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Transfer and Promotion of Managerial and Professional Employees in Large Japanese Companies

By

Atsushi Yashiro

Abstract

In this article, we examine the career development of managerial and professional employees in large Japanese companies from the aspects of transfer and promotion.

First, we deal with the function of job rotation, that is, human capital investment, determining the aptitude of employees, developing the versatility of employees and expanding administrative network. Also, we clarify that its function differs by age group.

Then, we turn to promotion and examine the 'simultaneous promotion', a characteristic of promotion system in Japanese companies, from the viewpoint of 'efficiency' and 'motivation'.

Finally, we put this matter in international context for future extensive studies of international comparison.

Key Words

managerial & professional employees, internal labor markets, job rotation, administrative network, efficiency, motivation, OJT, simultaneous promotion, lack of managerial positions, position inflation, ability-based grade system, job grade

Introduction

In this article, we examine the career development of managerial and professional employees in large Japanese companies, based on the results of the Japan Institute of Labour survey (JIL (1993)),¹ from two aspects: transfer and promotion. Also, in the final section, we provide some considerations for putting this matter in an international context in order to provide a basis for future comparative studies.

In the field of career development, numerous studies have been accumulated on blue-collar workers. However, white-collarization of employment is proceeding at a rapid pace. So, the pattern of career development for managers and professionals is a very important field to be researched.²

The scope of consideration here is confined to intra-firm career development.

¹This survey was conducted during January 1990 among 2,039 companies having more than 1,000 employees. Of these, 31.9% of the total responded.

Therefore, mid-career recruitment and turnover are not treated in this article. Of course, the importance of inter-firm career development cannot be underestimated. Given the importance of internal labor markets, however, it is more economical to maintain career paths within the same company than across companies, in terms of cost for on-the-job training (hereafter OJT). Thus, promotion from within is prevalent.

Job Rotation of Managerial Candidates

The Function of Job Rotation

In this section, the horizontal aspect of career development, that is job rotation, is dealt with. According to JIL (1993), 66.6% of the responding companies conduct job rotation periodically for employees who would be expected to be promoted to managers and professionals.

In Japanese companies, job rotation has many functions (Hatveny and Pucik (1981); Ouchi and Jaeger (1978)). First of all, investment in human capital is important. According to the human capital theory, labor productivity can be improved by investing in the development of skills and knowledge of employees. If employees are rotated from one job to another periodically, their productivity may go down in the short-term, but it can be improved in the long-run without reaching a plateau. The cost of the short-term decline in labor productivity is a burden for companies. However, this cost is amortized over employees' entire careers.

Also, job rotation has additional functions beyond improving labor productivity (Yashiro (1993)). First, it is important as a means of determining the aptitude of each employee. In Japanese companies, an employee's skill is usually developed within the company. Also, an employee's major field at university is not directly related to the jobs which they are assigned to. So, placing new school graduates in jobs must be done amidst imperfect information conditions. Therefore, when mismatches between employees and jobs occur, job rotation is a very important method of adjustment.

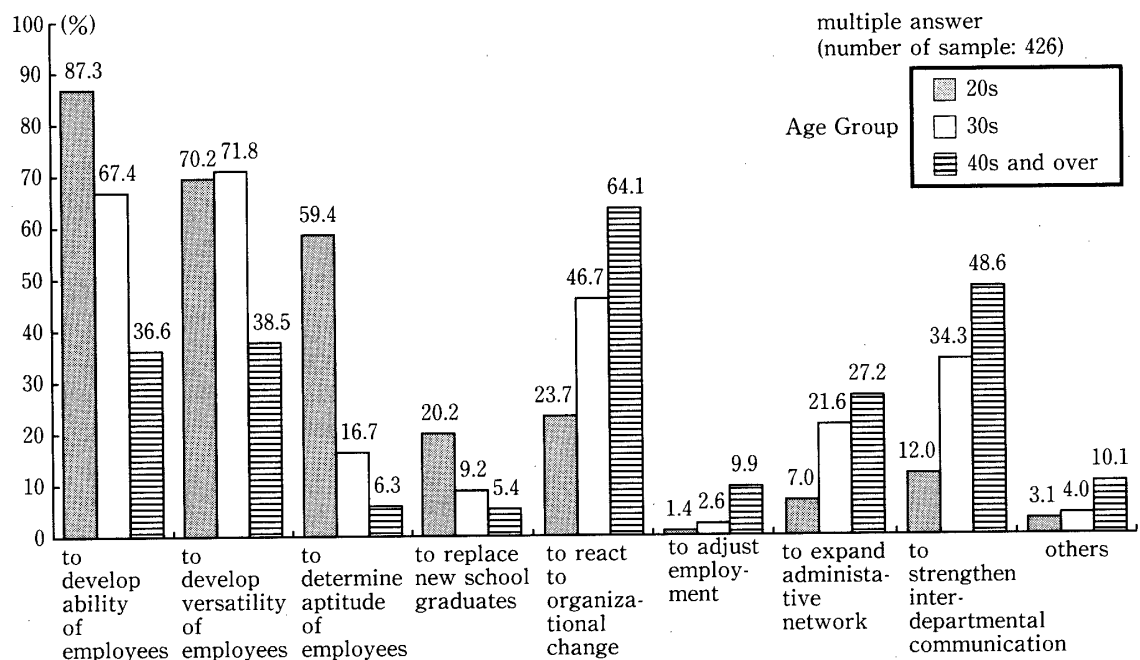
Secondly, companies are able to improve the versatility of employees through job rotation. Experiencing many kinds of jobs is indispensable in long-term employment for adapting to changes in environment.

Thirdly, the importance of what is called the 'administrative network' in job rotation should not be neglected. Such a network is useful for making decisions and for obtaining information not formally accessible. To construct such a network, it may well be necessary to experience many different jobs and to get acquainted with many of one's colleagues in the company.

The Objective of Job Rotation

Then, we will briefly review the survey results of JIL (1993) in terms of job rotation of managerial candidates. Figure 1 shows the objective of job rotation which companies emphasize according to three age groups, that is, employees in their twenties, thirties, and forty and above. The most frequent responses are "to develop ability of employees"; "to develop versatility of employees"; and "to react to organ-

²The previous studies of managerial and professional employees in Japanese companies are as follows: Association of Employment Development for Senior Citizens (1985); Koike ed. (1991); Kuwahara (1988); Hanada (1987); Ministry of International Trade and Industry (1983); Ministry of Labour (1987); and Yashiro (1993).

Figure 1. Job Rotation Objective by Age Group

Source: The Japan Institute of Labour (1993), Figure II-1-1.

izational change.” From these responses, it is clear that human resource development in its broad meaning is the main objective of rotating employees in internal labor markets.

Another interesting point is that the objective of job rotation differs by age group. “To develop ability of employees”; “to develop versatility of employees”; and “to determine aptitude of employees” are the most frequent responses given as reasons for rotating employees in their twenties. On the other hand, “to react to organizational change” and “to strengthen interdepartmental communication” are the most frequent reasons for rotating employees over forty.

Also, policies related to cross-functional job rotation differ by age group. Of all respondents, 51.3% are willing to provide cross-functional job rotation for employees in their twenties, while this percentage declines to 40.8% for those over forty. So, we can see that firms are more willing to provide cross-functional job rotation for employees in younger age groups than for older ones. This is because the time span available for amortizing human capital investment is much longer for younger employees than for older ones.

Problems of Job Rotation

The next thing to be clarified is who decides who should be transferred. Three types of people are involved in this matter, line managers, personnel departments and the individual employees to be transferred. So, the interaction of these three bodies in the process of job rotation must be considered.

JIL (1993) compares the factors taken into account in determining job rotation

between present and future situations. According to the survey results, the most frequent answers cited for the present are "length of time in the present job" (59.6%) and "attitude of line managers" (38.7%). On the other hand, "attitude of each employee" (43.0%) and "aptitude for the job" (48.4%) are the frequently cited reasons for the future. From the above, we can see that the attitude of line managers is important in the process of determining transfers for the present situation.

However, full compliance with each line manager's interests does not accomplish optimal human resource allocation. Compliance with each line manager's interests achieves only 'partial equilibrium,' while the sum of these 'partial equilibrium conditions' is not necessarily 'general equilibrium.' Therefore, these different interests in terms of human resource allocation are reconciled via the personnel department.³ In that sense, survey results for the future situation indicate that the personnel department should prevent such a problem, taking account of the attitude of each employee in actual job placement and bypassing line managers sometimes.

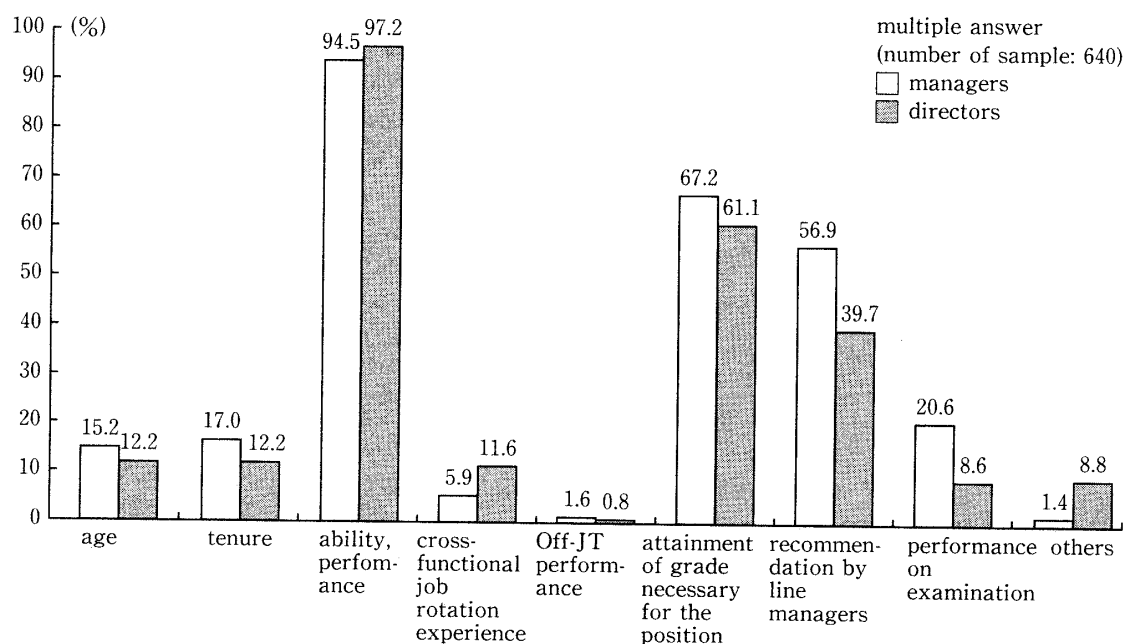
Promotion of Managers and Professionals

Screening Factors for Promotion to Managerial Positions

In the last section, horizontal job change was dealt with. Next, we examine the aspect of vertical job change in career development, that is, promotion. The prevalent view characterizing promotion in Japanese companies is a seniority-based one. However, this is not necessarily true given the pyramidal structure of organizations.

According to Figure 2, age and tenure are not frequent factors for determining promotion to managerial positions at all. The most frequently cited factor is "ability, performance." More than 90% of all respondents listed these factors. Therefore, it is

Figure 2. Screening Factors for Promotion to Managerial Positions



Source: The Japan Institute of Labour (1993), Figure II-2-4.

clear that the principle of meritocracy persists even in Japanese companies.

On the other hand, "attainment of grade necessary for the position" is also very frequently mentioned as a reason for promotion. Usually, staying in each grade for a prescribed number of years is a requisite for promotion to an upper grade. And it is indispensable for promotion to an upper position in Japanese companies. This means promotion is divided into two aspects: promotion from one grade to another and promotion to positions in higher grades.

Yashiro (1995a) has argued that appraisal results are mainly used as a screening device for the former type of promotion. In terms of the latter type, screening is based on recommendations from line managers. However, interviews, Off-JT performance and exam results are also taken into account, and the personnel department makes the final screening by combining such information. Figure 2 shows that cross-functional job rotation is not very important, indicating that horizontal job change does not seem to have a direct relationship with vertical promotion.

Efficiency and Motivation in Promotion

Next, two aspects of promotion are considered, based on the arguments of Rosenbaum (1984).⁴ First, promotion has the constraint of efficiency, because companies have the objective of profit maximization. In internal labor markets, OJT is important as a means of skill formation. Also, it is clear that promotion is related to OJT. This means that such training opportunities should be conducted efficiently to minimize the training cost. One way to minimize cost is to squeeze some employees out from promotion opportunities each time a screening is done. This is called 'tournament mobility' by Rosenbaum.

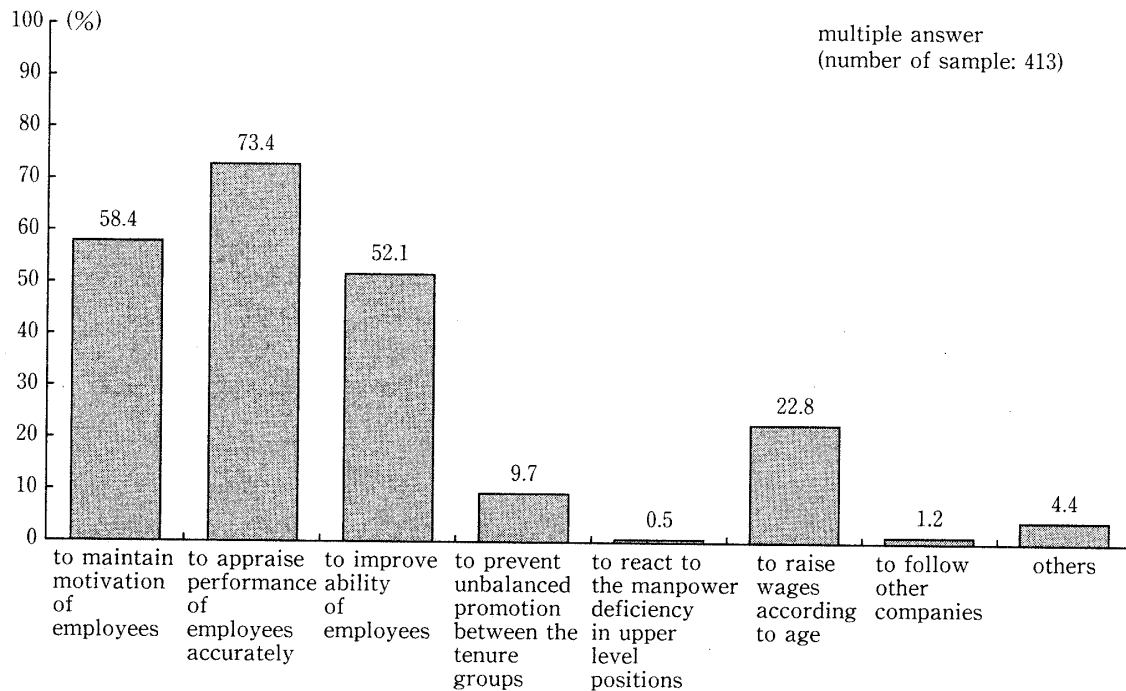
Also, it is desirable to provide incentives to employees so that they will compete with each other for promotion, leading toward efficient utilization of human resources (Iwata (1977)). In this case, it is very important that promotion opportunities are scarce given the pyramidal structure of organizations. On the other hand, promotion also entails increased remuneration and prestige. In other words, this is the motivational aspect of promotion, which means employees should have strong desire to be promoted. So, from the efficiency aspect, screening should be done strictly, but from the motivation aspect promotion opportunities should be as great as possible. As is clear from the above considerations, the management of promotion faces two contradictory constraints and it is very important to clarify how these are reconciled.

Simultaneous Promotion for the Same Tenure Group

Simultaneous promotion is a characteristic of promotion management for managerial and professional employees in Japanese companies. This means new school graduates in the same tenure group are promoted with no difference in speed for a prescribed period. However, this should be distinguished from seniority. The appraisal results held yearly are accumulated, and the fast-track appears at some stage of the employee's career (Hanada (1987)). Actually, 64.5% of the responding companies have

³In large companies, corporate personnel departments institutionalize human resource management and intervene in the careers of ranking employees. Concerning the functions of the corporate personnel department in large companies, see Yashiro (1992).

⁴Yashiro (1987) also examined the function of the grade system in Japanese companies from the perspectives of efficiency and motivation.

Figure 3. Reasons for Utilizing “the Simultaneous Promotion for Tenure Cohorts”

Source: The Japan Institute of Labour (1993), Figure II-2-1.

simultaneous promotion system according to JIL (1993). As the timespan for simultaneous promotion, “five years” is the most frequent period cited by 62.7% of responding firms. Figure 3 shows companies’ objectives in using simultaneous promotion system for cohort groups.

First of all, this method clears the constraint of efficiency as 52.1% of the companies indicated “to improve the ability of employees” as a reason for using group promotion. Given that skill formation is strongly correlated with OJT within the same company, it would be the most efficient way, in terms of training cost, to promote employees from easy jobs to complicated ones.

However, it is also desirable from the viewpoint of motivation. If the fast-track appears at the beginning of their careers, it will discourage those who are screened out. According to Figure 3, “to maintain motivation of employees” was cited by 58.4% of the companies. Also, “to appraise performance of employees accurately” is a very important reason (73.4%). It would be a serious problem if those on the fast-track are selected without enough information about each employee. Thus, simultaneous promotion functions as an observation period.

Delay of Promotion and the Reaction of Companies

However, the changing environment makes it difficult to continue this type of promotional system. The aging of the workforce and the entrance of the baby-boom generation into the the grade for managerial positions means that the demand from employees eligible for managerial positions is increasing. In contrast, it is impossible to expand the supply of managerial positions to provide promotional opportunities to

all potential managers due to the declining rate of corporate growth. Such a 'demand-supply gap' makes the delay of promotion conspicuous in most companies. According to JIL (1993), more than half of the responding companies answered that the promotion gap between the top and bottom in the same tenure group is now expanding. The most frequently cited reason is "lack of managerial positions" (65.2%).

We mentioned that promotion has played an important role in providing both efficiency and motivation. Therefore, the delay of promotion should bring about serious problems for human resource management. In reaction to this delay of promotion, companies surveyed mentioned, "we take no account of the tenure group in promotional screening" (67.5%); "introducing and utilizing the specialist system" (54.6%); and "introducing and utilizing the grade system" (38.8%). The purpose of the first approach is to prevent the delay of promotion in one tenure group from diffusing to other tenure groups. The remaining two indicate that companies would like to substitute other types of reward and development mechanisms for promotions to managerial positions.

Concluding Remarks

In the previous two sections, we looked at transfer and promotion in large Japanese companies. From the above considerations, we can say that these are generally conducted in a manner consistent with economic rationality. However, as mentioned in the last section, the situation is now changing. Finally, we will consider the institutional factors behind career development, putting this matter into the international context.⁵

The grade system is important in terms of career development because it generates flexibility with human resource management due to the nature of the 'ability-based grade system.' In Western companies, the grade system is managed according to the value of the jobs, and the value of jobs is measured by job analysis. So, significant job change is indispensable for promoting from lower to upper grades, though it does not exclude wage increments within the same grade. In other words, job grade has a job-attached orientation.

The ability-based grade system, on the other hand, is not job-attached, but rather has a people-attached orientation. Because it grades employees according to their level of ability, not to the jobs they are assigned to, it is separated from the job hierarchy. Also, employees could be upgraded with no significant job change if their ability is regarded as improving. If so, although opportunities for promotion are shrinking in terms of positions (i.e. managers, directors), such upward movement could be provided in terms of grades. In this way, the conflict between efficiency and motivation is reconciled without 'position inflation.'

The difference of grade system between Japanese companies and their Western counterparts also affects differences in horizontal career path. If jobs are narrowly classified by grades, job rotation is difficult because it is likely to result in the demotion of employees in grades.

On the other hand, grade demotion does not happen from job rotation under the ability-based grade system. Because grades are not attached to jobs, but to people, job

⁵See Yashiro (1995b) for details on this matter.

change does not result in a change of grades. This also means job rotation does not result in any change of wages because wages are based on grades, not jobs. Also, an important requirement is that grades are not specific to particular functions, but are composed of common factors for ability in functions. Therefore, individuals can be broadly rotated in such an organization, although declining corporate growth may weaken the necessity for employees to have such a broad career.

It is interesting to note, however, that we can see something resembling the ability-based grade system in some Western companies. This is the 'competency approach,' which seeks to transform human resource management from focusing on job-based skills to overall competency, exemplifying ability which is indispensable for new employees and managers alike.⁶ Thus, the differences and similarities of the ability-based grade system and competency approach should be clarified by future international comparative studies.

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