

Matsushita Revises Generous Personnel System – Cuts into Sacred Ground with Early Retirement Policy –

By Omori Asahi

I

Matsushita Electric Industrial Co., long considered to be the model of Japanese companies with its generous personnel system, has made cuts into the final sacred ground of this system. In September the company, which is suffering poor business results and is expected to post an operating deficit for the first time since its listing in its consolidated settlement for the term ending in March 2002, overturned the corporate philosophy of lifetime employment which it inherited from its founder Matsushita Konosuke (1894-1989) and introduced an early retirement scheme. It is forecast that about 8,000 employees will apply to join this scheme from the group as a whole. Clearly, Matsushita, which is also scheduling a complete revision of its retirement allowance and pension systems in April 2002, has greatly changed the course of its management policy.

Matsushita as the Model of Japanese-style Lifetime Employment

Matsushita's model of Japanese-style lifetime employment goes back to an episode in 1929. Facing a business crisis brought on by the Showa Depression, Matsushita Konosuke, instead of turning to layoffs, put his plant on half-day operation and sent his workers out to peddle the company's inventories. Through labor-management consultations he succeeded in reconstructing the company and protecting jobs at the same time.

The system has been continued ever since then, the only exception being in 1949 when, on the verge of bankruptcy as a result of the postwar business crisis, the company was forced to solicit voluntary retirement. Otherwise, even at the time of the oil crises in the 1970s and the strong yen recession in the 1980s, while other leading electrical appliance makers implemented voluntary retirement, Matsushita avoided employment adjust-

ments. The reason was that, as the philosophy of its legendary great founder, employment was seen as a sanctuary.

The person who has finally cut into this sanctuary is Nakamura Kunio, who was appointed president of Matsushita Electric Industrial Co. in June 2000. Since announcing a three-year medium-term management plan called "Value Creation 21" in November 2000, centered on the key words of "demolition" and "creation," Nakamura has trumpeted "business structural reforms without sanctuaries" one after the other, including: dismantlement of the business division system that Matsushita Konosuke established and that became the Japanese business model; and the integration of 22 distribution and sales companies, which had supported Matsushita's sales strength, into one firm.

But at the time of a management policy announcement on Jan. 10, 2001, even Nakamura denied any thoughts about conducting employment adjustment, say-

Japanese Companies Move Away from Seniority-based Wage System (By Fujiseki Takashi)

Amid the rapid advance of aging, the move away from the seniority-based wage system, which used to be the distinguishing feature of Japanese companies, is spreading. Instead, in accordance with the globalization of the economy, Japanese companies are beginning to adopt U.S.-style, results-oriented wage systems in which performance and ability are the determining factors. Moreover, as the business environment faced by Japanese companies themselves becomes increasingly severe, it is becoming more and more difficult to sustain a mechanism by which all employees of the same age get the same wage. Nevertheless, there is still resistance among Japanese employees to this rapid shift to a results-oriented approach. As a result, companies are continuing their search for a Japanese-style, moderate, results-oriented wage system that is acceptable to workers.

The *White Paper on Health, Labor and Welfare 2001*, issued by the Ministry of Health, Labor and Welfare (MHLW), which has responsibility for labor policy, explains the environmental changes in an easy-to-understand manner in a section titled, "Changing Seniority-based Wages." According to the *White Paper*, which uses the results of surveys conducted by

various public organizations, the ratios of leading companies that had revised their wage systems over the previous three years were 15.8% for "expanded the wage portion determined by ability to execute duty," 15.5% for "expanded the wage portion determined by performance and results" and 11.3% for "expanded the wage portion determined by content of work, such as duties and types of jobs." Regarding these three categories, the ratios of surveyed companies that scheduled revisions over the next three years were 20.8%, 22.3% and 13.5%, respectively.

The attitudes of people working amid this environmental change are shifting, too. According to the results of a commissioned survey of the MHLW on "The Employment Conditions of White-collar Workers and Labor-Management Relations in the New Century: Present Situation and Outlook" (2000), the total ratio of respondents who said that, regarding the wage system, "partial revision is unavoidable" and "basic revision is necessary" exceeded 85%. The "Survey on Personnel Systems and Work Attitudes under Structural Adjustment" (1998, see Figures 1 and 2) of the Japan Institute of Labor, an affiliated organization of the MHLW, also showed that few people opposed a change to a results-oriented wage system.

Nevertheless, quite a few people are also concerned. In the latter survey, the ratios of respondents replying, "it is unclear

Photo: The Mainichi Newspapers

ing, "the maintenance of jobs is the duty of Japanese companies," and "dismissals do not suit Japan's climate." On the contrary, he said, "it is necessary for us to revise inefficient parts; about 13,000 employees will be transferred from unprofitable businesses to priority businesses, such as devices and services."

Labor-Management Consultations from April

In the middle of July, however, following some media reports, it was widely reported that Matsushita would be soliciting early retirement. The target was about 80,000 employees from the five main companies in the Matsushita group that implement uniform recruitment and have the same working conditions and labor union: Matsushita Electric Industrial Co., Matsushita Communication Industrial Co., Matsushita Electronic Components Co., Matsushita Battery Industrial Co., and Matsushita Industrial Equipment Co.

Applications have been solicited in each department from September and will continue until the end of January 2002, with retirement coming at the end of the following March. No numerical target has been set. The conditions are that appli-



Nakamura Kunio, president of Matsushita Electric Industrial Co., explains the poor results of its September interim report

cants should be union members, with 10 or more years of continuous employment, and less than 58 years old. In the case of a 35-year-old employee, as well as a retirement allowance, he/she would get an extra allowance of 12 months of standard wages. This figure rises to 32 months for employees aged 45, and 40 months for employees aged 50-55, with a maximum of 2.5 times annual income. Moreover, accepted applicants will be able to take three-month paid leave for job changing or the acquisition of skills. A newly created job-change support office will offer consultations and provide job-vacancy information.

Applications are scheduled to be accepted until the end of January. Matsushita expects that there will be about 6,400 applicants from the group's five main companies and about 8,000 from the group as a whole, including such affiliates, whose settlements are integrated into Matsushita's consolidated settlement, as Victor Company of Japan and Kyushu Matsushita Electric Co., which have different working conditions and labor unions but have introduced similar early retirement schemes.

So Nakamura changed course sometime after the management policy announcement in January. What made him change his mind? Unfortunately the background remains unclear. What is certain is that, according to the union, full-scale consultations began in April following a request from the company. After repeated consultations, the company submitted a concrete proposal just three months later, in early July.

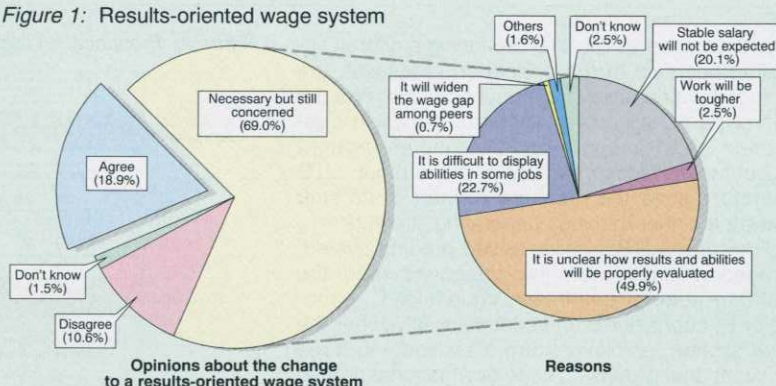
The union decided to accept the early retirement scheme at its regular convention at the end of July. Union Secretary General Osamura Yasuhiko has explained that the philosophy of ensuring employment and a stable livelihood base into the future, which it has always proclaimed as the legacy of Matsushita Konosuke, will

how results and abilities will be properly evaluated," and "it is difficult to display abilities in some jobs" were 49.9% and 22.7%, respectively. Many workers seem to accept that change is unavoidable but are opposed to excessively rapid change. Japanese companies face the difficult task of not only responding to changes in the external environment but also paying consideration to these anxieties among their workers.

JTB Corp., a leading travel agent, has introduced a wage system that is sure to momentarily give people the shudders, because it stipulates that in principle an employee's basic wage peaks when he or she is 35. JTB launched the new system for its employees, numbering about 7,500 in total, in April of last year.

Under the new system, the company abolished the ability-based grading scheme and switched to personnel management based on three occupational groups. The new wage system comprises a basic wage, a role and results-determined wage and various allowances. The basic wage reaches a peak when an employee is 35, while the role and results-determined wage fluctuates year by year depending on

Figure 1: Results-oriented wage system



Source: Japan Institute of Labor, The Survey on Personnel System and Work Attitudes under Structural Adjustment

the individual's achievements. If the role and results-determined wage declines, the cut must be less than 25% of the wage in the previous fiscal year.

The objectives of the new system are to sweep away seniority-based personnel treatment and to link results and treatment, thereby motivating employees and increasing productivity.

remain unchanged, but what do ordinary union members think?

Arguments For and Against – Some are Ready to Abandon Ship

A male employee in his fifties working at a plant in the Kansai region described his view of the actual situation on the company floor: “One of my co-workers was interviewed seven times. He said that he was told by his boss that there was no work for him and that he should retire.” According to this man, his co-worker was persistently interviewed by his boss because he had refused retirement. At this plant, the boss gave interviews to all union members under the age of 58 who had been working for 10 years or more, and employees who were asked to retire were interviewed repeatedly.

Despite such reports, Matsushita emphasizes that in the end the decision depends on the voluntary will of the employee. The union also states that, in the words of Secretary General Osamura, “The system has no numerical target and certainly is not an encouragement to retire.” Nevertheless, although Matsushita insists that in principle only applicants are interviewed by their bosses, in practice there seem to be departments and plants that are interviewing all

eligible employees.

On the other hand, opinions at the plant in Kansai are also divided. Many employees, according to the man quoted above, are showing reluctant support for the system and are ready to abandon ship. These employees say that having worked hard for Matsushita so far, and because a skill change is extremely difficult for them, they are willing to quit if they are going to get an extra allowance. In the end, about 20% of the total number of employees at this plant have applied for early retirement.

A Resetting of Lifetime Employment

At the end of October, on the occasion of Matsushita’s September interim report on consolidated accounts, Nakamura spoke as follows: “The digital network society has arrived, and the form of business is changing fast. We have entered an era in which employees are required to change their skills. An increasing number of employees are mastering new skills and engaging in new work. That is what employment is all about.”

Ironically, the union is in agreement with the company. Says Secretary General Osamura, “We cannot ensure employment without making any effort. We must strive to improve the abilities

needed today, such as added value. Employment will be guaranteed for people who change.”

One male employee, in his early thirties, appears to accept this change in the employment environment: “Until now employees have entered the company on the premise of lifetime employment. But with the recession and changes in the industrial structure, this no longer holds water at Matsushita and other companies. President Nakamura’s message in introducing the early retirement scheme is that we must reset this premise and choose to either remain in the company, perhaps with a change of skills, or quit.”

Finishing Touches to Personnel System Reform

Matsushita played a leading role in the introduction of lifetime employment and the five-day working week, but in recent years it has also taken the lead in gradually reforming its personnel system, such as the introduction of a retirement allowance advance payment system (Alternative Payment System of Retirement and Fringe Benefit Allowances) in 1998 and a regional employee system (Regional-based Employee Remuneration System) in April 2000.

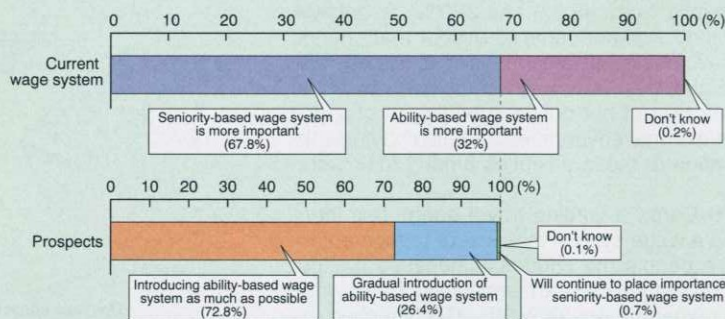
The retirement allowance advance pay-

Travel companies like JTB are facing a difficult situation because of the prolonged recession, the drift of travelers away from package tours and the increase of direct transactions between customers and transportation companies brought about by the widespread use of the Internet. JTB therefore sees the measure as part of its shift toward a higher earnings-generating structure.

Previously JTB’s ability-based grading system divided employees into five categories: (from the bottom) general employee, counselor D, counselor C, counselor B and counselor A. Under the new system, employees are classified into three occupational groups. These occupational groups are not linked in any way to age or length of employment, and there is no promotion based on seniority.

The wage system has been overhauled, too. The monthly wage now comprises a basic wage, a role and results-determined wage, and various allowances, such as a fringe allowance and family allowance. The peak in the basic wage curve has been brought down from 50 years old to 35 years old, with the basic wage remaining level from 35 years of age

Figure 2: Prospects for the seniority-based wage system



Source: Japan Institute of Labor, The Survey on Personnel System and Work Attitudes under Structural Adjustment

to mandatory retirement. The role and results-determined wage fluctuates annually and is calculated through a comprehensive evaluation of the individual’s achievements and behavior. Maximum and minimum levels have been set for each of the three occupational groups.

There is no concept of a “regular hike” in the role and results-

ment system was introduced in response to the diversification of work attitudes among younger employees, for whom job changes are becoming common. There are two options. In the first course, the retirement allowance portion is added to the monthly wage. In the second course, in addition to the retirement allowance, welfare expense portions, such as the housing purchase loan and stock incentive, are also added. About 40% of new recruits opt for this system every year.

Under the regional employee system, in place of a transfer, employees in the regions are given a lump sum averaging about ¥2.5 million per employee, calculated with reference to the cost of living in the region concerned and the employee's salary, and then receive a wage cut of 10%-20%. This system has already been applied to about 30,000 employees. As the finishing touches to this series of reforms of the personnel system, Matsushita plans to carry out a sweeping revision of its generous retirement allowance and pension systems in April 2002.

At present Matsushita's retirement allowance is calculated within a large framework of such factors as wage levels at the time of retirement and length of employment, and the differences are small. But in line with the wage system

introduced in April 2001, which is strongly ability-based, the retirement allowance system will be revised to reflect results and performance over the years.

Also, the common practice among employees at Matsushita is to entrust the retirement allowance to the company and let the company manage it in two parts: one added to the employee's social security pension and the other operated as a separate welfare pension. Of these two parts, the welfare pension (paid to employees aged 55 or over with at least 15 years of employment) has a high benefit interest of 7.5%, benefits are guaranteed under the same conditions for 20 years after retirement, and payment is for life. Since these conditions are extremely advantageous, with the interest rate greatly exceeding the market rate, Matsushita registers an operating loss of more than ¥10 billion a year and is said to have supplemented the system as a personnel expense.

For this reason, Matsushita is expected to abolish the welfare pension, revise its benefit interest rates, and switch over to a cash balance plan, by which accumulated interest rates would be linked to market rates and the period of payment would be limited.

Aiming to Recover Business Performance by Controlling Personnel Expenses

Nakamura has described the Matsushita setup as "obese" and "slow." The company's personnel expenses, for an organization that became bloated on the premise of continued growth, amount to about ¥800 billion. Over the past decade personnel expenses have increased by about 40% and at a faster rate than sales.

In its consolidated settlement in March 2002, Matsushita is expected to register an operating deficit of ¥160 billion and a net loss for the term of ¥265 billion. Of the special loss included in the net loss for the term, expenses relating to the payment of retirement allowance extras will amount to about ¥130 billion. This will mean a large loss at the time, but through the introduction of the early retirement scheme and regional employee system and the sweeping revision of the company's retirement and pension systems, it hopes to reduce personnel expenses by about ¥100 billion in fiscal 2002 compared with the previous year.

In a press conference related to the September interim report, Nakamura commented that he "felt keenly responsible" for the deteriorating business performance and went on to say that "We will

determined wage, which is revised without fail every year and changes according to the individual's performance. So an employee might achieve good results one year, leading to a high role and results-determined wage, but then poor results the next, leading to a low role and results-determined wage. According to a middle-ranking employee at JTB, this system motivates employees and makes them more positive about their work.

Meanwhile, Nippon Yusen K.K., a leading marine transportation company, has switched from a seniority-based personnel system to a more flexible system that increases the number of grade ranks and lowers the steps from one rank to the next. Career and non-career workers have been given the unified classification of "employee," and the number of grade ranks has been increased from 12 to 23. The new grade system abolished job classification and called everyone "employees," answering the claims by some people that it would be difficult to manage the old system because the differences among previous job classifications became more and more difficult to understand. It also takes into consideration the dissatisfaction about the fact that appointment criteria from general posts to semi-career posts and from semi-career posts to career posts were unclear. The subdivision of the grading system was

aimed at improving the situation in which age would inevitably be taken into account if the steps up the ladder were too high. No maximum or minimum number of work years has been set for any of the 23 ranks, and there is no automatic promotion. Instead, annual promotion is possible in theory. Wages reflect rank and various other evaluations, which have been changed from the previous "absolute evaluation" to "relative evaluation."

The qualities required for each rank are easy to understand. For example, ranks 8 to 11 demand that the employee "should be able to think for him/herself, show action and instruction, and achieve organizational goals with his/her own responsibility without waiting for instructions from above" and "should be able to accurately grasp the weaknesses of subordinates and give appropriate guidance for training."

These are both cases of companies trying to break away from seniority-based practices. JTB's case can be described as bold and Nippon Yusen's as moderate. Both cases have been featured in a special magazine on the personnel systems of representative Japanese companies. In this sense, they are attracting a lot of attention in Japan's corporate world. **JTI**

(Fujiseki Takashi is a news correspondent for the Economic News Division of Kyodo News whose assignments cover issues related to the Ministry of Health, Labor and Welfare.)

certainly take steps to recover the situation in fiscal 2002, and I believe that we will definitely succeed.”

As a reformer in the midst of difficulties, Nakamura is often compared to Prime Minister Koizumi Jun'ichiro. Koizumi has told the Japanese that “It is impossible to achieve an economic recovery without structural reform, and there should be pain accompanying that reform.” The pain for Matsushita employees resulting from Nakamura's structural reform has become a reality – the number of early retirees has reached 8,000.

Coincidentally, immediately after Matsushita made cuts into the sacred ground and announced its early retirement plan, major Japanese electric companies including NEC Corp., Fujitsu, Sony Corp., Toshiba Corp. and Mitsubishi Electric Corp. also proclaimed their personnel cuts policy as if a dam had broken.

Kirishima Kazutaka, Senior Chief Researcher of the Sumitomo-Life Research Institute, points out that Japan's employment situation has deteriorated because large companies such as electric appliance makers are 1) restructuring their domestic plants, 2) shifting their industrial bases overseas and 3) reimporting products from such overseas bases.

II

Interview with Matsushita Group Manager Fukushima Shin'ichi

Reforms are Consistent with Founder's Philosophy

The *Journal* asked Fukushima Shin'ichi, the group manager of Matsushita Electric Industry Co.'s Personnel Group, about the aims of the company's employment structure reforms, such as the early retirement scheme and retirement allowance advanced payment system.

Omori: *Until now Matsushita has maintained jobs. What are the aims behind introducing the early retirement scheme?*

Fukushima: *Since the period before the war, when the founder of our company,*

Matsushita Konosuke, facing a bankruptcy crisis, halted the plant and went out with all the workers to peddle goods, thus protecting jobs, Matsushita has placed top priority on securing employment. We are not rejecting this policy completely, but from now on we must switch to a system of guaranteeing employment according to ability. Since we cannot respond to such a new system under the current system, we have introduced the early retirement scheme for a limited period.

Omori: *Is the recession in the information technology industry one of the factors behind this move?*

Fukushima: *Yes. We are going ahead with the structural reform of our business at a rapid pace, and consequently it is necessary for employees to change or upgrade their skills. There are some employees who cannot keep up, and there are some who want to start a second life. As a Matsushita-style safety net, we are offering an additional retirement allowance and have set up a job-change support office.*

Omori: *Have there been any voices of opposition from employees?*

Fukushima: *One cannot whitewash the issue, of course, but I have not heard of any opposition. There might be some complaints on the spot. When we introduced the scheme, we held consultations with the union on the premise of expanding the options available to employees. Although we will not be able to offer the same level of additional retirement allowance in the future, I think that the present offer is the highest level in the industry.*

Omori: *Doesn't the early retirement scheme contravene the philosophy of Matsushita's founder?*

Fukushima: *I don't think so. Within the company, we held considerable discussions with the union. Times have changed, and attitudes within the company have changed. An increasing number of people are accepting the practice of job change. This is not compulsory retirement. In the end the decision rests with*

employees themselves. I think it will be the final brake.

Omori: *What is the present status of the retirement allowance advanced payment system?*

Fukushima: *About 45-46% of new recruits are opting for the retirement allowance advanced payment system. I think we can say that it has become entrenched. In a sense, it is a form of non-continuous employment. But it seems right for employees to have the choice of not having any retirement allowance or any welfare parts. It is not as if the company is profiting. The only difference is the way that employees receive the money. The existence of multiple choice is one condition for a good company. Some people have said that the company will become a temporary station for workers, but the retirement ratio is less than 1%.*

Omori: *There is talk about abolishing the welfare pension. What is your comment here?*

Fukushima: *We have not announced the content of the system itself, and I have no comment about the operating loss. Suffice it to say that Matsushita established the welfare pension system at a time of good business results in order to guarantee the livelihoods of employees in old age. It is a fact that this system does not suit the present age. I don't think it would be accepted socially.*

Omori: *But doesn't this mean that the company is backtracking on its health and welfare policy?*

Fukushima: *Health and welfare depend on corporate management. We must switch to a system that is socially acceptable to everyone, including shareholders. Employees seem to be accepting the decision calmly.* JTI

Omori Asahi is a news correspondent at Osaka Economic News Division, Kyodo News. His reports cover major Japanese electric appliance makers, including Matsushita Electric Industrial Co.