

Workers' Awareness at a Time of Change: Report on the Results of the "Survey on Career Design and Human Resource Management Evaluation in a New Era"

Summary

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Objective of Survey and Research

With the decline in the long-term employment practices and the spread of the performance-based wage system replacing the seniority-based wage system in recent years, the Japanese-style employment practices are beginning to significantly change. As a result of these changes, the system for collectively determining working conditions, which makes up the foundation of the personnel treatment system, is also forced to undergo reform, and labor-management relations are about to enter a period of a major change from collective labor relations to individualized labor relations. With the objective of collecting basic information on such questions as how rules should be to govern the new labor relations and how policy response should be to the new labor relations, the Japan Institute for Labour Policy and Training conducted, for the project research titled "Research on the Comprehensive Analysis of Corporate Management Strategies and Personnel Treatment Systems.," a questionnaire survey on the personnel officers of major domestic firms in November 2004 and another questionnaire survey on workers in March 2005 that was titled the "Survey on Career Design and Human Resource Management Evaluation in a New Era." Through these surveys, we tried to understand the actual situation regarding workers' awareness of the recent changes in employment, wages, and personnel treatment systems, changes in the workplace, changing corporate governance structures, etc.

Contents of the Report

The report is made up of four parts. In Part II: Analysis, which makes up the major part of this report, we have succeeded, by closely analyzing the data obtained from the questionnaire surveys, in highlighting various recent changes that suggest a new relation between firms and workers.

To be more specific, firstly, the relation between the company and worker is changing from long-term to short-term relation. As companies' long-term employment practices decline, there are workers who hope to build a long-term career within a single firm as before and continue working until the mandatory retirement age. On the other hand, a new type of workers is emerging, as typified by employees working at foreign-affiliated firms, who go from one company to another to better their careers. With respect to wages too, while the element of seniority is diminished or abolished, an emphasis is given to workers' performance, as the long-term relation between the company and worker collapses.

Secondly, as typified by performance-based human resource management, the personnel treatment system is undergoing a major change from uniform, equal management of the past to individualized management. As a consequence, there is now more weight on individualized labor relation that does not fit well with the system of collectively determining working conditions. The relation between the company and worker is changing from long-term to short-term and from the principle of equality to the principle of individuality. How are workers seeing these changes and is there a gap between the labor and management in their awareness? The report clarifies these questions.

The key points of Chapters 1 to 3 of Part II are shown below.

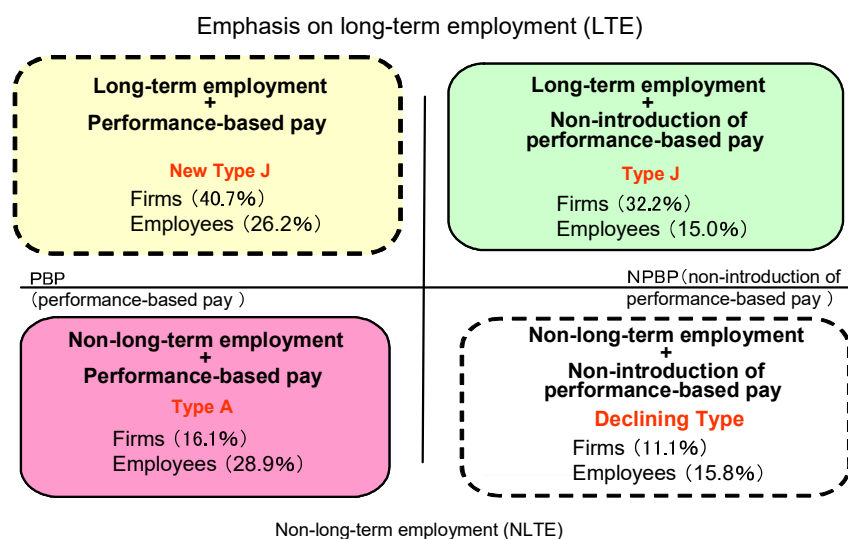
Chapter 1. Human resource management reform and employee behavior: gap in the awareness between the company and worker

[Gap in the awareness of the diversification of Japanese firms' HRM]

We categorized how Japanese firms' HRM (human resource management) would change based on two axes of one, an emphasis to long-term employment, and two, an emphasis to performance-based pay (see Figure 1). As a result, we were able to set four categories of (1) emphasis on long-term employment + non-introduction of performance-based pay, (2) emphasis on long-term employment + introduction of performance-based pay, (3) non-long-term employment + introduction of performance-based pay, and (4) non-long-term employment + non-introduction of

performance-based pay. (1) Emphasis on long-term employment + non-introduction of performance-based pay was widespread among large Japanese firms and other firms as the foundation of the Japanese-style employment practices. An important challenge is to find out whether firms will converge on (2) long-term employment + introduction of performance-based pay, which would mean bringing about a change through introduction of performance-based pay, or whether they will converge on (3) of the type observed among U.S. firms of introducing performance-based pay and abolishing long-term employment. The results of the analysis showed that (2) long-term employment + introduction of performance-based pay will result in better-performing workplaces, increasing workers' wages and job satisfaction, and increasing their trust in the company. In contrast, the pattern of (3) non-long-term employment + introduction of performance-based pay often seen among U.S. firms worked negatively on all of the abovementioned changes. From these results, (2) long-term employment + introduction of performance-based pay emerges as a strong candidate for the ideal HRM policy that Japanese firms should adopt in the future. However, there was a large gap between firms and employees in their awareness about these HRM policies, as shown in Figure 1. It was shown that firms' policies on employment and wages were not accurately communicated to workers. The existence of such a gap in awareness is expected not only to have a negative effect on workers' career formation and vocational development, but also to directly lead to the loss of competent workers who are valuable management resources for firms. It implies the importance of filling this gap through labor-management communication as a future challenge.

Figure 1. Gap in the Awareness between Firms and Employees on Diversification of Japanese Firms' HRM

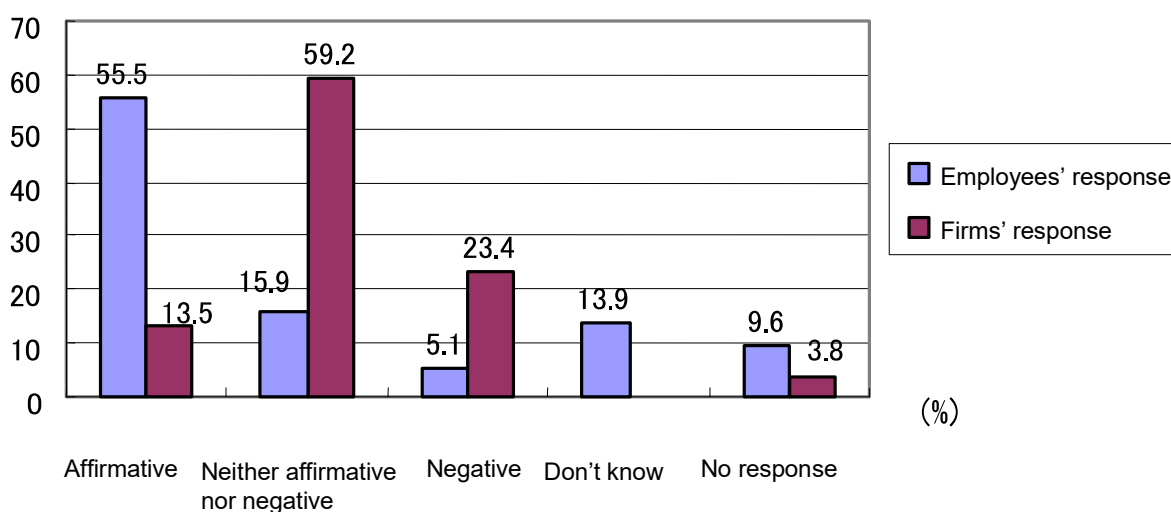


*For the employees' response, there was 7.0% who were not certain about the employment policy.

[Corporate governance: what are shareholders to workers?]

If we look at the gap in the awareness about corporate governance (see Figure 2), we find that whereas 55 percent of employees answered that they “affirm” to the question about “giving an emphasis to the interests of shareholders,” only 13 percent of firms gave the same response.

Figure 2. Gap in the Awareness about Corporate Governance: Emphasis on Shareholders' Interests and Value

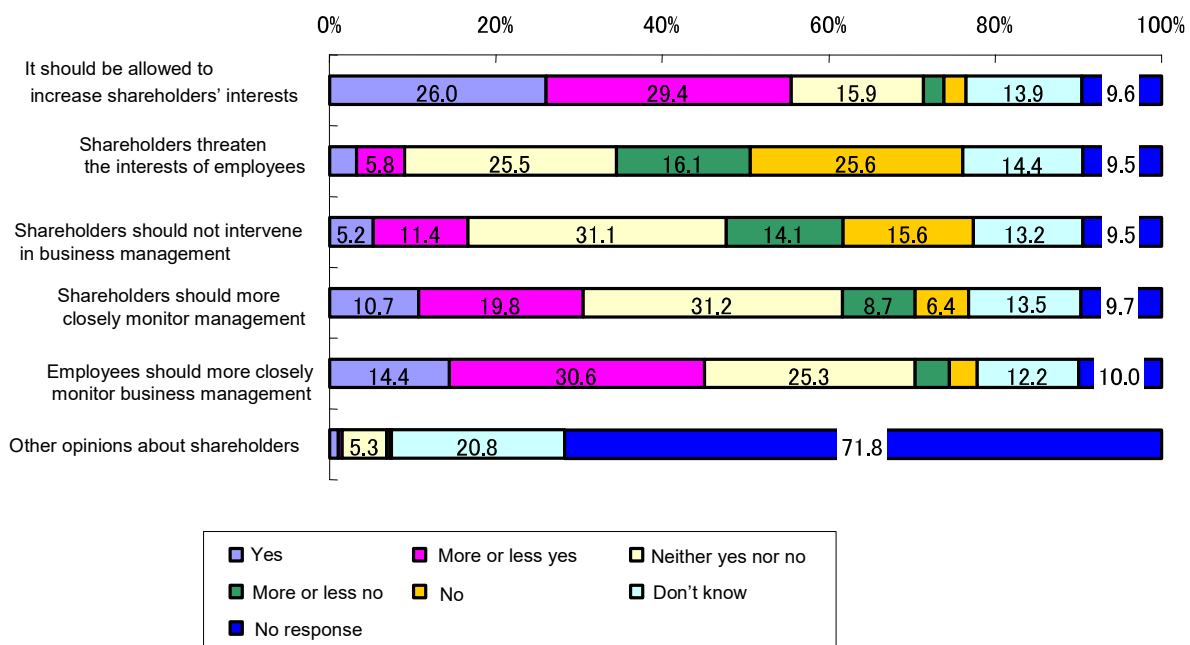


*In the employees' survey, we asked if they placed emphasis on the “interests of shareholders,” and in the firms' survey, we asked if they placed emphasis on shareholder value.

If we look at the workers' views on corporate governance in greater detail (see Figure 3), we find that (1) more than 50 percent approved of “allowing an increase in shareholders' interests” and (2) more than 40 percent thought that shareholders “did not threaten the interests of employees,” which show that employees view shareholders favorably. On the other hand, 45 percent thought that “employees should more closely monitor business management.” Having approved corporate governance that gives a high priority to shareholder interests, workers supported the view that employees should monitor business management more so than simply having shareholders monitor it. For employees, however, the objective of monitoring is to increase the company's value, whereas for shareholders, it is to increase shareholder value. Addressing this conflict is the most important challenge in corporate governance. At the same time, it implies the importance of examining the “shareholder-manager-workers” relations that go beyond the labor-management

relations of the past.

Figure 3. Workers' Views on Corporate Governance



Chapter 2. Changes in Human resource management and an increase in individual labor disputes

[Performance-based pay at the background of an increase in individual labor disputes]

Because performance-based human resource management gives rise to differences among individual workers with respect to performance rating and treatment, it is thought that it is more liable to lead to individual labor disputes. In Chapter 2, the object is to identify which elements of the performance-based human resource management are attributable to an increase in individual labor disputes. We set three hypotheses on the process through which introduction of performance-based pay generates complaints and dissatisfaction and ultimately becomes seeds of labor disputes, as follows:

- Hypothesis 1 Wage differential theory: Introduction of performance-based pay (1) increases wage differences and (2) causes dissatisfaction with the decreasing wages, which increases individual labor disputes.
- Hypothesis 2 Wage instability theory: Introduction of performance-based pay destabilizes wages, which generates uncertainty and dissatisfaction.

Hypothesis 3 Loss of vested interest theory: At firms that employ the practices of long-term employment, introduction of performance-based pay leads to curtailment or loss of vested interests of the seniority-based wages, which increases dissatisfaction and complaints.

[The wage differential theory was the most strongly supported theory]

As a result of the analysis, the most strongly supported theory was the wage differential theory. It was found that at firms where there were large wage differentials at the level of the section head, the probability of complaints being filed was statistically significantly high. In other words, it was implied that the increase in the wage differential itself, as a result of introduction of performance-based pay, probably leads to individual labor disputes.

To deal with these dissatisfaction and complaints, firms are implementing various measures to secure the understanding of workers. Based on what might be called the “three-piece set” of “the management by objective system,” “disclosure of performance rating to the appraised workers,” and “rater training” which should be implemented at the time of changing the rating system, we called firms that had adopted two or more of the three measures as “firms that had sufficient measures for gaining the understanding of workers,” and carried out an analysis by dividing the samples of firms that fit the description and that did not. As a result, we found that at firms where sufficient measures for gaining the understanding of workers had not been adopted, there was higher probability of complaints, and that wage differential led to a decline in the understanding about rating and wages.

[Expansion of the external labor market and an increase in individual labor disputes]

Besides the above three hypotheses, the expansion of the external labor market may be considered as one of the causes of individual labor disputes. If we were to stand on the discussion of the substitutability of voice and exit, it is expected that when a worker recognizes a substitutable employment opportunity in the labor market, the probability of the worker to voice dissatisfaction would decline. However, we can think of another hypothesis that when a worker is dissatisfied or has a complaint and in one case the worker is aware of another employment opportunity and in another case the worker is not, the worker is more likely to voice dissatisfaction in the latter case. This is because voicing of dissatisfaction or filing of a complaint is an extremely public event, and once it is declared, it often cannot be taken back. On the other hand, a worker who is aware of the possibility for employment in the external labor market has less of a risk in making the dissatisfaction public.

The results of the analysis show that when a firm encourages workers to be aware of

the external labor market and to raise their value in that market, the possibility of complaints rises. The moves made by firms in recent years to link wages to rates outside the firms or to adopt measures to have workers realize their value in the external labor market in an effort to instill in them a sense of independence are very likely, from the point of view of individual labor disputes, to have an effect on increasing such disputes. It implies, in considering labor policy, that there is a need to associate situations in the external labor market with an increase in individual labor disputes.

Chapter 3. Performance-based pay and workers' awareness: performance-based pay and placebo effect

[Gap in the awareness of companies and workers regarding performance-based pay]

There is a considerable gap between introduction of performance-based pay system as an objective fact and workers' awareness about its introduction in their companies. We extracted four types of awareness about performance-based pay based on introduction of the system as an objective fact and workers' awareness (see Figure 4), as follows: (1) recognized performance-based pay (performance-based pay has been introduced as an objective fact, and workers correctly recognize that), (2) placebo performance-based pay (even though performance-based pay has not been introduced as an objective fact, workers mistakenly believe that it has been), (3) stealth performance-based pay (even though performance-based pay has been introduced as an objective fact, workers mistakenly believe that it has not, and (4) recognized non-introduction of performance-based pay (performance-based pay has not been introduced as an objective fact, and workers correctly recognize that).

Figure 4. Type of Performance-Based Pay Based on Objective Fact and Workers' Awareness

		Workers' awareness (employees' survey)	
		Believe that performance-based pay has been introduced	Believe that it has not been introduced
Response of personnel officers (companies' survey)	Companies that have introduced the performance-based pay	(1) Recognized performance-based pay (n = 1,159)	(2) Stealth performance-based pay (n = 408)
	Companies that have not introduced the performance-based pay	(3) Placebo performance-based pay (n = 549)	(4) Recognized non-introduction of performance-based pay (n = 616)

*The figures in parentheses are number of employees.

[Type of awareness about performance-based pay and level of satisfaction with the overall work}

When we analyzed how the types of awareness about performance-based pay influence workers' level of satisfaction with the overall work, it was found that (1) the placebo performance-based pay works to raise the level of job satisfaction and (2) the stealth performance-based pay works lowers the level of job satisfaction. This means that when workers recognize that performance-based pay has been introduced even though it actually has not been introduced, it has the effect to increase workers' satisfaction with the overall work.

[Types of awareness about performance-based pay and corporate performance]

When we analyzed what effect the types of awareness about performance-based pay had on corporate performance (changes in net sales per employee between 1999 and 2004), we found that (1) the recognized performance-based pay and stealth performance-based pay had a positive influence on improving corporate performance and that (2) there was no statistically significant relation between the placebo performance-based pay and corporate performance. In other words, corporate performance improves when performance-based pay is introduced as an objective fact. On the other hand, when workers believe that performance-based pay has been introduced whereas in reality it has not, there is no effect on corporate performance. Therefore, in the sense that the placebo performance-based pay increases workers' level of satisfaction but has no relevance to corporate performance, it literally acts like a "placebo."

[Prevention of labor-management disputes and labor-management communication]

It was found that not only were companies' policies on human resource management not properly communicated to workers, but also there was significant misunderstanding about those policies. Regardless of whether performance-based pay is introduced, it is one of firms' social responsibilities to correctly communicate their human resource management policies and pay close attention to workers' physical and mental health. The results of analysis in Chapter 3 showed that the rate of occurrence of the placebo performance-based pay was reduced at firms where a labor union was organized and at the same time, where the top management placed an emphasis on communicating with the labor union and other representatives of the employees. Labor-management communication is expected to play a major role in checking individual labor disputes that may result from the spread of performance-based pay in the future.

Structure of the Report

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