What is commonly known as the "Japanese Employment System" (hereafter referred to as JES) is a pattern of employment relations that is typical in large Japanese corporations and government offices. About half of the total number of employees in Japan are involved in this system. The basic institutions that characterize the system are "lifetime" employment, seniority-based rewards, and the enterprise union. The system, which was never static even in the 1960s, began to change markedly in the 1970s. Three factors are responsible for this change: (1) the slower rate of growth of the national economy, (2) the rising age of workers, and (3) the increasing proportion of college graduates in the labor force. This paper addresses itself to the questions of how these factors are causing changes in the JES, and how Japanese corporations are dealing with the trends of change.

* An earlier version of this paper was presented at the New York State Conference on Asian Studies held at SUNY Buffalo on October 14, 1977. The author wishes to thank Bob Hall, Hiroshi Itoh, Jim Sonkup, and Steve Welch for their helpful comments.

The Main Characteristics of the JES

In order to understand fully employment relations in a country, it is necessary to have some understanding of the basic principles governing social organization in that country. The relations among members of a Japanese group are likely to be diffuse and particularistic. Diffuse relations involve the entire person. Within a group, people associate with each other as total human beings rather than regarding each other as playing specific functional roles. Particularism, on the other hand, refers to an exclusivistic pattern of behavior toward other individuals and groups. Members of a group treat other members with special affection and consideration merely because they are members of the same group. Nonmembers are discriminated against simply because they are outsiders.

A Japanese group has another important characteristic, namely, vertical orientation or hierarchism, and its corollary, rank and status consciousness. Persons do not, as a rule, interact with others as equals. The Japanese instinctively ranks every person around him either as his superior or inferior, and uses appropriate demeanor and language in his behavior. The Japanese language itself is almost totally devoid of neutral-level expressions. The Japanese must therefore be constantly aware of the rank of the person he is speaking or referring to so that he can use appropriate levels of honorifics.

What complicates life and makes interpersonal relations cumbersome in Japan is the fact that the rank consciousness is entwined with diffuseness of personal relations. Individual A is superior to individual B not only in their specific roles (e.g., section chief and staff member, professor and student, captain and lieutenant), but also as entire persons. Thus, B is expected to behave toward A with appropriately respectful demeanor and language; and this relationship, once established, cannot be easily changed without causing mental anguish on the parts of both A and B. What if B, in his later life, should achieve a higher status than A? The relationship between the two, if they continue to belong to the same group, would be awkward, to say the least. In order to minimize chances of creating such awkward social situations, the Japanese strive to preserve established ranking orders among individuals.

The practice of “lifetime” employment (shushin koyo) entails recruiting workers fresh from schools and employing them until they retire at the mandatory retirement age of 55 or 60. This practice is a social norm, not a legally binding rule. There is a general expectation on both the employer’s and the employee’s sides that the employment relation is to be continuous. Perhaps the term lifetime employment is too strong; continuous or tenured employment may be more descriptive of the actual practice.
The system of seniority-based promotion and wages (nenko joretsu) is deeply rooted in Japan's hierarchical groupism. As pointed out earlier, the Japanese have an innate desire to preserve the existing ranking order of individuals in a group. In a place of work, the most important frame of reference for ranking individuals is the "same-year-of-entry" group. Employees who enter a company together in the same year constitute this reference group. They have the same seniority, and share a unique sense of "equality" that is rare in Japanese society. Those in a same year-of-entry group are very sensitive about the ways in which their dohai (equal-seniority colleagues) move up in the company hierarchy. There is a strong presumption that they do, or should, move up in step. Of course there are fast and slow movers, but the company does not place a man of greater seniority under his kohai (junior). This fear of disturbing the hierarchy of employees based on seniority is the basic reason for the Japanese penchant for nenko joretsu, or "ranking by the merit of years of service." It must be noted that under the system of lifelong employment, nenko means both seniority and age. Since workers are as a rule recruited straight from schools, there is an almost perfect correlation between their age and seniority. Thus, in an "ideal" nenko system, a senior in rank is also a senior in age.

The Changing Environment of the JES

Prior to the 1970s, the JES had served its purposes well; under this system the Japanese economy achieved the phenomenal growth of the 1950s and 1960s. It was a system well suited to a situation of rapid growth. Companies employed a large number of young workers at wages that were low relative to their productivity with an implicit promise that their wages would rise as they grew in seniority and age. Because the workers stayed with the same job for life, the firm could afford to invest heavily in workers generally as well as in specific training and education. Workers could count on ever-increasing wages and steadily rising ranks within a company as it grew in size. The promise of rising wages and ranks reinforced employees' desire to stay in one company for life. Enterprise unionism minimized labor conflict and gave workers security and protection from competition from workers in smaller firms and less prosperous industries. In sum, the JES was instrumental in assuring low labor costs and high worker morale and productivity, thereby serving as a powerful engine of growth in the 1950s and 1960s.

The environment of the JES, however, has changed significantly since the early 1970s. The three fundamental changes that have profoundly affected the character of employment relations in Japanese business are: (1) the slower rate of economic growth; (2) the rising age
of Japanese workers; and (3) the increasing proportion of college graduates among managerial workers.

Since the oil crisis of 1973, the Japanese economy has no longer been able to maintain the rapid growth rate (10% or more per year in real terms) of the 1950s and 1960s. By all estimates, the long-term growth rate of the Japanese economy in the late 1970s and the early 1980s is expected to be, at best, 5% or 6% per year. Corporations which recruited a large number of young workers in the 1960s and early 1970s now have a surplus of workers, particularly university graduates in the managerial ranks. Because of this, they have drastically reduced hiring during the last few years. For example, Hitachi Co., Ltd., which had previously hired an average of 800 college graduates per year, recruited only 100 in 1976, and its 1977 hiring plan called for about 400 college graduates. According to a survey of 1,711 corporations conducted by a private recruiting firm, only 6.8% of the firms surveyed reported plans to increase hiring in 1977 by more than 50% over 1976, while 13.8% reported plans to increase by less than 50%. Much of the recent drastic reduction in hiring is no doubt attributable to cyclical factors, but there are also strong indications that many corporations have adjusted their long-term recruiting plans substantially downward in line with the prospect of a permanent slowdown in the growth of the economy.

Another factor that has a significant bearing on the changing character of the JES is the rising average age of the Japanese people. This rise, of course, is the result of the declining birth rate and the steadily rising life expectancy of the population. (Between 1955 and 1977, the normal life span of Japanese men increased from 64 to 72.) Between 1965 and 1975, the percentage of the population under 25 years of age decreased from 45.9% to 39.5%. Corresponding to the rising average age of the population as a whole is the rising age of Japanese workers. According to the 1977 White Paper on Labor, the ratio of male workers in the 45-years-or-older bracket to the 18-to-25-year bracket rose from 0.84 in 1965 to 1.78 in 1975 for all industries, and from 0.63 in 1965 to 1.67 in 1975 in manufacturing industries. According to a recent study by a life insurance company covering some 470,000 firms employing ten or more workers, the average age of salaried employees increased from 32.6 in 1961 to 36.1 in 1975, and is expected to reach 39.9 in 1985.

The age structure of employees of a typical Japanese firm was often described as a pyramid. This is no longer true of many firms; the bottom of the pyramid is shrinking and a bulge is developing at the lower-middle age level. The products of the postwar baby boom are now in their early thirties, and a large number of these people were hired during the superboom years of the 1960s. The decline in the youth popu-

---

2 Nikkei Business, August 16, 1976, pp. 36-37.
3 President, August 1977, p. 45.
lation coupled with the recent slowdown in hiring has resulted in a sharp reduction in the employment of workers in their twenties. A 1976 survey of 438 firms conducted by the Ministry of International Trade and Industry (MITI) found that 34.6% of male staff workers were in their thirties while 30.6% were in their twenties.4

The rising age of Japanese citizens is exerting an increasingly heavy pressure on the outdated system of mandatory retirement (teinen-seti) found in a great majority of Japanese firms. Prior to the 1970s, the mandatory retirement age in many firms was set at 55. The retirement age of 50 or 55 practiced at the turn of the century made sense in view of the then very short life expectancy, which was about 43 for men. Now, with the male life expectancy of 72 years, retirement at 55 poses a very serious problem to the retirees who still possess many years of productive life. Retirement before 60 is particularly hard since the payments of the national old-age pension (kosei nenkin) benefits do not start until age 60. For these reasons, the extension of the mandatory retirement age has become a serious social issue in recent years, with labor unions fighting for the extension and employers resisting the change. The average retirement age is now about 57, with 47% of firms requiring retirement at 55 and 32% setting the age at 60. As more firms raise their retirement ages to 60 and above, the higher the average age of the workers will become, aggravating the problems to be discussed in the next section.

Another development that is closely related to the rising average age of workers is the rising proportion of the working population with university degrees. Of the male population of 25 years or older, only 4.5% were college graduates in 1960; the figure exceeded 10% in 1970 and was 12% in 1975. The total number of university students exceeded one million in 1965 and two million in 1975. The percentage of college-age population attending colleges and universities increased from 10% in 1960 to 38% in 1975. Close to 40% of high school graduates now seek higher education. These developments have the following effects: first, the declining number of young job seekers coupled with employers’ penchant for recruiting untrained labor have resulted in acute shortages of young production workers; second, the increasing availability of university graduates for managerial positions has diminished the special advantages of having university degrees. In the superboom years of the 1960s, corporations competed for college graduates in order to expand their managerial staff. Managerial trainees with college degrees had a special advantage in wages and promotion over those with only high school educations. This advantage has diminished markedly in recent years.

Problems and Changes

The recent diminishing economic growth rate and increasing age structure of workers within the environment of the JES have created two rather serious problems for Japanese business. The first problem concerns wages of production workers. Rising workers’ ages within the context of lifetime employment and nenko (“ranking by the merit of years of service”) wages mean that the total wage bill increases automatically every year as workers grow older, other things being equal. The second problem primarily concerns managerial employees. The rising age of workers means, in the context of nenko promotion, that an increasingly larger number of administrative positions must be created each year to meet the growing demand for them. This was possible during the boom years of the 1960s, but it is becoming increasingly difficult in the 1970s. The widening gap between the demand for and the supply of administrative positions is becoming a very serious problem for many Japanese firms. In this section we shall examine how these two problems are being dealt with and, as a result, what changes are occurring in the JES.

The Problem of Rising Labor Costs: The practice of paying wages according to nenko is found primarily in large firms; it is characteristically absent in small firms. Nenko wages make sense only under a system of lifetime employment, but the latter is neither possible nor desirable in small firms. They do not possess the prestige, stability, and profitability of larger corporations that are needed to attract younger workers to work at wages below their productivity. Since their needs are primarily for unskilled labor, they need not invest, as larger firms do, in workers’ skills. Instead, they can easily obtain ample supplies of unskilled older workers willing to work at lower wages. Finally, smaller firms are relatively free of labor union pressures demanding security for older workers. All in all, the labor market for smaller firms is highly fluid and wages tend to be in line with workers’ contributions to production. In contrast, the nenko wages of larger firms tend to underpay younger workers and overpay older workers in terms of their productivity.

Figure 1 shows the changes, between 1967 and 1975, in the average wages paid to workers in different age brackets by large (1,000 or more workers) and small (10 to 99 workers) firms. Workers’ productivity can be assumed to peak in their thirties, and this is reflected in the small-firm wages curves. These curves are not only less steep than those of large firms; but, characteristically, they have peaks in the middle years. In contrast, the wage curves of large firms for both years are positive, indicating that the nenko system of wages is still very much in evidence in large firms. We note, however, that the 1975 curve of large firms is considerably flatter than the 1967 curve; the ratio of older (50–59) work-
FIGURE 1: Wage structure by age bracket, male workers.

*A: large firms, 1000 or more workers; B: small firms, 10 to 99 workers. 20-24 = 100.

ers' wages to those of younger (20-24) workers decreased from 2.4 in 1967 to 2.1 in 1975. This change clearly indicates that the advantage of seniority is diminishing. One reason for this development is undoubtedly the fact that the shortage of young school leavers, particularly in blue-collar jobs, has pushed up their starting wages relative to the wages paid to older workers. Another reason may be that firms are successful in preventing the rising ages of workers from automatically pushing their wages up. In fact, a study by the Ministry of Labor reveals that firms with a larger proportion of workers in the middle and upper age brackets tend to have flatter wage curves than those with a relatively larger number of younger workers. This downward pressure on the wages of older workers is expected to increase as more firms extend their compulsory retirement ages to 60 and beyond.

One may wonder how corporations under the nenko wage system can cope with the problem of rising labor costs caused by the rising age of workers. Theoretically, the solution is obvious: it is to replace nenko wages by a system of wages based on function and ability. Given the nature of Japan's social environment, however, a system of wages based solely on merit is untenable for two reasons. First, there still persists a widely held view that wages should be geared to the necessary living expenses of workers. A merit-based wage system threatens to undermine the financial security of some older workers. Secondly, since work is a group effort in a Japanese organization, an accurate measurement of an individual's performance is often very difficult. It appears, then, that the only viable option open to Japanese corporations is to work out a compromise between the nenko and merit systems; or, more specifically, devise a nenko system modified by considerations of an individual worker's ability and performance. The following case study illustrates one such compromise solution.

*The Wage System of Polyplastics Co., Ltd.*: Polyplastics Co., Ltd. is owned jointly by Celanese Plastics Company, a New York-based plastics company, and Daicel Company, Ltd., a large Japanese chemical firm headquartered in Osaka. Although Polyplastics' employees number only about 350 (all Japanese), the company has all the characteristics of a large corporation, both in terms of capitalization and the volume of sales. Its employment system is strictly Japanese, or more specifically, that of a large Japanese corporation with lifetime employment, nenko wages and promotion, and an enterprise union. We will examine briefly the company's wage system which incorporates a significant element of workers' ability, but will limit discussion only to wages of nonmanagerial employees. Bonuses, allowances, and fringe benefits will not be considered.

---

6 The discussion in this subsection is based on the booklet on the wage system prepared by the Polyplastics Co.'s Personnel Department, and personal interviews with the head of the department, Mr. S. Iwai.
All employees including production workers are paid monthly salaries. The basic monthly salary (rihon gesshu) consists of two parts: the basic wage (kohon-kyu) and the job-ability wage (shokuno-kyu). The basic wage is strictly proportional to the age of the workers. It ranges from 51,000 yen per month for an 18-year-old worker to 90,300 yen for a 55-year-old employee. The strict nenko nature of the basic wage is justified on the ground that the employees' needs are highly correlated with their ages. The job-ability wage is designed partly to reward employees' ability and performance and partly to reflect their education and seniority. The average proportion of the job-ability wage in the worker's basic monthly salary is about 20% for an 18-year-old and 40% for a 30-year-old.

There are three categories of job-ability classifications: M (managerial-specialist), S (senior), and J (junior). Each category is divided into several grades (4 in M, 4 in S, and 3 in J). Each grade is defined in terms of the minimum quality of work required in that grade. For example, J-3 grade requires "possession of high-school level general knowledge and an ability to perform simple, routine tasks under supervision." The minimum monthly job-ability wages for the grades are as follows: J-3, 19,400 yen; J-2, 22,900 yen; J-1, 28,500 yen; S-4, 35,750 yen; S-3, 45,750 yen; S-2, 56,750 yen; and S-1, 72,500 yen. The assignment of a job-ability grade to a new recruit who has no work experience is based on the worker's level of education: High school graduate—J-3; Junior college graduate—J-2, with automatic promotion to J-1 after two years of service; University graduate—J-1; and Master's degree—J-1, with automatic promotion to S-4 after one year of service.

A worker must serve in each grade for a minimum number of years before he becomes eligible for promotion to a higher grade. The minima are one year in J-3, three years in J-2, and two years each in J-1 through S-1. There are also a certain maximum number of years which a worker may serve in some grades beyond which he is automatically promoted to a next higher grade. These maxima are: one year in J-3, three years in J-2, six years in J-1, and nine years in S-4. The combination of the minima and maxima works in such a way that an 18-year-old high school graduate who starts to work in the company with J-3 grade will automatically be promoted to J-1 in four years, which will put him on an equal footing with a 22-year-old university graduate who starts his employment with J-1 grade. The company's wage policy thus implies that four years spent by a high school graduate in the company is equivalent (as far as his usefulness to the firm is concerned) to four years spent in a university. Promotions beyond the J-1 grade are less certain and automatic; ability and performance of the individual worker significantly affect the speed at which he is promoted.

Promotions to higher grades and categories, as well as the size of annual pay increases within the grade, depend on the results of periodic personnel evaluations. The criteria for evaluation consist of the individual's (1) performance, (2) attitudes (discipline, cooperativeness, ag-
gressiveness, and sense of responsibility), (3) competence (necessary knowledge and technical skills), and (4) capacitative maturity (judgment, creativity, ability of expression, leadership ability, etc.). Promotions between categories (J to S, and S to M) also require passing examinations which include writing a thesis.

Promotion in grades (J-3 through M-1) must be distinguished from promotion in positions (foreman, section chief, etc.). Grades are “person-related ranks,” whereas positions are “job-related ranks.” It is possible for an individual to be promoted in grade, with more status and money, without getting promoted in position, and vice versa. In practice, however, there is a close correlation between the two parallel ranking systems. Thus, S-1 corresponds roughly to superintendent foreman, and ordinary foremen have grade S-2 or S-3. In the managerial category, the lowest M grade corresponds to the position of assistant section chief, and the department head—the highest functional position below the top management—has the grade of M-1. For a managerial employee with a college degree, it takes somewhere between 13 and 17 years from entry to the firm (at age 22) to reach the position of assistant section chief.

The foregoing example of Polyplastics’ wage system is fairly typical of the wage systems of large Japanese corporations. It is fundamentally a nenko wage system, modified to some extent by considerations of merit. The merit (ability, performance, and attitudinal qualities) affects, within a limit, the speed at which an individual employee is promoted in grade with accompanying increases in pay. Note that, under this system, a worker’s salary increases automatically with his age; it cannot remain constant, let alone decrease. As such, it is a system which is ill-equipped to cope with the problem of the rising age of workers. In the years and decades ahead, the problem of the rising age of workers is expected to worsen, especially as extensions of compulsory retirement ages are inevitable. It will therefore become imperative for firms to develop an even more flexible wage system giving a much heavier weight to merit. A step in that direction was recently taken by a large textile firm when it adopted a wage system under which the age-related portion of the worker’s basic wage ceases to rise at age 45.

The Problem of Inflation of Managerial Ranks: In the preceding subsection we examined the problem pertaining to nenko wages. We now turn to the other side of the nenko system—the practice of nenko promotion in positions. This is a problem which largely concerns managerial workers. Although employees are concerned about grade promotions since they bring forth higher salaries and more status inside the company, they are much more sensitive to promotions in functional positions. “Rank” to them is synonymous with position, not with grade. Grade promotions are less satisfying than positional promotions for the following reasons. First, grades in actual practice are so closely tied to employees’ ages that they serve little function as a distinction.
Practically everybody gets higher grades by merely growing old. Secondly, grades are usually good only inside the company. Such internal grade designations as M-1 and S-1 in Polyplastics Co., for example, mean little in society at large. In contrast, such positional titles as section chief and department head are commonly recognizable throughout the bureaucratic world, in business as well as in government. A managerial employee in his forties who has not made section chief (or department head in his fifties) must experience a serious image problem in the rank and status conscious Japanese society. Even the employee's wife's status and prestige in the neighborhood and among her relatives and friends must suffer if her husband does not have an appropriate title for his age. In order to preserve self-respect and keep peace with his family, a managerial worker is driven to seek a title with cho (head or chief) in it. According to a report by the Japan Productivity Center, some 80% of the lower-middle managers expressed the desire to become a section chief (incidentally, only 13% of them felt that promotions should be based solely on individuals' merit).\(^7\)

The basic functional positions in the managerial ranks are, in an ascending order: deputy section chief (kacho dairi); section chief (kacho); assistant or associate department head (bu-jicho); and department head (bucho). Above the bucho are the executive ranks combined with directorship: managing director, executive managing director, president, and so on. Below the deputy section chief are nonmanagerial ranks of subsection chief (kakaricho), chief (shunin), and so forth. All these designations, of course, vary to some extent from company to company.

Given the traditional Japanese attitude toward ranks and the recent changes in the environment of the JES discussed earlier, an inevitable conclusion must be drawn. The system of nenko promotion pushes a large number of increasingly more eligible managerial employees upward in the organizational hierarchy. Not only the absolute number of eligible managers increases each year as they grow older, but also the proportion of junior managers who seek higher administrative positions rises as college degrees become commonplace. Corporations, however, are unable to meet the increasing demand for administrative positions because the slower rate of economic growth precludes their continued expansion. They thus face a serious dilemma. Promoting managers to satisfy their needs for titles would result in an excessive number of managerial posts and attendant inefficiency. Failing to give them positions, on the other hand, would lower managerial morale and productivity. This problem has come to be known as the "inflation of managerial ranks" (hanriso no hidaika). It is emerging as one of the most vexing problems confronting Japanese business today and in the years to come.

Table 1 presents a result of the survey of 93 large corporations con-

---

\(^7\) *President*, August 1977, p. 40.
<table>
<thead>
<tr>
<th>Firm</th>
<th>Year</th>
<th>Percentage of total employees</th>
<th>Youngest</th>
<th>Age</th>
<th>Oldest</th>
<th>Percentage of total employees</th>
<th>Youngest</th>
<th>Age</th>
<th>Oldest</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (electronics)</td>
<td>1960</td>
<td>0.8</td>
<td>32</td>
<td>40</td>
<td></td>
<td>1.2</td>
<td>29</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1976</td>
<td>1.7</td>
<td>37</td>
<td>43</td>
<td></td>
<td>7.3</td>
<td>34</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td>B (precision instrument)</td>
<td>1960</td>
<td>0.4</td>
<td>33</td>
<td>51</td>
<td></td>
<td>1.9</td>
<td>30</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1976</td>
<td>3.2</td>
<td>39</td>
<td>63</td>
<td></td>
<td>9.2</td>
<td>34</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>C (securities)</td>
<td>1960</td>
<td>1.2</td>
<td>37</td>
<td>51</td>
<td></td>
<td>2.6</td>
<td>32</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1976</td>
<td>1.1</td>
<td>42</td>
<td>58</td>
<td></td>
<td>11.0</td>
<td>33</td>
<td>58</td>
<td></td>
</tr>
<tr>
<td>D (trading)</td>
<td>1960</td>
<td>0.6</td>
<td>47</td>
<td>57</td>
<td></td>
<td>4.5</td>
<td>37</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1976</td>
<td>1.0</td>
<td>48</td>
<td>56</td>
<td></td>
<td>8.5</td>
<td>37</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>E (commerce)</td>
<td>1960</td>
<td>3.0</td>
<td>42</td>
<td>47</td>
<td></td>
<td>3.6</td>
<td>31</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1976</td>
<td>1.6</td>
<td>43</td>
<td>45</td>
<td></td>
<td>13.4</td>
<td>35</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>F (glass)</td>
<td>1960</td>
<td>1.4</td>
<td>45</td>
<td>60</td>
<td></td>
<td>9.5</td>
<td>41</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1976</td>
<td>2.3</td>
<td>40</td>
<td>47</td>
<td></td>
<td>10.0</td>
<td>33</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>G (retailing)</td>
<td>1960</td>
<td>0.7</td>
<td>43</td>
<td>54</td>
<td></td>
<td>4.1</td>
<td>32</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1976</td>
<td>1.3</td>
<td>42</td>
<td>55</td>
<td></td>
<td>6.0</td>
<td>33</td>
<td>55</td>
<td></td>
</tr>
</tbody>
</table>

ducted by *Nikkei Business* in the summer of 1976. The table shows the changes, between 1960 and 1976, in the range of ages and relative number of department heads and section chiefs in seven representative firms. It is evident that there have been sharp increases in both the ages of managers and the number of administrative positions, especially section chiefs. The same survey also found that corporations were not optimistic about the future prospects of their employees' promotions. In 73.3% of the firms the promotion chances were to worsen, while in 15.1% they would remain the same and in 8.1% they would improve. According to a projection by the National Land Agency, only about 10% of male college graduates of 45 years of age or older will be able to occupy positions of section chiefs or higher in the year 2000, as compared to about 70% who are so positioned today.

What steps are being taken, or can be taken, by corporations facing the problem of the increasing number of managerial employees who are eligible for promotion to higher administrative positions? The following six broad categories of actions may be considered: (1) maintaining the status quo; (2) increasing the number of titled positions; (3) adopting "qualification systems"; (4) adopting the "specialist system"; (5) easing out older employees, and (6) other measures for greater operational flexibility.

*Maintaining the Status Quo:* Corporations could simply ignore the problem of the managerial employees' need for higher status, and fill administrative positions only when economically justified. In most enterprises such a course of action is extremely unwise since it is likely to result in a deterioration of morale and productivity on the part of an increasingly larger proportion of managerial workers who cannot be promoted to positions of authority. There exists an underlying presumption in a Japanese firm that those who are hired in the same year are approximately equal in ability. It must also be remembered that in a Japanese corporation, employees have little say over the positions to which they are assigned. Thus, when one manager in the same-year-of-entry group is promoted ahead of the others, the latter tend to feel that the one promoted has been lucky because he was assigned to a "right" position. The sense of unfairness, resentment, and jealousy are likely to frustrate those who are left behind.

*Increasing the Number of Titled Positions:* Corporations are resorting to this measure rather prolifically, as Table 1 shows. The percentage of section chiefs in total employees, for example, increased in many firms from a mere few percent in 1960 to about 10% in 1976. Besides increasing the number of sections and departments, firms could also create

---

8 *Nikkei Business*, August 16, 1976, p. 92. Don't-knows and no answers constituted the remaining 8.5%.

layers of intermediate ranks. The most commonly found intermediate ranks nowadays are: associate department head, assistant department head, deputy department head, deputy section chief, and assistant section chief. Although exact designations and ranking of these intermediate positions vary from company to company, they are taken seriously as formal positional ranks and their holders are accorded due recognition and respect both inside and outside the company. This proliferation of ranks would certainly quench the employees’ thirst for titles, but it would be damaging to the efficiency of the company’s operations.

Adopting “Qualification Systems”: The term qualification system (shokuno seido) refers to the use of a wide variety of person-related grades (“qualifications”) that are not directly related to functional positions. The grade system of Polyplastics Co. discussed earlier is a typical example. Some firms use systems of grades that are hardly distinguishable from positional ranks. For example, in one large firm, a distinction is made between “accounting section chief” (kaikei kacho, a grade) and “chief of accounting section” (kaikei-ka kacho, a position). In the accounting section, there is only one “chief of accounting section,” but there may be several “accounting section chiefs,” that is, those managers who “qualify” to be the real chief in terms of experience and ability. In some rare cases, not even such a subtle distinction is made. Thus, there may be several chiefs in a given section, and only the insiders know which one is the real (i.e., functional) chief. In most firms that use a qualification system, however, the grade designations are either the impersonal, mechanistic type like Polyplastics’ M-1 or S-1, or broader, more general designations such as counselors, principals, secretaries, and so on.

The objective of the qualification system is to reward employees’ ability, performance, and seniority by means other than promotion in functional positions which, by their very nature, cannot be given to all who qualify. Under this system, even though only a fraction of managerial employees can actually become, say, department heads, all, or almost all, of them can look forward to eventually reaching the rank (grade) which is regarded as equivalent to the department head.

This system is not without shortcomings. First, the grade designations used in many corporations are not directly recognizable in the outside world, so that they are not helpful in boosting the social status of the employees and their families. Secondly, since seniority (nenko) is still an important factor in the determination of employees’ grades, there is a tendency for those employees in the same-year-of-entry group to be roughly in the same grade. Their need for recognition and status, therefore, cannot be fully satisfied by this system. Thirdly, higher grades are often not accompanied by increased authority and responsibility. Those with high grades may become frustrated if they are not given
comparably high positions—a situation which is not very conducive to high employee morale and productivity.

*Adopting the “Specialist System”:* With a better understanding of the distinction between line and staff functions, there has been an increasingly clearer recognition in Japanese companies that all managerial employees need not be administrators. Some firms have consequently adopted the designation of specialist (senmonshoku) as a separate category. Managerial employees (in the broader sense of the term) are then divided into two categories: kanrishoku (managers or administrators) and senmonshoku. To the extent that some managers are removed from line functions, the pressure on administrative positions is reduced.

The system has one serious drawback as a means for solving the problem of status inflation. Not many managers like to be called specialists, and those who are so called tend to be regarded as misfits or incompetents. The reason for this unpopularity lies deep in the character of Japanese social organization. Workers tend to identify themselves with their groups—sections and departments—rather than with their “profession.” The concept of profession or specialty has not been firmly established in Japan. Managers are, as a rule, employed by corporations not as specialists—e.g., accountants or lawyers—but as generalist members of the corporate family. They are assigned to sections or departments that collectively perform specialized accounting or legal functions. Besides, most managers are transferred from one function to another many times throughout their careers. To be labeled “specialist” and removed from the candidacy for positions of authority is tantamount to being left out of the mainstream of the corporate life. Nor does a specialist designation—for example, senior chemist—carry much prestige or status outside the company. The manager of a nearby bar would be more than happy to extend credit to a section chief, but not to a senior chemist. To make the matter worse, specialist designations have been used in the past by some firms as a convenient dumping ground for older, less competent employees. For these reasons, the specialist system has not been very popular with corporate managers. Many firms which had adopted the system in the fifties and sixties are now dropping it.

*Easing Out Older Employees:* Because of the tradition of lifetime employment, few firms explicitly list reduction of excess (older) labor as one of their objectives. However, many firms do have personnel policies that are aimed indirectly at reducing the pressure of older workers on the companies’ payrolls and administrative positions. Several such policies were reported in a study conducted by the MITI in 1976. Of the 1,057 large and medium-sized firms covered in the survey, 438 responded to the questionnaire. The percentages of those firms using the
following measures were: Arranging retirement or temporary assignment in affiliated firms—71.0%; Arranging employment elsewhere—51.6%; Establishing subsidiaries in which to place older workers—12.1%; Providing assistance in obtaining qualifications needed for gaining employment or starting own business—9.8%; and Providing technical and financial assistance for starting own business—8.4%.10

The most often used measure is placing retiring workers or older employees nearing retirement in the affiliated (keiretsu) firms, that is, subsidiaries and subcontractors. The transfer may be either on a temporary (shukko) or permanent (amakudari) basis.11 Additionally, more than half of the firms had policies of helping their older employees find employment opportunities elsewhere, while 12% had subsidiaries established for the specific purpose of absorbing older employees. In general, the employees who are eased out are those in their late forties or fifties who, in the eyes of the top management, are not likely to reach the top level before retirement. Some of them could stay in their present positions until retirement, if they wished. Many, however, welcome the opportunity of moving to a greener pasture while they are still relatively young.

Since movements are almost always to smaller, less prestigious firms, they often involve increases in rank, and possibly, salary. In order to encourage early retirement, some firms have adopted a policy of using favorable formulae for calculating severance allowances and/or pension benefits of those who retire at 45 or 50. It must be noted, however, that compliance with early retirement policies is strictly voluntary. Most corporate top management refrain from exerting overt pressures on their employees lest such steps should be interpreted as signaling the abandonment of the practice of lifetime employment. In fact, many firms have put into effect, as a package, early retirement programs and an extension of the mandatory retirement age.

Other Measures for Greater Operational Flexibility: Several other measures designed to increase the operational flexibility of the management of older personnel are being contemplated, and in some instances adopted. One such measure is to abandon the provision of automatic annual increases in the worker’s basic wage once he reaches a certain age. Other measures include demoting managers from functional positions, rotating administrative appointments among eligible managers, and placing a limit on the number of years a manager can serve in administrative positions. Some variations or combinations of these measures are being tried experimentally in a small number of firms.

Note that all of the foregoing measures entail to some extent an

10 MITI, Atarashii Keieiryoku Shisu, Showa 52-nen, p. 67.
erosion of the nenko system. In a company that adopts one of these measures, a situation can easily arise where a person with longer seniority works under, or receives a smaller salary than, a person with less seniority. Such situations would be fundamentally at odds with the basic organizing principles of Japanese society. Yet the fact that these measures are considered, debated, and experimented with indicates the seriousness of the problem at hand.

In speculating on the trends of change in the JES, it is helpful to know what some presidents of large Japanese firms are thinking. The survey of 1,726 presidents conducted by Nikkei Business in July 1976 yielded some interesting results. The 306 presidents who responded to the questionnaire predicted as follows: Nenko wages—will change, 71%; will not change, 28%; Lifetime employment—will change, 56%; will not change, 44%; Enterprise unionism—will change, 44%, will not change, 55%. When asked if they felt that the nenko system and lifetime employment had to change, their responses were: Nenko wages—must change, 73%, need not change, 26%; Lifetime employment—Must change, 54%, Need not change, 45%. The fact that over 70% of the presidents of large firms feel that the nenko system will and must change is highly significant. It appears to foretell the nature and shape of the coming erosion of the Japanese Employment System.

Concluding Remarks

In this article we have examined the two problems that threaten to plague Japanese business in the decades to come: the problem of rising labor costs and the problem of inflation of managerial ranks. Both problems are directly caused by the rising ages of workers within an environment of slower economic growth. What is wanted, of course, is greater operational flexibility in the management of older employees. In search of this flexibility, Japanese firms have adopted, or are considering the adoption of, various measures. The fundamental problem is that those measures that are compatible with the traditional values of Japanese society are not effective in solving the problem, while more effective measures go counter to the basic organizing principles of society at large. It is an old story—a perennial battle between traditional values and economic rationality. Although there is little doubt in most observers' and practitioners' minds that economic rationality must ultimately triumph, there also seems to exist a widely held belief that since traditions die hard, compromise and gradualness in personnel policies must be allowed.

---


KANJI HAITANI is Professor of Economics and Business Administration at State University College at Fredonia, New York.