

## WORKPLACE CHANGES IN JAPAN ACCELERATE

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Mere statistics cannot describe the changes that have taken place, and are taking place, between employees and their employers in Japan's pharma companies, writes long-time Japan pharma watcher and president of International Alliances Limited P Reed Maurer in his exclusive column for The Pharma Letter.

This article is based on feedback from senior executives and personal experience that began in 1970 and is continuing. The trends described are irreversible and predicting outcomes in the future is not a simple matter of projecting personnel policies forward.

### **The Past**

US and European firms entering Japan in the 1960's were restricted to forming joint ventures because 100% ownership was not permitted until the mid-1970's. Personnel policies in the newly formed companies were forfeited to Japanese company partners.

As a result, foreign managers sent to Japan focused on marketing and product development but were basically ignorant about pay scales and who was or was not promoted. In time they became aware of reasons why labor relations were harmonious in Japan compared to the manifestations of conflict so prevalent in the US and Europe.

Seminars and books written by Jim Abegglen and Robert Ballon, of the Boston Consulting Group and Sophia University respectively, educated Westerners on unique practices in Japan like life-time employment, seniority-based salary scales, and recruiting practices to name a few. All too often these lessons were not taken seriously by home office HR people.

Local managers were bombarded with challenging questions like: Why can't we hire mid-career people instead of recent college graduates? Why can't we reward people based on merit and give bonuses to outstanding performers? Why can't we hire MD's to run our clinical development programs?

### **Transitional Issues**

In the mid 1970's restrictions on foreign ownership were removed but the transition from a JV to a wholly-owned presence in Japan proceeded slowly. Why was this so, given that most companies were not happy with the shared control of their JV's? A short answer was the difficulty of hiring qualified personnel.

First were the language problems. Managers took a long time to appreciate that a Japanese who spoke English may lack other skills. Second, foreign companies who were household names in their home countries were virtual unknowns in Japan. New recruits came under enormous pressure from family and friends not to risk their lives by joining a non-Japanese company. Thus any warm body who expressed interest in employment, and could speak some English, was hired.

In order to minimize personal risk and family objections, a new recruit would typically ask for a large premium over what he was being paid in his present company. Money became a salve to cover the loss of comfort in the system. In addition to money, prestigious titles were requested. Often these

were printed on the Japanese side of the name card that was not read by the foreign manager. So a department head in English became a VP or managing director in Japanese.

Mid-level employees were well aware they were in a sellers market so it was not unusual for them to move from one company to another, often with the help of head hunters. Their resumes typically listed three or four previous company employers. These people were toxic to a Japanese company who valued loyalty above all other attributes.

### **Present Status**

Given determined efforts by foreign pharma companies to build their businesses in Japan, they began to attract very qualified entry level employees, that is new college graduates. This was enhanced by courting professors in pharmacy schools and among science faculty who influenced students as to their career choices.

A major factor in the pharma business is the role of new products in powering growth, and the presence or absence of new products in any given firm is relatively transparent given regulatory approval requirements imposed by government agencies tasked with approving new drugs. It is therefore relatively easy for a young man or woman with a computer and internet access to assess the growth potential and hence career opportunities in any given pharma firm.

The same dynamic holds true for employees in the R&D departments of competitor companies. If they have nothing to develop they are open to consider a move into a company with a pipeline of new drugs.

Very much in the news these days is the downsizing of employment levels. In Japan the process is not as draconian as elsewhere. In other words people are not fired but are enticed to voluntarily leave through generous exit packages that ease the way out the door. What is different today is that many more people apply for the exit package than planned for by senior executives who never dreamed they would leave the one company they worked for.

The end result of downsizing, no matter how humanely implemented, is the end of so-called life-time employment. Young people and a growing number of mid-level employees no longer believe they will be employed by only one company until retirement.

Which brings to mind another problem for the life-time employment proponents, that is the demographics of this society. In short, everyone is living longer. Many firms have fixed retirement policies at age 60, some as early as 58.

This worked when the life span was less than 70 and the population of young people was growing. A company had to get rid of elderly employees who earned high salaries because of their seniority to bring in young employees who were just getting on escalator-type salary scales.

Now there are fewer young people and life spans have increased to over 80. So we have what people now call “half a lifetime” employment. But this is not a joke to men who are very healthy, get forced to retire and become a burden to wives who did not expect their husbands to be home for lunch.

## **The Future**

For all companies in the pharma space the future is now. They must find ways to change the workplace so that it encourages advancement of qualified women; it does not force retirement on able bodied, mentally alert 60 year olds; it provides merit-based compensation versus slow steps up the salary scale based almost solely on seniority, and it must realize that work/life balance is important to this generation of employees.

I could go on, but space limitations compel me to close. My closing thought is for those tasked with building a business in Japan: Do not take advice from those who believe the workspace today is like it was yesterday because Japan never changes. It changes.