

Pay for Performance and Human Resource Management in Japanese Banks

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Abstract

The purpose of this paper is to explore the significance of performance-based pay in the context of the "rationalization" of human resource management, with a particular focus on Japanese financial institutions. In the wake of the economic downturn following the collapse of the economic bubble, Japanese financial institutions have faced the need to transform their management policies and business models while also shifting their profit structures. To address these challenges, financial institutions have pursued reforms in human resource management, adopting performance-based compensation systems as a means of securing talent and reducing overall personnel costs.

The introduction of performance-based compensation systems in such a context goes beyond mere reorganization of wage structures. It also raises critical questions regarding the relationship between these systems and total wages, as well as their connection to the broader development of human resource management, which includes wage and allowance restructuring and reductions. This paper, therefore, investigates how the job-based human resource system reforms in Japanese financial institutions have reshaped workplace dynamics.

Keyword: *Performance-based pay, The "rationalization" of human resource management, Japanese financial institutions, Total wages, Reorganization of the workplace*

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Introduction

Since the collapse of the economic bubble in the early 1990s, the Japanese economy has experienced a severe slump. In response, many of Japan's major corporations have sought to improve profitability by reducing costs. A key area of focus has been personnel costs, particularly the salaries of the growing number of middle-aged and older employees. As a result, Japanese-style stable long-term employment practices and seniority-based personnel management have come under review. Central to these reforms has been the introduction of performance-based compensation systems (Onimaru, 2015: 93-94).

For banks, whose primary revenue stems from deposit management, cost reduction has been a critical issue, particularly in the context of non-performing loans and the persistently low interest rates that followed the bursting of the economic bubble. In this climate, performance-based compensation systems were introduced to address these challenges. Concurrently, financial institutions have been pressed to reform their management policies and business models to adapt to the difficult economic conditions. The revisions of the Banking Act in recent years, which reviewed regulations on the scope of business activities for banks and banking groups, has underscored the importance of customer-oriented business operations in building sustainable revenue (Morishita, 2022: 44). Moreover, in light of the digitalization of financial services and the ongoing low interest rate policy, banks have been working to transform their profit structures. This has made the strategic allocation of human resources a critical issue for megabanks (Kobayashi, 2024: 95).

The multi-track human resource management system, widely adopted among city banks in the late 1990s and

early 2000s, has been a response to changes in the business and employment environment. These changes include the increasing participation of women in the workplace, a decline in young employees, an aging society, shifting attitudes about employment, and the implementation of legal reforms such as the revised Equal Employment Opportunity Law, the revised Worker Dispatch Law, and the Basic Law for a Gender-Equitable Society. The system reorganized the traditional payment for job-ability of personnel management, moving towards reducing total personnel costs and introducing a "compensation system based on job evaluation." This aimed to strengthen personnel management using a performance and ability oriented framework (Watanabe, 2000: 3). Consequently, performance-based wages became a cornerstone of these reforms in personnel systems and innovations in business models.

The purpose of this paper is to examine the significance of performance-based pay in relation to the rationale of human resource management.

Analytical Perspectives on Performance-based Pay (P4P)

As mentioned earlier, performance-based pay was introduced in the second half of the 1990s in response to the economic downturn that followed the bursting of the economic bubble. However, the concept of pay for performance is not clearly defined, and various forms of compensation have been implemented under its umbrella. One prominent type of performance-based pay introduced during this period was the annual salary system.

According to Endo Koushi, a significant trend in Japan's wage systems since the 1990s has been the adoption of "performance-based wages," with the annual salary system often serving as a key component (Endo, 2005: 154). The annual salary system was modeled after the U.S. competency-based pay system and combines two elements: Pay based on qualifications and pay on performance. Performance evaluation often relies on either management by objectives (MBO) or self-assessment systems. The Japanese interpretation of competency-based pay centers on "knowledge and skills required to perform a specific task or role" [Endo, 2005: 155]. Endo also notes that the concept of an "identified role" has been central to discussions on the annual salary system (Endo, 2005: 154-155). This "identified role" aligns closely with the concept of employee value. Furthermore, since annual salary systems evaluate and incorporate achieved results into wages, they could also be considered as a form of job performance pay.

When evaluating performance-based pay systems, it is essential to consider several factors. Endo highlights that one of the key objectives behind the introduction of such systems has been "the suspension or abolition of periodic wage increases." Additionally, changes in compensation systems have often coincided with modifications to the bonus system, effectively turning bonuses into a variable component of wages (Endo, 2005: 157-158). Traditionally, in Japan, bonuses have been linked to the overall performance of the company. While disparities in bonus amounts were relatively minor due to seniority-based wage systems, the shift toward performance-based pay has led to greater disparities in bonuses among employees (Endo, 2005: 158).

Since bonuses are determined based on base pay, reforms in compensation systems are intrinsically linked to changes in bonus structures. While it may appear unnecessary to broaden research to include bonuses when studying performance-based pay, it is important to recognize that bonuses often serve as the performance-related component of annual salary systems. Therefore, bonuses cannot be ignored in discussions of performance-based compensation.

In fact, the extent to which Japan's bonus system is tied to organizational performance has traditionally been low, but this trend has shifted. The percentage of companies linking bonuses to organizational performance increased from 34.4% in 1999 to 49.8% in 2004 (Ouwan and Suda, 2009: 25). Furthermore, "the decline in wages after the Lehman shock was the largest since the end of the war, and it was bonuses and one-time payments that were most significantly reduced" (Ogino, 2020: 56). These observations underscore the critical role bonuses play in performance-based pay systems, as well as the broader implications for wage structures during periods of economic instability.

Moreover, in the case of banks, the development of merit pay has involved not only the reorganization of base pay but also the consolidation and restructuring of allowances. As is well known, basic pay in Japan is traditionally

determined "according to personal factors such as age, length of service, education, and ability" (Koushiro, 1964:74). For this reason, Japanese wage structures often consist of multiple components in addition to base pay. The introduction of performance-based pay has not merely involved the revision of wage structures but has also led to the reduction and reorganization of wages and allowances. In this regard, as Onimaru and others have emphasized, when examining performance-based wages, it is essential to consider not just the changes in the wage system itself but also their relationship to overall wages. This is particularly significant given that, as has often been pointed out in prior research, wage system reforms are frequently implemented as part of the broader system of personnel management practices.

The purpose of this paper is to examine the role of pay for performance in relation to the rationale of human resource management, with a specific focus on financial institutions. First, I aim to review the motivation for addressing this issue.

Reorganization of the Workplace and Performance-based Wages

As discussed earlier, the introduction of a performance-based pay system is not merely a reform of wage structure but should be understood as a comprehensive reorganization of the overall wage system, including bonuses and allowances. However, it is crucial to recognize that wage systems are not simply collections of payment types; they are closely linked to the periodic wage increase system. As Endo highlights, one of the critical issues associated with the adoption of performance-based wages is the "suspension or elimination of regular wage increases" (Endo, 2005:157-158). Consequently, the shift toward reorganizing the *nenko* (seniority-based) promotion system has become a focal point of attention.

Mitsuo Ishida, who identified the reform of employee grading systems as a key element in Japan's wage system transformation, analyzed the three major employee grading systems—"job grading," "role grading," and "job performance grading." He noted that "role grading" was highly likely to serve as the foundation for performance-based pay systems (Ishida, 2006:53). The "job qualifications grade system," widely employed by Japanese companies until the 1980s, declined in significance due to its reliance on *nenko* personnel management practices. This ultimately paved the way for the introduction of "job grade systems" and "role grade systems."

According to Ishida, both the "job grading system" and the "role grading system" provide frameworks for evaluating and ranking employees. Their primary objective is to clarify the hierarchical position of employees within the organization. Within this framework, grades are assigned based on roles and responsibilities, and employees are ranked accordingly. Promotions and salary increases are then determined through employee evaluations tied to these rankings.

As has often been observed, under the traditional *nenko*-based qualification system, regular salary increases are determined by seniority. In contrast, the "job grade" and "role grade" systems emphasize evaluations based on results, responsibilities, and roles. Therefore, the introduction of these new systems signifies a fundamental shift, dismantling the seniority-based work order and placing greater emphasis on individual performance and responsibilities.

Accordingly, it is crucial to remember that the issue of performance-based pay is being promoted as part of a broader system of personnel management within companies. However, we must be mindful of the following point: While work in organizations must manifest itself as "duties," these "duties" (or jobs) do not refer to work in the employment sense but rather to tasks within a management structure associated with defined responsibilities and authority to ensure the success of corporate activities (Izumi, 1974:109-110). Thus, a job role represents the expected responsibilities of an individual within a hierarchically organized structure.

Ishida emphasizes that the shift towards a performance-based system was driven by "the increasing dominance of market forces over corporate organizations, leading to a need for clearer management strategies and work management." As a result, it became necessary to align human resource management with a hierarchy of roles that "contribute" to achieving corporate and departmental objectives (Ishida, 2006:56). Ishida further asserts that the term "role" here "must encompass both the level of expected results and the level of expected behavior" (Ishida, 2006:56). Therefore, with the introduction of a performance-based system, the key concept within the

wage system shifts from job performance to role. Consequently, employee grades transition from job qualification grades to role grades, and personnel evaluations evolve from focusing on ability, attitude, and performance to assessing competency and performance. Along with this shift, basic pay moves from being based on age and job role to being determined by role-based factors.

There has been considerable debate surrounding the terms “job” and “role” in relation to performance-based pay. Regardless of the classification system used, both are fundamentally based on job analysis and evaluation. As Endo notes, we must bear in mind that the primary focus of wage reform today is on white-collar workers, particularly full-time employees (Endo, 2005:154). As previously mentioned, if “job” refers to the role of an individual within the organizational hierarchy, then the concept of “role” can be considered an element of the broader “job” concept.

In practice, job analysis is used to define roles, and at major financial institutions such as megabanks, roles are determined by the specific duties employees are responsible for. However, as Kinoshita highlights, it is also important to recognize that “new factors” (1999:76) are being incorporated during job analysis and evaluation, resulting in employees being categorized according to the broader concept of “roles.” In interviews we conducted, it was also noted that with the introduction of a performance-based system, traditional regulations regarding standard salary increases and age-related cost-of-living allowances have become less clear in financial institutions. This suggests that the dismantling of the seniority-based work order is progressing.

Although merit pay was initially introduced to curb overall wages following the collapse of the economic bubble, it is now being closely linked with the broader rationale of personnel management practices. From this perspective, the next step is to examine the role of merit pay in financial institutions and explore its practical significance.

The Development of Personnel Management Rationale

As discussed earlier, multi-track personnel systems have been in play since the second half of the 1990s, primarily in city banks. The goal of these personnel system reforms is to respond to the diversification of banking business and changes in the profit structure resulting from bank mergers, all while streamlining personnel management and ensuring profitability. To achieve profitability, it is not only necessary to increase revenue but also to find ways to reduce costs. Regarding costs, the most important focus for city banks is the total amount spent on wages, as the aim of personnel reform in these institutions is to keep wage expenses within a “reasonable” range.

Let us now explore the specific personnel management reforms that have been implemented. Under multi-track human resource management systems, banks have carried out large-scale staff reductions while increasing the use of part-time workers (Hirasawa, 2003: 90). At the same time, to address the diversification and sophistication of work, banks are also promoting the training and utilization of human resources capable of responding to specialized and varied job roles (Hirasawa, 2003: 92). In addition, financial institutions have introduced a corporate or holding company system for each customer market, enabling them to improve their profits and make quicker decisions. In this context, the reorganization of human resource management by department is being actively promoted (Hirasawa, 2001: 229).

For example, Tokai Bank has shifted from a personnel management system that emphasizes the development of employees with broad skills to one that focuses on cultivating and utilizing specialists.

Table 1

Tokai Bank's New Human Resources Management System

Traditional Human Resource Management (4 tracks)	New Human Resource Management (5 tracks • 4 job levels)
Comprehensive career	General career
Area comprehensive career	Expertcomprehensive career(Nationwide type/Regional type)
Professional career	Professional career
General career	Operational career(Nationwide type/Regional type)

Traditional Human Resource Management (4 tracks)	New Human Resource Management (5 tracks • 4 job levels)
	General career
	Senior management job level
	Super expert job level
	Executive professional job level
	Specialized job level

Based on: Hirasawa, K. (2001). Kinyuu "Mega Saihenn" to BankuWa-ker("Mega reorganization" of banks and employees). Finance, ed. by Oohashi, E. et al., OotsukiShoten. 230.

As illustrated in Table 1, the Human Resource Management course, which was previously divided into four tracks, has been restructured into five tracks and four job levels. Specifically, the four tracks that once emphasized developing and utilizing individuals according to their aptitudes and abilities have been reorganized into five tracks. In addition to these five tracks, there are now four job levels: "Senior management," responsible for overseeing overall operations; "super experts," who specialize in specific fields; "executive professionals," who work in highly specialized areas requiring planning and decision-making skills; and "specialized job levels," responsible for day-to-day operations (Hirasawa, 2001: 230-231). Tokai Bank has abolished the traditional comprehensive and general career tracks, instead promoting course divisions based on job content.

Moreover, Mitsubishi UFJ Bank "established an FE position course in 1998 for experts with advanced, highly specialized knowledge and skills. This course focuses on areas such as investment banking, wholesale banking, and private banking, where performance and contribution to earnings are easily measurable. A salary system was introduced for employees in this course, adding a certain percentage of earnings as an incentive beyond the basic annual salary" (Hirasawa, 2001: 231). Furthermore, regarding personnel transfers and the development and utilization of human resources, the Bank of Tokyo-Mitsubishi UFJ (formerly the Bank of Tokyo-Mitsubishi) has delegated personnel authority to department heads, implemented human resource management by business field, and adopted a job grading system (Hirasawa, 2003: 95).

As we have seen, city banks have clearly adopted a new human resource management system based on job responsibilities. The traditional *nenko* (seniority-based) human resource management system was ill-equipped to address the mergers in the banking industry that took place from the late 1990s onward, the diversification of banking operations, and changes in profit structures. As a result, it is believed that adopting a new human resource management system based on job duties has been essential for banks to adapt to these industry changes.

New Human Resource Management and Performance-based Wages

MU Bank has announced a new human resource management reform plan for 2025. This reform, which adopts a job-based structure, follows the "multi-track human resources management" approach that has been widely implemented since the late 1990s, particularly by city banks. According to the bank, the objective of this system revision is to support employees in pursuing diverse career paths and developing into highly professional individuals who derive a sense of fulfillment from their work.

Specifically, the bank offers employees opportunities to take on new challenges aligned with their individual career plans, regardless of their course or tenure. It also encourages employees to autonomously enhance their skills and expertise in response to shifts in business strategy. To achieve this goal, MU Bank seeks professionals with strong people skills, business abilities, and specific expertise—individuals who can anticipate change, take on reform challenges, and deliver substantial results and contributions over the long term.

In this regard, it can be said that the bank requires individuals who can play specialized roles aligned with its management strategy, particularly in response to the development of various strategies aimed at addressing sluggish bank earnings. The bank is looking for employees capable of demonstrating their expertise based on duties and roles that are defined in alignment with the bank's evolving management strategy. In fact, the new human resource

management system highlights the importance of creating new value, adding value, and improving business efficiency in order to strengthen competitiveness in a rapidly changing business environment.

As previously noted, this human resource management approach appears to be rooted in the multi-track human resource management system introduced after the collapse of the economic bubble, against the backdrop of deteriorating bank earnings. Multi-track human resource management is a system introduced mainly by city banks since the late 1990s. Its primary aim is to address the diversification of banking operations and the construction of a profit structure in response to the aftermath of the collapse of the economic bubble and the slump in bank profits. This approach also aims to provide compensation based on diversified operations through different tracks and groups. In this context, the organizational restructuring and mergers of city banks, the emergence of megabanks, and the introduction of holding companies have also contributed to the system's development.

In light of these changes in business strategy and organizational restructuring, there has been a growing emphasis on compensation based on job duties and roles. According to Watanabe, who has studied multi-track human resource management, DK Bank has shifted its focus from the traditional job-based pay system to one that places greater emphasis on "job value," including factors such as the degree of responsibility, burden, expertise, market value, and strategic expectations. Additionally, the performance demonstrated in the role—namely, the ability to perform the job and the degree of contribution—has become more significant. This shift has resulted in a greater weight being placed on the components of basic salary and job allowances (Watanabe, 2000:126-127). Furthermore, DK Bank introduced a performance-based compensation system as part of its multi-track human resource management reform. At SM Bank, while the emphasis on merit-based pay remained focused on functional pay, the weight of qualification pay was reduced, and the emphasis on performance-based pay was increased (Watanabe, 2000:163).

In the latest revision of MU Bank's human resources management, the wage system has been reorganized, including the elimination of "additional pay" from regular wages and an increased emphasis on "wages based on job evaluation." For management positions, "wages based on job evaluation" will become the sole basis of the system, while for positions below management, the proportion of wages based on job evaluation will be increased. Additionally, a framework for "individual additions and deductions" has been introduced, wherein "wages based on performance evaluation" will rise or fall depending on how well role expectations are met, even if no job transfer occurs. More specifically, the qualification grade system for "professional" and "FM" positions will retain a hybrid structure combining "functional qualifications" and "job qualifications," but with greater emphasis placed on provisions based on job duties. Furthermore, regular salaries for managerial positions at qualification level S and above will be consolidated into "salaries based on job evaluation," with the abolition of "salaries based on qualifications."

Against the backdrop of this diversification in revenue structures and organizational restructuring, megabanks are increasingly emphasizing human resource management based on job roles. In addition, in response to sluggish bank revenues and the zero-interest-rate policy, the concept of "role" in job functions is being emphasized to align with the diversification of management strategies. This shift is also reflected in the merit rating system.

At MU Bank, the human resource management system is undergoing significant revision, with a complete overhaul of the merit rating system. While retaining the simple structure of "ability evaluation" and "performance evaluation," the "ability evaluation" system will be revised into a two-tier structure: "Ability evaluation 1" (skills and expertise) and "ability evaluation 2" (people skills). Specific evaluation criteria for skills and expertise will be established according to business fields and job duties.

In megabanks, human resource management reforms based on job duties and roles are being advanced, in line with the diversification of profit structures and organizational restructuring. In this context, it is crucial to acknowledge that the success of a company's business strategy, particularly one centered on employees, is largely determined by the skills and motivation of those responsible for the work. Therefore, in addition to wages based on job duties and roles, wages tied to results that incentivize employee abilities and motivation are also being considered.

Labor Shortage and Performance-based Pay

As previously discussed, megabanks and other financial institutions have implemented human resource management systems based on job duties and roles. These systems have been introduced in response to organizational restructuring associated with holding companies and the diversification of business strategies amid sluggish bank earnings. However, to successfully execute these business strategies, it is essential that those in charge of these duties fully demonstrate their abilities and remain motivated. To encourage motivation, it is crucial to implement incentive-based wages linked to the results of employee performance in their duties and roles. In this context, several recent trends must be considered.

MU Bank planned to hire approximately 200 new graduates in April 2024, while also potentially hiring around 280 people through career recruitment in fiscal year 2023. In recent years, the labor shortage has become increasingly severe due to Japan's declining birthrate and aging population. Interviews conducted revealed that even Shinkin Banks, which have traditionally limited their recruitment to university graduates, are now expanding their hiring efforts to include junior college and high school graduates. To further address labor shortages, financial institutions are also downsizing operations and promoting the employment of women and older workers, who have been underutilized in the past. In this manner, financial institutions are taking a series of measures to recruit people with expertise and enhance customer-focused services.

In addition to these efforts, the impact of digitalization and shifts in profit structures have led financial institutions to seek specialized personnel capable of adapting to the changing times. A key challenge, therefore, is increasing the motivation of such specialized personnel. Particularly in the face of the ongoing labor shortage, more financial institutions are actively seeking to attract personnel from outside the organization to reform their businesses and improve diversity. Figure 1 illustrates the trend in the number of individuals changing jobs, showing an increasing proportion of managers among those making career changes. In recent years, financial institutions have become more proactive in recruiting mid-career employees due to the ongoing labor shortage. However, the traditional human resource management and compensation systems, based on conventional employment practices, do not offer many advantages for mid-career hires, particularly those in managerial positions. As a result, employee treatment based on job duties is gaining greater attention.

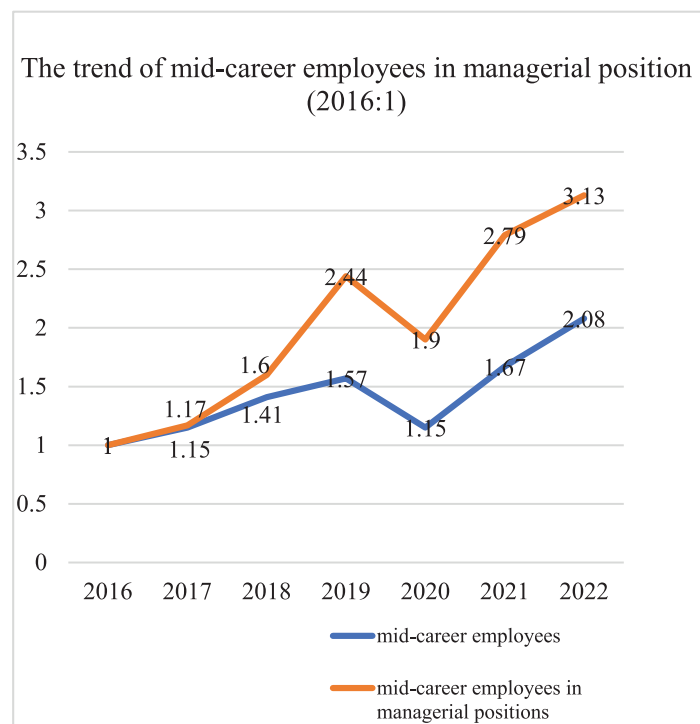


Figure 1: The trend of mid-career employees in managerial position

[Based on: Gettukann Kinyuu Jaanaru Henshubu (the Editorial Department of Monthly Finance Journal) (2024)]

"Erabareru Kigyo" ni Naru Open Shisaku: Shinsotsu /Chuto, Gekihen suru Kaisha to Kojin no Kankei (Open Initiatives for Becoming a "Chosen Company": the changing Relationship between Companies and Individuals for New Graduates and Mid-career Hires). *Gettukann Kinyuu Jaanaru* (Monthly Finance Journal), (3), 77.]

In 2016, Mitsubishi UFJ Research and Consulting Company conducted a survey on human resource management at Shinkin Banks. The survey revealed a growing trend of shifting from the traditional job-abilities-based qualification system to a double-ladder human resource management system in the management ranks of these banks. The double-ladder system uses both ability-based qualifications and a role-based grading system, with wages determined based on different evaluation criteria for each. In the job-based qualification system, personnel evaluations are based on "ability evaluations," which assess the skills required from a medium- to long-term perspective. Based on these evaluations, employees' job salaries are determined. On the other hand, the personnel evaluation system in the role grading system is known as "role performance evaluation," which is assessed from two aspects: The "achievement of results" and the "level of motivation and execution of actions." Role pay and bonuses are determined based on this "role performance evaluation." Role pay is a reward paid according to the roles and responsibilities employees are expected to fulfill, with the balance between performance evaluation and role execution evaluation being a key consideration.

In particular, the Shinkin banks have implemented a human resources management system based on a two-tier approach that combines a qualification system based on job skills and a role-based grading system for managerial positions. Under this system, managerial salaries are determined by two criteria: Individual ability and performance. This framework is designed to function as a balanced system that improves performance while also promoting the development of employees' abilities. At Shinkin banks, managerial positions are thus linked to role-based performance, which is reflected in compensation. However, at HS Shinkin Bank, the compensation system for general positions remains primarily based on job performance, with periodic salary increases, and performance-based compensation is only slightly reflected in bonuses (Figure 2).

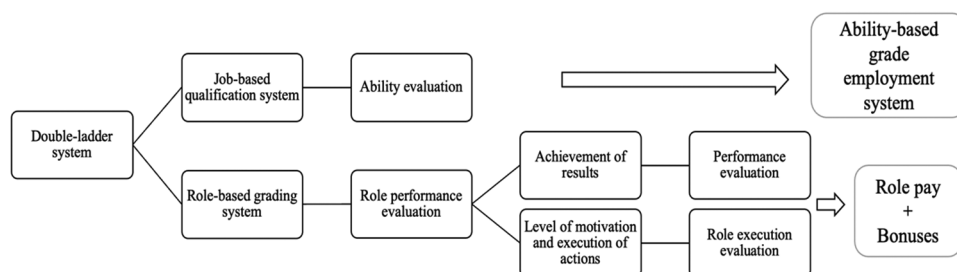


Figure 2 Personnel Evaluation System in the Double-ladder System
(Based on interviews conducted at Shinkin banks).

In the case of the Shinkin banks, where organizational restructuring has not been as drastic as in the megabanks, there is growing pressure to cut costs, especially in light of a struggling business environment, such as due to the persistent zero interest rate. However, the *nenko* (seniority-based) promotion system, by contrast to a pay system based on job performance, remains dominant. A results-based system, grounded in job duties and roles, has only been introduced for management—those responsible for driving business strategy—who face challenges in securing human resources due to labor shortages. According to interviews conducted at Shinkin banks, job duties and roles are used as the basis for determining the compensation of managers.

Conclusion

As discussed, following the economic downturn that accompanied the collapse of the economic bubble, cost-cutting became a major issue for many companies, leading to the introduction of performance-based pay. Although various forms of performance-based pay have emerged, those based on job roles and responsibilities,

as well as those incorporating job evaluation, have attracted significant attention. This paper has examined the significance of pay-for-performance in terms of total compensation management and the "streamlining" of human resource management, particularly focusing on financial institutions that have pioneered these systems, especially megabanks.

In response to the difficult business environment after the collapse of the economic bubble, Japanese financial institutions sought to diversify their revenue structure and reduce costs. This led city banks and other institutions to promote organizational restructuring centered on holding companies. To ensure a new profit structure, it became necessary to recruit and retain professional staff, prompting the restructuring of existing wage systems into performance-based systems predicated on job duties and roles. As observed, measures have been taken at banks such as MU Bank to increase the weight of job duties in compensation.

In Japan, attempts to introduce a wage determination system based on job evaluation have been ongoing since the end of World War II. This wage system became particularly notable in the 1960s, when the mass production system was introduced. According to Izumi, the compensation management policy promoted by large companies in postwar Japan aimed to transition from a wage system based on seniority to one based on job evaluation. This shift was closely linked to the long-term profit plans of large companies, with the management of total compensation tied to these plans and the distribution of wages to individuals (Izumi, 1974, p. 107).

As is well known, a wage system based on job evaluation determines the salary for each job according to the organization of the company by evaluating the value of the job through performance evaluation techniques and organizing the jobs hierarchically. The organization of a management structure based on mass production not only dismantles the traditional workplace order based on skilled labor, but also grants management control over employment and compensation through recruitment and promotion based on job duties. This can be viewed as a fundamental shift in the traditional management order.

In practice, multi-track human resource management has been introduced alongside organizational restructuring, such as the adoption of enterprise systems or holding companies, and is being implemented in conjunction with the reorganization of workplace order. Furthermore, this type of human resource management can be seen as a framework that responds to the challenges of career recruitment in the context of labor shortages and digital transformation (DX) in recent years. For example, due to the labor shortage, particularly the shortage of managers, Shinkin banks have adopted a salary system based on job duties.

Thus, in Japanese financial institutions, performance-based compensation is not just a revision of the compensation structure aimed at reducing costs during economic downturns, but also a drive to innovate human resource management, including the introduction of corporate systems. This reform also symbolizes the dismantling of the traditional promotion order, particularly the seniority-based *nenko* system. However, this paper has not empirically clarified how the new wage system is directly related to the rationale of human resource management. Further research is required to examine how performance-based wages function within the workplace, which will be a topic for future study.

Note

To adapt to the diversification of work tasks, employees must enhance their skills and be able to handle a wide range of responsibilities. To evaluate such employees, it is more appropriate to use a "salary based on job evaluation" system, where wages are determined by the content of the job. This system provides a framework for evaluating and emphasizing results based on job content and role. The preference for a "salary based on the job" system over a "salary based on job performance" system is particularly relevant when evaluating managers and professionals, as it clarifies responsibilities and roles, making it easier to assess them appropriately.

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