Issues of IHRM in Japanese multinational corporations: from a perspective of HRM systems reform

Shikoku University, Faculty of Management and Information
Tamiko Kasahara

1. Introduction

In the 1990s many Japanese multinational corporations started to construct global human resource management (HRM) systems as part of global management. The global HRM systems are understood as systems which perform competency management based on the job grading system (e.g. compiled by Kansai Productivity Center, 1999; Hay group, 2007). The construction of the global HRM systems aimed to reform the HRM systems for Japanese executives at head offices from former lifetime employment and the seniority system to pay-for-performance first. The future goal was to standardize the HRM systems for executives at head offices and subsidiaries.

The background that each company decided to reform the global HRM systems is thought to have following reasons: first, the fact that they have to secure highly talented people from countries where they advanced aiming at strengthening more presence in the global market against the background of global competition; second, recognition that there is a limit to management structure mostly run by Japanese when business in the global market occupy more part of their whole business (e.g. Ishida, 1994; Yasumuro, 1992; Kasahara, 2008). The latter is deeply related to a problem of localization. Until now the delay of localization has been pointed out as a task of multinational corporations as to International Human Resource Management (IHRM) (e.g. Mendenhall & Oddou, 1985; Kopp, 1994; Keeley, 2001). It has a relation with a custom that Japanese corporations have internationalized just transferring management resources of a head office to subsidiaries abroad (e.g. Yoshihara, 1989; Ishida, Shiraki, 1990).

Double structure that Parent Country Nations (PCNs) occupy key positions and Host Country Nations (HCNs) have a limited career in a local organization has been formed because PCNs assigned abroad coordinated head offices in Japan and subsidiaries abroad (Ishida, 1994). And Japanese multinational corporations had difficulty regarding the HRM systems to get agreement among HCNs about standards of appraisal and promotion because they transferred the HRM systems which were established for domestic organizations. For the above reasons Japanese multinational corporations had difficulties in retaining highly talented people overseas. In other words, the reform of the global HRM systems which each corporation carried out in the 1990s can be interpreted as global correspondence of the HRM systems aiming at assigning highly talented people key positions in order to provide opportunities to play active roles regardless of nationalities and other personal factors by standardizing the HRM systems for executives on a global scale.

The 1990s was a kind of boom in introducing the global HRM systems. Companies such as Takeda Pharmaceutical Company and Toyota were picked up as successful examples. However, on the other hand, many companies are struggling to establish the global HRM systems. Reforming the HRM systems is thought to have a big gap between the old ones which reflect Japanese management culture and the new ones which are planned by completely different logic. It is not easy to overcome this gap. Even so, there is a Japanese multinational corporation which has overcome this gap successfully and globalized the HRM systems. Existing researches focused on the HRM systems themselves and discussions based on normative models have been
held. However, the argument about a reformation of the HRM systems which is focused only on the HRM systems cannot explain clearly why they are not established successfully considering the current situation that we’ve already introduced the global HRM systems and their operations are more important. It is thought that we have to capture reform of the HRM systems including “introduction” and “operation”. Nevertheless, few researches capture reform of the HRM systems from this point of view. That would be because the fact that we discussed about introduction and operation from practical point of view so far.

In this study, the second section classifies details of researches about reform of the HRM systems in Japan first. Second, in the third section this study points out the importance of grasping reform of the HRM systems including introduction and operation. And then picks up Furukawa Electric Co., Ltd. as an exploratory case study and analyzes it. In conclusion this study states summary of consideration and research subjects in the future.

2. The sequence of researches about reform of the HRM systems in Japanese multinational corporations

We can grasp researches about reform of the HRM systems in Japanese multinational corporations as following three individual phases.

2-1. The first stage: Before and after the 1990s
Some of major financial institutions started to reform the HRM systems before and after the 1990s. At that time foreign-affiliated investment banks and the like were finding market in Japan after the financial deregulation. Foreign-affiliated investment banks poached a lot of talented people who were brought up by Japanese banks and stock brokerage banks with a large amount of money in order to expand business in Japan. The Japanese financial institutions were faced with difficult situations which they couldn’t keep talented people and recover investments in employees as long as they prepare the same conditions of employment as the foreign-affiliated investment banks (Capelli, 1999, p.154). Long-Term Credit Bank of Japan seems to be the first Japanese bank which embarked on introducing the Hay system (NIKKEINETwebsite) 3. In this way Japanese financial institutions proceeded reform of the HRM systems considering competition with foreign-affiliated firms but they did not have a sense of crisis. They introduced the Hay system because they wanted to do something ultramodern as same as foreign-affiliated firms or they had enough funds. Because of this, the idea that the Hay system was unnecessary in Japan was dominant even if they introduced it into subsidiaries overseas (Nishii, 2004 pp.5-6).

2-2 The second stage: After the collapse of the bubble economy
After the collapse of the bubble economy, from 1994 onwards, Japanese multinational corporations such as Takeda Pharmaceutical Company proceeded to reform the global HRM systems aiming at growing as a global company (e.g. compiled by Kansai Productivity Center, 2000, 2004; Kasahara, Nishii, 2005). The Hay group, a consulting firm, was used by corporations that started to reform the global HRM systems. The reasons why the Hay group was taken notice of are as follows. First, the Hay system is recognized as a global standard in the world. More than half of the Fortune’s 1000 companies adopt the Hay system and it has become a global standard of pay systems. Therefore, introduction of the Hay system bring them advantages which give trust in employees and other companies that they have knowledge and skills of planning and operating the HRM systems and adopt the fare wage structure (e.g. Yamuro, 1992; Kasahara, Nishii, 2005; Skenes and Kleiner, 2003). Second, the Hay system and
competency management which the Hay group provides has standards to clarify talented people who are essential for companies or not. As a result, it is thought that companies can have objective standards to judge the essential ability to accomplish duties and assess talented people regardless of personal factors such as nationality, race and sex. For those reasons we can interpret that the 1990s was a boom in introducing the global HRM systems with arguments based on normative models.

2–3. The third stage: Development of skepticism about the HRM systems by pay-for-performance

After 2000, some corporations such as listed companies in the First section introduced the global HRM systems and then problems of “operations and adjustments” arose at next stage. However, the wage structure by pay-for-performance based on job grading system has developed as criticism of pay-for-performance in many cases (e.g. Takemura, 2002; Kusuda, 2002; Takahashi, 2004). Some researches which make criticism of pay-for-performance pointed out that it lowered morale of employees if they gave importance to performance and that it did not suit the Japanese who were an agricultural people. Furthermore, at this time some case studies have been reported that some companies failed to introduce the HRM systems of pay-for-performance. A typical example of this was Fujitsu (Jyou, 2004). An example of Fujitsu tends to be interpreted that problems exist in the HRM systems of pay-for-performance itself. However, in fact it is thought that one of problems exist in “introduction” of the HRM systems of pay-for-performance. As mentioned above, there are the background of retrospective discussion: first, “pay-for-performance” was treated as an excuse of cutting down pay levels; second, it is mentioned that job grading system excluded “the seniority system” which had been the fundamental principles of old-Japanese management and the professional qualification system based on the seniority system. Under the job grading system the seniority system is denied and only “ability and performance” are emphasized. Those points are said to begin to strongly be opposed to old-Japanese management culture.

Skepticism about pay-for-performance became to be discussed and then gradually the discussion about the global HRM systems came to a halt. There were the background that Japanese companies demanded more confidentiality and the practical background that information about human resources and the HRM systems were included in the ERP packaged software. Therefore, we interviewed consulting firms and examined problems which Japanese multinational corporations have.

3. The importance for action of introducing and operating reform of the global HRM systems

3-1. The action of introducing and establishing the global HRM systems

Researches about the ways how Japanese multinational corporations proceeded reform of the HRM systems developed by way of case studies (e.g. Kasahara, 2003; Kasahara, Nishii, 2005; Higuchi, 2006; Yasuda, 2007). These researches focused on the introducing process of the reform of the HRM systems from the upper levels of organizations to the middle management. However, the problems that companies are facing today are not the way to proceed reform of the global HRM systems but establishment and operations into companies after having introducing the global HRM systems as a framework.

We interviewed several Japanese multinational corporations in order to reveal the reasons why it is difficult to establish and operate the global HRM systems into companies. As a result, we
found that clients who introduced the Hay system were at a loss to establish and operate the
global HRM systems because they could not customize them to fit their present situation,
despite that the advantage of the Hay system is its standardized commodities (Nishii, 2004).
However, what we would like to pay attention to is that the Hay group emphasizes providing the
HRM systems as a global standard and they never customize them because it would reduce their
value. Some of the researched companies arranged the Hay system on operation since the
standard job size of the Hay system was different from theirs. This seems to be the reason why
the global HRM systems do not establish in Japanese multinational corporations. Yasumuro
(1992) pointed out the possible reason why the Hay system does not work very well in Japanese
corporations that Japanese corporations had distorted the HRM systems in their own way
(Yasumuro, 1992, p.109). In other words, to arrange the Hay system in their own way would
make it lose fairness and objectivity of appraisal and then leads Japanese corporations not to
make full use of the Hay system’s advantages.
Arranging the Hay system in their own way may take place against the background of the fact
that they have started reforming the HRM systems despite that the companies are not prepared
for it. For example, the purpose of introducing the Hay system is not considered carefully, the
strong leadership of top management and the team promoting reform is not demonstrated on
reforming the HRM systems (e.g. Garr 1999; Yanagishita 2001; Kim and Mauborgene 2005;
Hamel and Breen 2007), and the lack of ability to handle the Hay system because client
companies do not have understanding and knowledge for it. Therefore, it is anticipated that
they have difficulties on establishing the global HRM systems in companies even if they already
introduced it as a framework. Also, to instruct appraisers how to evaluate and which criteria to
follow becomes very important in order to establish the global HRM systems. Because the
global HRM systems have different logic from the professional qualification system which old
Japanese multinational corporations have carried out. In other words, it is difficult for client
companies to establish the global HRM systems in companies without consistent action of
making them work.

3–2. Toward operation of the global HRM systems

It is anticipated that the actual operation of the global HRM systems become a new obstacle for
companies which do not have appropriate action for establishing them. Accordingly, we
interviewed a consulting firm, Cambridge Technology Partners (CTP) which is a specialist in
supporting reform of corporations. As a result, we found that we need to think about the range
of effects when it comes to reform the HRM systems. The range means if we change not only
the HRM systems but also “tasks” or “systems”: for instance, changing the HRM systems first,
tasks (operating rules: personnel performance evaluations, promotion, raises; approval,
authority; pay-calculation, logic, retirement money etc.) second, and systems at last. In some
cases reform of the HRM systems and of tasks and systems are undergone at the same time. In
any case we can grasp this as reform of the HRM systems which includes operating the newly
introduced HRM systems. Another one is a case of changing only tasks and systems, not the
HRM systems. This can be said reform for increasing efficiency in existing tasks of personnel
matters. That is to say, there is thought to be a necessity to change also tasks and systems in
order to put the global HRM systems into practice. However, under the existing circumstances
clients companies are entrusted if they change tasks and systems as well. As mentioned above,
client companies need to acquire knowledge about operating the global HRM systems and
operate them by themselves because the strong point of the Hay group is its standardized
methodology. Although this would be a hard task for companies which reformed the HRM
systems just in the fashion or tried to introduce them fully counted on consulting firms since obtaining ability to operate the global HRM systems needed a lot of self-efforts including supports from the top management. These days, client companies seem to use different consulting firms depending on their situation in the aspects of introduction and operation of the HRM systems.

The following section picks up Furukawa Electric Co., Ltd. which reformed duties and systems completely and mentions about action of introducing and operating the HRM systems\(^{10}\).


Furukawa Electric Co., Ltd. (Furukawa Electric) was founded in 1896. It is a nonferrous-metals manufacturer which runs business about telecommunications, energy and industrial products, electronics and automotive systems, metals, light metals and other services (logistics, information and so on). Two incidents brought about reform of the HRM systems in Furukawa Electric: one is management conditions of deteriorated profits and losses (the 2002 and 2003 fiscal year)\(^{11}\) caused by telecommunications business under the influence of the IT bubble in 2001; another one is retirement of the employee in the personnel section who was called walking dictionaries. After they finished reform of the HRM systems, they could not make a start on reforming tasks and systems because the old systems for personnel which were planned to work inconsistently at each factory burdened them: for example, there were twenty-eight different kinds of attendance-record systems in seventeen bases. Despite that, when the employee who was well acquainted with the systems in the personnel section retired, they faced a crisis that they lost knowledge about how the systems worked and they would never be able to revise the systems. This was an opportunity to entrust CTP who had carried thorough a lot of successful projects and to start reforming the personnel tasks of headquarters and domestic factories by taking them out as a shared service center. First of all, a team was organized which consists of some members from the core staff of the personnel department of Furukawa Electric and CTP consultants. The team thoroughly discussed about the reason why they reform tasks until they reached a consensus. As a result, they found a serious problem that the systems had become enormously complicated and they could not optimize throughout the company. Although to deal with each factory in the most suitable way led Furukawa Electric to expand because each factory manufactures varying products such as from automobile parts to electric wires. However, business circumstances have changed and this strategy was not suitable any more, they continued to apply the systems with patches all over. Because of this, the whole reformation team brought all of tasks to light and endeavored to receive employee’s assent by visiting group companies to explain the reasons and purposes of reform. They had briefing sessions two hundred thirty times and the meetings about reforming tasks were held as many as two thousand and three hundred times. In parallel with it, COMPANY which we could not customize at all was selected as ERP package software for the whole group companies and then they worked for introducing and operating the software. There were two reasons why they chose a software which could not be customized: one was that they thought it would be possible to optimize thoroughly by not customizing the software since each factory had used different systems for a long time; second was that it was easy to updating a software version. Even if there were these advantages, various problems such as difference between factories in understanding of employment positions and the holiday systems have arisen because they had to adopt their tasks to the package software. Each time they visited a factory, negotiated with a labor union if necessary and made consistent efforts to adopt tasks to the systems. And members of the team repeatedly explained the importance of adjusting tasks to the package to
employees who are in charge of usage and strictly told them not to customize it. Furthermore some attempts were carried out involving vendor companies that ask them to adopt some functions which can improve tasks and have advantages over other user companies into standard functions. When various problems have arisen, members of the team struggled to solve the problems by themselves with support from vendor companies in order to make the systems work. That is because the systems never work if tasks and the systems are not coordinated. After the systems started to work, many problems such as pay calculations and welfare programs were arisen. But each time members of the team deal with them and are aiming at operating smoothly.

3-4. Implication of the case
We can introduce the next implication from the exploratory case studies of Furukawa Electric: first, strong leadership of the team which establishes clear goals and carries out reformation is important when introducing new systems; second, it is an important factor to receive employee’s assent when carrying out reformation of tasks; third, it leads to smooth operation of the systems that the team which carries out reformation positively relates to introduction of it, understands the structure of the systems and obtain knowledge and skills; fourth, operation certainly requires coordination between tasks and systems; last, reformation of tasks do not finish when being introduced, but require consistent efforts to improve after introducing the systems. These implications give us important suggestions about the way to establish the global HRM systems to companies and understanding reformation of the HRM systems including its operation.

4. Conclusions
This study pointed out that the existing researches about reformation of the HRM systems exclude a point of view of introducing and operating them and discussed that we have to grasp them including this point of view, under an awareness of the reason why many Japanese multinational corporations have difficulties in establishing and operating the global HRM systems. There are two major contribution of this study. First, it revealed following points as important factors in introducing the global HRM systems: to have clear goals in order to carry out reform of the HRM systems; to establish the basic structure such as top management and strong leadership by a team which carries out reformation; to understand the Hay system and obtain the ability to handle it; to clarify the necessity for client companies to work consistently for establishing them by themselves. Second, it also revealed following points on operating the global HRM systems: the necessity of reformation of the HRM systems including tasks and systems; the importance of collaborating with consulting firms which have appropriate knowledge and skills when they do not have enough ability to operate.

However, on the other hand some subjects are still left: the first is to accumulate case studies that include introduction and operation of the global HRM systems since this study could not fully consider relationships between the global HRM systems and tasks and systems; the second is to clarify degree of standardization of the HRM systems at headquarters and subsidiaries abroad, which is not clarified in existing researches, although Japanese multinational corporations introduced the global HRM systems for executives of headquarters. Those would be the next research subjects.

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The job grading system is the system that emphasizes on employees’ tasks, grade their tasks and pay salary (Hasegawa, 1971, p.248). Currently the Hay system which is a global standard of the job grading system is used in many multinational companies. Therefore this article applies a word “the Hay system”.

Also competency management is a human resources management tool which applies competency that is shown by highly talented person through performing his duties to employment, assignment, education, appraisal and treatment of human resources (e.g. Boyatzis, 1982; spencer and spencer, 1993).

Referred to a comment by Mr. Noboru Yanai in a business column “Companies and people - future-oriented reformation the 57th” in NIKKEI DESKTOP Website (http://bizplus.nikkei.co.jp/colm/yanai.cfm?i=20051116nai57c9).

Competency was conceptualized by Prof. McClelland, a psychologist from Harvard University and Mr. Boyatzis, the president of McBer Corporation. McBer Corporation was a consulting firm established by Prof. McClelland. It became one of group companies of the Hay group later (United Nations, 1993). Currently it is an organization to analyze data and research about such as human resources development as the McClelland Center which is a research section of the Hay group (website of the Hay group: http://www.haygroup.com).

Jyou (2004) pointed out following problems about introducing the HRM systems of pay-for-performance at Fujitsu: first, basic structure for the HRM systems of pay-for-performance such as institution of appraisal standards and goals was not established despite the advocate of pay-for-performance; second, operation such as appraisal yet dragged the seniority system because the purpose of introducing the pay-for-performance HRM systems were not announced sufficiently among employees and thus the company could not change consciousness of employees and appraisers.

The fact that reform of the HRM systems were started from the upper levels of organizations relates to another fact that most of Japanese multinational companies which carried out reform of the HRM systems utilized the Hay group. The flow of introducing the Hay group is established as follows; examination and reformation of organization culture → plan for directors’ appraisal and training and promotion systems → the job grading system → competency management (Kasahara, Nishi, 2005). The above comes from the strategy of the Hay group that the Hay system does not allow to be customized its methodology by each company because the system is standardized beyond nations and areas (Nishi, 2006).

Based on several interviews with Mr. Sigeru Tanaka who is the incumbent chairman of Hay Japanese corporation and an interview with Mr. Jyunichi Takinami who is the principal of the Hay group Japan branch on April 2010. Recently the Hay group seems to develop business about education and training human resources further.

The description of the range of reforming the HRM systems is based on an interview with Mr. Masaru Shirakawa who is the director of the CTP Japanese corporation on May 2010.

For example, Takeda Pharmaceutical Company which was picked up as a successful example of construction of the global HRM systems carried out this construction for executives together with the Hay group consultants, because they had failed before in reforming the HRM systems by themselves. After that the personnel section of Takeda Pharmaceutical Company directed construction of the HRM systems which follow the Hay system for general office workers. Thus to construct the HRM systems which follow the Hay system is thought to require; being involved with introducing the global HRM systems; understanding structure of the HRM systems; obtaining knowledge and skills about their introduction and operation. Furthermore Takeda Pharmaceutical Company is consistently carrying out various actions for making the global HRM systems work well, such as appraiser’s training and opinion poll among employees after introducing them (e.g. Yanashita, 2001).

Furukawa Electric carried out a complete reform of tasks and systems after reformation of the HRM systems. That was not a reformation of the global HRM systems which this study had discussed but it was thought to give knowledge about reformation of the HRM systems and how to change tasks and systems for operation of it. Therefore we picked up it as an exploratory case study. Description about Furukawa Electric is based on an interview with Mr. Masaru Shirakawa who is the director of the CTP Japanese corporation which worked for reforming tasks and systems of Furukawa Electric, the website of the CTP Japanese corporation (http://www.ctp.co.jp), the website of Furukawa Electric (http://www.furukawa.co.jp), and the research (Seki, Shirakawa, 2009).
From this situation Mr. Ishihara, the incumbent president settled on the “Furukawa survival plan” which aimed at being a company group with a powerful personality in the world market in 2004. The plan had three goals: 1) To handle latent risks as soon as possible; 2) To change management structure; 3) To reach percentage of overseas sales at thirty-five percent until 2006 in order to be a global company.

References


