

Japan seeks alternatives to its pay system (BBC 11 March 2016)
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Japan seeks alternatives to its pay system

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It's a simple task, if you're trying to spot the highest paid employee in a Japanese office. Just look for the oldest staff member. Traditionally, the longer you've been at a company, the more money you earn.

In Japan's corporate culture, this is commonly referred to as the seniority wage system. It has been in place since the 1950s.

During Japan's economic boom, the system worked well in combination with another unique aspect of its labour market - the guarantee of a job for life. And back then, companies could afford to raise salaries as a reward for the staff's loyalty.

It is standard practice for businesses to offer a low remuneration package to fresh graduates, who are then trained on-the-job. Even today, the average starting salary in Japan is roughly 2.5 million Japanese yen or \$22,000. **In the UK** it is £28,000 or \$40,000. In America, the **average starting salary** is higher at \$50,000.

But Japan's seniority wage system started to crumble after the economic bubble burst in the 1990s.

New system?

Companies had to restructure their operations, trim expenses and, in most cases, implement job cuts. The redundancies came as a shock to many employees who had thought that their lives and livelihood would be well looked after until retirement.

"It's like a couple who just found out that their partner was cheating on them. Workers felt betrayed," said Toshiaki Matsumoto director at the Society for Human Resource Management.



Image caption, Advertising firm CyberAgent established a performance-based reward system since day one in 1998

Without the guarantee of lifelong employment, younger workers started to look for other options instead of accepting a low starting salary with the first company that would hire them. More and more are raising questions about the practice of rewarding older employees ahead of the younger ones, solely based on their age.

"My manager was my father's age," recalled 29-year-old Takato Oku who joined a traditional Japanese company immediately after graduating.

There were many layers of junior managers in between him and his supervisor. He knew that his turn for a promotion or pay rise was many years away.

So he quit his first job and joined an online blog and advertising firm CyberAgent.

Founded in 1998, it is known for offering a higher starting salary and its performance-based salary system. Within two years, Mr Oku rose through the ranks to become a manager.

Strategy shift

"At first, it felt strange to have staff who were older than me, or to have a boss who was younger than me, but I like how CyberAgent rewards its workers based on our performance, not our age," said Mr Oku.



Image caption, CyberAgent's top managers had previously worked at traditional Japanese companies where they felt the reward system was unfair

It was their company policy from day one, said Tetsuhito Soyama, executive manager of human resources at CyberAgent. "Many of our executives - including our founder - have worked at traditional Japanese companies before, which had the seniority wage system. But it felt odd because not everyone of the same age has the same ability."

"Our model means more competition and it is natural for older staff to feel jealous or awkward to see their younger colleagues being promoted first, but because it has been our corporate policy from the start, I think it was easier for us compared with older companies," he added.

Failed attempts



Image caption, Japanese companies traditionally reward older workers ahead of the younger ones regardless of job performance

Bigger and more traditional companies have been trying, too.

Just as CyberAgent was founded in the 1990s, household names such as Sony and Hitachi also announced that they would abolish the seniority wage system. They decided to experiment with the Western model where salary is based on skills and performance.

But it was met with strong opposition. Not only did some staff find it difficult to adjust, it was also a big change for managers to suddenly have to assess the performance of their staff more diligently, based on their accomplishments.

For example, computer giant Fujitsu was one of the first to introduce the new salary system in 1993, but it was so unpopular, it had to reconsider.

The timing was not great either. It was at the beginning of what's become known as Japan's lost decade - when firms were trying to revive their businesses.

"Just revising the HR policy won't turn the business around, so unless companies could become profitable to properly reward the staff, they ended up creating unhealthy competition among their employees," said HR consultant Mr Matsumoto.

Government push

But in recent years, there has been a new push from Prime Minister Shinzo Abe to shake up Japan's labour market. Big companies have once again announced their plans to shift away from the seniority wage system.

The idea of jobs for life, which worked hand in hand with the unique salary system, is already coming to an end.

In 2014, the government survey showed that half of young workers **under the age of 35** were not working for their first employer, as mid-career job changes have become more common.

But CyberAgent, despite overturning one pillar of Japanese corporate culture, is keen to retain the other - the job for life - after seeing a high turnover rate.

"I don't think the two systems have to be intertwined," said Mr Soyama who is in charge of the company's human resources.

"If you analyse Japanese companies which have done well globally, their strength has been the team spirit of the employees. So we have concluded that long-term employment works better for us."



Image caption, CyberAgent offers days off for staff members looking to start a family Today, the company offers generous and unique compensation.

While men's right to take paternity leave has been debated at other companies, Cyber Agent even has specific leave for those who want to visit a fertility clinic. Mr Soyama says there have been two successful pregnancies.

The seniority wage system appears to be on its way out.

But instead of a wholesale adoption of the Western model, Japan Inc. needs to find a new system that works to its own strength.