

JAPANESE CORPORATE EMPLOYMENT AND PERSONNEL SYSTEMS AND THEIR TRANSFER TO JAPANESE AFFILIATES IN ASIA

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INTRODUCTION

JAPANESE corporations (especially those in manufacturing) have reached a mature stage in foreign direct investment. Explaining that foreign direct investment behavior in Asian developing countries merely by product-cycle theory or by attributing it to low wages in those countries would be difficult. To describe this investment, corporate-growth theory must be used with reference to industrial-organization theory, in the same way as in explaining direct investment between industrialized countries.¹

Industrial-organization and corporate-growth theories describe direct investment as transfer of management resources. Management resources are "transferable overseas but . . . cannot be separated from corporate organization and transacted on the market. These include technology, knowledge, experience and procurement skills vis-à-vis management, supervision, and sales which are in essence experience and ability in international corporate management and organizational merit that are inherent to multinational corporations."² The basic viewpoint for this analysis is that the actual management resources are the knowledge and experience relevant to skill formation systems in the corporation.

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¹ For a review of direct investment theory, its reformulation from the viewpoint of corporate-growth theory, and a review of actual Japanese direct investment, see [2, pp. 91-195].

² See [2, pp. 151-52]. Hara points out the need for surplus management resources. Technology, knowledge, and experience in management, supervision, and sales have the characteristics of common corporate assets and can be used in the home company and the foreign subsidiary. This is not true for concretely systematized personnel resources. Hara points out a consequent need for surplus use of foreign and domestic personnel resources (pp. 151-52). We try to describe the system of skills formation in Japanese corporations and focus on the transfer of that system to Asian subsidiaries, but do not analyze problems with Japanese employees sent overseas. However, considering the peculiar Japanese feature of companies sending larger numbers of employees to their subsidiaries than corporations in any other country would, we can understand that Japanese parent corporations do not transfer skill-formation systems to Asia, they transfer personnel resources, and the personnel resources form the core for transferring skills. In this sense, Hara's second argument on the existence of surplus personnel resources is important, which I recognize, but I will exclude its analysis from the paper for the reason that the scope of this paper does not encompass that point.

TABLE I
 PERCENTAGE OF EMPLOYEES IN THE SAME CORPORATION AS AT FIRST ENTRY TO
 THE LABOR MARKET, BY SEX AND AGE GROUP, JAPAN, 1979-80

	(%)				
	30-34	35-39	40-44	45-49	50-54
Male	33.1	18.6	14.9	11.0	9.8
Female	21.7	6.3	2.9	2.0	1.3

Source: [8, p. 82].

That analytical viewpoint will be used to interpret data from a survey in which I participated, "The Survey on Japanese Corporate Management in Asia and in Japan."³ To back up these interpretations, existing research on Japanese corporations will be used and changes in the Japanese employment and personnel systems in the postwar period briefly reviewed. This work will give greater clarity to the features of the employment and personnel systems of Japanese corporations investing overseas. The study confirms cohesive employment structures and wage and promotion systems of the seniority-merit type to be the basic feature. We will then discuss the inherent meaning that these systems have for skill formation in the corporation and examine the coordination between these systems and skill formation mechanisms in the corporation. Although personnel, wage, and promotion systems with their strong characteristics of cohesive employment and seniority-merit are special attributes of so-called Japanese-style management, by now a well-worn cliché, the paper gives, in its last section, data that shows these characteristics to have been transferred with slight modification to Japanese affiliates in Asia.

Although this paper attempts no complete explanation of factors decisive to Japanese direct investment in Asia, it does suggest that transfer of management resources, i.e., knowledge and experience in systems of skill formation within the corporation, is in itself a powerful explanatory factor.

I. JAPANESE CORPORATE MANAGEMENT STRUCTURE AND PERSONNEL SYSTEMS

A. Cohesive Employment Structure

Lifetime employment is often given as an indicator of the high degree of cohesiveness in Japanese corporate employment. One of the first things to be more clearly understood is the extent to which lifetime employment is actually implemented.

³ This survey was conducted by a study group organized by the Kansai Economic Research Center and supervised by professors Shinichi Ichimura and Shōichi Itō. It was a questionnaire survey with a relatively larger number of samples than those normally used to study Japanese employment and personnel systems. All results may be seen in [5] and in the March 1985 issue of the *Tōnan Ajia kenkyū* [Southeast Asian studies], a special issue devoted to "Japanese Management in Southeast Asia."

TABLE II
 PERCENTAGE OF EMPLOYEES IN THE SAME CORPORATION AS AT FIRST ENTRY TO
 THE LABOR MARKET, BY EDUCATIONAL LEVEL, AGE GROUP, SIZE OF
 CORPORATION, AND TYPE OF OCCUPATION, JAPAN, 1979-80

	(%)								
	Graduates of Old Elementary or New Middle School			Graduates of Old Middle or New High School			Graduates of Old or New Universities and Higher Levels		
	40-44	45-49	50-54	40-44	45-49	50-54	40-44	45-49	50-54
A. Size of corporation									
Large	17.7	8.8	20.1	29.2	27.9	25.1	52.1	39.1	34.1
Medium	12.2	9.0	2.8	17.4	11.0	7.8	48.1	26.6	22.8
Small	8.5	7.6	2.8	10.6	6.6	3.9	29.1	12.8	12.1
B. Occupational type									
Production	13.4	4.3	9.2	14.9	14.5	7.0	—	—	—
Supervisory, office, and technical	24.7	11.4	20.7	26.4	25.4	18.2	56.8	33.4	28.9

Source: [8, p. 82].

Table I shows that only 9.8 per cent of the male employees in the 50-54 age group hired into a corporation immediately after graduation from school and continued with the same corporation up to the present. The other 90.2 per cent changed employers for one reason or another. Only 1.3 per cent of the women in this age group were still with the same corporation. The table also makes it readily apparent that the younger the age group, for both males and females, the greater the proportion of job-changers. But those figures are actually quite low, for even in the youngest group, 30-34, only 33 per cent of the male employees and 22 per cent of the females did not change employers. This data shows that it is impossible to generalize about employment systems in contemporary Japanese corporations as being ones of lifetime employment.

There are corporations with lifetime employment systems but the survey shows that the employees working in them are in the minority. Table II shows the kind of groups they are in. Look at the job transfers in the 50-54 age group. The table shows fewer job-changers among college graduate and higher educational levels as well as the fact that supervisory, office, and technical employees change jobs less than do production workers. The percentage of employees with college graduate and higher educational levels who have never changed jobs is much larger in big than in small- and medium-sized businesses.

To move the discussion away from lifetime employment, let us look at the employment system in the contemporary Japanese corporation from the viewpoint of how long an employee has been with a specific corporation. Such an examination should analyze the degree of cohesiveness between employee and corporation. Table III gives the data for these indicators. It shows that the male employee in the private Japanese corporation continued to work for an average of 11.9 years and the female employee for 6.8 years. Putting the two together shows that

TABLE III
NUMBER OF YEARS CONTINUING WORK WITH THE SAME CORPORATION
BY SEX AND AGE GROUP, JAPAN, 1985

	(%)		
	All Employees	Male	Female
-17	1.1	1.1	1.2
18-19	1.0	1.1	1.0
20-24	2.8	2.7	2.8
25-29	5.4	5.4	5.4
30-34	9.0	9.4	7.7
35-39	11.7	12.6	8.1
40-44	14.3	16.2	8.7
45-49	15.7	18.1	9.9
50-54	17.0	19.4	11.7
55-59	15.7	16.8	12.6
60-64	11.0	10.5	12.0
65 and over	12.8	12.1	14.5

Source: [4, 1985 edition].

TABLE IV
CHANGES IN NUMBER OF AVERAGE YEARS OF CONTINUING WORK WITH THE SAME
CORPORATION, BY SEX AND AGE GROUP, JAPAN, 1977 AND 1985

	(%)			
	1977		1985	
	Male	Female	Male	Female
16-19	2.1	2.1	1.1	1.0
20-24	4.2	3.6	2.7	2.8
25-29	7.1	5.9	5.4	5.4
30-39	12.4	9.1	11.1	7.9
40-54	19.5	15.3	17.7	10.0
55-64	19.4	19.3	15.1	14.5
65 and over	21.3	22.1	12.1	14.5

Source: [4, 1977 and 1985 editions].

Japanese corporate employees stay with a specific corporation for an average of ten years.

No matter what the employee's educational background, the degree of employment cohesiveness with a specific corporation increases as corporation size increases [4], but the average number of years that Japanese employees continue working for the same corporation tend to decline.

Table IV shows the drop in this average, for men and women in each age group, from 1977 to 1985. It also signifies a downward trend for the degree of cohesion between Japanese employees and their corporations. This trend is particularly marked among younger workers under 30 and older workers 55 and over.

I would like to turn to the results of a questionnaire survey of executives in the Japanese parent corporations to find out which features of Japanese-style

management are recognized as most important and actually implemented in the Japanese corporations. Table V shows that the highest percentage replied "employment stability," with high ratings given to other Japanese characteristics such as consensus decision-making, emphasis on management ideals and targets, and small-group activities. That high rate of response remains the same when grouped by industry, with large (300 or more employees) and small-medium (less than 300 employees) corporations giving top billing to employment stability.

Interpreting the results of the analysis to find out the meaning of employment stability shows that one objective of corporate management policy is to augment the core of lifetime employees with another group having a high average of continuous years on the job and to give those employees long-term support. However, Japanese executives seem to think that these management policies are uniquely Japanese and, I would like to point out that, although there are differences of degree, the facts demonstrate that European and American management also gives more support to people who work for the corporation for a long period of time.⁴

B. *Wage and Promotion Systems*

The major feature of wage and promotion systems in Japanese corporations is often said to be the making of decisions on wages and promotion according to seniority. However, it is by no means certain whether that feature applies to all corporations today. To find out, we must first examine the seniority wage and promotion systems closer.

Let us turn our attention to the responses given by top corporate executives in Table V. Of the management features thought to be Japanese-style, only 47.5 per cent of the corporations implement a seniority wage system and 32.8 per cent a seniority promotion system, much lower than for other items like employment stability and decision-making by consensus. We can get a better idea of what these responses mean by looking at the answers to somewhat more detailed questions about wage determination and promotion systems.

Table VI gives a summary of answers by top executives about the methods their companies use to determine wages and promotions. The table shows that the most frequently used method for determining wages is the integrated method. In second place is the skills classification method. Few corporations use only seniority or job-duty classifications. An overwhelming number of executives said that their corporations used performance evaluations to discriminate between employees in order to promote them to new classifications. Judging from these

⁴ Employment has almost the same degree of cohesiveness for specific corporations in Europe and the United States as it does in Japan. Tachibanaki [8] has compared number of years of continuous employment in Japanese and American companies of the same type. His study shows that Japanese under 50 have more years of employment, but that age groups 55 and over in both countries are about the same. Seen overall, then, Japanese have more years of continuous service, but the difference is more quantitative than qualitative [8, Table 1]. Koike [7] has compared the number of years of continuous employment between Japan and the EC and shows that equalizing takes place earlier there than it between Japan and the United States as indicated by Tachibanaki [8].

TABLE V
 PERCENTAGE IMPLEMENTING JAPANESE-STYLE MANAGEMENT FEATURES, 1984

	(%)											
	Manufacturing				Industries Other Than Manufacturing				Commerce			
	299 Workers or Less	300 Workers or More	All Companies	84.6	299 Workers or Less	300 Workers or More	All Companies	88.4	299 Workers or Less	300 Workers or More	All Companies	81.8
All Industries	60.0	90.5	84.6	84.6	83.3	90.3	88.4	88.4	77.8	84.6	81.8	81.8
Employment stability	47.5	44.4	44.9	44.9	58.3	50.0	52.3	52.3	77.8	30.8	50.0	50.0
Seniority wage system	32.8	30.2	32.1	32.1	41.7	31.2	34.1	34.1	44.4	7.7	22.7	22.7
Seniority promotion system	51.6	20.0	53.8	53.8	41.7	50.0	47.7	47.7	44.4	38.5	40.9	40.9
Job rotation and multiple skills creation	69.7	60.0	67.9	67.9	75.0	71.9	72.7	72.7	66.7	84.6	77.3	77.3
Management ideals and targets	48.4	60.0	51.3	51.3	25.0	50.0	43.2	43.2	33.3	46.2	40.9	40.9
Flexible management	42.6	40.0	47.4	47.4	33.0	34.4	34.1	34.1	33.3	38.5	36.4	36.4
Group decision-making	10.7	6.7	11.5	11.5	0	12.5	9.1	9.1	0	0	0	0
Group responsibility	57.4	40.0	62.8	62.8	33.3	53.1	47.7	47.7	33.3	46.2	40.9	40.9
Interpersonal relations	82.8	60.0	84.1	79.5	83.3	90.6	88.6	88.6	100	92.3	95.5	95.5
Consensus decision-making	Minimal differences in status between management and general employees	36.9	39.7	38.5	33.3	34.4	34.1	34.1	44.4	46.2	45.5	45.5
Small-group activities	63.9	76.2	67.9	67.9	33.3	65.6	56.8	56.8	33.3	46.2	40.9	40.9
Other	6.6	0	6.3	5.1	8.3	9.4	9.1	9.1	11.1	7.7	9.1	9.1

Source: [6].

Note: Percentages obtained from multiple responses by top executives.

TABLE VI
RESPONSES OF TOP EXECUTIVES IN JAPANESE PARENT CORPORATIONS ABOUT
DECISIONS ON WAGE, SALARY RAISES, AND PROMOTION, 1984

All Industries	Manufacturing				Industries Other Than Manufacturing				Commerce		
	299 Workers or Less	300 Workers or More	All Companies	All Companies	299 Workers or Less	300 Workers or More	All Companies	All Companies	299 Workers or Less	300 Workers or More	All Companies
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
A. Methods of determining wages*											
1. Job-duty classification	13.9	6.7	12.7	11.5	25.0	15.6	18.2	18.2	22.2	0	9.1
2. Job-skill classification	45.1	33.3	46.0	43.6	50.0	46.9	47.7	47.7	33.3	30.8	31.8
3. Seniority classification	25.4	33.3	22.0	24.4	25.0	28.1	27.3	27.3	22.2	7.7	13.6
4. Integrated assessment	55.7	60.0	52.4	53.8	75.0	53.1	59.1	59.1	77.8	76.9	77.3
5. Other	0.8	0.0	1.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Use of personnel evaluation to determine wages											
1. Yes	96.7	93.3	96.8	96.2	100	96.9	97.7	97.7	100	100	100
2. No	3.3	6.7	3.2	3.8	0.0	3.1	2.3	2.3	0.0	0.0	0.0
C. Promotion system**											
1. Seniority principle	3.3	0.0	6.3	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Skill principle	27.7	6.7	38.1	32.1	25.0	18.8	20.5	20.5	22.2	23.1	22.7
3. Seniority-skill principle	68.9	93.3	55.6	62.8	75.0	81.3	79.5	79.5	77.8	76.9	77.3

Sources: [6].

* By multiple response method. Figures indicate percentages of corporations that implement a particular program. They do not add to 100 vertically.

** By alternative response method. Figures will add to 100 vertically.

responses, the method of deciding wage and promotion classifications seems to be changing from a seniority to a meritocracy mode. The changes seem to be occurring in promotion as well as wage determination systems. The table illustrates that almost no corporation uses seniority alone as a standard for promotion, and most use combinations of seniority and skill classifications. The second largest proportion goes to corporations that decide promotion only by merit.

It is hard, however, to get an accurate picture of the way wage and promotion decisions are made today just from a questionnaire survey to top executives. For one thing, it is not always clear as to what is meant by an integrated method of deciding wages or by parallel use of seniority and merit in deciding on promotions. For another, in an integrated method of determining classifications, does merit receive precedence over seniority in deciding wages, or is seniority the guide, and does seniority or merit take greater precedence in systems that claim to use both to decide promotion? Such points are not always readily understandable.

To get a better grasp of the situation, let us conduct our examination from two different angles. One is to take a brief historical look at the wages and promotion systems in the postwar Japanese corporate world. The other is to use the Labor Ministry's Wage Census (Basic Statistical Survey of Wage Structure).

1. *A changing system*

First, let us examine aspects of change in the systems of decision-making on wage and promotion.⁵ It is well known that the job hierarchy and job-duty system of payment was introduced to postwar Japan from the United States. This system assigned each employee to a certain job class that was determined by the content and importance of the job, and wages was determined by that job class. Each type of job in the corporation was fitted into a job class and the job classes were placed in hierarchies to indicate the degree of importance for those jobs. However, in its operation in Japan, the system tended to be heavily oriented toward seniority. From the latter 1950s through the 1960s, wage-decision procedures were set up that combined periodic base-pay increases and class increments. The power relations between management and labor at that time caused the weight of performance evaluation in promotion to decline so that everyone got promoted. There were also at that time large numbers of employees with many years of seniority and a promotion system based on seniority was necessary to maintain order and stability in the corporation. Thus, based on such systems as personnel placement, salary, and the job rankings at the time, corporations were forced to use the main variables of academic background and number of years on the job to place personnel in their respective rungs on the job hierarchy ladder.

Subsequent rapid growth in the economy spurred on fast corporate growth that led to a vast increase in demand for managers and supervisors and made possible seniority determined promotions and raises in pay for people in each hierarchy. Seniority-oriented job hierarchies and job-duty classification systems were absorbed and took root in the expanding company organizations.

⁵ Discussions of changes in wage and promotion systems in postwar Japanese corporations will be found in [8].

As the corporation grew and the environment changed, it became clear that seniority-oriented job hierarchies and job-duty classification systems were often inadequate for allocating personnel to the jobs where they were needed. That led to the introduction, in the latter half of the 1960s, of job-skill credentials and job-skill classifications, under the guise of "skill-oriented personnel management." Objective factors were adopted to regulate the skills necessary for each job and to provide methods of certifying job qualification. The abilities required for each job, for example, planning, judgment, carrying through to completion, enduring stress, working on a team, interacting with others, making accurate evaluations, and having the knowledge, technology and skills to perform a job, were prescribed as providing the means to evaluate employee performance. To be certified for a better job in a job skills certification system, the employee usually takes a skill-certification test based on fixed selection standards.

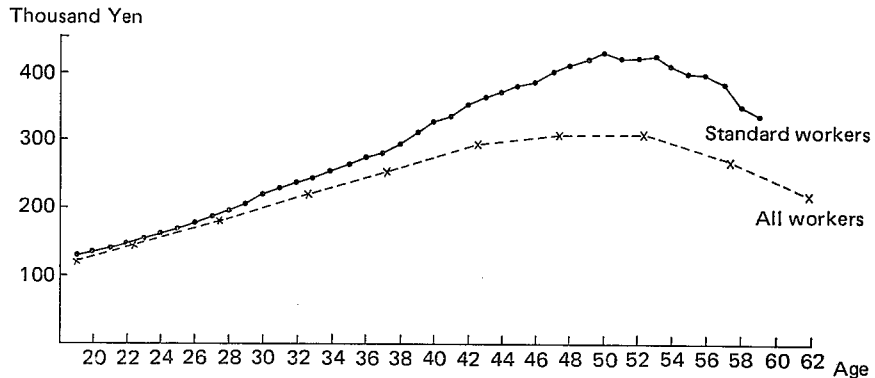
However, in practice, the personnel evaluation is regarded as much more important than test results which assess mainly problem solving ability. And, the personnel evaluation system's close connection with the system of job-skills certification and payment classification makes it extremely seniority-oriented.

That orientation is closely related to the patterns of work performance and the way responsibility is handled in Japanese organizations. The normal unit of responsibility in a Japanese corporation is the group, the individual employee rarely has explicitly defined responsibilities. This is why—although it does not always hold for the routine work—the usual practice is for bigger and more important jobs to be performed by the joint efforts of the members of a department, or of all departments in an office or factory and that makes it difficult for the performance of any one individual to shine through. No matter how talented the employee is, his or her performance would never be rated as superior in the short term. But, in the long run, differences in rankings mount up as an accumulation of minute differences in annual evaluations. The personnel evaluation format is minutely detailed, and is thus able to evaluate minute differences over the long run. Personnel evaluation has thus become a system for appraising a person's merits over long period of time. It is set up so that the differences in performance needed to promote and raise pay do not add up until a certain stage. The accumulated evaluations play a big part in promotions to positions like section and department manager. However, here too, the number of years a person has been with the company are important additions to the evaluation, and promotion to managerial positions is still largely a matter of seniority.

Seniority thus plays a major part in how personnel evaluations—the pivot round which operate systems of work skills certification and payment—are made. The seniority-oriented work skill certification and payment system is restrictive, but it is changing, although there is no way of knowing what direction that change is taking.

We see then that no matter whether the system of wage determination is integrated to take all factors into consideration, or no matter whether the determination is made by job abilities and skills, or no matter whether the promotion system emphasizes both ability and seniority or whether it emphasizes ability alone,

Fig. 1. Monthly Salaries by Age of Standard and All Workers Who Are Graduates of Old Middle or New High Schools, Male, All Industries, Japan, 1985



Source: [4].

all can be interpreted as being strongly oriented toward seniority considerations.

2. *Methods of determining wages*

Figure 1 shows monthly salaries, by age, of men who have graduated from what are thought to be equivalent levels of schooling, the old prewar middle schools and the new postwar high schools. It shows the monthly wage for school graduates who are cited as "standard workers," workers who enter a company immediately after graduation and stay with it to the present, and those in the group of "all workers," workers in the survey, which includes standard workers.

The graph indicates that fixed salaries of male high school graduates (old middle or new high school) continue to rise to a certain age. Not only do the salaries of these men as standard workers have a higher absolute level, the period of salary increase with age is longer. The salaries for standard workers continue to climb to age 50, but for those part of all workers they climb only to age 42. A similar pattern is observable for male college graduates. Although this salary system is almost ubiquitous, there are places where differences in wage are assigned by personnel evaluation. If differences in salary accurately reflect differences in personnel evaluation, then differences in personnel evaluation and salary mean the same thing. For the sake of convenience, that will be a basic assumption of the subsequent analysis.

Table VII shows the ten rankings of a variation coefficient for monthly base salaries of standard workers. The table shows that there are differences in salary in each age group even among standard workers, which implies differences in personnel evaluations between standard workers themselves. These differences in assessment, generally speaking, tend to be greater the higher the employee's

TABLE VII
TEN-RANK VARIATION COEFFICIENT FOR MONTHLY STANDARD WORKER BASE WAGES
BY EDUCATIONAL LEVEL, AGE, AND SIZE OF CORPORATION, JAPAN, 1985

	25	30	35	40	45	50	55
All corporations							
Elementary or new middle school	0.23	0.22	0.20	0.21	0.28	0.31	0.22
Old middle or new high school	0.21	0.23	0.23	0.27	0.33	0.32	0.35
Vocational high school or junior college	0.18	0.20	0.24	0.28	0.31	0.27	0.36
Old or new universities	0.19	0.23	0.28	0.27	0.25	0.28	0.29
Corporations with 1,000 or more workers							
Elementary or new middle school	0.20	0.19	0.18	0.18	0.27	0.24	0.21
Old middle or new high school	0.18	0.23	0.21	0.28	0.30	0.31	0.31
Vocational high school or junior college	0.16	0.17	0.21	0.21	0.54	0.17	0.11
Old or new universities	0.18	0.22	0.29	0.27	0.23	0.24	0.27
Corporations with 10-99 workers							
Elementary or new middle school	0.27	0.41	0.24	0.25	0.22	0.48	0.21
Old middle or new high school	0.23	0.31	0.31	0.34	0.33	0.32	0.39
Vocational high school or junior college	0.22	0.46	0.31	0.64	0.33	0.08	0.29
Old or new universities	0.21	0.24	0.33	0.27	0.31	0.30	0.16

Source: [4].

Note: Ten-rank variation coefficient indicates degree of wage variation. The larger the number, the greater the variation.

academic background (the number of samples is adequate for comparing old and new college graduates with old-middle and new-high school graduates). There is also a tendency for differences in personnel evaluation to be greater the smaller the company. They also tend to be larger as the employee grows older, no matter what his academic background or what size of the corporation is employing him. This conforms to the way that Japanese personnel evaluations are made as pointed out in our discussion of changes in wage and promotion systems. Personnel evaluations are a continual accumulation of merit gained through years with the company, and thus the older the employee, the greater the income. Because higher academic background means longer years of continuous employment for standard workers in the same age group, differences in education make a difference in personnel evaluation that continually grows compared to that of people with lower academic background. In any case, Table VII shows that differences in personnel evaluations create differences in wages.

3. *Meaning of Japanese-style systems*

The rationale of seniority-oriented wage and promotion systems is that of an organizational management guideline for promoting on-the-job training in skills specific to the corporation. These systems can be understood as frameworks in which employee and trainee share the costs and benefits of OJT investment. In

these systems, the trainee bears part of the initial OJT cost but is afterwards guaranteed its benefits. Those benefits give the employee an incentive to stay with the company that trains him. In this way the corporation's employment structure gains its cohesiveness and rationale. A large part of skills is most often passed on by employees imbued with the corporation's work customs, thus making skills uniform throughout the organization. Another reason for seniority-oriented wage and promotion systems is that experienced workers must ensure that the mechanism for passing experience from one employee to another functions smoothly.

Teamwork makes skills within the corporation uniform, and seen from the individual employee's viewpoint, those skills are corporate assets. Benefits acquired do not divide equally between employees, as uniformity of skills does. That is why there must be a certain level of consensus between employees as to the distribution of benefits. Acquiring this consensus also ensures organizational stability, which simplifies skill formation through customary work practices. That in turn requires a feeling among employees, or a consensus about that feeling, that what is done is fair. I would also like to point out that the employees in a Japanese corporation have to feel that the method of making personnel evaluations is fair, or the company must have the systems and rationale by which it can get the employees to feel that what is being done is fair.

II. ADAPTATION OF JAPANESE JOINT VENTURES AND SUBSIDIARIES IN ASIA

In this section, we will try to find out how adaptable these employment and personnel systems are by examining them in Japanese joint ventures with Asian companies or Japanese-created subsidiaries in Asia. This examination seeks to better understand how foreign direct investment transfers skill-formation systems, thought to be one of the Japanese corporation's most important management resources, to Asia.

We should direct our attention to the following two points before beginning the analysis. First is that the strategy for the joint venture is, naturally, part of the parent corporation's world management strategy, and therefore the parent corporation controls almost every aspect of its overseas joint venture's long-term planning, financing, investment planning, parts and materials procurement, product sales and pricing as part of a uniform global strategy rather than adjusting these factors to fit the situation in the partner country. But the parent corporation gives the overseas subsidiary or venture company almost complete control over employment and personnel systems for local employees. If it wants, the local company is completely free to implement its own policies on employment and personnel, the subject of this paper.⁶

The second is that the local subsidiary or joint venture must develop employment and personnel policies that will support the parent corporation's systems of skills formation. However, even though the overseas company has complete freedom

⁶ See [3].

TABLE VIII
 RATES OF TERMINATION IN JAPANESE CORPORATIONS AND
 JAPANESE JOINT VENTURES IN ASIA, 1984

	Rate of Termination (%)
Japanese corporations	3.7
Japanese joint ventures in:	
Korea	3.9
Taiwan	3.1
Hong Kong	2.1
Singapore	4.9
Philippines	1.5
Thailand	0.8
Malaysia	3.1
Indonesia	1.5

Source: [5].

in determining employment and personnel policy, it still tends to do exactly what the parent company in Japan does. More than a set of alternatives, that can be selected, the course is fixed because the costs are too high for the local subsidiary or joint venture to develop new systems.

Now let us move on to analyze the actual form of employment and personnel systems in Japanese joint ventures and subsidiaries in Asia (below, simply joint ventures).

Is employment in Asian joint ventures as stable as in Japan? Data shortages restrict an analysis that is on the same level as that for corporations in Japan, so we shall use instead data on rates of employment termination obtained from the aforementioned questionnaire survey. Table VIII gives that data. Using rate of termination as the measure of corporate employment stability shows employment in joint ventures with the exception of those in Singapore, to be as stable, or more stable, than in Japan. Labor markets in Asia are generally fluid with high rates of job-hopping. Although this data cannot be used to compare rates of termination in Japan and Asia precisely, the Asian rate of termination is about 3 per cent higher than the Japanese. Table VIII may indicate a greater effort by joint ventures in behalf of maintaining employment stability.

Table IX gives different indicators of employment stability for joint ventures. The figures are percentages deriving by dividing the average number of years that locally hired middle-management people continually work for the same joint venture by average number of years joint ventures have operated in the country. An extremely high 60–85 per cent of locally hired middle-management people have continued to work for joint ventures since their inception. In Asian countries, people in this middle-management strata usually change place of employment as a means of getting into higher status jobs. The fact that 60–85 per cent stay with the same company since its inception shows that joint ventures get good results from consciously ensuring employment stability.

TABLE IX
 PERCENTAGE OF LOCALLY HIRED MIDDLE-MANAGEMENT PEOPLE
 WHO HAVE BEEN WORKING WITH A JAPANESE JOINT
 VENTURE SINCE ITS INCEPTION IN ASIA

	Percentage Continuing Employment	(%)
Korea	87	
Taiwan	68	
Hong Kong	86	
Singapore	82	
Philippines	82	
Thailand	62	
Malaysia	65	
Indonesia	82	

Source: [5].

Note: For method of estimation, see the above.

How important are stable employment targets to Japanese management in Asia? Table X shows the results of a questionnaire survey on overall management policy of top executives in Japan and Asia. The most striking thing is the similarity between their management targets. Questions on corporate management policy in general are out of the scope of this paper, but as far as our subject is concerned, employment stability is the most important management target in all countries, with the exception of the Philippines. Joint ventures achieve stable employment while coping with labor markets more fluid than Japan's. The results of consciously pursuing employment stability as a policy target are shown in Table X.

What methods do joint ventures use to achieve employment stability targets? Table XI gives us an idea. If we assume that employment stability is a policy most companies consider important enough to actually implement, then there will be a great deal of similarity in what they emphasize to achieve it. The strongest policies in all countries are internal promotion and maintenance of good relations between management and general employees. In contrast, policies like high productivity-high wages, small group activities, multiple skills creation, and housing funds (to help people own their own homes) are not emphasized in all countries. Conditions peculiar to each country are probable cause for different emphasis on different policies.

It is noteworthy that policies for stabilizing employment emphasize more long-range incentives, such as internal promotion, rather than direct, short-term material incentives like wages. Rather than hiring and trying to keep in the company people with skills that is ready to use, the common policy in joint ventures is to set up long-term internal promotion objectives, train employees in the company, and promote them as skill levels grow.

Although there is no data to substantiate this, joint ventures seem to be making a very good effort in this regard. Generally in Asia, if a position requires high

TABLE X
COMPARISON OF MANAGEMENT POLICY TARGETS IN JAPANESE CORPORATIONS
AND JAPANESE JOINT VENTURES IN ASIA

	Japan	Korea	Taiwan	Hong Kong	Singapore	Philippines	Thailand	Malaysia	Indonesia
Employment stability	86	68	81	75	81	50	64	71	79
Seniority wage system	48	61	45	45	48	33	48	46	64
Seniority promotion system	33	52	34	24	38	28	29	35	48
Job rotation and multiple skills creation	52	37	39	20	46	29	25	33	33
Management ideals and targets	70	70	83	37	56	72	54	60	62
Flexible management	48	39	38	32	52	35	21	23	37
Group decision-making	43	44	32	32	52	43	27	40	37
Group responsibility	11	26	22	5	18	17	9	15	27
Interpersonal relations	57	67	71	61	74	46	48	52	64
Consensus decision-making	83	65	43	20	20	33	20	17	25
Minimal difference in status between management and general employees	37	32	20	20	48	28	11	29	22
Small-group activities	64	—	—	—	—	—	—	—	—

Sources: [6] [5].

Notes: 1. Percentage obtained from multiple responses.

2. —: no survey data.

TABLE XI
 ACTUAL POLICY USED BY JAPANESE JOINT VENTURES IN ASIA
 TO ENSURE EMPLOYMENT STABILITY, 1984

	Korea	Taiwan	Hong Kong	Singapore	Philippines	Thailand	Malaysia	Indonesia
Provision of welfare facilities	50	51	17	37	42	46	47	60
Provision of retirement system	24	44	26	6	26	43	30	25
Seniority wage system	64	46	60	47	30	57	57	60
Award for long service	74	66	24	69	37	57	51	51
Housing fund	14	1	12	2	7	3	11	25
Job rotation and multiple skills creation	26	25	21	39	26	12	23	22
Internal promotion	71	65	61	78	70	61	85	76
Good relations between managers and employees	66	65	55	67	58	55	55	64
Small-group activities	55	44	12	49	28	20	23	25
Continuous training	64	60	29	53	65	34	49	64
High productivity and high wage policies	19	27	26	30	37	29	28	25
Other	5	6	2	4	7	0	10	9

Sources: [6] [5].

Note: Percentage obtained from multiple responses.

job skills, people use their educational background and two or three years of work experience to sell their qualifications in the job market. The major selling point for a prospective job hunter is academic background. No matter how many years of work experience a person has, if his academic background is low, he cannot participate in a labor market that demands high academic credentials and work skills. Educational background is the basic regulator of the job market, and people with high educational levels in Asian countries want work experience as a means to move to a higher position. Job-hopping is thus an absolute necessity in getting a better job. Forced to cope in this kind of job market, most joint ventures build an in-company skills market separated from the outside labor market. This in-company job-credentials market allows the employee to move up to a better job not by academic background but by accumulating experience in the company. Joint ventures give persons with lower academic backgrounds training that fits them for positions requiring much higher credentials, even university degrees, in the outside job market. Employees treated this way see that company experience promotes them in a way they would never be promoted in the outside job market. That is an excellent drawing card. Understanding the true meaning of internal promotion as a means of stabilizing employment requires knowledge about the procedures. It is a system that allows joint ventures to raise skill levels and improve productivity.

There is an extreme similarity between Japanese corporations in Asia and Japan in wage decision, use or nonuse of personnel evaluations, methods of employing supplementary personnel, standards for promotion and personnel training programs. Table XII shows the difference from country to country.

The vast majority of both corporations use personnel evaluations to determine wages. Both assign almost the same high importance to integrated wage classifications. Although methods other than integrated assessment have much smaller weight, joint ventures in Asia emphasize duty and skills classifications while the parent corporations in Japan emphasize skills and seniority. As already seen, corporations in Japan moved, historically, from duty-based to skill-based wage systems. Many aspects of system operations are affected by seniority and the seniority- and skill-oriented wage system now operates as integrated assessment. Does seniority affect wage decisions in joint ventures? To find out, we must first know the kind of integrated assessments these corporations make. But that requires accurate data, which is unavailable. However, it may be assumed that Japanese executives in joint ventures believe their duty- and skills-classification systems include the seniority-oriented duties and skills classification methods used at home. If so, integrated assessments in joint ventures are the same as in Japan. If that is the case, then personnel evaluations in joint ventures are the same as in Japan: the type in which seniority creates differences. There is no way to confirm this for joint ventures in all of Asia, but it can be corroborated for Malaysia from interviews I had with personnel directors of joint ventures there,⁷ from which I found that they use personnel evaluations and that slight differences are accumu-

⁷ See [3].

TABLE XII
COMPARISON OF SALARY INCREASE, PROMOTION, AND PERSONNEL TRAINING SYSTEMS
IN JAPANESE PARENT CORPORATIONS AND ASIAN JOINT VENTURES, 1984

	Japan	Korea	Taiwan	Hong Kong	Singapore	Philippines	Thailand	Malaysia	Indonesia
A. Method of determining wages*									
Job-duties classification	14	24	27	14	14	16	4	17	20
Job-skills classification	45	10	8	14	11	11	5	14	19
Seniority classification	25	14	2	5	7	0	7	10	3
Integrated assessment	56	50	63	64	68	51	81	57	56
Other	1	2	0	3	0	22	3	2	2
B. Use of personnel evaluation to determine wages									
Yes	97	72	91	90	82	85	91	91	93
No	3	28	9	10	18	15	9	9	7
C. Acquiring personnel*									
External hiring	0	2	0	6	4	0	2	2	0
Internal promotion	80	76	75	70	51	62	71	46	76
Use both	20	22	25	24	45	38	27	52	24
D. Standards for promotion*									
Seniority	3	9	4	5	4	0	6	8	6
Ability	28	19	36	51	34	65	39	42	27
Use both	69	72	60	44	62	35	55	50	67
E. Methods of personnel training**									
OJT training	86	76	89	86	87	89	88	98	93
In-company training	72	19	19	10	28	24	10	25	21
Job rotation	53	25	30	10	32	15	16	17	16
In-company training in Japan	—	73	78	54	70	48	72	58	69
Training overseas	42	—	—	—	—	—	—	—	—
Other	—	10	1	—	11	9	2	4	9

Sources: [6] [5].

* By alternative response method.

** By multiple response method.

lated year by year. That shows that integrated assessments for deciding wages used in joint ventures are duty or skill classifications with a seniority orientation.

Many corporations in Japan and Asia say they use parallel standards of merit and seniority for promotion, but detailed examination says this is not quite the case. Generally speaking, many joint ventures say they use only a merit orientation, a marked practice in the Philippines, Hong Kong, Malaysia, Thailand, Singapore, and Taiwan. Therefore, the rate for joint ventures that rely only on internal personnel supplements is lower than for Japan. This trend is strong in Singapore, the Philippines, and Malaysia. However, the fact that most joint ventures there rely on internal recruitment is something shared with Japan.

Most joint ventures in Asia use the same seniority-oriented duty-skill methods as the Japanese employment and personnel systems do, but do not apply the systems thoroughly because they often have to deal with much more fluid labor markets. However, because Japanese employment and personnel systems are thought to form skills that make the company more efficient, the joint ventures need implement the systems more completely so they can maintain them. But the task should not be that difficult because basic conditions for ensuring employment stability are being achieved.

How do Japanese corporations in Asia train employees? Table XII shows the main methods to be workplace and in-company training. However, the table also shows a low rate of in-company training in Asia and a high rate in Japan, but since training in Japan is at the parent corporation, both probably mean the same thing.

The modes of personnel training show that joint ventures use the same systems of in-company skills formation as the parent corporations do. It could be concluded that rather than transferring the Japanese style of management, these corporations are generally transferring systems of in-company skills formation through foreign direct investment.

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