

**Employee Grading Principles of Japanese Firms: Complementary Relationship with Power
and Information Capabilities of the Human Resources Department**

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Abstract

Based on the data of 347 Japanese firms, we clarified the relationships between employee grading principles and firm performance. In analysis, we especially focused on the complementary relationship between employee grading principles and some characteristics of human resource department, such as power and the information capabilities concerning front lines held. The relationship between merit-based grading principle and productivity becomes more positive, as the power concerning HRM activities is centralized on HR department. To ease the negative relationship between job-based grading principle and productivity by the decentralization of power, HR departments must accumulate and utilize information about front line abundantly.

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1. Introduction

An employee rating system is the cornerstone of the human resources system that seeks to determine an employee's "merit" through a scale that measures the extent of contribution to the company (Imano and Sato, 2009). The presence and efficacy of such a rating system makes the relationship between duties and remuneration levels more transparent. With that system in place, both the employer and employee can gain an understanding of an obligatory exchange relationship that can be enforced, that is, the expectations surrounding the sustenance of a fair employee–employer relationship (Marsden, 1999).

This does not mean that the employee–employer relationship cannot be stabilized in the absence of an employee rating system. Employee contributions are to facilitate the achievement of business goals. In an effort to draw out such contributions, a company utilizes its human resource management and provides various incentives such as money, position, and growth opportunities. A discussion on these incentives can be offered in various ways: when a company is small, incentives can be provided on the basis of the management's knowledge of every employee personally. Also, even if a certain judgement, for example, is arbitrary and opaque, that can potentially be supported by a wide range of stakeholders, including employees.

In practice, however, both labor and management have often assigned a negative rating to such treatment. In Japan, particularly since the end of World War II, employee rating systems, particularly in large enterprises and listed companies, were introduced and spread through discussions about the desirable scale (Japan Institute for Labour Policy and Training, 2009; Ministry of Labor, 1999). Employee rating systems in Japan today can be broadly divided into (1) Japan's unique ability-based grade system; (2) a job-based grade system of American origin, and (3) an eclectic form (half Japanese and half American) of both systems¹ (Enatsu and Hirano, 2012; Imano and Sato, 2009; Ishida and Higuchi, 2009). In short, considering the employee rating systems utilized in Japanese enterprises, neither ability-based grade systems nor job-based grade systems can be ignored. The same

holds for the principle that underlies each system, namely the merit system and job system, respectively.

The functionality of the employment rating system has often been examined from an institutional complementarity perspective. In short, whether or not an employment rating system functions effectively depends on historical factors, including how it has been accepted by companies or the society in which they operate (Arthur, 1994; DiMaggio and Powell, 1983; Meyer and Rowan, 1977; North, 1990), and the business performance of the company, which includes the specific human capital characteristics that a company seeks and other policies related to human resources (Banberger and Fingenbaim, 1996; Becker, Huselid, Pickus and Spratt, 1997; Kepes and Delery, 2007; Koike, 1994). In Japan, a considerable number of companies are aware of the revision to the merit system or the move away from it. Yet, it is still debatable whether such steps are actually reasonable.

Many previous studies have introduced the concept of employment rating principles and the institutions that embody it, as well as the actual conditions of social spread and practices of individual companies. Yet, few studies, even on a global scale, have thus far examined the functionality of employment rating principles based on institutional complementarity. This study aims to clarify the actual conditions that ensure the functionality of the employment rating principles of both the merit system and the job system—particularly the relationship between these principles and organizational performance—from the perspective of the complementary relationship between perceptions of the human resources department that is directly or indirectly related to the department's performance. The human resources department's image can be comprehensively examined as this study focuses on the extent of information retention about the site or employees, as well as the department's competence in undertaking human resources management.

2. Previous Studies

2.1 Key Employee Rating Principles in Japanese Companies

2.1.1 Merit System

The ability-based grade system was formulated in Japan in the 1960s and spread widely since the 1970s. This system currently embodies the merit system.

With an ability-based grade system as the basis, employees are granted qualifications and grades according to their abilities to perform duties. Kusuda (2004) described that each company needs to effectively design and implement the ability-based grade system, and to do so, organizing grades based on a “survey of duties” is ideal. Accordingly, the number of grades is set first. Second, the abilities required to perform various duties within the company are extracted individually. Third, a grade is allotted to each set of abilities needed so as to perform duties according to its value. Fourth, each employee’s ability to perform duties is measured. Finally, they are given a professional qualification or grade. According to the development of an employee’s abilities to perform duties, that employee can receive a promotion in professional qualification and status.ⁱⁱ The former is called “promotion to a higher grade” while the latter is called “promotion to a higher status.”

Most Japanese companies define the ability to perform duties as aspects of both “personality” and “skills” (Ishida, 1990; *Nikkeiren Noryokushugi Kanri Kenkyukai* (Japan Federation of Employers’ Associations Merit System Management Workshop), 1969–2001). In the ability-based grade system, the accumulation of abilities and their manifestation in terms of improved job performance is rewarded in the form of compensation. Competition among colleagues for this compensation drives the growth of not only the employees but also the company as a whole. History tells that the “Densan wage system (seniority wage system)” was established under the labor union leadership around the 1950s, and this fact attests to it that most workers in Japan at that time conditionally supported competition among colleagues and the treatment gap that arose as a result (Kumazawa, 1993).

For employees to accept the system, the employers were to respect employees’

“personality.” More specifically, this also means the following ideology. First, the ability-based grade system negates the old idea of skills that accumulate with age, and the following assumptions were instead followed: (1) job experience significantly influences skills accumulation and (2) the worth of accumulated skills does not diminish. Furthermore, abilities to perform duties were broadly defined because they not only include skills not associated with action and achievements but also such elements as personalities, motivations, and efforts. Redefining the seniority-based components and evaluating various aspects contributed to the development of a “sense of fairness” amongst employees in Japanese companies (Ishida, 1990).

Such a concept regulation involves a complex assessment of merit. As such, mechanisms that include assessment and promotion exams (represented by performance ratings) were then introduced. However, compared with the job-based grade system that is discussed later, the assessment criteria became abstract and the evaluation outcomes became dependent on the difficult-to-standardize daily observation activities of the assessor. To ensure proper management for company internal posts, setting mechanisms for retention periods or demotion measures is also critical (Japan Business Federation, 1989).

Most Japanese companies, mainly large companies, give their potential managers and executives—due to “*osoi senbatsu*” (slow selection) (Sato, 2002), the range being a broader compared with Western enterprises—a wide range of business experience from early in their career. They want their employees to have a broad perspective without disproportionate emphasis on one particular speciality. In short, they offer a wide range of job rotation directed at a wide range of employees,ⁱⁱⁱ including across-the-job categories. Efforts are being made to provide additional meaning to employees’ abilities, and such efforts are made possible only through comprehensive (unspecified content) employment contracts (Hisamoto, 2010). However, for employees to accept this, the practice of employment security and an ability-based grade system are essential. The extensive job rotation makes quite a lot of employees frequently experience a temporary drop in performance because of

engaging in work to which they are unaccustomed. However, the rating criteria in the ability-based grade system include the abilities to perform duties, meaning that there is no decrease in treatment level following a drop in performance. By providing motivation for them to accumulate a wide range of abilities, the majority of Japanese companies give their employees peace of mind in the present and hope for better performance in the future.

Such initiatives by Japanese companies can be considered reasonable from the viewpoint of consistency with the business' style of execution. The characteristics of Japanese companies' business execution style include aspects such as generation of strategies and business through daily activities and performance by those below middle-management level, as well as a broad transfer of authority by top management. This is well supported by employees in the horizontal networks within the company, especially by autonomous coordination among middle-level managers (Numagami, Karube, Kato, Tanaka, and Shimamoto, 2007; Nonaka and Takeuchi, 1995). Such organizational processes demand that employees use contextual and comprehensive skill^{iv} to resolve challenges. It is considered easy to cultivate such skills in employees through a job rotation cycle across many areas—especially across various jobs categories.

2.1.2 Job system

The job-based grade system that embodies the Japanese job system originated in the United States (US) around 1900. Then it spread during 1935–1945 amid labor market controls by the labor unions and the federal government, together with the economic development that occurred after World War II (Baron, Dobbin and Jennings, 1986; Cappelli, 2008; Jacoby, 1997, 2004). Similar to the situation in Japan around the formation of the ability-based grade system, the US, too, around year 1900, had labor market problems that resulted in an insufficient supply of good human capital to companies. Companies in the US then searched for useful criteria to internally train employees, given the then-prevalent continuous employment relationships. Over time, the establishment of the job-based grade system stabilized

employment relationships, and companies created an atmosphere for the employee to acquire the identity of an “organization man” (Whyte, 1956): the formation of internal labor markets (Doeringer and Piore, 1971).^v

Under the job-based grade system, companies give employees grades and treat them according to the worth of the duties in which employees actually engage. In the “analysis of duties” used to design the system, all duties within the organization receive scores for their value, considering the degree of difficulty, level of responsibility, and skill level required.^{vi} According to the score size, each operation is given various grades. Under the job-based grade system, the key means for an employee to earn a promotion is to be assigned a higher grade of duties as a result of the employer’s evaluation of growth in employee abilities and performance or to receive a revised higher grade by undergoing an analysis of the employee’s responsibilities and/or duties.^{vii}

In other words, compared with the ability-based grade system, the job-based grade system is more likely to connect employee treatment directly to the official job system. In an effort to ensure the implementation of the job-based grade system, we witness the development of job description transparency, which forms the basis of employment contracts, as well as more elaborated assessment mechanisms. For this, compared with evaluations based on the ability-based grade system, there is a tendency for the assessment criteria to become more specific and objective (Endo, 1999).^{viii}

Mobility—the extent of an employee’s job rotation experience—of employees within companies in the US shows a remarkable spread of the job-based grade system and tends to be low compared with that in Japan, where the ability-based grade system is widespread (Lincoln, Hanada and McBride, 1986; Sato, 2002). Given this background, first, specifying the contents of employment contracts serves as a barrier against horizontal transfers. In addition, compared with Japanese companies, US companies tend to exhibit “separation of thought and execution” at the time of job performance. In other words, a tendency to advance the vertical division of labor is also related. The vertical division of labor allows lower-grade

personnel to focus on performing duties that do not overlap with those of others and higher-grade individuals to manage the exceptions that subordinates face (Numagami, 2004). In such companies, the primary requirement is that the majority of the employees be professionals in their relevant job profile (Aoki, 1989). Further, employees are assigned duties that best utilize the specialization they have acquired or can further their expertise in the future.^{ix}

Compared with Japanese companies, American and European companies are likely to seek contextual and comprehensive skills so that certain employees nominated early on as executive candidates can focus on coordination and management work. To enable these executive candidates to acquire these skills, they are rotated through a wide range of jobs, even more than in Japan (Storey, Edwards and Sisson, 1997; Yashiro, 2002). In short, under any employee rating system, a wide range of job rotation must be conducted.

Furthermore, although one cannot say that this was the original intent, the job-based grade system originated in the US, at the time of its adoption, would facilitate the procurement of a labor force from outside the company compared with the adoption of the ability-based grade system. The existence of a clear job description became a prerequisite for employment contracts. In addition, such a description is often formulated through an analysis of duties in reference to the standard framework supplied by external consulting companies, and it thus became easy for workers outside the company to estimate their treatment after joining a company.^x Today, there is an increasing tendency for companies to curb investment related to developing employee skills and instead focus on the job-specific labor market (Tolbert, 1996) as suppliers of their labor force. Accordingly, the job-based grade system, rather than being buried, would play the role of assisting the realization of human resources management's intentions (Cappelli, 2008).

2.1.3 Historical Development of Dominant Design

Under the ability-based grade system, the treatment of employees is determined

by their abilities to perform duties, meaning this is related to factors internal to employees. One can logically say that such a system will be more effective in companies that adopt a business execution style mainly based on horizontal coordination. The main focus of employee evaluations is how well employees understand the job content of others and how actively they engage with others in their routine work and in solving unexpected problems while flexibly interpreting the role voluntarily imposed on each employee.

On the other hand, under the job-based grade system, the treatment of employees is determined by the worth of the job that the employee is engaged in, meaning this is related to factors external to the employee. One can logically say that such a system will be more effective in companies that adopt a business execution style mainly based on vertical coordination. The main focus of an employee evaluation would be the conscientiousness of the individual with respect to role expectations delineated in the job description, as determined in advance, without considering whether it is a routine task or a job that needs exceptional handling.

According to Marsden (1999), the merit system emphasizes that “the method of modification of job regulations is of a level that is easily acceptable by employees and is flexible,” but the job system stresses that “the content of job regulations is of a level that is easily acceptable by employees and is unambiguous.” However, employee rating principles for both systems share a common focus on “matching the individual to the job.” Both principles have been constructed with the aim of meeting the primary objective of equipping employees with human capital that matches the company’s needs through work experience in the internal labor market.

When considering the employee rating system used in Japanese companies, it is important to include these differences in dominant principles between the merit system and the job system. However, a focus on the common points can allow us to understand that the employee rating system in post-war Japan evolved with mutual reference to both the principles (Ishida, 1990; Ishida and Higuchi, 2009) and that the attempt to achieve an eclectic mix of both principles in Japanese or US companies today (Koike, 2005) is logically not a failed attempt.

Since the end of World War II, one can see the gradual evolution of the employee rating system in Japanese companies. Immediately after the end of the war, amidst the trend of “democracy,” one can observe attempts to escape from the former system, which emphasized educational background.^{xi} From the 1950s to the 1960s, a subjugation of the seniority principle, which was also a factor in rising labor costs, was the motivation behind attempts to introduce a job-based grade system of a darker shade of “rationalization through learning from America.” In the 1960s, the concept of ability to perform duties was conceived amidst explorations of realistic methods of introducing a job-based grade system, and the ability-based grade system was gradually formulated. From the 1970s to the 1980s, the ability-based grade system became widespread, and a temporary settlement of the controversies surrounding the employee rating system was indicated.

According to Ishida (1990), the ability-based grade system was a product of the gap between the reality of that time and the economic and social conditions established by the job-based grade system, as well as in light of offering fairness to workers. Since then, the job system was seen as the first successful establishment of a system under “scientific” business management, a job-specific labor market, and in addition, a sense of fairness, namely, “wages for the value of work.”^{xii} However, in Japan at that time, business management was more individualistic, and the job-specific market had not been sufficiently established.^{xiii} Furthermore, a sense of fairness was widespread, which accepted treatment disparities arising from the ability to perform duties and good and bad attitudes towards the job. In addition, a certain correlation was assumed between age, number of years of employment, and the level of contribution to the company. In addition, as companies made almost daily changes in their organizational structures during the period of economic growth, repeated job analyses were also avoided.

Eventually, after the middle of the 1960s, even employers’ associations represented by Japan Business Federation (*Nikkeiren*),^{xiv} which until then had advocated the job system, began to turn towards the establishment of an employee rating system based on the merit system. Therefore, the merit system was

understood as being able to flexibly handle daily changes in business and job conditions while embodying the idea of “character formation.” The merit system was not a transitional idea meant to give rise to conditions appropriate for the job system. Rather, it came to be recognized as a replacement for it.

As the concept of ability to perform duties is extremely abstract, and job-content that is also vague, it is essential for employees to convincingly show the strengths and weaknesses. The ability-based grade system has gained much from the job-based grade system, and this can be seen clearly in the former’s use of a “job survey”^{xv} to determine the qualities and abilities required to perform various duties. Designing job questionnaires often relied on the job analysis manual used for designing the job-based grade system, while the actual surveys often drew upon past experiences in conducting the job survey (Kusuda, 2004). The same process was used to refine and spread the ability-based grade system from the 1970s to the 1980s (Japan Business Federation, 1980, 1989).

However, the ability-based grade system was not constructed under similar goals and means as the job-based grade system. In ranking abilities to perform duties, no procedure was generated for individually quantifying the qualitatively different measurement targets in advance and semi-automatically assigning a grade to each target. Rather, each target was not assigned a grade quantitatively but as a result of discussions. This approach emerged against a background assumption that the qualitative differences in measuring targets could “essentially” not be replaced by quantitative differences but that it was essential to replace them with quantitative differences “of some kind or the other.” For employees in Japanese companies, “accuracy” and “satisfaction” were not necessarily the same thing, and there were times when the former was sacrificed for the latter (Kusuda, 2004).

However, in the beginning of the 1990s, amidst changes in the economic environment, such as the recession, the job-based grade system came to the fore due to the following aspects, which were considered problems of the ability-based grade system: (1) the return of the seniority principle, which lacked business rationality, (2) price rigidity in the downward direction for labor costs, (3) difficulties in

sourcing talented people from outside, and (4) difficulties in nurturing human resources with excellent expertise (Japan Productivity Center, 2010; Okubo, 2009). Facing difficulties in achieving a sense of fairness both within and outside companies through assessment (Endo, 1999), the ideal of the merit system turned into a “pie in the sky.” Most Japanese companies that continue to rely on a traditional work style even today feel a “weight” in terms of decision making, namely, (1) an excessive orientation towards inward coordination and (2) a systematic slackness, namely, a lack of awareness and decision-making ability of the parties concerned (Numagami et al., 2007); these outcomes also further strengthened the sense that the employees’ performances and abilities are not being adequately developed and utilized.

In order to find a way out of such situations, a vision of human resources management in entirety, namely, the “performance system” was required. Further, as a part of such a concrete plan, the introduction of the job-based grade system was also re-examined. However, among the changes in the employee rating principles of Japanese companies, the merit system and the job system are not necessarily contradictory. The world of management practices seeks an employee rating system that overcomes the weaknesses of both the merit system and the job system. This resulted in the continuation of traditional approaches, such as the ability-based grade system and the job-based grade system, with content modifications or creation of an employee rating system under a new name—“role-based grade system.” New rating criteria, given designations such as “role,”^{xvi} are “actions expected of employees for fulfilling management strategies” (Ishida, 2006). The criteria’s value determines the employee’s grade. The possibilities of promotion rest upon fulfilling the expectations. The new system ensures systemic operational flexibility while targeting the employees’ abilities to perform duties for evaluation. This means that the new system inherits the traditions of the merit system. The new system focuses on the content of actual activities as it also inherits the traditions of the job-based system. In short, when governing the assessment of employees’ abilities to perform duties and evaluating their contribution to the company, the aim is the realization and clarification of the exchange relationship

between companies and employees.

Ultimately, the employee rating principles are utilized by companies in Japan today, and they are taken by more than half the companies that use the merit system as a basis, although the system is accompanied by the role-based grade system (Japan Institute for Labour Policy and Training, 2009).^{xvii} The relationship between the merit system and the job system has been consistently observed to have the following pattern. The job system “exists as an external reference point for resolving problems,” whereas the merit system is defined as an “internal tradition.” Such a “win–win” system also matches employees’ sense of fairness in recent years as emphasis is placed first on merit wages and second on job salary in the composition of wages (Japan Institute for Labour Policy and Training, 2008).^{xviii}

Changes in employee rating principles have been limited. It is possibly because there have not been many big changes in the business execution style of Japanese companies or in their basic approaches to human resources management. For example, according to the Kobe University Graduate School of Business Administration, Kobe Institute for Management and Personnel Studies, and Japan Management Association (2009), most companies emphasize job expansion and job enrichment, with this tendency becoming increasingly strong in recent years.^{xix} The same survey also indicates that companies that emphasize job expansion and job enrichment offer a wide range of job rotations. This implies that most companies are trying to nurture employees within the company over the long term. In fact, several studies indicate that more than two-thirds of the companies believe the company itself leads the development of employees’ abilities (Japan Management Association, 2011; Japan Institute for Labour Policy and Training, 2009). Furthermore, when filling vacancies, there is a tendency to emphasize reshuffling of personnel within the company (Japan Institute for Labour Policy and Training, 2010) (Table 1).

Insert [Table 1: Japanese Companies’ Methods of Filling Vacancies]

Ultimately, the merit system as an employee rating principle remains highly

consistent with the business execution style widely seen in Japanese companies as well as with the human capital. In this sense the merit system is rational. However, if the issue of the idea becoming a mere shell or dead letter due to a lack of clear criteria is not overcome from the system-operations viewpoint, it will not materialize.

In contrast, if the job system is considered at the system-operations level, it is rational because it is based on clear criteria that render it easy to conduct labor cost management and transfer labor with the external labor market. Furthermore, it matches the needs of most companies and employees seeking the “win–win” arising from cherry-picking the benefits of the merit system and the job system. However, as a matter of principle, it is hard to say that the job system is consistent with the business execution style widely used and long observed in Japanese companies or the characteristics of the human capital that have been sought and accumulated therein.

Either way, it is essential to explore the conditions in which the two employee rating principles, which are unlikely to function unconditionally, operate in modern Japanese companies.

2.2 Conditions by which the two employee rating principles function

This study focuses on two variables related to the roles and activities of the human resources department as supplementary factors of the two employee rating principles, namely, the merit system and the job system. In recent years, studies and proposals have examined activities based on the roles fulfilled by, or that should be fulfilled by, human resources departments for personnel management or management in general (Jacoby, 2005; Ulrich, 1997). However, hardly any research has considered how the human resources system and organizational performance changes depend on the conditions of these roles and activities (Chaldwell and Storey, 2007).

2.2.1 Complementary nature of personnel rights and employee rating principles

First, this study discusses where the locus of organizational decision making in human resources management is situated, that is, on the extent to which the authority of personnel management is concentrated in the human resources department (hereafter,

degree of concentration of HR authority).

According to Aoki (1989), decentralized business operations, i.e., in companies in which the division of labor is not clear and that rely on the horizontal and ex-post facto coordination by employees, general employees require a broad perspective without disproportionate emphasis on specific expertise. To coordinate such human capital, conducting skills development continuously from a company-wide perspective is essential, as briefly mentioned in the discussion of job rotation.

However, it may be difficult to find this perspective in line managers who actually implement personnel management.^{xx} We could consider what is implied by “multitasking issues (Holmston and Milgrom, 1991).” If that is the case, for line managers who are not in a position to supervise the entire company, their own activities’ contribution, including personnel management of subordinates, is clearer for the short-term goals of which they are in charge, rather than company-wide goals. Therefore, it is easier to motivate them to undertake optimal action, such as taking on excellent subordinates and nurturing them in a suitable way (Hirano, 2006; Yashiro, 2002). Alternatively, from the perspective of limitations in management capacity, they ultimately find it easier to take such actions. For this reason, in decentralized organizations, as so often observed in Japan, it becomes rational to concentrate authority of human resources management in the human resources department. Although line managers are expected to implement personnel management, they are not given the decision-making authority.

On the other hand, in a more concentrated business execution style, clarifying the composition of division of labor in advance means that the formalization of employees’ job behaviour and duties can be advanced. Based on such a framework, superiors control subordinates and handle unexpected matters arising on their behalf. In such a framework, general employees are expected to excel in a specific expertise.

Formalization and standardization of human resources management in such organizations is easy to advance, and “planning” ensures that an emergence of partial optimization leads to complete optimization. Therefore, according to Aoki (1989), line managers from each level of the organization proactively seek to procure human capital

from within and outside the company in such conditions, and the gap in perspective between headquarters and branches that tends to occur in decentralized organizations is not exacerbated. In centralized organizations, as widely seen in the US, it becomes rational to transfer authority over personnel affairs to the line managers who mainly execute it.

Aoki (1989) called organizations equipped with a combination of the former “J Company” and those equipped with a combination of the latter “A Company” (principle of duality). Further, as examined in Section 2.1, the merit system can be said to be functional in decentralized organizations, whereas the job system is functional in centralized organizations. Marsden (1999) terms the combination of the former “job rules” and the combination of the latter “ability rules.” If these claims are combined, the following assertions can be logically derived. In other words, the merit-based employee rating system and the centralized human resources authority system match (J company + ability rules), and the job-based employee rating system and decentralized type of human resources authority system match (A Company + job rules).

Would this kind of a logical model have real-world relevance for Japanese companies? In Japan today, there is a tendency to consider both the merit-based system and centralized human resources authority system as something “conservative that should be changed” (Yashiro, 1998). In the early 20th century, some companies established dedicated human resources departments and amidst the post-war spread of the merit-based employee rating system, human resources authority gradually came to be concentrated in the human resources department in most Japanese companies (Yamashita, 2008). Accordingly, the image of a “strong human resources section” is mostly associated with Japanese companies. Furthermore, compared with human resources departments in US companies, those in Japanese companies tend to have greater authority (Jacoby, 2005).

However, it cannot be decisively said that the image of a “strong human resources section” associated with Japanese companies is completely realistic. According to Kagono, Nonaka, Sakakibara, and Okumura (1983), the influence of the human resources department over company management is limited as compared with other

internal departments.^{xxi} Moreover, decisions for most matters related to human resources management, including selection of personnel for transfer, are mostly advanced according to the line managers' initiative (Yashiro, 2002).^{xxii} Furthermore, given recent market trends, the penetration of the concepts of "performance system" and "employability" or the decrease in the long-term employment model is continuing to progress in Japan. For the most part, labor management relations have become individualized and time-bound and most psychological contracts have been replaced by explicit contracts. Amidst this, the idea emerged that the human resources department should have its authority reduced, and attempts to scale down the human resources department in the form of delegation of actual authority to line managers and outsourcing of business were widely seen (Jacoby, 2005; Yamashita, 2008; Yashiro, 1998).^{xxiii}

In other words, the "J Company with ability rules" type of employment system, considered to be ideally reasonable for Japan, was not widely implemented, thus defying conventional wisdom. Moreover, without adequately examining the consistency with a business execution style that had not changed significantly (cf. 2.1.3), attempts are being made to supersede it. Taking this as a basis, the following hypothesis would still be effective as a principle of empirical analysis.

[Hypothesis 1a] The more that authority over personnel affairs is concentrated in the human resources department, the more the relationship between the merit system and organizational performance becomes affirmative.

Even under the job system, skill development within a wide range of job rotation becomes essential to target potential executive candidates (Storey, Okazaki-Ward, Gow, Edward and Sisson, 1991). In short, even if policies or plans are partially determined in advance in the form of a breakdown of complete optimization related to human resources management, the simultaneous pursuit of partial optimization by line managers will not necessarily lead to complete optimization.

As seen already, generally, when it comes to the implementation of human resources

management, line managers are not considered to aim for or have the ability to achieve complete optimization (Hirano, 2006; Holmston and Milgrom, 1991; Yashiro, 2002). A company adopting the “A Company with job rules” style employment system can utilize the following means to overcome this: (1) line managers to whom human resources authority has been transferred should develop the purpose and abilities appropriate for complete optimization and (2) human resources departments should support line managers who have the decision-making authority and implement personnel management from the viewpoint of complete optimization. For managers who are not in a position to oversee the entire company, the following can be considered: (1) optimization is not something that will be realized naturally but requires involvement of the human resources department through assessment and training; (2) success or failure should depend on the supportive capacity of the human resources department; (3) there is also the choice to ensure the perspective of complete optimization by conducting centralized personnel management. However, as the cost of coordination saved by decentralized management of employees can be considered separately, one cannot conclusively say that it is effective compared with the previous two approaches.

In short, for Japanese companies, there is a strong possibility that solely by manipulating the locus of authority over personnel affairs, the fundamental inconsistencies between a business execution style focusing on horizontal coordination and a job system style employment rating system cannot be overcome. This gives rise to the following hypothesis.

[Hypothesis 1b] Regardless of changes in the degree of concentration of HR authority, a negative relationship exists between the job system and organizational performance.

Furthermore, the two models of employment system, namely, the “merit system x centralization of human resources department” or the “job system x line decentralization” models are the logically constructed “ideal types.” The actual employment systems adopted by companies diverge in terms of the way these images are understood. For example, in terms of employee rating systems, eclectic models

(role-based grade system) exist worldwide. Through an examination of the hypothesis, we would also like to verify the way the authority over personnel affairs is based on eclectic models.

2.2.2 Information collection ability of the human resources department

In conducting human resources management, the information that the human resources department controls and utilizes includes formal human resources data and information related to employees, namely, character, orientations not adequately reflected in data, as well as information related to the workplace, such as climate and human relationships. If the human resources department does not have sufficient site information, it is likely that the internally consistent employment system, namely, the “merit system x centralization of human resources department” or the “job system x line decentralization” will not be able to function adequately.

First, regardless of whether the employee rating system is of the merit or job system type, it is essential to consider the functionality of it from the viewpoint of complete optimization and examine on a long-term basis the issue of how best to provide opportunities to accumulate a wide range of experience and upon whom these opportunities should be conferred. Such judgements are not related to the content of the employee rating system but to vague concepts such as an employee’s ability to perform or their potential. There is a need for not only formal human resources information but also irregular information in terms of role and prospects arising from within the employee or the workplace.

Second, regardless of the position of authority granted to personnel affairs, line managers are the ones who lead the implementation of human resources management. However, as there are limitations to their management, plans or abilities related to their implementation of human resources management may not necessarily be conducive to complete optimization. If we suppose that the human resources department is rooted in abundant site information and can consider complete optimization of human resources management, then it is possible to acknowledge and restrain plans for partial optimization by line managers who are responsible for human resources management

practices or to support them even while they remain oriented towards complete optimization while understanding their limitations from the abilities viewpoint.

When authority over personnel affairs is concentrated in the human resources department, this generally means a complete optimization of the whole company as that department has abundant site information; however, line managers who may not necessarily have the abilities aligned to this will take this as a presence that has specialized power, thinking “more than their own judgement, it is the judgement of the human resources department that connects to results that are organizationally suitable.” Furthermore, for line managers with plans for partial optimization, this can emerge as a presence that has compulsory power, thinking “if it does not match the intentions of the human resources department, they will receive disadvantages” (French and Raven, 1959). When there is a great deal of site information, which is an important resource when the human resources department and line managers collaborate and conduct human resources management, then the human resources department’s authority becomes effective for the first time (Pfeffer and Salancik, 1978).

Furthermore, when the human resources department’s authority has been transferred to line managers, it is important either that line managers themselves acquire management abilities of the complete optimization type or that a human resources department having management abilities of the complete optimization type will support them. If the human resources department has abundant site information, it is possible to demonstrate company values and human resources management policies that line managers will relate to and support and that will motivate them to voluntarily conduct human resources management that complies with these policies (Morishima, 2002; Ulrich, 1997). Furthermore, to cater to the needs of line managers to whom authority over personnel affairs has been transferred or of employees from whom “improved employability,” and “career autonomy” can be sought, it is considered effective to actualize the fluidity of the internal labor market through in-house recruitment (Yashiro, 1998). Such a framework becomes more effective if the human resources department controls and organizes site information, which it then provides to users.

Based on the above examination, we can offer the following hypothesis.

[Hypothesis 2a] The greater the information-collecting ability of the human resources department, the more positive the moderating effect arising from the degree of concentration of HR authority related to the merit system and organizational performance.

[Hypothesis 2b] The greater the information-collecting ability of the human resources department, the more positive the moderating effect of the degree of decentralization of HR authority related to the job system and organizational performance.

3. Data analysis

Among the 365 (response rate 7.3%)^{xxiv} companies that responded to the “Human Resources Management Survey for Creativity Recall,” implemented from January to March 2009 mainly by the Kobe Institute for Management and Personnel Studies and Japan Management Association, 347 companies, excluding non-profit organizations, educational institutions (universities), and companies that responded twice, were taken as the analysis sample^{xxv} (Table 2, Table 3).

Insert [**Table 2: Variables Used in the Analysis**]

Insert [**Table 3: Correlation between Variables**]

The dependent variable was set as labor productivity as “sales per employee.”^{xxvi} According to Datta, Guthrie and Wright (2005), the significance of focusing on labor productivity lies in (1) the existence of indicators that directly express employees’ activities and (2) the fact that many previous studies in strategic human resource management have focused on these indicators. The average labor productivity was about 43,310,000 yen.

Among question items about the basis of the employee rating system (5-point scale),

managers and non-managers were targeted and a total of eight questions related to (1) abilities to perform jobs, (2) value of job, (3) age, and (4) number of working years.^{xxvii} Factor analysis was conducted and as the resultant intrinsic value of changes was 3.17, 1.82, 1.62, 0.49, and 0.39; accordingly, it was determined that a three-factor structure would be valid. The number of extracted factors was fixed and an analysis was conducted once again. The percentage of explanation arising from total variance of the eight variables in the three factors was about 73% (Table 4).

Insert [Table 4: Three Employee Rating Principles]

Based on the factor analysis results, a simple average was conducted for the four variables estimated to receive an especially strong influence from the first factor, and the “extent of the seniority principle in the employee rating system (Cronbach's alpha=.910)” was derived. Using the same method and taking as a basis the two variables strongly associated with the third factor, the “the extent of the merit system in the employee rating system (Cronbach's alpha=.819),” and taking as a basis the two variables strongly associated with the second factor, the “the extent of the job system in the employee rating system (Cronbach's alpha=.846)” were respectively derived. This study focuses on the latter two as independent variables. From results of the descriptive statistics, it can be observed that for Japanese companies today, the merit system is predominant but the job system’s elements are not disregarded (Table 2). There was no noticeable correlation among the three employee rating principles (Table 3).

The questionnaire asked subjects about the position of the decision-making authority with respect to items such as workforce planning, education and training planning, employee wage and bonus structure, and promotions, totalling 14 human resource management items targeting managers and 13 items targeting non-managers. A 5-point scale was used where a greater value indicated a higher distribution of authority towards the human resources department. Of these surveyed factors, this study focused on 10 question items related to the development of employees’ abilities or their motivation for doing so. Specifically, this includes decisions by managers and non-managers regarding

(1) personnel evaluation scores, (2) mobility or placement within the department, (3) mobility and placement to other abilities, (4) promotions (rise in official post and rank) decisions, and (5) promotions (rise in grade).

A factor analysis was conducted for these 10 items. As changes in intrinsic values were 5.01, 1.90, 1.26, 0.84, 0.35, 0.24, the structure of factor 1 was judged to be valid. As a result of conducting the factor analysis again, the percentage of explanation from the total distribution of the 10 question items by the extracted factors was 45%. Taking this result as a basis, a simple average of the 10 question items was calculated and “degree of concentration of HR authority (Cronbach's alpha=.888)” was derived. Furthermore, the results of descriptive statistics indicate a tendency for authority conflicts to arise between human resources department and line managers (Table 2). In other words, the conventional wisdom of “strong human resources section” about Japanese companies is not an accurate reflection of reality.

For the abundant information about employees and the workplace possessed by the human resources department, the square root was derived of the “extent of information collection (5-point scale) x information value (5-point scale)” of the six routes of collecting information related to managers and non-managers, respectively (four routes in the case of companies that do not have labor unions). The six routes are (1) consultation with the labor unions, (2) inputs from labor unions, (3) inputs from the line, (4) consultation with human resources in charge who are external to the company, (5) inputs from human resources in charge who are external to the company, and (6) search by company’s internal human resources department. Moreover, through the simple average value of 12 or 8, the synthetic variable about the human resources department’s site information collection ability was derived. Results of descriptive statistics suggest that the human resources department does not have much awareness regarding major information issues.

Apart from this, 10 control variables related to company attributes were established (Table 5).

Insert [Table 5: Structure of Control Variables]

4. Analysis Results and Considerations

4.1 Complementarity of Employee Rating Principles and Authority of Human Resources

4.1.1 “Merit system x authority of human resources department” as “ability rules of Company J”

Strengthening the merit system in an employee rating system does not contribute to an increase in labor productivity (Table 6. Model1). Despite the problems that have been identified, it is hard to say that other approaches than the merit system in Japanese companies will lead to favorable results, perhaps because of its complementarity with the traditional style of job execution.

Insert [Table 6: Results of Regression Analysis]

The merit system’s effects become more positive the greater the degree of concentration in authority over personnel affairs (5% level of significance. Model 2).^{xxviii} In short, Hypothesis 1a is supported. As implementation of the merit system-type of human resources management does not facilitate governance by the partial optimization plans or line manager abilities, the finding that the human resources department has authority of personnel affairs is meaningful. The analysis results affirm this widely held assumption in previous studies about the abilities and plans of line managers.

Results of the interaction sub-effect tests^{xxix} show that concentrating human resources authority in human resources department enables the merit system to clearly become functional (Figure 1). As mentioned in Section 2.2.1, although this was originally not widely realized in Japan today, there is a tendency to consider the “performance of the merit system type of human resources management based on a strong human resources department” as “a tradition that should be modified.” However, the “performance of the merit system type of human resources management based on a

strong human resources department” is neither traditional nor necessarily functional. Rather, it can become one option to break the stagnation that hinders human resources management today.

Insert [Figure 1: Complementarity of the Merit System and the Concentration of Human Resources Management]

4.1.2 “Job system x line decentralization” as “job rules of Company A”

It is observed that the stronger the job system is in a company, the higher the tendency for labor productivity to become low (significance level of 10%, Model 1). In addition, this dynamic emerges without being swayed by position of the authority held by personnel affairs (Model 2). In short, Hypothesis 1b is supported. The “level of decentralization” introduced in the analysis model is the reverse scale of the “level of centralization.” However, the merits and demerits of the job system-type of human resources management led by line managers can be comparable. In other words, merits include the ability to conduct transparent and uniform human resources management based on job description while also incorporating the perspective of the presence of a company-external labor force. However, in case of conducting a wide range of job rotations targeting certain employees from the perspective of complete optimization, there is a possibility that line managers do not have plans or abilities to conduct such a program perfectly and, thus, giving them authority over personnel affairs would not have the adequate effect.

4.2 Effect of information collecting ability of the human resources department

4.2.1 Moderating effect on “merit system x centralization of human resources department”

Previous studies have emphasized the possibility that line managers do not have plans or abilities to conduct human resources management suited to complete optimization. Furthermore, the analysis results through now have not negated this possibility.

If the human resources department overcomes such conditions, it is not sufficient for

the department to have authority only over personnel affairs. The department can be effective to ensure it possesses abundant site information so as to exercise authority in practice. If the information-collecting ability of the human resources department is inadequate, then even if it possesses authority over personnel affairs, “the possession of unused treasure” is not likely to cease. A scope thus emerges for line managers to conduct a partial optimization that leads to low organizational performance, namely, “retain excellent employees” in their own teams rather than promote them.

This study has set hypotheses that focus on such possibilities, but in fact, no changes in the effects of “merit system x centralization of human resources department” in response to level of information-collecting ability displayed by the human resources department were observed (Model 3). Rather, the fact that the responsibility for human resources management is shouldered by the human resources department, irrespective of whether they have site information or not, makes the merit system type of human resources management effective. In short, Hypothesis 2a is supported.

Findings suggest that line managers in Japanese companies have the plans and abilities to conduct the complete optimization type of human resources management. This strongly contrasts previous studies’ findings. Precisely because line managers lead the human resources management, they have awareness that company-wide consistency can be secured in human resources management and may be prepared for any inadequacy in site information on behalf of human resources management if required. Until they find themselves in such a scenario, line managers in Japanese companies tend to experience a range of positions across various business departments. Therefore, they themselves not only have a certain breadth of vision but in an effort to adopt a business execution style based on horizontal division of labor, there is a possibility that the line as a whole can also have a broader perspective through collaboration among colleagues. This tendency is greater for senior managers who are in a position to supervise and nurture executive candidates and middle-level managers.

If line managers have the plans and abilities to contribute to the realization of business objectives, it may be possible that the management, especially human resource management of Japanese companies, in recent years may not have utilized

them effectively. In short, the human resources department did not have authority of personnel affairs, and this fact may have led to the line managers not being given the place to contribute to human resource management oriented to complete optimization. As a result, line managers become “reluctantly” oriented towards optimization within the range of their control and then the merit-based employee rating system does not function adequately. A majority of human resources departments and researchers who have seen such situations have assigned individual reasons, namely, line managers’ partial optimization orientation. Yet, in reality, organizational-level reasons exist, such as inactivity of interaction and collaboration between the human resources department and line managers.

4.2.2 The moderating effect on “job system x line decentralization”

When line managers lead the job system kind of human resource management, the human resources department is expected to play the role of providing support to line managers. Further, to fulfill such a role, they are required to enrich site information. The hypothesis was formulated based on this premise. Actually, it was indicated that the greater the information-collecting ability of the human resources department, the more positive is the effect of “job system x line decentralization” (5% level of significance, Model 3). In short, hypothesis 2b was supported.

To understand this result more clearly, an interaction sub-effects test was conducted (Figure 2). Understanding from the two graphs, first, in case the site information-collecting ability of the human resources department is high, the more the decentralization of human resource management advances, the more the negative effects of job system are relaxed. Second, if the site information-collecting ability of the human resources department is low, the decentralization of the human resources department negates the effect of the job system.

Insert [Figure 2: The Moderating Effect due to Site Information Collecting Ability of the Human Resources Department]

In other words, let us see the job system type of employment rating system, which originally has the tendency to have a detrimental effect on labor productivity. If we attempt to make such a system more functional, it is not enough to advance only the decentralization of human resource management that is mentioned in previous studies. Decentralization becomes effective for the first time when the human resources department is equipped with abundant site information. Following Lawrence and Lorsch (1967), the more a self-contained kind of human resource management is developed for each workplace in the form of authority transfer (differentiation), the activities for enabling their alignment in the direction of management are sought after from human resources department (integration). Results of the analysis indicate that such a classic thesis is suitable.

In addition, this study indicates that line managers in Japanese companies are not adequately equipped to lead the job system type of human resources management. The job system emphasizes that “the content of the job description is of a level that is likely to be acceptable to the employee and is clear” (Marsden, 1999). Here, the management aims to see whether an employee can be expected to contribute based on specific expertise mainly under the guidance of the superior, and either the current superior or the employee as a future superior will be expected to make a contribution from a broad perspective.

Starting from the results of the examination in Section 4.2.1, one can infer that line managers are equipped with plans and abilities to implement the complete optimization type of human resources management. However, this reflects the fact that the merit system requires “the modification of job regulations is of a level that is acceptable to employees and is flexible” (Marsden, 1999). Employees are expected to accept the new job experiences continually offered under comprehensive employment contracts, the contents of which are not specified (Hisamoto, 2010). If that is truly the case, then it is critical to show that such opportunities have a high likelihood of paying off over the “long-term” (Rousseau, 1995; Takahashi, 1997). Furthermore, many line managers in Japanese companies have already been utilizing this approach.

Conducting human resources management for certain employees from the perspective of complete optimization means the practice of developing employee abilities through exposing them to various kinds of job experience. Under the job system, such human resources management requires continuously updating job descriptions to ensure that they clearly communicate the contributions expected by the company “at a given current point in time” from the employee as well as the corresponding reward set.

This is true for all employees. In other words, it is important that the focus remains on the fact that “the content of the job regulations are of a level likely to be accepted by the employees and are transparent.” However, line managers in Japan are not used to such contracts with specified content being the target of management or for such contracts to be tied every time.

Finally, it is estimated that the abilities required when conducting human resources management are both diverse and dependent on conditions (Figure 3). Furthermore, when changes in the employee rating system occur, line managers in Japanese companies are required to update their human resources management abilities.

Insert [Figure 3: Human Resource Management Abilities that Line Managers and Human Resources Department Should Possess]

4.2.3 Dealing with eclectic principles of merit system and job system

Certain Japanese companies have built employee rating systems that include aspects of both the merit system and the job system, resulting in a “role-based grade system.” In such companies, the following question then arises: How is the authority of personnel affairs distributed and to what extent should the human resources department be equipped with rich site information?

In this study, the eclectic forms of the two kinds of employee rating principles are not examined directly. But by taking as a foundation the analysis until now, it is possible to infer certain things about the emergent hybrid system. Namely,

concentrating the authority over personnel affairs in the human resources department does not increase the advantages of the merit system or particularly ameliorate the disadvantages of the job system. Furthermore, if the human resources department is equipped with abundant site information, it does not improve the job system or particularly harm the merit system (Table 3). In addition, hardly any correlation exists between the concentration of authority over personnel affairs and the information-collecting ability of the human resources department. With that observation in mind, given the simultaneous pursuit of the merit system and the job system or a balance between the two, it would be desirable for the human resources department, being equipped with abundant site information, to secure authority over personnel affairs.

5. Conclusions

This study empirically examined how Japanese companies should design and operate an employee rating system that serves as the basic system for human resources management. When a merit-based employee rating system exists but fails to function adequately, it is important that the human resources department has strong authority. It is also possible to suggest that in order for this kind of authority to be rendered more effective, the human resources department itself must be equipped with information about the targeted site of human resources management. However, results of the analysis indicate that if the human resources department has authority over personnel affairs, then the functionality of the merit-based employee rating system naturally improves. The results further indicate that when the human resources department manages human resources with an aim toward complete optimization, line managers do not resist these efforts but can be partners if they have awareness of a sense of ownership.

The majority of Japanese companies, although adopting a merit-based employee rating system, have not granted strong authority to the human resources department. Hence, adopting the “merit system x centralization of the human resources

department” is not “contrary to the flow of the times” but can be a “reform” that has rationale. Factors such as the seniority principle and inflexibility of labor costs can expose the “problems of the merit system.” Yet, as these issues can also be understood in terms of the circumstances prevailing at the establishment of the merit system and/or the idea embedded therein, these problems, at most, appear at the operational level. One cannot say that absolutely no issues arise in allowing multiple interpretations and operational approaches, but it is important to not confuse “issues associated with principles” with “operational issues.” Instead of utilizing a “deal with problems as they arise” approach, what is required is “to seek afresh an operational structure that enables the realization of the idea.”

Starting from an employment system’s complementarity with the business execution style, changing the employment system radically may not necessarily be rational. In fact, the job system employment rating system is simple and reverse-functional and remained stable regardless of who in an organization held authority over personnel affairs. However, the situation in which “job system x line decentralization” does not function adequately can be improved if the human resources department fulfils the role of “supporting line managers” by possessing abundant site information. Eventually, even by adopting any employment rating system, it is important for the human resources department to influence the organizational structure and certain policy spheres. However, it is important to not confuse direct means, such as control of the authority of personnel affairs, and indirect methods, such as support of line managers based on information-collecting power, and to ensure these are used appropriately either alone or in combination.

Additional analyses could be conducted to address ongoing open questions and to provide additional clarity. In conclusion, I would like to point out four issues. First, regarding the effect of independent variables such as the employment rating principles, an assessment was not conducted over a long period; instead, the distinction between short-term and long-term adaptation was taken as a given. Second, it is important to incorporate factors such as business strategies and business execution style in the model. Third, it is important to ensure greater

precision in using some concepts and events as variables. Fourth, to conduct an analysis that differs from that of previous studies, it is important for follow-up studies to include international comparisons.

【Notes】

ⁱ The “eclectic” approach mentioned here includes the co-existence of different principles and, in addition, the redefinition of each principle through cross-referencing, as well as the combination of principles.

ⁱⁱ The application of the ability-based grade system generates cases wherein a certain employee who was not promoted due to limitations regarding posts within the company was promoted based on having abilities worthy of the promotion. The gains and losses associated with the job title of the employee and those associated with the job grade may not necessarily match.

ⁱⁱⁱ Conducting a job rotation cycle during specific periods, for example, April or October, is also characteristic of Japan. Furthermore, hereafter, “a wide range of job rotation” especially refers to cross-cutting of jobs. Regarding mobility within the same kind of job, which deepens specific expertise, European and American companies compare favorably with Japanese companies or tend to utilize this option more than Japanese companies (Sato, 2002).

^{iv} According to Aoki (1988), contextual skills include the ability to understand the positioning in the entire collaborative system of responsibilities. They also include the ability to understand management information inherent in formal and informal human relationships (Yasumuro, 1982). Integration skills refer to the capacity to cope with changes and abnormalities in business execution based on an understanding of related businesses (Koike, 1994).

^v According to international comparative research, in US companies too, if the younger cohort is excluded, employees exhibit a tendency to stay in specific companies, as is the case in Japan (Sato, 2002).

^{vi} The job analysis based on the three perspectives utilized in this study is advocated by the US consulting firm, Hay Group.

^{vii} Even under the job-based grade system, mechanisms similar to periodic promotions can often arise through assessment in Japanese companies (Medoff and Abraham, 1980; Gibbs and Hendricks, 2004; Koike, 1993; Shibata, 2002).

^{viii} The tendency for evaluations to become specific and objective was further boosted through the development of assessment mechanisms in the US that were advanced through the establishment of the Civil Rights Act.

^{ix} This does not mean that the employee works in isolation in the job system. In recent years, as seen in the practices and concepts associated with “Organizational Citizenship Behavior; OCB; Organ, Podsakoff, and MacKenzie, 2006,” proactive employee communication among colleagues both within and external to a company is being promoted widely in European and American companies. It is precisely because such role-external behavior assumes that employees engage in performing roles as given in the job description that such communication is established. On the other hand, as the idea of clarifying the roles of individuals is rare in Japanese companies that have widely adopted the ability-based grade system, such companies also face difficulties in undertaking role-external behavior.

^x In the US, there is also a tendency to use the “Dictionary of Occupational Titles” edited during World War II (Jacoby, 2004).

^{xi} Specifically, this means the difficult-to-overcome hierarchy between the “employee” and

the “worker,” as per the educational level at the time of accession.

^{xii} This manner of speaking considers the existence of “scientific management” established by F.W. Taylor or industrial engineering (IE) as its developmental form.

^{xiii} However, as seen in the first half of the 20th century, the job-specific labor market is not an indispensable presence for the job-based grade system to function.

^{xiv} The acronym is Nikkeiren. This foundation was launched in 1948 and merged with the Federation of Economic Organizations (acronym, Keidanren) in 2002, becoming Japan Federation of Economic Organizations (acronym, Nippon Keidanren). Compared with Keidanren, which was the main organization that made recommendations related to Japan’s economic policies, Nikkeiren was mainly an organization that made recommendations related to labor management from a managerial viewpoint.

^{xv} Job study and job analysis both became Job Analysis in English and not much difference exists between their meanings qualitatively. The first task in designing the ability-based grade system is named “job study” and this could reflect the system designers’ attempts to clarify the difference between merit system and job system.

^{xvi} This is also referred to as “responsibilities” and “mission standards.”

^{xvii} According to the Japan Institute for Labor Policy and Training (2009), adoption rates in companies targeted for analysis was 72.1%, and the larger the company’s scale, the higher the adoption rate. This further indicates that the larger the scale, the higher the chance of an employee rating system being aligned to some principle than those of small-scale companies being equipped with employment rating systems of other companies.

^{xviii} This survey asked about elements considered desirable for expansion of degree of emphasis at the time of wage determination (“a total of ‘expand’ and ‘expand a little’”). As a result, the percentage was about 70% (67.9%) for “ability integration elements” and about 60% (55.2%) for “business, performance integration elements, job integration elements.”

^{xix} Regarding the question “Do you emphasize job expansion and job enrichment?” 32.3% and 47.4% of companies responded with “agree” or “almost agree entirely,” respectively. A survey conducted five years before the current one found that companies that started placing more emphasis and those that started placing less emphasis on these factors were 66.6% and 4.7%, respectively. The correlation coefficient between the two variables shown in this study was 0.440. Also, the sequential number values could not be derived as the authors were in a position to access the original data, and this study does list this content.

^{xx} The “line managers” in this study refers both to working group heads as well as to those who implement human resources management related to their subordinates, including their development, evaluation, and treatment. Particularly in the case of the latter, if the management targets apply to general employees then “line managers = middle-level managers.” Furthermore, if management targets middle-level managers, then “line managers = higher-level managers and the senior management.”

^{xxi} According to Kagono et al. (1983), among the professional ability sections in Japanese companies such as “sales and marketing,” “research and development,” “production,” “finance and accounting,” “personnel and labor management,” “President’s office, planning division,” and “materials and purchasing,” sections that have particular power to influence management are “sales and marketing” and “production,” and those that particularly do not have any influence are “personnel and labor management” and “materials and purchasing.” These are results of a survey conducted in the 1980s, and if one takes as a basis the “counter-current” faced by the human resources department as introduced in this study, it is hard to think that today it has become capable of having greater influence compared with the past.

^{xxii} According to the Japan Institute for Labor Policy and Training (2009), regarding decisions related to the placement of employees, when considering new employees and managers, then the human resources department generally holds responsibility, but when dealing with general employees, line managers generally have the power instead. Speaking

of “ratio of companies with dominant human resources department—ratio of companies with dominant line managers,” new employees are 13.3%, general employees are 29.3%, and managers are 2.8%. In short, considering the degree of influence on qualitative business execution, the human resources department is not clearly in a dominant position versus line managers.

^{xxiii} The “outsource” mentioned here refer to outsourcing business to company-external businesses and also includes outsourcing to separate divisions or departments.

^{xxiv} The responses of human resources department heads as a starting point, 5,000 companies were randomly selected from the client companies of Japan Management Association (“company registration seminars that receive all kinds of services provided by the “same association” or “companies with a history of participation in seminars and symposiums”) to have the questionnaire mailed to them. Responses were received from 365 companies and among the 5,000 total, there was no noticeable difference in terms of type of industry, listed or not, and number of employees.

^{xxv} With respect to the question items related to the variables used in the analysis, all 347 companies did not respond. The recovered data were observed and for numerical values that were judged as clearly having errors as well as for non-responses, the data were replaced by published data when applicable. In case this was not possible, they were deemed non-responses. To ensure the sample for analysis, non-responses that could not be replaced with alternative published data were replaced by average values. These steps inevitably induce “distortions” that obscure reality. However, exclusion from the analysis sample of questionnaires containing even one non-response to question items would similarly result in a “distortion” of reality.

^{xxvi} The sales per employee was divided by 1 million, the bottom value was 10, and the logarithmic value was used.

^{xxvii} In the questionnaire, apart from these, questions also asked about (1) value of role and (2) attitude. However these were not used in the analysis as most companies have not adopted any rating principles, and conceptual differences with constructs presented in this study could not be specified.

^{xxviii} Core processing following Aiken and West (1991) was used to construct the interactions for the more than two variables that were crossed.

^{xxix} Specifically, variables other than the variables used for constructing interactions showed average values, and the degree of concentration considered two companies demonstrating “average value + 1 standard deviation” and “average value – 1 standard deviation.” Also, labor productivity measured for the merit system showed “average value + 1 standard mean” and “average value – 1 standard mean,” respectively, for the two companies (Aiken and West, 1991). Subtests for the interaction effect between the three variables mentioned later were conducted in the same manner.

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Table 1: Japanese Firms' Methods of Filling Vacancies

	Appropriation of Internal Candidates through Relocation	Priority to Internal Candidates	Considering both Internal and External Candidates	Priority to Internal Candidates	Unclear
Managers	60.1%	23.0%	15.4%	1.4%	0.1%
Non-managers	37.3%	33.5%	17.6%	11.5%	0.8%

Note1: Source, Japan Institute for Labor Policy and Training (2010) , p.69.

Note2: Sample size is 869.

Note 3: Regarding display of selection of answers, it has been appropriately summarized.

Table 2: Variables Used in the Analysis

Variable name	frequency	Response Rate	Min	Max	average	standard deviation
Manufacturing Industry Dummy	346	99.7%	0	1	.474	.500
Social Infrastructure Industry Dummy	346	99.7%	0	1	.194	.396
Wholesale and Retail Trade Industry Dummy	346	99.7%	0	1	.116	.320
Movable Property and Real Estate Industry Dummy	346	99.7%	0	1	.040	.197
Service Industry Dummy	346	99.7%	0	1	.176	.382
Number of Years of Foundation of Business	347	100.0%	.30	2.31	1.613	.352
Number of Employees	344	99.1%	1	8	3.352	1.526
Ratio of Non-Permanent Employees	327	94.2%	.00	.92	.215	.212
Overseas Sales Ratio	307	88.5%	.00	.95	.109	.196
Growth Rate in the Past 3 Years	339	97.7%	1	3	2.114	.617
Extent of seniority principle in the employee rating system	339	97.7%	1.00	5.00	2.050	.957
Extent of merit system in the employee rating system	340	98.0%	1.00	5.00	3.910	.954
Extent of job system in the employee rating system	337	97.1%	1.00	5.00	3.107	.949
Degree of concentration of authority of personnel affairs	316	91.1%	1.00	5.00	2.937	.694
Information collecting ability of the human resources department	282	81.3%	1.00	4.67	3.276	.585
Labor Productivity	330	95.1%	2.57	5.30	3.637	.442

Table 4: Three Employee Grading Principles

	Factor 1	Factor 2	Factor 3
Age (Managers)	<u>.876</u>	-.005	.034
No. of years of employment (Managers)	<u>.857</u>	-.029	.063
Age (Non-Managers)	<u>.853</u>	.032	-.004
No. of years of employment (Non-Managers)	<u>.807</u>	.019	.013
Job Value (Managers)	-.027	<u>.922</u>	.011
Job Value (Non-Managers)	.042	<u>.797</u>	.099
Ability to perform duties (Managers)	.099	.040	<u>.943</u>
Ability to perform duties (Non-Managers)	-.058	.067	<u>.743</u>
Rate of Contribution	36.226	19.529	17.141
Cummulative Rate of Contribution	36.226	55.755	72.896

Note 1: Conducted factor extraction by Main Factor Method (Promax Rotation).

Note2 :Samples with missing values were excluded from the analysis.

Table 5: Structure of Control Variables

Name of Variable	Details
Manufacturing Industry Dummy (Reference Group)	1= 24 industries including "other manufacturers", 0=Industries other than these
Social Infrastructure Industry Dummy	1=Construction, Electricity, Gas, Heat supply, Water supply, 0=Other industries
Wholesale and Retail Trade Dummy	1=Wholesale and Retail, 0=Other industries
Movable Property and Real Estate Dummy	1=Finance and Insurance, Real estate, 0=Other industries
Service Industry Dummy	1=Food and Drink, Accomodation, Education, Service, 0=Other industries
Number of years of foundation of industry	Base logarithm to base real number 10
Number of employees	1 = ~99 persons, 2 = 100~299 persons, 3 = 300~999persons, 4 = 1000~3000 persons, 5 = 3000~9999 persons, 6 = 10000~29999 persons, 7 = 30000~99999 persons, 8 = 100000~
Ratio of non-permanent employees	Real numbers (1=100%)
Overseas sales ratio	Real numbers (1=100%)
Growth Potential	The growth rate in the past three years, 1=more than average of other industries, 2=about same as average, 3=less than average

Table 6: Results of Regression Analysis

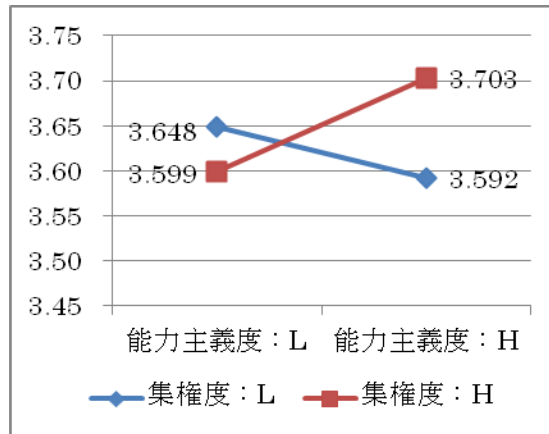
	Model 1	Model 2	Model 3
	β	β	β
Manufacturing Industry Dummy	-.038	-.035	-.035
Social Infrastructure Industry Dummy	.299 ***	.305 ***	.317 ***
Wholesale and Retail Trade Dummy	.123 *	.120 *	.124 *
Service Industry Dummy	-.162 **	-.161 **	-.164 **
Number of years of foundation of industry	-.090 †	-.082 †	-.084 †
Number of employees	.073	.078	.060
Ratio of non-permanent employees	-.337 ***	-.339 ***	-.343 ***
Overseas sales ratio	.180 ***	.182 ***	.187 ***
Growth Potential	.018	.011	.021
Degree of Centralization	.032	.034	-.006
Site information collecting ability of human resources department	.105 *	.107 *	.095 †
Seniority principle	-.038	-.035	-.043
Merit system	.021	.028	.020
Job system	-.086 †	-.100 *	-.099 *
Merit system x Degree of centralization (Hypothesis 1a)		.098 *	.090 †
Job system x Degree of decentralization (Hypothesis 1b)		-.010	-.051
Merit system x Ability to collect information			.036
Job system x Ability to collect information			-.022
Degree of centralization x Ability to collect information			-.041
"Merit system x Degree of centralization" x Ability to collect information (Hypothesis 2a)			.073
"Job system x Degree of decentralization" x Ability to collect information (Hypothesis 2b)			.130 *
Adjusted R squares	.305	.311	.319
F value	11.869 ***	10.765 ***	8.706 ***
Changes in R squares		.009	.017 †

Note 1: *** is 0.1% level, ** is 1% level, * is 5% level, † is 10% level of significance.

Note 2: Variation of Model 2 R² squares is expressed from Model 1, for Model 3 it is from Model 2 respectively.

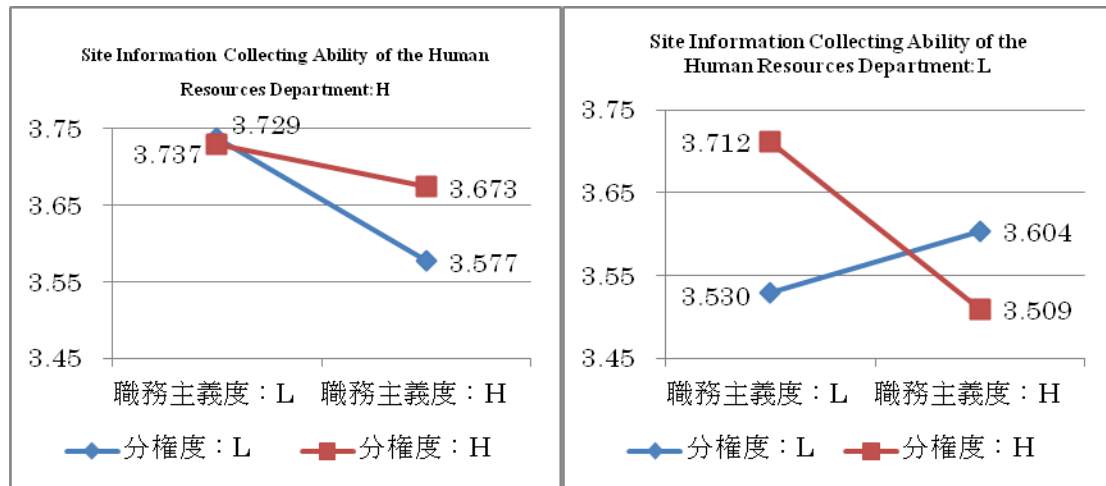
Note 3: Distribution of authority of personnel affairs is reverse point scale of concentration.

Figure 1: Complementarity of Merit System and Centralization in HRM



Note: “能力主義度” means the level of merit system, and “集権度” means the level of centralization.

Figure 2: Moderating Effect Due to Human Resources Department's Site Information Collecting Ability



Note: “職務主義度” means the level of job system, and “集權度” means the level of centralization.

Figure 3: Human Resources Management Abilities that Line Managers and the Human Resources Department Should Possess

