

Wage System Reform in Japan: From Seniority to Performance

KIM Sam-soo*

Abstract | The seniority wage is a pivotal personnel system in the Japanese employment practices, alongside long-term employment and enterprise unionism. In the early 1990s, after the collapse of the bubble economy and as the recession lengthened, Japanese companies adopted performance-based personnel systems. Changes in the wage system under the slogan of “transition from seniority to performance” created a wage system for “work” (*shigoto*), a role-based or job-based rather than “job competence” wage. According to government statistics, as of 2012, around sixty percent of large enterprises with 1,000 or more employees had introduced “achievement and performance” as determinant factors of base salaries. The proportion of companies that base salaries on such factors as job or role is now around seventy percent. The purpose of this paper is to investigate the changes and characteristics of the wage system caused by the introduction of an American-style performance-based personnel and wage system. To this end, I examine the background of its introduction and aspects of development of the performance-based personnel and wage system, and show how they have formed a new internal rank system based on results. The establishment and characteristics of pay for accountability (role-based pay) as a new wage system to replace the job competence wage are discussed, giving special attention to the Japanese-style division of labor within the workplace.

Keywords | pay for performance, management by objective (MBO), pay for accountability, pay for job, pay for job competence

Introduction

As a long recession followed the collapse of the economic bubble in the early 1990s, Japanese companies experienced great changes in the country's employment system, which had provided the backbone of Japanese management. The practice of long-term employment weakened as the number of part-time employees increased, and under the slogan of “transition from seniority to

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performance,” performance-based personnel and wage systems such as achievement-based pay and management by objective (MBO) were introduced, with American-style performance-based pay as their model.

According to the government statistics, as of 2012, about sixty percent of large companies with more than 1,000 employees had introduced “achievement and performance” as determining factors of base salaries. In addition to the introduction of performance-based wages, the proportion of companies that made the “content of work” (*shigoto*) a determining factor instead of “job competence” also increased. As of 2012, about seventy percent of companies based salaries on the content of work in certain jobs or trades (*Kōsei Rōdōshō*, annually).

Much academic and field research has been conducted on the performance-based system used by Japanese companies. In this paper, I focus on Miyamoto Mitsuharu et al. (2007), Kinoshita Takeo (1999), and Ishida Mitsuo (2006). The study by Miyamoto Mitsuharu et al. argued that “the introduction of the performance-based system does not mean the end of the job competence qualification system,” based on study results showing that many companies were adopting both systems. It highlighted the fact that the wage system, which enables the formation of ability and motivates through performance-based pay, did not lead to achievement if ability were insufficient. This is a representative view that grasps the influence of the performance-based system alongside pay for job competence.

In contrast, Kinoshita (1999) notes that the introduction of the performance-based system has made it inevitable that evaluation criteria of an employee shift from “seniority” to “work.” The evaluation is based on “job, job category, post, role, etc.,” or the work of which an employee is actually in charge. The job competence qualification system that assesses job execution ability is merely “a combination of seniority-based system and meritocracy.” It argues that job competence pay, designed originally to reflect the characteristics of seniority, was bound to collapse with the introduction of the performance-based system.

Ishida (2006) occupies an intermediate position between the two abovementioned studies at each end of the spectrum. Ishida notes in particular the introduction of pay for accountability (accountability-based pay, or role-based pay) as a new wage system emergent due to the spread of the performance-based emphasis in the market and among corporations. The transition from job competence pay to pay for accountability, while maintaining the market’s importance, is recognized as a key aspect of the Japanese-style performance-based system.

Ishida’s study suggests key research subjects and issues for studies of the

wage system and characteristics of Japan in the current era in that it explicitly grants the “person-standard” pay for accountability an alternative to job competence pay. However, in the study, the reality of the division of labor in the workplace, which is a factor that sustains the personnel and wage system in Japan based on the attributes of individuals, is not explained in detail. An additional problem is that there is no review of the limits of pay for accountability as a person-based wage. It is necessary to examine those limitations as well as the significance of pay for accountability as a new wage system.

In contrast stand key Korean studies on the Japanese performance-based wage system, including Pak U-söng et al. (2016), Kim Chöng-han and Kim Tong-bae (2011), Kim Chöng-han (2008), and Kim Tong-bae (2008). These studies point to the fact that the performance-based personnel system in Japan has evolved beyond the performance-based annual salary system to a work and job/accountability-based salary system. However, there is insufficient review of the content and character of accountability-based pay as a wage created during the introduction of the performance-based system. In particular, it is overlooked that the accountability of work in the Japanese workplace can be grasped only using a person-based standard, as the accountability-based pay is classified as job-based pay linked to a work standard. Meanwhile, Kim Hwan-il’s (2012) study discusses historical changes in the Japanese wage system, but its analysis of the effects of the performance-based wage lacks detail.

The purpose of this paper is to investigate the changes and characteristics of the wage system brought about by the introduction of the performance-based system within Japanese companies. To this end, I look at the introduction, background, and development of the performance-based personnel and wage system, and examine the way in which it has shaped the new internal ranking system based on work. Given its position as a new wage system replacing skills-based pay, I analyze the formation and characteristics of accountability-based pay by focusing on the Japanese style division of labor in the workplace. The conclusion summarizes the characteristics of wage system reform, focusing on facts revealed through analysis of changes in wage system, suggests implications for Korean wage system reform, and predicts wage system development among Japanese companies in the future. Research subjects are limited to full-time employees of large corporations in which Japanese employment practices are most consistently applied, because this study is concerned to explain changes in Japanese employment practices and wage systems.

In this paper, to clarify the nature of Japanese wage system related to work or jobs, these concepts are clearly distinguished from the concept of the job in Europe and America. In Japan, “*shigoto*” is a common term used extensively to

describe work, labor, occupation, achievements, and duties. The concept of the job that is commonly used in Japan is also vague. It is a different concept from that of the job in the West, which is defined as “split work” with clear boundaries (Tsuda 1995, 71-89). As shown by leading Japanese labor economist Koike Kazuo (2005), the term “work” or “job” is not distinguished from its counterpart in Europe or America, not only in practical research, but also in most academic studies. The purpose of this paper is to analyze the changes and characteristics of the Japanese wage system by using the term “job” or “Japanese-style job” for the ambiguously defined concept of work (*shigoto*) to separate it from the Western concept of the job.

The Wage System before the Change: Job Competence Pay and the Japanese-style Division of Work

1. Job Competence Pay as a Personal Attribute-based Wage

1) Seniority Wage

The wage system is a standard for allocating the total sum of wages paid to employees and consists of various wage items. The core of the wage system is the base salary. The base salary system is generally divided into job-based wages and personal attribute-based wages. The pay for a job, which determines the value of a job based on a job analysis system that consists of job analysis, classification, and evaluation, is a representative type of job-based wage. In contrast, a personal attribute-based wage determines pay based on the attributes of employees, such as age, years of service, education, and gender.

The seniority wage, which became dominant in Japanese conglomerates after World War II, is a typical attribute-based wage. In the seniority wage, remuneration is essentially set on a personal basis and a certain work is assigned to the person (person = wage [*chingin*] ← work [*shigoto*]). In the 1950s, the seniority wage was institutionalized in the form of a wage system with regular pay raises based on personnel evaluations. Personnel evaluations were not based on jobs, but took the form of assessing employees' traits (Endō 2005, 134-35). The seniority wage became a major axis of the Japanese employment system, alongside long-term employment and enterprise unionism during the country's high-growth period from the mid-1950s. It was the “male breadwinner household wage,” which had a living wage-like character in that it increased with age or years of service.

2) Job Competence Pay

In the 1970s, as the working population aged and Japan's high economic growth rate slowed, the seniority wage morphed into job competence pay, a wage system based on the job competence qualification system as part of meritocracy management. Historically, it was established as an alternative wage system amid frustration with the attempt to introduce job-based pay under the slogan "modernization of the wage system" (Ishida 1985a, 1985b).

In job surveys for setting job competence qualification levels, ability requirements necessary for the job (shared work) were examined. The required abilities were classified by types of job and levels of difficulty, and the difficulty levels were divided into several classes to create common ability requirements (job competence qualification standards) for each class across job differences. Job competence pay was determined based on job competence qualification levels. In the job competence qualification system, the qualification level and position were linked, but not in a one-to-one corresponding relationship. Qualification level promotions (*shōkaku*) and position promotions (*shōshin*) were separated. The evaluation factors for individual ability were: (1) performance (an evaluation of actual work); (2) attitude (*jōgi kōka*: an evaluation of attitude, motivation, personality, etc.); and (3) ability (an evaluation of current and potential ability for work).¹

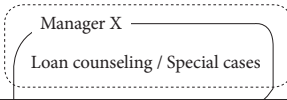
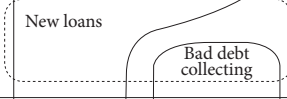
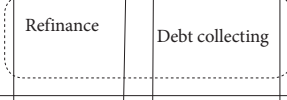
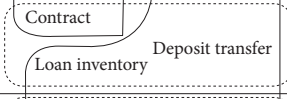
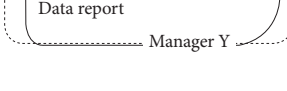
The job competence system was the most widespread wage arrangement among Japanese private corporations from around the 1970s to the early 1990s. However, the introduction of job competence pay did not mean that the seniority wage was completely replaced. In many enterprises, age-based pay features were established in addition to job competence pay.

2. The Japanese-Style Split and Job Competence Pay

Jobs in Europe and America, where job-based wages are generalized, are defined as "split work" objectively suitable for an individual as derived from job analysis. An employee is assigned to a defined job and is responsible for specific tasks. A job (split work) usually consists of multiple units of work, and unit work consists of multiple tasks (Tsuda 1995, 80-81).

Figure 1 shows the relationship between the work (tasks) and the "split work" customary in the Japanese workplace. In Japanese corporations, split

1. For the job competence qualification system and the job competence pay, refer to Chung Jin Sung, Son Il-sōn, and Kim Sam-soo (2004, 93-96) and Chung Jin Sung, Yeo Inman, and Sōn Chae-wōn (2012, 130-34).

Job classification	Split work in charge	Job competence: qualification
E Sales manager		Sales manager: grade V
D Class a sales		Class 1 sales: grade IV
C Class b sales		Class 2 sales: grade III
B Class a admin		Class 1 admin: grade II
A Class b admin		Class 2 admin: grade I

Note: A to E on the left indicate job class. The dotted line shows the job, and the solid line shows the assigned tasks of the two employees in charge (X and Y).

Source: Tsuda (1995, 86).

Figure 1. The relationship between work and job

work assigned to employees is work (tasks) that spans multiple job classes. It differs from the pay for jobs in the West, in which assigned work consists of multiple tasks belonging to just one class of job. For example, employee X is responsible not only for sales work (a task) that covers job classes from C to E, but also for Class a administrative tasks (job class B), even though he or she is in charge of sales management (qualification grade V) according to a job competence classification. Employee Y is in charge of Class 2 administrative work (qualification grade I) according to the job competence classification, but in reality, he or she is in charge of tasks that cover Class a and b administrative work (job class B and A, respectively) according to the job class, as well as Class b and a sales work (job class C and D, respectively). In European or American companies, employee X in charge will carry out only the tasks belonging to job class E, so he or she will refuse any work in job class D or below. By contrast, employee Y, in charge, will ask for a change to a Class a sales job (job class D).

In Japanese corporations, each employee's actual split work is usually

described as work, a job, or a Japanese-style job. It is a concept that is essentially different from the job in the West. The heads of divisions flexibly determine the division of labor for employees, taking into account the ability of individual employees to perform those tasks. Due to the practice of split work in Japanese-style jobs with ambiguous boundaries, the attribute-based personnel and wage systems were formed. In this respect, job competence pay is the same type of wage as seniority-based pay (ability [*nōryoku*]-person = wage [*chingin*] → work [*shigoto*]).

As such, it is an important characteristic of Japanese corporations that the division of work is performed in terms of tasks, regardless of the actual job. Job surveys to establish job competence qualification requirements are in fact task analyses rather than job analyses. There is essentially no concept of "the job" in job competence pay. Because the job is not specified, ability, inclusive of potential ability, is measured, and a related wage is paid for it.

In the job competence qualification system, it is important to nurture and evaluate job execution abilities. According to Koike (2005), the core of Japanese business management lies in "the formation of ability through work," and the treatment system for facilitating the formation of ability is job competence pay. The flexibility of the division of work and placement promotes skill formation while ensuring functional flexibility. Job competence pay, which focuses on the ability or motivation of employees providing labor, is a supply-oriented wage system that results in value added from increases in ability, and it is sustainable under the assumption that a growing market will evaluate this connection (Imano 1998, 83-87).

The Introduction of Pay for Performance and Changes in the Wage System

1. The Introduction of Pay for Performance

In the early 1990s, when the bubble economy collapsed and the downturn continued for a lengthy period, globalization of the economy advanced, leading to intensified competition among companies worldwide. Japanese companies faced extremely low profits amid pressure from US businesses, which were growing around IT, and Chinese enterprises, which leveraged low labor costs. Japanese corporate management faced a huge burden of labor costs, and recognized that supply-oriented job competence pay had the characteristics of the seniority wage. Institutional reforms proceeded under the banner of a

performance-based system in order to modify seniority wages against the backdrop of structural changes that accompanied the aging of employees (Kuroda 2008, 93-95).

What is the reason that job competence pay was introduced to overcome seniority-based pay and became the seniority wage? There are two factors giving job competence pay the characteristics of seniority: the nature of the job competence qualification system itself, and the seniority-based operation of the system (Iwade 2010, 81; Miyamoto 2009, 31).

First, the fact that the job competence qualification system was based on the qualification criteria of the ability (potential ability), which is an attribute of an employee, the separation of position promotions and qualification-level promotions (*shōkaku*), and the minimum (standard) number of years of service for qualification promotions were factors of the seniority nature of the system itself. These factors can be said to have been designed based on conventional Japanese-style employment in that regular pay raises (*shōkyū*) were possible due to the advancement of seniority.

Second, personnel evaluation, which is the core of the operation of the job competence qualification system, was essentially an ability assessment, as an evaluation of job execution ability, and it was also inevitably an experience evaluation. The promotion of internal qualifications was also likely to be an experience evaluation because the minimum period of stay and service was set and considered. Specifically, the evaluation criteria that were actually important in individual evaluations were attributes and ability. The ability evaluation focused on potential ability rather than current ability. In essence, it was bound to be a seniority evaluation, and regular pay raises based on personnel evaluations were prone to becoming automatic pay increases.

As a result, before the introduction of the performance-based system, Japanese companies had already lost the job competence qualification system, and job competence pay virtually became seniority-based pay. The burden of labor costs that resulted became the most important background for the introduction of the performance-based system. A major weakening of labor unions enabled the introduction of performance-based pay without opposition.

Performance-based personnel management can be defined as “a personnel system that reflects visible output (performance) more than input, such as ability or effort reflected in personnel evaluations or treatment, to enlarge the differences in evaluations and to enhance the motivation of the employees (especially outstanding performers).” Performance-based pay is a reward system utilized under performance-based personnel systems (Umezaki and Keizer 2016, 2). In the US, pay for performance was introduced to determine wages

according to assessments of individual achievements on the premise of job-based wages. MBO was permitted in achievement evaluations (Kinoshita 1999, 80-90).

The performance-based pay system that was introduced at Fujitsu in 1993 led to wage reforms at leading companies such as Takeda Pharmaceutical Company (Takeda Yakuhin Kōgyō) and Kao corporation in the late 1990s. In the first half of the 2000s, as the economic recession became prolonged, performance-based wages were introduced actively at large corporations with the aim of reducing labor costs or making them into variable costs to revive businesses (Yamamoto 2006, 63-66).

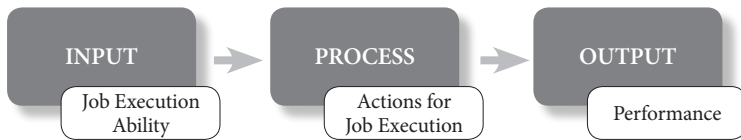
In Japan, performance-based pay was introduced at the individual enterprise level based on the existing attribute-based wage system (job competence pay). Although it was not clearly defined in advance, there were many cases in which performance evaluation (achievement assessment) and MBO were used as they were based on the model of performance-based pay from the US. In addition, reductions in, or terminations of, age-based pay were implemented.

Initially, performance evaluations were introduced primarily in the form of annual salaries. The annual salary system was introduced in the early 1990s for management positions at many companies including Fujisawa Pharmaceuticals, Tokyo Gas, and Honda, as a pioneering measure of performance-based pay. The salary consists of base salary and performance salary. The performance salary that can be called performance-based pay is increased or reduced according to annual achievement evaluations. Revisions of seniority-based wages were sought with performance salaries (performance-based pay) that changed annually. A fairer and more convincing evaluation system was required with the introduction of the annual salary system, and MBO was introduced to meet this objective (Arakawa 2005, 15-17).

2. Changes in the Wage System

1) Formation of the Wage System Based on the Japanese-Style Job

In MBO management, a person and his or her supervisor meet at the beginning of the year to set targets for the year in advance, and after the end of the year, a performance evaluation is carried out on the basis of the achievement of objectives, determined through another interview. In Japan, problems arose because MBO evaluations were introduced based on the job competence pay of employees' attribute standards. Unlike in the case of US job-based pay, it was difficult to set the objectives themselves because job descriptions were not clearly defined. In the objective-setting process, the disparity between the



Source: Suda (2016, 29).

Figure 2. The relationship between job performance, job, and performance

qualification grade and the job level which were inherent in the job competence qualification system became apparent. It was a reversal of treatment and job level, meaning the objectives of an employee with a higher job competence qualification were set lower than those of a lower-grade employee.

With the introduction of MBO, as it was impossible for job competence pay to coexist with the performance-based system, many companies in Japan adopted an internal ranking system based on jobs (work: *shigoto*) instead of the job competence qualification system. Figure 2 shows the relationships among job execution ability, job, and performance. Job execution ability is identified as an input in terms of human requirements to carry out a job, and performance is determined by output. There is a process for performing a job between those two aspects, and it is the job that defines the content of that process. Regarding results or outcomes as performance, it is clear that they have closer relationships with the jobs that define the processes rather than the job execution ability as an input. In this sense, a job can be a reasonable indicator of performance (Suda 2016, 29-39; Umezaki and Keizer 2016).

It can be said that there is a logical inevitability in setting jobs as the standard for performance-based wages. In response to this necessity, the wage system created in Japanese companies is Japanese-style job-based wages such as accountability-based (role-based) or job-based pay. In a pioneering case, Fujitsu introduced the MBO system and an annual salary system at the managerial level in 1993; however, the incentive was distorted and teamwork was hindered afterwards due to self-determined and low-level objective setting. In response to this, position-based pay (a type of job-based pay) was introduced, while performance evaluations were improved to assess actions leading to performance and current ability, not simply short-term performance (Jō 2004; Yasuda 2007). According to Endō (2016, 31-32), Japan's representative labor use organization, the Japanese Federation of Employers' Associations (Nihon Keizai Dantai Rengōkai), proposed the introduction of accountability-based pay or job-based pay (range rate) as an alternative to job competence pay in 2002.

2) *The Types and Reality of Wage System Change*

Changes in the wage system since the introduction of performance-based personnel policies vary among companies, but can be broadly classified into the following three types.²

- A. Strengthening the performance-based element while maintaining the job competence qualification system.
- B. Basing the accountability ranking system on the scale of the accountability (or position) that an individual is responsible for, and establishing the pay for accountability (role-based pay) as the new base pay according to the scale of accountability.
- C. Converting the criteria for classification into a job title to determine base pay based on the value of the job (job score) (job-based pay = Japanese-style job-based pay).

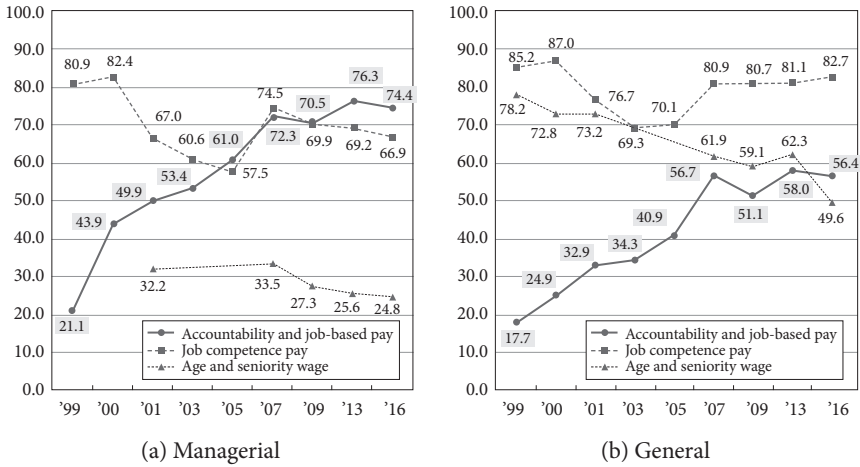
Type A is not a new wage system because it strengthens job competence pay as a wage of ability. It diminishes the seniority element of wages, tightens assessment, restrains automatic pay raises, or introduces performance-based pay (achievement-based pay) into bonuses, thereby widening the gap among individuals and divisions. This type of arrangement was mainly implemented when the bubble economy sentiment lingered in the early 1990s, which was the initial phase of the introduction of performance-based system. However, as the economic recession continued, the business environment deteriorated considerably from 1998, and not merely the strengthening of the ability-based system, but rather the end of the ability-based system was discussed. Among these, an alternative wage system based on jobs was sought (Kinoshita 1999, 123).

The newly formed wage systems through the introduction of performance-based systems are Types B and C. It is the main achievement of the performance-based wage that a new wage system was formed based on the accountability (role) or job of which an employee is in charge, not the individual ability, to overcome the seniority-based system.

According to a survey conducted by the Japan Productivity Center (Nihon Seisensei Honbu), changes in the wage system among Japanese companies are shown in figure 3. In the survey, accountability and job-based pay are not divided by type. Overall, rapid changes were made until 2007, and the model has been stable since.

First, in terms of managerial positions, the introduction rate of accountability and job-based pay in 2016 was the highest, at 74.4 percent. The rate of

2. A summary of Nakashima (2008) and Ishida (2006).



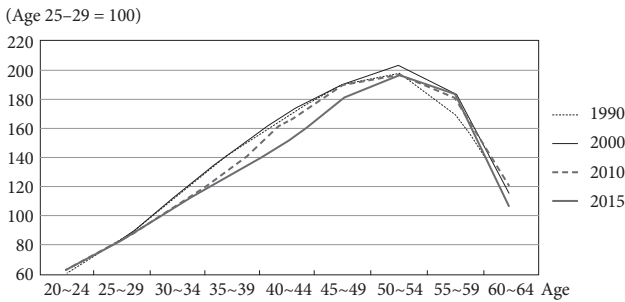
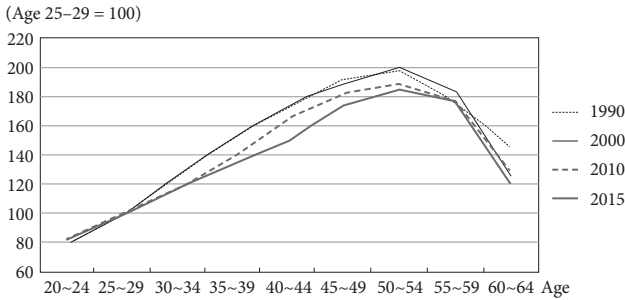
Source: Nihon Seisansei Honbu (2016, 16).

Figure 3. The introduction of the wage system

increase remained steady until 2007, when it reached 72.3 percent, showing a constant rate of more than seventy percent since then as a new wage system. In 2016, the introduction rate of job competence pay was 66.9 percent. In the 2007 survey, the figure was 74.5 percent, which has since dropped to less than seventy percent. Conversely, age and service-based pay (seniority wage) fell from 33.5 percent in 2007 to less than thirty percent in later years, reaching 24.8 percent in the 2016 survey.

Next, considering general (non-managerial) jobs, the introduction rate of job competence pay has been stable at around eighty percent recently. In 2016, it was 82.7 percent. The introduction rate of accountability and job-based pay rapidly increased in the 2000s and reached 56.7 percent in 2007. It then moved toward the high-fifty percent range, and it was 56.4 percent in 2016. Meanwhile, the introduction rate of age and service-based pay declined quite consistently during the survey period. In the 2016 survey, it was just 49.6 percent.

As shown above, accountability and job-based pay is becoming entrenched in management positions that had the highest introduction rates already at the end of the 2000s. In the case of general positions, the introduction rate is moving steadily in the high-fifty percent range and is becoming an influential wage system in addition to job competence pay.



Note: The upper figure is male and female, and the lower figure is male.
 Source: Rōdō Seisaku Kenkyū-Kenshū Kikō (2017, 43).

Figure 4. Age-wage trend curve (male: large enterprise with more than 1,000 employees)

3. Reduction of the Wage Gap among Age Groups

Figure 4 shows the age-wage trend curve for a 1,000-employee enterprise in which seniority wages are typical. The upper figure is the curve for male and female employees, and the lower figure is the curve for males. The index is based on the size of the scheduled wage in age groups with the amount earned by the twenty-five-to-twenty-nine-year-old age group as 100. There is no change in that the peak is in the fifty-to-fifty-four-year-old age group, but the rate of increase slows as it approaches the peak age group. Compared with 1990 and 2000, the wage gap among age groups was narrowing in 2010 and 2015 as the rate of increase falls in the broad age range of thirties and fifties. It can be said that the degree of seniority has decreased. Although the figure is not detailed, the reduced degree of seniority can be found in the age-wage curve and the service-wage curve for education levels as both bachelor's degree or higher and high school graduates show a smaller increase. In the case of bachelor's degree

holders or higher, the gap is remarkably reduced (Rōdō Seisaku Kenkyū-Kenshū Kikō 2017, 45-47).³

The Pay for Accountability System and Its Key Features

1. The Accountability Ranking System and Accountability Evaluation

The accountability ranking system is an internal ranking arrangement that classifies employees' ratings based on the jobs and scale of accountability (split work) for which each individual employee is responsible within a business organization. The accomplishment (achievement) of goals set according to the accountability (*yakuwari*: role) is reflected in the treatment. MBO is used in personnel evaluations.⁴

Table 1 compares the main content of the accountability ranking system with the job class system. In the accountability ranking system, roles are identified as role responsibilities (performance responsibilities) that are primarily required for positions by examining the assigned tasks (split work) for each position, such as a director or a manager. It does not involve a job analysis procedure, as such. Role responsibilities are set out in such a way that each employee has to accomplish a certain level of business performance (value added), and each individual's role is defined in the form of a general role. A "role statement" is created for each position.

It is important to note that the core concept of accountability (role) is based on the same premise of split of work as that in the conventional job competence pay system. Nevertheless, split work straddling multiple job classes is assigned to individual employees at the task level. Therefore, although the accountability ranking system takes the form of determining roles based on the work (*shigoto*) or job involved, it is actually based on the position for which an employee is responsible within the organization.

The scale of accountability is determined based on the following formula:

3. The effect of the performance-based system on the age-wage curve and the wage gap among age groups is also confirmed in a study by Tsuru, Abe, and Kubo (2005), which quantitatively analyzed three companies that had revised their wage systems. According to the study results, the revision of the wage system worked to reduce the incline of the age-wage curve. After the revision, the impact of personnel evaluations and ratings on wage decisions also increased.

4. The English term for "*yakuwari*" (role) is "accountability" or "mission." Accountability ranking is described using various terms, such as "position rating," "title (*shokkai*) rating," and "mission standard." Hereafter, refer to Ishida (2006), Nishimura (2016), Iwade (2010), and Hirano (2010), unless otherwise noted.

Table 1. Comparison of the job class system and the accountability ranking system

	Job class system	Accountability rank system
Definition	- A ranking system that evaluates the scale of each job	- A ranking system that evaluates the role's scale of accountability for each job (split work)
Split work	- Job · Work within the same job class to which the job belongs	- Flexible assignment of tasks that belong to multiple job classes · Split work identified at the task level
Method	- It is assumed that there is a clear definition of the job · Job analysis performed to prepare a detailed job description for each job regarding its content and required performance - The value of each job is scored based on a comprehensive job evaluation, dividing the scores to establish the job class	- Based on the job (split work) of each position (job description is not written after job analysis) · Accountability of split work investigated and defined in the form of a general role (role statement written for each position) · Role typically defined by actions such as work progress or delegation - Value of the role scored by accountability evaluation, and accountability grades established by dividing scores
Upgrades and downgrades	- Upgrades and downgrades are made when an employee is moved to a higher- or lower-value job · There is no upgrade or downgrade as long as the employee remains in the same job	- Upgrades and downgrades are made when scale of accountability grows or diminishes · Representative case is when accountability expands or shrinks due to movement · Even if an employee does not move and engages in the same job (split work), upgrades may take place if accountability is increased or advanced
Wage	- Job-based · Emphasis on demand side of labor · Job-based wage	- Accountability-based · Emphasis on demand side of labor · Person-based wage

Source: Iwade (2010), Tsuda (1995), Ishida (2006), and Imano (1998).

Contribution to value added = performance x individual scale of accountability. In this scheme, the larger the role of the split work involved a position, the greater the contribution of value added. Market and value added are that much more important. The scale of accountability is determined by an accountability

Table 2. Accountability criteria in the accountability ranking system (sales)

Accountability grade	Post	Accountability criteria
M3	Director	As chief executive of all sales teams, he or she conducts broadly comprehensive judgments and is in charge of negotiating with stakeholders such as business customers. Creates profit for the enterprise.
M2	Branch chief	With about ten subordinates, he or she formulates strategies and implements plans based on the policies of the management or the director. Assigns actions of the organization's members according to a plan and performs the tasks of the entire branch. Manages the improvement of organization members' motivation.
M1	Section chief	Assists the branch chief and carries out his or her goals, conducts the tasks of the team, and provides guidance and supervision for subordinates. In the absence of the branch chief, he or she also plays the role of deputy.
E4	Team leader	He or she is capable of forming new plans based on his or her own experience, ability, and creativity, and can make effective suggestions for sales to existing customers. As a leader of a team, he or she actively conducts guidance and sales coaching for two or three junior employees and contributes to their performance.
E3	General	Can make self-judgments regarding new sales and accurate suggestions in consultations. In addition, he or she can provide advice and counseling for team juniors internally.
E2		In accordance with the instructions of the supervisor or senior, he or she can acquire new contracts, inquire about companies, and carry out orders and suggest tasks. He or she can also receive news by contacting acquired customers about once every two months.
E1		Acquire contracts by calling companies according to the supervisor or senior's instructions, and accompany them to conduct consultations. He or she can report formally to supervisors on a daily basis.

Source: Nihon no Jinjibu (2013).

evaluation. Role responsibility (performance responsibility), authority, and difficulty are the main criteria for evaluation, with role responsibility at the core. The result of accountability evaluations on the split work of each individual's position is quantified as an accountability score. Accountability scores are

configured as accountability grades by scoring at certain levels. Normally, the number of accountability grades is set lower than the number of job competence grades.

Table 2 shows an example of accountability criteria for accountability grades adjusted across jobs (split works) involving sales. In the case of a typical employee, the ability factor remains; however, for management positions, the accountability criteria are set according to actions such as work progress or delegation rather than job execution ability.

Upgrades and downgrades in roles are made when accountability expands or diminishes. Typically, when the split work (job) of a position is changed due to a personnel transfer (*idō*), the role is scaled up or down, resulting in a change to the grade corresponding to the scale of accountability. Even if an employee is engaged in the same job (split work) without moving position, there may be an upgrade if their accountability becomes larger or more advanced. In the opposite case, downgrades may result. Conversely, if the same role is taken in the same job, there cannot be upgrades or downgrades.

2. Pay for Accountability

Generally, there are two types of pay for accountability (role-based pay): role-based pay of a fixed sum (a fixed sum per grade); and role-based pay per zone (in which pay raises are tabulated by zone). Under role-based pay of a fixed sum arrangement, there is a single wage rate for each grade, so automatic seniority pay raises are not possible as long as the grade remains the same. In a role-based pay per zone system, pay raise tables are designed so that regular pay increases can be suppressed as much as possible by “policy line.”⁵

Typically, role-based pay per zone systems involve a pay raise table featuring zones as shown in table 3. Wages are set in ranges according to accountability grades, and within the same grade, wages are divided into four zones to set them further in ranges. For example, the wage level in Zone 3 of grade IV is more than 181,300 yen and less than 210,000 yen per month. Let us assume that the wage of an employee is at a certain level in Zone 3 – for example, 195,000 yen. The amount of next year’s pay increase is determined by an assessment of the individual’s performance that year. If the employee gets a grade S rating, he or she will obtain a pay raise of 5,000 yen and receive 200,000 yen, and if the

5. The combination of these two types of arrangements varies from company to company. In some cases, wage tables are constructed using the two types, and in some cases, they rely only on a fixed sum per grade system. In addition, there are cases in which a wage table consists only of pay raises per zone. For explanation of zone pay raises, refer to Nishimura (2016, 24-29).

Table 3. Accountability ranking and pay for accountability (Unit: yen)

Class	Zone (wage level = accountability-based pay = base pay) (sum)			Performance-based pay (sum)					
				E	C	B	A	S	
V	Zone 4	(omitted)			(omitted)				
	Zone 3								
	Zone 2								
	Zone 1								
IV	Zone 4	More than 210,000	240,000 and less	-7,000	(omitted)	-3,500	(omitted)	2,500	
	Zone 3	More than 181,300	Less than 210,000	-4,500		0		5,000	
	Zone 2	More than 130,000	Less than 181,300	300		5,400		8,000	
	Zone 1	More than 80,000	Less than 130,000	2,000		7,900		10,000	
III	(Omitted)								
II									
I									

Note: Although the table summarizes the results of the survey, the absolute figures are assumptions.

Source: Nishimura (2016, 28).

employee gets a grade E rating, a pay cut of 4,500 yen will be made.

Table 4 shows the principle of pay raises within grades under the accountability ranking system. The vertical axis indicates the wage zone of the previous year, and the horizontal axis (S~C) shows the rating obtained as a result of personnel evaluation (performance evaluation) this year. For example, in the case of Zone 1, at the lowest level, a pay raise for a C rating is zero yen, but pay raises are made within the remaining elements of the evaluation. Conversely, in Zone 4 of the highest level, last year's wage is maintained only when an S rating is obtained. All other ratings result in pay cuts.

It can be noted that the lower the zone, the more generous the pay increase, and the higher the zone, the stricter the pay raise. As long as an employee remains in the same grade (rank) for a long period, the wage of each individual converges to the median level. This is because the policy line, which is a policy

Table 4. Pay raise table for an accountability ranking system (model)

Zone \ Evaluation	S	A	B	C
Zone 4	0	-	--	---
Zone 3	+	0	-	--
Zone 2	++	+	0	-
Zone 1	+++	++	+	0

Note: The policy line is between Zone 2 and Zone 3.

Source: Nishimura (2016, 25). The numerical notation of the zone classification is modified to match table 3.

standard wage, is set in the design of the pay raise table. In the table, the wage level at the border between Zone 2 and Zone 3 is the policy line.

3. Personnel Evaluations

As shown previously, in the accountability ranking system, the larger the scale of accountability and the better the performance, the greater the contribution to value added. In personnel evaluations, performance evaluations are conducted based on accountability grade determined by accountability evaluation. Performance evaluations include achievement evaluation and competency evaluation. As an evaluation method, MBO is used. Based on the results of a performance evaluation, a pay raise (*shōkyū*) is decided, and the cumulative result is reflected in a promotion (*shōkyū*) of grade (Ishida 2006).

First, in achievement evaluation (performance evaluation in the narrow sense), the criterion is accountability. Based on accountability, expected performance is defined as an objective. Setting the objective of accountability and evaluating whether it has been achieved is at the core of an evaluation. Next, a competency evaluation assesses the conduct of the person in charge of a particular area of accountability. According to the accountability grade, expected behavior is derived from the behavioral characteristics of outstanding performers, and the level of expected behavior is presented as the objective. The actual behavior of the person in charge of the accountability area is evaluated based on the behavioral characteristics presented as the objective. In competency evaluations, performance behavior, including behavior as a process, is evaluated. The assessment of ability elements in competency evaluation is not based on potential ability but on explicit (*kenzaiteki*) ability.

Table 5. Ratio of companies by status of achievement evaluation system

Year	Percentage of companies applied	Total companies applied (100%)	Evaluation				
			Well	Well but need partial revision	Many revisions needed	Not well	Uncertain
2012	36.3(70.1)	100.0(100.0)	24.8(25.4)	46.0(50.7)	20.5(15.4)	1.3(0.6)	7.3(7.7)
2010	45.1(83.3)	100.0(100.0)	23.0(21.2)	42.2(52.3)	23.6(20.9)	3.1(0.7)	8.1(4.9)
2004	62.8(86.1)	100.0(100.0)	15.9(16.4)	45.3(56.6)	30.4(22.4)	0.9(0.9)	7.1(3.7)

Note: Figures in parentheses are the ratio of firms adopting the achievement evaluation system in companies with more than 1,000 employees.

Source: Kōsei Rōdōshō (annually).

As such, under the accountability ranking system, levels of expected performance and expected behavior are proposed as objectives based on accountability grades, and performance (achievement) and behavior are evaluated against a proposed objective. Competency assessments that consider not only short-term performance but also behaviors including processes are prevalent. In the first half of the 2000s, the concept of competency was introduced in Japanese companies in order to provide solid indications of job performance behaviors, resulting in the institutionalization of competency evaluations. As shown in figure 2, performance as an output is more closely related to behavior or process than job execution ability as an input.

Table 5 shows the introduction rate of achievement evaluation in Japanese companies. It is not merely a direct performance assessment of the accountability ranking system, but also an indirect indicator of the introduction rate of performance evaluation that is a key element of performance-based wages. In large enterprises with more than 1,000 employees, the trend is downward. It was 86.1 percent in 2004, 83.3 percent in 2010, and 70.1 percent in 2012. However, the achievement evaluation system has been introduced in about seventy percent of such companies. It can be seen that achievement evaluations are common in large corporations.

4. Main Characteristics

As seen so far, under accountability-based pay arrangements, the concept of accountability in place of conventional job execution ability is becoming a key concept in the personnel and wage system. It is a wage system that measures the

scale of accountability by paying attention to the split work of each position in terms of its contribution to the value added in business management, and sets accountability grades to reflect that in wages. The main features of the accountability ranking system and accountability-based pay are as follows (see table 1).

First, the accountability grade, which is designed on the demand side of the labor force, has characteristics that reflect the market and value added. Therefore, it has the main features of performance-based personnel management, unlike job competence pay, which focuses on the supply side. Personnel management based on accountability grades is designed and operated in such a way that a performance-based system is implemented as well. It evaluates not only short-term achievements but also performance behaviors, and explicit (*kenzaiteki*) competence is evaluated as an ability factor in competency evaluations.

Second, pay for accountability system features an institutional mechanism to prevent automatic pay increases. The pay raise table is designed so that the average wage per zone converges on the policy line, even when pay raises are possible within the grade, not to mention the type of fixed amount per grade. Within each accountability grade, the ratio of the total amount of pay cut to the total amount of a pay raise is the same. It also has the characteristic of the performance-based pay in terms of revising conventional, seniority-based remuneration. Additionally, the pay raise system that disables automatic pay increases works as an incentive for employees to not remain in the same grade and facilitates grade promotion. This is because, in order to earn wages above the same grade, it is essential to earn accountability grade promotions. This requires excellent results in accountability evaluations.

Third, accountability-based pay is a wage system that emphasizes the demand side of labor, but unlike job-based pay, it understands the accountability of split work by person-standard. The division of work, which is characterized by ambiguous job classifications and indefinite characteristics of work assignments, inherits the same characteristics under the job competence qualification system, and in this respect it is a person-based wage system. The accountability evaluation for the work (tasks) assigned to a position must also ultimately be an individual evaluation. In accountability-based pay, both accountability evaluations and performance evaluations have the characteristics of individual evaluations.

Fourth, Japan's accountability-based pay, while taking Hay System of Job Evaluation as a reference, has the feature of prioritizing accountability as performance accountability that can contribute to business profit through taking only accountability as behavior/performance, one of the three main factors of job evaluation, without going through comprehensive job analyses and job evaluations. Originally, the Hay System attached the scale of accountability to

jobs, which were evaluated comprehensively together with knowledge, experience (know-how), and problem solving (problem-solving ability) as elements of job evaluations. With job-based pay as its premise, behavior/performance (accountability) is measured in terms of what kind of performance can be expected of a job. Conversely, Japan's role-based pay system, which does not assume job-based pay, evaluates mainly role accountability and performance accountability, and there is a possibility of excessive bias toward performance-based systems depending on its operation (Kinoshita 1999, 77-80; 2014, 28-30).

Conclusion: Summary and Prospects

This paper examines recent changes in the Japanese wage system, focusing on pay for accountability, which is a representative wage system newly implemented in Japan due to the introduction of the performance-based system. The results of this study are summarized as follows.

First, following the collapse of the bubble economy, changes in the wage system due to the introduction of performance-based personnel policies has been centered on the transition from job competence pay to accountability-based pay in large Japanese corporations. Although it is not included in the scope of this paper, job-based pay, introduced as a new wage system alongside accountability-based pay, presumes the traditional Japanese-style split of work as shown in the typical example of Takeda Pharmaceutical Company (Kinoshita 1999; Ishida 2006). So-called Japanese-style job-based pay is virtually identical to accountability-based pay, while it is essentially different from the pay for jobs in Europe and America. In this sense, "seniority wage → job competence pay → pay for accountability" can be said to be the order of change in the postwar wage system.

Second, accountability grades and accountability-based pay, which are designed on the demand side of the labor force, have characteristics that reflect the market and value added. They therefore have the major features of performance-based personnel management, unlike the job competence pay, which is based on the supply side. Performance evaluations are institutionalized and pay raise tables are designed and operated so that automatic pay raises can be excluded.

Third, under pay for accountability arrangements, the split of work is not based on a job that is to be clearly defined and divided. Work that belongs to multiple job classes are flexibly assigned at the task level to a worker in charge of certain positions. It is a wage system involving a person-standard in that it has

no choice but to grasp the task on the basis of person (worker) as in job competence pay. Both accountability-based pay and job-based pay (Japanese-style job-based pay) are qualitatively different from the pay for jobs in the West. The most important characteristic of the recent wage system change is that wage arrangements are based on demand and emphasize the market and value added, but a person-standard wage is also retained. In this paper, the formation of accountability-based pay as a person-based wage was systematically investigated in relation to the characteristics of split of work in the Japanese workplace.

As seen from the experience of Japanese wage system reform, it is difficult to maintain the seniority wage or seniority-prone job competence pay in response to environmental changes such as the global intensification of international competition and the progress of the IT industry. The shift to a demand-driven personnel and wage system was inevitable. The transition from a supply-oriented wage system, such as seniority-based pay or job competence pay, to a job-based wage system is also considered irreversible. The accountability-based wage system, which is a Japanese wage system based on the reality of a division of work with vague boundaries, can contribute to restraining and alleviating seniority wages as a demand-oriented wage system. Considering that flexible work assignments are dominant in Korean companies, where a seniority wage is still prevalent, it is likely that performance-based personnel management will go beyond a performance-based annual salary system and lead to wage system reform resembling that of Japanese accountability-based wages.

However, will pay for accountability be sustainable as a stable wage system in the mid to long term? In order to answer this question, it is necessary to investigate further the functions of Japanese-style job-based pay and role-based pay during the passage of time. Hence, in this paper, the problems of accountability-based pay as a wage involving a person-standard are highlighted first.

First, as flexibility and the indefinite characteristics of work assignments are maintained under accountability-based pay, it is difficult to obtain the objective or convincing power of evaluation compared to that of US-style pay for a job. In particular, there is a problem that role accountability and performance accountability are evaluated mainly without a basis for comprehensive job analysis and evaluation. Therefore, employees engaging in tasks in which achieving direct results is difficult, or in which typical tasks are ranked at the bottom of accountability grades, and if performance evaluations are conducted based on them, the results will invariably be poor. This will increase the possibility of the polarization of remuneration between upper and lower grades (Kinoshita 2014, 31).⁶

6. The problem of such personnel evaluations can be confirmed by government statistics.

Next, the ease of position changes or accountability (role) reorganization following the results of performance evaluations or management strategy is an advantage of the accountability-based pay, but it makes it difficult to secure wage stability due to fluctuations in wages. Particularly, if accountability is reorganized due to changes of management strategy, even if a position is still the same, accountability-based pay for it may increase or decrease. If accountability-based pay, which is the base wage, becomes volatile, it can make it difficult for employees to plan their futures and erode motivation.

This problem arises from the fact that under pay for accountability arrangements, accountability is not understood in the job, which renders impossible the removal of ambiguity. Although the relationship between wages and work (jobs) is becoming increasingly intimate, it still suffers essentially the same problems as person-based wages such as job competence pay or a seniority wage. This problem suggests that Japanese wage system reforms will ultimately need to progress to job-based wages. As shown by the performance-based personnel system in the US, it is necessary to establish pay for the job based on a job analysis system. Only when performance-based personnel management is added on the premise of such job-based wages will it finally become a sustainable wage system. In particular, as the proportion of part-time employees in the workforce is increasing, it is necessary to set job-based wages as a priority in order to realize the concept of equal value labor = equal pay, which is indispensable for reducing income gaps and ensuring the fairness of wages.⁷ In this regard, pay for accountability or Japanese-style job-based pay has the character of a transitional wage to form a job-based wage. In order to truly change the accountability-based pay into a job-based wage, it is essential to raise awareness of employment stakeholders of the necessity and utility of a job-based wage and to improve social conditions. The age-wage curve with an upward trend, which has the characteristics of a living wage, exists for a reason. In order to abolish this, the level of job-based pay should be enough to live on at its minimum. If this is not possible, system reform to bring about the socialization of education expenses or housing rights must take place.

According to a 2010 survey on the achievement evaluation system, the most recent survey (of companies with more than 1,000 employees), 50.5 percent of respondents said “there is a problem.” Specific problems existed in the order of a “lack of convincing evaluation results” (33.1 percent), a “lack of convincing evaluation system” (22.6 percent), and a “loss of motivation” (19.7 percent) (Kōsei Rōdōshō, annually).

7. The study of Endō (2005, 2016) encourages job-based pay from this perspective and suggests specific guidelines for implementation. However, in its discussion, there is a problem of classifying role-based or “job-based pay” (Japanese-style job-based pay) analyzed in this paper as job-based wages.

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