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## *The Science of Japanese Personnel Management: Rethinking employment systems in the era of globalization*



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## The Science of Japanese Personnel Management: Rethinking employment systems in the era of globalization

In order to compete in the global market, a growing number of Japanese firms have revised the personnel management policies that served them well during Japan's high growth period. With support from Works Applications Co. and the Research Institute of Economy, Trade and Industry (RIETI), Owan Hideo at the ISS, Kato Takao of Colgate University, and Kawaguchi Daiji of Hitotsubashi University have embarked on a project to create a personnel data depository for academic research on the changing structures of internal labor markets in Japanese corporations.

*Social Science Japan Newsletter* 50 features presentations and a panel discussion from the international symposium, "The Science of Japanese Personnel Management: Rethinking employment systems in the era of globalization," that was held in July 2013. Following the introduction by Owan Hideo, Kato Takao and Owan Hideo unravel how internal labor markets in Japan are evolving and introduce the latest research findings regarding new human resource management. In light of the increase in non-regular employment—in particular fixed-term contracts—Tsuru Kotaro of Keio University analyzes the challenges facing Japan's labor market and proposes possible solutions. Next, Sato Hiroki examines the challenges facing female workers and proposes potential solutions for expanding equal opportunity and work-life balance. In the symposium's panel discussion, moderated by Kawaguchi Daiji, the presenters are joined by leading economists Edward P. Lazear of Stanford University and Alec R. Levenson of the University of Southern California to exchange views on the possible solutions to the challenges of Japanese personnel management in the face of global competition.

In the next section, we introduce Paul Scalise, a fellow at Temple University, Japan Campus, who came to Shaken in 2011. Dr. Scalise previously worked as a securities analyst and has researched the changing attitudes toward deregulation in the Japanese electric power and gas industries. He is currently developing a new research project on the waterworks industry in Japan.

Lastly, we feature recent updates on lectures by the ISS Contemporary Japan Group and recently published books by ISS staff. In addition, "Focus on ISS" features the first in a series of four articles on the Institute of Social Science Library's special collections. This issue introduces the Itoi Collection and the Labor Research Collection, and gives guidance for individuals who wish to use the collections.

Managing Editor, Nana Okura Gagné

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# Introduction

## OWAN Hideo

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In 2008, Kato Takao, a Professor of Economics at Colgate University, Kawaguchi Daiji, a Professor of Economics at Hitotsubashi University, and I developed the idea of creating a personnel data depository for academic research on the internal labor market in Japan. We approached Works Applications Co., Ltd., a leading Enterprise Resource Planning software developer and seller, and the Research Institute of Economy, Trade and Industry (RIETI), a publicly funded research institute founded by the Ministry of Economy, Trade and Industry, to assist with the project. The project formally began in the following year, and we have recently begun obtaining interesting results from our studies. On July 12, 2013, we organized an international symposium "The Science of Japanese Personnel Management: Rethinking employment systems in the era of globalization" to share some of our findings and to discuss issues that will require further research. This issue of the *SSJ Newsletter* presents summaries of presentations and panel discussions at the conference.

I believe that the time is ripe for this kind of collaborations among industry, government, and academia. On the technical side, HRM software packages have become more sophisticated, allowing firms to use standardized and more affordable software to manage enormous amounts of personnel data using built-in customization features. This creates the possibility of obtaining and comparing personnel data from multiple firms in standardized formats for researchers. At the same time, firms are also looking for new ways of using internal data to track the productivity of their

employees and operations.

Economists, meanwhile, are looking for opportunities to obtain proprietary data to shed light inside the "black box" of internal labor markets (see Ichniowski and Shaw 2012). Prior studies using firm-level data revealed large and persistent productivity dispersion among firms even after accounting for industry, technology, and labor quality. Some evidence suggests that a substantial portion of differences in productivity that have been unaccounted for are associated with differences in management practices, including human resource practices (e.g., Bloom and Van Reenen 2007). Many economists are now looking at personnel data to identify why management practices raise productivity and how the effect differs depending on firm and business characteristics. This type of research strategy is often called "insider econometrics." The term "insider" refers to the use of rich micro-level data on workers and insights from insiders—managers and employees—that help researchers formulate empirical strategies and interpret the results.

RIETI has its own reason to support our project. Analyses of external and internal labor markets have become one of RIETI's primary fields of interest because the effectiveness of industry policies depends on the policy-makers' understanding of what determines firms' productivity and cost. Moreover, Japanese policy-makers have always been active in studying what are best management practices and how they can help them diffuse in the industry.

After two decades of low growth, managers in Japanese companies are not in high spirits about the prospect of their future performance. Many large corporations introduced numerous changes in personnel policies, but they do not seem to have substantially boosted employee productivity. The challenges that managers in many Japanese companies face today are formidable.

First, seniority-based pay that provided workers with stability and shared economic rent during the era of high growth cannot be maintained in the face of low growth and an aging workforce. Many Japanese companies have reformed their pay schemes, shifting the basis of pay from job skill to performance or job content/task. Although flattened age-earning profiles have helped to contain the rise in personnel costs, doubts surrounding the efficiency of the new pay systems seem to be deep-rooted. HR professionals are still seeking new metrics for measuring the contribution and value of individual employees.

Second, the rapid globalization of Japanese firms is requiring leaders with higher communication and leadership skills to coordinate activities across borders. Finding and managing such talent have become increasingly urgent tasks for many companies, but the domestic pool of management trainees remains limited. Thus, Japanese human resource management systems may need to be modified in order to identify as well as train and retain talent from a broader pool, including women and foreign workers.

Third, workforces are increasingly diverse in terms of demographics and career expectations. More women are being hired and many leading companies are aiming to raise the share of female managers, foreign workers are increasing in multinational corporations, and older workers who retired at the mandatory retirement age are being rehired as required by the Law Concerning Stabilization of Employment of Older Persons (amended in 2008). In addition to greater diversity in salient worker characteristics, differences in commitment, background, and career expectations are making the current workforce more heterogeneous than before.

Fourth, strict labor regulation developed through court rulings in Japan prompted policy-makers in the past to allow businesses to hire temporary or contract workers (so-called *hiseiki*, irregular workers). With this precedent, about 40% of the Japanese workforce is now irregular (see Tsuru's article in this issue). Significantly different degrees of job security and benefits offered to the two groups—regular and irregular—are creating distortion in many aspects of employment including hiring,

job design, training and job assignment. Clearly, in order to better allocate human resources and increase employment through the efficient allocation of labor, labor market reform is inevitable. Tsuru proposes one solution in detail in this newsletter: greater use of limited regular employees. He argues that the main difficulty in putting this to work is in determining how to price the wage of this new category so as to avoid potential distortion in hiring.

Given the above challenges, how should Japanese firms change their human resource management practices? Presenters and discussants at the symposium generally agreed that certain distinctive aspects of Japanese human resource management practices have to be modified. For example, the policy of hiring only new graduates for entry-level positions, management by cohort (i.e. treating the entry cohort as the main contestant pool in promotion decisions), and late promotion are complementary policies that increase competition and overall worker incentives as well as encourage investment in firm-specific human capital. At the same time, these practices could be the impediments to creating a level playing field for a more heterogeneous workforce and they may be counterproductive when identifying and training future managers in a timely manner. Tackling with these issues are becoming high-priority missions for management.

One major topic at the symposium was how to promote women's potential as well as how to reduce the gender gap in pay and promotion. Kato and I argue that long working hours in Japanese firms are characteristics of what economists call "rat race equilibrium" where employees work for inefficiently long hours to signal their commitment and ability. This rat race equilibrium also works against women in their career development because women are more likely to be time-constrained due to heavier household duties. In order to identify and promote high-potential women to the class of management, firms need to give up the rat race equilibrium. Sato attributes women's low representation in management in Japanese companies to a lack of training for long-term career development for women. He emphasizes the role of middle management who, in assigning jobs, should take into

account their effects on career development for women.

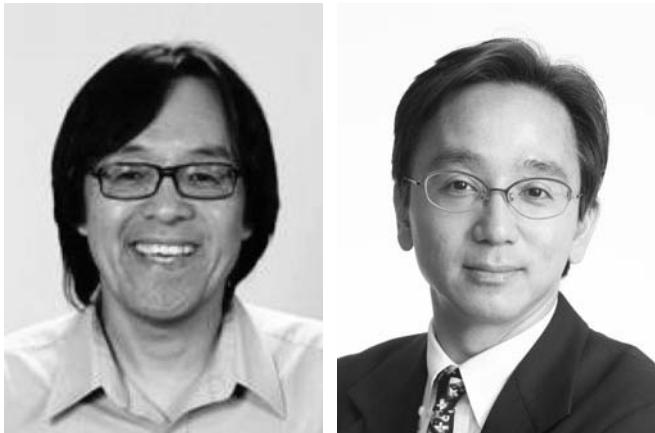
We believe that the “insider econometrics” approach is effective in evaluating the efficiency of management practices and devising prescriptions for problems related to the challenges managers are now facing. In the future, we hope to produce more path-breaking research on a number of topics, including pay and evaluation, work-life-balance policies, globalization, limited regular employees, and innovation in organizations.

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# Lessons from the Personnel Data Repository Project

KATO Takao and OWAN Hideo



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## Introduction

Picture a group of people who work for many years at the same company and develop expertise or acquire a variety of skills through working in various capacities. As they learn on the job, the company studies them, gradually ascertaining their ability levels and how well suited they are for different types of work. Everyone expects the workers will remain with the company for many years and various ways of keeping workers motivated in the short-term and the long-term are put in place. The practices and institutions needed to create this employment arrangement are known simply as "internal labor markets."

In our view, how a firm's internal labor market functions and how effectively it operates determines how competitive that firm will be in the long run. Accurately assessing an internal labor market requires much more than the usual data on wages and employment. We need data that allows us to closely track employees' work histories from the time they were hired to the present. Neither how an internal labor market works nor how well it works can be determined without highly detailed information.

In order to acquire such data, a few years ago we, along with Prof. Kawaguchi of Hitotsubashi University, started a joint industry, academia, and government research project with the cooperation of Works Applications, Inc. and the Research Institute of Economy, Trade, and Industry (RIETI). Works Applications introduced us to firms willing to participate in our study and then extracted all the data we needed from the complete personnel records of those firms that form part of its massive data collection. RIETI helped us by safely storing the data and by providing a secure remote access system for conducting our analysis. This private/public/academic partnership not only made it possible for us to eliminate the risk of data leakage, it also meant that the companies participating in our study did not have to provide us with any support beyond granting us permission to examine their personnel records.

This report presents research results based on our analyses of data from three companies. Two of the firms are manufacturers whose data we accessed via the partnership with Works Applications and RIETI just mentioned. The third firm is a major automotive dealer. Data from this firm was collected through a separate research project, directed by Tsuru Tsuyoshi of Hitotsubashi University, in which Owan also participates. Some results from this project will also be presented.

The research findings we present here generally

correspond to five major themes of human resource management: 1) motivating employees through incentive pay; 2) evaluation systems; 3) increasing opportunities for women; 4) promotion systems; and 5) the importance of leadership and leader selection. We also discuss the implications of our results.

### Incentive Pay

During the “lost years” of the 1990s and 2000s, most leading companies in Japan instituted results-oriented, incentive pay systems. Some of these efforts misfired badly and, for a time, prompted debate over whether performance pay was compatible with Japan’s business culture. A closer look at these failures reveals that they did not indicate the dysfunction of performance pay itself in Japanese workplaces, but rather the results of the companies’ failure to simultaneously introduce policies to sufficiently mitigate the downsides of performance pay.

One of the most prevalent sources of failure was the multitasking agency problem, also known as the multitask problem. When a company introduces performance-based pay systems, employees are motivated to spend more time on easily measured tasks than those more difficult to monitor. To give one example, a firm will generally want its salespeople to perform three main tasks, marketing (specifically gathering information about clients’ needs), selling, and handling customer complaints. If salespeople are paid on commission or other type of performance pay, they will concentrate on sales and give short shrift to marketing and customer service, or at least devote as little time as possible to such tasks. In short, performance pay can distort how employees allocate their time and effort to the point that overall efficiency is diminished. Economists call this potential for distortion the multitask problem.

Another important issue is what is known as the gaming problem, which can be explained with an example from the aforementioned analysis done with Tsuru on the effect of changing compensation methods at a large automotive dealership in the late 1990s. Before the change, employees received a base salary plus a very small commission on sales (see Figure 1). The company said it

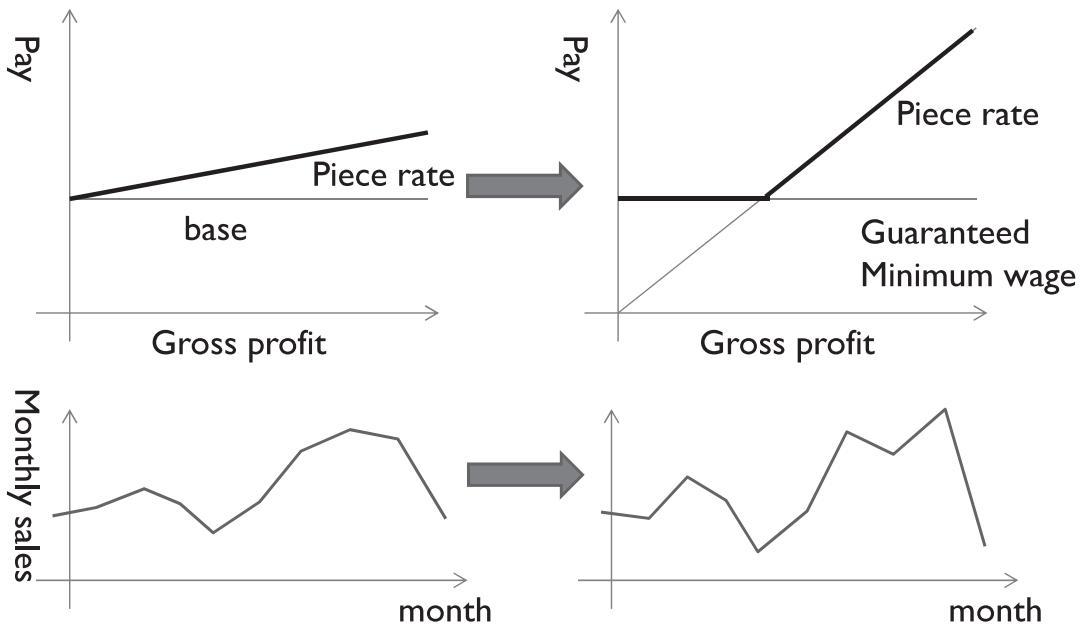
wanted to “boost employees’ motivation” and “control personnel costs.” To achieve these two goals, the company raised sales commissions between fivefold and sevenfold and eliminated base salaries.

This new full commission system, however, was combined with a minimum guaranteed wage that was set equal to the old base salary to provide some income security after the policy change (see Figure 1). As soon as the pay scheme was changed in this way, the typical pattern in the number of sales over the course of any given year changed from gradual rises and declines to a jagged pattern, as shown in Figure 1. Why did this change occur? The original compensation system in Figure 1 is a straight line and thus can be described as “linear compensation,” under which wage changes by a constant increment in accordance with the number of vehicles sold in the entire range. In contrast, the new compensation system has a kink and therefore can be called “convex compensation” (“convex” refers to a line whose slope is increasing in mathematics) where the increment shifts up after the sales exceed a certain standard.

When a compensation system is convex like this, each additional sale in a month of high sales increases an employee’s pay by a considerable amount, whereas in a month of low sales, each additional sale does not raise the pay because the floor is set by the guaranteed wage (i.e. constant until a given threshold is reached). When salespeople can manipulate the timing of sales, this difference between slow months and active months gives salespeople an incentive to manipulate the timing of finalizing sales—what is called gaming behavior. In the dealership in our case study, calculation of monthly commission payout is based on the day a vehicle was delivered to its new owner. Therefore, once the new commission system took effect, salespeople began speeding up delivery dates in active months and delaying them in slow months. This manipulation of delivery schedules increased month-to-month fluctuations in sales and produced the volatile pattern in Figure 1.

The lesson for managers is they must incorporate controls on gaming behavior into any non-linear

Figure 1.Gaming Behavior (Owan and Tsuru 2011)



compensation system they devise. The first step towards limiting gaming is to select performance indicators that are difficult to manipulate. The second step is to reduce the information asymmetry between employees and managers. The less information managers have about what their subordinates do in their daily activities, the more likely it is that gaming will occur. For sales managers at a dealership, being informed about their sales staff means knowing details like which models are being sold at what price, the amount of inventory manufacturers have in each model, and so forth. A salesperson cannot delay a customer's car delivery until the following month if the manager knows that model is currently in stock. Finally, as the multitask problem illustrates, an effective merit pay system requires more than objective performance indicators. Managers must also make subjective and comprehensive performance evaluations.

### Evaluations

Subjective evaluations are a double-edged sword. If managers have a good grasp of the ins and outs of their subordinates' work, they can use that knowledge to reduce multitask problems and gaming behavior. That's the plus side. On the minus side, subjective evaluations are prone to a variety of bias problems and when employees feel that evaluations are biased, their job satisfaction declines and the likelihood they will quit grows.

Let us now look at how subjective evaluations were used to contain the multitask problem at the automotive dealership analyzed in Takahashi, Owan, Tsuru and Uehara (2013). Our analysis shows that, when evaluating the performance of salespeople in branches, management would reduce the weight given to the sales performance of those in a particular branch if that branch had an increase in the number of new employees or a rise in corporate fleet sales. This weight recalibration can be seen as an indicator of the high value the company places on training new employees and taking care of corporate customers. Since the performance on these non-sales tasks is harder to measure, relying too much on objective measures such as sales performance causes the multitask problem—possible distortion in the allocation of time and efforts of salespeople. We can interpret the result as showing that managers are using subjective evaluations (and adjusting the weights among criteria) to mitigate the multitask problem.

Turning our attention to the negative side of subjective evaluations, we looked for evidence of evaluation biases using data from manufacturing firms in an ongoing project with Kawaguchi Daiji and Takahashi Kazuteru. We examined possible sources of biases accounting for attributes of bosses and their subordinates, unobserved ability of workers, and the severity of their bosses' evaluations.

The first result of our analysis was that performance ratings were affected not only by how many years employees had worked for a company, but also by how long the reviewing managers had held their posts. We found that new bosses tend to be unusually favorable towards capable workers. Recently promoted managers presumably rely heavily on their most competent and experienced subordinates as they adjust to their new roles. The contributions of such workers may loom larger in new managers' estimations than in the view of more experienced managers. Our second finding was that female managers were less likely to give male subordinates high ratings. It is possible that women and men have different evaluation standards and that difference produced this result. We also found that people gave more positive evaluations after they married, although our relatively short observation period does not allow us to examine whether this effect tapered off after a few years. If so, it should be seen as the honeymoon effect.

We observed these types of bias only when the people being evaluated were rank-and-file employees and not managers. On the other hand, forms of bias not seen in rank-and-file performance reviews emerged when managers underwent evaluation. For example, we found an "alma mater effect"—upper-level managers are less likely to give negative evaluations to lower-level managers if both are graduates of the same university. To sum up, the data show us that many forms of bias affect evaluations.

We now return to data from the automotive dealership. In their 2013 paper mentioned above, Takahashi, Owan, Tsuru, and Uehara estimated what factors mattered in employee evaluations by conducting regression analyses. In the case of automotive salespeople, the number of vehicles sold and acquired profits undoubtedly have a large impact on their evaluations, but various attributes of each branch and each evaluating manager would also affect employee ratings. They came up with the predicted ratings for each employee in a particular year by estimating the relationship between their evaluation ratings and the above various determinants of evaluation. The authors labeled the difference between their predictions and the actual evaluations as "poten-

tial bias," where the word "potential" indicates that that difference may or may not account for the actual bias.

Managers have more information about their employees' strengths and contributions than what appears in the data that we researchers can access. This unreported information may account for the gap between our predictions and actual evaluations. However, we found a fairly strong correlation between the gap between actual and predicted ratings and the results of employees' job satisfaction surveys. For example, if an employee's actual rating was one grade below our predicted rating, his or her level of satisfaction with the evaluation process tended to be 14 to 17 points lower on a 100 point scale. Among employees who reported receiving no feedback about their performance, the scores of satisfaction with the evaluation process dropped as much as 36 points. It appears that employees whose actual evaluations were lower than our predictions tended to feel that they were not being evaluated fairly.

We then examined whether there was a correlation between potential bias in evaluations and the likelihood that employees would quit their jobs. Our results show that employees in their second year of employment whose actual ratings fell below our predictions quit at a rate 4.4 percentage points higher than others in their cohort. Similarly "underrated" employees in their tenth year at the company quit at a rate 2.8 percentage points higher than their peers. Because the dealership's average job separation rate was 8 percent, the departure of these employees amounts to a significant loss to the company.

What implications do these findings have for personnel management? Our analysis underscores the need to recognize the types of evaluation bias that are likely to occur and the necessity of training evaluators to limit such biases. HR managers should also frequently compare how employees are scored on subjective and objective performance measures in addition to monitoring the relationship between employees' ratings and promotions. Keeping track of these indicators is critical to assessing whether the most proficient employees are in fact receiving high marks.

In sum, companies need to make reviewers more accountable. If the results of subjective performance reviews are only used to calculate bonuses, and are not subsequently verified, reviewers will have less incentive to make evaluations as fair as possible. Another highly significant finding is that performance feedback increases employee satisfaction, which is to say that feedback reduces the chances that employees will quit. Evaluations should be seen as another aspect of human resource development and an opportunity for dialogue between reviewers and those being reviewed. If this approach to evaluations is followed, bias will be limited and employees will more likely accept the review process as fair.

### Promoting Women's Potential

Our research has also given us insights into how women are faring in the workplace, including wage gaps between men and women. Personnel data from a manufacturing firm allowed us to compare the salaries of male and female regular employees (Kato, Kawaguchi, and Owan 2013). By controlling for factors such as age, tenure, education, and fiscal year, we could compare men and women with identical attributes. The result was that, among unmarried people, the gender wage gap was 16 percent, as shown in Figure 2.

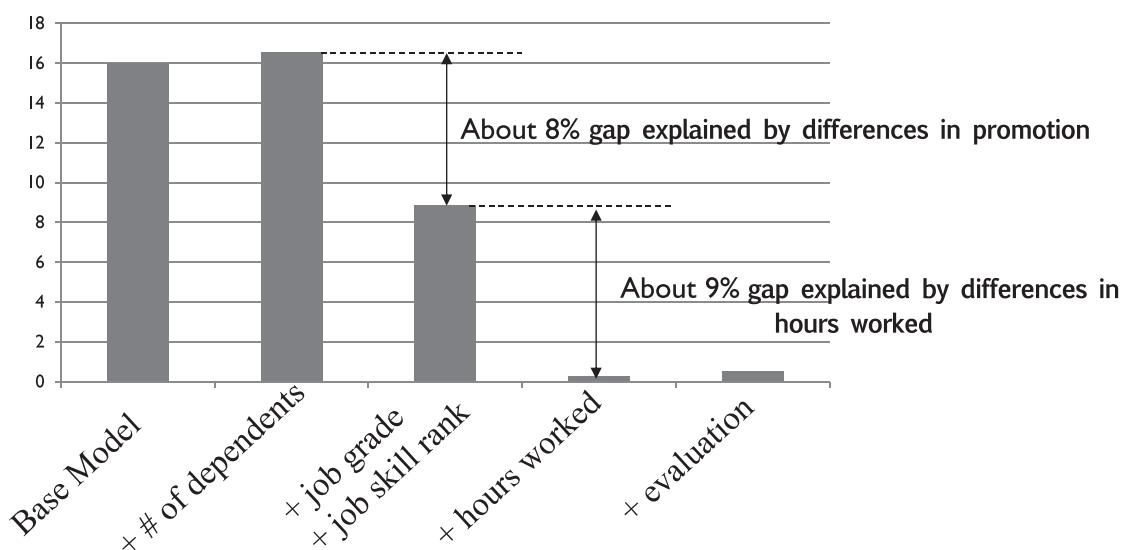
Delving into the causes of this discrepancy between unmarried employees, we found about

half of the difference resulted from women getting promoted later than men. The remaining pay gap is unequivocally due to differences in the number of hours worked. As for married employees, the gender pay gap was twice as high, surpassing 30 percent (Figure 3). Late promotions for women and longer working hours for men also account for much of the gender pay gap among married workers.

Examining the data more closely, we also discovered that having children often puts women on a different salary trajectory. Most interestingly, the length of an employee's parental leave has a major impact—the longer the leave, the lower her future earnings. For example, if a woman takes maternity leave for roughly two months, which is legally required as prenatal and postnatal maternity leave, her salary will remain on the exact same track as before. In other words, she will not have to pay a "maternity penalty." If, however, a female employee takes a year off before returning to work, she will suffer a wage penalty of 15 percent. Following two years of leave, a female employee's salary will be 30 percent lower than her peers.

As we noted earlier, the fact that men are generally promoted more quickly than women has a major impact on the gender wage gap. Looking for possible causes of the different timing of promotions, it turns out that the number of hours

**Figure 2. Gender Pay Gap within firm for Unmarried: Kato, Kawaguchi, and Owan (2013)**

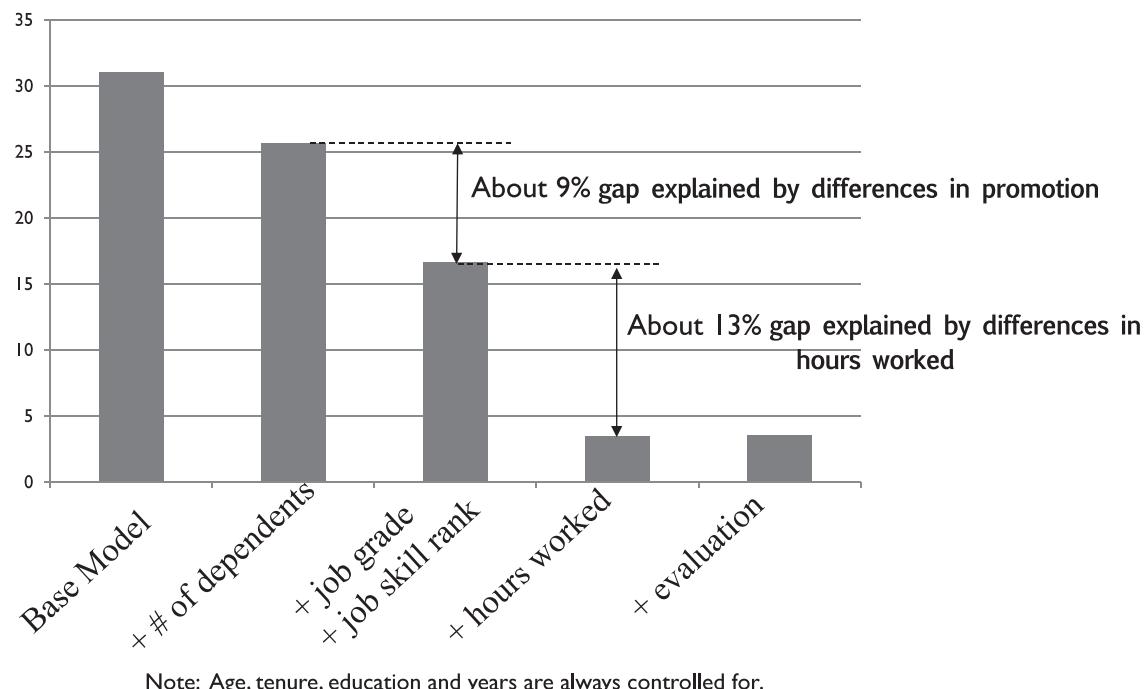


Note: Age, tenure, education and fiscal year are controlled for.

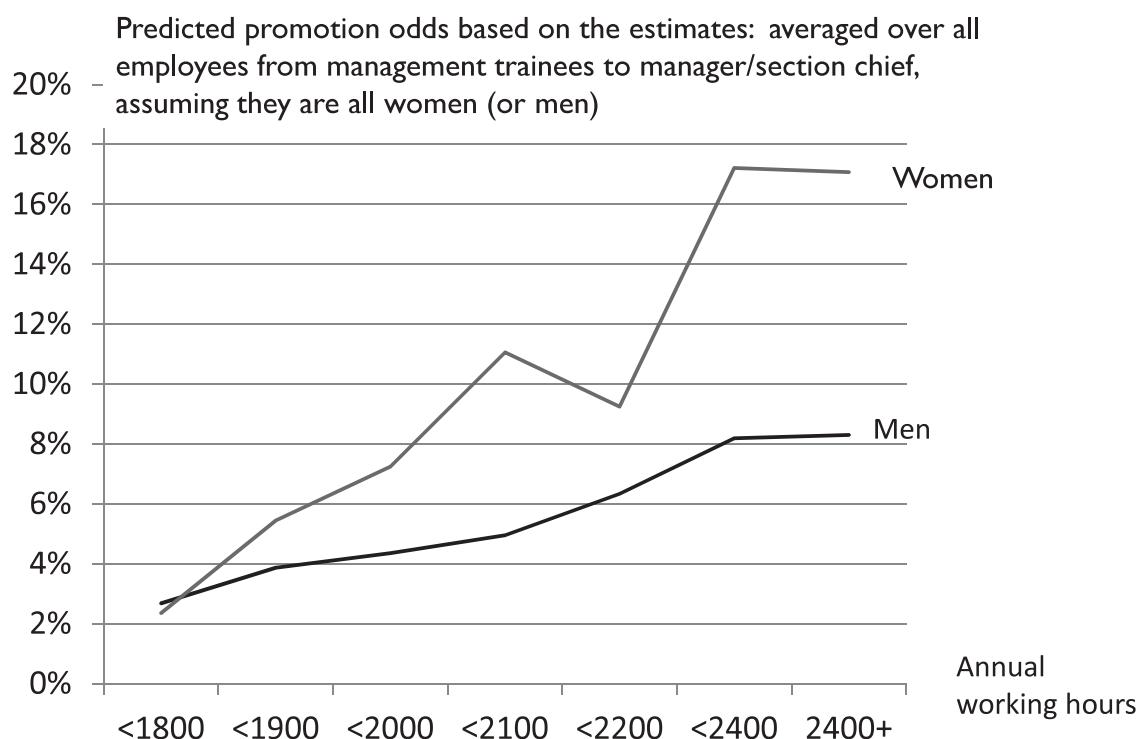
worked is an important factor. 43 percent of female employees worked fewer than 1800 hours annually, while the same was true for only 7 percent of male employees. If we compare men and women who work more than 1800 hours and have the same levels of education, seniority and so forth, women are actually promoted more

quickly than men. Especially noteworthy is the strong correlation for women between the number of hours worked and promotion rates, as shown in Figure 4. For men, the correlation is weak and not statistically significant. Although relatively few in number, women who work long hours tend to be promoted rapidly. For men,

**Figure 3 Gender Pay Gap within firm for Married: Kato, Kawaguchi, and Owan (2013)**



**Figure 4. Working Hours Matter for Women Kato, Kawaguchi, and Owan (2013)**



working long hours is the norm, so they will not necessarily be rewarded with a promotion.

Stepping back a bit, it appears that the patterns described above signify that internal labor markets in Japanese firms are bifurcated along gender lines. One interpretation of this phenomenon is that it stems from information asymmetry between managers and employees. Managers have a much better understanding of employees' managerial ability and capacity for leadership than the employees themselves. On the other hand, when it comes to how committed employees are to their work, the employees will naturally know more than their bosses.

We think that this type of bilateral information asymmetry is at play. If someone exhibits managerial qualities and has a deep commitment to his or her work, then we expect the company will want to promote that person. The question is, when a manager recognizes an employee's potential, whether that recognition needs to be communicated quickly to the employee to keep him or her highly motivated.

We hypothesize that, when the employee is female, her manager tends to communicate his high expectations for her by saying "I have high expectations for you," or by selecting her to handle important projects. By so doing, the managers are signaling a high likelihood of promotion for female employees. Women who receive this sort of signal will feel that their abilities have been rated highly by management. Positive signals from above will motivate the women to signal in return that they are wholeheartedly committed to the firm by working long hours. Women who signal deep commitment are almost certain to be promoted.

As for how male employees are treated, managers do not quickly reveal whom they believe has the promise to become a leader in the future. Such information is relayed at a much later date than in the case of female employees. Instead of singling people out for praise, managers encourage all male employees by saying things like "everyone has a chance" and "if you make an effort, you too can have a bright future here." Believing that they have a chance to succeed, many male employees

will signal commitment to the firm by working long hours.. Of course, not everyone who sends this signal can be promoted. In fact, only a portion of these workers will be rewarded for their effort. This is what economists call a "rat-race equilibrium." In such an equilibrium, managers withhold expressing their evaluations of the employees in order to encourage everyone to work hard and also to attract workers with high commitment. We believe that the difference in equilibrium selection between men and women resulted in the different level of correlation between the number of hours worked and promotion rates depicted in Figure 4.

What are the policy and managerial implications of our conceptualization of internal labor markets in Japanese firms? Japanese societal norms continue to see women as "naturally" suited to homemaking and child-rearing. The heavy burden of household duties prevents a majority of women from signaling their commitment to work by working long hours continuously. The number of women who can show this degree of commitment is not large. As for the rat-race equilibrium imposed on male employees, this form of competition may have made sense in the high-growth era when the more you worked, the more your company grew, but the sources of a firm's competitive strength have changed since then. In today's economy, rat-race equilibrium is most likely to be inefficient.

What then is the best path for public policymakers to follow? First, we must recognize that there is no magic formula for increasing opportunities for women and no easy way to fundamentally alter Japan's long-established and institutionalized internal labor markets. For example, a government policy mandating longer parental leaves could undermine women's promotion prospects because longer leave times correspond with greater maternity penalties as noted earlier. It may be that the key to expanding opportunities for women is giving men ways to escape the rat-race equilibrium. If the practice of measuring commitment by the number of hours worked can be changed, then it will be possible to design new institutional arrangements that expand the pool of managerial candidates to include more women and foreign nationals. If employees are given

more flexibility in how they work, we might see some men decide not to sacrifice their personal lives to competing in the rat race, perhaps in order to enable their talented wives to work more hours.

### Promotion Tournaments

We would like to introduce one more research project on Japanese-style management, a cohort effect analysis described in Araki, Kato, Kawaguchi, and Owan (2013). The cohort effect in economics refers to the long-term negative impacts on earnings and promotions suffered by people who have the misfortune to graduate during economic downturn. There are several factors contributing to this cohort effect. When the economy is weak, employment opportunities are limited, reducing the chances that people can find jobs that match their interests and ambitions. Namely, the number of people who feel they can demonstrate their full potential at work and who find work satisfying will fall. Many of those lucky enough to find work in their chosen field may discover that their jobs offer few training and career development opportunities due to their employers' cost-cutting efforts. Under these conditions, the development of human capital will lag. Many people will have no choice but to change employers, rendering useless any firm-

specific skills they have acquired. The numerous effects of a weak job market have lasting impacts on people's wages and work conditions.

Pro-cyclical cohort effects (i.e. positive effects from good a economy and negative effects from a bad economy) have been the subject of many empirical studies, but one aspect of finding work in a weak economy has been overlooked. When a company cuts back on hiring, the talented or lucky ones who are hired will face fewer competitors in the company's promotion tournament. This "cohort size" effect should be more pronounced in companies that primarily hire new graduates and make subsequent personnel decisions based on relative evaluations within a cohort, as is the case in most large Japanese firms. Under such personnel policies, the smaller cohorts may mean better chances for early promotion. We set out to verify this counter-cyclical cohort effect..

We analyzed personnel data from two firms and found the same results in both cases. As Figures 5 and 6 illustrate, the employees who were hired during the hiring ice age were likely to be promoted to management trainee positions or first-line managers much earlier than employees in larger cohorts. This effect persisted after we took

**Figure 5. Cohort size and promotion rate in Company A**

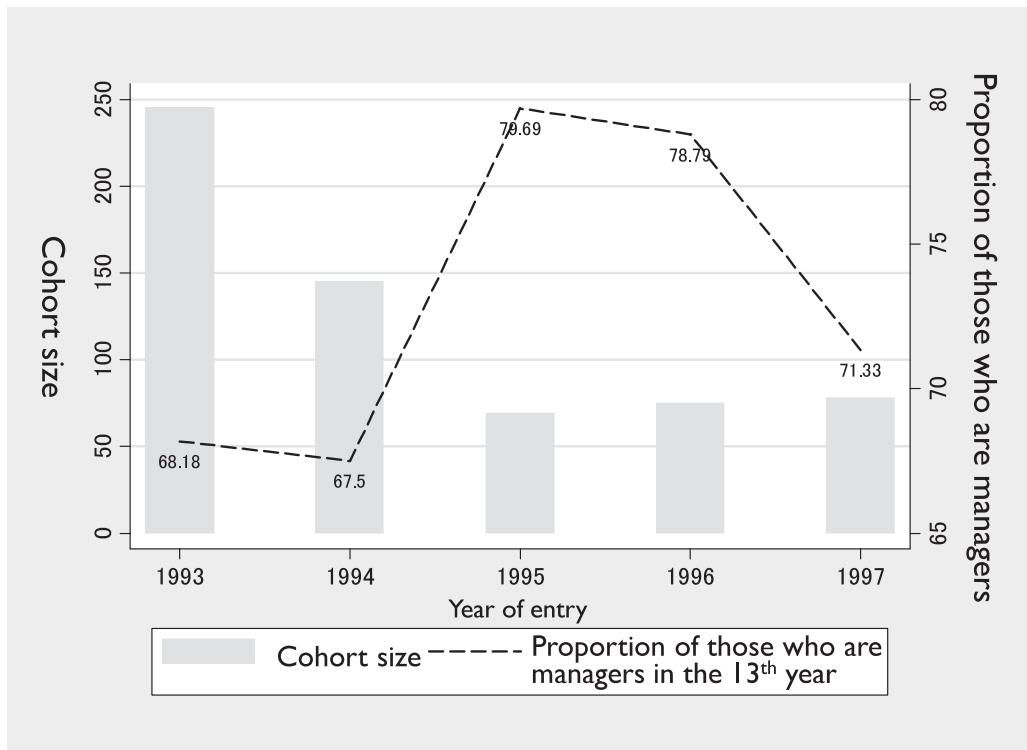
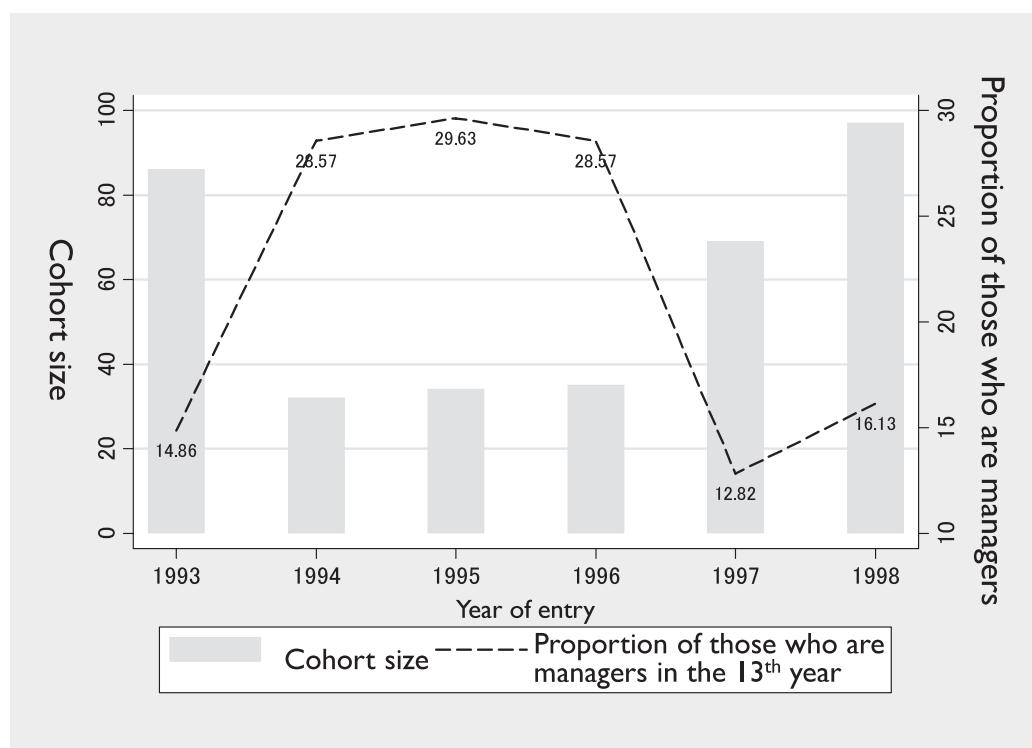


Figure 6. Cohort size and promotion rate in Company B



into account which universities the employees had graduated from, a finding that tells us that early promotions were not simply due to these smaller cohorts having a higher concentration of talent than larger ones.

The first implication of this research is that the people who somehow managed to be hired by major firms despite having to enter the job market during the lost decade have benefited in several ways from their small numbers. They have more training opportunities and are promoted more quickly, making their peers who failed to find work at a leading company look even worse by comparison. In short, recessions greatly magnify the gap between winners and losers in the job market.

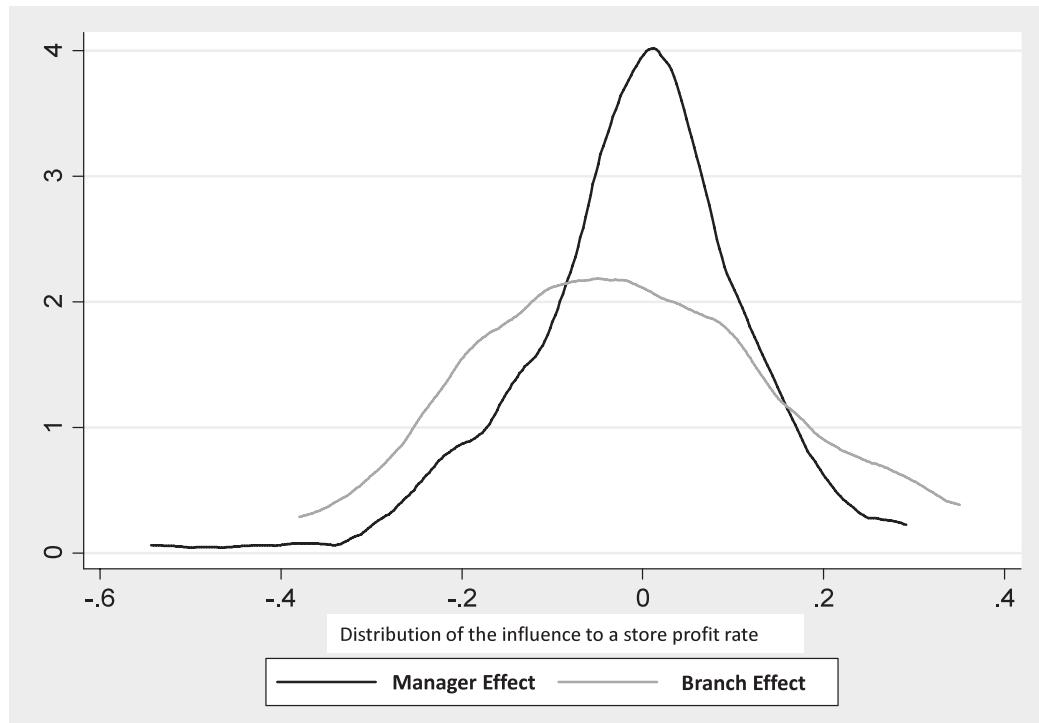
Cohort-based personnel management (*nenji kanri* in Japanese) observed among Japanese firms seems to be complementary with other practices observed among Japanese firms such as the hiring of only new graduates at the entry level, late promotion, and the centralization of control over personnel decisions within HR departments. This bundle of HR practices of Japanese firms was presumably meant to raise the productivity of all workers by placing them in long-term, unremitting competition in transparent tournaments with

a stable set of peers. These policies produce some benefits, but they impose costs as well. One such cost is a less diverse workforce as women, foreign nationals, and mid-career workers are deterred or excluded from joining. As the business environment continues to evolve, the costs and benefits of such personnel management systems are likely to have changed as well, meaning that we should review our assumptions about what combination of HR policies is optimal.

### Leadership

Our final topic for discussion is leadership, including the importance of leaders and how leaders are chosen. Here, we focus on mid-level managers rather than top executives who have been studied extensively in prior works. To assess the value of middle managers, we again analyzed data from the automotive dealership. Generally speaking, the primary determinants of the profitability of a dealership branch can be divided into two categories. In the first category are branch-specific factors such as location, competitiveness of the local market, the demographics and income of local residents, and the technical skills of the employees. The second category is manager-specific—the strength of branch managers' leadership and their ability to direct and train their staff. Figure 7 presents the distribution

Figure 7. How important is middle management? Owan, Takahashi, Tsuru and Uehara (2013)



of branch and manager effects on branches' profits we estimated (see Owan, Takahashi, Tsuru, and Uehara 2013 for details). The wider the curve, the greater the variance of that effect is.

The variance of branch effects is very wide. For example, moving from the tenth percentile to the ninetieth percentile up the distribution of branch-fixed effects raises the branch profitability by roughly 40 percent. This means that the location, characteristics of the local market, and the quality of salespeople generate a large variation in the branch profitability. As for the impact of branch managers, it is not insignificant although it is smaller than the branch effects. Quite frequently, branch profits could fall by as much as 20 percent when a good manager is replaced by a poor one.

We then examined whether poor managers could improve after gaining more experience. In general, it takes two to three years for a newly promoted branch manager to reach the peak of his learning curve and, during this period, his productivity (i.e. contribution to the branch profit) improves only 2 to 4 percent. In other words, whereas a change in managers could change the branch profit by an order of 10 to 20 percent, the average manager observed over their tenure improved their productivity by no more than 2 to 4 percent. This result tells us that it is much more important

for a company to select the right managerial candidates in the first place than to invest a great deal in training weak managers.

Next, we looked at what were the characteristics of people able to achieve good results as "good managers." The data show that, although new vehicle sales are the core of the dealership's business, the best branch managers tend to be the ones with broad experience—including used vehicle sales and service as well as in new vehicle sales—rather than those who had worked only in new vehicle sales before being promoted. This finding echoes European and North American research showing that people are more likely to be promoted as the range of their work experience expands. As our analysis confirms, taking on a variety of roles is critical to learning how to manage people effectively, and is likely the surest way to become a strong leader.

One final result worth mentioning is that the youngest branch managers are the most effective; their branches produce the best results. We tested several hypotheses to determine why youth was advantageous. The critical factor turned out to be the narrowness of the age gap between a manager and his subordinates. We believe that a smaller age gap makes it easier for managers and branch staff to communicate with each other and develop

into cohesive teams.

### **Conclusion**

To wrap up, the results of the varied research projects that we have just described indicate the necessity of reconsidering some aspects of Japanese companies' personnel policies. Most pressing is the need to institute flexible job assignments and to devise ways to transform evaluations into systems for compiling accurate information about

employees' competencies. Another important step would be restructuring competition within organizations by giving people more choices in how they work. In closing, we would like to mention that our industry, academia, and government joint project for analyzing corporations' internal data has only just begun. We are looking forward to gradually increasing the number of firms and producing research that will be of interest to HR practitioners as well as scholars.

# Toward the Diversity of Regular Employees Under the Polarization of the Japanese Labor Market

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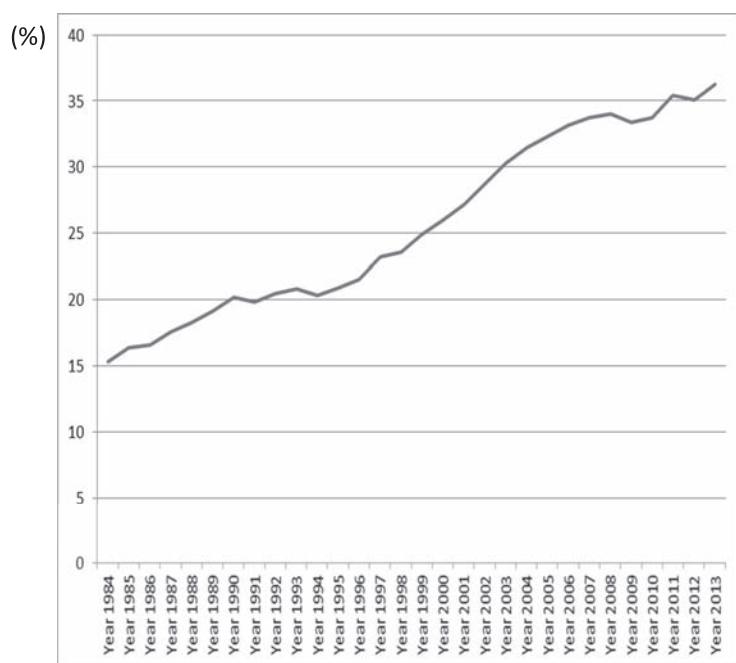
In this paper, I will offer a brief synopsis of one of the biggest challenges facing Japan's labor mar-

ket—the problem of non-regular employment—and discuss possible remedies. As the theme of this symposium is the science of Japanese HR management, I begin with empirical data that places the employment situation in Japan in an international perspective.

Figure 1 shows how the percentage of all workers in non-regular employment in Japan has changed over the past thirty years. The rate rises steadily, without peaks nor plateaus. Looking at this graph, it is not clear how high the rate will go, but it is obviously an unsettling trend. Thirty years ago the rate was around 15 percent. Averaging over the first three months of this year, the rate is now 36.3 percent, a huge increase.

Figure 2 divides the 36.3 percent non-regular employment rate into the various types of such employment. The largest group is part-time<sup>1</sup> workers. Workers placed through temporary agencies, also known as dispatch workers, have

Figure 1: Change in the Ratio of Non-Regular Workers



Source: "Labour Force Survey", Ministry of Internal Affairs and Communications

<sup>1</sup> Or *arubaito*. In MIA surveys, the term *arubaito* is applied to any worker who works fewer hours per week than regular employees in the same place of business.

Figure 2: Details on Recent Ratios of Non-Regular Workers

	Company employees, excluding executives	Regular employees	Non-regular employees	Part-time workers, <i>arbeit</i> (temporary workers)		Arbeit (temporary workers)	Dispatched workers from temporary work agencies	Contract employees	Other
2013 Jan.-Mar. average (%)	100.0	63.7	36.3	25.0	17.7	7.3	2.4	7.3	1.6

↓ New series starting in Jan. 2013

	Non-agricultural employees, excluding executives	Indefinite-term (permanent employees)	Fixed-term employees (total)	Fixed-term Employees (more than one year)	Casual workers	Daily workers
2013 Jan.-Mar. average (%)	100.0	72.1	27.9	18.5	7.8	1.6

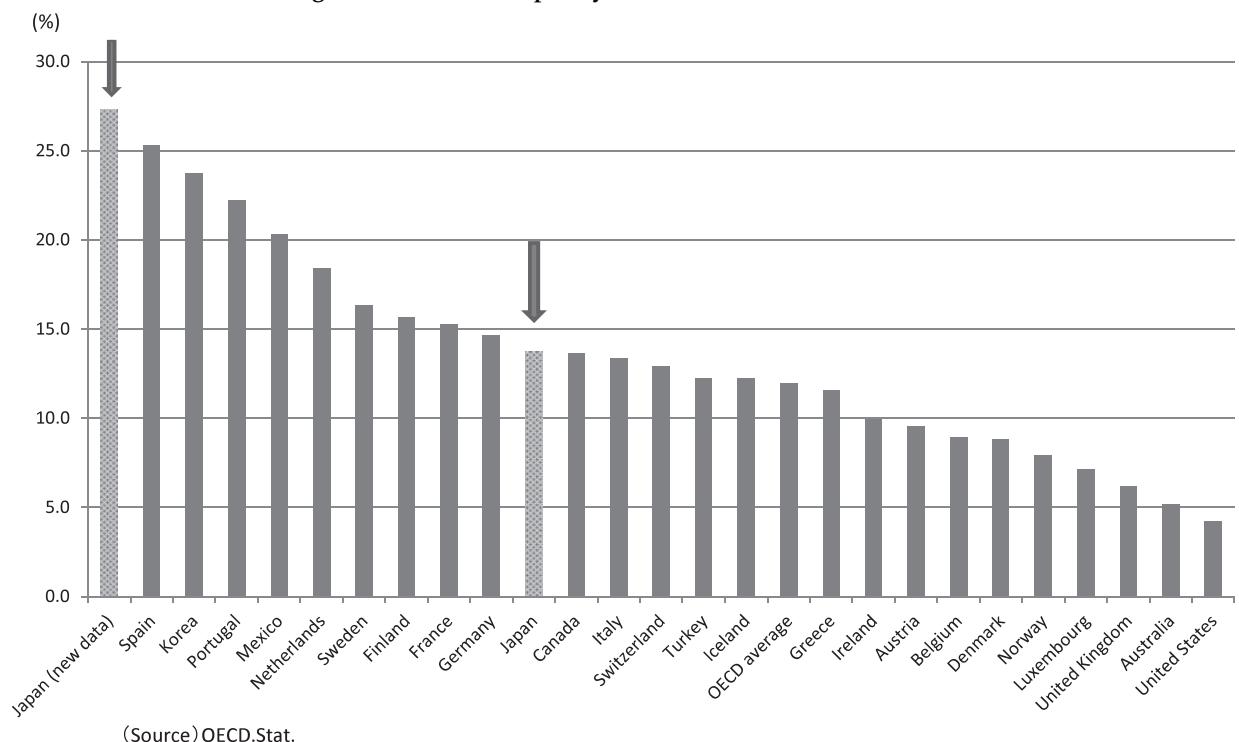
Source: "Labour Force Survey", Ministry of Internal Affairs and Communications

been the subject of heated debate, but they make up only 2.4 percent of all employees. The lower half of Figure 2 shows the breakdown of people working directly for firms, full-time, under fixed-term contracts.

A quick look at Figure 2 is enough to show that the current state of non-regular employment is quite complicated. My approach is to focus on the

boundary between fixed-term contracts and permanent employment. In January 2013, the Statistics Bureau in the Ministry of Internal Affairs (MIA) began publishing comprehensive results of its *Labour Force Survey* on a monthly basis. The lower half of Figure 2 presents some of that data: 36.3 percent of workers were non-regular employees and 27.9 percent worked under fixed-term contracts. Therefore, 8.4 percent of workers were

Figure 3: Ratio of Temporary Worker: OECD Countries(2011)



non-regular but not employed through fixed-term contracts. Some of these workers are presumably permanent employees, and their numbers could be quite substantial.

Figure 3 shows how these percentages compare to the percentages of temporary workers in other OECD nations as well as the ratios of employees working under fixed-term contracts. According to the data given to the OECD, 13 percent of Japan's labor force were temporary workers in 2011, a percentage quite different from that reported by the MIA. If the OECD had used the ministry's 27.9 percent figure, Japan would have the highest level of temporary employment of all OECD members. The discrepancy between the OECD and MIA statistics stems from the type of data Japan submitted to the OECD. Instead of including workers in all forms of temporary employment, as in the MIA's own *Labour Force Survey*, only workers with fixed-term contracts of less than one year were counted as "temporary" in the data given to the OECD. So in reality, Japan has the highest level of temporary employment in the OECD.

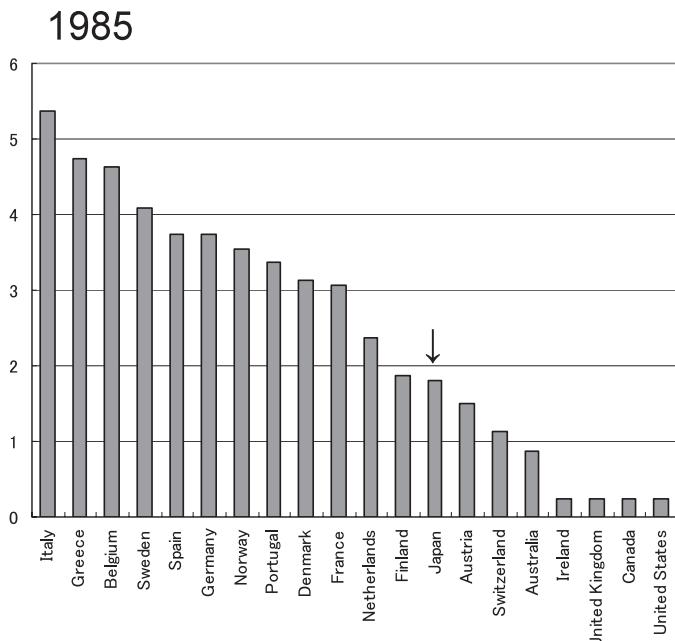
Another nation with high levels of temporary employment is Spain. Until recently, over 30 percent of Spain's labor force worked under fixed-

term contracts. In the aftermath of the 2008 financial crisis, that percentage fell dramatically. The surge in temporary employment prior to 2008 caused considerable harm to Spain's labor market by making it polarized, a problem widely recognized among labor economists around the world. And now, Japan's labor market has higher rates of fixed-term employment than Spain. This fact alone captures how dire the situation in Japan has become. Looking at different statistics on non-regular employment under employment contracts of less than one year or more than one year, it is evident that the 13 percent figure for temporary employment in Japan in the OECD's report refers only to people working under contracts of less than one year.

Why has fixed-term employment become so prevalent in Japan? In Spain, regulatory changes in the mid-1980s were a major factor in the rise of temporary employment, and the same argument can be made for Japan. However, the OECD's employment protection index for temporary workers, shown in Figure 4, reveals that Japan, like Anglo-Saxon countries, offered little employment protection to such workers in 2008.

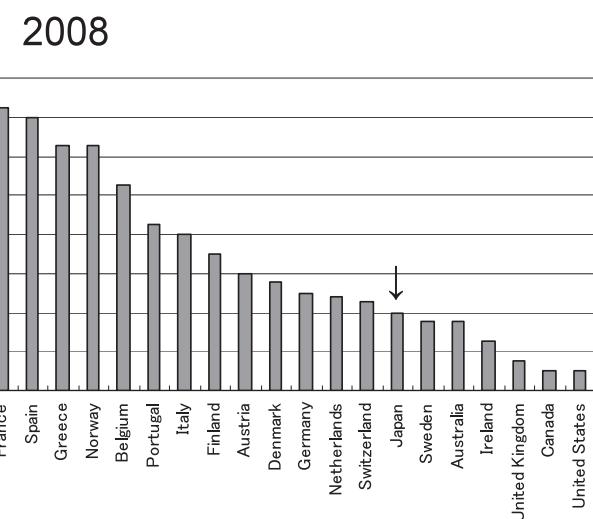
However, temporary workers in Japan did not have much employment protection in the 1980s

**Figure 4: Employment Protection Index for Temporary Workers**

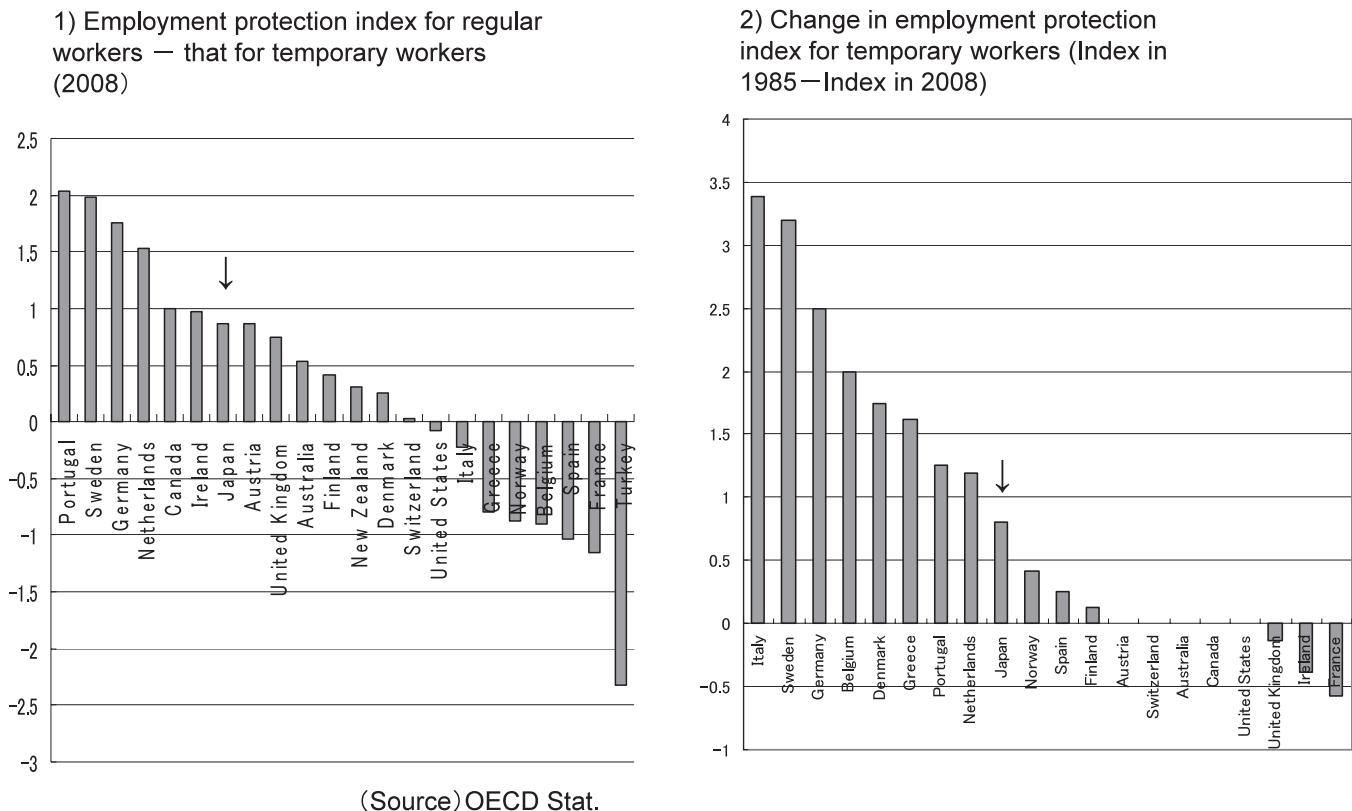


Japan has always had weak regulations on temporary workers  
(among the weakest of the non-English speaking countries)

Source: OECD Stat.



**Figure 5: Difference in Employment Protection between Regular and Temporary Workers and Deregulation for Fixed-Term Employment**



either, while European nations had numerous regulations intended to promote regular employment, e.g., regulations governing who could be contract workers, the length of contracts, and the number of contract renewals. In other words, deregulation of Japan's labor market cannot explain much of the rise of non-regular employment because there was little regulation to begin with.

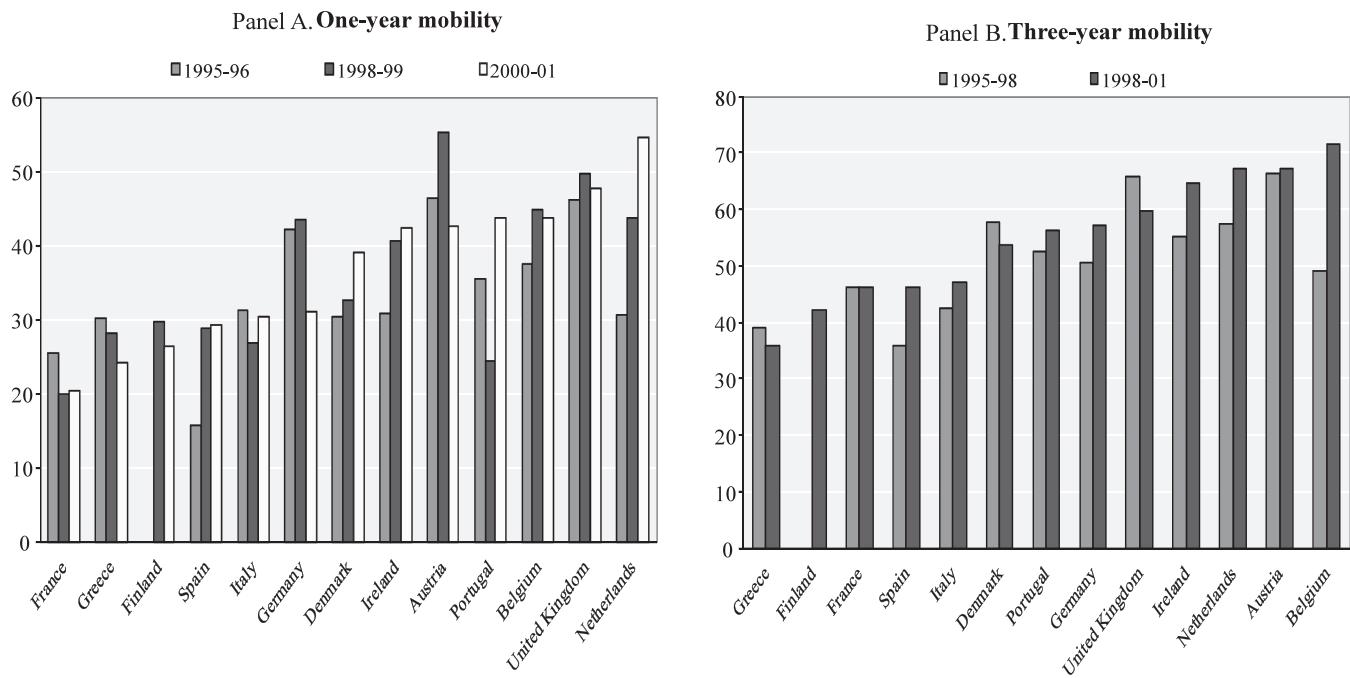
This is not to say that Japan's employment regulations did not change over the past 30 plus years. Figure 5 shows how much Japan's employment protection index (EPI) changed between 1985 and 2008, as calculated by the OECD. Because other nations deregulated more, the level of deregulation in Japan appears relatively modest. The first chart in Figure 5 presents the difference in the EPIs of regular and fixed-term employees in several OECD nations. We can see that there is more employment protection for regular workers than non-regular workers Japan. However, compared to other OECD members, Japan's EPI for regular workers is slightly below the OECD average. Although Japan's employment protection laws for regular employees are not particularly strong, such workers have more protection than fixed-

term employees. Figures 4 and 5 demonstrate that the rise in fixed-term employment in Japan cannot be explained solely by changing labor regulations.

So what else can account for the rise in fixed-term employment? One factor is that firms wanted to have greater flexibility in hiring as they retrenched in the 1990s in order to adapt to economic uncertainty and the end of stable growth following the collapse of the economic bubble of the 1980s. Other factors include increased competition arising from globalization and market liberalization, and the change in employee skill sets needed to keep pace with the IT revolution. Costs had to be contained to compete in this uncertain environment, which meant that firms required a reliable supply of cheap labor.

The flip side of expanding flexible fixed-term employment is greater employment instability. Another outcome is a wider gap between the wages and working conditions of regular and non-regular employees. A particular problem is the severe lack of opportunities for non-regular or fixed-term employees to develop or acquire skills. Without training opportunities, workers become increasingly unable to compete in the labor mar-

**Figure 6: Mobility from Fixed-Term to Regular Jobs**



Source: OECD calculations based on the European Community Household Panel (ECHP), waves 2 to 8.

Source: OECD, Employment Outlook 2006

ket and their employment options grow ever more dismal.

How broad is the gap between the wages and working conditions of regular and non-regular employees? The wage gap between regular and fixed-term employees by and large ranges from 20 to 40 percent in OECD countries. After controlling for differences in age, education, and occupational categories, the wage gap shrinks to 10 to 20 percent. In Japan, the overall wage gap is 30 to 40 percent while the adjusted wage gap is around 10 to 20 percent, basically the same gap found in Europe.

Another issue is the likelihood that fixed-term employees will be hired as regular employees. Figure 6 presents data from the OECD's *Employment Outlook*. According to that report, 20 to 50 percent of fixed-term employees in Europe become regular employees within their first year of contract work and 40 to 60 percent of fixed-term employees become regular employees within three years of contract work. The chances of transitioning from contract to regular employment in Japan have been assessed in numerous studies. In the studies that I have participated in, the five-year transition rate was found to be only

25 percent. Furthermore, the transition rate over the past year was 19 percent. Either result places Japan in the lowest tier of European nations.

What these findings tell us about the problem of non-regular employment in Japan is that there are multitudes of people who want to become regular employees but remain trapped in non-regular employment. It's safe to assume that these people are extremely frustrated by their situation. 30 percent of non-regular employees wish to transition to regular employment, but many will be denied that opportunity.

And so we can see that transitioning into regular employment in Japan is more difficult than in Europe. To be more specific, not only does Japan now have the highest rate of fixed-term employment in the OECD, its non-regular workers are also less likely to become permanent employees. Financial problems may be getting more attention in the public sphere, but a real crisis is underway in the labor market concerning non-regular employment.

My own preference for dealing with this crisis is to expand the ranks of limited regular employees. To understand what a limited regular employee

is, we must first understand what it means to be a regular employee in Japan today. The internationally accepted definition of a regular employment has three requirements: employees have permanent contracts, work full-time, and are hired directly by firms rather than through an employment agency. Regular employment in Japan also entails a firm's right to assign a regular employee to any position, any location, and any work schedule, although it seems that firms may become more constrained in the future. Thus, regular employees in Japan are known as "unlimited employees." The subject of the "rat race" came up in an earlier presentation and unlimited employees are the ones stuck in that race.

Breaking the rat race cycle requires increasing the numbers of limited regular employees who, unlike regular employees, have contracts that restrict some aspects of their employment be it their assigned duties, work site, or work hours. Truth be told, firms face no regulatory barriers to adopting this category of employment. According to surveys of large companies, roughly half have already introduced limited regular employment, especially wholesalers, courier services, and other service sector firms. The surveys also revealed that roughly one-third of respondents' employees were limited regular employees.

While the hiring of limited regular employees is becoming more common, we can expect companies to shy away from relying heavily on such employees until the regulations concerning such workers are fully detailed. Employers want reassurance that they will be able to manage limited regular employees in a cost-effective and flexible manner and firms will be reluctant to change as long as the distinctions between regular employees and limited regular employees remain unclear. To overcome this resistance, various employment rules need to be updated.

Counteracting the great expansion in fixed-term employment requires creating more opportunities in alternate modes of work such as limited regular employment, and new labor regulations can increase such opportunities. Japan's government has now revised its policies and amended its laws to introduce European-style rules for fixed-term employment. Under the new rules, a fixed-term employee can become an indefinite term employee after working five years. To put it in other terms, limited regular employees are unlikely to be hired until five years have lapsed. It is my view that, in the midst of the restructuring of Japan's labor market, the expansion of limited regular employment must be accelerated.

# Expanding Work Opportunities for Women and Support for Work-Life Balance: The roles of managers

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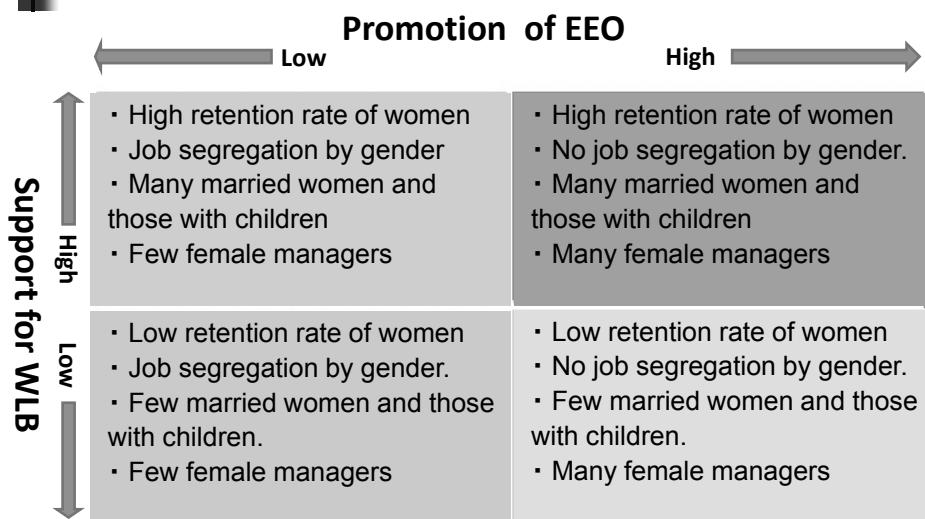
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In this article I examine the issue of equal employment opportunity for women, with a focus on workplace skills development to boost the proportion of women in management positions.

The first prerequisite for progression to managerial level is uninterrupted employment. Japan maintains an internal labor market such that employees must, in many cases, work for 15 years or longer before they reach section chief (*kachō*) level. Length of service, however is not the only requirement; workers must also develop the capabilities demanded of a manager. It is thus crucial that they have opportunities to develop their skills at work. In this article, therefore, I argue for a two-pronged approach that addresses both of the above requirements: firstly, enabling women to continue work without interruptions—that is, to maintain a “work-life balance”, and secondly, advancing skills development on an equal-opportunity basis.

Figure 1 proposes four different employer types plotted on the axes of equal opportunity employment (EEO) and work-life balance (WLB). The vast majority of Japanese companies are considered to be Type B. Women experiencing marriage and childbirth tend to find it difficult to continue working, and end up resigning from their jobs, thereby foregoing progression to managerial positions. Meanwhile, a small but growing number of employers fall under Type A. Systems such as

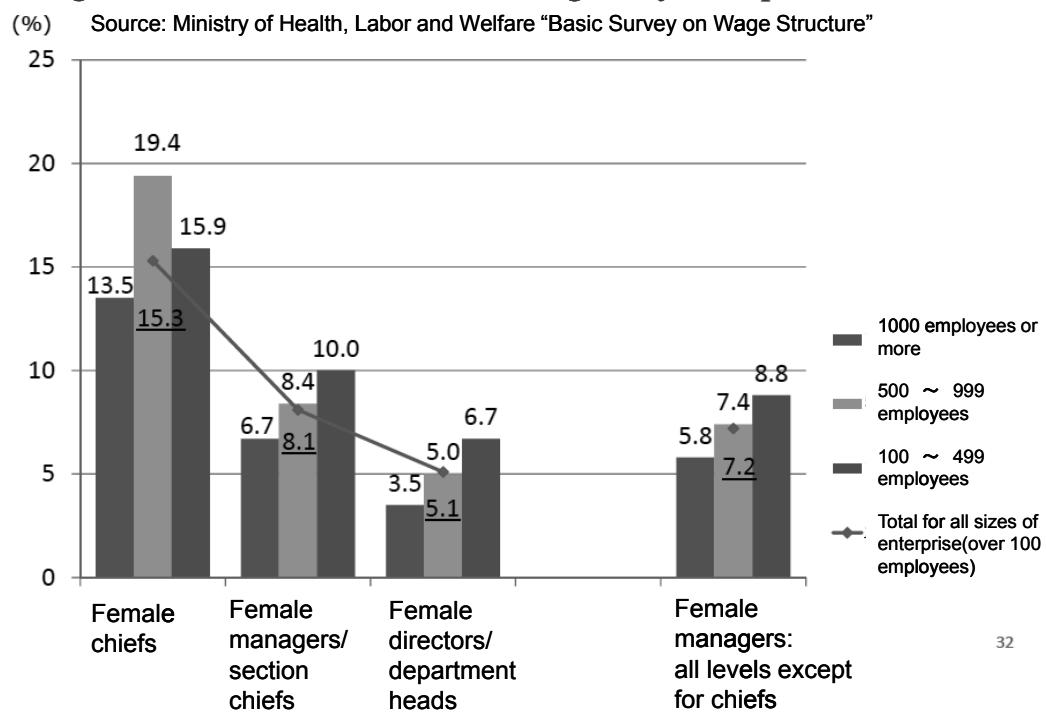
**Figure 1: The relationship between WLB and equal employment opportunity (EEO)**



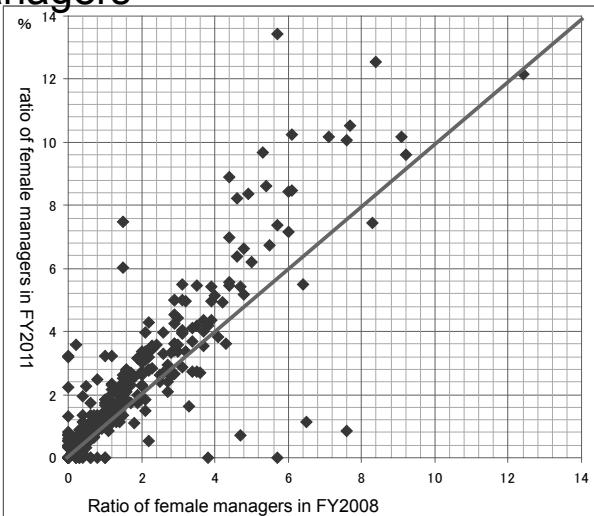
childcare leave are well developed, allowing women to work uninterrupted if they so choose; yet women still find it difficult to move into management. Type D employers, on the other hand, are those where there is no explicit segregation of job assignments along gender lines, but women have the same opportunities to perform only if they could work in the same way as their male counterparts (there is no additional support for

women). Many women, however, have no choice but to resign under such circumstances, leaving just a small minority of women fully utilized in the workplace. The ideal, therefore, is Type C. Achieving this ideal requires action on both work-life balance and equal employment opportunity fronts. This in turn demands a change in traditional male work styles.

**Figure 2: The ratio of female managers by enterprise size**



**Figure 3: Change in the ratio of female managers**



Here the ratio of female managers of the 399 companies which have data for both FY2008 and FY2011 are plotted. Data for 4 companies with ratios greater than 30% were excluded.

Source : Toyo Keizai Inc."CSR Overview"

Let us look first at equal employment opportunity. The ratio of female managers in Japan is comparatively low in international terms. Furthermore, 45% of enterprises have no female managers above the level of section chief. Ratios are particularly low in large enterprises (see Figure 2). Figure 3 uses data from Toyo Keizai's "CSR Overview" to plot the ratio of female managers in 339 enterprises with over 1,000 employees in fiscal years 2008 and 2011. The ratio is slightly higher in 2011 than it was in 2008. However, the vast majority of enterprises still have an extremely low ratio—5 percent or under—and a considerable number have zero.

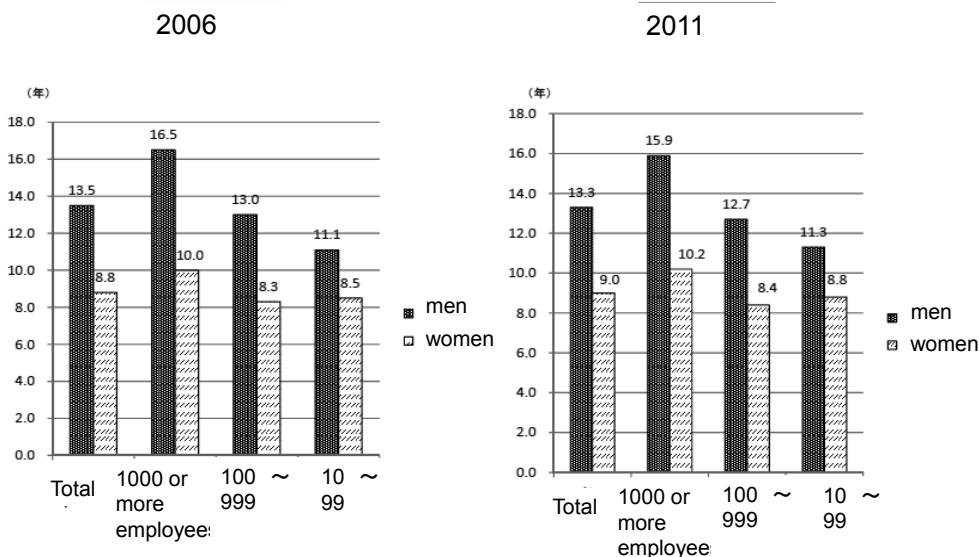
At the outset I made the point that uninterrupted service is crucial. Let us look, then, at some data on the number of years of service. Figure 4 offers a male-female comparison of years of service based on enterprise size, revealing a particularly marked gender disparity in larger enterprises. Such enterprises are likely to have a more developed internal labor market; the fact that women work on average for much fewer years than men suggests, therefore, that women are resigning because they are unable to engage with this internal market effectively.

This problem can also be assessed by reference to

educational background. Figure 5 shows that the higher the level of education, the larger the gender disparity in the length of service. From this finding we could infer that university graduates have better access to internal labor markets, but it seems that this is not the case for women. This imbalance is a distinctive feature of Japanese employers.

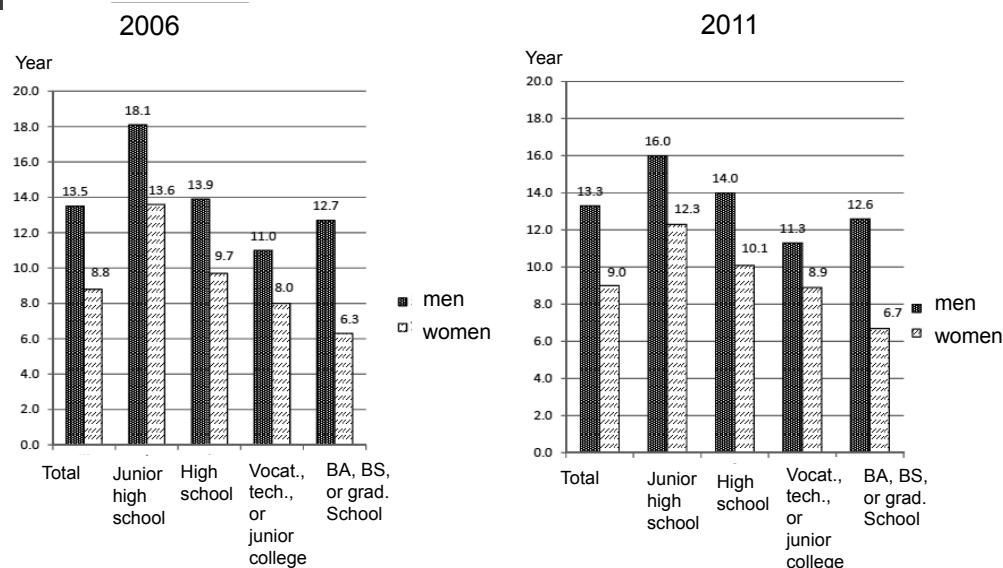
What we can conclude from the data on the ratio of women in management and length of service is that there is more variation in the latter than the former. In other words, female employees' length of service has grown more noticeably than their presence in management. Figure 6 plots gender difference in length of service against ratio of female managers on using data from 403 companies in the Toyo Keizai "CSR Overview". On the horizontal axis, zero signifies no difference in length of service between male and female employees. A positive value in the right half of the graph denotes cases where length of service is longer for female employees than male. Companies in this category are likely to have systems enabling women to continue working in the same way as men through various life stages. The vertical axis, meanwhile, shows the ratio of female managers. Most points on the graph are plotted in the area indicating both short periods of service

**Figure 4: Change in the length of service among ordinary workers by enterprise size**



Source: Ministry of Health, Labor and Welfare  
"Basic Survey on Wage Structure"

## Figure 5: Change in the length of service among ordinary workers by education



Source: Ministry of Health, Labor and Welfare "Basic Survey on Wage Structure"

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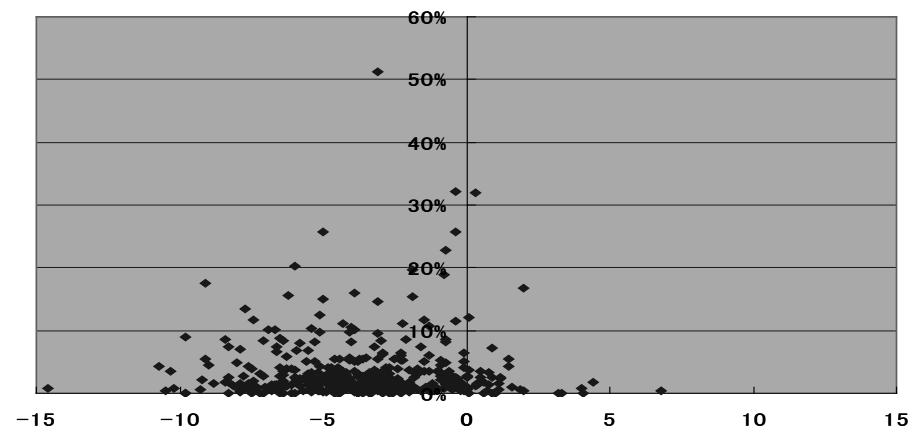
for women and a low ratio of women in management. We can also see, however, some growth in the number of companies with negligible gender difference in length of service and/or high ratios of women in management.

Keeping in mind the data presented above, I would now like to discuss what is required in

human resource management terms in order to boost the number of women in managerial positions. Firstly, we must consider the employee side. It is vital that female employees have the desire to continue working and to enhance their skills in the workplace. At the same time, employers must guarantee gender equality in employment terms and help their female employees to

## Figure 6: The ratio of female managers and the gender difference in length of service

Vertical axis: the ratio of female managers in FY2011  
 Horizontal axis: the gender difference in length of service in FY2011



The values of companies which have data on both the average length of service by gender and the ratio of female managers in "CSR Overview" TOYO KEIZAI INC. are plotted.

continue working. In reality, employee motivation is often influenced by these initiatives on the part of employers. By providing opportunities for skills development and support for ongoing work, employers can provide real incentives for their female employees. This is why employer initiatives are considered so crucial.

Let us look, then, at the kinds of initiatives employers are putting into practice today. Firstly, employers face the problem that, in line with the internal labor market principle, the ratio of female employees drops off progressively as the wage grade rises. Thus a 50:50 gender ratio at entry level can become a 90:10 ratio in favor of men at the section chief level. One reason for this attrition rate is that women may resign, or abandon their climb through the employee ranks, upon realizing that they will never be able to utilize their skills fully. Another reason, however, is that systems to promote work-life balance can sometimes, depending on how they are designed and operated, impede female employees' efforts to take more active roles in the workplace. For example, if a woman works reduced hours due to childrearing or other duties outside the workplace, her skills as an employee will develop more slowly. An early return to full-time work is therefore crucial in terms of career progression; but if working full-time makes it impossible to maintain the required work-life balance, women lose opportunities to utilize their skills. In workplaces where "unlimited employment" (no specification of employment conditions such as location, duties, or employment term) is still the norm, however, there is no option other than to make use of systems for reduced work hours.

So, how can opportunities for skills development be equalized? Firstly, checks can be put in place at the time of recruitment and selection to prevent employees involved in the selection process from applying any gender bias, such as the popular assumption that women find it difficult to handle sales and client relations work. Another area requiring attention is initial workplace assignment. In Japan, importance is placed on skills development for recruits in the first two to three years of employment. These days, recruits tend to be assigned to workplaces regardless of gender, or on the basis of individual preference. The

important point here, however, is what kinds of work the recruit will experience in the workplace to which he or she is assigned. Personnel managers often tell me that even if women tend to perform better at the time of recruitment, five years on they find that it is the men who have developed stronger skills.

It may be possible to attribute this problem to the recruits' immediate supervisors. Even if they take care to assign work regardless of gender in the first two to three years of employment, at the next stage supervisors may give more planning and development roles to men and more fixed, routine tasks to women. Exploring this hypothesis further will require close analysis of data on what kinds of work employees experience in their first four years of employment. If there is some kind of gender bias in the assignment of duties, female employees that were previously highly motivated may lose their appetite for work. When they are faced with the difficulties of balancing work with married life and child-rearing, therefore, they may decide not to continue. In this sense, the initial career stage is of crucial importance. At the same time, however, there is a limit to how much control human resource managers can take, in light of the fact that it is not them but rather the managerial staff in the actual workplace that make the actual decisions regarding assignment of duties.

When I run training sessions for managerial staff, I get my trainees to write down their approaches to training and nurturing each of the employees they supervise. In many cases managers are able to articulate their vision for their male subordinates in two to three years' time, but are unable to do so for the females. They don't seem to have thought about looking ahead to find ways to train and nurture their female staff. This suggests that their expectations for employees diverge along gender lines, and this divergence is reflected in the types of work they assign. At a certain stage, they start to place limits on the range of work they assign to their female subordinates. In such circumstances, the more ambitious the female employee is, the more likely she is to lose motivation and resign.

One further point to consider is whether or not a

woman with the requisite experience in a certain area of work is able to access the career track leading to a managerial position in that area. If she does not have such access, why not? It may be that the employer, ostensibly in the woman's interests, has assigned her to a workplace where it is easier to control working hours and therefore to balance work and childcare duties. Moves like this can have a major impact on career development, and need to be handled with care. It is important that the human resources division keeps a close watch on such possibilities. Some people say that human resources divisions in Japanese companies tend to be powerful, but this is not necessarily the case. Human resources divisions are in charge of selecting and appointing employees, assigning them to workplaces, and determining managerial responsibilities. Once an employee has been assigned to their initial workplace up until they are promoted to an initial managerial position, and thereafter, workplace assignments tend to be handled by senior managerial staff in the areas concerned. The human resources division is informed after a decision has been made. Thus, any gender differences in career progression for employees up to the initial managerial level are dictated not by human resources, but by the employees' immediate managers. A key question in the context of boosting the proportion of women in management, therefore, is

how far the human resources division can intervene in personnel decisions made on the ground.

This article has examined some key issues surrounding gender equality in workplace skills development. Before I finish, I would like to make some additional observations regarding work-life balance. Japanese employers, particularly large corporations, tend to have well-developed systems of childcare leave and reduced working hours. It is theoretically possible, therefore, for women who wish to continue work to do so. The real problem is that it is not feasible for a woman who elects not to make full use of such systems to return to work early and engage in regular full-time work. A second problem is that many men do not participate actively in child-rearing; a third is that childcare services are inadequate. I believe that the common thread running through each of these problems is work style. If an employer knows the average working hours in each of its workplaces, it can analyze how these hours are related to uninterrupted service, and what kinds of working hours employees have experienced in different workplaces. Analysis of these kinds of personnel data can yield findings useful not only in scholarly terms but in practice as well. I look forward to the cooperation of human resource divisions in gathering and analyzing such data.

# Panel Discussion: Challenges in Personnel Management for Japanese Firms in the Era of Globalization

## Moderator:

**Kawaguchi Daiji, Professor, Graduate School of Economics, Hitotsubashi University/ Faculty Fellow, RIETI**

## Presenters:

**Alec Levenson, Senior Research Scientist, Center of Effective Organizations, University of Southern California**  
**Owan Hideo, Professor, Institute of Social Science, the University of Tokyo/Faculty Fellow, RIETI**  
**Sato Hiroki, Professor, Interfaculty Initiative in Information Studies and Institute of Social Science, the University of Tokyo**  
**Tsuru Kotaro, Professor, the Graduate School of Business & Commerce, Keio University/ Program Director and Faculty Fellow, RIETI**

## Discussant:

**Edward Lazear, Jack Steele Parker Professor of Human Resources Management and Economics, Stanford Graduate School of Business**

**Kawaguchi Daiji:** In this panel discussion, I would like to use questions submitted by the audience to expand our discussion. The first question relates to Prof. Lazear's statement, "Performance pay is linked to productivity gains." Since 2000, most Japanese firms have introduced performance pay, but the general impression is that the results have been disappointing. I would like to hear the panel's views on why performance pay in Japan hasn't lived up to expectations.

**Tsuru Kotaro:** When performance pay was becoming common in Japan in the late 1990s, it took place in the context of a decade of low growth that made the seniority-based wage system difficult to sustain. Because reducing the number of employees was problematic, companies opted to constrain labor costs by instituting pay-for-performance systems. As a result, not enough attention was given to explaining the new system to employees and they remained skeptical about the intention of the new pay system. This was the first problem.

The second problem is that it is difficult to measure individual performance. In Japan, teamwork is highly valued so evaluations tended to be compressed or show centrality bias. The third prob-

lem is that companies must offer employees opportunities to develop their skills from a long-term perspective when introducing performance pay, but they failed to do so. This omission meant that firms were unable to convince employees to accept the new system.

**Owan Hideo:** First, during our presentations we made discussions that the problems of multitasking and gaming had made the recently introduced performance pay systems ineffective (see Kato and Owan in this issue). Another factor is that many firms used pay for performance as a pretext for cutting personnel costs and changed their compensation systems with that goal in mind. I think that employees saw this change as a breach of their implicit contracts that had promised pay for long-term service and lost motivation as a result.

**Sato Hiroki:** Previously, wage systems in Japan were based on the evaluation of three factors: employees' abilities, the work they undertook, and their outputs. Also, this combination and their weights changed at different career stages. Note, for example, that the pay for section chiefs were based primarily on their performance and the job contents, and therefore the principle of pay for performance was in effect all along. When the pay for performance was promoted in 2000s, many firms linked pay to performance even for employees in the early stage of their career development, for whom traditional pay for skills was desirable in the long run. In this sense, I think the decision to use such performance pay was a mistake.

**Kawaguchi Daiji:** Our audience has some questions about promotions to managers, so I'd like to turn to that topic. An employee must signal commitment to the firm in order to be promoted to a managerial position and people generally believe one has to work for many hours to demonstrate sufficient loyalty. To resolve the problem of over-work, do we need to devise another way to show strong commitment besides hours of work?

**Sato Hiroki:** Most importantly, we need to consider if the late promotion system can be sustained or not. As I see it, the late promotion system can be used under certain conditions. First, employees in a given cohort do not vary much in terms of their abilities. Second, they are generally given the same opportunities for ability development. Thirdly, a substantial fraction of employees can move up to managerial ranks eventually, like, for example, 60 to 70 percent will be promoted to section chief. All of these conditions are now being dismantled. Given this fact, I don't think it is necessary to devise other ways to signal commitment. Rather, it is more important for the employer side to inform employees a little earlier about the possibility of promotion.

**Owan Hideo:** I totally agree. To add to the discussion, until now, Japanese firms' HR principle of emphasizing "acquiring broad skills" helped their organizations to obtain high coordination capabilities. As employees rotate through various departments, they gain functional knowledge and become more adept at coordinating with people in other departments. This approach differs from those that focus on leadership development. Teaching someone to be a leader involves developing his or her ability to depict, and transmit a vision. And in most cases, this process is accomplished through constant vertical communication to bring what the rank-and-file do into line with the strategic visions of management. Without such communication, leadership training will not succeed.

**Kawaguchi Daiji:** I believe what is being pointed out here is that in order to train the leaders of the future, expanding vertical communication, for example, through involving young workers from an early stage in management planning and other core functions, will be important. By placing, or not placing, young workers in key such areas, companies can send them clear signals. Although promotions may still be late compared with their counterparts in western companies, people would quickly recognize who is headed towards upper management. What we have then, is the suggestion that what is needed is not a different type of signal from workers but a different time to signal—and now it is employers who need to send signals. I believe our panel is suggesting that

firms need to consider whether to improve their human resources management by signaling to employees earlier in their careers.

The workforce has become more diverse, raising the issue of how companies should respond to that diversity. A related issue is the amendment of the *Labor Contract Law* in April this year that entitles hitherto fixed term, contract employees to become permanent employees after working for 5 years. However, turning contract employees into permanent ones could be quite costly for firms. Questions such as how much employment security must be provided to this new, separate class of "limited permanent" or "limited regular" employees will arise. If these questions are left unanswered, we can expect many firms to terminate fixed contracts before workers reach the five-year mark. We also need to ask what level of employment security the law should provide to limited regular employees.

**Tsuru Kotaro:** I think the problem of employment security for limited regular employees is very important. Japan's rules for terminating employment were developed in light of court rulings in cases involving permanent regular employees. What this means is that, for example, if a termination is for cost-cutting reasons, the company has to clear four hurdles under the law. First, is the company in such dire straits that terminations are unavoidable? Second, has the company made a serious effort to avoid terminations? Third, was the process for selecting who will be fired a fair one? Fourth, has the company properly consulted with worker representatives and labor unions and persuaded them of the necessity of terminations? The courts decide cases based on whether these four conditions have been met.

When permanent regular employees are ordered to relocate or take different job assignments, there is a tacit understanding that they will accept those orders. When examining cases of terminations, the courts will therefore, without fail, ask an employer, "Well then, have you considered reassignment as an alternative to termination?" Having to demonstrate that such an effort has been made means that it is not easy to fire someone. "Can't this employee do any other work? Or work at this or that location?"—all such possibili-

ties must be accounted for. If I were the employer, the truth is that I would feel somewhat burdened by these requirements.

As for limited regular employees, when their work sites are shut down or their jobs become unnecessary, for whatever reason, the courts have shown less interest in requiring employers to prove that retention efforts were made than in cases involving traditional permanent employees.

So it's not a matter of whether new rules for firing people need to be drafted. If the same rules, whatever they are, are applied to groups hired under different conditions, the outcomes won't be the same. Putting all this together, the categories of permanent and limited regular employees are not equal in the eyes of the employer. The question is how to select an appropriate mix of different types of regular employees in order to optimize a firm's operations. I think that we have undoubtedly reached the point where such matters need to be considered.

**Sato Hiroki:** What I want to say overlaps with Prof. Tsuru's comments earlier, but in Japan there are two distinct categories of people working under fixed term contracts. One category is employed temporarily for six months or a year or so. The other category has their contracts repeatedly renewed so that we end up with people who can say they've been working for a decade. And the reality is that most contract workers are in the latter group with multiple contract renewals.

On the employer side of things, as long as a particular plant was operating and there was work to be done, the contracts of fixed term workers were renewed. Why then didn't these workers become permanent employees? Although employers had their reasons for not offering permanent posts, some fixed term workers do not want to take on the obligations that permanent, regular employees bear today for a variety of reasons such as "I don't want to relocate" and "I will work for 8 hours but I can't work overtime."

In other words, even if a company offers contract workers the opportunity to become traditional regular employees, many of these workers will reply, "I do not want to change the way I work."

In this new legal system where contract workers can become permanent, limited regular employees could be a very important option for current fixed-term contract workers who prefer maintaining flexible way of working.

Another issue, in connection with the previous discussion of late promotion, is that if we look at employment broadly, the number of permanent regular employees who aim to join upper management will likely fall. Whatever their ambitions at the start of their careers, some will become limited regular employees later on. A typical workforce might be approximately 80 percent limited regular employees, 10 percent permanent regular employees, and the rest fixed term contract workers.

If limited regular employees are "limited to a specific region," then they won't have to relocate; if they are "limited to a particular job," they can continue to do the work they want to do indefinitely. If they get married, they won't have to work excessive amounts of overtime and, if both spouses work, they can earn as much in total as one permanent regular employee can do. I envision that the emergence of such new class of workers could become the policy goal. In this sense, clarifying the status and the role of limited regular employees is most important.

**Kawaguchi Daiji:** Thank you very much for your observations. The merits of adopting the limited regular employee category are now much clearer to me. Given these merits, why has the rollout of this category stalled?

**Tsuru Kotaro:** According to a survey by the MHLW [Ministry of Health, Labor, and Welfare], roughly half of large firms have already introduced limited regular employees so the rollout is proceeding. However, those survey results reveal some peculiarities. For instance, only 10 to 20 percent of employees who answered "My employment status is limited regular employee" indicated that they had received written confirmation of that status as part of their initial labor contracts or work rules.

The problems that arise when hiring and firing people are extremely delicate ones. Surveyed companies were asked whether they treated

workers newly labeled as “regular employees” differently than workers in the older employee categories, and the data suggests that companies find it quite hard to do so. Roughly 70 percent answered, “We treat them the same way as the others.”

So I would like to emphasize that employers should make clarifications about the differences between the various categories of employment types when those new categories are created. Also, as I noted earlier, employers need to carefully look into what mix of employee types would be most advantageous for them.

**Sato Hiroki:** First, there is no need to amend the labor laws, but it is essential that each company has its own work rules regarding limited regular employees and has properly drafted, individual labor contracts. Providing some sort of models for these rules and contracts is important.

On another topic, because judicial precedents shape case law, we cannot confidently predict what will happen. Writing down 100% of work rules as formal regulations or a contract is no guarantee of legal protection. Personnel managers aren't risk takers; they're risk averse. Even a small amount of risk is enough to make them shy away. Personnel managers have been unable to innovate. “Is it risk-free? If not, we're not interested.” Changing this attitude is absolutely critical. I would further argue that lowering risk aversion is not enough, that the personnel system must be overhauled. “Accept risk.” A company can take on risk and still remain in compliance, follow the regulations and so forth. Risk averse personnel management must be changed, that is the key point.

**Alec R. Levenson:** First of all, I agree with most of what my colleagues here have said. I have some additional thoughts on two points—the development of general manager skills and the other is on creating opportunities for women. It's important to recognize there are certain things that the legal system can help promote, and there are certain things that have to happen through changes in company practices—both the formal and, more importantly, the informal practices.

One of the biggest challenges that companies have

is that if you take 100 college graduates that you hire in from your top universities, we can be completely certain that the future CEO, the future general managers, the future division managers will come from that group of college graduates. The problem is that, the chances that you can identify which person is going to be the right one is as bad as trying to predict the stock market. You only find out if someone can succeed by putting them into a new type of assignment, a stretch assignment, giving them an opportunity to succeed or to fail, and then giving them an opportunity to then direct their career accordingly.

[You need to] be careful about getting too restrictive and you need to provide a way so that, upon mutual consent of both the employee and the company, you can relax the restrictions, but also potentially go back as well.

The question I have concerns the challenge around promoting opportunities for women to succeed more in Japanese businesses, particularly in management. I think everything that has been said here has been accurate. I wanted to bring in some additional information about promotions. How do people actually prepare for careers? There is an enormous amount of information that gets transmitted informally. There is only so much that you can do to create formal policies around quotas, around affirmative action, around trying to promote work-life balance. The problem is there is an enormous amount of information that gets shared informally among people.

So this is one of the reasons why, for example, entrepreneurs often come from entrepreneurial families. So the problem becomes, who is doing the mentoring.

Now companies have recognized that mentoring is incredibly important for promoting careers, and that women tend to not be mentored because men socialize with men and women socialize with women, so they try to address this by sometimes introducing more formal mentoring programs. It's not the best solution. So one thing to do, for example, is the companies can think about rewarding managers for developing their female employees. If a manager is good at developing the female employees that work for him and they

get promoted to other positions, that could be part of the informal or formal reward mechanisms that you use for those managers.

**Tsuru Kotaro:** I could not agree more. While the new category of limited regular employees is being implemented, the issue requiring the most attention is how to ensure that employees of whatever type are not boxed in to a particular way of working. Companies need to be prepared for limited regular employees who think, "I may be a limited regular employee for a time, but soon I will become permanent again" and for permanent employees who expect to be switched to limited regular status.

What matters most in these situations is that different employment categories have to be priced appropriately. If labor costs are much lower for a given type of employee, companies will inevitably rely more on such workers and will be in no hurry to reclassify them. Disparities between employment types are acceptable, but the reasons for those disparities should be objective and rational. If a firm can create such a balanced and rational system, re-categorizing workers will go more smoothly.

**Kawaguchi Daiji:** Thank you. Just now, Prof. Levenson discussed ways of encouraging women's participation and underscored the importance of informal information sharing and mentoring junior colleagues. One real problem is the custom of after hours drinking with coworkers; men generally go drinking with other men and women with other women. This practice excludes women from a lot of informal information sharing. Some fear this information deficit makes it harder for women to advance their careers. Would the panel like to comment on this?

**Sato Hiroki:** To begin with, for men the practice of going drinking with the boss seems to be becoming less common. Subordinates may not show up when invited by their bosses. So the norms are changing quite a bit for men too. I believe that the time when conflicts were smoothed out ("I was angry earlier today, but that was just...") and advice dispensed over drinks is over. So if the ways employees—both male and female—are managed aren't changed, people will

be unable to function as managers.

Of course, I am not arguing that informal information sharing is unimportant, but the setting is changing. For instance, managers are now more likely to offer mentoring to women over lunch. Also, mentoring programs have been introduced in many places, so I believe that things are changing to a considerable degree.

**Tsuru Kotaro:** If you were working in an organization, after several years, after 10 years, getting a sense of how you are working, of how well you are performing in that organization, would be a top priority. If you don't have a clear idea of how you are doing, you would feel very uneasy despite doing satisfying work that you enjoy, at a high salary. After several years on the job, a mentor can tell you how your performance is trending. A mentor who gives no advice can still be a source of useful information. On the other hand, bosses these days are becoming less likely to offer career guidance to their workers than in the past. There is less trust today. As a result, workers' career prospects are hazier and their anxiety levels much higher.

**Kawaguchi Daiji:** Thank you. What's known as the Japanese style of employment has been alternately praised and disparaged over the years. Not surprisingly, changing economic conditions are at the root of these reassessments. Nevertheless, most economists believe that Japanese employment practices such as long-term employment, seniority based wages, and enterprise unions led to workers acquiring more skills and thereby helped to raise productivity. And so it seems that dismissing all of these practices as "irrational" is not truly justified. The persistence of Japanese style employment suggests that it continues to serve some rational purpose.

However, "classic" Japanese employment practices are now very difficult to sustain. There are two broad categories of response to this. First, as it has been made easier for new players to join in, the Japanese employment system can be completely reassessed. Second, a two-track system could be created. On one track, "traditional" employment practices would continue while a second track would be created for new players.

Which of these two options should Japanese firms be preparing for?

**Tsuru Kotaro:** That's a really big question. Today, we have distinguished guests such as Prof. Lazear and others who have made a name for themselves as leaders in personnel economics. If we use this opportunity to re-evaluate Japan's employment system once more, as economists we are likely to take pay-for-performance as our starting point. As I believe Prof. Lazear has pointed out, introducing pay-for-performance significantly raises productivity for certain occupations and businesses.

However, as Prof. Owan noted earlier, pay-for-performance systems do not always operate smoothly, and this is the point of departure for labor economists. Obstacles to pay-for-performance include the difficulty of evaluating outcomes, multitask/multiprincipal problems, and the high probability of bias. These shortcomings add to the appeal of relative ranking systems, especially the tournament model, as we saw in the discussion earlier today. When objective evaluations are tough to make, however, favoritism, flattery, and other distortions will still proliferate.

A company can control biases and influence costs with wage and HR policies developed as part of long-term implicit contracts. These policies can reduce opportunistic behavior by managers as have been discussed by labor economists. Seen in this light, Japan's system isn't all that bad. So what are its key features? For me, there are two points. First, build relationships based on reputations established over an extended period of time. The second is to create a wage system based on promotions. Doing so will limit opportunistic behavior.

However, thinking about Japan's employment system along these lines leads us to another issue. The long-term relationships I just mentioned are highly dependent on future discount factors and the estimates of future benefits that will accrue to all workers. This type of system requires an extremely patient workforce working in companies or economy that are growing at sufficiently high rates. If a company has many management posts, then many opportunities for internal promotion can be created.

In the past, Japan fit this description and met all of these conditions. Today, the Japanese people seem to have lost much of the patience they were once known for. The impression I have is that we are becoming a little short-sighted. This shrinking time horizon is, as I see it, a key factor.

**Sato Hiroki:** I think that systems for developing human capital will continue to be important for firms; their ability to compete depends on their workforce. Nevertheless, significant changes have to be made. One reason for this is that a college graduate is likely to work from age 22 to age 65 or 70. That's 43 to 48 years of work, a length of time made possible because people are staying healthy for longer than ever before. On the other hand, if we look at the lifespans of companies, they're growing shorter. Or, in order to survive, companies are restructuring and changing business models. Job contents they once asked their employees to do are also changing.

Business restructuring and adopting new business models give rise to new employment opportunities, but what kind of person is suited to this new environment? They'll need high aptitude and theorizing skills as employees will need to adapt to changes in job assignments with only on-the-job-training. Otherwise, the company cannot continue to employ them.

What about employees who don't want to do different work? For them, finding a new job will be a top priority. It seems to me that while companies are expecting workers to acquire new skills, some workers will switch firms in order to keep working in a particular capacity, and this makes reducing labor market frictions all the more important. In general, although there continue to be a substantial portion of workforce who expect to be employed by the same firm for a lifetime, I think the number of people who change careers or companies two or three times in life will inevitably increase.

**Alec Levenson:** In fact, the other part that companies have to make sure they take care of is accountability. You can give people the opportunity to succeed, but if they don't succeed you have to hold them accountable. And it does not just mean keeping them where they are. It could

mean demoting them. It could mean sending them to some place very different they don't want to work in, essentially encouraging them to quit. If the culture here can accept more lateral movement of people who are mid-career, then you can create much better use of the human resources you have.

**Owan Hideo:** I think the Japanese term *seishain* has connotations that its English language equivalents—"regular employee" or "permanent employee"—do not have. These hidden subtexts may make it difficult for someone outside of Japan to understand the intensity of our debate over employment categories. Japanese firms have operated through unwritten, but virtually iron-clad, tacit agreements and relational contracts.

Long-term implicit contracts became the norm in Japan for three reasons. First, when the economy was growing rapidly, employees had confidence that their firms would also grow. Second, firms created very homogeneous core workforce—male employees—managed by uniform personnel policies. Each cohort of new hires were all new graduates and treated as contestant pool for yearly decisions on promotions and transfers. The uniformity of this structure made the boundaries quite clear. There was no doubt about who was or wasn't included in the implicit contract. Third, HR departments had much greater authority than their counterparts in Europe or the US.

By "authority" I mean having the power to commit, to make a binding promise. In the US, a line manager can decide who to hire and who to promote, but while the company may back those decisions for a year, it's under no obligation to honor that manager's promises over the next ten or twenty years. In Japan, however, HR departments made commitments on behalf of the entire firm, which led to extremely robust implicit contracts.

These three foundations of relational contracts are now crumbling. Growth rates have fallen and the economic outlook is very uncertain. New employment categories and structures are emerging, making who is and who isn't party to a relational contract unclear. In today's discussion we heard that workers must be transferable between limited regular and permanent regular employment

categories to some degree. This mobility will make it more difficult to tell what implicit contracts apply to any particular group of workers.

In addition, it now seems apparent that centralizing HR decisions is not the best option. Stanford University's Masahiko Aoki suggested that, "Japanese organizations have decentralized decision-making, and to complement that they have centralized personnel administration." The dispersion of decision-making makes it necessary for a firm to systematically accumulate firm-specific human capital to meet its coordination needs. This necessity gave rise to centralized HR systems.

To put it into the terms of the Bartlett-Ghoshal typology mentioned earlier by Prof. Levenson, Japanese companies are global organizations, and centralizing personnel decisions fits with the global organization model. If Japanese firms want to become international, multinational or transnational firms, as defined in the typology, HR cannot remain centralized. It seems to me that the time has come for many personnel decisions to be transferred to business unit or division managers.

**Alec Levenson:** So the question is how we can get HR to be more of a strategic function. The problem today is that in every company around the world, no matter how big or small, people go into HR because they don't like the business. They like working with people. We need to have more people who work in the business to go into HR and take it on as a real profession, not just a rotational assignment.

We need to have greater expectations of people who come up through traditional HR careers—they have to understand the business. Because what I've seen is that, much more than the organization of HR, if you have people who can really understand the business and what drives performance, then you can figure out what is the right way to, say, give an employee greater flexibility because it's about output-based performance, not input-based performance. How much to use team training, how you bring groups together effectively—these are all things that HR often allows the business to have too much control over because they don't feel comfortable inserting themselves into the business decisions, and they have to get

more comfortable with doing that.

**Kawaguchi Daiji:** Finally, I would like to ask Prof. Lazear to share his thoughts about today's panel discussion with us, and I would also like to ask the professor to respond to two major questions that raised by our audience members. First, on performance pay. The panel was asked, "Why hasn't the introduction of performance pay in Japan gone more smoothly?" Would you mind sharing your thoughts on this question? The other question is, "HR management as taught in business schools is intended to benefit firms. Should HR instruction not also be designed to benefit workers?"

**Edward Lazear:** Thank you very much. I thought it would be best for me to listen to the panel so that I could learn from them about the Japanese institutions before speaking myself and I've learned a lot so thank you to my colleagues on the panel and I think it was quite useful. I'd actually like to end with three facts rather than giving you my opinion on a variety of issues. Let me try to put it in the context of some data and let you draw your own inferences. And this will speak to the questions that you raised.

The first fact is the following: if you look at turnover in virtually every country, and that includes Japan, the number of people who turn over every year is enormous, it's staggering. For the US, which has one of the higher turnover rates, 40 percent of the labor force each year turns over. Even in a country that has a restricted labor market, one that's rigid like France, 35 percent turn over every year. The reason that's important is that what it tells you is that in order to deal with an equilibrium structure for the labor force, you have to think about the new workers and not the old workers. There's almost no way to do anything that protects the old workers that will have implications for the future beyond a few years.

What that says is, when you're designing policies, you need to think about how those policies will be implemented at the stage of hiring and not at the stage of separation or promotion. So let me give you an example, and I don't want to use Japan again because I don't know enough about

Japan, but I do know a little bit about some of the other countries. Let me take France. France had a problem where, in the 1980s, like Spain, they instituted some very strong employment protection policies and made it very difficult for firms to lay off workers. And the goal in doing that was to protect employment, to keep employment high, thinking that if firms couldn't lay off workers, then there would be high employment. What they forgot was that firms hire workers every month and all the firms had to do was freeze hiring for one month and they could reduce the employment by 3 percent. Freeze for two months, you've reduced by 6 percent. So it doesn't take a lot of time for a firm to adjust its employment level simply by changing its hiring practices.

Well, after having done this, France decided that this is a big problem. We have a very rigid labor market, we have high employment. Spain had the same situation, it was discussed earlier, 20-25 percent unemployment rates. And so what they did to alleviate that problem was they brought in temporary labor contracts. Well what happened? Everybody got hired on a temporary basis and no one could get regular full-time jobs because the employers found it much cheaper to hire in temporary workers, it was cheaper than having to deal with the permanent system. So the lesson there I think is that when you're thinking about these things, you really should be thinking more in terms of the entire structure. What France should have done, rather than bringing in a temporary structure, was remove the impediments to the separation of the permanent workers, the things that caused the problem in the first place. Instead of doing that, they put in a patch that really wasn't very effective.

The second fact is this—we can't measure productivity very well when we look at workers in most jobs. So if you thought about what is the productivity of a university professor, who even knows if we're productive at all, but if you were trying to think about variations in productivity, it would be difficult to measure. You can measure the papers we write or perhaps our teaching ratings or something like that. But when you can measure productivity, even in these very mundane kinds of tasks like the windshield example I gave you at the beginning of the afternoon, the

variation in worker productivity is enormous, so the difference between the 90th percentile and the 10th percentile is 60 percent of the average productivity.

What that tells you is that by selecting workers appropriately, or failing to select workers appropriately, you have very dramatic effects on the productivity and costs of your firm. And there's simply no way to ignore that. That's a reality. And if that's true among the production workers, where the tasks are easy and well-defined, think about how variations are even more pronounced when we're talking about very high level managers who can either make the firm or completely destroy the firm by making a good or a bad decision. Whether we pay on the basis of performance or not, these productivity variations are very large, and if we don't deal with them in an effective way, it's going to cost us a great amount.

The third fact, and this speaks to the last question you raised—how about the workers? Does this help the workers, does it help the firm? ... Yesterday, at a talk at RIETI [Research Institute of Economy, Trade, and Industry], I looked at the correlation between worker compensation and worker productivity. I did this for the United States but I've done this for other countries as well—some European countries and a couple of countries, Israel, a few other countries. For all the countries

that I have examined, there is a very close correlation between productivity growth and wage growth. And the theory tells us that has to be true. But it's nice that you also happen to find that in the data.

What that means is that, if you don't have growing productivity in your economy, you're not going to have growing wages in your economy. That's simply the reality because there is nowhere to take those wages from in the long run. It has to be the case that productivity is going up in order for the standard of living of the typical worker to go up. So when we speak about raising productivity at the level of the firm, what we're really talking about is raising the standard of living of the average worker. And that's really the only way to do it. So the two are linked. This is not about raising the company profit at the expense of workers. What we're talking about in the long run is always raising the standard of living of the typical worker and the only way to do that is by raising productivity. And again, that's a fact that comes from the data. That's not something that's a theoretical concept.

**Kawaguchi Daiji:** We are grateful, Professor, for your thought-provoking discussion of the three facts you presented. And that brings today's panel discussion to a close.

# Questions and Answers with Visiting Professor

## Paul J. SCALISE



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### Q. How did you first learn about Shaken?

My research into Japan's agenda-setting and decision-making behavior first brought me to Shaken as a doctoral candidate in 2006-7. Having worked as a Tokyo-based securities analyst of Japanese electric power and gas companies for many years, I was intrigued by how the deregulatory fervor in the electric power and gas sectors soured rapidly in 1995-2007.

At the suggestion of Ann Waswo, a historian at the Nissan Institute of Japanese Studies in Oxford University, the ISS was my host institution when I conducted my fieldwork in Japan. I initially studied under business historian Takeo Kikkawa. Few researchers know as much about the history of the Japanese electric power industry as Professor Kikkawa. His emphasis on data and carefully detailed descriptions of changes in the industry eventually resulted in his winning the coveted Energy Forum Award for his work, *Nihon denryokugyō hatten no dainamizumu* (The dynamism of Japan's electric power industry development). Thanks to Professor Kikkawa, I was able to gain access to key players and acquire fundamental insights into the workings of the

energy sector in Japan.

The ISS Contemporary Japan Group invited me to speak about my research findings upon completion of my doctorate in 2009. Through the help of Professor Gregory Noble, I returned to Shaken in 2011 as a long-term JSPS Postdoctoral Fellow to conduct a separate case study on the waterworks industry in Japan.

### Q. What is the main purpose of your current visit?

My current visit is dedicated to understanding the agenda-setting and decision-making behavior surrounding the restructuring of the waterworks industry in Japan. Japan's waterworks industry is highly fragmented and inefficient. Unlike the electric power sector, which experienced a brief stint of restructuring, the waterworks industry exhibits increasing prices, falling profitability, and declining efficiencies. Yet few politicians and bureaucrats have initiated large-scale attempts to restructure it in recent decades. I want to understand this.

Like the electric power sector, which also had high prices, falling shareholder value, and deteriorating corporate profitability, the waterworks industry has high prices and corporate inefficiencies. Yet, despite its mounting operating and commercial challenges, and what was once a clear trend among Japanese politicians to follow other industrial democracies in the restructuring of electric power (a trend that had subsided by the early 2000s), political leaders have made virtually no calls for reforming the waterworks industry..

My research builds on a model developed by political scientists Frank Baumgartner and Bryan Jones to explain developments in these Japanese capital-intensive sectors. Through the power of media attention shifts, negative imagery, and perception, political actors come to view certain sectors as problems in need of solutions. Meanwhile, other sectors, such as waterworks, receive very little media scrutiny and hence very little bottom-up political pressure for change is generated

## Questions and Answers with Visiting Professor

despite similar economic difficulties.

### Q. What are your current research interests?

The bulk of my academic research over the past ten years has focused on a single, but daunting, question: What are the drivers of institutional change? One of the most frequent criticisms facing researchers of contemporary Japan is the evident gap separating theory and praxis. While the debates surrounding theoretical drivers of change preoccupy much of political science, market practitioners remain unsatisfied with the inability of social scientists to develop clear and practical models of agenda-setting and decision-making behavior that simultaneously explain the past and somewhat accurately predict the future.

As we look back over Japan's two "lost decades" leading up to the tragic events of March 2011, the assumption that external shocks such as natural disaster, war, and economic stagnation lead to institutional change reintroduced the importance of modeling. Institutional investors choose stocks based on corporate profitability forecasts, which in turn are based on expected managerial decisions and assumed future operating environments. Foreign corporations make business decisions in the Japanese market based on expected regulatory environments and the likelihood of capturing greater market share away from incumbent Japanese businesses. Government officials and civil actors face off against one another in a political chess game that requires each side to anticipate several moves ahead what the other side will likely do and the probable outcomes of such actions.

In the wake of the nuclear crisis at Fukushima Dai-ichi, the ability of some sectors to introduce restructuring such as electric power while others such as the waterworks do not is a puzzle worth exploring.

The conventional (journalistic) wisdom in Japan maintained that heavily regulated sectors suc-

cumb to "capture"—the idea first developed by George Stigler in the 1970s. Stigler argued that economic actors—large and small—come together in the political marketplace. The "supply" represented politicians and bureaucrats wishing to "sell" their services to the highest bidder in the form of favorable laws and regulations. The "demand" represented their respective primary constituencies looking to "buy" these services in the form of superior organization, information collecting, campaign cash contributions, and electoral votes. Because the assumption was that the regulated industry chooses to maximize its material self-interest, a captured sector should exhibit traits favorable to the industry.

Over time, I began to realize that the conventional wisdom regarding the political economy of electric power in Japan was fundamentally inadequate. Rather than an industry that had "captured" the regulators via cash contributions to political parties, and organized lobbying, I saw strong evidence of contradictions and inconsistencies in the sector leading to more questions. A new theory was needed.

Today, my research interests are primarily focused on comparative political economy with particular emphasis on the exploration of political attention shifts, media scrutiny, perception versus reality, and the so-called policy imagery of a sector's perceived problems.

### Q. What do you like about Shaken?

Shaken brings together an outstanding collection of scholars whose research interests are similar to my own. I was fortunate enough to enjoy several long hours with my mentor Greg Noble and other scholars, discussing the various puzzles in the restructuring agendas in Japan and abroad. Being in the heart of the University of Tokyo, Shaken also allows for researchers to benefit from its facilities while taking advantage of on-campus activities and lectures.

## ISS Contemporary Japan Group at the Institute of Social Science, The University of Tokyo

ISS Contemporary Japan Group seminar series provides English-speaking residents of the Tokyo area with an opportunity to hear cutting-edge research in social science and related policy issues, as well as a venue for researchers and professionals in or visiting Tokyo to present and receive knowledgeable feedback on their latest research projects. Seminars are open to everyone. Admission is free and advance registration is not required. For further information, please consult the CJG website: <http://web.iss.u-tokyo.ac.jp/cjg/>.



### Jason G. Karlin

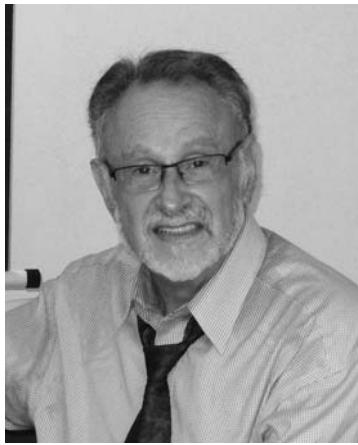
Associate Professor in the Interfaculty Initiative in Information Studies, University of Tokyo

#### *Precarious Consumption after 3.11 — Television, Charity, and the Semiotics of Tears*

The Japanese mainstream media's relentless promotion of idols after the triple disaster in Fukushima reflects the importance of consumption to Japan's precarious post-industrial economy. Rather than a sign of economic prosperity, the intensification of the idol industry in recent years, after a period of decline in the 1990s, is a product of Japan's unsustainable consumption-based media system, a system thrown into crisis by globalization and convergence.

In modern societies, institutionalized systems of risk, such as consumer markets, are highly unpredictable and unstable, since much of what we consume is defined more in terms of its exchange rather than its use value. Like all institutionalized risk cultures, consumer culture in Japan also engages in the reflexive monitoring of risk. Just as the Hollywood star system provided a guarantee, or promise, against loss on investment for the American film industry, idols offer immunity against instability because they regulate and ensure regular consumption in Japan's post-industrial society. For the media industry, idols colonize the future by dispersing risk into a more manageable system for regulating consumer desire.

This presentation will examine television advertising and the role of Japanese celebrities in charitable activities in the wake of 3.11. Through spectacles of mediated suffering, the Japanese mass media have sought to re-constitute audiences who have become cynical and disillusioned with its disposable, tabloid culture. Just as the distinctions between labor and leisure, paid and unpaid work, and production and consumption have disappeared, charity (*jizen*) and self-promotion (*gizen*) have also become indistinguishable in today's capitalist society. This analysis will reveal how the Japanese media are clinging to power through the "domestication" of suffering, sacrifice, and spectacle in the period after 3.11. In the process of national recovery, anachronistic appeals to traditional values of perseverance and sacrifice, which echoed the rhetoric of wartime conservation, have confronted the reality of a post-industrial economy that increasingly thrives on affective consumer economics.



### **Ellis S. Krauss**

*Abe's Political Challenges —Myths and Realities*

*Professor at the School of International Relations and Pacific Studies,  
University of California San Diego*

Why don't Japan's political and policy processes resemble those of the United Kingdom's "Westminster" system? After Koizumi's 2005 election victory, many expected that Japan would shortly move toward the Westminster model of relatively stable prime ministerial leadership and "top-down" policymaking. Instead, Japan cycled through six prime ministers who lasted less than a year in office. With Abe's and the LDP's great majorities in the 2012 House of Representatives and 2013 House of

Councilors elections, once again the hope, or fear, is that strong prime ministers and "top-down" policymaking are coming to Japan. But will that actually happen? Krauss will argue that the answers to these puzzles and questions are related: electoral and administrative reforms and Koizumi himself accomplished only part of what Japan needed to become a Westminster-style parliamentary democracy. Although Abe has some advantages previous prime ministers lacked, he confronts many of the same formal and informal institutional obstacles to "real" cabinet government that his predecessors faced.

### **Kenneth Mori McElwain**

*Assistant Professor of Political Science, University of Michigan*

*What's Different about Japan's Constitution?  
—Constitutional Adaptability in Comparative Perspective*



As the oldest un-amended constitution in the world, the Constitution of Japan (COJ) challenges conventional theories in two ways. First, most constitutions undergo periodic tinkering to remain relevant. Social preferences, political balances of power, and cultural norms all change over time, and a constitution's survival is correlated with its ability to adapt via amendments. Second, constitutions written under foreign occupations tend to have shorter lifespans. Imposed institutions and rights are more likely to be at odds with domestic priorities, especially when compared to constitutions that have been designed and ratified democratically.

I explore whether the COJ's immutability is linked to its "nature"—its contents and historical origin—using data from over 700 constitutions since the 18th century. My analysis will highlight one distinctive feature of the COJ: it is uncommonly vague about the structure and operation of government institutions. I argue that this vagueness—in contrast with the constitution's detailed enumeration of civil rights—gives political actors more leeway to alter institutions to match social needs or maximize partisan goals. In other words, the COJ has never been amended formally because its structure allows for "informal" adaptation via Supreme Court rulings or Diet legislation. I will also discuss ongoing amendment initiatives, and whether revisions being proposed today—particularly by the LDP—would make the COJ more "normal" in comparative context.

# Recent Publications by ISS and ISS Staff

池上彰（編）〔鈴木翔〕  
『先生！』  
(岩波新書) 2013年7月19日



丸川知雄（著）  
『現代中国経済』  
(有斐閣アルマ) 2013年7月25日

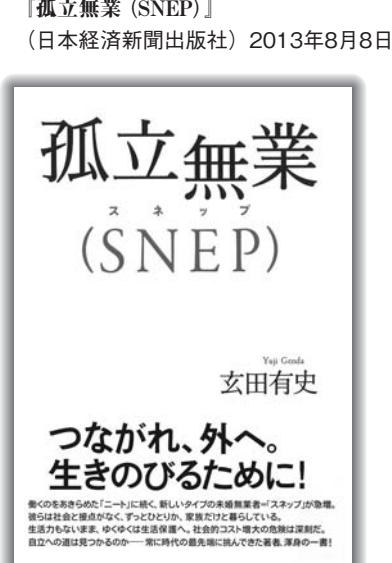


「世界の工場」の  
過去・現在・未来

東大社研 玄田有史（編）  
『希望学 あしたの向こうに  
希望の福井、福井の希望』  
(東京大学出版会) 2013年7月25日



宇野重規（著）  
『西洋政治思想史』  
(有斐閣アルマ) 2013年10月20日



つながれ、外へ。  
生きのびるために!

多くのをあきらめた「ニート」に続く、新しいタイプの未就業者―「スラップ」が急増。  
彼らは社会に疊点がなく、すとじどりか、家賃だけ暮らししている。  
生活力もいま、ゆくゆくは生活保護へ、社会的コスト増大の危険は深刻だ。  
自立への道は見つかるのか――常に時代の最先端に挑んできた著者、渾身の一書!

宇野重規（著）  
『民主主義のつくり方』  
(筑摩書房) 2013年10月15日



もう一つの  
可能性へ!

筑摩月刊  
第30号(本体価格1500円+税)



## Recent Publications by ISS and ISS Staff

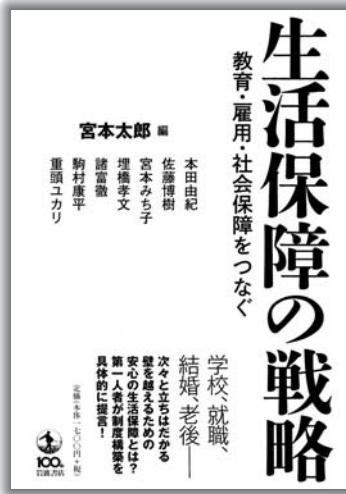
\*For more publications, please visit the ISS Homepage (<http://jww.iss.u-tokyo.ac.jp/>, <http://www.iss.u-tokyo.ac.jp/>).

宮本太郎（編） [佐藤博樹]

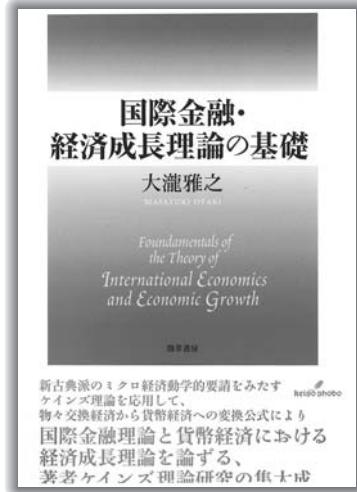
『生活保障の戦略

教育・雇用・社会保障をつなぐ』

（岩波書店）2013年10月30日



大瀧雅之（著）  
『国際金融・経済成長理論の基礎』  
(勁草書房) 2013年12月1日



北岡伸一（編） 大澤博明、畠野勇、  
朴延鎬、中澤俊輔、大前信也、鈴木多聞

『国際環境の変容と政軍関係』

（中央公論新社）2013年12月20日



ダルク研究会（編著） 南保輔、平井秀幸、  
中村英代、森一平、伊藤秀樹、相良翔、山下麻実  
『ダルクの日々 薬物依存者たちの生活と人生』  
(知玄舎) 2013年12月25日



「細いレールの上を歩いているひとの道が  
大通りとなるように、細いレールから落ち  
てしまったひとはレールに戻れるように。」  
多様で複雑な「回復」の道を歩み続ける、  
薬物依存者14名のライフヒストリー集

大沢真理（著）  
『生活保障のガバナンス  
ジェンダーとお金の流れで読み解く』  
(有斐閣) 2013年12月31日



# *Focus on ISS*

## Institute of Social Science Library

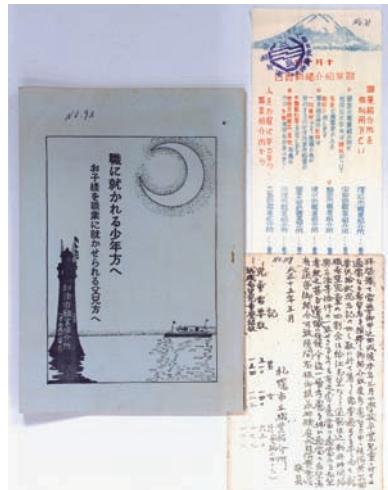
KOSHIHARA Iori and MITANI Meiko

The University of Tokyo's Institute of Social Science (ISS) collects materials related to the social sciences of law, politics, economics, labor studies, and sociology, preserves them in its library, and makes them available for use. In addition to well-known social science monographs and journals, we also have several special collections of rare primary and secondary materials. Beginning in this issue of the SSJ Newsletter, we will introduce some of our collections over four installments.

### Itoi Collection

The Itoi Collection offers rare insights into Japan's employment policies and labor market from the 1920s through the Pacific War. These materials were amassed by Itoi Kinji (1895-1959). Mr. Itoi was involved in employment agency administration from its beginnings in the 1920s. In 1955, his family donated the books, journals, and other literature he collected throughout his career.

The Itoi Collection is divided into primary documents, publications, and periodicals. Among the most valuable primary documents are internal documents from employment policy organizations—original sources that do not exist elsewhere. The publications include research reports, pamphlets, and collections of legal regulations related to social work and employment agencies published by prefectural governments. The periodicals consist of 125 different serials related to social work, social movements, and youth education that focus on employment policies. As very few reprints of publications related to employment agency administration exist, these periodicals are an extremely valuable part of the Itoi Collection.



### Labor Research Collection, 1946-1968

This collection comprises materials from 65 research projects conducted by ISS staff from 1946 to 1968. In 1970, a synopsis titled '戦後日本の労働調査' (Postwar labor surveys in Japan) is published.

For each of the 65 surveys, we divided the materials into "original research materials," such as questionnaires that were distributed and collected; "research findings," which include data analyses and researchers' notes; and "reports," which are the results of the research. In principle, "original research materials" are not available to the public.

Because original survey materials from the immediate postwar period are very rare, these materials are extremely valuable. At the same time these old materials, in particular the original questionnaires, are rapidly deteriorating. In response, some of the materials have been transferred to acid-free paper storage cases, while others have been preserved on microfilm. We will continue to carefully consider the best methods for future preservation of these rare and valuable materials.

### How to use the collections

To access these collections patrons must submit a 'request to use special collections' to obtain a permit from the library in advance. The collections may only be viewed or copied, however; they may not be borrowed. Furthermore, original source documents or fragile materials may only be photographed. Please consult the library for more information on how to use the materials: counter@iss.u-tokyo.ac.jp ([http://library.iss.u-tokyo.ac.jp/index\\_e.html](http://library.iss.u-tokyo.ac.jp/index_e.html))