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UNDERSTANDING REGIONAL HR PRACTICES TO OPTIMIZE TALENT MANAGEMENT FOR JAPANESE COMPANIES



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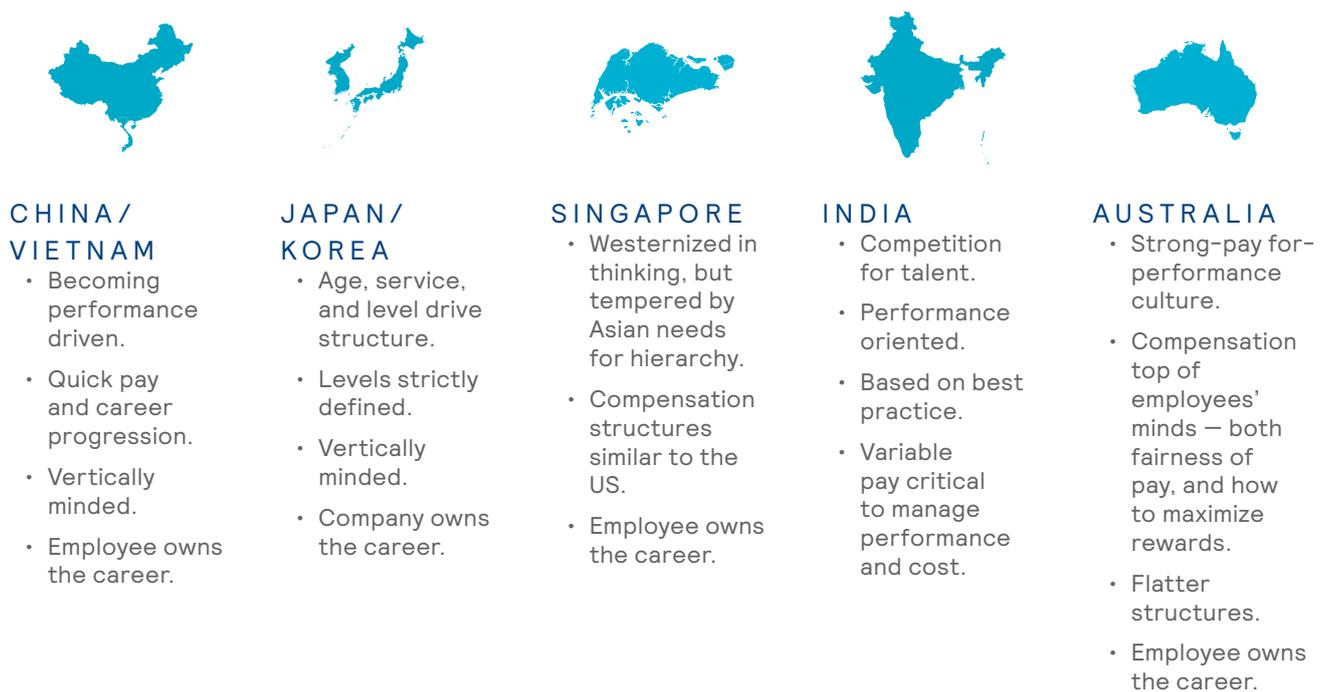


“Who do you think owns a career – the employee or the company?” If you ask this question of people in Singapore or any country in Southeast Asia, most of them would respond that the employee owns it. However, people in Japan and Korea might have a different answer. Seniority-based compensation and lifetime employment have traditionally been the foundation of these two countries’ HR systems. Accordingly, there’s a strong sense that the company will take care of its employees and that if a worker follows company guidelines and policies, and stays focused, career advancement will follow.

Because of this major philosophical difference, which has both direct and indirect impacts on every element of the HR system, many Japanese companies coming to the ASEAN region to set up local entities have difficulty with establishing a good HR system for their local staff. Adopting a system from Japan doesn’t seem to work well. But when companies have tried to build a more locally conducive HR system, many have found that a lack of understanding regarding the differences between their home country (Japan) and the ASEAN region makes it difficult for Japanese top management to embrace and implement it.

So what should Japanese business leaders and HR understand to better attract and retain local talent? This article compares key elements of an HR system (grade structure, compensation, benefits, performance management, and talent management) in Japan and ASEAN, with a focus on Singapore, and provides practical tips for bridging the gaps in philosophies and implementing more productive systems.

FIGURE1. HR LANDSCAPE IN ASIA



GRADE STRUCTURE

In the ASEAN region, many companies use a job-sizing methodology to measure the size of each job and then group jobs into a grade. (The number of grades varies by company.) The scope of a job is clearly defined through job descriptions, and employees have a fair sense of their job scope. To size a job, years of experience are less important than the impact and contribution of the job on the company's overall value chain. This means that even if two incumbents hold the same title of "manager," their job size and grade may significantly differ based on the number (and level) of people they manage, their teams' contributions to the company's business, and the knowledge/skill required.

People in the ASEAN region usually choose a job and stay within the same job family (for example, finance or marketing) over their entire career, but they don't necessarily stay with one company. Over time, they deepen their job knowledge and apply those acquired skills to more complicated situations so their experience grows. If the job scope changes significantly and results in a larger job size, the individual is promoted. "The employee owns the career" is evident, as employees who are capable easily look for opportunities outside the

company if they believe their career progression will be limited within their current organization.

In Japan, a culture of "lifetime employment" has led to a practice of hiring new graduates, who start from the bottom and work their way up. Job titles are assigned by rank. A worker advances to the next level when he or she demonstrates good performance, regardless of any job scope change. The company provides job-rotation opportunities to its key talent to broaden skillsets and to allow them to experience the organization across different functions. Employees rarely move to other companies, as they find strong promotion opportunities internally. Japanese companies tend to breed their leaders from long-serving internal employees instead of bringing them in from outside the organization.

Due to these cultural differences, we've found many Japanese companies operating in ASEAN aren't equipped with proper job-grade structures. Some have organizational structures and have hired local people for certain jobs or roles but have failed to provide proper grading and show potential career paths within the organization. A small organization size usually gets the blame for this.

To size a job, years of experience are less important than the impact and contribution of the job on the company's overall value chain.

However, we often find that these companies have other related entities, such as sister companies or subsidiaries, within the region. If they could leverage this broader network of talent pools, they would no longer be a small player in the market.

Many companies have an aggressive growth plan that could provide strong career progression opportunities for their current local staff. Unfortunately, a lot of Japanese companies are relying heavily on expats from Japan and offer few major roles to local staff. Without greater accountability or more leading roles to play in the organization, these companies cannot develop local staff and business growth suffers.

The first step to establishing a strong foundation is developing a proper job-grade structure. The company can apply the same job-sizing methodology or grade structure to other countries as well. The grade structure exercise sometimes includes development of job descriptions, which provide overviews of the overall flow of work, how this work is allocated to each job holder, and the key performance indicators and requirements (such as skills or competencies) to fulfill the job. This step helps companies better capture areas of improvement for higher efficiency and more organizational capabilities. Application of robust job-sizing methodology is also critical to securing employee buy-in and building a sustainable grade structure. When a job-sizing exercise is done, communication from leadership will enhance the company's implementation.

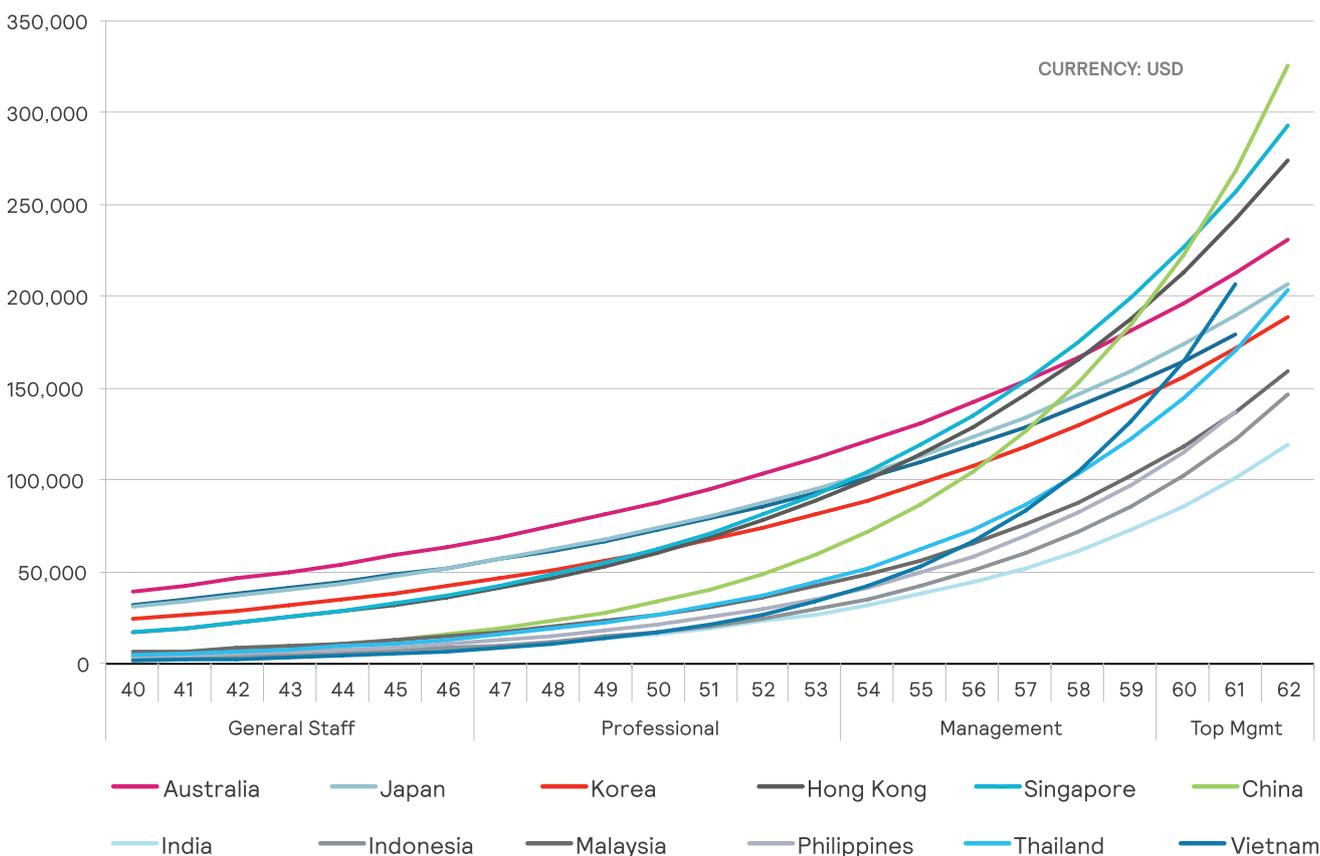
	Japan	Southeast Asia
Grade structure	<p>Person based</p> <ul style="list-style-type: none"> • Grade given based on the individual's contribution, not by job. • Title is important to indicate the person's grade. • Employee takes job rotation as part of development provided by company. • Scope of job is broad. • A person can be promoted to the next level if performance and commitment are good. 	<p>Job based</p> <ul style="list-style-type: none"> • Grade given to the job according to the job size, not to the person. • Employee chooses a job and stays within the same job family. • Job scope is clearly defined. • Promotion is combination of the person's readiness for the next level and availability of such a position. • Employees change companies if they feel the current employer does not provide good opportunities to advance.
Tips for Japanese companies to develop grade structure	<ul style="list-style-type: none"> • Perform a job analysis before a job-sizing exercise. • Use a robust job-sizing methodology. • Get leadership involved in job-sizing exercises. • Be open to expansion and organizational growth in the foreseeable future. 	

Incentives comprise a meaningful portion of compensation, and companies that like to drive performance typically put an attractive incentive scheme in place to promote a high-performing culture.

COMPENSATION

In ASEAN, the type of job you have determines your compensation level, whether you're a new hire or an established worker. Companies in the region can obtain market data through compensation survey participation or the purchase of market compensation data and use the data to develop a salary range for each grade. Two employees can be in the same grade but have different salaries, as the salary range is applied as a minimum guideline. An employee's salary is determined through consideration of the market price of his or her job and the person's performance. Compensation is usually composed of certain elements – base salary, annual wage supplement or fixed bonus, fixed allowances, and variable pay (short- and long-term). Incentives comprise a meaningful portion of compensation, and companies that like to drive performance typically put an attractive incentive scheme in place to promote a high-performing culture. Based on the level of impact a job holder's performance has on the company's overall performance, companies choose different incentive-funding models (self-funding versus budgeted), levels of individual differentiation, and the overall size of bonuses. For executives and key talent, a mixture of short-term and long-term incentives is common in the region.

FIGURE 2. COMPENSATION BY JOB LEVEL FOR EACH COUNTRY



Source: Mercer Total Remuneration Survey 2015

In Japan, compensation structures may look similar to those in ASEAN, but a significant portion of an employee’s pay is determined by years of service. The seniority-based compensation practice shows Japanese employers’ HR philosophy of “company owns career.” As long as an employee remains loyal to the company and performs decently, the company will take good care of the worker by paying for the length of service. It does not mean the employee’s pay is only a function of years of service, but a different job size or different demand and supply for the job don’t dictate the employee’s compensation, as is usually the case in ASEAN. Because of this seniority-based structure, long-serving employees are exposed to restructuring and downsizing.

Compared to other companies, Japanese entities in ASEAN also have less access to market data. The lack of market pricing information can lead to the wrong hires being made at the wrong price. Furthermore, many of these companies don’t have proper salary ranges that reflect market practice and market data. As a result, these companies have more trouble retaining talent. Some clients we’ve worked with were paying local employees at almost the same level of pay or target bonuses, regardless of individual job value or performance. Other companies pay overtime allowances to office staff to accommodate work beyond their usual work hours, and the employees end up using these allowances to boost their salary — creating huge cost increases and a low-productivity culture. Use of market data and market practice is critical to proper rewards management and successful talent attraction and retention. In addition, monetary rewards for performance are effective at retaining key talent and staying competitive.

	Japan	Southeast Asia
Compensation	<p>Seniority based</p> <ul style="list-style-type: none"> Employee’s pay determined by years of services (salary increases gradually over time). Base + other guaranteed + fixed allowance + variable pay. Overtime pay (for white-collar jobs) prevalent to support long-working-hours culture. Company provides various types of cash allowances to support employee’s welfare and family. Variable pay is determined at the team/group level with little individual differentiation. 	<p>Job based</p> <ul style="list-style-type: none"> Price of job is determined by demand and supply of each job. Compensation increases by job size. Many companies participating and/or getting access to market data for compensation management. Base + fixed bonus + fixed allowance + variable pay (incentive or bonus) common compensation components, but the portion of allowance is not so much. Variable pay differentiation by individual performance can be significant.
Tips for Japanese companies to manage compensation	<ul style="list-style-type: none"> Have good knowledge of market data and market practice. Be clear about compensation policy and target pay level. Develop a market-competitive salary range for effective compensation management and update it regularly. Use incentives to promote a pay-for-performance culture. 	

Some benefit items, such as flexible working arrangements, don't cost much but can be very powerful incentives to accommodate employees juggling competing needs at both work and home.

BENEFITS¹

In Singapore, benefit regulations are less onerous and more business-friendly compared with those in Japan. One key benefit provision is the Central Provident Fund (CPF), which is a compulsory retirement savings scheme that sets aside a portion of a worker's (Singaporean citizen or Singaporean Permanent Resident) income to accumulate until retirement. Over time, this has expanded from merely withdrawal upon retirement to various options – home ownership, investment, health care, and insurance loans.

Other than CPF contributions, medical benefits and annual leave are the most common benefits companies provide to their employees. Singaporean employers generally provide above-minimum statutory benefits. According to a Mercer benefit survey in 2013, employees receive 15–24 days of annual leave on average. (See Figure 3.)

Another prevalent practice is to provide insurance to protect employees and their families in the event of an unexpected crisis (for example, death or disability). A growing number of Singaporean companies are exploring different kinds of benefits in order to differentiate themselves from competitors. In recent years, work/life benefits and flexible working arrangement have gained more attention. Flexible benefits are also increasingly being used to meet employees' various needs while managing costs.

Many Japanese companies in the ASEAN region clearly make a good effort to set up benefits schemes that take into consideration the local practice. But the focus is mainly on legal obligation. Some benefit items, such as flexible working arrangements, don't cost much but can be very powerful incentives to accommodate employees juggling competing needs at both work and home. The different work culture in Japan, however, has hindered greater acceptance and implementation by Japanese managers in Singapore.

FIGURE 3. LEAVE OF ABSENCE – TYPICAL NUMBER OF DAYS OFF

Years of Service	All industries	Banking	Life sciences	Chemical	Consumer goods	High-tech
1	17	19	16	15	17	15
5	18	20	18	18	19	18
10	20	23	21	21	21	20
Maximum	21	24	22	24	22	20

Source: Mercer Singapore Benefit Survey 2015

¹ Benefits include various items, and our view is that there is a difference by country in benefits practice. In this article, the benefits practices are mainly relevant to Singapore.

Japanese companies in the region should consider changing their performance management approach to be more specific and task oriented, with results clearly linked to monetary rewards.

PERFORMANCE MANAGEMENT

In ASEAN, performance management is composed of a deal between the employee and the company for a certain period of time (for example, annually). Every year, the company sets a clear financial target and business objective, cascaded down to every layer of the organizational hierarchy to ensure that everybody understands what needs to be accomplished to meet the target. A manager's most important role is to guide subordinates' goal-setting, provide feedback and coaching, and evaluate results in an objective way. The quantified performance result influences the bonus payout. In many cases, there's a fair bit of differentiation in terms of bonus amount between high performers and low performers.

With this method, companies try to drive higher performance and employees do their best to maximize their earning opportunities. Therefore, workers prefer clear goals that are within their job scope and control, and they use guidance and coaching from their managers to put forth the best effort to achieve targets. Companies also encourage goal-sharing (for example, a related department's goal and/or the overall team's goal) to foster collaboration in achieving the company's overall goal.

In Japan, there's much greater emphasis on collaboration. This means that all employees are expected to work together as a team to find innovative ways to achieve the company's goals. The focus isn't necessarily on achieving the goals but instead, on how far a person goes. Sometimes this can be ambiguous, and it can require a great time commitment. The manager plays a role for consensus-building between teams and within a team, but it's rare for him or her to provide direct feedback and coaching to team members.

The Japanese style of performance management works well when the company has a homogeneous group of employees who've had a long duration with the company. Therefore, this model typically doesn't work well in the region, where employees are highly diversified and mobile. Local employees require more clarity and more direct coaching from employers and managers.

Japanese companies in the region should consider changing their performance management approach to be more specific and task oriented, with results clearly linked to monetary rewards. Managers should also provide their local staff with more coaching and feedback sessions.

	Japan	Southeast Asia
Performance management	<p>Collective effort</p> <ul style="list-style-type: none"> • Big common goal. • Collective effort emphasized more than individual goal. • Individual's contribution and attitude considered as performance rating criteria. • Direct support from manager (for example, coaching) not prevalent. • Individual differentiation in terms of bonus payout is mild. 	<p>Deal between company and employee</p> <ul style="list-style-type: none"> • Stretch but realistic target. • Goals cascaded down to individual objective. • Based on predefined goal, performance appraisal made. • Managers provide constant feedback and coaching. • Clear differentiation in terms of bonus payout between high rating and low rating.
Tips for Japanese companies to manage performance	<ul style="list-style-type: none"> • Have a good knowledge of market data and market practice. • Train managers to be equipped with coaching and feedback capabilities. 	

TALENT MANAGEMENT

In the region, many companies are worried that their current talent may be insufficient to achieve their long-term business strategies. Changing business needs, a tight labor market, and frequent employee turnover are major reasons for their concern. To gain visibility into the current situation, these companies often embark on strategic workforce planning to forecast future talent needs both in size and in skill set, measure the gaps, and prioritize the focus of their efforts. Once companies gain clarity on the types of talent they need to develop, they examine the competencies required and typical career paths. Based on this input, talent assessment is done for existing talent to identify strengths and areas for improvement, which will be linked to a development plan. The development can include attending training sessions, getting a coach, participating in a group project, or moving to another job in the company. The talent management system is an open system that allows external talent to flow in as well, as long as the external candidates are capable of performing the work.

In Japan, the talent management discussion starts with identifying workers who've demonstrated great performance and potential. In order to mold

these individuals into leaders, the company puts them through various job experiences. It takes many years to train them, and low turnover is one of the key success factors of the program. It's difficult for someone from outside the company to be included in this program.

Career advancement opportunities are limited for local talent in Singapore due to the practice of grooming expat colleagues from Japan. As such, local talent is likely to overlook Japanese companies as prospective employers. Furthermore, Japanese employees use challenging and ambiguous tasks to develop their careers, whereas local workers rely on clearly defined roles with a direct link to rewards. If Japanese companies want to leap forward in Singapore, they'll need to recruit more local employees with high potential and further develop them to become future leaders of this market. The best way to convince local employees that Japanese companies have great potential and a bright future is to create a workplace with clear career paths and attractive reward opportunities.

	Japan	Southeast Asia
Talent management	<p>Developing talent</p> <ul style="list-style-type: none"> • Focus on key talent. • Develop internal talent through job rotation. • Prefer developing talent to buying talent. 	<p>Buying talent</p> <ul style="list-style-type: none"> • Workforce planning. • Position profile. • Assess before develop. • Prefer buying talent to making talent.
Tips for Japanese companies to manage talent	<ul style="list-style-type: none"> • Have a good knowledge of market data and market practice. • Train managers to be equipped with coaching and feedback capabilities. • Leverage up-to-date assessment tools for more objective assessment. 	

CONCLUSION

The entrance and expansion of Japanese companies in the ASEAN region will only continue to grow over time. Our recent survey of Japanese companies found that they have a high demand for HR harmonization among entities they've acquired, for talent development, and for support of various local subsidiaries scattered around the region.

The differences in HR practices within Japan and ASEAN mainly come down to philosophy. Japan is currently undergoing a lot of change in terms of its HR philosophy and system. Younger generations' perspectives on work and their employers are different from those of older generations, creating difficulty in managing diverse workforces using traditional philosophies. Many Japanese companies are trying to adopt more westernized and global standard practices in their home organizations to stay more competitive.

This article is intended to help local HR managers in ASEAN and Japanese expats understand each other better and navigate the current talent challenges more effectively. Of course, having an understanding of the "other side" will not solve all the challenges overnight. But it's an important first step to developing strategies that will help create a more conducive and productive work environment for local talent.

ABOUT MERCER'S JAPANESE BUSINESS ADVISORY TEAM

Mercer offers consulting and information services to support Japanese multinational companies that have or are planning to expand their operations outside their home country. Our dedicated consulting team understands the unique style of Japanese companies and has the expertise to advise them on how to develop talent strategies and HR programs to successfully attract and develop local talent in a sustainable manner. From diagnosing the current state of the organization to providing customized solution design and implementation support – Mercer's Japanese Multinational Advisory Team provides it all. To learn more, please contact one of our Japanese MNC experts.

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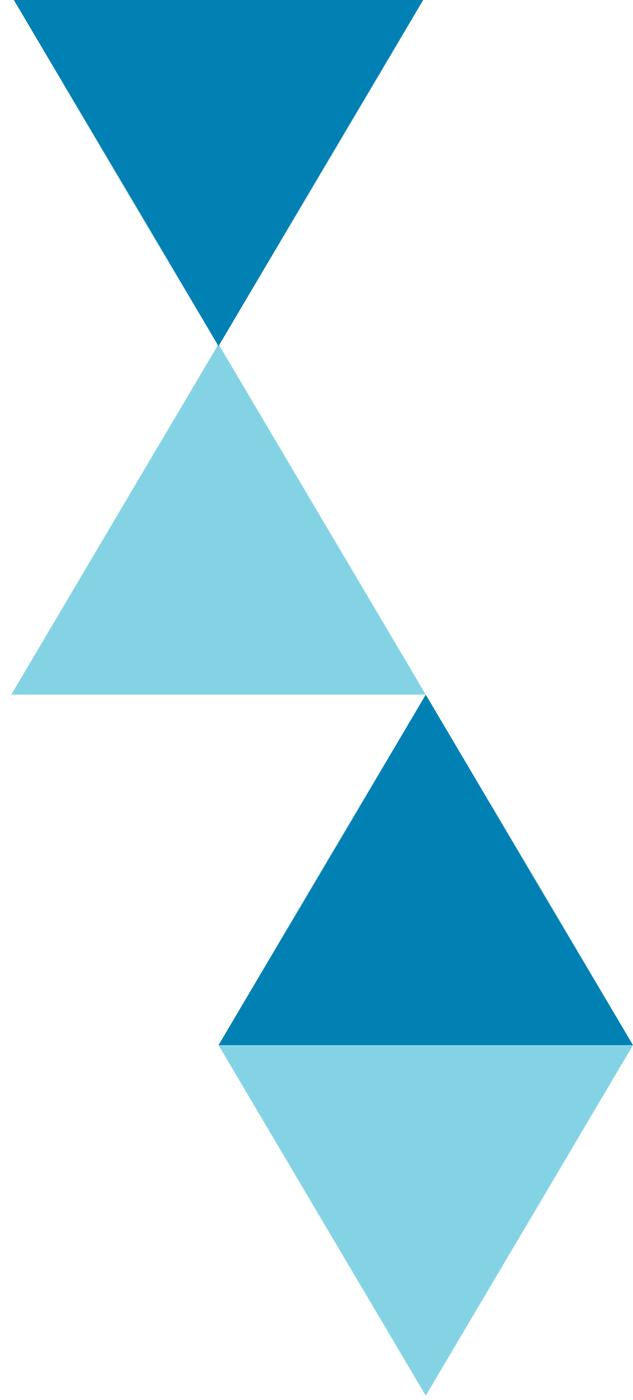
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