Pay System Reform in Japan since 1991

5th European Reward Management Conference
December 10–11, 2015, Brussels, Belgium

Professor Dr. Koshi ENDO
Meiji University, Tokyo  endokosh@meiji.ac.jp
Job-based pay
Popular for every employee over the world, majority of pay systems
  Simple job-based pay
  Range-rate job-based pay employing a job evaluation scheme
  (= so called “Merit pay” in the US)
  Performance-related pay
  And so on …….

Person-based pay
Popular only for regular employees in Japan, minority of pay systems
  Nenko pay or Seniority-based pay (until the 1960s)
  Shokuno pay or Ability-based pay (since the 1970s)
Approaching to the state of range-rate job-based pay employing a job evaluation scheme, leaving from *shokuno* pay;

a) *Yakuwari* pay implemented for regular white-collar employees
b) Range-rate job-based pay employing a job valuation scheme recommended for regular blue-collar employees
c) My view: Approaching to the state of range-rate job-based pay employing a job evaluation scheme for non-regular employees
Insisted by pay consultants, journalists, and researchers in the 1990s.

Seikashugi pay means literally performance-related pay.

But, it was undefined and unclear what it was.

Some companies began to say it did not function well in the first decade of 21st century.
Supposed for regular white-collar employees
Recommendation by the Keidanren or Japan Business Federation since 2002.

Not a few companies implement it.

**EX. Yakuwari pay of Canon Co.**

Paying not only for job and but also for “duties” (=some degree of similarity to job-based pay)

Illustrated examples of “duties” in Canon Co.

a) Worker’s devotion to the company (Canon Co.)
b) More experienced workers teaching new and less experienced workers their jobs in the workplace (=Japanese OJT)
Range-rate job-based pay employing a job evaluation scheme for regular blue-collar employees

In contrast to the general view that employers continue to use shokuno pay for them
Unanimous answer at a basic level: Job-based pay

My answer at an in-depth level:
Approaching to the state of range-rate job-based pay employing a job evaluation scheme
Partial implementation of a job evaluation scheme.
EX. Job analysis and difficulty levels of each task at the fish dept. in supermarket stores of ECOS Co.
My answer:
Japan's 1960's system reaches a dead end

What is Japan's 1960's system?
Chart 1  Japan's 1960's system

Chart — Model of Japan’s 1960’s System

[Diagram showing the model of Japan's 1960's system with labels for Japanese employment practices, transfers for early retirement, simultaneous hiring of new graduates, student part-timers, and wife part-timers.]
Now, Japan's 1960's system reaches a dead end

Reasons:
1) It became difficult to maintain the long-term employment of numerous employees;
2) Long-term employment no longer benefited employers;
3) It became increasingly detrimental to fail to take advantage of the job abilities of women and non-Japanese employees;
4) Japan's 1960's system, which involved discrimination against women and non-regular employees, was unsustainable; and,
5) The male breadwinner family could no longer serve as the standard model in the face of further diversification of family structures in the future.
Substantial pay disparities between male and female employees and between regular employees and non-regular employees (See Chart 2)
Chart 2 - Annual Earnings from Work

An Answer of mine:
Introducing the concept of equal pay for work of equal value (EPWEV) to job evaluation scheme and achieving the principle of Equal Pay
A result of our pilot research, modeled on Britain’s NJC JES

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weight (%)</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
<th>Level 5</th>
<th>Level 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>6.0</td>
<td>12</td>
<td>24</td>
<td>36</td>
<td>48</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Burden</td>
<td>30.0</td>
<td>10.0</td>
<td>20</td>
<td>40</td>
<td>60</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>Mental Burden</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical Burden</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emotional Burden</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsibility</td>
<td>28.0</td>
<td>7.0</td>
<td>14</td>
<td>28</td>
<td>42</td>
<td>56</td>
<td>70</td>
</tr>
<tr>
<td>Responsibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge &amp; Skills</td>
<td>36.0</td>
<td>8.0</td>
<td>27</td>
<td>53</td>
<td>80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge &amp; Skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge &amp; Skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lowest Point</td>
<td>211</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highest Point</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

© Koshi ENDO, All rights reserved.
The contemporary pay system in Japan is approaching the state of a range-rate job-based pay system.

This change offers a basic condition for achieving the principle of Equal Pay in Japan.

It will be able to reduce the substantial pay disparities.