

Changes in Employment Practices, Personnel Management and the Wage System at Toyota in an Era of Globalisation and an Aging Society

Eishi Fujita

As the theory of lean production system shows, Toyota production system has attracted worldwide attention as a best example of the Japanese production system. However since the end of the 1980's the production system upon which Toyota's manufacturing was based, has been revised according to new production concept of 'the Autonomous Complete Process'(Kanketsu Koutei). At the same time, Toyota is reviewing its corporate structure, personnel management and wage system. This paper will discuss these changes in employment practices, personnel management and wage system that have a close relationship with the revision of Toyota production system.

1. Trends towards Diversification of Types of Employment

In Japan the established norm of employment has been the annual recruitment of new graduates as regular employees with the guarantee of lifetime employment. This system has already begun to break down in industries with maturing domestic market, and in the early part of the 1990's this trend began to spread to large car manufacturers. This led to a change in traditional employment practices, spurred on by the maturing of the domestic car market, the spread of car production overseas and diversified management.

The recent changes in employment practices are firstly hiring of female production workers, secondly hiring of temporary workers at the time of normal production volume, thirdly introduction of annual contracts system for white-collar jobs, fourthly hiring of new university graduates not in spring(for example in autumn), that is hiring new graduates throughout the year, fifthly introduction of out-placement measures for workers who are under the age of mandatory retirement.

1-1 Hiring of Female Production Workers

Except for a part of clerical workers, almost all the regular employees at Toyota are male, and until the end of the 1980's there were no female production workers on the factory floor. However Toyota management has judged that Japan's aging society will very soon lead

to a shortage of young male workers and it has no option but to begin making use of females and elderly people as production workers. Indeed in 1991 hiring of female production workers began at Toyota. By the end of 1992 there were 55 female workers on the production lines at Miyata plant of Toyota Kyushu which began to produce cars on December 1992, representing 5% of the total workforce at the factory floor.

Toyota Kyushu's plant introduced a continuous two shift system at first, and then from May 1995 other plants of Toyota in Japan moved to the continuous two shift system. In the continuous two shift system the early shift operates from 6.00 am - 3.15 pm and the late shift from 4.15 pm - 1.00 am in order to reduce the number of late night / early morning working hours. However the Labour Standards Law at that time prohibited women from working past 10.00 pm, so female workers on the late shift must leave at 10.00 pm, and the duties of remainder of the late shift are carried out by supervisors such as 'kumicho' who move to production line duties after they leave.

But limits have been set as to how many female workers can be hired in car production plants. The percentage of female workers must not exceed approximately 5% because the percentage of supervisors is about 5%. In July this year the Labour Standards Law was revised and the prohibition on female workers working past 10.00 pm was lifted, and from April 1999 female workers will be able to perform late night work. This means that males and females will be able to work the same shifts and will probably lead to a drastic increase in the number of female production workers in the Japanese car industry. However, even though the number of female production workers is expected to increase dramatically, it is expected that they will be relegated to perform low-skilled work, and because they will only have worked for a short time, they will be paid relatively low wages under the Japanese wage system with a strong relationship between length of service and pay rates.

1-2 Constant Employment of Temporary Workers

Even until now Japanese car manufacturers have employed temporary workers to supplement the workforce in busy time. They have been the adjustment valve or the buffer to cope with production fluctuations. This Spring, Toyota employed more than 3,000 temporary workers, this is more than the record number it hired at the peak of the bubble economy. In order to maintain ordinary production levels without hiring more regular employees, Toyota has introduced a new policy of employing temporary workers on a regular basis. This has been the key to the rise in employment of temporary workers despite the

continuing slump in domestic production. A major reason why it is now possible to make use of temporary workers and short-term female production workers is the introduction of the 'autonomous complete process' which has shortened the training time necessary for assembly line workers who are assigned to lower grade jobs.

1-3 Introduction of a Contract System for Employees

In 1994 an annual contract system with annual salary system was introduced for office and technical staff under the name of the PC(Professional Contract) System. The PC system is currently being used to hire people with specialist skills such as designers, but in absolute terms the number is limited to a handful of people at this point in time. However for new ventures in industrial fields such as ITS(Intelligent Transportation System), information & communication or housing construction, it is necessary to employ them at a rate of 20-30% of total workforce, according to the Toyota vice president. When constant employment of temporary workers is combined with short-term employment of female production workers, the proportion of workers hired not as regular workforce, so called 'flow-type workforce', will increase markedly. At Toyota, a certain proportion of male employees hired as part of the regular annual graduate intake will be replaced by this 'flow-type workforce' including females, as the trend towards diversification of types of employment continues.

1-4 Introduction of Job Out-placement Service

From January 1996 Toyota instituted a job out-placement service for all managerial employees above the rank of section manager('kacho'). Under this scheme, Toyota introduces employees to prospective employers, and undertakes to make up any shortfall in salary until the age of 60, mandatory retirement age, if the employee's new wage should be less than the salary he was earning at Toyota. The upper limit on this salary supplementation is set at three times the employee's final retirement salary at Toyota, so if an employee's salary is ¥10,000,000 per annum, the amount available for supplementation will be ¥30,000,000.

The job out-placement scheme has been introduced because surplus employees have already been posted to affiliated companies or subcontractors, and this avenue is no longer available to the company as a means of dealing with the aging of its workforce. Increasing numbers of aging white collar workers are urged to find work outside the company. This signifies Toyota's attempts to return the age composition to the pyramid shape of the past. This kind of job out-placement system has been in operation for over ten years in industries that experienced an earlier aging of their workforce, such as the steel industry and trading

companies.

Changes explained above were proposed in a paper produced by 'Nikkeiren' entitled Japanese-style Management for a New Era which makes recommendations for personnel and hiring practices. The report states that the optimum hiring structure for corporations is a three-tiered structure. The first tier consists of the long-term accumulated knowledge group made up of regular employees under the lifetime employment system whose scaling back is recommended. The second group, the highly skilled group of employees hired for specific purposes is to be hired under fixed contracts in the areas of planning, sales and R&D. Finally, the third group, flexible employment group, is made up of part time, temporary and dispatched workers. For the company, this represents an ideal combination of three types of employment, providing flexible use of workforce. This report shows big companies are replacing regular employees under lifetime employment practice with employees hired under fixed-term employment contracts or short working hour workers. The three pillars of Japanese management are said to be lifetime employment, seniority system('Nenkosei') and company union. But, regular employees under lifetime employment and seniority system are reducing drastically to a minority group even in big companies in Japan.

2. Separation of Post and Job Function

There have been wide-reaching changes to the personnel and wage system since the large-scale organizational reform at Toyota in 1989. By this organizational reform, the hierarchical pyramid corporate structure comprising Division Manager, Deputy Division Manager, Section Manager, Deputy Section Manager and ordinary employees has been simplified and replaced with a system consisting of Division Manager(bucho), Office Manager(sitsucho), Staff Leader and Staff Members. As the corporate structure is flattened, there have also been changes in the hierarchy of office and technical staff, with the introduction of the Job Ability Rank System(shokuno shikaku seido), a new personnel management system which has loosened the link between the 'Job Post'(shokui) and the job ability rank. Under this personnel system, the job post consists of two fields, namely 'administrative post'(manager shoku) and 'staff post'(staff shoku). The division manager and the office chief who belong to 'administrative post' carry out managerial work, while the staff leader and staff members largely handle their own practical jobs. Thus although they are both classified at the job ability rank level of Deputy Division Manager, there is an Office Chief who carries out managerial work and there is a Staff Leader or a Staff Member who carries out operational work. According to company explanation of this system, both groups

receive equivalent salaries and personnel treatments.

Under the 1989 ranking system, the rank titles were a class of Division manager, a class of Deputy Division Manager and a class of Section Manager. These rank titles were the same names as those of managerial status used before the organizational reform. After the flattening of structure those who did not belong to administrative post(manager shoku) are allowed to introduce themselves as deputy division manager or section manager that can be easily understand outside the company. However in 1996 the Job Ability Rank System was revised and the rank titles were altered, and a class of Division Manager, a class of Deputy Division Manager and a class of Section Manager became the first, second and third levels of nucleus position(kikanshoku) respectively, with post names like section manager and rank titles becoming completely separated.

With the introduction of the Special Competence Posts System in 1991, even in the area of production workers and supervisors, the job post(shokui) and the job ability rank become separated. Production workers who had not reached the supervisor level were given the status of Chief Expert and so on if they are considered to have a special working competence. Those who are classified at the job ability rank level of a class of Senior Foreman(kocho), a class of Foremen(kumicho) and a class of Under-foreman(hancho), are treated equally on wages and fringe benefits to Senior Foreman, Foreman and Under-foreman.

As the average age of employees rises recently, there is a shortage of managerial positions. Since salary levels and personnel treatment are based on position, this served as discouraging factor for middle-aged and old employees. The separation of the post and the job ability rank was intended to overcome this problem by providing aged employees with incentive of the job ability rating instead of managerial position. It can be seen as a revision of the personnel system within the framework of the existing principles of the seniority system.

3. Emphasis of Ability-based Factor and De-emphasis of Seniority in the Wage System

With the introduction and the revision of the Job Ability Rank System, the concept of linking wages to individual personnel assessment brought major changes on the wage system. Figure 1 shows the system of monthly standard wages except family allowance and managerial rank allowance(shokui-teate) as for below the level of Senior Foreman and as for

above the level of Section Manager. The ratio of managerial rank allowance was only 0.3% of the standard wage except family allowance. (There are also fringe benefits and amounts equivalent to six month's wages that are awarded as bonuses). The production allowance(seisan teate) is a group incentive pay which is determined by the efficiency of the group that the worker belongs to. An amount of the production allowance of each workers is set by as follows: the production allowance = his base wage × the efficiency rate of the group.

3-1 The Wage System Reform below the Level of Subsection Manager(kakaricho) or Senior Foreman(kocho)

The base wage(kihonkyu, or honkyu as to section manager and above) before the 1990 wage system reform has been determined by a combination of length of service, performance and ability. Under this system wages rise annually and each year's rise is added to the previous base wage. Since the base wage increases with length of service under this system with cumulative annual increases, it is in this sense a seniority-based system. However, as personnel evaluations by superiors of ability and performance are included in the annual wage decision, although wages rise in an upward curve based on length of service, overall wages also include an element of competition between workers because the results of personnel evaluations are also taken into account. The promotion to supervisor and manager are based on personnel evaluation, and rises in the base wage are fixed according to rank such as senior foreman, foreman and under-foreman; the higher the position, the higher the wage rise. Moreover, workers of the same job position can have annual wage rises that vary overtime according to personnel evaluations.

The aim of wage system revisions since 1990 was to:

1. make employees aware as quickly as possible of their performance
2. to link different wage levels to individual ability
3. to clarify the wage system for employees.

For employees below the level of senior foreman(kocho) and subsection manager(kakaricho), job ability wage(shokunokyu) have been introduced in 1990, making up 40% of the wage for office and engineering employees and 20% of the wage for production workers in 1993. Job ability wages are determined by the table of the fixed job ability wage of each job ability rank with supplement of additional payments which are made based on the results of the periodical evaluation that superiors assess 'the worker's performance, effort(attitude towards their job), namely worker's ability being shown' in the past year. Accordingly, the

difference of job ability wages between workers reflects the difference in ratings of periodical personnel evaluation in the past year and this makes larger pay difference to workers than under the former wage system. This results in a highly competitive and ability-based workplace atmosphere. But, at the same time, the philosophy of 'living wage' has come to be partially reflected in the new wage system although it has been implemented in a piecemeal fashion; the new wage system includes 'age wage'(nenreikyu) which is 10% of wages in the 1990 reform, and increasing to 20% in the 1993 reform.

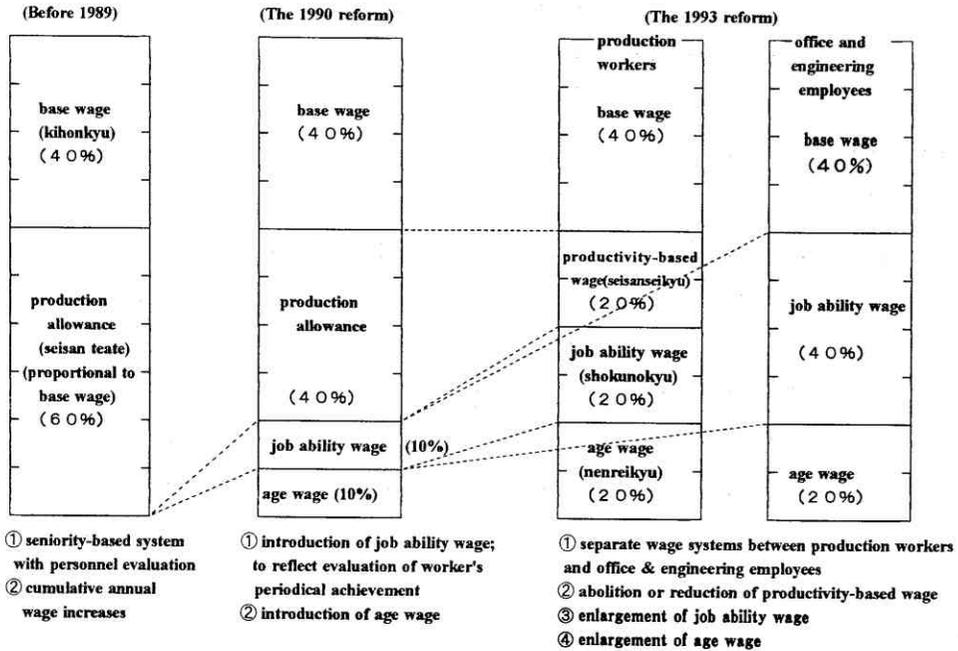
3-2 The Wage System Reform above the Level of Section Manager(kacho)

Under employees salary system above section manager(kacho), the base wage (honkyu) was calculated on the basis of a combinations of length of service and personnel evaluations (see Figure 1). This salary was reduced to 40% of total salary by the 1990 reform and was renamed 'job ability rank wage'(sikakukyu) in the 1996 reform. Under the job ability rank system since the 1996 reform, managers who belongs the same job ability rank receive the same job ability rank wage, and factors like age and length of service have no bearing on the wage received. The job ability wage(shokunokyu) of managers level which became larger than the base wage, or the job ability rank wage, was determined in the same way as the wage below senior foreman and subsection manager mentioned before until the 1991 reform. But, in the reform of 1996, a 'wage grade'(chingin tokyu) system of the job ability wage which was separated from the job ability rank system was introduced(see Figure 2), and the job ability wage of managers above section manager(kacho) were calculated based on the sum of the fixed wage of each wage grade and the additional pay which was determined by personnel evaluation results. Although wage grade(chingin tokyu) levels rises with promotions to upper job ability rank(shokuno shikaku), it is also possible for the job ability wage to decrease based on annual personnel evaluations. For example, depending on the results of personnel evaluations, a manager who is classified as the first level of 'nucleus position'(kikanshoku), a Division Manager under the former system, could be classified as either a Level 1 or as a Level 3 or Level 4 of the 'wage grade', the latter wage grade which is a classification normally applied to the third level of 'nucleus position', that is Section Manager. Therefore it is highly possible that the job ability wage below Section Manager will actually decrease. The maximum annual salary gap between managers under the former system who were classified as Division Manager was approximately 3,500,000 yen, but it is theoretically possible for a 7,000,000 yen maximum annual salary gap to exist between Level 1 and Level 4 of the 'wage grade' even if classified as the first level of the 'job ability rank'. Therefore, a factor of seniority has been completely removed from consideration in the

wage system of managers belonged to nucleus positions. And the results of personnel evaluations are now directly determining the actual wage differences between managers.

Figure 1 Changes in the Wage System

[Below the level of Senior Foreman(kocho) or Subsection Manager(kakaricho)]



[Above the level of Section Manager(kacho) = the third level of 'nucleus position']

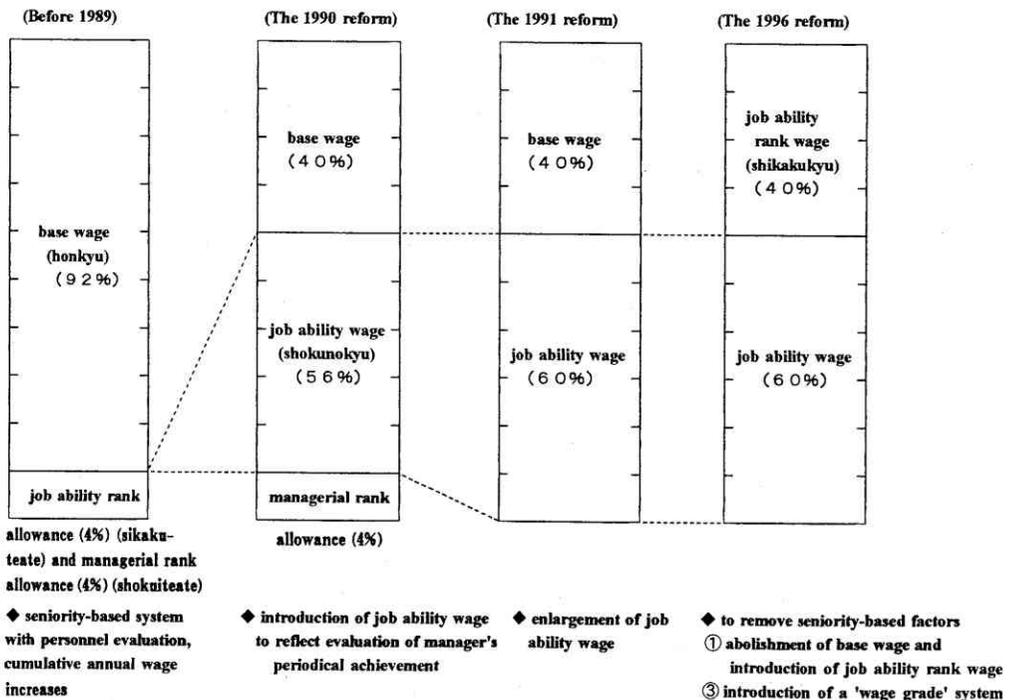
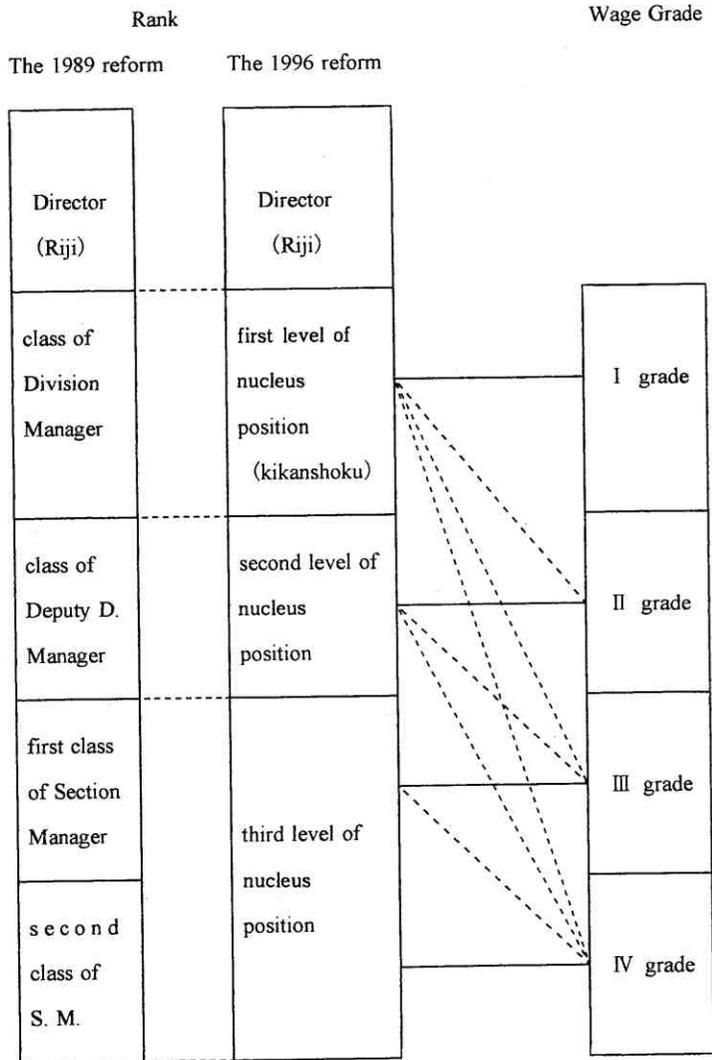


Figure 2 Job Ability Rank System and Wage Grade System above the Level of Section Manager



* This paper was submitted to the 4th Japanese-German joint seminar on Industrial system, labour relations and labour policies in the time of globalization, which seminar was held at Universität Bremen on 22-23 September in 1997.