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## Guest Editorial

# International human resource management of Japanese multinational corporations: Challenges and future directions

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**Abstract** Japanese multinational corporations (MNCs) enjoyed global success until the early 1990s, but recent trends have presented many challenges, necessitating adaptations to international human resource management (IHRM) and other management practices. In reviewing recent changes in the IHRM of Japanese MNCs by focusing on ‘internal internationalization’ at headquarters and ‘external internationalization’ in foreign subsidiaries, we develop a framework that elucidates these processes through the characteristics of industries and Japanese MNCs. Moreover, we discuss future research avenues for a deeper understanding of Japanese IHRM and generating new knowledge in the IHRM field.

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## Introduction

In the post-World War II period, Japan experienced so-called ‘miracle’ economic growth, and Japanese multinational corporations (MNCs), especially large manufacturing firms, were successful at home and abroad until the early 1990s. Japanese management in general and Japanese-style human resource management (HRM) in particular were studied extensively by international scholars because they were considered a source of competitive advantage of Japanese MNCs (see Endo *et al.*, 2015). Japanese-style HRM is characterized by long-term employment and development, seniority-based compensation and promotion, enterprise-based unions, and teamwork orientation (for example Tung, 1984; Morishima, 1995; Jacoby, 2005). In their rapid and successful internationalization process, Japanese MNCs tried to



transfer their ‘best practices’ from their domestic operations to their foreign subsidiaries to leverage their competitive advantage (Florida and Kenney, 1991; Beechler and Yang, 1994).

However, admiration for Japanese management and HRM has waned because of the collapse of the bubble economy in the early 1990s (Endo *et al.*, 2015) and the recent trends of the global economy since the 2000s. Nowadays, Japanese MNCs are at a crossroads in how to respond to global HRM challenges. They have been successful in the internationalization of production and operations management, but have not been successful in the internationalization of management (for example Matsuda, 2013). Many still pursue an ethnocentric management style, where Japanese managers occupy most key management positions and non-Japanese are degraded to support staff (for example Kasahara, 2014). This ethnocentric style, along with traditional Japanese HR practices, has been identified as a main reason for the difficulty of Japanese MNCs to attract and retain global talent (Kopp, 1994a; Keeley, 2001; Froese and Kishi, 2013). To counter these challenges, Japanese MNCs are trying to change their international human resource management (IHRM) practices. While some Japanese companies, especially newly emerging firms, are aggressively internationalizing their HRM practices, many Japanese MNCs, such as large manufacturing firms, are hesitant or only slowly doing so.

In the light of the above, this Special Issue focuses on the topics closely related to the IHRM of Japanese MNCs. This editorial article aims to provide an up-to-date and comprehensive understanding of the major challenges and future directions of IHRM in Japanese MNCs, which serves as the background context for the articles herein by Ando and Maharjan and Sekiguchi. These two articles were initially submitted to the annual conference of the Association of Japanese Business Studies (AJBS) and then underwent the regular peer-review process at *Asian Business & Management*.

Specifically in this editorial, we review recent challenges and changes in the IHRM of Japanese MNCs by focusing on ‘internal internationalization’ at Japanese headquarters (HQ) and ‘external internationalization’ in foreign subsidiaries. Furthermore, we develop a model that helps explain and predict the speed and relative priority of internal and external internationalization of HRM among Japanese MNCs. By doing so, we explain why some Japanese MNCs are aggressively internationalizing their HRM, while many other Japanese MNCs are rather slow in both internal and external internationalization, or prioritize one over the other. Scholars will find the content of this article helpful in identifying new research opportunities in the areas of IHRM and Asian business.

The remainder of this article is composed as follows. First, we briefly summarize the characteristics of HRM and IHRM in Japanese MNCs in the past. Second, we review recent changes in the international business environment that have had significant impact on whether and how Japanese MNCs should change their IHRM. Third, we discuss several IHRM issues in Japanese MNCs, focusing on internal and external internationalization. Fourth, we offer a framework that explains and predicts



the speed and relative priority of internal and external internationalization of HRM. Finally, we discuss potential future research avenues to deepen our understanding of the IHRM of Japanese MNCs.

## **Distinctive Characteristics of Japanese-style HRM**

From the 1960s to 1980s, the higher quality and lower costs of products by Japanese MNCs were among the main reasons for their success abroad. Accordingly, Western companies were losing market share to Japanese new entrants. In response, researchers and practitioners began studying Japanese management to better understand the reason for the competitive advantage of Japanese MNCs (for example Vogel, 1979; Ouchi, 1981; Nonaka and Takeuchi, 1995). In addition to different operations and supply-chain management, Western scholars also noticed remarkable differences in HRM.

The distinctive features of Japanese-style HRM include long-term employment and development, seniority-based compensation and promotion, enterprise-based unions, and teamwork orientation (Tung, 1984; Morishima, 1995; Sekiguchi, 2006; Peltokorpi, 2013). Japanese companies usually hire their employees at the entry level and gradually develop them internally by rotating them through different departments and functions (Sekiguchi, 2006; Peltokorpi and Froese, 2016). While performance is a component, compensation and promotion are primarily based on seniority, that is length of time working in the company, particularly from the beginning of the career (Sekiguchi, 2006). Another distinctive feature of Japanese-style HRM is that labor unions are company-based rather than industry-based (Jacoby, 2005). Labor disputes are less common and less severe compared to other countries like the United States, where industry-based labor unions prevail. The teamwork-oriented working style within Japanese companies has been studied and imitated by Western companies (for example Ichniowski and Shaw, 1999).

The unique characteristics of Japanese-style HRM are in line with the unique organizing principle of Japanese corporations (*kaisha*), which is based on a high-context culture with many unwritten rules, a collectivistic culture that emphasizes teamwork and consensus-building, and Confucian tradition, with a moderate level of hierarchy in which older people are respected and harmony maintained (for example Maki *et al.*, 2014; Froese *et al.*, forthcoming). These characteristics are embedded in the institutional structure of Japan's business system (Ferner, 1997; Legewie, 2002; Witt, 2014).

Japanese-style HRM, together with Japanese organizing principles, has enabled Japanese firms to have a stable and flexible workforce in which employees are multi-skilled, flexible in job assignment changes, and have a high level of firm-specific knowledge and know-how (Morishima, 1995; Peltokorpi, 2013). This knowledge and know-how, both tacit and explicit, accumulates in the organization to become a source of competitive advantage (Nonaka, 1994; Nonaka *et al.*, 2000).



Only employees who have internalized the firm-specific knowledge and know-how can oversee and control Japanese organizations with their distinctive characteristics (Nonaka *et al*, 2000; Wang *et al*, 2009).

## **IHRM of Japanese MNCs in the Past**

In response to tariff barriers imposed by the United States from the 1970s, Japanese MNCs aggressively shifted production overseas. Given their superiority in operations and supply-chain management, they transferred these practices along with their HRM practices to their foreign subsidiaries (Florida and Kenney, 1991; Beechler and Yang, 1994). The aim of their international operation was that HQs could control foreign operations by careful planning and monitoring (Bartlett and Ghoshal, 1989) and transfer knowledge from HQ to foreign subsidiaries through their centralized style of management (Delios and Bjorkman, 2000). In such a situation, the dispatch of Japanese managers to transfer knowledge and set up new operations abroad made sense (Peterson *et al*, 1996; Delios and Bjorkman, 2000; Shiraki, 2007). The linguistic and cultural barriers between Japan and host countries also helped push this trend (Yoshihara *et al*, 2001).

Consistent with this, prior studies have reported remarkable differences in the IHRM of Japanese compared to Western MNCs. In a highly cited study, Kopp (1994a) found that Japanese MNCs pursued an ethnocentric IHRM approach. In this approach, decision making is centralized at HQ, and all key positions at home and in subsidiaries are filled with Japanese as parent-country nationals, as they can better implement and oversee HQ decisions (Perlmutter, 1969). It was found that Japanese MNCs tended to rely much more heavily on expatriate managers from Japan in top management as well as managerial positions in general in their foreign subsidiaries, compared to European and US MNCs (Kopp, 1994a; Belderbos and Heijltjes, 2005; Gaur *et al*, 2007; Pudelko and Tenzer, 2013). Furthermore, it was found that Japanese MNCs rarely used third-country nationals (TCNs) to manage their foreign subsidiaries (Rosenzweig, 1994; Shiraki, 2006).

Because of this ethnocentric IHRM approach, host-country nationals (HCNs) in foreign subsidiaries of Japanese MNCs were usually excluded from managerial training programs and the global talent pool, restricting them from promotion opportunities to senior levels. In short, Japanese MNCs tended to distinguish between HCNs at lower levels and Japanese managers in management positions. This situation has been called the 'rice-paper ceiling' (Kopp, 1994b). These tendencies were also observed in other studies (Tung, 1982; Harzing, 2001). In consequence, highly qualified and ambitious HCNs have not been attracted to Japanese employers (Froese and Kishi, 2013).

Another line of research on Japanese IHRM has concentrated on the transfer of management practices from Japan to other countries. Prior research shows that



Japanese companies have tended to transfer their Japanese-style HRM practices, as described above, to their foreign subsidiaries. For example, Florida and Kenney (1991) showed that Japanese carmakers were able to transplant their management practices from Japan to the United States despite great environmental differences. In a later study, Beechler and Yang (1994) showed that the transfer of Japanese HRM depends on various contingency factors in the host country and organization. For instance, while Japanese manufacturing factories in Tennessee were largely able to transfer Japanese HRM practices, service firms in New York had to adapt to local standards. Other studies suggest that Japanese MNCs selectively transfer HRM practices according to the local context (Vo and Hannif, 2012; Grill *et al.*, forthcoming; Maharjan and Sekiguchi, forthcoming).

The above characteristics seemed to work sufficiently well in the past because most of their overseas operations were limited to low-cost production and supply-chain functions. Japanese MNCs ensured successful production through the deployment of Japanese expatriate managers who transferred their management practices, assumed control and coordination functions in the foreign subsidiaries, and managed a low-skilled local workforce. However, the business environment surrounding Japanese MNCs has dramatically changed, as we will discuss below, and they must now reconsider their IHRM approach.

## Changing Business Environment Surrounding Japanese MNCs

Japanese firms are currently going through a fundamental paradigm shift in respect to their global operations. The business environment for Japanese firms has changed drastically in the past several years, mainly because of the saturation and shrinking of the domestic market and increasing international competition with firms from emerging economies. Japanese MNCs face several major challenges at home and abroad that affect their IHRM.

First, Japan, along with other industrialized countries, is suffering from demographic decline, leading to a smaller consumer base and talent shortage (Frank *et al.*, 2004; Kemper *et al.*, 2016). With a median age of about 46 years and life expectancy of about 85 years, Japan is among the oldest populations in the world (CIA, 2016). Put simply, Japanese MNCs will no longer be able to fill all managerial positions at home and abroad with Japanese nationals. In order to meet the global talent demand, they need to recruit and retain a culturally more diverse workforce both at home and abroad.

Second, Japanese MNCs' main customers are no longer located in the home market but are increasingly found abroad. For example, major companies such as Sony, Canon, Nissan and Shiseido generate the majority of their sales outside Japan. According to their annual reports, their overseas sales ratios are 72, 81, 80 and 51 per cent, respectively. Therefore, Japanese MNCs need to tailor their products to the demands of foreign consumers, but their current strategy, to maintain their core



competences such as research and development (R&D), may be ill-suited to this need. Thus, in addition to manufacturing, Japanese MNCs are increasingly pressured to relocate core technical and managerial functions abroad (Asakawa and Westney, 2013). Considering the objective of local adaptation, Japanese MNCs need to increasingly recruit highly qualified local personnel (Kawai and Strange, 2014).

Third, in addition to relocating important functions abroad, we observe a global trend toward more integration of foreign subsidiaries into global networks within MNCs. Overseas subsidiaries in this trend are characterized as having a competence-creating role (Cantwell and Mudambi, 2005), that is using local knowledge and creative inputs to develop new products aimed at expanding the global market scope of their MNC group (Burgelman, 1983; Cantwell, 1987; Rugman and Verbeke, 1992). However, Japanese MNCs lag behind Western counterparts, as they still rely heavily on their centralized R&D facilities in Japan (Iguchi, 2012; Iguchi *et al*, 2014). In line with more global integration, Japanese MNCs need to develop more global talent that can coordinate and communicate between different subsidiaries in the global network.

Fourth, Japanese MNCs have been under considerable pressure to respond to competitors both at home and abroad. Especially, competitors from neighboring Asian companies, such as those from China, South Korea and Taiwan (ROC), enjoy lower production costs than Japanese MNCs; hence, Japanese foreign operations' low-cost production and supply-chain functions are no longer sufficient to sustain their competitive advantage over newly emerging global competitors (Nikkei, 2013). Japanese MNCs need to find other ways to remain competitive, and IHRM might be one such strategy.

Taken together, these challenges suggest that Japanese MNCs need to change the traditional IHRM approach in which they have relied heavily on Japanese employees in both domestic and overseas operations. In order to achieve global integration and/or local responsiveness (Bartlett and Ghoshal, 1989), they should manage their global workforce, including both Japanese and non-Japanese employees, more effectively than in the past.

## **Challenges for IHRM of Japanese MNCs**

As we have seen, Japanese MNCs need to increase the hiring of non-Japanese employees both at home and abroad to address the talent shortage and to sustain competitive advantage in the global market. However, there are many challenges in internationalizing HRM, which can be roughly divided into two themes, one involving internationalization at home (Japanese HQ and other domestic affiliates), and the other advancing IHRM in foreign subsidiaries.

The former has been termed *uchinaru kokusai-ka* or 'internal internationalization' (Yoshihara, 2005). Yoshihara describes internal internationalization as a situation in which foreign employees participate in, or have the option to participate in, managerial



decision making in the corporate HQ. As it has become an established term in Japanese HRM literature, we also use the term ‘internal internationalization of HRM’ to represent the IHRM issues Japanese MNCs face in their HQs. We then use the term ‘external internationalization’ as an antonym to represent the IHRM issues that Japanese MNCs face outside Japan, in foreign subsidiaries. External internationalization may be achieved by increasing localization (for example the use of a polycentric approach in which HCNs manage their subsidiaries) or globalization (for example the use of a regiocentric or geocentric IHRM approach in which MNCs put the right person in the right position, regardless of nationality) (Perlmutter, 1969; Heenan *et al*, 1979). The former enables Japanese MNCs to promote local responsiveness, and the latter promotes global integration (Bartlett and Ghoshal, 1989).

The issues of promoting internal and external internationalization are not mutually independent, and should be coherent to achieve global integration across the MNC (Rosenzweig, 2006). For example, communication problems such as language barriers between HQ and subsidiaries may not improve if only external internationalization is promoted, and the Japanese HQ remains unchanged. However, as discussed below, not all Japanese MNCs will pursue internal and external internationalization simultaneously; some will prioritize internal over external internationalization, and *vice versa*. Moreover, because of the obstacles and difficulties faced in internal or external internationalization, the willingness and speed of internationalization will differ according to the characteristics of different industries and MNCs.

Table 1 compares traditional Japanese IHRM in the past and the goals of promoting internationalization for the future by focusing on the relationship between Japanese and non-Japanese employees in HQs or foreign subsidiaries. Traditional IHRM tends to separate Japanese and non-Japanese employees under the ethnocentric IHRM approach (Kopp, 1994a). Japanese employees are considered the core workforce, developed through long-term, seniority-based and job rotation-based HRM practices (Sekiguchi, 2006; Peltokorpi *et al*, 2015). They have a high level of firm-specific knowledge, necessary to oversee the entire organization. On the other hand, non-Japanese employees are considered peripheral, are not provided with the same training as Japanese employees and are excluded from core managerial activities (for example Negandhi *et al*, 1985; Bartlett, 1986; Johansson and Yip, 1994). Traditional Japanese IHRM in the past was optimal when core competence or the source of competitive advantage for the firm was mostly located in Japan.

On the other hand, the goals of internal and external internationalization are to integrate Japanese and non-Japanese employees at managerial and operational levels. The work of managing HQ and subsidiaries are optimally divided between Japanese and non-Japanese employees, depending on the MNC’s international strategy. For example, non-Japanese HCNs may be expected to manage foreign subsidiaries when local responsiveness is pursued. Non-Japanese employees can be appointed to senior management and executive positions in both HQ and foreign subsidiaries when global integration is pursued. The premise of internal and external



**Table 1:** Goals of internationalization of HRM in Japanese MNCs

	<i>Traditional Japanese IHRM</i>	<i>Goals of promoting internationalization of HRM</i>
<i>IHRM approach</i>	Ethnocentric	Polycentric or regiocentric/geocentric
<i>Relationship between Japanese and non-Japanese employees</i>	Separation of Japanese and non-Japanese employees both in Japanese HQ and foreign subsidiaries.	Diminish the boundary between Japanese and non-Japanese employees both in Japanese HQ and foreign subsidiaries.
<i>Division of managerial roles</i>	Japanese managers are positioned in core managerial areas, whereas non-Japanese managers are positioned in peripheral areas.	Polycentric approach: Non-Japanese HCNs mainly manage the foreign subsidiaries, while Japanese mainly manage Japanese HQ. Regiocentric/geocentric approach: Managers in and out of Japan are appointed regardless of nationality.
<i>Rationale</i>	Core competence, or source of competitive advantage is located in Japan, and Japanese employees in HQ have a high level of firm-specific knowledge and know-how.	Global integration and/or local responsiveness are necessary for gaining competitive advantage in the global market. Core competence is not necessarily concentrated in Japan.

internationalization is that competitive advantage in the international market cannot be established without achieving local responsiveness and/or global integration.

### Major Issues and Current Trends of Internal Internationalization

Traditional Japanese HRM and firms’ organizing principles have created barriers to non-Japanese finding employment in the HQs of Japanese MNCs; even if they are employed, it is difficult for them to participate in decision making (Maki *et al*, 2014). As Japan has historically been a culturally homogeneous country, Japanese people and Japanese firms have little experience or consideration in dealing with non-Japanese (Yoshihara, 1989). Homogeneity tends to lead to in-group and out-group distinctions, where members of the in-group (Japanese) will be treated preferentially, whereas out-group members (non-Japanese) will be disregarded. This can lead to discrimination and the treatment of non-Japanese employees as outsiders (Froese, 2010). Indeed, the perception of discrimination is frequently mentioned as a problem among foreign residents in Japan, and it can be inferred that the problem also exists in the workplace (JILPT, 2004).

This tendency is enforced by language and the high-context culture (Peltokorpi, 2007). People who cannot speak Japanese can struggle to communicate meaningfully





with Japanese employees. In addition, partly because of the high-context culture, management responsibilities and knowledge and job roles are not clearly defined, and there are many unwritten rules in Japanese firms (Yasumuro, 1982). Employees need to learn these factors from their supervisors and colleagues through time on the job. Non-Japanese employees unaware of these subtleties cannot effectively function in Japanese firms and are thus prevented from assuming managerial ranks.

The low level of English proficiency among Japanese managers also impedes communication and thus reinforces non-Japanese employees as an out-group. However, research has shown that this miscommunication is not a matter of language proficiency alone. For example, Keeley (2001) acknowledged that non-Japanese employees hired in Japanese HQs, who are fluent in Japanese, have a good understanding of Japanese culture, and have even gained experience at HQ, do not feel integrated into the in-group even when they work in subsidiaries in their home country. This is because Japanese people tend to think that their unique culture cannot be fully understood by non-Japanese, which hinders smooth communication between Japanese and non-Japanese employees (Keeley, 2001).

Moreover, traditional Japanese-style HRM is incompatible with global HRM trends. Non-Japanese employees aiming for global careers are less attracted by seniority or long-term-based employment systems. Those foreigners who take up employment in Japan tend to leave their jobs earlier than their Japanese counterparts once they become disappointed by the nature of Japanese organizations and Japanese-style HRM.

In short, a homogeneous society, the distinctive characteristics of Japanese organizations and Japanese-style HRM have been major obstacles to internal internationalization. However, there are signs that Japanese MNCs are trying to overcome these hurdles. Below, we review three partly interrelated initiatives to promote internal internationalization – increasing the hiring of foreign employees at Japanese HQs, the global talent movement, and language learning support and ‘Englishnization’ in MNCs.

### **Increasing the hiring of non-Japanese employees in Japanese HQ**

In spite of difficulties in internal internationalization in their HQ, Japanese MNCs are increasing the employment of non-Japanese at home. One major source of their recruits is foreign students who have studied in Japanese universities (Liu-Farrer, 2009). For example, in 2013, 33 per cent of Japanese-listed companies hired foreign students, up from 27.1 per cent in 2012. The employment of non-Japanese employees is increasing not only among manufacturing industries, but also in service industries (Japan Research Institute, 2013), and foreign students assume both high- and low-skill jobs (Liu-Farrer, 2009). Some Japanese MNCs have also begun to recruit non-Japanese employees from overseas universities. These MNCs initially focused



on recruiting students with an engineering background, but they are also looking for students from business, humanities or social sciences to be developed for administrative and managerial positions (Meyer-Ohle and Conrad, 2015).

Recent research findings further suggest that Japanese MNCs tend to hire non-Japanese employees who are familiar with Japanese society, culture, language and Japanese-style HRM (Liu-Farrer, 2009; Maki *et al.*, 2015). Such employees are expected to understand and accept Japanese-style HRM practices such as long-term employment and development, seniority, job rotation, emphasis on teamwork and consensus-building and so on. For example, Maki *et al.* (2015) found that non-Japanese employees working in traditional Japanese companies in Japan perceive the long-term-based employment system and job rotation as attractive. Many are localized, live a Japanese lifestyle and seek permanent residence in Japan. These foreigners were carefully selected and socialized into their Japanese companies so that they fit the Japanese and firm-specific mindset.

This suggests that although Japanese MNCs are increasing the hiring of non-Japanese employees at HQ, they tend to do so by maintaining the traditional Japanese-style HRM and carefully selecting and socializing non-Japanese employees into their existing systems. Therefore, this kind of recruitment and training system might create non-Japanese employees with a more Japanese-like than a global mindset. While this is one way to integrate non-Japanese employees, we need to acknowledge that only a few non-Japanese people are willing and able to integrate into traditional ethnocentric Japanese companies.

### **The global talent movement**

Since the late 2000s, the phrase ‘global talent’ has become a buzz phrase in HRM in Japan (Sekiguchi, 2014). This term has several meanings and is used to represent several different issues. In its broadest sense, it refers to Japan’s efforts to increase internationalization. For example, the government requested Japanese universities to increase the numbers of international students as well as promote international skills among Japanese students by increasing classes and programs taught in English (for example JSPS, 2014). The narrower meaning is that Japanese MNCs want to promote international skills, for example language and intercultural skills, among their Japanese employees and increase the hiring of highly skilled non-Japanese employees inside and outside Japan.

Behind the global talent movement, especially to require Japanese employees to increase international skills, is the argument that Japanese employees need to increase their language and cultural skills to manage foreign operations more effectively. In support, Paik and Sohn (2004) found that while Japanese expatriates with adequate cultural knowledge of the host country contribute to an MNC’s control ability, those without cultural knowledge do not. For Japanese MNCs, the



management of foreign subsidiaries no longer means the management of low-skill factory workers or related operations. Rather, they need to manage various business activities including sales, marketing and R&D with HCNs and TCNs. Thus, Japanese MNCs have increased international-skill training programs for their employees (Nakamura, 2016).

### **Language learning support and Englishnization**

Related to the global talent movement, a growing number of Japanese MNCs encourage their Japanese employees to acquire English skills. For example, more companies have begun to use scores in the Test of English for International Communication as a criteria for promotion to managerial positions (Nakamura, 2016). What is more, in the past few years, Rakuten (e-commerce hosting), Fast Retailing (fashion retailing), Nippon Sheet Glass (industrial glass), Nissan (automotive) and others have initiated English as the official corporate language (Neeley *et al.*, 2012; Yamao and Sekiguchi, 2015). This ‘Englishnization’ (setting English as the official corporate language) has roused debate and some strong opposition (for example Tsuda, 2011; Norisada, 2012). Neeley (2011) showed considerable stress and frustration among Japanese employees when one Japanese company implemented an organization-wide English-language mandate.

Yamao and Sekiguchi (2015) found that for Japanese individuals, self-perceived English language proficiency and HR practices that promote learning a foreign language have direct and interactive effects on the affective and normative commitment to their firms’ globalization. The authors recommended implementing HR practices that promote language learning. Indeed, a growing number of Japanese MNCs are increasing such support for their employees, not only in English, but also other languages such as Chinese and Russian (Nakamura, 2016).

### **Major Issues and Current Trends of External Internationalization**

In foreign subsidiaries of Japanese MNCs, the ethnocentric staffing and Japanese-style HRM practices, such as seniority, make companies unattractive to non-Japanese employees. Prior studies have consistently reported how Japanese MNCs struggle to attract and retain highly qualified foreigners (Kopp, 1994a; Keeley, 2001; Froese and Kishi, 2013). A recent survey of more than 2000 university students across Asia showed that Japanese MNCs were much less attractive than Western or domestic employers (Froese and Kishi, 2013). In countries affected by historical conflicts, for example China and Korea, only 2 per cent of job applicants were even interested in working for a Japanese MNC. In another series of studies, Froese *et al.* (2010) and Kim *et al.* (2012) found that monetary incentives provided by Japanese MNCs were



attractive to Vietnamese applicants, but that the in-group culture was a reason for applicants to avoid Japanese employers. Furthermore, Yu and Meyer-Ohle (2008) found that Chinese employees working in Japanese subsidiaries in China are unhappy with issues such as workplace layout and lack of privacy, inflexible working hours and overtime work, and the lack of promotional opportunities.

The staffing policy of Japanese MNCs to primarily fill senior management positions with Japanese expatriates in foreign subsidiaries has often been criticized as overly ethnocentric (for example Kopp, 1994a; Oki, 2013). Although Beamish and Inkpen (1998) argued that Japanese firms had begun to use fewer expatriates in managing their overseas subsidiaries, other research (Wong, 1996, 2010; Black and Morrison, 2010) notes that key positions are still held by Japanese expatriates. This ethnocentric staffing strategy creates two major problems. First, highly qualified local employees are unmotivated because of limited promotion opportunities, that is, the 'rice-paper ceiling' (Kopp, 1994b); and second, Japanese expatriates often face difficulties in communicating with local staff (Shiraki, 2007). On the other hand, Japanese expatriates criticize the insufficient understanding among local employees about the management principles of the HQ (Shiraki, 2007). Japanese expatriates reported particular management and adjustment difficulties in China (Furusawa and Brewster, 2016), one of the key foreign markets for Japanese MNCs. While Japanese expatriates are able to manage low-skilled workers such as factory workers, they lack the language and cultural skills to manage highly skilled employees who do not share the same cultural and linguistic background.

Language is one of the major factors that impede external internationalization, since Japanese is the dominant business language in Japanese HQs. As it is not widely spoken outside Japan, only Japanese managers have been able to guarantee communication and coordination between HQ and foreign subsidiaries. In addition, because firm-specific knowledge and know-how, especially where comprising competitive advantage, are often interwoven with the Japanese language, sending Japanese employees to foreign subsidiaries may efficiently transfer knowledge from HR to foreign subsidiaries.

Despite obstacles for external internationalization, Japanese MNCs are trying to develop IHRM in their foreign subsidiaries. Recent initiatives include localization efforts, utilization of 'bridge individuals', and training and development through inpatriation, described below.

### **Localization among Japanese MNCs**

Japanese MNCs seek to employ local staff to fill the positions formerly dominated by Japanese expatriates. This departure from the ethnocentric strategy could potentially offer new competitive advantages for Japanese MNCs (Beamish and Inkpen, 1998). In this respect, some changes from an ethnocentric toward a polycentric and



sometimes even geocentric staffing policy have emerged in recent years. For example, Schaaper *et al* (2013) compared French and Japanese MNCs operating in eight Asian countries and found that although Japanese MNCs localize management positions less than French MNCs, they are reducing the number of expatriates sent to subsidiaries in Asia. Moreover, they found that Japanese MNCs send experts to subsidiaries on short-term assignments as frequently as French MNCs, suggesting that Japanese MNCs are using short-term assignments to reduce expatriation and promote localization.

Maki (2015) studied the current situation of hiring HCNs at foreign subsidiaries of Japanese MNCs, classifying the MNCs studied into (1) those that gradually promote HCNs to key positions in their foreign subsidiaries and (2) those that drastically and aggressively promote HCNs to key managerial positions in their subsidiaries and HQ. He argues that MNCs whose core functions and competitive advantage lie outside Japan are more likely to promote HCNs proactively to achieve a polycentric or geocentric approach.

### Utilization of ‘bridge individuals’

In a series of studies, Harzing *et al* (Harzing *et al*, 2011, 2015) introduced the concept of ‘bridge individuals’, that is bilingual employees who facilitate communication between HQ and subsidiaries as part of their job responsibility. Their studies mentioned that among employees the bridge individual role could be played by link-pins (intermediator or translator), expatriates, inpatriates, non-native locals and parallel information networks. Some Japanese MNCs recruit non-Japanese employees into their Japanese HQ and expect them to become bridge individuals.

A similar concept is the boundary-spanner, who connects diverse boundaries that may be defined by organizational structures, national borders and/or a variety of cultures (Yagi and Kleinberg, 2011). Yagi and Kleinberg studied the boundary-spanning role (*paipu* role) of Japanese employees in a Japan–US binational firm, finding it is carried out by numerous organizational actors in a variety of positions and status levels, whose performance may involve activities not normally associated with their formal position. Furusawa and Brewster (2015) studied *Nikkeijin* (Japanese immigrants and their descendants) in Brazil as an important subgroup of international boundary-spanners – immigrants and second or third-generation migrants from the MNC’s home country living in the host country. They found that this group is recognized as a source of talent by Japanese MNCs, but that their HRM practices are not appropriate to attract and utilize them in their global talent management programs.

Setiawan *et al* (2014) investigated the experience of Indonesian employees in a Japanese MNC who were transferred from the HQ to an Indonesian subsidiary. The interviewees were educated in Japanese universities and appointed to newly added



‘senior specialist’ positions in the subsidiaries. They were expected to bridge the two divided parties in the hierarchy, Japanese and non-Japanese employees. However, their Japanese language proficiency, cross-cultural skills and networking with the HQ set them apart from the local Indonesian employees. They were also kept from key management structure positions, which were dominated by Japanese expatriates.

In short, Japanese MNCs seem to recognize the importance of having bicultural and bilingual employees who know both Japanese and host-country cultures to become ‘bridge individuals’ between Japanese HQs and foreign subsidiaries. However, the acquisition and development of such employees has not yet been very successful in many Japanese MNCs.

### **Training and development through inpatriation**

Some leading Japanese MNCs utilize inpatriation as a means of training and development of high-potential non-Japanese HCNs in their subsidiaries (Nakamura, 2016). Through an international job assignment program, MNCs invite employees from foreign subsidiaries to the Japanese HQ for a limited period, usually up to 2 years. These inpatriates are expected to learn relevant technical skills, internalize the corporate philosophy and culture, and build up relevant social networks. They are then returned to their foreign subsidiaries to transfer both explicit (for example technology) and tacit knowledge (corporate philosophy and culture). Thus, several Japanese MNCs consider inpatriation a tool for the localization of human resources by developing managers of overseas subsidiaries in Japanese HQs (Nemoto, 1999). However, not many Japanese MNCs are actively and systematically using inpatriation (for example Kim, 2013).

### **Conceptual Model of Internal and External Internationalization of Japanese MNCs**

Although there are signs that the IHRM of Japanese MNCs is changing and some companies are even aggressively internationalizing their IHRM, many seem to stick with their traditional IHRM or are only slowly changing it. In addition, while some Japanese MNCs pursue both internal and external internationalization of their HRM simultaneously, others may prioritize either internal or external internationalization. The former issue is related to the question of the speed of internationalization of HRM, and the latter to the question of the relationship between internal and external internationalization. To explain and predict the differences between MNCs in their internal and external internationalization of HRM, we developed a framework in which two factors, the competitive advantage of Japanese-style HRM and path



dependence, influence the degree and speed of internal and external internationalization of Japanese MNCs' IHRM.

The first factor influencing internal and external internationalization is the degree to which Japanese-style HRM can be a source of competitive advantage. For example, Japanese-style HRM enables a firm to develop a stable and flexible workforce and accumulate firm-specific knowledge and know-how. If these factors continue to be a source of competitive advantage for Japanese MNCs, they may want to retain large portions of their traditional HRM practices and also transfer such practices to their foreign subsidiaries, which will limit their internal and external internationalization. This applies to many Japanese MNCs in manufacturing industries because the accumulation of firm-specific product development and production technologies in Japan has been the source of competitive advantage. On the other hand, Japanese MNCs in service industries might be relatively weak in this regard because they rely less on technologies developed in Japan, and customer interactions in the local context, where local employees play a critical role, are relatively more important.

The second factor is the strength of path dependence in their IHRM practices. Path dependence in this context refers to the historical forces that shape the IHRM practices of an MNC. The concept in this sense is also related to organizational rigidities and structural inertia (Sydow *et al.*, 2009). If the degree of path dependence of an MNC's IHRM practices is high, their momentum or inertia is difficult to change. In addition, their IHRM practices are highly influenced by national business systems (Legewie, 2002). Therefore, a high level of path dependence will inhibit the internal and external internationalization of HRM. For example, industries or MNCs with a long history have developed unique HRM practices strongly embedded in the traditional Japanese context (for example Robinson, 2003). This kind of rigidity will occur even if Japanese MNCs are keen to pursue IHRM internationalization. On the other hand, young or newly created industries or venture firms are relatively free from Japan's historical backdrop in creating their management practices and thus may not necessarily have to stick with Japanese-style HRM. Moreover, in today's globalized world, new firms could become 'born-global firms' that are internationally oriented from the outset (Knight and Cavusgil, 2004).

Table 2 classifies the types of industries or MNCs with the characteristics of their internal and external internationalization using the dimensions of the degree of competitive advantage of Japanese-style HRM on the vertical axis and path-dependence on the horizontal axis. In the following, we describe each quadrant of the 2x2 matrix.

From Table 2, it seems evident that Japanese MNCs that are low in both the competitive advantage of Japanese-style HRM and path dependence (upper left quadrant) are those that are most aggressive in their internationalization of HRM. They will promote both internal internationalization in their HQ and external internationalization in their foreign subsidiaries to respond to global challenges.



**Table 2:** Predictors of internal and external internationalization of Japanese MNCs

		<i>Degree of path dependence</i>	
		<i>Low</i>	<i>High</i>
<i>Competitive advantage of Japanese-style HRM</i>	Low	Drastic/aggressive in both internal and external internationalization	Prioritize external over internal internationalization with moderate speed
	High	Prioritize internal over external internationalization with moderate speed	Slow in both internal and external internationalization

Their attempt to establish their own competitive advantage in the global market is neither constrained by the Japanese social and cultural context nor by Japanese-style HRM. Thus, they can recruit and develop the best managers regardless of nationality in line with their geocentric approach. However, despite the merits, we expect that the number of Japanese MNCs of this type will continue to be small for the time being.

We now turn to the opposite quadrant. It seems also evident that Japanese MNCs that are high both in the competitive advantage of Japanese-style HRM and path dependence are those that are slowest in internationalizing their HRM. These firms are reluctant or unable to abandon traditional Japanese-style HRM and IHRM practices. That is, both factors impede the internal and external internationalization. We posit that the majority of large Japanese MNCs, especially manufacturing firms, fall into this type, which may be the reason why Japanese MNCs are frequently criticized as slow in internationalizing their HRM.

We predict that Japanese MNCs high in the competitive advantage of Japanese-style HRM and low in path dependence (lower left quadrant) will gradually internationalize their IHRM and prioritize internal over external internationalization. The underlying reason is that such MNCs believe that a source of competitive advantage will be developed in Japan with Japanese-style HRM. They want to maintain the centralized structure in managing their foreign subsidiaries by sending expatriates from HQ. However, because they are free from the rigidities or inertia stemming from the historical path, they can modify Japanese-style HRM practices, as well as recruit and develop global talent in Japan. For example, such MNCs will offer non-Japanese employees long-term and job-rotation-based training and development so that they will obtain firm-specific knowledge and know-how. The major difference between this direction and the traditional IHRM of Japanese MNCs is that, because of the promotion of internal internationalization, they can dispatch both Japanese and non-Japanese expatriates from their HQ to their foreign subsidiaries.

Finally, we predict that Japanese MNCs low in the competitive advantage of Japanese-style HRM and high in path dependence (upper right quadrant) will





gradually internationalize their IHRM and prioritize external over internal internationalization. This is because such MNCs may recognize the critical role of local employees working in their foreign subsidiaries for their competitive advantage in the respective foreign markets. The centralized structure of managing foreign subsidiaries is not necessary, because Japanese expatriates do not possess any knowledge or know-how critical for success in foreign markets. These MNCs can seek their competitive advantage in their foreign operations without managers developed through Japanese-style HRM in Japan. Therefore, they pursue a polycentric rather than ethnocentric IHRM approach. On the other hand, the high level of path dependence impedes internal internationalization at HQ more than external internationalization.

## **Future Research Avenues**

Because of the geographical and cultural proximities, the deeper understanding of the IHRM issues affecting Japanese MNCs, especially about ongoing dynamics in their Japanese HQ and foreign subsidiaries, will provide important insights and inspire new research directions relevant not only for Japanese MNCs but also for MNCs from other Asian countries. The homogenous, monolingual and monocultural Japanese culture and Japanese HRM, quite different from what is observed in the West (Pudelko, 2006), provide a unique context to replicate existing theories as well as generate new knowledge (for example Sekiguchi *et al.*, 2010). Given the lack of knowledge and the business need, more research on the IHRM of Japanese MNCs is clearly needed both from a practical and a theoretical perspective. We suggest below some research avenues based on the literature review and framework presented in this article.

### **Internal internationalization**

Internal internationalization at Japanese HQs should present several research opportunities. First, whereas prior research has focused on Japanese expatriates abroad (Shiraki, 2007; Furusawa and Brewster, 2016), there is a dearth of research examining diversity and inclusion in Japanese firms in Japan. We still know little about the experience of foreign employees in their daily work in Japan, such as possible discrimination and communication problems when working with Japanese bosses and colleagues. Studying this type of microlevel phenomena will contribute not only to the literature on Japanese IHRM, but also to that on international business in general, cross-cultural management and organizational behavior.

Second, pursuing internal internationalization assumes the hiring of more non-Japanese employees into Japanese HQs to increase demographic and cultural diversity.



However, Japanese MNCs tend to carefully select and socialize foreign newcomers so that they fit into the traditional Japanese environment (JILPT, 2013; Maki *et al.*, 2015). Instead of creating a diverse workplace, they essentially try to maintain the homogeneous environment. Therefore, Japanese HQs are an exciting context for research investigating the tension between pressure to conform and diversity.

Third, language is an emerging trend in international business research (for example Piekari and Tietze, 2011; Welch and Welch, 2015), and Japanese HQs offer a good context to study language issues. For example, what is the role of language in internal internationalization at Japanese HQs? Will Japanese MNCs continue using Japanese as their business language? Or will they implement English as an official corporate language even in Japanese HQs, as several vigorously internationalizing firms do (for example Rakuten, Fast Retailing)? It would be intriguing to study the reactions of Japanese as well as non-Japanese employees about possible changes in language use or the transformation of their HQ workplace to a multilingual environment.

Other potential research topics include (but are not limited to) the effect of increasing demographic diversity on the transformation of Japanese-style HRM, organizational culture and the Japanese organizing principle, and the effect of technologies such as mobile technology and translation technology on internal internationalization at Japanese HQs.

### **External internationalization**

Foreign subsidiaries of Japanese MNCs should provide fertile research grounds for investigating various IHRM issues. For example, some Japanese MNCs are using HCNs who studied in Japan and have been hired at the Japanese HQ to help manage foreign subsidiaries (Setiawan *et al.*, 2014). These employees are expected to become bridge individuals between the HQ and foreign subsidiaries, as well as between Japanese top managers and local employees at foreign subsidiaries. Because this is a relatively new phenomenon, we still have limited knowledge about the key factors determining the effectiveness of such individuals. Future research could explore this topic in more detail.

Attracting and retaining valuable non-Japanese talent in the overseas labor market is critical for Japanese MNCs. As we have seen, Japanese MNCs have not been successful in this respect (Kopp, 1994a; Froese and Kishi, 2013). Therefore, researchers could further investigate the determinants of successful recruitment and retention management in foreign subsidiaries. For instance, future research could disentangle the differential effects of corporate and country image on organizational attractiveness or the influence of Japanese managers and Japanese HRM on the retention of high-skilled local staff.

Knowledge transfer within MNCs, especially between HQ and foreign subsidiaries, is critical to an MNC's success, and language and cross-cultural



communication are highly relevant in this process. Japanese MNCs provide a suitable research context for these issues because Japanese MNCs are characterized as having their HQ in a homogenous, monolingual and mono-cultural country, and such HQs have to communicate with foreign subsidiaries in a diverse, multilingual and multi-cultural environment. In this situation, bilingual and multilingual employees play a vital role by communicating and sharing knowledge within the MNC. Research on such employees is still in an early phase. Bridge individuals or boundary-spanners are especially important for MNCs where linguistic and cultural distance between the home and host countries is large.

Compared to research on expatriation, inpatriation has received much less attention (for example Harzing *et al*, 2011). Inpatriates usually stay for a limited time at HQ and then return to their foreign subsidiaries to transfer knowledge and values (Froese *et al*, 2016). Studying inpatriation in Japanese MNCs would be promising, because the majority of core competences and sources of competitive advantage are still located in Japan, and inpatriates can be an effective means to transfer this kind of knowledge. Future research could investigate the factors that promote the effective functioning of inpatriation in Japanese MNCs.

Other potential research topics would include the role of IHRM in knowledge transfer between different foreign subsidiaries within Japanese MNCs, the relative difference between foreign subsidiaries of Japanese MNCs and those of MNCs from other countries in their IHRM, and its performance implications at subsidiaries and the MNC as a whole.

### **Internationalization of HRM from strategic perspectives**

Future research on the IHRM of Japanese MNCs could also focus on the effectiveness of internationalization of HRM from macro-level and strategic perspectives. For example, promoting internal and external internationalization by Japanese MNCs aims to move from their ethnocentric IHRM strategy toward polycentric, regiocentric or geocentric approaches. Future studies could investigate the change process and performance consequences. At the same time, it is worth considering whether departing from the ethnocentric approach is the ideal solution for all Japanese MNCs; for some, it might be the best and most cost-efficient way to control and coordinate global operations.

In addition, we have seen that the degree of internal and external internationalization of HRM in Japanese MNCs might partly depend on whether Japanese-style HRM will continue to be a source of competitive advantage for MNCs. When we look at the components of IHRM more closely, the question is which aspects of Japanese-style HRM should be retained and which abandoned in order to obtain competitive advantage in the global market. Answering this question requires a careful analysis of each HRM component, such as staffing, training and development,



performance evaluation, compensation, and labor relations strategy (Rosenzweig and Nohria, 1995). This is also related to the issue of the practice transfer-adaptation framework. Rather than studying and discussing whether Japanese MNCs transfer HRM practices from home or adapt practices to the local environment, we should study which components of Japanese-style HRM are transferred and which localized (for example Grill *et al.*, forthcoming).

The interaction between internal and external internationalization, such as coherence versus independence, is also an important topic for investigation. As we have shown in our framework, the source of competitive advantage and path dependence is important. Thus, we encourage future research to empirically test our model. We could further examine the performance implications of this framework, for example quality of application, turnover rate, financial performance. This line of research could be extended to MNCs from other countries.

Another topic inviting attention is how cross-national variations in institutions and business systems influence the internal and external internationalization of HRM in Japanese MNCs. There is widespread recognition that institutions differ across countries, and their interactions with firm strategy and the extra-institutional environment have been a core component of the research agenda in organization studies (Witt and Redding, 2009). This also applies to the field of IHRM, and it is reasonable to predict that even within an MNC, the HRM of its foreign subsidiaries may differ significantly from country to country. Therefore, future research could systematically investigate how the degree of external internationalization of Japanese MNCs in their foreign subsidiaries differs across nations and how such differences are related to cross-national variations of institutions and business systems. In addition, future research could closely look at changes in institutions and business systems in Japan (Witt, 2014) and their relationship with the internal and external internationalization of HRM in Japanese MNCs.

Last but not least, there are numerous emerging topics in IHRM, which could be followed up. These include the IHRM of born-global Japanese MNCs, IHRM issues in cross-border M&A integration, and IHRM issues of international strategic alliances such as joint ventures. Born-global firms from Japan would be less constrained by the Japanese context, and thus their IHRM could be quite different from that of traditional Japanese MNCs. As for cross-border M&A, we know little about what happens in IHRM if a Japanese firm is acquired by a foreign MNC (Froese and Goeritz, 2007), or if Japanese MNCs acquire and integrate foreign firms.

## Articles in this Special Issue

This discussion, with particular reference to the external internationalization of HRM in Japanese MNCs, is taken up in this special issue. Both articles concern themselves with IHRM in the foreign subsidiaries of Japanese MNCs. Naoki Ando,



in 'Similarity to successful peers and the implications for subsidiary performance', investigates the relationship between expatriate staffing within foreign subsidiaries and the performance of Japanese MNC subsidiaries. His findings suggest that expatriate staffing similar to that of successful subsidiaries has a positive impact on a focal subsidiary's performance when the subsidiary is strategically important for an MNC. However, when the institutional distance between the host and home countries is high, such staffing has a negative impact. The primary contribution of Ando's article is to illustrate how the mode of expatriate staffing (that is ethnocentric or polycentric) in a foreign subsidiary of a Japanese MNC will have an impact on performance, but that might be either positive or negative depending on internal organizational factors (for example strategic importance) and external environmental factors (for example institutional distance).

Mohan Pyari Maharjan and Tomoki Sekiguchi, in their article on 'Human resource management practices at foreign-affiliated companies in least-developed regions', focus on the transfer of HR practices from Japan and the United States to Nepal, an example of a least-developed country in the Asian region. Their findings offer some new perspectives such as how, in a least-developed country, institutional distance between home and host countries may promote, rather than impede, the transfer of practices, the key factor being the ability of those practices to address local needs. Comparatively, they find that Japanese subsidiaries in Nepal have tended to promote the internalization of tacit values among local employees, while US subsidiaries tend to promote the internalization of explicit practices; the tacit route takes longer, but appears to result in better labor-management relations than the explicit route. Japanese IHRM literature will benefit from their findings that least-developed regions may differ from developed and transitioning economies in the way they receive and process the HR practices of Japanese subsidiaries.

## Conclusion

Until the 1990s, Japanese HRM was a global success story. However, Japanese MNCs have fallen behind, largely because they have been slow in responding to global changes. Owing to an ethnocentric IHRM style, these organizations have faced and still face difficulties in the global competition for talent. We have reviewed and theoretically explained recent changes and possible future directions of internal and external internationalization of HRM in Japanese MNCs, and introduce in this special issue further research in this broad area. We look forward, with this publication, to the further development of research directions on IHRM issues in Japanese MNCs; we encourage researchers to conduct both theoretical and empirical studies using the unique contexts of Japanese MNCs as an example and/or extend the findings of these studies to other country contexts. This would significantly contribute to both general knowledge on IHRM and to the study of Asian business and management.



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