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<td>The Kyoto University Economic Review (2002), 71(1-2): 31-42</td>
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Kyoto University
Retirement Allowance System and Organizational Commitment
—A Case Study of a Japanese Major Electric Appliance Manufacturer—

by Kazuki MATSUYAMA* and Masao TAO**

Abstract

The main purpose of this paper is to verify the changes in Japanese-style management and organization, especially in lifetime employment, using organizational commitment as a variable. Until now, most Japanese companies have adopted a retirement allowance system (RAS) in order to retain their core workers and strengthen their loyalty (e.g. Hazama, 1963). This paper focuses on the change of RAS. Many Japanese employees receive a large lump sum of money when they retire, but only if they have worked at one company for a long period of time. In recent years, however, some companies have begun to use what is called an “advance payment of retirement allowance system (APS)” through which they pay their employees money equivalent to the retirement allowance while they are working (e.g. Nagano, 1997). In this paper, we investigated a Japanese company that adopted this system.

We conducted e-mail survey about organizational commitment and APS for 1,000 engineers through a LAN. Ultimately, 711 usable questionnaires (71.1%) were returned to us. Employee commitment to the organization was used as the index for analysis. The results of this survey made clear that selecting the APS had an impact on employee attitude and that the organizational commitment of those who chose the APS was weaker than those who did not. Our findings contribute to a proof of a connection between HRM practices and actual role behaviors.

I Introduction

There have been many studies of social-psychological approaches which emphasize the importance of employee-employer relationship in the organization. Among all, employees’ commitment to the organization is one of the hottest topics of discussion. Organizational commitment has been studied since the late of 1960s and many researchers have focused closely on it to accumulate a great deal of findings. Many of them have concluded that the commitment of employees should be essential for vitalizing the organization. In other words, the stronger the employees’ commitment becomes, the more productive outcomes the organizations could get.

According to Mowday et al. (1982), the consequences of organizational commitment are critical to organizations for their efficiency and productivity as well as to their employees’ working life. Following Mowday et al. (1982), many researchers have proved various influences of
organizational commitment.

In this study, organizational commitment is defined in term of an attitudinal composition, that is, “a state in which an individual identifies with a particular organization and its goals and wishes to maintain membership in order to facilitate these goals” (Mowday et al., 1979, p.225). It also refers to an active relationship with the organization where individuals are willing to work hard in order to contribute to the organization’s performance.

It is necessary, therefore, to know what organizational commitment is. Numerous theories and researchers have attempted to explain why it is important and how important it is in the workplace.

Several reasons account for the importance of organizational commitment. According to Aranya et al. (1986), there are three reasons: (1) highly committed employees may perform better than less committed ones, (2) organizational commitment is often a better predictor of turnover than job satisfaction, and organizational commitment may be used as an indicator of the effectiveness of an organization.

Overview on Japanese management

So-called Japanese management that has facilitated organizational commitment, is composed of three customized characteristics, that is, lifetime employment, seniority-based system and in-company-unions.

Lifetime employment is one of the distinctive personnel practices in Japan. It is a tacit agreement between employees and the organization. This practice is especially prominent in working as regular employees of large organizations. Employees could not be fired unless there are any unexpected difficulties in management or employees themselves. Dismissal may take place only when there are serious blunders.

The seniority-based system promises employees’ wages to increase according to their length of employment. Wages increase slowly but steadily until their retirement. The increasing wages usually fit the life cycle of each employee and his/her family. The seniority-based system can be also seen in promotion. Higher position is mostly taken by the elder employees who have worked longer in the organization.

In Japan, union is organized within companies, known as in-company union. The labor agreement, which has a direct influence on employee’s interest, is decided by collective bargaining in labor-management conferences in each organization. Neither national centers nor industrial federations have the right to negotiate directly on the issues between labors and management. Under this system, employees feel connected to their managers.

Change in retirement allowance system

The main purpose of this paper is to verify the changes in Japanese-style human resource management (HRM) in the trend of retirement allowance system (RAS). In Japan, more than 90% of companies have RAS (Japanese Ministry of Labor, 1999), which means many Japanese employees receive a large lump sum of money when they retire, but only if they have worked at one company for a long period of time. The most important feature of Japanese RAS is that the longer they work at one company, the more money they receive. Retirement allowance can be usually expressed as follows :
Retirement allowance = monthly salary at retirement × ratio of payment

In Japan, monthly salary is progressive because seniority weighs heavily on a pay scale. Further, ratio of payment is also based on seniority-based system. This results in the current situation where the longer working employees will receive more amount of allowance. However, Japanese RAS is in the process of change these days, and this phenomenon correlates to collapse of “lifetime employment system”.

**Trend of RAS**

About half a century ago, James C. Abegglen who made Japanese-style management very popular in the world, had already pointed out that “at whatever level of organization in the Japanese factory, the worker commits himself on entrance to the company for the rest of his working career (Abegglen, 1958, p. 11).” Since then lifetime employment has been said to be the most important feature of Japanese-style HRM system. Japanese firms have adopted this system in order to retain their core workers and strengthen their loyalty (e. g. Hazama, 1963). RAS is one of various tools that support this system (Funahashi, 1983).

RAS is, however, in the process of changing as mentioned above. Since 1998, a rapidly increasing number of Japanese firms have abolished the RAS or replaced seniority-based RAS with performance-based RAS. Moreover, some Japanese companies have begun to use so-called “advance payment of retirement allowance system (APS)” through which they pay their employees money equivalent to the retirement allowance while they are working. (Nagano, 1997; yashiro, 1999). In fact, some of these companies have abolished RAS instead. This study especially brings up APS.

The reason why APS is spreading through Japanese firms is found in employment diversity and globalization of accounting standard (Itoh, 1999). Company A, subject of this investigation, is no exception but has reformed its RAS though it has been practicing typical Japanese-style management. According to Company A’s explanation, the purposes of introduction of APS are; 1) to cope with a variety of employment needs; 2) to retain independent experts with a distinctive personality; and 3) to encourage each employee’s independence. It is clear that those companies have an intention to weaken the organizational commitment of their employees through an APS.

II Hypotheses

One of the most popular HRM theoretical models is so-called “Behavioral Perspective” (Arthur, 1994). According to Wright & McMaham (1992), this model assumes a chain of linkage among business characteristics, needed role behaviors, HRM practices and actual role behaviors as shown in Figure 1.
According to Salancik (1977), employees’ commitment as organizational behavior can be controlled and managed. From the same standpoint, Meyer and Allen (1997) discussed that HRM policies and practices had effects on organizational commitment through the mediation of employees’ perceptions. The present study focuses on the linkage between HRM practices and organizational commitment as substitution of actual role behaviors.

Only a few studies on the above mentioned linkage have been attempted so far. For example, Klein (1987) examined the relationship between Employee Stock Ownership Plan (ESOP) and employee attitudes and found that the employees who were satisfied with ESOP had higher commitment to organization than those who were not. Chiu & Ng (1999) identified 20 items of women-friendly HRM practices and investigated the relationship between these HRM practices and organizational commitment. The result is that it was found that female employees who perceived that the firms they belong to, have the women-friendly HRM have high commitment to organizations. As just described, it is possible to assume a linkage between APS and employee’s attitude. The attitudes of the employees who select APS may differ from the other employees who do not select it.

**Employee attitudes toward Japanese-style HRM.** It is said that Japanese-style HRM is changing. Who accepts and appreciates this change? Top managers or workers? It seems that managers promote this reformation and workers are puzzled (e.g. Yanashita, 2001). It is not true, however, all workers are puzzled and deny the reformation. According to Ohta (1994), Japanese-style HRM has suppressed freedom and independency of workers. “Kaisha Ningen (company man)”, born from Japanese-style HRM, is not supported especially by younger people.

Moreover, each practice of Japanese-style HRM—lifetime employment, seniority-based wages, company-based union and so on—supports each other and gets tangled together. Since these constitute a complete harmonious whole, there is not much point in disjointing them (Fingleton, 1995). Therefore, employee attitudes toward the RAS have an effect on their attitudes toward Japanese-style HRM.
Hypothesis 1: Employees in APS will deny Japanese-style HRM more strongly than those in non-APS.

**Employees' work attitudes.** It has been said that Japanese workers' involvement in their company is total and their commitments are more difficult to revoke (Abegglen & Stalk, 1985). “Kaisha Ningen” is a human model that is extremely identified with a firm, and loses sound self (Tao, 1998). The strong loyalty of Japanese workers has been facilitated by high-commitment HRM (Baron & Kreps, 1999), in which, of course, RAS has played a very important role. That’s why we chose a concept of organizational commitment (OC) as work attitudes in this study. Additionally, two elements of Allen & Meyer’s (1990) three-component model, namely affective commitment (AC) and continuance commitment (CC), were chosen. AC refers to employee’s emotional attachment to, identification with, and involvement in the organization. CC refers to employee’s awareness of the costs upon leaving the organization.

Hypothesis 2: Employees in APS will report lower AC and CC than those in non-APS.

**Organizational socialization.** According to Louis (1980), “organizational socialization is the process by which an individual comes to appreciate the values, abilities, expected behaviors, and social knowledge essential for assuming an organizational role and for participation as an organizational member” (p. 230). In short, it is the process by which the organizational commitment becomes stronger. For example, Wakabayashi (1986) found that age had a positive impact to the organizational commitment of employees. Reilly & Orsak (1991) suggested that career stage positively related to organizational commitment. It seems that workers’ age, tenure and career stage have positive effects on their organizational commitment in large Japanese companies especially because they have maintained their workers’ loyalty by the seniority-based system. The tendency is developed strongly as these elements of worker’s age, tenure and career stage are integrated by lifetime employment system.

Hypothesis 3: Tenure has a stronger impact on AC and CC than APS.

### III Methods

**Respondents and survey methodology**

A group of sample employees was selected from Company A, a large manufacturing company in Japan, that adopted the APS. Company A holding about 200,000 employees in the world has carried out Japanese-style management as a pioneer of venture business under the leadership of a charismatic founder. Until now, company A has given special consideration to stability of employment and welfare of employees. One of the most famous words of the founder that stands for company A’s philosophy is “before we make products, we make employees”. This word expresses that it is the most important for company A to foster human resources. Since the
bubble economy has burst, Company A’s earning power has dropped rapidly and in order to recover, it has tried various organizational reconstructions and system revolutions, one of which is APS. In Company A, employees could freely select to use the APS and management was not allowed to influence their decision. Moreover, employees who were in the APS could later choose to stop using it once.

We asked the personnel department of Company A to send questionnaires we had developed to 1,000 engineers of a semiconductor material development department through the existing LAN system. Ultimately, 711 usable questionnaires (71.1%) were returned to us. Respondents used in our analyses ranged in age from 22 to 59; the average age was 31.6 years, and 4.5 percent of the respondents were women. All respondents were full-time workers with an average of 7.8 years of full-time work experience. Graduate degrees were received by 49.2 percent of the respondents; 43.3 percent received undergraduate degrees, and 7.5 percent received other graduate degrees. The number of respondents who selected APS is 111 (15.6%).

**Measures**

**Employee attitudes toward Japanese-style HRM.** “Lifetime employment”, “seniority-based system”, “RAS” were considered as Japanese-style HRM. In addition, “performance-based system” was chosen as a reverse variable. Attitude toward each of them was a single item. Respondents were asked whether each HRM is good or not, where 4 = ‘good for both employees and a firm’, 3 = ‘good for employees, but not good for a firm’, 2 = ‘not good for employees, but good for a firm’, 1 = ‘not good for either employees or a firm’ and 0 = ‘other answers’.

**Employees’ work attitudes.** Eleven items with the highest factor loading among the Takagi, Ishida and Masuda (1997) Organizational Commitment Questionnaire — developed as the Japanese version with reference to Allen & Meyer (1990), Cook & Wall (1980) and so on — were used in this study. The eleven items represented two components of the Allen & Meyer (1990) scale, namely affective commitment (AC) and continuance commitment (CC). The six affective-related items were: (1) I really feel it great to choose not other organization but my organization; (2) I like my organization very much; (3) I feel happy to work at office; (4) If I find employment again, I would choose my organization; (5) I can explain to my friends that my organization is wonderful; (6) It was a great mistake to choose my organization (R). The five continuance-related items included: (1) If I leave my organization, I will have depreciating words uttered behind my back; (2) It is not respectable that I leave my organization; (3) If I leave my organization, I will not be able to justify myself to my family and relative; (4) I’m afraid of what might happen if I quit my job; (5) One of the major reasons I continue to work for this organization is that leaving would require considerable personal sacrifice. The alpha reliability coefficients of the AC and CC scales were .89 and .80 respectively. All items were on a 5-point Likert-type scale, ranging from 1 (strongly agree) to 5 (strongly disagree).

**IV Results**

Table 1 contains the descriptive statistics and correlations among all variables. There were strongly positively intercorrelations among age, tenure and position. Although AC was
positively related to age, tenure and position and negatively related to educational level, CC was not significantly related to these variables. There were intercorrelations among all six variables about organizational commitment and employee’s attitudes toward Japanese-style HRM except the relation between AC and seniority-based system. Variables of advance payment system was negatively related to age, tenure, position, organizational commitment, lifetime employment and RAS, while positively related to educational level.

Table 1. Descriptive Statistics and Correlations$^a$

<table>
<thead>
<tr>
<th>Variables</th>
<th>Means</th>
<th>s.d.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Age</td>
<td>31.64</td>
<td>5.31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Tenure</td>
<td>7.47</td>
<td>5.76</td>
<td>.92**</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Educational level</td>
<td>2.42</td>
<td>0.63</td>
<td>-.29**</td>
<td>-.48**</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Position</td>
<td>3.47</td>
<td>1.23</td>
<td>.83**</td>
<td>.78**</td>
<td>-.22**</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Affective commitment</td>
<td>21.30</td>
<td>4.76</td>
<td>.21**</td>
<td>.23**</td>
<td>-.12**</td>
<td>.22**</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Continuance commitment</td>
<td>13.50</td>
<td>4.72</td>
<td>.05</td>
<td>.08</td>
<td>.05</td>
<td>.07</td>
<td>.11*</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Lifetime employment</td>
<td>2.27</td>
<td>1.06</td>
<td>.05</td>
<td>.05</td>
<td>.02</td>
<td>.06</td>
<td>.15**</td>
<td>.21**</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Seniority-based system</td>
<td>3.11</td>
<td>1.07</td>
<td>.00</td>
<td>-.01</td>
<td>.00</td>
<td>-.01</td>
<td>-.03</td>
<td>.21**</td>
<td>.39**</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Performance-based system</td>
<td>1.92</td>
<td>1.06</td>
<td>-.04</td>
<td>-.04</td>
<td>-.04</td>
<td>.02</td>
<td>.10*</td>
<td>-.11*</td>
<td>-.15**</td>
<td>-.28**</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>10. Retirement allowance system</td>
<td>1.86</td>
<td>0.89</td>
<td>-.04</td>
<td>-.02</td>
<td>-.04</td>
<td>.00</td>
<td>.12**</td>
<td>.11*</td>
<td>.30**</td>
<td>.16**</td>
<td>.09*</td>
<td>-</td>
</tr>
<tr>
<td>11. Advance payment system</td>
<td>0.14</td>
<td>0.35</td>
<td>-.27**</td>
<td>-.31**</td>
<td>.21**</td>
<td>-.31**</td>
<td>-.15**</td>
<td>-.18**</td>
<td>-.17**</td>
<td>-.08</td>
<td>.03</td>
<td>-.23**</td>
</tr>
</tbody>
</table>

$^*_{p<.05}$; $^{**}_{p<.01}$

$^a$ N = 531 (listwise deletion of 'other answer' in variables 7 - 10). Educational level is coded 3 = graduate, 2 = undergraduate and 1 = high school and so on. Position is coded from 1 = the lowest grade to 5 = the highest grade. Advance payment system is coded 1 = in APS and 0 = not in APS.

Employee attitudes toward Japanese-style HRM

Hypothesis 1 states employees in APS will deny Japanese-style HRM more strongly than those in non-APS. Table 2, 3, 4 and 5 show the results of Chi square analysis of attitudes toward lifetime employment, seniority-based system, performance-based system and RAS, respectively. “Other answers” were deleted in each table. It was found that the employees in APS do not feel seniority-based system and RAS are good for themselves, while they assume lifetime employment as not good for both themselves and the firm. We didn’t find statistically significant result about performance-based system. These findings almost support Hypothesis 1.
Table 4. Performance-based System

<table>
<thead>
<tr>
<th></th>
<th>for employee</th>
<th>for company</th>
</tr>
</thead>
<tbody>
<tr>
<td>APS</td>
<td>good</td>
<td>bad</td>
</tr>
<tr>
<td>non-APS</td>
<td>62</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>316</td>
<td>212</td>
</tr>
</tbody>
</table>

\( \chi^2 \)

|           | 0.57 | 0.04 |
| d f       | 1    | 1    |
| p         | .451 | .843 |

*: \( p < .05 \), **: \( p < .01 \)

Table 5. Retirement Allowance System

<table>
<thead>
<tr>
<th></th>
<th>for employee</th>
<th>for company</th>
</tr>
</thead>
<tbody>
<tr>
<td>APS</td>
<td>good</td>
<td>bad</td>
</tr>
<tr>
<td>non-APS</td>
<td>27</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>211</td>
<td>333</td>
</tr>
</tbody>
</table>

\( \chi^2 \)

|           | 49.06 | 1.55 |
| d f       | 1     | 1    |
| p         | .000  | .213 |

*: \( p < .05 \), **: \( p < .01 \)

Employees' work attitudes

Hypothesis 2 states that employees in APS will report a lower AC and CC than those in non-APS. We tried t-test of the scores on AC and CC of employees between in APS and non-APS. Regarding both components of organizational commitment, the score of the employees in APS are found to be lower then that of the employees in non-APS (AC: \( t = 3.05 \), \( p < .01 \); CC: \( t = 4.35 \), \( p < .01 \)). These findings support Hypothesis 2.

Table 6. Multiple regression results

<table>
<thead>
<tr>
<th></th>
<th>AC</th>
<th>CC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenure</td>
<td>.182**</td>
<td>.050</td>
</tr>
<tr>
<td>APS</td>
<td>-.064</td>
<td>-.137**</td>
</tr>
<tr>
<td>R²</td>
<td>.045</td>
<td>.026</td>
</tr>
<tr>
<td>d.f.</td>
<td>705</td>
<td>705</td>
</tr>
<tr>
<td>F</td>
<td>16.438**</td>
<td>9.237**</td>
</tr>
</tbody>
</table>

**: \( p < .01 \)

Organizational socialization

Hypothesis 3 states that tenure has a stronger impact on AC and CC than APS. Table 6 presents the results of multiple regression analysis. It involved regressing the two types commitment, AC and CC, onto two independent variables, that is tenure and APS. The purpose of this analysis is testing the determinants. Because there was a very positive correlation between age and tenure as seen previously, we used tenure as a variable of organizational socialization. In table 6, findings indicated that tenure is a determinant of AC but not CC and APS is a determinant of only CC. These findings support Hypothesis 3 about AC, but not about CC.

V Discussion

We targeted the employees who had selected APS, a new wage plan and investigated their attitudes toward Japanese-style HRM and could attain the results that almost support our
hypotheses. This will suggest that APS has no affinity to the conventional Japanese-style HRM, while it can not be said that the performance-based system has an affinity to non-Japanese-style HRM. On the other hand, we asked the respondents to make an evaluation of each item of HRM for either themselves or the firm. As each table shows, both respondents who chose the APS and those who didn’t choose it acknowledged that seniority-based system was not good for the company. Contrary to it, both of them recognized that performance-based system was good for the firm. More than half of each group were aware that RAS was not good for the firm. These analyses led the finding that whether an employee selected APS or not, does not influence on the evaluation of each HRM, namely, seniority-based system, performance-based system and RAS. At the same time, only a relationship between the attitudes toward lifetime employment and APS was found. These results suggest that Japanese employees consider that performance-based system is much suited as the future system for Japanese companies than conventional seniority-based system. On the other hand, lifetime employment has a diverse evaluation from the both groups of the employees who selected the new wage program and those who did not select it. The lifetime employment will be only one system that may be maintained in collapsing Japanese-style management, which was pointed by Ornatowski (1998).

The suggestion that APS doesn’t have an affinity to Japanese-style HRM will be extracted from the results of the study which relates to organizational commitment. Corporate loyalty among Japanese workers is at really high level (Lincoln & Kalleberg, 1985). It has been maintained and facilitated through Japanese-style HRM. It’s not too much to say that strong loyalty and Japanese-style HRM are inextricably linked. Based on the assumption, the finding that organizational commitment of the employees who selected APS was lower than that of other group of employees who didn’t select APS, suggests that APS doesn’t have an affinity to Japanese-style HRM. In other words, APS is a system that weakens an employee’s commitment to the organization. Company A, therefore, has possibility to control and keep under the employees’ belongingness though it has been refered as be an advantage of a Japanese company.

It was found that tenure has an effect only to affective commitment through the result of the investigation about organizational socialization. According to Takagi, Ishida and Masuda (1997), continuance commitment can be negative commitment for the organization. High performance of the organization is likely led not by continuance commitment but by affective commitment. It is often said more employees become so-called “hanging workers” who feel peaceful and quiet with no anxiety of layoff under the favor of lifetime employment system as represented by the famous saying; “When you take shelter, make sure you go under a big tree”. The dependant-type workers may have higher continuance commitment than independent-type workers. It was found through our study that long-service employees don’t necessarily depend on organization. Additionally, it is suggested that when we discuss the relationship between organizational socialization and organizational commitment, we need to consider into particulars about organizational commitment, including affective commitment and continuance commitment. It can be explained that APS has an effect to gear down the negative commitment to an organization on grounds that APS has negative impact on CC at variance with tenure.

As mentioned above, one of the representative Japanese companies is steering employees away from the organization. Of course, an organization can’t be operated by the workers who have no loyalty to the organization. Employees’ loyalty is important, but the loyalty deathtraps
hazardous nature to be transformed to dependent mindedness. The results of this study reflect that today’s Japanese companies have begun to try to seek an appropriate distance between employees and the organization.

We could take the first step of another purpose of this paper which was to verify the behavioral perspective of SHRM theory, as our study suggested that there are correlations between APS and organizational commitment. Our study, however, could not verify it completely, and so needs to be kept continuously.

As repeatedly mentioned, the human resource department of Company A requires high talented experts who can innovate the organization. Such people may not commit to the organization but show commitment to their own career or job (Shuler & Jackson, 1987). If it is true, as our study has shown, Company A may intend to identify the linkage between the required human resource and the employee’s attitudes. In that context our study can be said to make some contribution to the discussion on the strategic HRM theory.

In conclusion, the results presented in this paper are based on the case study of only one type of job in one company though it can be represented a Japanese company. Consequently, conclusions drawn from the work must be regarded to have limitations and not universal. At the same time, our analysis was conducted only on APS, one aspect of the various programs and practices of HRM. To further study, we plan to conduct the investigations subjected on the various types of jobs or companies as well as to analyze the correlations with other aspects of HRM.

Acknowledgments

The authors express their appreciation to the personnel of the human resource department of Company A for their help of conducting the investigations and delivering questionnaires to the employees.

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