

Japanese Financial Institutions Lag in Upgrading the Treatment of Professionals

– Survey Regarding Financial Professionals (Part 2) –

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1. Introduction

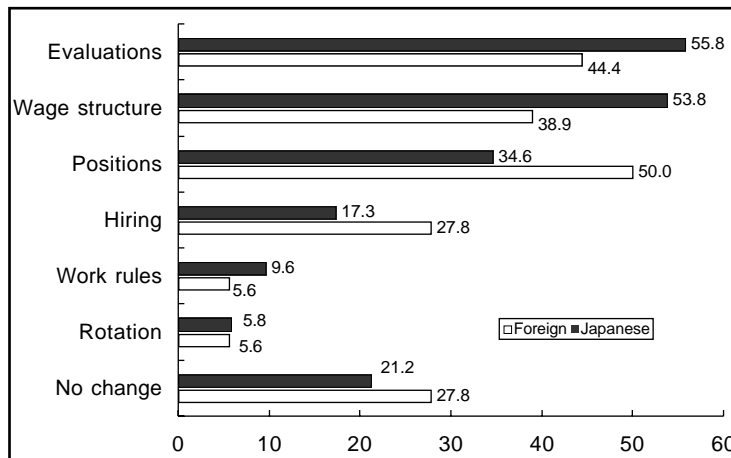
In Part 1 of our report on the *Survey Regarding Financial Professionals* (“Japanese Financial Institutions Strive to Enhance Professional Employment,” November 1999), we described the growing need for money management professionals at Japanese financial institutions and how companies are stepping up their mid-career hiring. Part 2 looks at the treatment and training & development of professionals at Japanese financial institutions.

2. Evaluation of Professional Personnel

(1) Most Japanese Financial Firms Have Revised Evaluation Systems and Wage Structures

Approximately 80% of Japanese financial firms reported having revised their human resources management in some way during the past two years (fiscal 1997-98). The most common targets of revision were personnel evaluation systems (55.8%) and wage structures (53.8%). Among foreign firms, the most common target was the occupational system (50.0%; Figure 1). By industry, revisions to wage, evaluation, and occupational systems were most common among securities companies and investment advisories.

Figure 1 HRM Changes in FY 1997 and 1998 (%)



Firms that show a stronger inclination toward employing professionals have been more aggressive in revising their HRM system during the past two years. Among Japanese firms who said they need to secure or train professionals immediately, a relatively large percentage have revised their evaluation system (66.7%), wage structure (55.6%) and occupational structure (44.4%).

In addition, financial companies that collaborate (or plan to do so) with other firms tend to have a strong inclination to aggressively revise their evaluation system, wage structure, and occupational structure (Table 1).

Table 1 Demand for Professionals, Business Collaborations, and Revision of HRM Systems (multiple response; %)

		Evaluation	Wages	Positions	Hiring	Work rules	Rotation	None
Necessity of hiring/training professionals	Immediate	66.7	55.6	44.4	22.2	7.4	3.7	14.8
	In near future	47.4	57.9	21.1	15.8	10.5	10.5	21.1
	No need	—	—	—	—	—	—	100.0
Start of cooperation with other financial institutions	After Big Bang	75.0	62.5	37.5	25.0	12.5	12.5	25.0
	After 1990	81.8	54.5	54.5	18.2	27.3	—	9.1
	Prior to 1990	40.0	60.0	20.0	—	—	—	40.0
	In next 1-2 years	75.0	75.0	50.0	25.0	—	25.0	—
	No plans	38.1	52.4	28.6	19.0	4.8	4.8	23.8

(2) Significant Gap in Introducing Variable Annual Compensation

The most common revision measure in HRM systems is to introduce bonuses linked to performance. Approximately 70% of Japanese firms have either introduced this measure or plan to

do so in the next year. Meanwhile, fully 72.2% of foreign firms have already introduced this measure, a large gap compared to 57.7% for Japanese firms (Table 2).

Table 2 Introduction of New Personnel Systems (completed + planned for next year; multiple response; %)

	Result based bonus	Internal recruiting	Variable salary	Departmental hiring	Dept. / position based salary	Fast track system	Flexible work rules	Prepaid severance benefit
Japanese	69.2	48.1	34.6	30.8	21.2	9.6	11.5	3.8
Foreign	72.2	38.9	72.2	55.6	27.8	27.8	11.1	0

Performance-linked bonuses thus appear to be gradually entering the mainstream among Japanese firms as well. However, in introducing other measures such as variable annual compensation, departmental hiring, and fast track promotions for future executives, Japanese firms remain far behind foreign firms. Thus while showing a positive stance on personnel matters, Japanese firms have yet to move as boldly as their foreign counterparts.

(3) Japanese Firms Undervalue Contribution to Earnings

One indication of how Japanese firms have shunned bold action is the way they lag far behind foreign firms in assessing contribution to earnings at the individual and departmental level and reflecting this performance in compensation.

Asked whether they measure contribution to earnings and tie this to the compensation of front-end professionals in trading, dealing, fund management, and money management product development, 72.2% of foreign firms said they do so, compared to only 38.5% of Japanese firms (Figure 2).

Similarly, there is a large gap regarding whether firms distinguish earnings by department and tie compensation to departmental earnings and individual contribution: 72.2% of foreign firms said they do so, compared to only 15.4% of Japanese firms. By industry, this practice is quite pronounced among securities firms (Figure 3).

Figure 2 Compensation is Clearly Tied to Individual's Contribution to Earnings

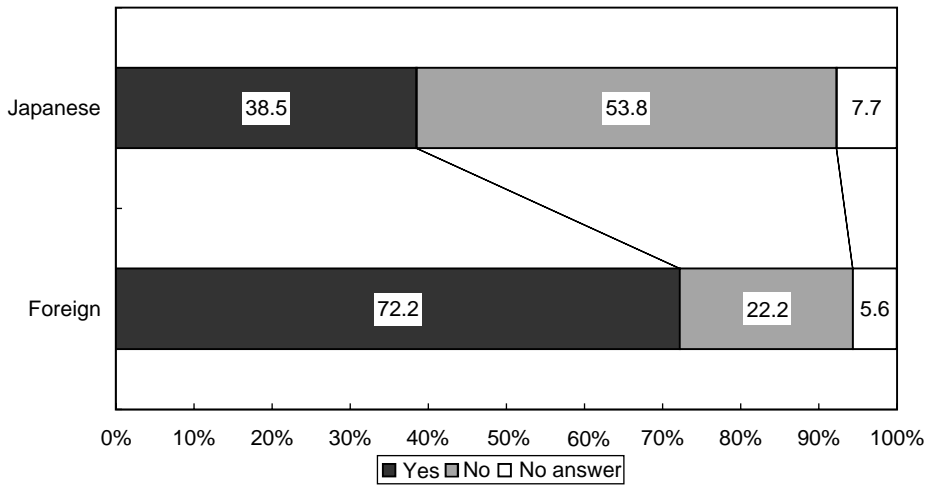
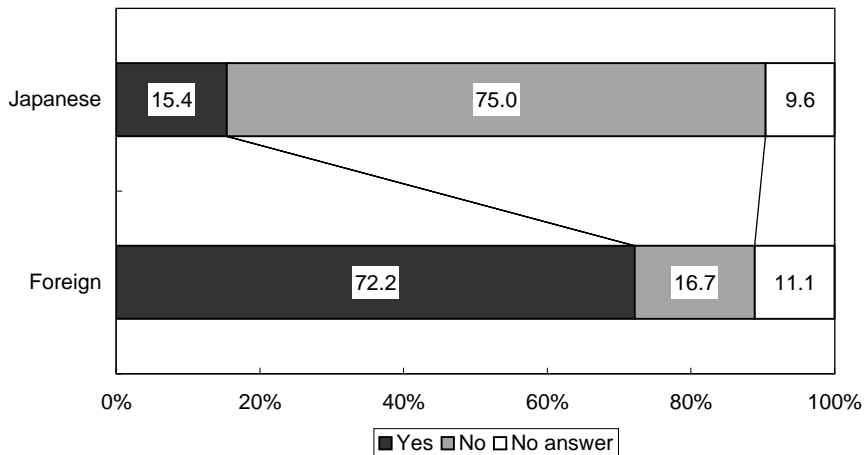


Figure 3 Compensation is Clearly Tied to Individual's Contribution to Departmental Earnings



3. Training & Development of Professionals

(1) Japanese Firms Emphasize In-house T&D

Japanese and foreign firms have contrasting approaches to the development of professionals -- Japanese firms emphasize in-house development, while foreign firms emphasize mid-career hiring. Among Japanese firms, over 60% emphasize in-house development, particularly in departments such as personnel (76.9%), accounting (69.2%), legal and tax matters (67.3%), and inspection and risk management (67.3%; Table 3). However, over 20% rely evenly on in-house development and mid-career hiring in the areas of systems development, fund manager, and analyst & economist.

Table 3 Reliance on In-house T&D of Professionals (multiple response, %)

	Securities sales	Securities trader	Securities product dev.	Savings product	Corporate loans	Personal loans	Insurance, annuity prod.	Fund manager	Analyst, economist	Risk management	Actuary	Accounting	Legal / tax affairs	Planning / market dev.	Personnel affairs	Systems development
Japanese co.	48.1	44.2	51.9	36.5	44.2	42.3	50	51.9	50	67.3	42.3	69.2	67.3	61.5	76.9	51.9
Foreign co.	11.1	16.7	11.1	11.1	16.7	11.1	11.1	11.1	5.6	11.1	5.6	16.7	11.1	5.6	11.1	5.6

(2) Japanese Financial Firms Prefer In-house Training

Over half of financial firms have programs to develop professionals, led by in-house training (58.6%), subsidizing the acquisition of public certification (57.1%), and outside training (57.1%). In addition, over 30% of financial firms have overseas study programs (37.1%) or allowances for persons with public certification (30.0%). However, only 1.4% have their own corporate university, an educational institution that is much more common in the U.S. (Table 4).

Table 4 Existing Programs to Enhance Professional Qualifications (multiple response, %)

	In-house training	Outside training	Assistance to acquire official certification	Study abroad	Allowance paid to certification holders	In-house certification	Study in Japan	Loan to another co. / research inst.	Corporate university
Japanese company	61.5	61.5	61.5	48.1	38.5	28.8	28.8	25	1.9
Foreign company	50	44.4	44.4	5.6	5.6	0	0	5.6	0

(3) Japanese Firms Offer Certification Incentives

Of the professional qualifications that companies encourage employees to acquire, certification as securities analyst (Japan) was the most commonly cited at 74.3%, followed in distant second place by management advisor for small and mid-sized companies (34.3%). Moreover, approximately one in three firms offers certification incentives for actuaries and real estate appraisers.

The breakdown by industry reflects industry features. The attainment of the securities analyst (Japan) qualification is encouraged by 100% of investment advisories and 91.7% of securities firms, while the actuary qualification is encouraged by 93.8% of insurance companies.

Compared to foreign firms, Japanese firms show a stronger inclination to encourage attainment across all qualifications, while foreign firms are less insistent overall on this matter (Table 5).

Table 5 Qualifications Encouraged by Companies (%)

	Securities analyst (Japan)	Small business examiner	Real estate appraiser	Actuary	CPA (Japan)	Securities analyst (US)	Data processing certification	Tax accountant	Foreign language certification	MBA	Lawyer	CPA (US)
Japanese company	78.8	42.3	40.4	38.5	34.6	32.7	32.7	30.8	30.8	19.2	15.4	11.5
Foreign Company	61.1	11.1	5.6	11.1	16.7	16.7	11.1	5.6	5.6	16.7	5.6	11.1

(4) Work Experience is Most Valued in Developing Expertise

Asked what they thought was the most valuable way to develop professional expertise, the most common response was work experience (42.9%), followed by on-the-job training (25.7%). On the other end, formal education (4.3%) and professional certification (1.4%) were not highly valued. Thus both Japanese and foreign financial institutions regard work experience as more valuable than either education or certification in the development of professional expertise (Table 6).

Table 6 Most Valued Method of Developing Professional Expertise (%)

	Work experience	On-the-job training	Independent study	Formal education	Professional certification
Japanese company	40.4	26.9	21.2	3.8	1.9
Foreign company	50	22.2	0	5.6	0

4. Professional HRM Issues Confronting Japanese Financial Firms

While Japanese financial firms have demonstrated a positive attitude toward revising evaluation systems and in other areas, actual progress in the treatment of professionals has been inadequate in the following respects.

(1) 30% Say Special Consideration for Professionals is Premature

Over 80% of financial institutions see a need to clarify job duties and change the evaluation system in order to better accommodate professionals. In addition, when asked if Japan's corporate culture makes it undesirable to create differences in salary and other conditions for professionals, 67.3% disagreed. Thus Japan's financial institutions generally show a positive attitude toward giving special consideration to professionals.

However, over 30% said that while there is a need to consideration for professionals in the future, the time has not yet come (Table 7). Thus while Japanese financial firms recognize the need for change, in practice they are still unprepared to take significant steps. By industry, investment advisories and securities firms tend to be more eager to deal with change, while banks and insurance companies tend to be conservative.

Table 7 Attitudes Toward Giving Special Consideration for Professionals (%)

		Agree	Disagree	Neither
Treatment of professionals will require that we clarify job duties and alter the evaluation system.	Japanese co.	84.6	5.8	5.8
	Foreign co.	83.3	5.6	11.1
Given Japan's corporate culture, professionals should not receive special treatment regarding compensation, etc.	Japanese co.	13.5	67.3	15.4
	Foreign co.	11.1	77.8	11.1
Special treatment of professionals may become necessary in the future, but is not necessary now.	Japanese co.	30.8	50	15.4
	Foreign co.	22.3	55.6	16.7

Notes: "Agree" = "Strongly agree" + "Agree to some extent." Numbers may not add up to 100 due to incomplete responses.

(2) Differing Emphasis on Individual Competence

As we have seen, today's Japanese financial firms still harbor some resistance toward the idea of treating professionals differently from other employees. This resistance demonstrates that a widely accepted stance among the mainstream of foreign companies has yet to adequately permeate Japanese firms – the stance that individual competence is key to corporate management. In our survey, one in three foreign firms agreed strongly that individual professional competence will in the future outweigh the organization in its impact on corporate management, compared with only 10% of Japanese firms (Table 8).

Table 8 Recognition of the Importance of Professionals (%)

		Agree strongly	Agree	Disagree	Neither
In the future, individual competence will impact corporate management more than the organization will.	Japanese co.	11.5	51.9	17.3	15.4
	Foreign co.	33.3	38.9	11.1	16.7

Note: Numbers may not add up to 100 due to incomplete responses.

(3) Promotions Still Overlook Professional Competence and Qualifications

Fewer than 10% of Japanese firms said they give special consideration to professionals regarding promotion, compared to one in three foreign firms.

Furthermore, Japanese differ significantly from foreign firms in how persons with public skill certifications and other professional qualifications are treated. One in three foreign firms offers permanent payments to reward professional competence, whereas Japanese firms only offer temporary payments such as bonuses for acquiring professional qualifications. Thus the value of professional competence is perceived differently (Table 9).

Table 9 Special Consideration of Expertise and Professional Qualifications (%)

	Offer special treatment in promotion system		Offer bonus to persons with designated professional certifications	
	Yes	No	Yes	No
Japanese company	9.6	86.5	65.4	32.7
Foreign company	33.3	66.7	11.1	88.9

Note: Numbers may not add up to 100 due to incomplete responses.

(4) Rotation of Professionals Continues

Almost half of the Japanese firms said that their personnel rotation practices do not distinguish professionals from other employees. In a survey of individuals, we found that rotations were almost nonexistent at foreign firms, while many people at Japanese firms thought they might be rotated. On the company side, over 60% reported no change from five years ago regarding the frequency and scope of rotation, indicating that little thought has been given to revising this practice (Table 10).

Table 10 Frequency and Scope of Personnel Rotation

	Separate rotation for professionals?		Rotation frequency (compared to 5 years earlier)			Breadth of rotation (compared to 5 years earlier)		
	Yes	No	Higher	Lower	Same	Larger	Smaller	Same
Japanese company	48.1	48.1	15.4	15.4	65.4	9.6	19.2	67.3
Foreign company	50	27.8	-	16.7	72.2	-	22.2	66.7
Bank	30.8	53.8	11.5	7.7	69.2	7.7	15.4	65.4
Securities co.	33.3	50	16.7	8.3	75	16.7	8.3	75
Investment advisory	77.8	22.2	22.2	33.3	44.4	11.1	33.3	55.6
Life insurance co.	62.5	37.5	-	25	68.8	-	25	68.8

Note: Numbers may not add up to 100 due to incomplete responses.

The *Survey of Financial Professionals* was conducted among the human resource management departments of financial institutions against the backdrop of the Big Bang and the expected increase in competition. As many financial institutions made clear, Japanese financial institutions have been notably slow to implement reforms that recognize the value of professional competence.