

# "Getting on SPEC!"

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Strategy  
Practice  
Engagement  
Culture

## *Key Pay and Personnel Policies to Watch Out For*

1. Human resource, personnel and compensation practices can be leveraged to make a great contribution to sales, profits and your success in Japan.
2. It has to be a synergistic approach. It does not do much good to have a state-of-the-art performance management system if you hire the wrong people. Selection is 95% of success. You cannot teach a pig to fly for two reasons. (He is never going to learn to fly, and it just irritates the pig.)
3. In Japan, where it can be extremely difficult and expensive to dismiss poor performers, you need to be able to offer a choice between a modest termination package or staying on with (depending on the circumstances) sometimes quite a large pay cut.
4. These pay adjustments must often be much greater than the 10% pay cut which is the maximum legally allowed in the Labor Standards Law. While lawyers and prevalent professional opinion is that you cannot cut pay in this way, I will give many examples of where and how we succeeded.
5. Of course it helps to have the necessary language in your Rules of Employment and Employment Contracts. It also helps to have certain specific elements in your compensation package.
6. For example, the unenlightened may say that a Nenrei Kyu (Age Pay table) is old fashioned and unnecessary. (I said that myself for years.) But if it starts at a very low level, and ends at a very low level, and is only a small element of total pay, it actually gives you legal protection! Or alternatively a Seikatsu Kyu/Living Allowance.
7. I will give you examples of Labor Standards Office positions and Judges granting my clients more flexible applications of Shokuno Kyu (Skill and Performance Pay) and Shikaku Teate (Qualification Allowances) because the Nenrei Kyu (Age Pay) or Living Allowance is left intact.
8. Also let us be sure we don't follow fads and get carried away with buzz words unless we understand all the implications. Summer and winter bonuses (of about six months) are subject to performance in most foreign and all Japanese firms. In Japanese companies, they are not even promised or mentioned in the employment contract! Legally even **no** bonus is possible.

9. If you follow the advice of certain managers (who in the past may not have received their full bonus!) who say bonus is old fashion, and if you move to Nenposei (Annualized income), you do this at great risk.

10. Few realize and/or it is never mentioned, but the only nenposei you can risk trying is one in which every year, at the beginning of each yearly term contract, you can get all your employees to sign a contract which says their pay can be adjusted up or down at the end of the year depending on their performance and contribution.

11. Only a handful of Japanese companies have been able to take it that far. Could you pull that off in your company? If not, we had better laugh when our people talk about nenposei.

12. Not paying someone any summer or winter bonus, however, is helpful to squeeze out a poor performer, or give someone a clear message that they had better do better.

13. If you added the five to seven months of summer and winter bonus into annual total income and divided by 12, what would happen to your overtime rates, or retirement liability?

14. Conversely if a company sets up without traditional bonuses and non-pensionable allowances, we need to make sure that the retirement benefit is designed such that it is proportionately less. When the expat manager changes, or the home office loses awareness, often employees have succeeded in increasing the retirement benefit. This is done by showing the richer retirement benefit tables of all the companies who divide by 17 or 18 and have non-pensionable pay components. The same employees leave out the part about the different compensation design! I have seen this many times over the last 30 years.

15. On the subject of retirements, watch out for another buzz word—Career Sum Point Plans. TMT also has set a few of these up for our clients, but there is a built in danger. When, how often, and by whose authority is the yen point value increased? Salaries we are controlling, but what if the point value goes up one year by 30%, increasing the entire retirement benefit liability by 30%?

16. Maybe some of you want to reduce your staff. It can be done and usually must be done so that it is selective and your strong performers are never even offered a chance to get an extra severance package.

17. How can you succeed in getting rid of only the people you want to leave—and all of them? This again requires a synergistic and strategically integrated approach which needs to involve having the right employment contracts, specific, necessary Rules of Employment language you are probably now missing, and a strategically sound salary system which you are probably also now missing. (You are asking a lot if you expect the authorities to back you up in simply moving a ¥10,000,000 salary to ¥6,000,000.)

18. Ten percent of our employees are poor performers who can create considerable costly problems for us. We also need to think positively. If Pareto Law holds, and 20% of our people get us 80% of our results, we had also better be sure we can keep the strong 20%.

19. What about a concept where there are seven people in a department, and a six month summer and winter bonus program. Doesn't it become easier to pay no bonus to the misfit, if his six colleagues know they will get one month each of the departing misfit's bonus?

20. We also had better make sure that our strong performers do not have to stay in a performance grade for a number of years before they can move up. You will be able to afford this if you make sure that less talented colleagues can be kept in a performance grade for many years. Make sure your salary system does not provide that employees automatically advance after just a few years in the grade.

21. Any and all changes can be smoothly and quickly implemented even in unionized environments. TMT is actually more cautious and slower in implementing change where there is no union. This is because I want to be able to continue to say that all the work we have done with clients has never led to a union organization drive.

22. I basically believe in the best of men (and women), I believe that people are basically good, basically reasonable, if properly communicated they will accept responsibility for their shortcomings. They can get excited about working for a company or a leader that gets them to reach their potential—give a boost to their self-esteem by making sure they are good at what they do, that they have a sense of achievement.

23. Getting our people to do their best, and be at their best, has to be a combination of many things: hiring winners, rewarding the right behavior, weeding out poor performers and bad apples, and of course managing well and inspiring with good leadership and vision. Communications and training helps. The right offer letters, salary system, and Rules of Employment help.

24. Nothing alone is enough. Everything together can make a very big difference. It is the difference between failure, mediocrity, and success.

25. “Japanese style pay” was never “as Japanese”, as bad for performance and results, as some foreigners and Japanese! have interpreted.

26. Westernized, modern compensation (whatever that is!) is not necessarily the most effective and advanced approach to be able to reach your goals and succeed in Japan.

27. I hold there are a few specific adjustments you need to make to systems that happen to have basically a Japanese flavor—not that “Shoyu” soy sauce is good on everything.

28. And we are not doing this because soy sauce tastes good in Japan. It is because we have better legal protection in a country where it is difficult to terminate people and to cut pay.

29. More good news is that the systems can also be adjusted so there are no trade offs. **You can be free to pay your top performers as much as you want.** You do not need to lose them to the competition.