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Campaign strategies for winning the personnel war

By THOMAS J. NEVINS

The following is an extract from the supplementary text accompanying the video "Strategic Tools for Managing Japanese Personnel — Local Practices, Policies and the Law" (available from The Japan Times). Thomas Nevins is founder and president of TMT (Technics in Management Transfer) Inc., a Tokyo-based labor/personnel consulting and executive search firm, and author of *Labor Pains and the Gaijin Boss* (Japan Times, 1984).

There is a predominant belief that Japanese firms do not lay off or reduce staff. This is a product of comparatively high rates of economic growth which made it unnecessary to reduce staff combined with what is comparatively speaking a greater propensity to maintain a commitment to the human resources within the firm.

In the West labor is often seen as the most flexible factor of production. And lucky for Japan, the comparative difficulty in reducing staff due to the reaction of the courts combined with a cultural disinclination to do so, have forced Japanese companies to diversify into new products, develop new technologies and essentially to work much harder rather than to fall into the pattern of all too easily reducing staff when business turns down.

Such staff reductions as practiced in the West are an admission of failure. And every time an individual employer takes the easy way out by cutting back staff, the economy as a whole and its dynamic vitality is cut back by just that much.

Yet in structurally-depressed industries over the years the Japanese indeed have often restructured and reduced staff when unavoidable. This is more and more true today with the "endaka" or strong yen. For example, major steel and shipping companies are reducing thousands of staff as a way of surviving and building up new business areas and even as a way of becoming profitable once again in as little as one or two years.

In general it can be said that Western companies will tend to reduce staff before rationalizing other benefits and cutting back costs in other areas, whereas Japanese companies make staff reduction the last resort and before that will impose other sacrifices on their employees. One reason they were traditionally able to do this is that, at least among the large employers, there were comparatively closed labor markets such that managers would have no choice but to take a pay cut and would be unlikely to look for and find equally good employment elsewhere.

First hired, first fired

In fact on staff reductions in Japan it is first hired, "first fired." And the court opinions back this up, justifying it by saying that the older employees are the most costly to the ailing firm, and thus such a selection is economically rational.

When executing that staff reduction it is absolutely imperative that the special or extra severance premium beyond the lump sum retirement benefit not be made available to all employees and managers. In fact rather than designating the poor performers and carrying out the "kata-tataki," or shoulder tapping of poor performers, it is probably more strategically crucial for the employer to immediately inform the best managers and most efficient employees that the extra lump sum retirement premium will simply not be made available to them even should they resign at the same time as the designated poor performers are receiving their lump sum retirement benefit with the extra severance premium.

Saving the best, at all costs

Some clients and their legal counsel have questioned as to whether or not this is possible due to its discriminatory overtones. I would argue that when a company is struggling for survival it is absolutely critical that the best and most efficient managers remain in order to assure the continued job security of the poorest performers who would not resign from the firm and accept the extra severance benefit no matter how rich that extra benefit is.

In fact we have been successful in carrying out many staff reductions, have insisted on this strategically key policy of not subsidizing the departure of the best employees, and most importantly, we have been successful without a single case of protesting litigation.

When designing the extra severance premium, find a formula which will strategically get rid of the most undesirable employees at the lowest cost to you. In general, it makes sense to have the premium be a combination of a percentage increase on normal involuntary retirement along with several months of salary and perhaps a fixed cash compensation figure.

The several months of salary and fixed compensation figure will be more attractive to younger employees who have few years of service, and thus stand little to gain from a percentage increase on a lump sum retirement which is very small or virtually non-existent. On the other hand, if you want to keep most of your young employees, then the weight should primarily be on a percentage increase of normal retirement benefit.

Although there are age discrimination laws in the United States and other Western countries, here in Japan it has been standard practice and legally justifiable to pick an age over which employees can be asked to resign. Such common ages would be all employees targeted for early retirement after age 45 or perhaps age 50. In any case, when you follow the policy of not allowing the best and most efficient performers to receive the extra severance premium, you must be careful not to make this premium too rich. If it is too great, the best performers who are not allowed to accept it will resent you for preventing them from enjoying that extra severance benefit. After all, they are the employees who are in the best position to confidently

THE MORNING rush hour in Tokyo and Japanese salaried workers hurry to their offices, where some of them are managed by foreign bosses.

go off and get another job.

When your company needs to rejuvenate and cut back costs, remember that this is the best strategic opportunity to carefully examine all your compensation benefits and personnel policy practices. Since staff reduction should be the path of the most resistance, you can use this opportunity to argue that in lieu of a more widespread staff reduction or wider cutbacks in head count you will instead make an effort to cut costs in other areas. The position taken can be that by doing so it is possible to reduce fewer staff.

When rationalizing, anything goes

Primarily look at such compensation practices as automatic age or service increases, the possibility of freezing or cutting back pay of poor performers, reducing overtime rates to the legal rate of 25 percent or cutting back overtime hours, possibly cutting the employer's contribution to social insurances to the statutory minimum (which should be your practice from the beginning anyway), introduce a greater penalty on voluntary retirement, cut out paid maternity or menstrual leave, reduce the number of days of sick leave or shorten the periods of paid leave of absence, or even increase the number of hours of work each day if you happen to be one of those unlucky multinational firms that started out with a short work day, such as 9 a.m. to 5 p.m. (whereas 9 a.m. to 6 p.m. would also be legal with an hour lunch break).

When carrying out a rationalization program, don't forget about your right to transfer employees and adjust job functions and pay levels. When business really gets bad, or even if it is not so bad, concepts of freedom of capital flow should indicate that an employer is basically free to close down its operation.

In non-bankrupt situations, and when the funds are available, an employer is required to pay the retirement benefit provided for in the Rules of Employment. And in practice, usually something extra is paid out. Keep in mind that the law says nothing about these extra severance payment requirements. And even when unions are successful in provisionally attaching a company's assets, the judge will only allow assets to be attached based upon the retirement benefit provided for in the Rules of Employment with no extra premium.

Cutting and building

In the real life situation of many firms in Japan, including, of course, a large number of multinationals, there is a definite need to not only cut back staff but also to build up human resources at the same time. When it is necessary to do this, it must be done. And once again, there is no law which says that cutting and building cannot take place at the same time.

Hiring new people would tend to make it more difficult to dismiss staff should there be litigation. On poor performer employee terminations, there would be no reason to risk forcing through a dismissal of staff even under circumstances of severe business difficulties and corporate or industrial sector economic shrinkage. Rather a firm will have reduced fears of litigation and will be strategically more successful if it dangles a sweetener of extra severance premium along with the prospect that failure to take the package by a certain date will lead to inevitable pay cuts of anywhere from 20 to 40 percent due to the poor business conditions facing the enterprise.

You will find that if pay levels come down far enough, people will leave and move into sectors where they can make higher or at least equally high pay as their new reduced pay level. At this point it then becomes important to offer hope to the good staff and managers who remain in an organization which has gone through such a dramatic staff cut and cost-saving rationalization program.

In fact notwithstanding possible claims of discrimination, in order to keep the good performers, I would even recommend that it would not be unjustifiable or impossible to offer pay increases to the best staff while less efficient human resources were facing significant pay cuts.