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THE SENIORITY PRINCIPLE IN JAPANESE COMPANIES: A RELIC OF THE PAST?

by
Markus Pudelko

ABSTRACT

The seniority principle has often been described as a key ingredient in the traditional Japanese HRM model. However, increasing numbers of testimonials in the literature report that this practice is dramatically declining in significance. Results of this empirical study indicate that 1. compared to the past the seniority principle is significantly losing importance for promotion and compensation decisions; 2. this is a trend likely to continue into the future; 3. the seniority principle is declining more than any other Japanese HRM practice; 4. the American model serves as an important source of inspiration in introducing a more performance oriented system; 5. when compared to Western countries, however, seniority is likely to remain of importance. Suggestions are put forward as to how a performance based promotion and compensation system might suit the specific Japanese context better than Western practices do.

INTRODUCTION

Japanese human resource management (HRM) was regarded in the West during the 1980s and early 1990s as a model from which Western companies could learn (e.g. Inohara 1990a, Peters & Waterman 1982). Huczynski (1986) described the interest in Japanese HRM as a major management fad exemplified by Ouchi's Theory Z (1981). The seniority principle has been frequently highlighted as one core element of the traditional Japanese HRM model (Sethi et al. 1984). Methé (2005) counted the seniority principle – next to lifelong employment and the company unions – among “the three pillars of Japanese HRM”. According to this concept, promotion and compensation of employees is primarily determined by length of employment instead of individual performance. The seniority principle has often been identified as a key success factor for Japanese companies (Lincoln 1989). However, since the latter half of the 1990s, the Japanese economic crisis has led to increasing questioning of the Japanese management model in general, and Japanese HRM practices, including the seniority principle, in particular. Hence, several authors have reported a decline in the application of the seniority principle (Ballon 2002; Kono & Clegg 2001). Others have even seen a complete move away from this concept and its replacement by Western, more performance oriented practices (Frenkel 1994). But still, a third group of commentators have stressed the continued use of the seniority principle in Japanese companies while acknowledging some change in its application (Sasajima 1993). Ornatowski

(1998), for example, observed that only about 10 percent of large Japanese companies have substituted seniority by performance based promotion and compensation. Finally, Ballon (2005) preferred to speak in the context of Japanese management about “continuity through change”, a process he defines as a “reaction to rather than action on reality”.

In view of this controversy, the present contribution will examine, on the basis of empirical evidence, if and to what degree the seniority principle in Japanese companies is subject to change or even extinction. In other words, the question to be answered is: Is the seniority principle (becoming) a relic of the past? Given the central role of the seniority principle in the traditional Japanese HRM model and the praise it has received, this research question appears to be highly relevant. This holds for researchers who wish to explore the current state of HRM in the world’s second largest economy as well as for HR managers who seek to improve their own practices. In addition, according to Smith & Meiskins (1995, 241), “debates on the diffusion of Japanese working practices ... have highlighted the competing pressures of convergence and divergence in industrial societies.” Thus, from a broader, more theoretical perspective, insights obtained into the potential abandonment of a key element in Japanese HRM and its replacement by Western practices might reveal important information for one of the most central controversies in cross-cultural management research, the debate on convergence versus continued diversity: Do management models converge, because of increasing worldwide competition on those practices that are considered most competitive (see e.g. Kerr et al. 1960; Levitt 1983; Tomlinson 1999; Toynbee 2001; Waters 1995), or do they remain divergent due to fundamental cultural and other societal differences (see e.g. Hickson 1997; Hickson & Pugh 2001; Hofstede 2001; Lammers & Hickson 1979; Laurent 1983; Negandhi 1974; Whitley 2000)?

LITERATURE REVIEW

CONCEPT AND IMPLEMENTATION

As stated, the seniority principle has often been characterised as a key ingredient in the traditional Japanese HRM model. It has, however, to be remembered that what has usually been described as the traditional Japanese HRM model, at no point in time applied to more than about a third of the Japanese workforce, the core workers of large companies, described by Ballon (1992) as the “employee aristocracy”. For all other employees, that is the workforce of small and medium companies as well as the marginal workforce of large companies (in particular women), key elements of the Japanese HRM model, such as lifelong employment, intensive training, job rotation and also the seniority principle, never applied (Ballon 2002; Holland 1992).

The seniority system allows superiors to support their immediate subordinates fully, without having to fear any competition or danger with regards to their own advancement. Quick

promotions, resulting in younger employees becoming superior to older ones, are considered as an unjustified discrimination against the older and more experienced employees, disturbing the overall harmony in the company. As the career path of each employee is characterised under the seniority system by slow but continuous promotion steps, superiors are able to observe who is in the long term suitable for a senior management position (Ballon 1992).

Within the specific Japanese context, the seniority principle is not subject to abuse by employees unwilling to perform. With a change of employer not being an option under the traditional Japanese life-long employment system, the possibility of a delayed promotion provides a strong incentive to keep the own performance in line with the expectations of superiors and colleagues, as otherwise a serious loss of face would occur (Inohara 1990b).

Formal rank and de facto decision making authority are not necessarily congruent under the seniority system. Employees who are considered to have strong leadership capabilities receive important responsibilities from early on, even though they still have to wait for promotion. Knowing that promotion into senior management positions is based on long-term evaluation, this having-to-wait has seldom been considered as detrimental to motivation (Ouchi 1981; Ouchi & Jaeger 1978). As outstanding performers are known and respected by fellow-colleagues, and as their career is foreseeable, they enjoy a considerable status in the company, without any formal distinction through early promotion (Stam 1982). The seniority principle allows, furthermore, the detachment of rank from the concrete task to be performed, which facilitates job rotation (Koike 1997).

Bleicher (1982), Hilb (1985) and Inohara (1990a) considered loyalty and the willingness to cooperate in a collective as being next to seniority the key criteria for promotion. Takahashi (1985) referred in this context to the hierarchy level of the person to be evaluated. For the lower and middle levels, seniority and the attitude towards work have been the main promotion criteria. In higher ranks, initiative and performance results have counted more, whereas seniority has been of less importance. Finally, for the top-management positions, only initiative and performance results have counted, with seniority playing no role. Thus, promotion has depended already in the traditional Japanese HRM model on a combination of seniority and behaviour-oriented (less result-oriented) personal evaluation.

Compensation policies in Japanese companies have as with promotion, traditionally been determined to a considerable degree by seniority. In the first ten to fifteen years employee salaries have been set on the basis of employment duration in the company, age, education, gender and family status (Ballon 1992). Only after this period, those who have performed better quietly received slightly higher salary increases compared with their less well performing colleagues (White & Trevor 1983).

The determination of the salary under the seniority system is independent from the specific job position which facilitates the much practised job rotation. This also increases the

acceptance of otherwise less attractive positions. Consequently, the determination of the salary is more person- and less job-oriented than in Western countries (Itoh 1994). Ouchi (1981) stressed that a compensation policy determined by performance, with some team members earning more than others, would contradict one of the key characteristics of Japanese HRM, the team-spirit.

SHORTCOMINGS AND DIRECTION OF CHANGE

Woronoff (1992) already criticised more than a decade ago the seniority system on the grounds that it generates highly bureaucratic structures. Promotion criteria that give preference to loyalty instead of ability, and behaviour instead of results lead to a corporate environment in which the employee takes the role of a bureaucrat. Furthermore, due to automatic promotions up to a certain management level, the hierarchies are full of incompetent managers, who would already have been screened out under a more performance oriented promotion system.

With regards to the consequences the seniority system has on the top-management of a company, Woronoff (1992) highlighted two further problem areas. First, top-managers are over sixty or even seventy years old when they attain their last career position. Thus, they have passed their most productive age and may not be up to date with latest trends and technologies. Even more troublesome is the fact that the seniority system tends to promote loyal, highly motivated and efficient followers instead of outstanding leaders. The lack of such leaders, who are willing and capable to set out on new paths and implement consequent reforms, can be regarded as one of the key reasons for the ongoing widespread anxiety of Japanese business.

An additional difficulty arises from the fact that the seniority principle relies on a growing economy, leading to a continuous demand for personnel and thus also management positions. In the current economic situation, however, the limits under which the seniority system can function, seem to have been reached if not passed (Frenkel 1994). The situation is aggravated by demography (Shibata 2000). With the 'baby boomers', born between 1945 and 1950, having been recruited in large numbers, they are now at the age at which they expect to take on higher management positions. A study from as early as 1987 estimated that about one third of all middle managers in Japanese companies do not have a single subordinate (Manpower Services Commission 1987). A large number of management positions and hierarchy levels results, however, not only in skyrocketing personnel costs but also negatively influences the efficiency with which corporate decisions are taken. Finally, with the decline of lifelong employment and the possibility of changing employer, young and highly capable employees with much sort after qualifications become more and more impatient and less willing to accept slow steps in promotion and compensation increases (Benson & Debroux 1997; Dore 2000; Takezawa 1995).

Due to the growing problems encountered in the implementation of the seniority principle, the way in which promotion decisions are made seems to be increasingly subject to change. Ornatowski (1998) stated that modifications to the seniority system already began in the 1950s and Inamagi (1986) described a trend that had already since the late 1960s given performance an increasing weight in promotion decisions as compared to seniority. Similarly, Sethi et al. (1984) observed two decades ago that more competent and dynamic persons ascend faster to key positions. One year later, Park (1985) noted that 96 per cent of all Japanese companies carried out performance evaluations, which disproved for him the hypothesis that promotion is an automatic process guided exclusively by seniority. More recent studies have seen an even more significant shift taking place over the last decade (Dalton & Benson 2002; Frenkel 1994; Morishima 1995; Ornatowski 1998; Shibata 2000; Wolfgang 1997).

As with regards to promotion, the described decline in the implementation of the seniority principle and the increasing importance given instead on performance criteria, are as visible in the domain of compensation. Also here, testimonies are by no means only from recent years, but cover several decades. Examples are Abegglen (1958); Merz (1986); Whitehill (1991); Sasajima (1993); Ornatowski (1998) and Ballon (2002).

According to Ornatowski (1998) Japanese companies see the main challenge in the shift towards individual performance orientation as being the creation of objective evaluation standards that employees view as fair. This requires that performance evaluations are carried out according to more precise criteria and on a less long-term oriented basis (Sano 1993). To put this into practice is, however, rather difficult, as few job descriptions exist in Japanese companies, much work is carried out on a team basis and managers are not trained in effective employee evaluation (Shibata 2000). Furthermore, these reform steps contain the social danger of alienating a substantial number of employees who perceive these changes as a breach of trust and in contradiction to the values with which they were socialised in their company. Reversing the seniority principle in order to set incentives for high performers, to streamline the corporate structure and to improve corporate decision making is thus associated with the risk of lower worker morale among those who stand to benefit from the seniority principle (Sasajima 1993; Sethi et al. 1984; Whitehill 1991; Woronoff 1992). In order to minimise employees' resistance, companies have often in the recent past set very low targets for their employees to meet or managers have given overly generous evaluations (Ministry of Health, Labour and Welfare 2003).

To sum up, it can be stated that the literature is fairly unanimous in noting a decline in the implementation of the seniority principle in Japanese companies. As has been demonstrated, this decline is by no means only a current phenomenon and a reaction to the current economic problems, but rather a continuous development, first described as early as the late 1950s. Consequently, even in the most prominent phase of the traditional Japanese HRM model, in the 1980s, one of its key elements, the seniority principle, was already disputed and in retreat. What remains controversial is, however, the degree to which the

seniority principle is being discarded and in particular by what it is being replaced. These issues will be empirically analysed in more detail in the following sections.

METHODOLOGY

As the objective of this paper is to examine whether an already widely studied practice is still prevalent, a quantitative approach seems the most appropriate. The need for more quantitative research in this area has also been described by Dalton & Benson (2002). This study is based on questionnaires that were sent to the heads of HR departments of large Japanese corporations. In order to understand what is specific about the *Japanese* approach towards seniority and what is valid also for other HRM systems, comparative data from the USA and Germany was sought. In addition, in order to better understand what is specific about the Japanese approach towards *seniority*, comparative data on other core HRM criteria was also included in this study (Pudelko 2000).

The choice of countries was made by observing that the USA and Germany constitute with Japan the three largest economies in the world, as well as the leading economies of the triad North America, Asia and Europe. Smith & Meiskins (1995, 243) state that “the US, Germany and Japan are most frequently used as ‘models’” and, hence, cover different approaches towards HRM.

Questionnaires were sent out to the heads of HR departments in the 500 largest companies in each of these three countries. Because of their senior position within the corporate hierarchy, it was assumed that they had the best overview of the issues being investigated. Large corporations had to be selected as the seniority principle in Japanese companies was always primarily applied in large firms (Sethi et al. 1984). In order to guarantee comparability with the American and German companies, heads of HR departments of large firms had to be chosen for analysis. Questionnaires were distributed depending on the receiver, in Japanese, English and German. Back-translation (Brislin 1970) was used in order to secure consistency among the three versions. Of the HR managers contacted, 57 of the Japanese, 55 of the American and 107 of the German managers replied. The resulting response rates were 14, 12 and 21 per cent, respectively. The 232 companies who participated in this survey should not be regarded as statistically representative of all large companies. They do, however, cover a vast variety of manufacturing and service industries in all three countries, providing an overall picture of HRM in large companies in Japan, the USA and Germany. More detailed information on the methodology of the statistical techniques employed is given in the next section.

PRESENTATION OF EMPIRICAL RESULTS

The objective of the following empirical analysis is to establish whether the seniority principle still forms part of Japanese HRM, or whether it is in the process of being replaced by a more Western-style performance orientation. Consequently, Japanese HR managers were asked to rate on a six-point scale if promotion as well as compensation in Japanese companies is more determined by individual achievements and individual performance, or more by seniority and a contribution to collective achievements. In order to obtain control information, American and German HR managers were asked to do the same for companies in their countries. Figures 1-3 depict the distribution of the answers.

Figure 1: *Assessment of promotion and compensation criteria of Japanese companies*

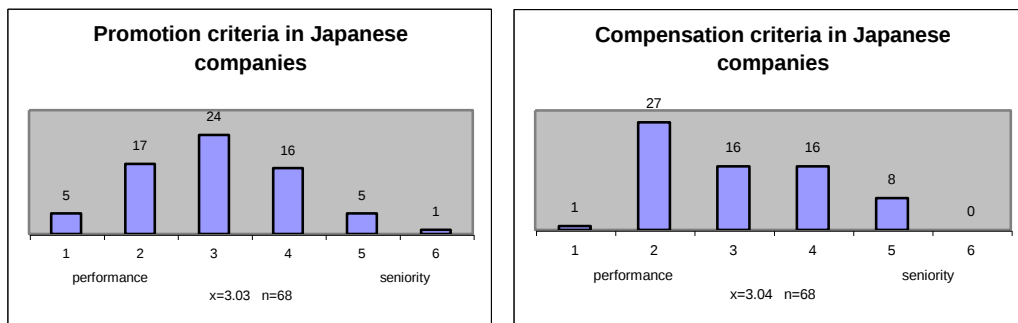


Figure 2: *Assessment of promotion and compensation criteria of American companies*

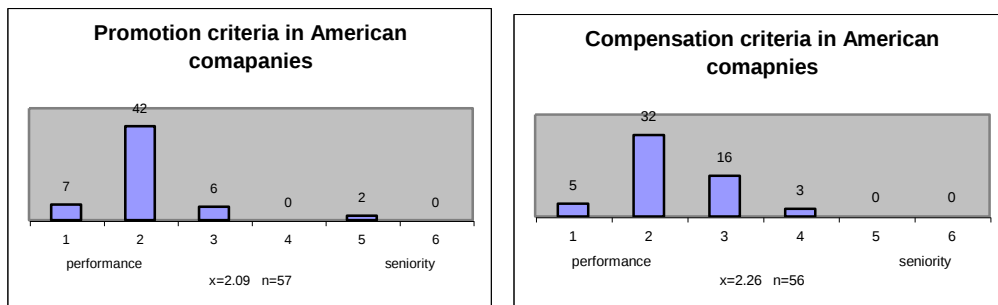
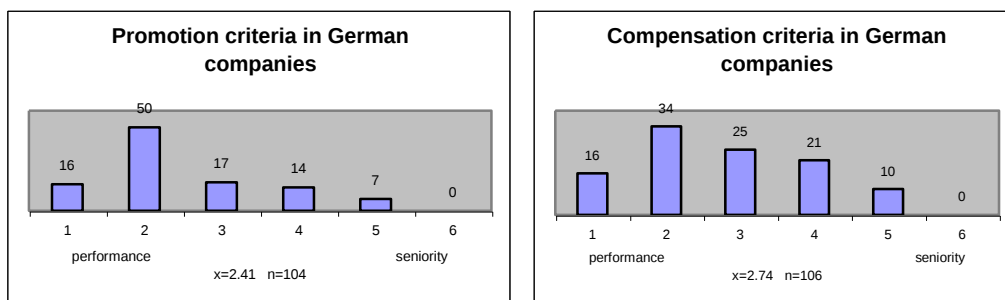


Figure 3: *Assessment of promotion and compensation criteria of German Companies*



As can be seen from Figure 1, the two means are virtually the same, suggesting that Japanese companies choose for both promotion and compensation a very similar combination on the continuum between performance orientation and seniority. Furthermore, the fact that the Japanese responses occupy in both instances the middle ground of the spectrum, instead of leaning more decisively towards the seniority principle, suggests a considerable decline over recent years in what was once considered a typical feature of Japanese HRM. Nevertheless, the data also indicates that *in comparison in particular with the American* (Figure 2) *but also the German* (Figure 3) *replies*, the Japanese are still more inclined to take seniority into account for the determination of both promotion and compensation. As Table 1 indicates, the differences among the country models are for both promotion and compensation highly significant, when tested collectively (in both cases $p < 0.01$) and when tested pair-wise for Japan and the USA as well for Japan and Germany (for three cases $p < 0.01$ and for one $p < 0.1$).

Table 1: Assessment of seniority related characteristics regarding promotion and compensation (significance analysis)

	PARAMETER ESTIMATIONS			WALD TEST FOR THE EQUALITY OF COEFFICIENTS		
	JPN	USA	GER	JPN=USA=GER	JPN = USA	JPN = GER
Promotion	^a 3.03	^a 2.09	^a 2.48	^b 26.19***	^b 24.37***	^b 14.08***
Compensation	3.04	2.30	2.76	16.01***	15.89***	3.27*

^a Mean for each question and for each country. ^b Chi-square statistic from the Wald test for the equality of means of three countries and for the equality of pairwise country means. ***, ** and * indicate statistical significance at the levels of 1%, 5%, and 10%.

To obtain a more comprehensive understanding, additional information on other Japanese HRM practices was sought. Objective was to investigate, whether the results on the seniority related items are in any way exceptional or whether they reflect a pattern that holds true also for other key criteria of Japanese HRM. The HR managers from Japan – and for comparative reasons from the USA and Germany – were therefore asked to rate on a six-point scale also non-seniority related HRM practices of companies of their own countries. Table 2 contains a series of opposing statements, designed to encompass a broad spectrum of possible HRM practices. The right side of Table 2 lists statements that represent HRM characteristics which are usually associated with the traditional Japanese model. The left side provides statements which are generally more linked with Western-style HRM. In the respective upper lines in between the opposing statements, the arithmetic means for the responses from all three countries are listed.

Table 2: Assessment of non-seniority related characteristics regarding a series of HRM functions

	USA	GER	JNP	
Finding the best qualified candidate (from within the company or externally) for a predefined position (job-oriented)	^a 2.68 ^b 123.04***	^a 2.70 ^c 78.80***	^a 4.74 ^d 106.83***	Recruitment of new graduates to a permanent employer-employee-relationship; more senior positions are filled exclusively using internal personnel (people-oriented)
Selection based on performance and expertise in a given area	2.51 263.70***	2.70 188.42***	4.90 213.63***	Selection based on inter-personal skills
High labour turnover (low degree of loyalty between employer and employee)	2.96 121.02***	4.63 106.52***	4.97 4.91	Low labour turnover (high degree of loyalty between employer and employee)
Training focused on specific knowledge for narrowly defined tasks (goal: to create a specialist)	3.35 8.53**	3.50 6.49**	4.00 6.53**	Widespread training for broadly defined tasks (goal: to create a generalist)
Tendency of training to be limited and focused on the individual	3.19 32.51***	3.52 28.47***	4.34 20.48***	Tendency of training to be extensive and focused on the work group
Little effort to mould the employee in accordance with the company's culture	4.11 6.46**	3.56 0.44	3.87 3.00*	Much effort to mould the employee in accordance with the company's culture
Primarily formal, quantifiable promotion criteria (results oriented)	3.07 0.25	3.01 0.00	3.10 0.15	Primarily informal, non-quantifiable promotion criteria (behaviour-oriented)
Career path usually confined to one department or area	3.25 20.82***	3.49 16.25***	4.25 15.55***	Career path encompassing several departments and areas
Primarily material incentives	2.84 1.53	3.08 1.12	3.15 0.00	A mix of material and immaterial incentives
Very large difference in pay between top-managers and average workers (more than 100 fold)	1.98 188.85***	3.61 183.13***	5.59 84.21***	Little difference in pay between top-managers and average workers (less than 20 fold)
Coordination primarily through vertical communication	2.61 8.17***	3.09 6.82***	3.13 0.15	Coordination primarily through horizontal communication

Brief, highly structured and efficient communication	3.31	3.39	3.63	Detailed extensive communication, also in order to promote a harmonious work environment
	3.51	3.51*	1.06	
Top-down decision making	2.49	2.21	2.97	Bottom-up decision making
	28.29***	8.49***	28.28***	
Authoritative, individual decision-making behaviour where conflict is accepted	3.46	3.22	4.31	Participative, collective, and consensus-oriented decision-making behaviour
	47.28***	19.05***	46.47***	
Tendency to base decisions on quantitative variables ('hard facts')	2.50	2.75	3.74	Tendency to base decisions on qualitative variables ('soft facts')
	56.90***	44.03***	42.90***	
Task-oriented superior-subordinate-relationship	2.72	3.24	4.18	Person-oriented superior-subordinate-relationship
	65.43***	59.59***	37.55***	
Superior-subordinate-relationship characterised by regulations	3.40	3.41	3.76	Superior-subordinate-relationship characterised by common values
	4.58	4.04**	2.83*	
Superior is concerned only with the performance of the subordinate	3.28	3.51	4.35	Superior is also concerned with the well-being of the subordinate
	40.62***	32.69***	29.28***	

^a Mean for each question and for each country. ^b Chi-square statistic from the Wald test for the equality of means of all three countries. ^c Equality of pairwise country means between Japan and the USA. ^d Equality of pairwise country means between Japan and Germany. ***, ** and * indicate statistical significance at the levels of 1%, 5%, and 10%, respectively.

As can be seen from Table 2, for all but one (6.) of the 18 additional opposing statements, the answers of the Japanese HR managers lean, rather unsurprisingly, more to the right side of the spectrum. In 14 of the 18 cases, the American companies were on the opposite side of the spectrum with the German companies placed in the middle. This outcome reflects the same pattern already observed with the two previously tested seniority related items. More interestingly, if just the answers from the Japanese managers regarding the various HRM practices are compared among each other, in only one case (13.) do the Japanese aggregate answers lean relatively more towards the left side of the spectrum, associated with Western practices, than do the two seniority related items. This suggests that *in comparison to other HRM practices*, considered to be 'typical' of the traditional Japanese HRM model (e.g. lifelong employment, development of generalists instead of specialists, low spread of income between managers and workers as well as participative decision making), the seniority principle is nowadays the least observed by Japanese HR managers, except for one other case (bottom-up decision making). Also these connections were tested for their statistical significance (see the respective lower lines in between the opposing statements).

The test results largely confirm the statements made: from the 54 tested combinations 34 are significant with a confidence level of 0.01, 5 with 0.05 and 3 with 0.1.

To sum up, the results suggest that on one side, the degree to which the seniority principle is applied in Japanese companies is not very considerable. In particular, if compared with other HRM practices, the application of the seniority principle in Japanese companies seems, with one exception, to be most distant from the traditional Japanese HRM model. On the other side, the data also indicates that Japanese promotion and compensation practices are (still) significantly more seniority oriented than the German and particularly the American ones. As the last analysis has demonstrated, this is very much in line with other HRM practices in Japan which continue to be significantly closer to the traditional Japanese HRM model.

In order to obtain additional, more dynamic, information, the survey also took into account the intentions for change. The Japanese HR managers were asked, by means of open-ended questions, what they intended to adapt from American or German HRM practices. In total, the Japanese experts gave 180 responses. Of these 180 items, 169 concern the American HRM and only 11 German HRM. It can be concluded from this that German HRM is of hardly any importance as a role model for Japanese HR managers.

If only the answers concerning the American HRM are considered, the following finding is particularly noteworthy for this analysis: 80 out of the total number of 169 responses, that is almost half of all answers, are directly reflecting the desire to change the seniority system, respectively the wish for a higher degree of performance orientation. This is with a wide margin the highest number for any issue raised by the Japanese respondents. In other words, the Japanese HR managers see by far the most urgent need for change within the entire spectrum of HRM to be the move towards performance orientation and away from the seniority principle. The second most important criterion addressed by the Japanese HR managers is to establish a higher degree of flexibility with recruitment and release of personnel, respectively, to move away from lifelong employment. Moreover, it is of interest that the introduction of performance orientation is regarded by the Japanese HR managers as more urgent for the determination of promotion (55 responses) than for the determination of compensation (25 responses). This finding emphasises the desire for a rather profound change. Whereas both areas, the promotion and compensation system, touch on the motivational system, the promotion system determines on top of that the crucial issue of who will ultimately lead the company, those who serve the company longest or those who perform best.

In addition to the questionnaire-based survey just described, a series of formal as well as informal interviews were held in Japan with HR managers at Japanese headquarters (2002) as well as in Germany (2001) and the USA (2003) with managers of Japanese subsidiaries. These interviews provide strong support for the results of the quantitative survey: The increasing performance orientation, respectively the decline of the seniority principle, was – next to the abolition of lifelong employment – mentioned most frequently by the persons

interviewed as changes being under way. Japanese executive search consultants also confirmed this finding. HR managers as well as executive search consultants agreed, furthermore, that the USA appears to be the role model and source of inspiration for the current changes in Japanese HRM.

DISCUSSION OF EMPIRICAL RESULTS

The findings indicate that promotion and compensation practices in Japanese companies are significantly more seniority oriented than in American or German firms, which rely to a higher degree on honouring individual performance. As has been demonstrated, this result is very much in line with data on other HRM criteria, suggesting that current Japanese HRM practices are significantly different from American and German practices and continue to be closer to the 'traditional' Japanese HRM model. These connections seem to support those authors who place greater stress on the continuity of Japanese HRM instead of the change towards Western-style HRM.

On the other hand, the results also indicate less adherence by Japanese HR managers to the seniority principle than the 'traditional' Japanese HRM model might have suggested, in particular if compared with other HRM practices. This statement is further reinforced if the intentions of Japanese HR managers of what they wish to adopt from the US are considered. According to the answers given, the Japanese experts want more than any other aspect of HRM to move to a higher degree of performance orientation in both promotion and compensation. The desire to learn from the US model – and with this, the criticism of their own, Japanese, practices – touch upon the very core concepts of 'traditional' Japanese HRM. According to the survey and the interviews held, next to the seniority principle, lifelong employment and the development of generalists are examples of what Japanese HR managers criticise in their own system and where they seek inspiration from American practices.

Do the findings confirm an irreversible trend towards the abolition of seniority aspects in Japanese companies or even of the entire Japanese HRM model, and at the same time an adoption of the American model? Is the seniority principle thus becoming a relic of the past? Several arguments call for caution before coming to this conclusion. First, the desire for a change *towards* American practices should not to be equated with a wish to *adopt in toto* American practices. In addition, having found strong evidence that HR managers seek a rather substantial change does not automatically mean that the change will also be implemented to the same extent as the Japanese respondents of this study might wish.

In the 1980s, many American HR experts called, furthermore, for an adoption of Japanese HR methods. But certainly no one would argue today that American HRM practices have converged towards the Japanese model. Consequently, who is to say that with the current

pressure on Japanese corporations to adopt American HR methods, this will lead towards the end of Japanese-style HRM and a far-going adoption of American HRM?

A final argument, which cautions against the view that the Japanese will largely adopt American practices, should be borne in mind. As has been indicated in Figures 1-3 for the seniority vs. performance orientation, Japanese and American HRM are at the opposite sides of the spectrum, with German HRM in between. The same holds for 14 out of the 18 other HRM practices, as Table 2 demonstrated. Even though Japanese companies might, thus, be inspired by the American performance orientation – as this study suggests – and might consequently move in the direction of these practices, this is not to say that Japanese practices will ever become so ‘American-like’ that they would ‘surpass’ German companies in their degree of performance orientation. For this to happen, the respect for seniority seems to be too much imbedded into Japanese culture, irrespective of any business or efficiency led reasons for change.

For example, the *kohai-sempai*-relationship (between the younger who owes loyalty and respect to the older and the older who owes advice and guidance to the younger) goes well beyond the company context and includes for instance also university students. Moreover, in the Japanese language, one usually refers to the ‘older brother’ / ‘younger brother’ and ‘older sister’ / ‘younger sister’ instead of using an age neutral form. It is furthermore important for the Japanese, when they first meet, to find out who the older and who the younger one is. Once this is established, the younger will use the more polite forms and expressions in which the Japanese language is so rich when addressing the older. Also in the context of the company, previous *kohai-sempai*-relationships can never be ignored. Even if hierarchical ranks become reversed, the younger executives are still expected to treat those with higher age and seniority with respect and deference. These few examples indicate the degree to which seniority continues to play a prominent role in Japanese culture. Hence, to believe that the importance of seniority in Japanese society can be completely disassociated from Japanese corporate life for the sake of an American inspired performance orientation would be largely to disregard the cultural context in which management, and in particular HRM, is embedded.

In addition, American style performance orientation is strongly related to *individual* performance, as the results from Figure 3 and Table 2 also indicate. Here again, clashes with the underlying Japanese culture might occur when introducing this concept to Japanese companies. The pronounced differences between American individualism and Japanese collectivism is an issue that has been extensively covered in the literature. Hofstede (2001), for example, rates the USA on his individualism dimension with 91 (highest of all compared nations) and Japan with 46 significantly lower.

The above arguments should not imply that because of certain cultural differences, foreign concepts cannot have any role in providing inspirations for Japanese management practices. On the contrary, Japan is a prime example of a country having adapted in the course of its

history very comprehensively and very successfully to foreign concepts: from the Chinese directly or via Korea as early as in the 6th century; from the Europeans before the self-isolation of the country during the *Tokugawa* period and in particular subsequently during the *Meiji* restoration; and finally from the Americans after World War II. But each time learning never meant one-to-one-adoption but careful adaptation to the very specific circumstances of Japanese culture and society. In this context, one should remember a slogan used during the *Meiji* period about how to learn from the West in order to become an industrial power: “Western technology, Japanese spirit”.

OUTLOOK AND SUGGESTIONS

What should be expected (or recommended) is neither a continuation of the ‘traditional’ seniority principle, nor an adoption of American-style performance orientation. The former seems unpromising due to the efficiency problems outlined in the literature review. The changing environment (e.g. globalization, the move to a mature economy and demographical change) makes these problems more likely to increase than decrease. The latter seems equally problematic due to the cultural misfit outlined above.

On the basis of the intentions expressed by the Japanese HR managers surveyed in this study as well as on the results of other investigations, one should expect further fundamental change in the traditional model. Apparently, this substantial change, which can be equalled to a paradigm shift, is largely inspired by American practices. In order to succeed in the Japanese corporate environment, these inspirations need, however, to be transformed into something genuinely Japanese. A starting point for the formulation of a meaningful and competitive ‘new’ Japanese concept, stimulated by the American-style performance orientation and replacing the traditional seniority principle, could be the (re)definition of what performance actually means in the Japanese context. The adoption of an effective performance orientation that also fits well into the Japanese corporate environment might, hence, prove more promising if the performance evaluation stresses the following criteria:

- the contribution of the individual towards group objectives (instead of narrowly defined targets, broken down for each individual);
- the loyalty as well as commitment towards the company and the working group (instead of performing under a pure contractual relation that can be terminated at any time);
- the development of the employee’s own potential (instead of the use of current capabilities);

- a holistic concern that includes also the behaviour and the efforts demonstrated (instead of only the results obtained);
- the pursuit of longer-term objectives (instead of very short-term ones); and finally
- the pursuit of multidimensional objectives such as financial, market and social ones (instead of exclusively financial targets).

It is understood that many, if not all, of the above mentioned characteristics of the Japanese management model are currently in a state of flux as well (e.g. more individual targets, less long-term commitment towards the company, more focus on capabilities). In all these areas, however, the same argument should be made as with seniority. Even if Japanese management were to become more focussed on individual than on group objectives (possibly also inspired by American management), for cultural reasons it will nevertheless most probably always remain more group oriented than for example German and certainly American management.

Consequently, it is suggested here that a stronger orientation towards performance as defined above could break up the rigidities of the old system, bring new talent into key positions more quickly and increase incentives for individual performance (the 'American-inspired side'). In addition, it would provide a fit with the more collectivist Japanese corporate environment, thus generating less friction and frustration (the 'Japanese-inspired side').

In short, a 'new' Japanese concept would be something 'in between' the traditional Japanese seniority principle and the American individual centred performance orientation, yet not in the sense of a mathematical average or a compromise, but of a genuinely new combination of the key concepts of both systems (see also Jacoby 2005). Having said this, the suggested new approach might end up being closer to another model that has already been described by its 'in between' character: the German system. This is not to say that the German practices form in any way a better model for which Japan should strive, since they themselves are also criticized for being too seniority oriented, rigid and bureaucratic (see for example Brewster & Hegewisch 1994; Streeck 2001) and, therefore, should not be considered as a role model for Japanese companies in any detailed sense. Furthermore, the problem of a cultural fit between German practices and the Japanese environment would reoccur, though probably to a lesser extent compared to the clash between American practices and the Japanese cultural context.

Therefore, it is suggested here that the, in many ways opposite, American HRM practices might provide for the Japanese managers valuable inspirations *in which direction* to change. However, in order to determine how to achieve the right balance between on one side, a higher degree of individual efficiency, without ignoring on the other side, more collectivist concerns, HRM concepts derived from a social market economy (such as the German one)

might offer in the end more realistic sources of inspiration for a government-induced market economy (such as the Japanese one) than HRM concepts from an, in many ways, opposite free-market economy (such as the American one). After all, the very characteristic of a social market economy can be seen in the search for a balance between individual and collectivist concerns, striving for an efficient but also non-adversarial society (Pudelko forthcoming).

CONCLUSIONS

The conclusions that may be drawn from this study are twofold: Practices from another model should not be taken as a blueprint for copying but as inspiration for adapting to the own cultural, social and corporate context in order to avoid inconsistency, friction and frustration. An adaptation of foreign management practices to the own context is thus not just a matter of technical implementation but of fundamental conceptualisation, as the redefinition of what performance should mean in the Japanese context has exemplified.

Japanese companies should, furthermore, not focus exclusively on the US, in order to seek inspiration as to how to improve their own practices. Even though the American system might, because of its stark contrast to the Japanese model, be particularly helpful in order to point in a new direction, to go all the way from one extreme to another is a rather unrealistic option. Consequently, the understanding of other, alternative models can give Japanese managers further valuable inspiration. Japanese companies will ultimately only succeed in integrating foreign-based ideas into the development of more competitive concepts by remembering the already cited slogan from *Meiji* times: “Western techniques, Japanese spirit”.

What do these conclusions mean for the convergence versus continued diversity debate? The data provided strong evidence for a move away from the ‘traditional’ Japanese management model and a move towards more Western-style management. This ongoing change, which has been equalled here to a paradigm shift, is motivated by efforts to improve competitiveness and is largely inspired by American management practices. Hence, these findings provide support for the convergence argument. On the other hand, it has been argued that a comprehensive adoption of American management practices would lead to a fundamental clash with the Japanese cultural context and thus to managerial inefficiencies. These latter arguments give consequently support to the continued validity and importance of the continued diversity argument. Therefore, the bottom-line seems to support what might be labelled a combined convergence-continued diversity-approach. The spread of variations among the different management models seems overall to decrease in the struggle for global competitiveness, while continuing to leave room for major dissimilarities between the various models due to cultural differences. Furthermore, one might argue that, even though management models become in *absolute* terms more similar over time (the convergence argument), those remaining differences which are difficult to overcome due to cultural embeddedness gain in their *relative* importance, as they become all the more

decisive in the race for competitive advantage among otherwise increasingly similar management systems (the continued diversity argument).

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