINGS

This section discusses results of the eight hypotheses set in the previous section. The first is regarding hypothesis 1 and hypothesis 2. Whether or not *shokumu suiko nouryoku* (job-related abilities) have changed in Japanese-owned companies is investigated.

Table 4: Result of factor analysis on important element to determine individual base-pay levels (Japanese-owned companies)

	Job- and performance-related factor	Seniority-related factor
Age	-0.109	0.970
Years of service	0.141	0.674
<i>Shokumu suikou nouryoku</i> (job-related abilities)	0.421	0.057
Job value	0.792	0.169
Role	0.678	-0.029
Performance	0.463	-0.022
Behaviour	0.509	-0.173

Note: Extraction Method: Maximum Likelihood Analysis

Rotation: Promax Rotation

As indicate in table 4, the factor analysis extracted two factors: job-related and performance-related factor (job-related abilities, job value, role, performance and behaviour) and seniority-related factor (age and years of service). This result shows that criteria of the job-related abilities have changed towards concrete criteria, and the criteria is not general and abstract any more. In other words, characteristic of *shokumu suikou nouryoku* (job-related abilities), as one of the representing characteristics in Japanese HRM, have changed towards Western HRM. Therefore, hypothesis 1 is rejected and hypothesis 2 is supported.

The second is regarding hypothesis 3 set for foreign-owned companies. As indicated in table 5, the factor analysis extracted three factors as person-related factor (job-related abilities, performance and behaviour), job-related factor (job value and role) and seniority-related (age and years of service). Accordingly, the hypothesis 3 is supported.

Table 5: Result of factor analysis on important element to determine individual base-pay levels (Foreign-owned Companies)

	Person-related factor	Job-related factor	Seniority-related factor
Age	0.077	-0.144	0.709
Years of service	-0.045	0.108	0.910
<i>Shokumu suikou nouryoku</i> (Job-related abilities)	0.477	0.207	0.016
Job value	-0.077	0.884	0.004
Role	0.142	0.725	-0.045
Performance	0.806	-0.055	-0.087
Behaviour	0.678	-0.013	0.119

Note: Extraction Method: Maximum Likelihood Analysis

Rotation: Promax Rotation

The third is concerned with the hypotheses on comparison between Japanese-owned companies and foreign-owned companies about important elements to determine

individual base-pay levels. A t-test is conducted to statistically compare Japanese-owned companies and foreign-owned companies. In this respect, the research does not need to test hypothesis 5, because the research found that the criteria of the job-related abilities have changed towards concrete and specific criteria. Therefore, the research tests hypothesis 4 and 6.

The results show that Japanese-owned companies place higher priority on age and years of service, which are considered seniority-related factors, than foreign-owned companies. Foreign-owned companies place higher priority on job-related abilities, job value, role, performance and behaviour, which are considered as job-related and performance-related factors, than Japanese-owned companies. The differences for all seven elements were statistically significant at the 0.1% level for age, years of service, job-related abilities, job value and performance, at the 5% level for years of service, and at the 10% level for role and behaviour (Table 6). According to the results, although the HRM policies in Japanese companies in terms of seniority-based system and person-based system have been shifting towards the Western-type of HRM, these characteristics of Japanese HRM is still maintained to some degree, and Japanese HRM is in the middle position between traditional Japanese HRM and Western HRM. Hypothesis 4 and 6 are supported.

Table 6: Comparison of important elements to determine individual base-pay levels between Japanese-owned companies and foreign-owned companies

	Japanese-owned or foreign-owned	No.	Mean	Std. Deviation	t-value
Age	Japanese-owned	170	3.54	1.269	3.242***
	Foreign-owned	212	3.12	1.222	
Years of service	Japanese-owned	170	3.37	1.296	1.975**
	Foreign-owned	212	3.12	1.146	
<i>Shokumu suikou nouryoku</i> (job-related abilities)	Japanese-owned	169	3.80	0.503	-3.342****
	Foreign-owned	212	5.42	0.715	
Job value	Japanese-owned	169	4.45	0.906	-5.487***:
	Foreign-owned	211	5.05	0.958	
Role	Japanese-owned	170	5.01	0.958	-1.771*
	Foreign-owned	213	5.16	0.793	
Performance	Japanese-owned	170	5.01	0.853	-3.225***:

	Foreign-owned	213	5.29	0.840	
Behaviour	Japanese-owned	170	4.72	1.049	-1.947*
	Foreign-owned	213	4.92	0.926	

Note: \*\*\*\*indicates statistical significance (0.1% level), \*\*\* indicates statistical significance (1% level), \*\*indicates statistical significance (5% level), \*indicates statistical significance (10% level)

The fourth is concerned with hypotheses as to whether complementarity between HRM policy areas in terms of seniority- and person-based systems and decision-making on HRM issues is still maintained or it is broken (hypothesis 7 and 8). Firstly, answers against the questionnaire of “important elements to determine individual base-pay levels” and answers against the questionnaire of “power balance between line managers and HR departments on HRM issues” both gathered from Japanese-owned companies are compared. Change of scale is needed in order to compare the two questionnaires, because six scales are used for questionnaire of “important elements to determine individual base-pay levels” and four scales are used for questionnaire of “the balance of power between line managers and HR departments” Then, number of the scales is changed from six scales to four scales in questionnaire of “important elements to determine individual base-pay levels”.

Descriptive statistics of “important elements to determine individual base-pay levels” (four scale version) and “power balance between line managers and HR departments” are indicated in table 7 and 8. We can see that mean values of power balance between line managers and HR departments on HRM issues are much smaller figures than mean values of important elements to determine individual base-pay levels based on comparison of the two descriptive statistics. Accordingly, it can be assumed that seniority-based system and person-based systems have been more changed than power balance between line managers and HR departments on HRM issues from these descriptive statistics.

Table 7: Descriptive statistics of important elements to determine individual base-pay levels (Japanese-owned companies)

	No.	Minimum	Maximum	Mean	Std. Deviation
Age	170	1	4	2.57	1.087
Years of Service	170	1	4	2.45	1.83

Shokumu suikou nouryoku (Job-related abilities)	169	1	4	3.80	0.503
Job value	169	1	4	3.33	0.955
Role	170	1	4	3.72	0.636
Performance	170	1	4	3.72	0.606
Behaviour	170	1	4	3.54	0.793

Table 8: Descriptive statistics of power balance between line managers and HR departments regarding the final decision-making on HRM issues (Japanese-owned companies)

	No.	Minimum	Maximum	Mean	Std. Deviation
Final decision-making on new graduate recruitment	168	1	4	1.67	0.964
Final decision-making on mid-career recruitment	169	1	4	2.44	10.90
Final decision-making of staff assignments within the same function or same division	170	1	4	2.32	1.123
Final decision-making of staff assignments across functions or divisions	169	1	4	1.95	0.996
Final decision making on personnel promotion	168	1	4	1.64	0.950

“One sample t-test” is conducted to test whether or not the differences between the two areas of HRM reaches statistically significant levels. One sample t-test examines null hypothesis as “true mean value equals the specified value”. In this case, test value (supposed as true mean value) is set as average value of five mean values of five questions set in the questionnaire of “power balance between line managers and HR departments regarding final decision-making on HRM issues”, and specified values are set as mean values of five elements considered as job-related and performance-related elements (job-related abilities, job value, role, performance and behaviour) in the questionnaire of “important elements to determine individual base-pay levels”.

Table 9: Results of one-sample t-test between test value (supposed as true mean value) and specified value

	t-value	d.f.	Mean difference
<i>Shokumu suikou nouryoku</i> (Job-related abilities)	50.173*****	169	3.158
Job value	27.066*****	168	2.446
Role	40.870*****	169	3.002
Performance	45.880*****	169	3.002
Behaviour	33.799*****	169	2.720

Note: \*\*\*\*\*indicates statistical significance (0.001% level)

Test value =2.004 (Average values of mean values for five questions regarding power balance regarding final decision-making on HRM issues)

Specified values = mean values of five questions for elements considered as job-related and performance-related elements (job-related abilities, job value, role, performance and behaviour) regarding important elements to determine individual base-pay levels

As indicated in table 9, the one sample t-tests show that the differences for all five elements reach statistically significant level (0.001% level). These results revealed that decision-making on HRM issues in Japanese-owned companies is highly centralized, which HR departments have strong decision-making power, and this characteristic of Japanese HRM are strongly maintained, whilst seniority-based system and person-based system within HRM policy area have changed towards the Western-type of HRM. Complementarity between characteristics of Japanese HRM may be broken down in such an unbalanced situation.

Secondly, power balance between line managers and HR departments between Japanese-owned companies and foreign-owned companies is compared. The results are shown in table 10. The differences between Japanese-owned and foreign-owned companies are very large, and reached statistically significant levels (0.001% level in final decision-making on new graduate recruitment, mid-career recruitment, staff assignments across functions or divisions and personnel promotions) and (1% level in final decision-making of staff assignments within the same function or division) .

Table 10: Comparison of balance of power between line managers and HR departments on HRM issues between Japanese-owned companies and foreign-owned companies

	Country of origin	No.	Mean	S.D.	t-value
Final decision-making on new graduate recruitment	Japanese-owned	168	1.67	0.964	-10.409*****
	Foreign-owned	59	3.10	0.736	
Final decision-making on mid-career recruitment	Japanese-owned	169	2.44	1.090	-9.730*****
	Foreign-owned	213	3.39	0.735	
Final decision-making of staff assignments within the same function	Japanese-owned	170	2.32	1.123	-6.095***
	Foreign-owned	172	3.02	0.976	
Final decision-making of staff assignments across functions	Japanese-owned	169	1.95	0.996	-9.170*****
	Foreign-owned	79	3.13	0.822	
Final decision-making on personnel promotions	Japanese-owned	170	1.64	0.950	-11.226*****
	Foreign-owned	210	2.79	1.029	

Note: \*\*\*\*\* indicates statistical significance (0.01% level), \*\*\*\*\*indicates statistical significance (0.1% level), \*\*\* indicates statistical significance (1% level)

These result confirmed that centralised decision-making on HRM issues are strongly maintained.

## 7. CONCLUSION AND FUTURE DIRECTIONS OF THE RESEARCH

This research focuses on two areas of characteristics of Japanese HRM: one is seniority-based system and person-based systems which should represent changes concerning the main characteristics in Japanese HRM, and the other is centralised decision-making on HRM which may represent no changes concerning the main characteristics in Japanese HRM. There are two primary purposes of this research. The first purpose is the extent to which seniority-based system and person-based system have changed. Whilst many researchers found that seniority-based system and person-based systems in Japanese HRM have changed towards Western HRM as performance-based system and job-based systems, Japanese HRM has not completely changed towards Western HRM and it is

somewhere in the middle position between traditional Japanese HRM and Western HRM. Therefore, this research examined the extent of changes in seniority-based system and person-based systems by comparison between Japanese-owned companies and foreign-owned companies. As a result, this research found that seniority-based system and person-based system have changed towards performance-based system and job-based system characterised as Western HRM, however, comparison with foreign-owned companies revealed that seniority-based system and person-based system still remain to some degree.

The second purpose is whether complementarity among the main characteristics still maintained or it is broken. In order to achieve this purpose, this research compared situation between seniority-based system and person-based systems, and centralised decision-making on HRM issues. On one hand, many researchers found that seniority-based system and person-based system have been changing, on the other hand, there are little interests on changes of decision-making on HRM issue in both of academics and business persons, and there are few empirical researches on this issue. The authors assume that centralised decision-making on HRM issues has not changed and remain static in the situation. And if so, complementarity between the two characteristics may be broken down. The author analysed using two types of comparison. One is comparison concerning change between characteristic as seniority-based system and person-based system, and characteristics as centralised decision-making on HRM issues in Japanese HRM. The other is comparison of power balance between line managers and HR department on HRM issues between Japanese-owned companies and foreign-owned companies. As a result, both two types of analysis revealed centralised decision-making on HRM issues strongly remain. Thus, complementarity between the two HRM areas may be broken down.

Regarding future directions of the research, as this paper is developmental paper, analysis of the research has just started. Many directions can be considered such as analysis for other questionnaires such as rotation policy and important elements to new graduate recruiting. Further, the research team plan to link other data. The research team has many types of data. For example, data such as average age, average years of service, ratio of mid-career recruitments, ratio of women's manager, introduction of uniformed HRM system around the world including overseas subsidiaries and introduction of stock option in HRM area, and data such as sales turnover, ROA, ROE, financial system, stock holder structure, number of outside director in finance area. Therefore, the

research team plans to link these data with data gathered by the two surveys analysed in this paper.

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## **APPENDIX**

### **An Example of Definition of Job-Related Abilities Corresponding to Employee Grade Based on Job-Related Abilities**

#### **Definition of Each Grade of Job-related abilities**

Grade 10: The level of job-related abilities in which he/she controls the management of a department or any organizational group equivalent to a department, participates in projection, planning and finalization of policies and objectives of the company, and assists the head of the company, always being based on the basic policy and objective of the company.

Grade 9: The level of job-related abilities in which he/she controls the management of a department or any organizational group equivalent to a department, performs a constructive role in projection, planning and submission of policies and objectives of the company, coordinates parties concerned, and assists his/her superiors, always being based on the basic policy and objective of the company.

Grade 8: The level of job-related abilities in which he/she independently creates a work plan of a department/division, or any organizational group equivalent to a department/division, and operates the work plan, supervises his/her subordinates with practical responsibility for implementation, and assists his/her superiors, always being based on the instruction of the general outline of the policy and objective of the company.

Grade 7: The level of job-related abilities in which he/she independently creates a work plan of a division, or any organizational group equivalent to a division, and operates the work plan, and supervises his/her subordinates with practical responsibility for implementation, always being based on the instruction of the general outline of the policy and objective of the company.

Grade 6: The level of job-related abilities in which he/she makes a work plan of a team/group, or any organizational group equivalent to a team/group, and manages/coordinates the work plan, and teaches/supervises his/her subordinates, based on his/her specialized, detailed knowledge of the assigned job area and his/her

experiences acquired in the past years, always being supervised in every part.

Grade 5: The level of job-related abilities in which he/she can perform assigned work systematically along with teaching his/her subordinates using own judgements and creativity, and can perform an assistant role to his/her superiors, based on his/her specialized knowledge and experiences, always being instructed the objectives of the assigned work.

Grade 4: The level of job-related abilities in which he/she can perform a leading role in complicated routine work along with teaching lower-grade employees and can perform a skill-required work (including a non-routine work) which requires his/her own judgements, based on his/her high knowledge, skills and experiences, always following detailed instructions or predetermined standards.

Grade 3: The level of job-related abilities in which he/she can perform a leading role in daily work along with teaching lower-grade employees in the case where it is necessary, and can perform general routine work when he/she is instructed to do it, based on his/her high knowledge, skills and experiences, always following detailed instructions or predetermined standards.

Grade 2: The level of job-related abilities in which he/she can independently perform daily routine work, based on his/her practical knowledge, skills and experiences of the work, always following specific instructions or predetermined procedures.

Grade 1: The level of job-related abilities in which he/she can perform simple, routine, repetitive work or trainee-level, supplementary work which does not require special experiences, always following detailed and specific instructions or predetermined procedures.

Note: Grade 10 is the highest grade and Grade 1 is the lowest grade

Source: Shimizu, T. (1991) *Business Seminar Kaisha Jinji Nyumon* (Business Seminar Introduction of Human Resource Management in Companies) *Nippon Keizai Shinbunsha*