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■ Special Report

JMA2006 Management Innovation Proposal: Further Development of Performance-Based Personnel Systems to Realize Sustainable Growth for both Individual Personnel and Organizations

Every year, since 1987, the Japan Management Association (JMA) has focused on the important management issues of the times and put forward proposals recommending objectives and measures. This issue provides an outline of the results of the study published in January 2006.

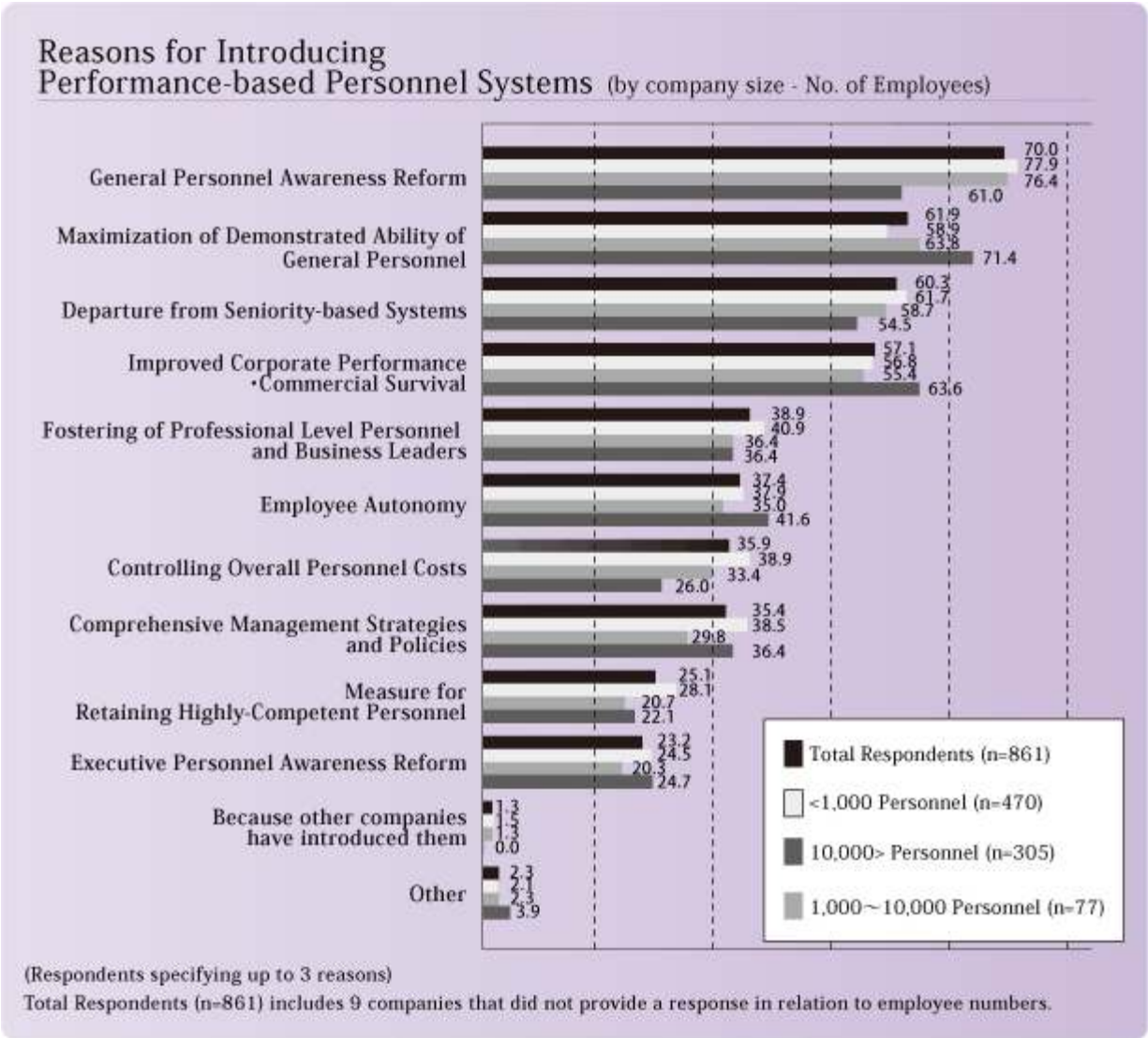
1) *Events in the 1990s that affected Japan's personnel systems*

Paradigm shift following the collapse of the bubble economy

Beginning in the early 1990's, Japan experienced an unprecedented period of uninterrupted deflation. One of the countermeasures implemented by businesses was the revision of personnel systems. The reigning in of one of the core systems employed by Japanese companies, the age-based long-term steady pay increase system, had become a necessity. This necessity gave rise to the "performance-based" personnel systems currently employed by more than 80% of Japanese companies.

Shift of emphasis from seniority and job-performance ability to results and demonstrated ability

Performance-based personnel systems in Japan incorporated some aspects of US personnel systems, with a shift in weight from seniority and job-performance ability to results and demonstrated ability for promotion related evaluations, and an even greater emphasis on performance in relation to bonus-related evaluations.



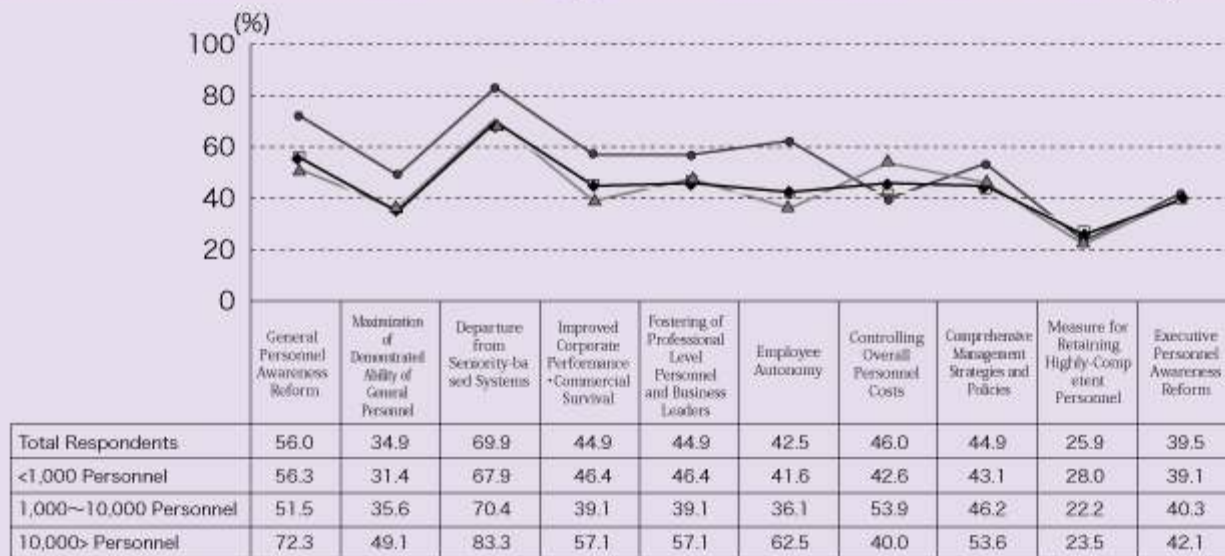
Objectives of system revision (reference: Management Level Questionnaire)

In the JMA Managerial Challenges Survey (FY2004), respondents gave the following three points as the objectives of personnel system revision. Although three objectives were given in the order (1) Awareness Reform, (2) Demonstration of Abilities and (3) Cost Reduction, it is most likely that cost reduction was the overriding objective.

Aspects of US style personnel systems that could not be assimilated

Implementation of carbon copy US-style personnel systems was never the aim. Where personnel reduction was concerned, although some use was made of voluntary early retirement programs, companies took time in implementing workforce adjustment using recruitment control and transfer of excess personnel to affiliated companies as the main measures. Moreover, Japanese companies are currently at a transitional stage, shifting to appointment-based pay incorporating factors such as work type and individual ability, whilst retaining qualifications-based systems based on job performance ability. Overall, there seems to be some hesitation about transitioning to a job-classification based pay system.

Effects Evaluation for Introducing Performance-based Personnel Systems



<by company size - No. of Employees>

* The above figure(%) indicates the percent for total respondents (n=861) and it includes respondents who recognize "Performance-based personnel Systems" as effective.

2) The effects of system revision (merits & demerits)

Heading into the 21st century, many companies suffered heavy damage from deflation, and with the protracted recession, a manic media led backlash against performance-based personnel systems occurred. Discontentment, particularly from salaried employees and workers long used to a stable personnel system further fuelled this backlash. However, a rational evaluation of conditions reveals both merits and demerits;

Merits

1. Over a period of many years, companies have succeeded in holding down overall personnel costs and achieved variable costs, thus contributing to lowered break-even points.
2. Although only partial, there has been progress in awareness reform. In other words, with achievements rather than age becoming the primary consideration in the evaluation process, the road leading to promotion to management level appointments has become a narrow one. However, this awareness reform is focused predominantly on high-potential human resources.

Demerits

1. Decline in motivation. This is particularly conspicuous in cases where discrepancies arise between company assessment and self-assessment, which may be attributable to a culture or corporate climate in which self-assertion has yet to fully develop. A lack of transparency in performance evaluations and pay given to management may also be a contributory factor.
2. Discontinuation or cutbacks in investment for human resource development. The prolonged recession has resulted in an increased number of companies

that have cut spending on skills programs. This in turn has resulted in a progressive weakening of the traditional Japanese strengths in middle management and the shop floor.

3. Increased individualism. With each individual increasingly aware of the importance placed upon individual achievement, work performance through teamwork, long the strength of Japanese companies, has become neglected and on-the-job training by managers has also weakened.

3) Study results

In order to understand the true state of affairs since performance-based personnel systems became common, JMA conducted a broad-scale questionnaire from 2004 to 2005, involving management level personnel, personnel officers and general employees. JMA also implemented interview surveys with leading Japanese companies and foreign affiliated companies to identify the measures under which these companies have entrenched their performance-based personnel systems. Surveyed companies included; Toyota Motor Corporation, Nissan Motor Co., Ltd., Canon Inc., NEC Corporation, Kao Corporation, IBM Japan Ltd., GE Japan, etc. These surveys allowed JMA to extract the "essence" (Five Principles) required by Japanese companies to establish performance-based personnel systems and make them function as required.

Principle 1 (Essence 1)

Review of the Corporate Culture

Japanese companies have developed a unique corporate culture. Personnel systems and corporate culture are inseparable. However, underlying aims of personnel system reform and traditional Japanese corporate culture are not necessarily compatible, and it is necessary to review corporate culture and values systems to better suit the management environment and business model.

Principle 2 (Essence 2)

Management Level Business Practice

Companies with good performance records enjoy high levels of commitment from management personnel with regards to human resource management. Such management personnel conduct regular analyses of employee views, and confirm their results through direct on-site dialogue with employees. The trust this engenders in the executive officers, corporate vision and management strategies clearly improves motivation.

Principle 3 (Essence 3)

Restoration of Human Resource Development

Companies must once again recognize that human resource development is a mission for both the company and front-line managers. Of the companies with good performance records, not one implemented reductions in human resource development costs. Meanwhile, it has become increasingly important for individual employees to chart their own career paths. Employees of Japanese companies are as yet inexperienced in this aspect and require active support from their respective companies.

Principle 4 (Essence 4) Decentralization of Personnel Management

Japanese companies had a tendency to centralize personnel decision-making in the personnel division of the company head-offices. This needs to be reviewed, with personnel decision-making processes (evaluation, system improvement, etc) delegated to business front lines, allowing head-office personnel divisions to concentrate on providing support for business front lines and the management of high-potential human resources.

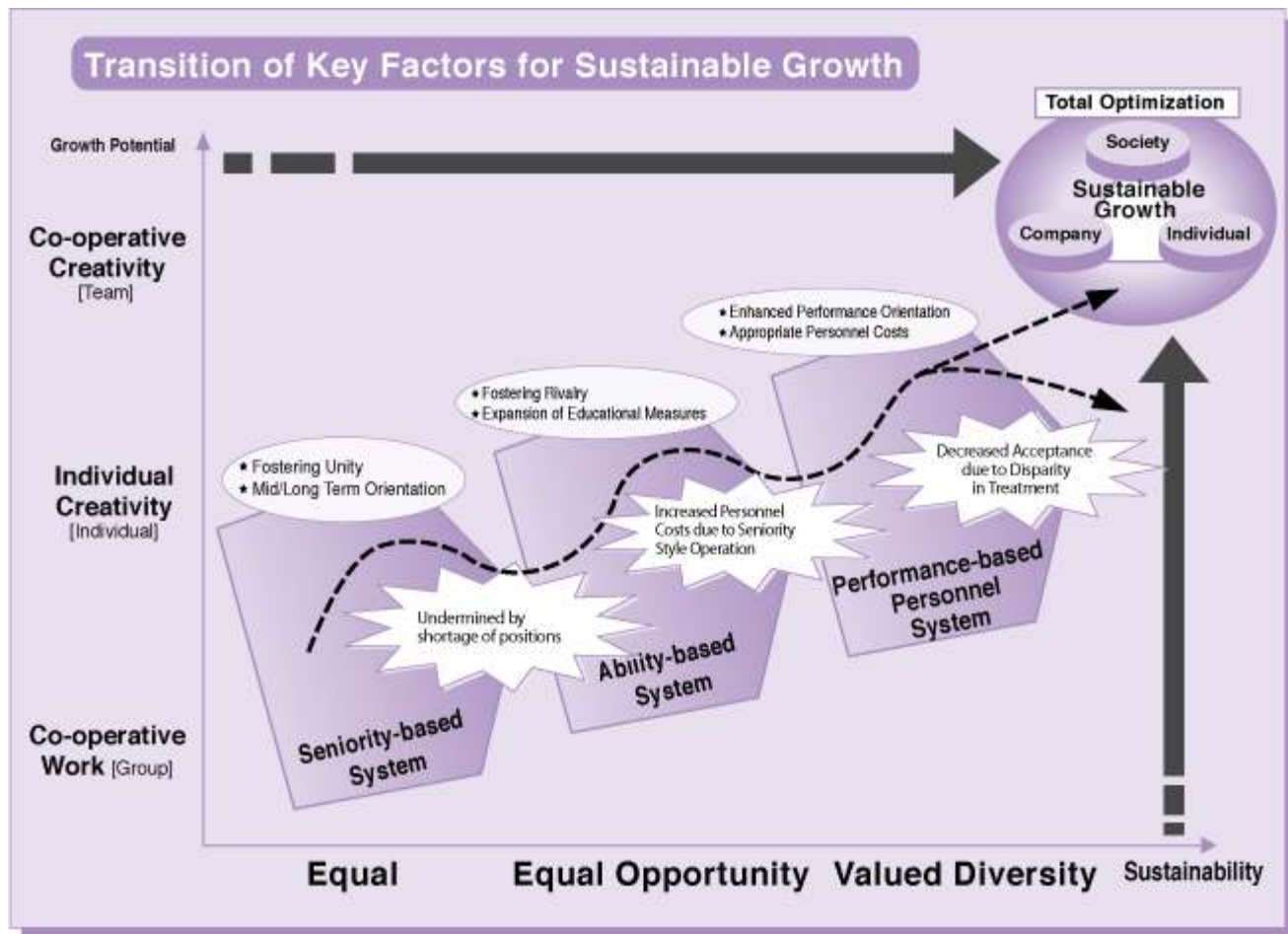
Principle 5 (Essence 5) Improvements in Personnel Support Mechanisms

Discontent concerning new systems focuses on evaluation and job appointment, and there is an urgent need for improvement in the evaluation and communications skills of front-line managers. There is also an urgent need for improved job-matching mechanisms and the establishment of committees that can provide recourse for employees dissatisfied with their evaluations.

4) Conclusion

Although criticisms of performance-based personnel systems are not infrequent in Japan, these same systems are strongly endorsed by management level personnel, and a return to the past seniority-based systems is unlikely. With the performance of Japanese companies recovering, companies will most likely utilize this boom period to continue the pursuit of a reformed personnel system that can be assimilated into a company's own traditions and culture. The previously outlined "Five Principles" (Five Essences) provide a definitive method, effectively best practice guidance, for firmly establishing performance-based personnel systems. However, the goal is not just the firm establishment of performance-based personnel systems, the higher objective is to apply personnel systems to secure the sustainability and growth potential of the organization. To this end, further increases in the allocation of resources for personnel development and motivational improvement is necessary.

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