

**Transforming Incentives:
Analysis of Personnel and Employee Output Data
in a Large Japanese Auto Sales Firm**

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Abstract

This paper analyzes the economic consequences of performance-oriented human resource (HR) system reform at Auto Japan (pseudonym), one of the largest Japanese auto sales firms, using personnel and employee output data. The author overviews the three major components of the HR reform: base wages, performance-based pay, and performance rating systems. Then the author examines the productivity effect of the reform. The performance-based pay was changed from combining a base wage with a simple performance pay system to instead a scheme kinked around a draw line (representing aggregate base pay) to intensify incentives. The introduction of the draw formula performance-based pay system raised the productivity of the new car sales staff, but generally failed to raise the productivity of the used car sales staff. The evidence suggests that while Auto Japan's performance-oriented HR system reform, which was typical of reforms instituted among major Japanese firms in the late 1990s, changed the wage structure and grading pattern of employees, it brought only slight improvement in individual productivity.