

**Human Resources Strategy of Japanese Companies in China:
Comparison of Hong Kong based and
Mainland China based Companies**

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論文内容の要旨

1978年から、中国は改革・開放路線に転換し、外国直接投資（FDI）を導入し始めた。豊富と安価な労働力および巨大市場の成長ポテンシャルに惹かれて、中国への外国直接投資は増加しつつあった。日本の対中直接投資も1990年代に入ってから本格化し、累計投資金額は香港に次いで二番目の大きさとなっている。しかし、近年では、日系企業対中直接投資は減少傾向に転じている。中国国内の投資環境の変化などの要因のほか、日系企業の経営業績の不振も影響しているとみられる。実際に、中国への直接投資だけではなく、日系企業の海外進出が予想したほどの成果を上げられなかった事例は数多い。1990年代末から、日系企業は世界競争力のランキングを落としているが、効果的ではないグローバル人事戦略が競争力のランキングを下降させた大きな要因として指摘されている（Stewart and Morrison, 2010）。グローバルの統合とローカルへの適応のバランスが最適化されている体制はグローバルビジネスの成功に必要不可欠である。

30年以上にわたる製造業の発展に牽引されてきた中国経済の成長率は徐々に鈍化しているが、消費者の購買力は今後も伸びると考えられている。輸出型産業が減速し、産業構造の転換が進む中、中国のサービス産業が急拡大している。所得レベルの向上とともに、個人消費は物からサービスへ移行している。4章から構成される本論文では、中国（本土）と香港における日系企業の人事戦略に関する調査・考察に基づいて、中国における日系企業の人事戦略の特徴、地域間・産業間の違いおよびその影響要因を分析する。さらに、こうした分析結果と中国における最近の経営環境の変化を踏まえ、新しい時代の経営課題に対処できる日系企業のグローバル人事戦略のあり方について提言する。

第一章では、まず、本研究の背景、目的、および全体構成について紹介する。次に本研究に関連するグローバル人事管理（HRM）の一般理論や、日本企業の人事管理の特徴、中国の経営環境における最近の変化、などに関する先行研究における関連議論の重要点を整理する。

第二章では、“中国進出企業一覧・上場会社篇”の公表集計データに基づいて、中国における日系企業の最高経営責任者（CEO）の出自に関して分析を行う。分析結果によると、中国における1914社の日系企業において、大部分のCEOは日本人が任命されている。ただし、進出先が内陸で地理的に不便であることや、共同決定が要求される合弁企業であることが現地出身CEOの採用決定に影響がある。

第三章では、日本のグローバル企業（MNC）におけるHRMの問題点、特徴を理解するため、中国を含む海外数か国に進出している上場企業1社（メーカー）の事例研究を行う。日本本社と海外子会社現地関係者へのインタビューを通じて、会社管理面の特徴、グローバル

人事管理の実態と課題等を詳しく考察する。この企業の本社では互いの人権、人格を尊重する経営理念や価値観の共有を実践している。また、海外子会社の人事管理戦略について、技術移転、企業文化の継承、現地管理のサポートをするため、多くの日本企業と類似し本社からの駐在員を活用している。しかし、不十分な海外駐在員派遣計画や不適切な現地人事管理体制は改善すべき課題だと思われる。

第四章では、中国本土と香港における日系企業（JCCs）の製造企業とサービス企業間での HRM の特徴を比較するために、対象企業に関するアンケート調査を実施し、180 社（中国本土の 113 社と香港の 67 社を含む）の有効回答に基づいて分析を行う。データ分析の結果は、次の注目すべき所見を示している。①5 つの HRM の実践の中で「人事評価」と「報酬管理」は最も重要視され、改善が必要である。②海外子会社に本社からの駐在員を派遣するか否かの決定要因として、企業ポリシーおよび海外子会社における業務の複雑さが重視されている。③進出地域、進出年数、会社規模によって若干違うが、製造企業とサービス企業間の HRM の実践には相違点がある。これらの分析結果は、中国における日系企業の今後の HRM の改善方向を示唆している。中国では、サービス産業が急速に拡大しており、こうした変化による労働需給や企業 HRM への影響は、サービス業の JCCs にも、製造業の JCCs にも及んでいる。このため、現地人材の活用、公正かつ透明な人事評価制度の策定、および社員能力に基づく報酬・昇進体制は日系企業のグローバル事業の成功に必要な不可欠であると思われる。

以上四章の分析結果より、中国に進出する日系企業のグローバルビジネスを成功させるためには、日本人スタッフの過大派遣を調整し、ビジネス環境の変化に対応できる適切な HRM の実践を選択する必要があると考えられる。終章「この論文の結論と示唆」では、各章の分析結果に基づいて、本研究の主な貢献および日系企業のグローバル人事戦略の改善への示唆を要約する。

Abstract

China's economic reform and opening up to the outside world were commenced since 1978. Due to its massive labor supply and low labor cost, the realized value of China's inward foreign direct investment (FDI) was keeping an increasing trend in past years. As the most advanced economy in Asia, Japan is one of the major countries with huge amount of FDI in China. However, statistical reports have indicated the trend of Japanese FDI into China declining in recent years. Several giant Japanese multinational corporations (MNCs) have closed part of their production plants or withdrawn the investment out of China one after the other. Besides the business environment change and labor cost increase in China, it may imply Japanese companies encountering other operation/ management obstacles in their China business as well. In fact, Japanese MNCs were also criticized that the competition power of their global businesses has been decreasing since the late 1990. A variety of reasons of failure in global business of Japanese MNCs were argued. Among all underlying factors of failure, Stewart and Morrison (2010) stated that an ineffective global human resource (HR) strategy is one of major reasons of drop for Japanese companies in global competitiveness positioning. What an effective global business should have is capable leaders who know how to determine which aspects of the business to globally integrate and standardize, and which ones to locally adapt and differentiate from competitors. With over 30 years' significant manufacturing development and economic growth, the business environment in China has been changing gradually. Particularly, government released new target to speed up the development of the service industries in China.

The objectives of this paper include: 1) Compare the differences in human resources (HR) strategy between Mainland China based and Hong Kong based Japanese companies, 2) Analyze the underlying factors of the above differences and compare the effects of HR strategy in the two regions, and 3) Analyze the latest changes in FDI in Mainland China and explore how staffing strategy of top management staff in Japanese companies in China (JCCs) and other global HR considerations should be adapted to cope with the foreseeable problems in coming new era in Mainland China. The full paper is organized into 4 chapters, as follows:

In chapter 1: For the purpose of gaining insight for further analysis, previous literature on the importance of HRM practices, factors affecting global HR strategies, and the influence of traditional Japanese culture on global HR strategies are reviewed and

discussed.

In chapter 2: For Japanese MNCs, an effective staffing strategy is important for the selection of top management, like the Chief Executive Officer (CEO). Analysis of data on 1914 samples of JCCs from the survey by “The 21st Century China Research Institute” is conducted and the result reveals that the majority of JCCs prefer to adopt Japanese as their CEO, regardless of a diversity of conditions, except for the locational disadvantage of inland regions and the joined decision-making with contractual alliance of joint undertakings.

In chapter 3: A case study is used to deeply discuss several global HRM practical issues and operation problems of a leading/well-known manufacturing MNC in Japan for the purpose of examining the dimensions of integration of Global HRM practices and providing related improvement suggestions. Similar as other Japanese MNCs, a certain amount of expatriate from headquarters of this selected company is used as a staffing strategy for the transfer of knowledge, transmission of corporate culture, and improvement of local management. However, insufficient planning of expatriation and inadequate involvement of overseas HRM practices are still the outstanding issues in their global HR strategies.

In chapter 4: With the aims of examining the difference of HRM practice between Japanese companies in China (JCCs) in manufacturing sector and service sector in two designated regions, Mainland China and Hong Kong, a quantitative survey with 180 valid replies of JCCs is conducted. According to the findings of analysis, performance appraisal is the most concern area and compensation is the next among all five human resource management (HRM) practices, and they are considered as the necessary area for further improvement as well. Since most Japanese MNCs are still relying on the expatriation, corporate policy and the complexity of the business in overseas affiliates are the major considerations of expatriation from the viewpoint of headquarters and locals respectively. Although the difference is not very obvious, there are certain dissimilarities of HRM practices between manufacturing sector and service sector, especially affected by various locations, ages, sizes, and industries of the companies. Above analysis of HRM practices indicated several notable findings in analyzing the difference between manufacturing and service sectors in JCCs. Since the trend of increasing demand of servicing companies becomes prevalent in Mainland China, this influence of HRM concern is not only subject to the JCCs in service sector, but also affecting to the labor deficient in manufacturing sector. Flexible implementation of

localization, transparent and practical appraisal system, and motivated compensation and promotion mechanism will be contributive to the improvement of Japanese MNCs' global business.

The analysis results in these four chapters imply that Japanese MNCs have to fine-tune the high degree of their expatriation with Japanese staffs, and select the appropriate HRM practices subject to various business conditions so as to be success in their global operation, not only limited to China business. Based on the above summary and results of each chapter, the contribution of this research and future research topics are demonstrated in the final part of this paper, *Conclusions and Implications of this Dissertation*.

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Preface

China's economic reform and opening up to the outside world were commenced since 1978. Due to its massive labor supply and low labor cost, the realized value of China's inward foreign direct investment (FDI) was keeping an increasing trend in past years. In recent years, however, the increase in labor costs and changes in the business environment have severely affected the business operations of multinational corporations (MNCs) in China. Japanese MNCs are no exception that their investments have been encountering other operation/ management obstacles in their China business as well. In addition, in recent years, the Japanese human resource system has drawn criticism and induced debate in its global applicability and Japan's worldwide competitive ranking has worsened. Lack of effective global human resources (HR) strategy is considered as one of the major reasons for the drop in the global competition ranking of Japanese companies. Many scholarly works have been produced on global staffing strategies and expatriations of Japanese companies but, with a few exceptions, such works have lacked a detailed analysis with industrial or locational perspective and practical recommendations. This paper is intended to supplement the above deficiencies and generate insight for improving the global positioning of Japanese companies in the HR perspective. Therefore, the primary objectives of this paper include:

- 1) Compare the differences in human resources (HR) strategy between Mainland China-based and Hong Kong-based Japanese companies,
- 2) Analyze the underlying factors of the above differences and compare the effects of HR strategy in the two regions; and
- 3) Analyze the latest changes in FDI in Mainland China and explore how the staffing strategy for top management staff in Japanese companies in China (JCCs) and other global HR considerations should be adapted to cope with the foreseeable problems in the coming new era in Mainland China.

The full paper is organized into four chapters, as follows:

Chapter 1: For the purpose of gaining insight for further analysis, previous literature on the importance of HRM practices, factors affecting global HR

strategies, and the influence of traditional Japanese culture on global HR strategies are reviewed and discussed.

Chapter 2: For Japanese MNCs, an effective staffing strategy is important for the selection of top management, like the Chief Executive Officer (CEO). Analysis of data on JCCs from a survey by the 21st Century China Research Institute is conducted to verify the particular factors that affect the staffing strategy of CEOs and whether they can apply in JCCs.

Chapter 3: A case study is used to deeply discuss several global HRM practical issues and operation problems of a leading/well-known manufacturing MNC in Japan for the purpose of examining the dimensions of integration of Global HRM practices and providing related improvement suggestions.

Chapter 4: With the aim of examining the differences in HRM practices between Japanese companies in China (JCCs) in the manufacturing sector and the service sector in two designated regions, Mainland China and Hong Kong, a quantitative survey is conducted. Based on the findings, practical recommendations are illustrated for improving business operations in China.

Based on the results and various findings of the above chapters, the contribution and implication of this research and future research topics are summarized and demonstrated in the final section of this paper: Conclusions and Implications of this Dissertation.

One of the incentives to conduct this project is to show the importance of both academic studies with reviewing previous researches and executing an empirical analysis, and practical hands-on experience, in which they are mutual contributive to each other. In order to accomplish above aims, I encountered several obstacles and difficulties during the process of my study. This project would not have been possible without the support of many people, who have contributed academically, practically and with support to this doctoral dissertation. Thanks to my adviser, professor Dai EB, for his time, valuable input and support throughout the entire period. I wholeheartedly appreciate his kindness and patience to adjust the classes' schedule due to my frequent business trips. Also thanks to Professor Imai, Professor Wang XP, Professor Yoshimatsu who offered guidance and advice. Besides, without the initial introduction and suggestion from professor Okuyama,

I could not complete or even start my study of this doctoral program smoothly.

Regarding the research project, I was in luck that I had received the trust from three Japanese HR consultant companies or Japanese business clubs in Hong Kong and Mainland China, in which they granted invaluable support and rendered their assistance for the distribution of questionnaires. In particular, Mr. Iizumi spent his precious time to discuss with me unweariedly, and provided me a lot of advice. Furthermore I would like to thank all of the respondents whose cooperation providing great helps that I would have been able to conduct this analysis. Last but not least, my boss and colleagues deserve a particular note of thanks: your endurance wise counsel and kind encouragement have, as always, supported me well.

I hope all you enjoy the reading.

Lau Chung Ming

Chapter 1:

Factors affecting the Global Human Resources (HR) Strategies of Japanese Multinational Corporations (MNCs)

Abstract: Japanese multinational corporations (MNCs) are facing several challenges in global business to maintain or improve their worldwide competitive position. Amongst various reasons for this phenomenon raised in previous studies, human resource management (HRM) practices are regarded as one of the key factors that affect the competition power of global businesses. By reviewing related previous research studies, this chapter demonstrates the role and significance of HRM practice, discusses the characteristics of the typical Japanese management system, and illustrates the factors affecting the global HR strategies of Japanese multinational corporations (MNCs) for the purpose of exploring insight for further analysis in the later chapters.

Keywords: Global HR strategy, Japanese MNCs, MNCs, Japanese management
.....

1.1 Introduction

The world economy has become increasingly interdependent and the process of globalization has accelerated to improve trade, increase labor and capital mobility, and improve technology. Globalization has significant impact on how the business world operates today, and it has brought a phenomenon of rapid expansion of countries' economies and MNC businesses across the world. According to Thomas Friedman, globalization is *the inexorable integration of markets, nation-states and technologies to a degree never witnessed before—in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before* (Friedman, 1999). Globalization is mostly driven by the expansion of MNCs, which develop new products and services in their native country, and then sell, and even manufacture them abroad. For MNCs that operate in different countries through foreign direct investment (FDI), owning or controlling value-adding activities in more than one country, their foreign affiliates' performance is critical for the success of the corporation (Smith and Debrah, 2002).

Since globalization involves various countries and people, business practices are

diverse compared to a business operating solely in the parent country. Without understanding and managing domestic legislation, government rules, and local custom and practices, it is extremely difficult for a firm to succeed in achieving its original objectives. The objective of expanding production to overseas countries is not only to reduce the labor cost of manufactured goods, but also to sell the finished products to local customers to expand the market. In pursuance of different objectives, MNCs can be classified as Horizontal Integrated Multinational, Vertical Integrated Multinational, or Conglomerate Integrated Multinational¹. Stewart and Morrison (2010) indicate the stages of globalization based on the scale of exports and overseas investments. Globalization increases the production and establishment of overseas operations and increases the export of goods worldwide as well (see Figure 1.1).

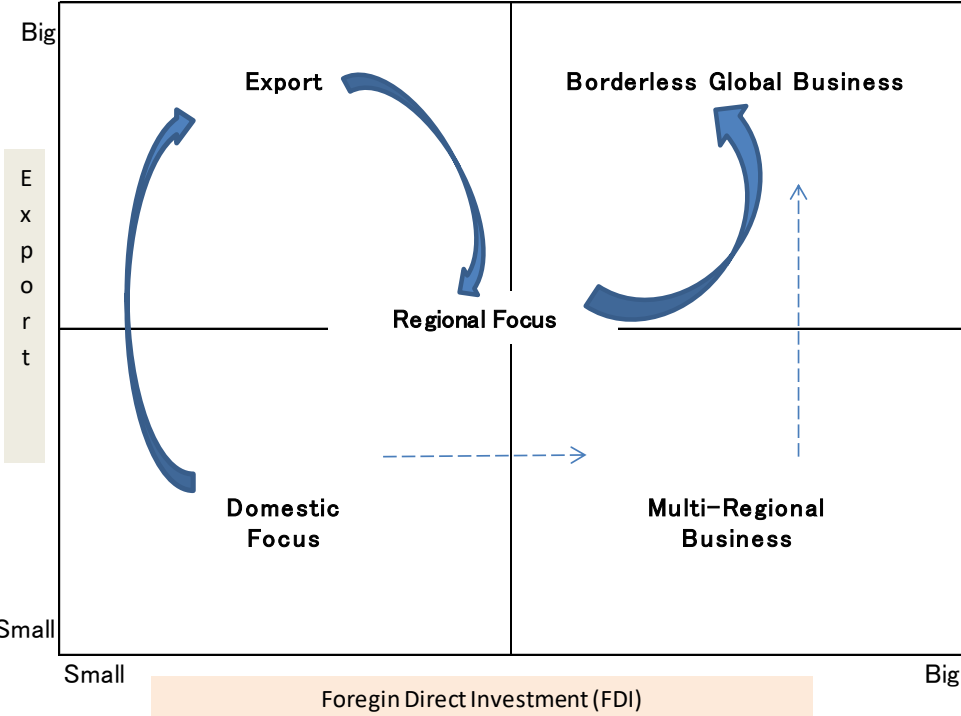


Figure 1.1: Stage of Globalization
 Source: Stewart and Morrison (2010)

¹ Horizontal integration: A strategy where a company develops or acquires production units for outputs which are similar, either complementary or competitive. Vertical integration: Companies integrate multiple stages of production of a number of production units. Conglomerate integration: Company acquires a substantial number of other unrelated businesses in order to form a large and highly diversified corporation.

Different from only considering domestic practices, globalization demands new skills and competencies to adapt to the various requirements of operating in overseas countries. Managers have to think globally, and they have to find advantages for the organization on a global basis. They should be capable to negotiate with business partners from different cultural backgrounds. Human resource management (HRM) becomes important for a company in adapting its processes, procedures, policies and training to ease the life of managers in a global operation. Significantly, management staff of MNCs are increasingly aware of the importance of HR practices in ensuring the performance and viability of their business operations. Dowling and Welch (2004) have stated that many companies underestimate the complexities of managing HR issues across borders, which often results in poor performance in overseas operations. Therefore, HR should be the first global function; the human factor is the key to success in the new era of globalization to develop global talent and manage employees for a competitive generation (Thite et al., 2012; Kim and Gray, 2005). Japanese multinational corporations (MNCs) have been criticized for their decreasing competitive power of their global businesses in recent years. According to research data from the IMD World Competitiveness Yearbook, the world competitiveness ranking of Japan was at the top of 60 selected countries from the year 1990 to 1993 (Bris and Garelli, 2010). In light of the economic recession in Japan and growth of other countries, thereafter, Japan's ranking was reduced to 27th in the latest years (see Figure 1.2). In addition, the Fortune Global 500, which ranks global companies by revenue, also showed the decline of Japanese companies' ranking from 1995 to 2014 (Stewart and Morrison, 2010). In 1995, 37 Japanese MNCs were ranked in the "Top 100"; by 2014 the number had declined by 80%, leaving only 7 companies remaining on the list (see Figure 1.3). Several reasons for Japanese MNCs' failure in the global business environment were offered, such as insufficient demand for high quality products, failure in product marketing, and lack of long term business plans. Stewart and Morrison (2010) stated that an ineffective global HR strategy is one major reason for Japanese companies' drop in global competitiveness ranking. One of the necessary conditions for effective global business operations is having capable leaders who know how to determine which aspects of the business to globally integrate and standardize and which ones to locally adapt and differentiate. Moreover, in light of the increasingly

‘globalized’ world economy, HRM has evolved from a support function to a strategically important function and is increasingly viewed as a crucial component of a firm’s overall corporate or business strategy (Schuler and Rogovsky, 1998; Beechler and Raghuram, 1993; Syed et al., 2008).

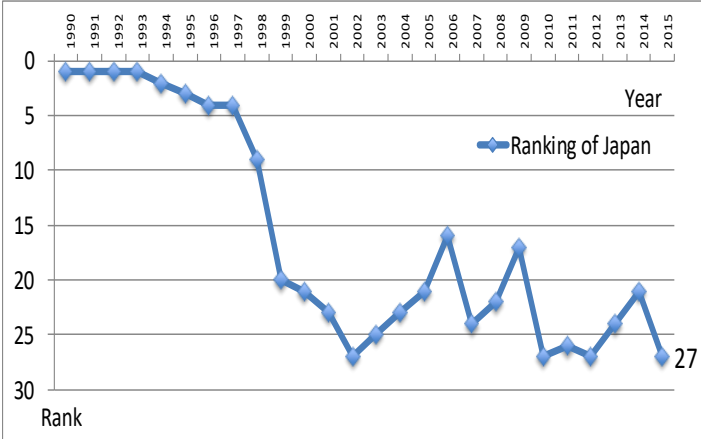


Figure 1.2: Ranking of World Competitive position (Japan)
Source: Bris and Garelli (2010)

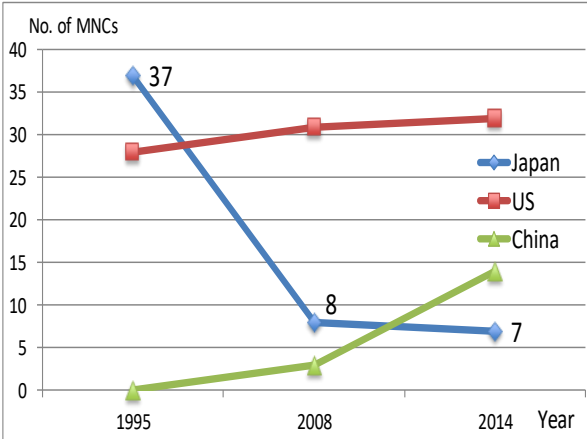


Figure 1.3: Number of MNCs in Fortune Global 100
Source: Stewart and Morrison (2010)

Even if HRM practice is noticeably important in global business, it is not a simple task to figure out an appropriate global HR strategy. Because of cultural diversity and business environment variance between the parent country of a MNC and the host country of an overseas subsidiary, a single strategy is not the best solution to solve all difficulties of HR practices. Therefore, it is meaningful to discuss and discern ideas from different viewpoints under this context. In particular, Japanese MNCs, which have strong corporate cultures and distinctive management practices, are expected to have significant differences in global HR strategies compared with other countries. Although previous researchers have conducted numerous studies about HRM practices, Japanese MNCs are still facing the obstacles to competing in their global future (Stewart and Morrison, 2010; Bartlett and Yoshihara, 1988). In addition, worldwide business environment is changing and competing is becoming more difficult. The implementation of FDI is complicated requires greater competence. For these reasons, this chapter is intended to review the fundamental factors affecting global HR strategy and extract relevant reasons for previous failures in global practices of Japanese MNCs, by reviewing previous studies for undiscovered insights to set a hypothesis for further analysis in the subsequent chapters.

This chapter is solely based on secondary data, and the required data has been collected from published statistical sources, journals, books, Internet materials, and

so on. The structure of this chapter is as follows: First, the roles of HRM and the importance of HRM practices to the corporations are introduced in detail. Next, from a global point of view, the details of strategic decisions of HR practices and global staffing are explored. Following, the comprehensive management characteristics and related HR issues of Japanese organization are demonstrated. Finally, the major distinctions between the HR considerations of Japanese MNCs and other countries MNC are discussed.

1.2 Roles and Importance of HRM Practices

An organization consists of people with formally assigned roles who work together to achieve the organization's goals. A manager is a person responsible for accomplishing the organization's goals, and who does so by managing the efforts of the organization's people. The discourse of HRM has been established in management thinking and practice as well as within the academic and consultant literature since the 1980s. The practice of HRM is concerned with all aspects of how people are employed and managed in organizations. It covers activities such as strategic HRM, human capital management, corporate social responsibility, knowledge management, organization development, resourcing (human resource planning, recruitment and selection, and talent management), performance management, learning and development, reward management, employee relations, employee health and safety, and the provision of employee services. HRM practice has a strong conceptual basis drawn from the behavioral sciences and from strategic management, human capital and industrial relations theories (Kim and Gray, 2005; Kerfoot and Knights, 1992).

The basic categories of HRM practice described by previous scholars are summarized as follows (Thite et al., 2012; Kim and Gray, 2005; Youngok and Sidney, 2005):

- (1) Staffing strategy: comprised of job analysis, recruitment and placement, selection, and interviewing as part of overall planning for the arrangement of personnel. It can be executed strategically.
- (2) Performance appraisal: a systematic and periodic process that assesses an individual employee's job performance and productivity in relation to certain pre-established criteria and organizational objectives. In principal, the outcome of performance appraisal will impact the identification of training needs, the

clarification of employee relations, and the consideration of compensation of employees.

- (3) Training and development: both newcomers or existing employees, according to the needs of their tasks, engage in training and development to acquire new skills or sharpen existing ones to perform better and increase productivity.
- (4) Labor relations: can cover several categories including ethics, justice, and fair treatment in HR management, union relations and collective bargaining, employee safety, and so on.
- (5) Compensation: An effective compensation scheme that includes the establishment of a strategic payment plan, financial incentives and other fringe benefits; it is important to both the company and employee to enhance motivations.

Contemporary managerial literature frequently suggests that the traditional practices of managing personnel issues are increasingly being replaced by 'human resource management (HRM)' (Caldas et al., 2011). HRM is described as "improved personnel management". Most of the arguments center on the point that HRM is not a new paradigm but merely a change in the focus of conventional personnel management in order to adapt and survive in the changing environment. Some authors consider HRM as a distinctively different and new approach to managing people. However, finding substantive and clear differences between HRM and personnel management is not a simple task because both refer to the same subject—people. Furthermore, a lack of full knowledge and understanding of either subject or issue at hand make it difficult to make comparisons between the two. "A New Approach" by Torrington and Hall made it clear that "personnel management" is directed at the organization's employees by finding and training them, arranging for them to be rewarded, explaining management's directions, satisfying employees' needs, dealing with their problems and seeking to modify management action. HRM, by contrast, puts greater emphasis on planning, monitoring and control, rather than on problem solving and mediation (Torrington and Hall, 1995).

Research done by Vercaeren (2007) showed that business leaders do not regard HRM as an important function. Only 23% of the respondents said HR plays a crucial role in strategic formulation and operational success. In addition, only 4% said their business is world-class in people management and HR, and 31% said their HR function needs significant improvement. At most companies, HR is still primarily viewed as a

cost center or an administrative function. Therefore, to be taken seriously, HR professionals need to show how their proposals can directly lead to an increase in profits or measurable returns (Brown, 2007). Even though a vast number of companies do not fully recognize the contribution of HRM to their business, certain companies still expect HR to be perceived as a strategic, value-adding function. Indeed, people cannot deny that managers get involved in HRM activities like recruiting, interviewing, evaluating, and training. Therefore, Dessler (2011) points out three distinct functions of HRM, including 1) a line function (directing activities of the people in his or her own department and supervising they perform each HR task well), 2) a coordinative function (coordinating personnel activities and ensuring line managers implement the organization's HR policies and practices), and 3) a staff function (assisting and advising line managers, or even the Chief Executive Officer (CEO) and understanding the personnel aspects of the company's strategic options). A growing body of research has persuasively argued that there is now evidence of a causal link between certain HRM practices and company-level outcomes, such as financial performance and organizational effectiveness (Alfes et al., 2013). Pfeffer (1994) argues that a particular set of human resources (HR) practices can increase company profit. He has encouraged a considerable interest in the concept of "best practices" in HRM. Major elements of best practices in HRM include employment security, selective hiring, self-managed teams, high compensation for organizational performance, extensive training, reduction of status differences, and sharing information. However, Marchington and Grugulis (2000) query whether the practices typically assumed to be good are actually beneficial to workers. They argue that the literature is underpinned by unitarist thinking about employee relations and that the best practice approach becomes problematic, despite its superficial attractiveness. In particular, they point to weaknesses in relation to the meaning of specific practices, their consistency with each other, and the expected universal applicability of HRM (Pfeffer, 1994; Patterson et al., 1997). Clearly, much of the arguments about HRM could be regarded as an outcrop of the current interest in corporate and business strategy. 'Strategic management' has assumed an overwhelming significance among practitioners partly as a result of being heavily promoted in the popular management literature and being subjected to a "hard sell" by management consultants (Tighy et al., 1982).

1.3 Global Challenges of HRM Practices

In light of the increasingly globalized world economy, HRM has evolved from a support function to a strategically important function, and viewed as a crucial component of a company's overall corporate or business strategy. Competing in global markets involves many considerations and the centralization of human resource practices is certainly vital to improving global competitiveness and empowering employees in global assignments. There are certain HRM issues that are particular to a global enterprise. Global staffing is regarded as a primary HR practice that includes selecting and retaining talented employee, training and development, encouraging employees to be innovative and creative, removing cultural barriers, and providing a legal framework to control and coordinate a spatially dispersed global operation. Therefore, staffing decision, choosing between a parent country national (PCN) and a host country national (HCN)², is a main concern of global HRM practice (Dessler, 2011).

International or Global HRM differs from domestic HRM in a number of ways. One of the major differences is that Global HRM has to manage the complexities of operating in, and employing people from, different countries and cultures. In addition, a greater involvement in the personal life of employees is required. The HR manager of MNCs must ensure that an executive posted to a foreign country understands all aspects of the compensation package provided in the foreign assignment, such as cost of living, and taxes, and they must assess the readiness of the employee's family to relocate and support the family in adjusting to a foreign culture through cross-cultural training. Global HRM professionals should manage cultural factors; economic systems; legal, political, and labor relations; ethics and codes of conduct; staffing decisions, issues of safety and terrorism; international taxation and foreign currencies, etc. However, there are still some commonalities in global or international HRM (IHRM) and domestic HRM practices, particularly in areas like the role of HR planning and staffing, recruitment and selection, and training and development. Basically, the term "IHRM" was commonly used concerning managing human resources at MNCs. However, the latest scholars consider there are still certain differences between the terms "global" and "international". For example, global means worldwide or universal, applying to the whole world. On the other hand, international

² PCNs and HCNs will be focused on in this report. Besides PCNs and HCNs, there are other options for staffing decision in MNCs. A TCN (third country national) is a staff member from a country other than the MNC's home country and the host country.

applies to two or more countries. Global issues are those that concern and affect the world as a whole and, as such, must be resolved not just by one nation, but all nations of the world. One major reason for the failure of a global venture is the lack of understanding of the differences between managing employees in the domestic environment and in a foreign one. A management style successful in the domestic environment often fails if applied to a foreign environment without the appropriate modifications. Amongst the aforementioned global HRM practices, the main factors can be discussed in details.

1.3.1 Factors affecting global HRM practices

There are a variety of opinions about the factors affecting global HRM practices. Incorporating the findings of several past studies, four of the main factors with the greatest impact on the role of global HRM are summarized below.

(1) Strategic direction

First, the corporate level strategic direction has to be considered when we look at the factors affecting global HR strategy. The most common concerns include the role of the subsidiary, reliance on subsidiaries' performance, and the experience of global business. Each MNC has its own strategic objective in establishing business globally and the role of each overseas establishment varies. For example, if the primary purpose of the FDI is cost reduction through cheaper manufacturing costs in an overseas country instead of local market development, an MNC will focus on technical skill transfer and product quality assurance in the overseas subsidiaries. A global HR strategy considers the appropriate related staffing arrangements and training plans. Martinez and Ricks (1989) state that the greater the MNC's dependence on a subsidiary's result, the higher the degree of parent control is necessary. If the business performance of a subsidiary poses a significant impact on the overall group's result, MNCs will focus relatively more control and resources, including HRM practices, on that subsidiary. If a foreign subsidiary's results are relatively independent from the headquarters, it primarily relies on inputs from the local environment and is driven by local competition. Such subsidiaries have a relatively greater need to gain local legitimacy and, therefore, are likely to acquire the features of other companies in the host country, including adopting similar HRM practices, giving a high importance to national responsiveness (Beechler et al., 1993; Schuler et al., 1993). Although the number of MNCs is booming in recent years, some MNCs are still newcomers lacking sufficient experience in global business. To avoid failure in the early stage of overseas

investment, an MNC may consider increasing the resources to clarify the business environment in overseas countries. Similarly, HR professionals must deeply investigate the local statutory requirements and common HR practices of labor concerns.

(2) Organizational culture

Organizational culture is the behavior of humans within an organization and the meaning that people attach to those behaviors. According to Needle (2004), organizational culture represents the collective values, beliefs and principles of organizational members and is a product of such factors as history, product, market, technology, strategy, type of employees, management style, and national culture, and is expressed in its self-image, inner workings, interactions with the outside world, and future expectations. Those shared attitudes and beliefs are based on written and unwritten rules that have been developed over time and are considered valid. Organizational culture is unique for every organization and one of the hardest things to change. It may refer to the culture in any type of organization, including schools, universities, not-for-profit groups, government agencies, or business entities (Trompenaars and Turner, 2012). In business, terms such as corporate culture and organizational culture are sometimes used to refer to a similar concept. Corporate cultures tend to emphasize ways of operating and functioning that lead to optimum profit. Organizational cultures are not always as profit motivated as the typical corporate culture. However, on some occasions, organizational cultures may influence a business strategy and affect the corporate strategy directly or indirectly (Klein, 1992; Kotter, and Heskett, 1992). In fact, corporate culture and organizational culture have very little difference, as they are used somewhat interchangeably in describing accepted norms in organizations (Devarajappa and Nagaraja, 2014; Welch and Welch, 2006; Schwartz and Davis, 1981; Lessem, 1990).

An HR professional has a responsibility to adjust proactively to the organizational culture and provide a variety of rationales, and to communicate what the organization's positions, providing employees with a sense of direction and anticipated behavior, determining employee's attitudes about themselves, the organization and their role. From a global point of view, the organizational culture of MNCs may be more or less transferred through the assignment of expatriates³ to the overseas

³ An expatriate is defined as a person, temporarily or permanently, who leave one's native country to live work

affiliates (Oki, 2013). Consequently, some HR practices or systems, like an appraisal system or working environment, may be affected by the parent company's organizational culture (Gondane, 2014).

(3) Human competency

The method of developing and putting new workers together, keeping existing workers, and retaining educated, skilled and trained workers to work for a company is called talent management. HRM practices must include the arrangement and collection of assorted talents strategically for the organization. HR professionals must think about how a dissimilar workforce can help the company to conquer new markets and meet other organizational goals, exploiting the full potential of workplace diversity. In addition, from a global point of view, HR managers consider global talent development in the placement of people on overseas assignments either as expatriates or on temporary teams. Recent comments suggests that HR should function outside in, meaning that HR professional need to understand the global, social, technological, economic, political, environmental, and demographic trends to align their HR practices with external stakeholders (Ulrich et al., 2013).

In actual practice, HR professionals will encounter a variety of obstacles due to differences in things like race, gender and age over the globe. Differences in literacy, educational systems, and working capability between each country can be significant. Therefore, it can be difficult to align each country's manpower with the same strategic direction in practice. Not only the overseas affiliates' concerns, but also the availability of high caliber people in the headquarters shall be limited. HR professionals may only concentrate on domestic practices without understanding the details of overseas labor legislation and common practices. Especially in communication with overseas employees, a language barrier is regarded as one of the typical obstacles for most MNCs.

(4) Environmental factors

The success of international trade also depends upon the smooth interaction of employees from different cultures and regions. It is undeniable that cross culture becomes a vital environmental issue in global business. Cultural diversity can refer to

elsewhere. Global markets at the end of the 20th century created a lot of opportunities for different types of expatriate where commuter and short-term assignments.

having various cultures respect each other's differences. It is also sometimes used to mean the diversity of human societies or cultures in a specific region, or in the world as a whole. Culture shock is common for a person who is new to another country, and the person will have feelings of uncertainty, confusion or anxiety typical of people visiting, doing business in or living in another society. The concept of “person-organization (P-O) fit” is defined as the compatibility between individuals and organizations, through its culture, combine to affect an individual’s response to that organization. An individual’s perception of whether or not the person fits well with the organization is likely to produce expectations regarding the quality of interaction to be encountered on the job (Miroshnik and Basu, 2014). Nowadays, more students choose to study abroad for experiencing culture diversity. Their goals are to broaden their horizons and develop themselves through learning overseas. Paying attention to customs and cultural differences can give someone outside that culture a better chance of assimilation or acceptance. Ignoring these can get an unsuspecting person into trouble, not merely in daily life but also in business activity.

Hofstede and Minkov (2010) classified six dimensions that are useful in identifying and comparing cultures using factor analysis to examine the results of a worldwide survey of employee values to explain observed differences between cultures. The dimensions are as follows:

- 1) Power distance: This dimension refers to inequality among the people of a nation. As power distance increases, there are greater status and authority differences between superiors and subordinates.
- 2) Individualism: This is the extent to which people in a country prefer to act as individuals instead of members of groups.
- 3) Masculinity/Femininity: This dimension refers to the degree to which “*masculine*” values prevail over “*feminine*” values. Masculine values identified by Hofstede were assertiveness, performance orientation, success, and competitiveness, whereas feminine values included quality of life, close personal relationships, and caring.
- 4) Uncertainty avoidance: This refers to the preference of people in a country for structured rather than unstructured situations. A structured situation is one in which rules are built up and there are clear guidelines on how people are expected to perform.
- 5) Long-term orientation: This refers to values in which people emphasize the

future, as opposed to short-term values, which focus on the present and the past. Long-term values include thrift and persistence, while short-term values include respecting tradition and fulfilling social responsibility.

- 6) Indulgence versus self-restraint: This refers to the extent to which members of a society try to control their desires and impulses.

Besides cultural factors, other environmental factors include economic, political, legal, competition, and language. Many under-developed nations are receptive to foreign investment in order to create jobs for their growing populations domestically. MNCs often obtain significantly cheaper labor rates in these countries than they do in Western nations. HR regulations and laws vary among countries in character and detail. In many Western European countries, laws on labor unions and employment make it difficult to reduce the number of workers, because required payments to former employees can be very high. In some countries, laws address issues such as employment discrimination and sexual harassment. In others, because of religious or ethical differences, employment discrimination may be an accepted practice. Global HR professionals in MNCs have to decide strategically when to comply with certain laws and regulations and when to ignore them for operational or political reasons. All of these factors reveal that it is crucial for HR professionals to conduct a comprehensive review of the political environment and employment-related laws before beginning operations in a country.

1.3.2 Global integration and local responsiveness

Various factors affecting global HR strategies are widely acknowledged. The global challenge of MNCs is the struggle of strategic direction choice between “global integration” and “local responsiveness”. MNCs must consider global integration for the purpose of integrating their activities on a global basis to realize economies of scale and achieve cost reduction through the exploitation of worldwide resources (Bartlett and Ghoshal, 1987). MNCs attempt to transfer their HRM practices to subsidiaries abroad to align management policy with headquarters (Smale, 2007). However, it has been noted that transferring HRM practices to different countries can be quite problematic (Bae et al., 1998; Kovach, 1994; Rosenzweig and Nohria, 1994). Traditional IHRM considers that headquarters in MNCs will lead and make most of the important decisions; whereas in a global HR strategy, headquarters will operate in parallel with the other regions in the global network and the decision maker can

reside in any country of the group. Some major obstacles are closely related to the host country environment (Myloni et al., 2007).

Within a functionalist research tradition, attention to HRM in and around MNCs tends to be central to global HRM theory, and often revolves around issues concerning the transfer of HRM best practices across borders, the use of expatriates in foreign subsidiaries, the problems involved in such transferences and host country tensions, etc. (Schuler et al., 1993). In contrast, local responsiveness requires MNCs to make strategic decisions based on domestic conditions. The drivers for local responsiveness include the differences in consumer preferences, the typical characteristics of the product system in the host countries, global administrative costs, improvements in technologies, trade and legislative barriers and so on (Roth and Morrison, 1990). Critical approaches point out that global HRM, just as domestic HRM, would be ultimately concerned with control and with perpetuating power relations in organizations (Peltonen, 2006; Caldas et al., 2011).

The strategic choice between global integration and local responsiveness should be balanced when it applies to each component of global HR practice. Rosenzweig and Singh (1991) pointed out that there are many considerations, similar to the aforementioned factors affecting global HR strategies, like determining the trade-off between integration and adaptation and figuring out the appropriate combinations of global HR strategies. It is believed that only one strategic choice is not feasible to be applied under various business environments and own strategic directions. In order to easily associate the relationship between each factor and HRM practice, an overall summary of considerations in global HR strategy is demonstrated in Figure 1.4.

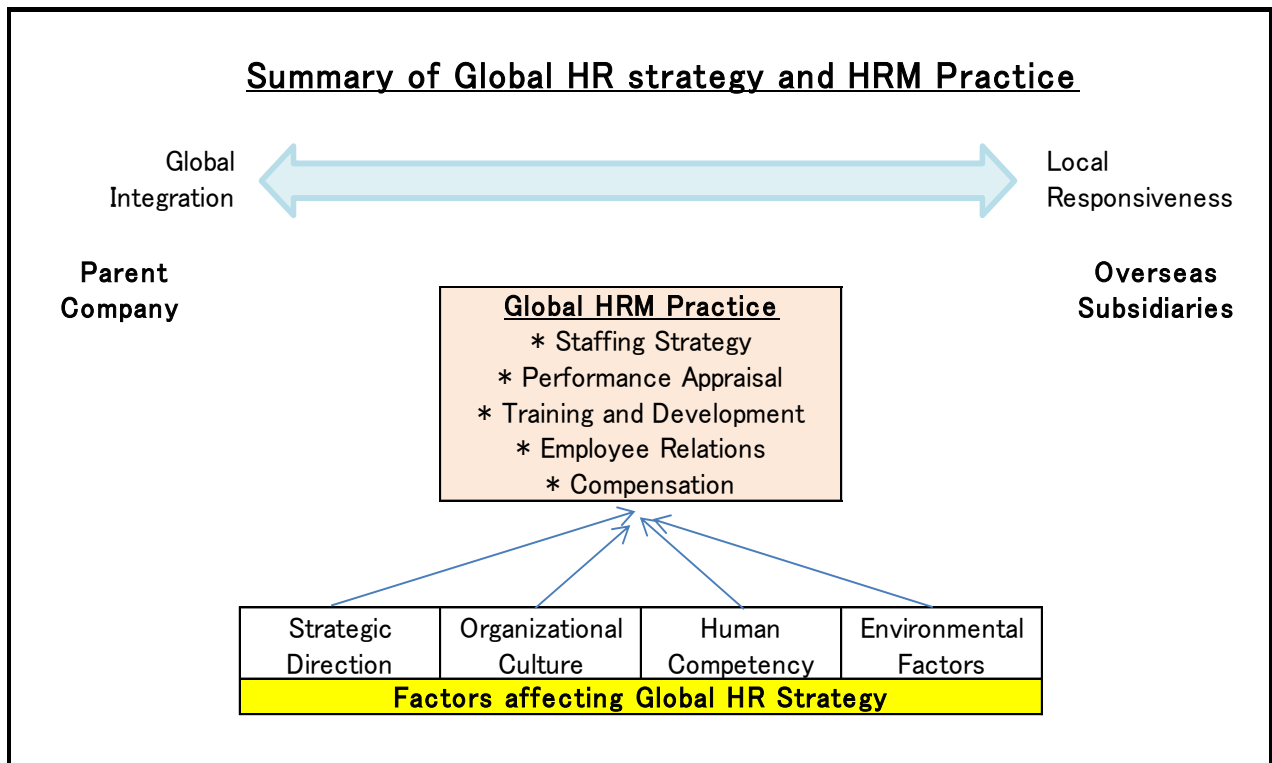


Figure 1.4: Summary of Global HR Strategy and HRM Practice
 Source: Edited by author

1.4 Global Staffing Strategy of MNCs

The rapid growth of emerging markets, like China, shows an increasing need for competent global manpower, and therefore global staffing has emerged as an important HR practice for MNCs. In particular, the selection of management staff for overseas subsidiaries is always a struggle between the selection of PCNS or HCNS (Gong, 2003a). The two choices are quite different in terms of their strategic implications for each MNC and its subsidiary. In some cases, the MNC wants to increase strategic control over the overseas operations, enhance the integration between the MNC and subsidiary, and facilitate knowledge transfer to the subsidiary; in other cases it wants to adapt to the local customs and environment and access to local resources. Meeting these needs is the main task of global staffing decisions (Selmer, 2004; Tseng and Liao, 2009). In light of the considerations of strategic role, the pros and cons of the expatriate/local staffing decision between the deployment of PCNs and HCNs in overseas affiliates should be evaluated and clarified before any related decision is made (Tseng and Liao 2009; Widmiera et al., 2008; Kuhlmann and

Hutchings 2010).

1.4.1 Arguments for using PCNs

(1) Reasons for using PCNs:

- Greater strategic control over the subsidiary's operations can be executed, and the integration between the subsidiary and the MNC can be realized (Tseng and Liao 2009; Widmiera et al., 2008; Kuhlmann and Hutchings 2010).
- Transfer of knowledge, skills, and competencies of the parent company can be promoted (Tseng and Liao 2009; Widmiera et al., 2008; Kuhlmann and Hutchings 2010).
- A PCN is a "bridge" between the MNC and the subsidiary to improve communication, enhancing the transmission of the MNC's culture to the subsidiary (Tseng and Liao 2009).
- High caliber and qualified local talents may not be available in overseas affiliates. Instead, an experienced expertise from the parent company can be provided (Widmiera et al., 2008).

(2) Potential problems:

- It should be costly to relocate and maintain expatriates working in overseas since the extra huge cost of allowance, accommodation, and family supports shall not be negligible (Tseng and Liao 2009; Widmiera et al., 2008).
- Lack of candidates who have comprehensively understanding of the local market and culture in overseas country can be easily to have costly mistakes (Widmiera, et al., 2008).
- Unable to adapt to new culture and fluctuation, a PCN may get frustrated easily in the case of failures, and consequently have a greater tendency to quit or have health problems (Widmiera et al., 2008).

1.4.2 Argument for using HCNs

In contrast, the adoption of HCNs also has its own advantages and potential problems.

(1) Reasons for using HCNs:

- Obviously, a reduction of hiring costs is one of the reasons to consider the adoption of HCN; wages paid to locals are usually substantially lower than expatriate wages (Widmiera et al., 2008).
- It is believed that an HCN can secure access the local resources, recognize

opportunities unique to the market, can aid companies in avoiding potentially costly mistakes (Kuhlmann and Hutchings 2010).

- An HCN can ensure a better fit with the local environment, especially in the aspects of legislative requirements, and adapt well to the local culture to increase the interactions of the subsidiary with local stakeholders (Widmiera et al., 2008; Kuhlmann and Hutchings 2010).
- Clearly, adoption of an HCN as a management staff in an affiliate can motivate local employees, providing career opportunities or increasing the host country's reputation (Widmiera et al., 2008; Kuhlmann and Hutchings 2010).

(2) Potential problems:

- Often, an HCN does not understand the parent company's policy or does not acquiesce to headquarters strategies, and hence may follow his/her own ideas to operate the business, resulting in misalignment with corporate directions, and causing substantial divergence (Widmiera et al., 2008).
- An HSN may damage the worldwide reputation or corporate image of the parent company by engaging in questionable business practices (Kuhlmann and Hutchings 2010).
- A lack of required knowledge or skills results in higher education costs and long training time (Widmiera et al., 2008).
- In the case of failure in an overseas subsidiary, investment in training locals becomes lost (Widmiera et al., 2008; Kuhlmann and Hutchings 2010).

With reference to the above pros and cons of using PCNs or HCNs, previous studies tried to apply various theories or HRM concepts to justify the orientation of any decision choices. In general, the strategic role of affiliates, "global integration" and "local responsiveness", are the main concern of MNCs in considering the global staffing policy (Ngo et al., 1998; Widmiera et al., 2008). In addition, some studies believed that the business strategies and HRM orientations might affect the expatriate/local staffing decisions as well. The summary of the HRM approach is shown in Table 1.1. In addition, some papers used the eclectic paradigm (Dunning, 1996) to examine the determinants of the expatriate/local staffing decision. Dunning further developed the internalization theory referring to the internal to the ownership boundaries of the company, and three more factors in OLI-Model were added to the theory. OLI factors include ownership factors, location factors and internalization factor (Tseng and Liao

2009; Widmiera et al., 2008). When deciding whether to adopt a PCN or an HCN, MNCs may consider the OLI factors associated with each alternative and opt for the most efficient one.

Table 1.1: Comparison of strategic role and HRM approach

Strategic Role	Approach	General Strategy	HRM Orientation
Global integration	Transfer MNC's HRM system to its different affiliates	Ethnocentric	Exportive
Local responsiveness	Develop own HRM system, reflecting the local environment	Polycentric	Adaptive
Both	Attempt to take "the best" approaches of worldwide system	Geocentric	Integrative

Source: Edited by the author

1.4.3 Factors affecting the global staffing strategy of MNCs

Most of previous studies have attempted to verify any significant factors that can determine the strategic choice of PCNs or HCNs. Scholars conducted several studies to get various findings from different directions.

(1) The influences of investment strategy, interdependence, and distance between the parent and host country on staffing decision

As seen in the above discussions, MNCs establish subsidiaries in overseas countries through FDI with different investment strategies for the purpose of achieving the respective strategic objective of market access by horizontal FDI, cost reduction by vertical FDI, or both. Each type of FDI has its own factors to affect the staffing decisions of expatriate and locals in different ways. An HCN will be adopted in the case of horizontal FDI to get access the local market easily, and a PCN tends to be assigned to integrate each stage of the process in different countries for cost reduction in vertical FDI. The investment strategy of FDI can only provide the primary direction; there are other determinants affecting staffing decisions. No matter which investment strategy is adopted in FDI, it is likely that MNCs will place more concerns on the

subsidiary's performance if it poses a significant influence to the parent company. Herein, the MNC tends to assign a PCN to manage a larger subsidiary to ensure the achievement of a planned target, which has significant influence on the parent company (Paik and Ando, 2011). This interdependence includes both the individual performance achievement in FDI and the influence on other subsidiaries.

The distance between the parent and host country can be recognized as the divergence between two places in terms of culture, technology, and cost. Gong (2003), Boyacigiller (1990) and Peng and Beamish (2007) state the factor of cultural distance between the parent country and host country as one of important determinants of staffing strategy. Since cultural distance increases uncertainty, risk and information asymmetry, the transaction cost will be increased when the operation is under those environments. Therefore, assigning a certain number of PCNs is thought to mitigate those problems to either directly control subsidiary operations in alignment with corporate direction or to indirectly control them through socialization. However, it is interesting that there is an opposite argument regarding the influence of cultural distance. Widmiera et al., (2008) argue that host countries' staff may hesitate to work under management of expatriates who come from other countries, due to significant cultural distance. The need for subsidiary autonomy is increased when the cultural distance becomes greater. The existence of a PCN may restrain the ability of a subsidiary to adapt to local environments. Besides the cultural distance, other gaps, like technology and operating cost between two countries, also affect the staffing decision at certain levels. Some literature has highlighted that MNCs are less likely to use PCNs in developed country like the United States even though transfer of technical knowledge is one of the planned objectives in FDI. Regarding the cost distance, some findings have shown that the correlation is not very strong, even though the higher cost distance may hinder the adoption of too many PCNs in overseas affiliates. Providing that there are sufficient reasons to support and justify the expatriate assignment, the cost distance seems not to influence this staffing decision (Kuhlmann and Hutchings 2010, Delios and Bjorkman 2000, Tseng and Liao 2009).

(2) The influences of characteristics of an MNC and its subsidiary on staffing decisions

In addition to corporate strategy and distance between parent and host countries, several empirical studies have shown that the characteristics and conditions of both a parent company and its affiliates have direct or indirect influences on the staffing

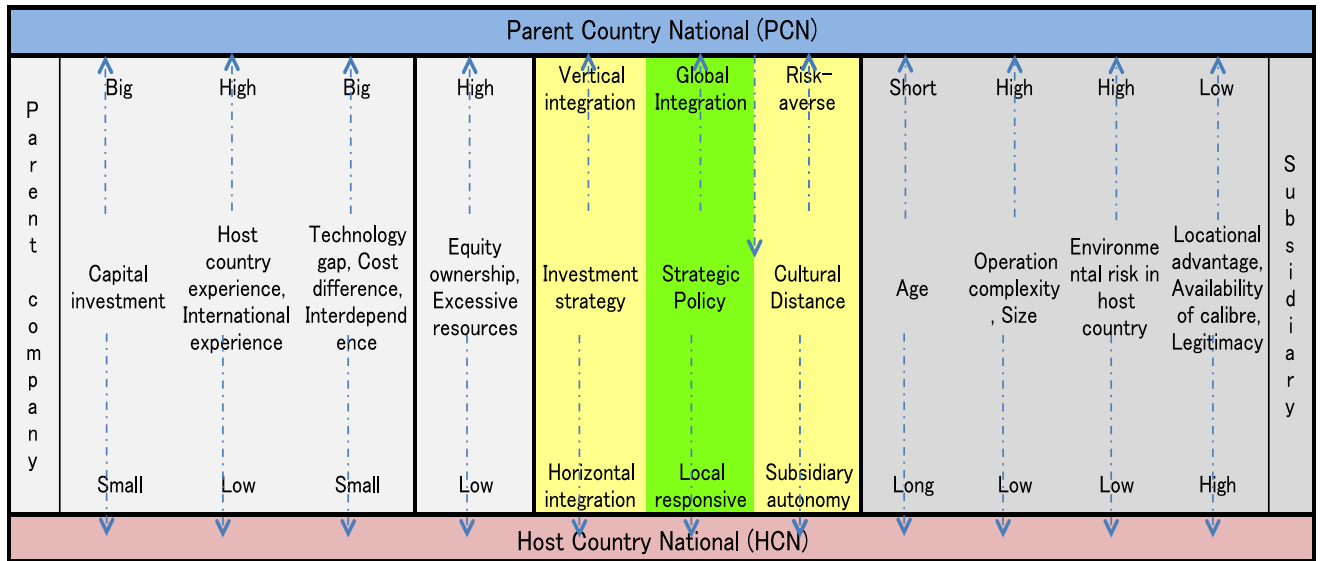
decisions for overseas subsidiaries. For the parent company, equity ownership, the amount of capital investment, resource availability, and experience in host country and international investment are treated as important determinants of expatriate/local staffing decisions. The main purpose of having control over foreign subsidiaries is to ascertain that the objectives of the parent company are actually fulfilled. From a legal point of view, the share of equity held by the parent company represents the rights to control a foreign subsidiary and it is a strong determinant of the degree of management control. Given the potential importance of using expatriates as a means to exercise management control, it is believed that a parent company with higher equity ownership will prefer to staff overseas subsidiaries with PCNs (Delios and Bjorkman, 2000).

Many MNCs have multiple investments in overseas countries. Due to scarce resources, the priority will be put on those investments with relatively high amount of initial capital through the assignment of PCNs in order to secure the expected results (Delios and Bjorkman, 2000). In addition, having a limited number candidates that are equipped with the related knowledge, the ability to cope with cultural distance, a willingness to work abroad, and required management skills may hinder the expatriate assignment, even though the headquarters may desire it (Delios and Bjorkman, 2000). MNCs with limited host country experience are unwilling to use PCNs, as they may run a large risk of underperforming in a new and unknown environment. The results of empirical studies have also supported that experience in the host country is positively related to the deployment of PCNs. However, some scholars state that the longer the international investment experiences in various countries, the greater number of HCNs that will be used for the control of overseas operation (Delios and Bjorkman, 2000; Paik and Ando, 2011). In addition, several findings have tried to explore the characteristics of overseas subsidiaries such as locational convenience, age, company size, operation complexity, environmental risk, availability of caliber, and legitimacy as other factors of expatriates' consideration. It is likely that knowledge of a local area is a key factor to leading the company's success. When locational convenience is high in an overseas subsidiary, the adoption of HCNs has become preferable accordingly (Tseng and Liao, 2009). Regarding the business life of the subsidiary, Gong (2003) and Boyacigiller (1990) have also supported that more PCNs will be adopted in the initial stage of overseas affiliates and the number of expatriates will be reduced in accordance with the practical years of experience in

business operations. The size and operation process of a subsidiary also determine staffing decisions. When a subsidiary is bigger and the operation process is more complicated, the trend of using PCNs increases (Boyacigiller, 1990; Tseng and Liao, 2009).

On the other hand, environmental risks, including political conditions, competition, and other market risks are considered to have a positive effect on expatriate assignment. This may be because the company wants to ensure the subsidiary operation is able to tackle severe conditions with the parent company's support (Boyacigiller, 1990). In certain circumstances, a lack of high caliber of staff in local area creates other reasons to support having more PCNs to manage the overseas affiliates, regardless of knowledge transfer or direct control of operations (Boyacigiller, 1990; Tseng and Liao, 2009). As the legitimacy of a subsidiary improves over time, MNCs gradually reduce their liability of foreignness at a group level, and may be more willing to adopt an output based on a control mechanism (Hamilton and Kashlak, 1999; Peng and Beamish, 2007), and reduce their use of PCNs to manage the companies in host countries. Besides the considerations of PCNs and HCNs, MNCs can have an option to appoint a third country national (TCN) who is obtained from a third country (not from the parent or host) to help management operate overseas affiliates. However, Boyacigiller (1990) has stated that most of the empirical evidence suggests that TCNs are used in lieu of PCNs and probably are assigned according to similar factors, and the utilization of PCNs and TCNs are unrelated. Besides, TCNs have neither the local knowledge nor acquaintance with the corporate policy; hence the number of firms using TCNs is not significant, according to past studies.

Most previous studies have tested only a single factor against the number of PCNs used in overseas affiliates. Some of them have additionally used certain moderators to support respective verifications. In conclusion, it is believed that there are various factors with significant influence on staffing decisions and they may moderate each other. Any single factor may not be appropriate to support the extent of using PCNs or HCNs. Instead, the priorities of determinants' consideration change according to different scenarios, and hence, each company will consider its own conditions to determine the most effectiveness expatriate/local staffing decision. I attempt to summarize the overall image of the above analysis in Figure 1.5. Some of those factors will be verified and tested in the next chapters in different aspects.



* The effect of culture distance depends on how MNCs weigh the importance of uncertainty risk and information asymmetry (PCNS), and the need for subsidiary autonomy (HCN).

Figure 1.5: Summary of determinants of expatriate staffing

Source: Edited by the author

1.5 Discussion of Japanese Management System

The fundamental personal characteristics of Japan and traditional Japanese culture give certain levels of significant influence on the corporate cultures in Japanese MNCs that consequently affect the management system of Japanese organizations and even the formulation of global HR strategies as well. There are hundreds of articles and studies on Japanese culture, society, politics, history, and identity, all replete with various comments about "the Japanese". Most of the characteristics may be associated with typical Japanese organizational culture. In one's personal life, Japanese culture is group oriented and people tend to work together rather than exert their individuality. Expressing strong personal opinions is not common as in Western countries. Modesty and honest are the prevailing attitude, and manners are a high priority in daily living. Japanese people are cordial and modest and respect the rights and needs of others (Lee and Schwendiman, 1982). The Japanese tend to accommodate others' opinions rather than speak up for themselves. They attach much importance to harmony. Japanese tend to rely on the law and regulations than defer to their own judgment, and instinctively obey authority. An earnest working attitude is one of recognized virtues of Japanese people, and they prefer to accomplish a task precisely rather worry about overall performance. Employees are expected to work hard and

demonstrate loyalty to the company in exchange for some degree of job security and benefits. Working long hours is one a commonly recognized characteristic of Japanese employees. In general, Japanese corporate culture puts low emphasis on individualism, high emphasis on long-term views, high emphasis on masculinity, moderate emphasis on power distance, and high emphasis on stability (Ulrich et al., 2013; Miroshnik and Basu, 2014).

1.5.1 Characteristics of Japanese management system

The following paragraphs summarize different characteristics of Japanese management systems and elucidate their influences on the fundamental roles of HRM practices, including HR planning and staffing, recruitment and selection, appraisal and development, rewards, labor relations, and initiative of workforce alignment to company objective.

(1) Business Style

The corporate network form in major Japanese MNCs is called *keiretsu*, which is a network of banks and suppliers that depend heavily on each other for capital and technology. The companies are linked through cross-share ownership, common banking, trademarks, technology transfers, and preferential inter-firm trading to reduce the costs of transactions, research and development, and financing. The corporate culture to stimulate in-group responsibilities creates a culture of trust. Unlike Western countries, having fewer business partners is preferable in Japanese corporations. They prefer to build up long-term relationships with a few suppliers to enjoy the mutual benefits, instead of changing suppliers often, bargaining on price. A culture of “collectivism” along with a sense of interdependence promotes and creates harmony in the company, while networking creates competitive advantages for the corporation. The benefits of the keiretsu system include cooperative specialization, price concessions, control of the pace of technology transfer, and reduced transaction costs (Miyashita and Russell, 1994; Hill, 1995; Miroshnik and Basu, 2014).

During an assignment in overseas affiliates, Japanese managers will participate in various activities, including business meeting, seminars and casual gathering in Japanese associations or clubs. The purpose is to share valuable information, like local government policy changes or business environment issues, and build up relationships so they can get assistance or advice in case they are confronted with trouble.

(2) Corporate governance and professional advice

Corporate governance is defined as the system by which corporations are directed and controlled. The micro aspects include the management of operations, production, human resources, finance, and marketing and macro level corporate governance refers to how the corporate managers reflect the values of the shareholders and how the shareholders influence corporate management, respectively. The Implementation Guidance of Japan Sarbanes-Oxley Act (J-SOX) provides details to Japanese companies on how to implement a Management Assessment of Internal Control over Financial Reporting as required under the Financial Instruments and Exchange Law, which was effective in April 2008 for roughly 3,800 companies listed in Japan, along with their foreign subsidiaries. Internal controls and corporate governance systems are distinct concepts, but they are closely related. Internal control is a set of instructions, guidelines, and procedures to prevent losses from theft and error, and adverse reactions from regulatory authorities. Corporate governance includes all instruments, processes, and systems that would manage and run the company efficiently. Even though most sizeable Japanese corporations emphasize the importance of corporate governance, there are still comments that they are not enough to implement effectively (Shleifer and Vishny, 1997; Miroshnik and Basu, 2014). To do business in developing countries, because of local customs, or undeveloped legal systems, some MNCs adopt irregular methods or procedures. Corporate policy should be defined clearly to provide sufficient and proper guidance for overseas subsidiaries' employees. Since Japanese people tend to rely on law and regulations, Japanese MNCs are keen to get business advice from professionals, like lawyers, accountants, and personnel consultants. Japanese expatriates, especially, have little knowledge of local regulations and operating practices; they rely on external professional advice to assist their operations and minimize business risks. This phenomenon is especially prevalent among manufacturing corporations, who devote a majority of the human resources on production technical skills, resulting in insufficient professional business knowledge.

In recruitment and selection, Japanese MNCs do not emphasize requirements for professional qualifications or knowledge for specific positions like accountants, office staff, or even HR managers. A related department in charge of an overseas subsidiary may not be able to recognize new updates of local regulations, and may fail to respond

timely to important legislative changes in each professional area. In such cases, external consultants are needed, incurring consultation costs.

(3) Quality and process improvement

Products manufactured in Japan are always recognized as high quality, even if the price is relatively high. Lean production is a systematic method for the elimination of waste (*muda*) within a manufacturing process and continuous pursuance of quality improvement. Lean manufacturing is a management philosophy derived mostly from the Toyota Production System (TPS) in the 1990s. As one of the companies with a strong corporate culture in Japan, Toyota focuses on perpetuating growth as its corporate objective. The Toyota Way is a second approach to lean manufacturing, in which the focus is upon improving the "flow" or smoothness of work, thereby steadily eliminating the "non-uniformity" (*mura*) throughout the system. The Toyota Way is a set of principles and behaviors that underlie the Toyota Motor Corporation's managerial approach and production system, and is considered to be the ideal Japanese system of management (Miroshnik and Basu, 2014; Krafcik, 1988). Toyota first summed up its philosophy, values, and manufacturing ideals in "The Toyota Way 2001", which consists of principles of continuous improvement and respect for people. Toyota, as well as other giant Japanese organizations, also have adopted the concept of Total quality management (TQM), which consists of organization-wide efforts to install and make permanent a climate in which an organization continuously improves its ability to deliver high-quality products and services to customers. Actually, TQM originated in the US, not in Japan. However, many Japanese corporations, including Toyota have effectively used TQM. The term has been advocated and subsequently has become associated with Japanese management principles. TQM includes a number of management practices, philosophies and methods to improve the way an organization does business, makes its products, and interacts with its employees and customers.

Kaizen (the Japanese word for continuous improvement) is an important philosophy in TQM and TPS. *Kaizen* is not just making improvement, but also includes the period of persistence and the mindset or attitude of work. *Kaizen* or continuous improvement can never stop in any area of the business, especially in the production process. Bateman and Rich (2003) classify continuous improvement into two approaches according to the length of time over which the improvement activity is focused; the longer time is continuous improvement; a shorter time is process improvement. *Soyokoku* (the Japanese word for proposal of improvement) is a

business activity in which employees are invited to make proposals for the improvement of any process in their working area. Employees are also motivated by rewards for making feasible and sustainable proposals. Indeed, the concept of Kaizen is applied worldwide to different industries; it is not limited to the manufacturing field. The importance of Kaizen to quality and process improvement is recognized worldwide. Other countries try to apply the concepts and activities in their operations, but they often find it difficult to attain their goals. Scholars argue that there is a relationship between the fundamental characteristic of Japanese culture and the success of Kaizen's implementation. Since the real spirit of Kaizen is to improve the current status continuously, long-term employment can encourage employees and provide sufficient time to advance the program persistently. The personal characteristics of Japanese employees, including teamwork, personal discipline and loyalty, are important factors for organizations to execute on-going improvement activities (Bateman and Rich, 2003; Aoki, 2007).

Other recognized TQM practices are the 5-S practice, business process re-engineering (BPR); and quality control circles (QCC). The principle of 5-S, initially based on the Japanese acronyms of *seiri* (organisation), *seiton* (neatness), *seiso* (cleaning), *seiketsu* (standardization) and *shitsuke* (discipline), is an important culture that is applied in all work environments. Some people recognize 5-S practice as only applying to the cleaning activities in the workplace, but the scope of 5-S should extend to cover training and education to enhance the level of morale, which leads to increased quality of life and work standards. Integrating with the concept of Kaizen or visual methods (*medemiru*), 5-S activities are expected to uncover hidden problems that may have otherwise remained unnoticed, and to enhance improvements of operation processes (Gapp et al., 2008). BPR aims to help organizations fundamentally rethink how they do their work to dramatically improve customer service, reduce operational costs, and become competitive. QCC is a Japanese-made institutional development tool by which employees continuously strive for improvement in their work. Generally speaking, the QCC method can serve to enhance people's problem-solving skills in organizations. QCC was first established in Japan in 1962, and it requires a group of employees who do the same or similar work, to meet regularly to identify, analyze, and solve work-related problems. Normally small in size and organized within a department, the group is usually led by a supervisor and presents its solutions to management; where possible, workers implement the solutions

themselves in order to improve the performance of the organization and motivate employees. The activity can also improve team spirit and involve employees in quality enhancements.

Toyota not only emphasizes the constant striving for Kaizen, it also puts efforts towards zero defects, teamwork, just-in-time deliveries, multi-functional teams, and decentralized responsibilities. Management philosophies like of lean production or TPM are not only applied to manufacturing companies, but also to service companies, non-profit organizations, public administration, associations, and voluntary groups. However, due to changes of external economic environments, the collapse of the “bubble” economy of the late 1980s, Japanese companies no longer depend exclusively on the concept of lean production or TPS. The main competitive pressure has been to expand market share, reduce costs, and increase income.

(4) HRM practices

National culture, human resources practices, and leadership styles have prominent influences on corporate culture. Regarding the Insider-Outsider (*Uchi-Soto*) psychology in Japan, Japanese people exclude or hesitate to accept anyone who is not ethnic Japanese from social disclosure. Experienced professionals hired from the outside are expected to be innovative and contributive to the organization, but that is quite alien to the Japanese culture. The majority of top management staff members have been trained and developed from within the company, and most executives enter the company after graduation and stay until they retire. Moreover, foreigners and women are seldom able to become top management in Japan organizations. Japanese women, especially, are mostly excluded from the path of professional careers by the structural discrimination inherent in Japanese-style management.

Most new employees join Japanese companies in April after college or university graduation. Companies provide an orientation program to them to get familiar with the company environment. Japanese companies prefer to train employees as generalists and tend to rotate employees among different operations, which builds worker expertise and alleviates burnout. Since traditionally, lifetime employment has been a major incentive for Japanese employees, employees are expected to be stable and the labor turnover is lower than in other countries. Similarly, Japanese companies have sufficient time to execute rotations or training in different areas of expertise. For example, even though a person may have been hired as an accountant, three or four

years later, the company may retrain him or her for a transfer to the sales department. Therefore, the Japanese human resources system is based on the assumption that employees have a strong loyalty to the company, so that even if they are not rewarded with high wages in their early days, they will work hard, because they know their future will be protected. Certainly, most Japanese companies consider human factors more than other foreign companies. Japanese employers consider employees as family members, and more or less feel they have their lives in their hands. Therefore, lay-offs or redundancy in Japanese companies is rare. Even during recession periods, instead of laying off employees, Japanese companies try to arrange additional training to help employees build knowledge or cut other operating costs. However, the gap between the lowest and highest salaries is far narrower than in the US, and senior managers typically do not receive fringe benefits such as company cars, stock options or even their own offices. Pay scales are more rigid and offer little reward for individual initiative. In many Japanese companies, a bonus is simply a portion of the salary and the difference between each employee is not significant, regardless of individual performance. In addition, promotion is mainly based on seniority, age, gender, marital status, and working attitude. The consideration of personal ability is regarded as a relatively immaterial factor. The rationale for the system is that workers are rewarded for their loyalty (Lehmberg, 2014; Taylor, 1999; Wong, 1996).

Regarding trust between Japanese employers and employees, it is not necessary for most Japanese companies having a formal employment contract to clearly specify the employment conditions. In addition, due to the irregular job rotation and generalist system, job descriptions and job specifications are not common in most Japanese organizations. Japanese companies regard HRM less as a specialty or profession than as an important skill for all departments. The importance and contribution of HRM's roles are ignored and not recognized. Training in management skills is considered inadequate in Japanese companies. Strategic management models or concepts are seldom highlighted or referenced within organizations. Instead, on-site training and hands-on experience are regarded as important elements in the Japanese business world.

(5) Reporting and approval procedure

Because of the conservative nature of Japanese people, before any important decision is made, management teams will consider and discuss deeply from different perspectives. Even though Kaizen activities prevail in Japanese organization, external

parties criticize or question the real productivity of work and operation efficiency of long meetings and over-reporting procedures. On the other hand, cautious approval procedures and thorough consideration may reduce some avoidable failures. *Horensou* (a combination of *hokoku* – report, *renraku* – communicate, *soudan* – discuss) is a traditional method in Japanese company to maintain good communications between the managers and the employees; communications are both routine and strategic (Miroshnik and Basu, 2014).

For any new plan, purchase, or significant decision a “ringisho”, an approval application, is prepared and submitted by the proposer. The application document is circulated, reviewed, and approved by related management staff. The term “ringi” has two meanings: “rin” means ‘submitting a proposal to one’s supervisors and receiving their approval’ and “gi” means ‘deliberations and decisions.’ Corporate policy is not clearly defined by the executive leadership of a Japanese company. Rather, except for routine decisions, the managers at all levels below executives must raise decisions to the next level. In this way, once a decision is made, the subject is accepted on an organizational scale as a company mission. Several people will share the responsibility of the decision. In principle, an organized recording system and approval procedure are vital to the company’s operation. However, extremely long discussions and a complicated approval process may be regarded as work inefficiency and consequently, may affect the morale of employees, or even increase labor turnover.

(6) Lifestyle and human relationships

A hardworking attitude is considered a sign of good morality and principles. However, exhaustive work conditions have been known to be a serious problem in many places. The phenomenon of death resulting from overwork has been widely studied across countries such as South Korea, Bangladesh and Japan. Japan's first case of *karoshi*, translated as "death from overwork", was reported in 1969. Many Japanese recognize the stereotype of the image of workaholic and nurture that important mythical creature, the very busy man. Office workers rarely leave work at break time and manual workers are allowed few holidays, even though they officially are entitled to a certain number of days of paid leave every year. Unlike other nations, sick leave is not regulated in individual labor contracts in Japanese employment. Japanese employees utilize their paid leave for sickness. However, some of them save their paid leave in order to consume the days in the event of a long illness or disease.

Japanese people put a high value on “harmonization”, on their social groups, and on happiness within the community of employees in the company. Japanese society encourages community spirit and voluntary work from the stage of primary school, and discourages individualism at all levels. A seniority system is widely recognized; every junior person must obey and show respects to his/her seniors. Japanese employers care deeply for the employees of his company as if they are family. Even though managers are demanding, they still show certain concerns for their subordinates’ private lives. In contrast, people in Western countries may be concerned for their privacy and hesitate to discuss personal issues with senior or co-workers. Therefore, Japanese expatriates have to pay attention and avoid sensitive topics when they want to communicate or talk about non-work related topics with their national subordinates.

Perhaps because of long working hours, relationships with co-workers are treasured. The term “*douki*” (a co-worker who joined in the same period) and “OB” (meaning “old boy” as a formal member) are commonly used to express the relationship between colleagues. In addition, individuals are also motivated to maintain harmony and participate in group activities, on the job and in after hours socializing. Those activities are expected not only for relaxation after stressful works, but also as a channel to improve communication and relationships between seniors and juniors or co-workers.

1.5.2 Highlights of global HR strategy of Japanese MNCs

According to statistical data from JETRO (2014), FDI outflows from Japan have still showed continuing growth and have reached the investment amount of 119.7 billion US dollars in 2014. Compared with 10 years before, the number of projects and the related investment amount had increased about 3.4 times. This shows that Japan is relying on global business with the implementation of FDI. As mentioned above, Japanese MNCs encounter various obstacles when they engage in global business. The world competitiveness of Japanese companies had been weakening for more than 10 years, and business management, like sales strategic planning or HR planning, was considered not strong enough to handle global operations. Why was the human issue of a reason for failure? How can global HRM strategies resolve difficulties and assist Japanese MNCs in approaching success in global business?

From the global HR point of view, Takatsu and Dominique (2012) point out that

Japanese MNCs do not have the caliber of personnel to deal with global business. Most Japanese employees receive on-job-training internally and seldom have a chance to be involved in overseas operations or get official management training through courses like an MBA. In addition, female and foreigners as managers are rare and not common. Therefore, the Japanese HR managers in charge are unable to keep pace with the changes, which has induced a decline in Japan's competitive position in global business (Lehmberg, 2014). A study by Klein (1992) states that Japanese managers of subsidiaries in the US continue to express frustration in what they perceive to be disloyalty and opportunism on the part of U. S. employees, who change jobs far more than the Japanese. Japanese MNCs find difficulties in changing their practices to retain talented US nationals and were not eager to promote locals from the economic crisis until the start of 2002, due to increasingly sending expatriates overseas. Japanese MNCs faced similar situations in Asian countries as they did in expanding to Western countries.

An overseas business report from JETRO (2016) indicated the trend of Japanese FDI into China declining in recent years (see Figure 1.6). On the contrary, the plans to invest into other countries are showing an increasing trend. One after the other, Panasonic, Toshiba, TDK, and Citizen Watch have closed part of their production plants and withdrawn investment from China. This may imply that Japanese companies encountered various obstacles in their China business. The Japanese management style is, in some ways, poorly suited to working with a Chinese labor force. Japanese companies rely on employee loyalty, docility and sacrifice. Their just-in-time production system is amazingly efficient, but leaves them vulnerable to disruption. Japanese companies have tried to be as penny-pinching on pay in their foreign operations as they have in the home country. Chinese employees presume that a manager is empowered to make decisions and can do so quickly. But in reality, Japanese executives have little autonomy and must wait for orders from headquarters in Japan, because of Japan's consensus-based decision-making.

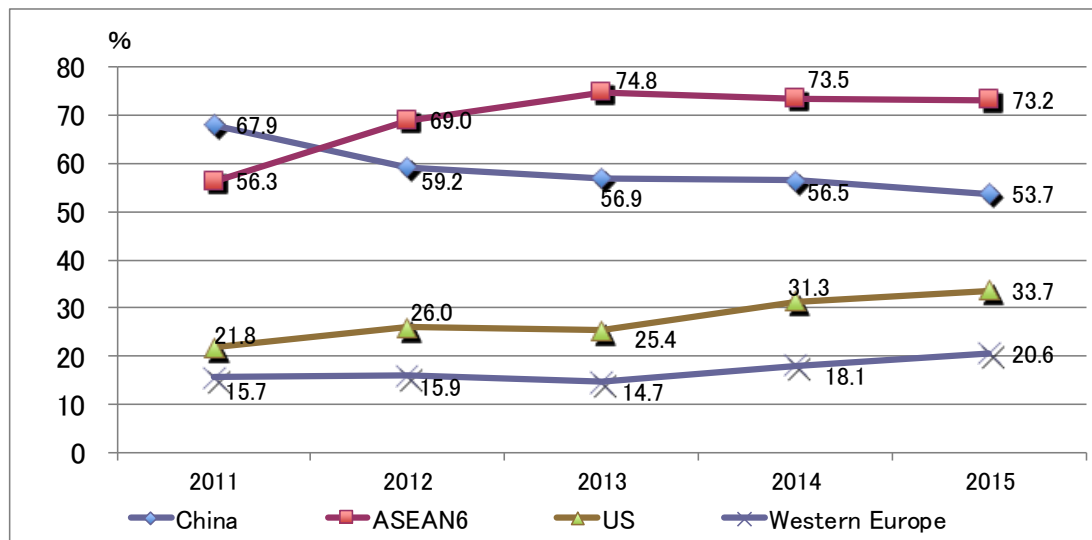
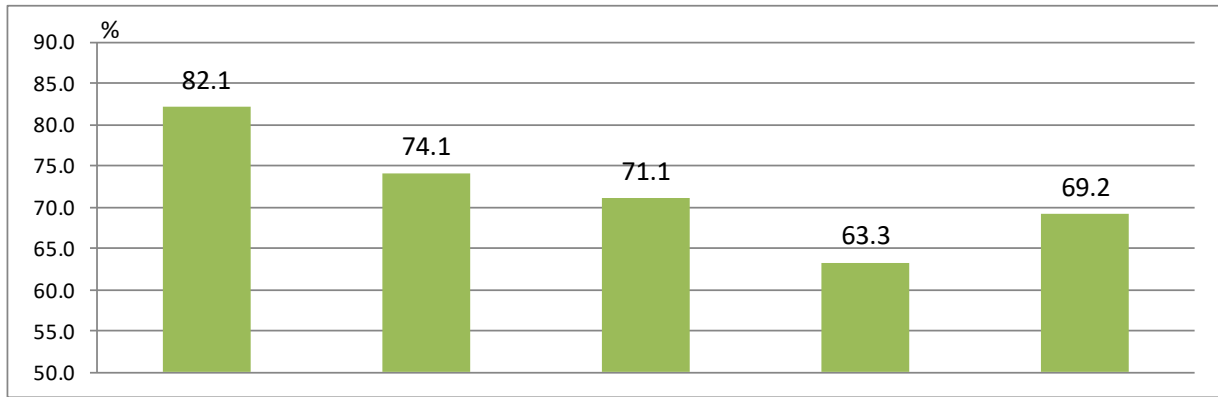


Figure 1.6: Expansion plans of Japan's investments into other countries
Source: JETRO (2016)

Another study of Japanese companies in Hong Kong, on the other hand, states that a dual HRM system for the Japanese expatriate managers and the local employees may have given out mixed signals and messages; the local employees became confused and may not have absorbed the appropriate values and culture in the company. In addition, the local employees' employment is not expected to be long term, and their remuneration and promotion are based on the external labor market and considers internal equity and ability. Most national employees had not received induction and cultural training as intensively as the Japanese managers. In the same research, more than 80 percent of the local employees expressed the opinion that they do not have a clear idea about the corporate culture (Wong, 1996). Indeed, the overall image of Japanese companies in other countries is not bad, according to Recruit (2013). People in most of countries recognized that they can learn various skills and expertise in Japanese companies, and are able to utilize their own specialized knowledge. However, the compensation of Japanese companies is still ranked as the lowest amongst other aspects. The Chinese especially, ranked it lowest compared with people from other countries (see Figure 1.7). Figure 1.8 shows that most Asian workers sampled preferred to work in US companies rather than Japanese companies. It is surprising to see in the responses that only 5.5% of the Chinese people polled want to work in Japanese companies.



	Can learn skills and expertise	Can utilize own Specialty	Trustworthy Management	Can creat own Career path	High Compensation
Total	82.1	74.1	71.1	63.3	69.2
China	77.6	68.9	52.7	54.8	57.2
Korea	79.5	71.4	55.9	68.5	74.2
India	88.8	85.3	80.5	78.9	80.5
Thailand	89.4	80.4	88.8	79.4	85.2
Malayisa	87.7	69.0	76.6	60.9	70.1
Vietnam	94.0	88.9	87.2	74.7	86.3
USA	73.4	63.5	61.5	51.2	60.9

Figure 1.7: Image of Japanese Companies
Source: Recruit Works Institute (2013)

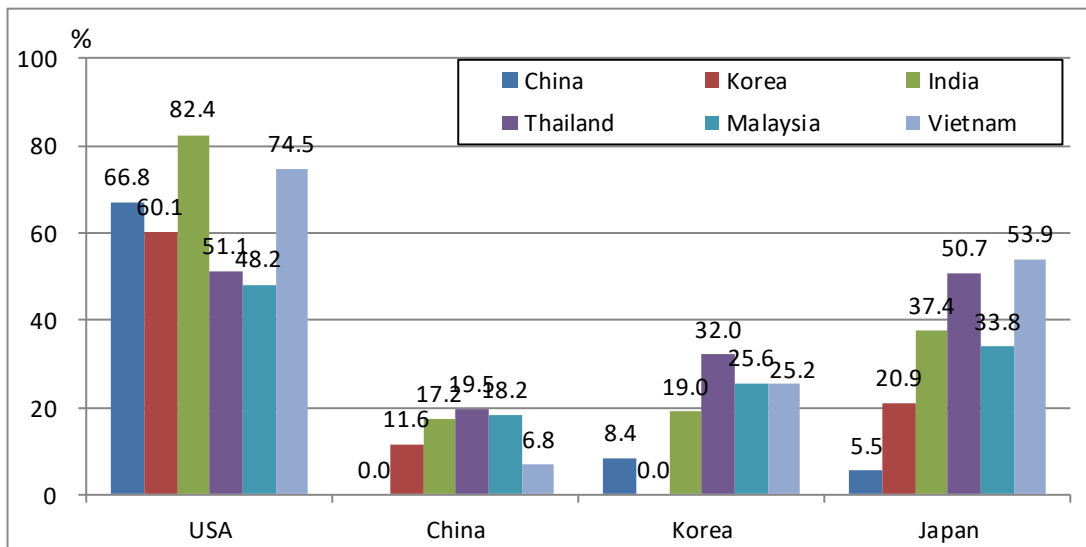


Figure 1.8: Preference for working in Foreign organizations
Source: Recruit Works Institute (2013),

Since the trend of globalization is continuous, Japanese MNCs have to discover alternatives and improve their weakness in order to compete in a changing business environment. Like China, the transformation trend of recent years from manufacturing to service and high value-added technology is expected to continue. As China improves legitimacy over time, the level of business risk in China will decrease

because foreign companies can gain legal sanctions and meet the social expectations more easily. Therefore, MNCs should feel more comfortable in hiring local Chinese as subsidiary managers. There should be certain significant difference in HRM strategies in the coming era in China. It is clear that Chinese companies need not only more talent, but also better talent. All of these demands require HR professionals to create new competitive advantages in China (Peng and Beamish, 2007; Itakura, 2011).

In transferring corporate culture to overseas subsidiaries, the HRM of MNCs has an important role to align with overseas national staff because of the substantial differences in the culture and values between employees in the HQ and in the overseas subsidiaries. A vital global HRM strategy is crucial to the successful adaption of corporate culture transfer. Most Japanese MNCs promote their code of conduct to other subsidiaries and it is believed to be part of the internal practice that can be consistently maintained. The MNCs depend more on personal influence through the use of expatriates to exert more diffused and indirect corporate cultural influence. One of the important tasks of an expatriate is to transfer relevant knowledge to overseas subsidiaries. The managers of most Japanese companies transfer their techniques of management and manufacturing technology to the overseas operations, but do not transfer the Japanese national culture, even though it is important to adhere to the corporate culture. Japanese managers try to influence the employees about the original organizational culture through socialization and communication rather than setting rules, which is more common in many other management systems. Hence, HR managers in headquarters must understand the differences in the culture and the legislative requirements of recruitment, staffing, appraisal, rewards and employment in each overseas location before implementing corporate culture transfer. Regarding the transfer of organizational culture, relying on expatriates from Japan headquarters is not enough. It is necessary to provide a training and education plan for local employee to explain the details of the corporate culture. Attending regular business meetings or short-term training in Japan, local employees can better understand; these are considered more effective ways of culture transfer.

Regarding the typical compensation system in Japanese companies, whether the subsidiary is in the West or East, it is inappropriate to apply compensation in exactly the same way. Besides the previous examples of Hong Kong subsidiaries, the literacy and educational level of China employees have improved gradually, and capable employees may be unwilling to accept the traditional reward scheme, the so called

“*nenko system*”, which is based on the level of seniority instead of individual performance. The company cannot expect dissatisfied employees to be loyal to the company. Those employees will resign eventually; lifetime employment is not a consideration in subsidiaries. A performance based system with a clear appraisal system is needed in a global firm. Even though some Japanese companies have recognized this problem and have started to alter their systems, those changes should be expedited in order to not miss any opportunities (Syed et al., 2008). Takatsu and Dominique (2012) also note the importance of adopting foreign managers of high caliber, female managers, improving language skills, and using worldwide management skills and professional knowledge. All these are considered vital for the improvement of Japanese MNCs’ competitiveness in the global HR area.

The latest changes of traditional Japanese culture in the human resources aspect may pose various challenges in Japanese companies, especially for MNCs that want to expand their business globally. Overseas employees and Japanese companies are experiencing difficulties in retaining their Japanese employees today. Traditionally, in larger Japanese companies, it has been very unusual for employees to quit before retirement age. With more foreign companies active in the Japanese market, there are more opportunities than previously to switch employers. Also, the grip of the "lifetime employment" mentality has been loosening, and attitudes toward changing jobs have shifted. In addition, promotion opportunity, the employment opportunity for female employees, and changes in the workaholic lifestyle have prevailed lately. This means that Japanese companies must think about how to prevent turnover and how to improve employment conditions, not just among their non-Japanese staff, but among their Japanese staff as well.

1.6 Conclusions

The purpose of this chapter is to summarize previous related studies and highlight relevant points to provide insights for future analysis. Based on the above discussions, staffing is considered an important topics in global HR strategies of MNCs. Since some Japanese MNCs have had failures in HRM practice in a global perspective, they must figure out a comprehensive strategy to meet international standards. In comparison to the previous manufacturing era, the business environments had changed significantly in China. As a major source of FDI in China, Japanese MNCs must pay great attention to strategic decisions, especially in the HR area. The following chapters

will verify several hypotheses based on the above discussions, attempt to resolve some of the current potential problems, and render some suggestions for Japanese MNCs that wish to continue their business in China.

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Chapter 2: Staffing Strategy of Japanese Companies in China (JCCs): Selection of Chief Executive Officers (CEOs)

Abstract: HRM practice is regarded as a source of sustained competitive advantage for organizations and a key to success for an MNC's global business. Effective staffing strategy becomes important for Japanese MNCs' selection of top management, such as the Chief Executive Officer (CEO)⁴. This chapter is based on the underlying factors affecting the staffing decision discussed in the previous chapter. It tries to verify whether or not several hypotheses can apply to Japanese companies in China (JCC)⁵. According to the data analysis of 1,914 samples of JCCs from the statistical data of the 21st Century China Research Institute, the result told us the majority of JCCs chose Japanese CEOs, regardless of a diversity of conditions, except in cases of locational inconvenience of inland regions and joint decision making due to contractual alliances of joint undertakings. The impact on the effectiveness of global management due to an over-reliance on staffing from the headquarters cannot be neglected. Managerial implications of the staffing strategy of Japanese MNCs are discussed for the purpose of improving MNCs' global HRM practices.

Keywords: Japanese MNCs, CEOs, HRM, staffing strategy

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2.1 Introduction

Globalization is not a recent phenomenon, but how to become an astute global player is still a hot topic for most MNCs. Referring to discussions in the previous chapter, the growing field of HRM in MNCs is undeniable. In synthesis, the execution of global HR strategies effectively ultimately depends on the ability to judge the extent to which MNCs should implement standard practices across the world or adapt practices to suit local conditions (Brewster et al., 2002). For this reason, global staffing is recognized as one of the most important HRM practices. In particular, the extent to

⁴ Chief executive officer (CEO) commonly describes the position of the most senior corporate officer in charge of managing a business organization in the US, similar to managing director (MD) or president in Japanese companies.

⁵ In this chapter, a Japanese company in China (JCC) is defined as any company that is solely or partially invested by Japan and located in China, including Hong Kong.

which expatriates are adopted into overseas establishments directly affects the outcomes of global investments (Boyacigiller, 1990, Hamill, 1989, Oki 2013). Since the Chief Executive Officer (CEO) plays a key role in leading a company to operate a business successfully, the selection of CEO becomes a crucial and tricky task of HRM (Herrmann and Datta, 2002). As a leader, a CEO makes high-level decisions on company policy and strategy, advises the board of directors on business direction, motivates employees, and drives change within the organization. In addition, the CEO of an overseas subsidiary also serves as a bridge between the MNC and the subsidiary to ensure effective communication and flow of strategic direction (Gong, 2003, 2003a). Whether to appoint a local employee from the host country or deploy one from the headquarters as a CEO remains a significant decision for the company (Tseng and Liao 2009).

For the purpose of formulating an appropriate strategy, a deep understanding and analysis of the factors affecting global staffing strategy, discussed previously, are crucial to the success of MNCs. Ma and Trigo (2012) state that most Japanese companies tend to employ a large amount of Japanese expatriates in order to control the operation of overseas subsidiaries, and are therefore the least localized, when compared with Western and other companies investing overseas (Delios and Bjorkman, 2000). Even though some past studies and data have already shown that a majority of Japanese MNCs deploy the expatriates from headquarters to manage the business operations in overseas affiliates, there is a dearth of research considering the individual factors influencing such decisions. Due to the worsening world competitive ranking of Japan's MNCs, a lack of appropriate global HR strategy is considered as a major factor of failure in global business. In addition, the business environment in China is changing after years of economic development and becoming more challenging. Further study of the CEO selection in Japanese companies in China (JCCs) is expected able to provide more comprehensive views and supporting information for Japanese MNCs with investments in China (Taylor, 1999). The objective of this chapter is to verify particular factors affecting CEO staffing strategy and whether they apply in JCCs using data analysis and to provide insights for further studies in the next chapters.

The research in this chapter is solely based on secondary data, and the required data have been collected from published statistical sources, journals, books, Internet materials, and so on. This chapter starts with a comparison of the deployment of

expatriates from the headquarters to local staffing with some illustrations from previous research. According to underlying factors affecting global staffing strategy discussed in Chapter 1, five factors are selected as research questions for the purpose of verifying the underlying factors and seeing whether they apply in the same manner in the context of JCCs. Finally, the data analysis of the findings is presented and discussed accordingly. This chapter concludes with implications for global HR strategy of JCCs, as well as some suggestions for improvement in CEO selection.

2.2 Trend of Japanese MNCs' Selection of CEO for their Subsidiaries

MNCs are faced with a great deal of cultural and institutional variations, which make managing in a multinational context particularly complex (Doz and Prahalad, 1986). Significantly, managing staffing arrangement in overseas subsidiaries of MNCs is increasingly important to ensure the profitability and viability of business operations. Balancing the need for control and coordination of foreign subsidiaries with the need to adapt to the local environment is important to all overseas companies (Adler and Ghadar, 1990; Myloni et al., 2007). Developing future global leaders becomes a key priority in the management of human resources in a global organization (Scullion and Starkey, 2000). Regarding HRM in a global context, the complexities of operating in different countries and the employment of various categories of workers are the major differences compared with domestic concerns. In general, there are three types of employees of overseas subsidiaries: PCNs, HCNs, and TNCs, which were illustrated in the previous chapter.

Global staffing is a critical issue faced by MNCs with regard to the employment of home, host and third country nationals to fill key positions in the overseas operations. Global staffing becomes important for several reasons. There has been a considerable increase in the mobility of human resources due to the rapid growth internationalization and global competition (Black et al., 2000; Paik and Ando, 2011). The performance of expatriates continues to be problematic and the evidence suggests that the costs of poor staffing decisions in international business are often high in human and financial terms (Dowling and Welch, 2004). In addition, many MNCs continue to underestimate the complexities of global staffing and lack knowledge of labor markets in a variety of countries and how to recruit in these markets. This is a major challenge for MNCs (Briscoe and Schuler, 2004). Shortages of international

managers are also another growing problem for international companies and the implementation of global strategies are increasingly constrained by shortages of international management talent (Scullion, 1994). There is a growing recognition that the success of global business depends most critically on recruiting the desired quality of senior management in the MNCs and their subsidiaries (Schuler, 2000). Basically, there are various types of overseas investment involving international competitors undertaking mutual investment in one another, and relating to the trade aspect of regional integration. Horizontal FDI and Vertical FDI are widely used greenfield investments by MNCs. Horizontal FDI is driven by market access of the same business activities in multiple countries, while vertical FDI takes place as MNCs divide the production process internationally, locating each stage of production in the country with the least cost (Helpman, 1984). Today, there are examples of FDI serving both functions. Regardless of the kind of FDI, the CEO of each overseas company has to direct the company to achieve the primary objective determined by the MNC, and hence, most MNCs face similar challenges when they consider the selection of their overseas subsidiaries' CEO. Referring to previous studies, most Japanese MNCs have a tendency to appoint PCNs as top management in their subsidiaries because they are well trained under the corporate policy and acquired specialized skills that are important to the Japanese headquarters. Tung (1982) states in her study of selection and training procedure of MNCs in various countries that Japanese MNCs employ considerably more PCNs in their overseas operations at the senior and middle management levels, compared with US and European companies.

In general, the motives for MNCs transferring personnel abroad include filling positions, management development, and organization development (Edstrom and Galbraith, 1977). As shown in Table 2.1, the majority of Japanese MNCs appoint PCNs to act as directors of overseas subsidiaries, regardless of the districts of investment (Wang, 2007). Figure 2.1 also indicates the difference of the MNCs from Japan, the US, and Germany in expatriation of senior management staff in Asian subsidiaries (METI, 2000). US and Germany rely predominantly on HCNs to manage overseas companies, while Japan rely on PCNs as senior management staff. The common explanation of the heavy use of expatriates to manage the overseas operations in Japanese MNCs is related to the traditional Japanese management characteristics. In comparison with American and European companies, Japanese companies tend to be relatively more ethnocentric. In an ethnocentrically managed company, PCNs will hold

a majority of positions in overseas operations and the head office significantly influences the company direction. Those MNCs apply the exact methods of management and operation that have been successful in the home country, and ignore any concerns of the domestic situation and local needs. In addition, the intensive use of expatriates has been linked to the traditional HRM practices in Japanese organization, such as lifetime employment systems, extensive job transfer systems, seniority-based pay, and an emphasis on control through socialization (Tung, 1984; Baliga and Jaeger, 1985; Beechler and Yang, 1994; McMillan, 1996). In the highly hierarchical Japanese companies, serious barriers exist between local managers and Japanese expatriates. This implies that Japanese companies still hesitate to expedite the promotion of local management positions. This is considered one of the major obstacles of the improvement of global competitive position. Other typical problems of this management style are an inability to fully utilize the talents of non-home-country nationals, discontent among local national managers, high turnover rate of local national managers, and repatriation problems for expatriates returning to the home country (Heenan and Perlmutter, 1974). In contrast, another study by Bae, Chen, and Lawler (1998) indicates that HCN executive have increased in other countries, especially in lower management positions. Many other countries' MNCs recognize the advantages of appointing HCNs as management staff in overseas subsidiaries.

Table 2.1: A distribution of Japanese companies' director's country of origin in each district

	HCN			PCN			TCN		
	<u>2001</u>	<u>2003</u>	<u>2005</u>	<u>2001</u>	<u>2003</u>	<u>2005</u>	<u>2001</u>	<u>2003</u>	<u>2005</u>
China	16.5	22.9	12.9	82.2	75.5	83.6	1.5	1.6	3.5
Other Asian	0.0	19.6	23.9	0.0	78.9	75.7	0.0	1.1	0.4
North America	25.3	30.5	25.6	73.8	68.0	73.8	0.2	0.7	0.6
Mid/South America	15.0	15.6	14.4	84.0	83.9	83.2	1.0	0.7	2.4
Europe	17.7	20.1	23.3	80.1	75.5	74.6	2.6	4.3	2.1
Overall	19.3	20.2	19.4	79.4	77.7	78.9	1.4	1.9	1.7

Source: Wang, Li, Rao (2007)

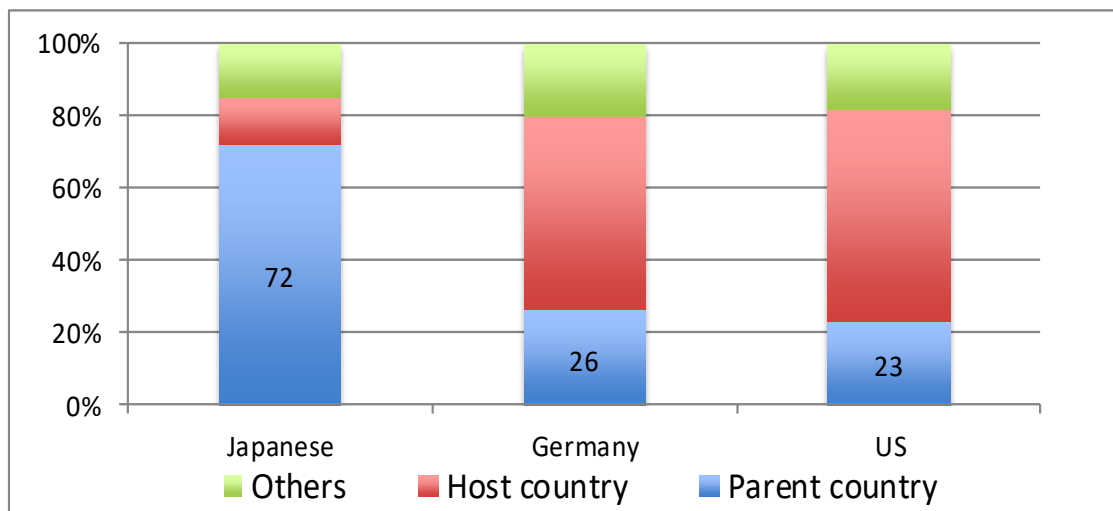


Figure 2.1: MNCs' assignment of Senior management staff in Asian subsidiaries

Source: Wang, Li, Rao (2007)

Since those problems are not only limited to Japanese MNCs, any US and European MNCs that adopt similar ethnocentric policies and practices may engender similar motivation problems among local employees, including dissatisfaction with communication and approval procedures and frustration with limited promotion opportunities (Zeira et al., 1975; Zeira, 1976). In consequence, ethnocentricity creates difficulty in recruiting and retaining high-caliber local employees. Vertical Japanese industrial groups or vertical keiretsu (networks of suppliers, related or spin-off manufacturers, and wholesale and retail distributors) also have significant impact on the degree of management control over other group companies, facilitated by shareholdings, financial ties, and dispatch of managers from company headquarters (Goto, 1982; Gerlach, 1992; Belderbos, 1997; Belderbos and Heijltjes, 2005).

Most researchers addressing the subject of Japanese MNCs have already focused on the unique issues facing by Japanese companies or have compared the factors influencing global HRM practices of MNC. However, there is little data to substantiate that the previous findings apply to Chinese subsidiaries of Japanese MNCs. As discussed in the last chapter, FDI in China is still regarded as significant to Japanese MNCs. It will be meaningful to further clarify the underlying factors influencing the selection of CEOs in Chinese subsidiaries. Thus, the aim of the following sections in this chapter is to provide data from which such analysis can be made.

2.3 Hypotheses Development and Methodology

Considering the above discussions and the factors affecting global staffing strategies discussed in Chapter 1, five of those factors that are commonly recognized as influences on selecting local elite for top positions in foreign investment company are examined to further verify whether they can apply in Japanese MNCs' subsidiaries in a similar manner. The target of this study is to focus on JCCs, which are considered critical overseas management areas for Japanese MNCs.

2.3.1 Hypotheses development

1) Influence of locational convenience of the host country

Most MNCs have preferred to start their Chinese business by establishing a company along the coastal areas due to efficiency-seeking objectives geographical proximity is important to the home county to minimize transportation cost. Since FDI is considered a long-term capital investment and irreversible in the short run, FDI in transition economies is mainly driven by the host country's market size, the availability of skilled workers and the existence of sufficient infrastructure (Kinoshita and Campos, 2002). Companies in inland regions or coastal areas within the same country have different regional characteristics in terms of size, population, infrastructure, standard of living, and so on. It is expected that a regional location may have certain influence on the CEO staffing decisions due to the distance of culture, technology, and cost. Increasing labor costs creates the burden to most FDI in China, hence some of them have considered relocation of their establishments in recent years. One choice is to relocate to the inland areas of China. Since the average labor costs in inland areas of China are still relatively low, one of the pitfalls of appointing Japanese people as top management is that they receive more benefits and salary than host-country nationals and the inconformity of operation cost cannot be ignored (Margaret and Omar, 2014). On the other hand, expatriates are able to manage a venture and train local employees, penetrating the local market and capturing market share (Margaret and Omar, 2014). Because of the differences in cultural values, MNCs of different country origins tend to have different degrees of adaptation to local conditions. Since companies have to obey local regulations and domestic environmental conditions, they may influence the HRM practices in the host country as well (Ngo et al., 1998). An overseas company that can actively involve the local networks and industrial clusters will accrue significant benefits in productivity and innovation and in acquiring resources and

information to smooth the business operations (Luo, 2001a).

On one hand, Tung (1982) states that HCNs are used to a much greater extent at all levels of management in developed region of the world, compared to the less developed regions because the more developed nations have a larger pool of personnel who possess the necessary manpower and technical skills to staff management-level positions. On the other hand, an overseas expatriate CEO will have certain difficulties or need a long time to adjust to the new living environment. There may be cases of inconvenient locations with poor transportation networks if the overseas company is located in a remote area. Consequently, the CEO's work efficiency and performance may be affected. Thus, having a local CEO can more advantageous than an expatriate CEO in terms of enhanced familiarity with the local environment and superior connections with local networks. There is a new tendency to appoint a local person as the subsidiary CEO to acquire and utilize various locational conveniences (Gong, 2003a). Therefore, this study proposes the following hypothesis:

Hypothesis 1 : The locational conveniences of a host country are negatively related to the likelihood of Japanese MNC staffing the CEO position in JCC with HCNs.

2) Influence of Equity Ownership

A Japanese MNC enters the China market by establishing either wholly owned subsidiaries or joint ventures. The Wholly Foreign Owned Enterprise (WFOE) is a limited liability company that is 100 per cent owned by a foreign investor in China, whereas an equity joint ventures (EJV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. The partners share profits, losses and risk in equal proportion to their respective contributions to the venture's registered capital. In general, MNCs are more likely to adopt the joint venture mode when an unsatisfactory institutional context is present, because of the difficulty in acquiring legitimacy. As such, foreign subsidiaries are more likely to use the wholly owned subsidiary mode to improve FDI legitimacy, due to the dynamic interaction between institutions and mounting FDI (Peng and Beamish, 2007).

In the case of Japanese MNCs, the conventional Japanese management characteristics may pose certain obstacles to an overseas investment by joint venture mode. Especially in manufacturing businesses, Japanese MNCs prefer to have

complete control of the production system because of their high quality requirements. The Japanese style tends to be conservative and managers prefer to have deep considerations before a conclusion is made. Cultural distance is another reason to hesitate to cooperate with another country's management team due to a lack of common language for communication and different business practices. "Inside-outside (*uchi-soto*)" in the Japanese language is the distinction between in-groups and out-groups. This distinction between groups is not merely a fundamental part of Japanese social customs, but is also directly reflected in the Japanese language itself. Theoretically, it is possible for a foreigner to become a part of Japanese society. However, in reality it is very difficult for non-Japanese to be accepted as an "uchi" member of Japanese society. In following the Japanese custom of collectivism, deciding individually to become a part of a certain group does not mean that one is actually a part of that group.

The selection of a CEO in a joint venture may not be fully controlled by the Japanese MNC. One of the reasons to invest by EJV is to utilize the caliber of a host country for the purpose of penetrating the local market. In order to reduce risk and resource commitment (Hill et al., 1990), and increase strategic flexibility (Harrigan, 1985), Japanese MNCs may have to cooperate with local dominant players by relinquishing some control and using fewer expatriate in overseas subsidiaries. Therefore, the CEOs of EJVs are largely local HCNs. In contrast, when Japanese MNCs enter China's market using the WFOE mode, they may tend to assign PCNs to act as CEOs of subsidiaries, in order to have completely control and to keep alignment with headquarters' directions. Therefore, the following hypothesis is proposed:

Hypothesis 2 : Investment in China by equity joint ventures is positively related to the likelihood of MNC staffing the CEO position in JCCs with HCNs, in comparison to investment by wholly foreign owned enterprises.

3) Influence of the Legislative System of the Host Country

Little empirical evidence can be found on whether or not FDI's gaining legitimacy influences expatriate staffing. Even more rare is evidence on the relationship of top management staff, like the CEO with the country of origin. Legitimacy is a belief that produces distinctive collective effects in a society, including making collective social order more efficient and consensual (Tyler, 2006). Legitimacy is a generalized concept;

it is the assumption that the actions of an entity are desirable, proper, or appropriate to some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995; Scott, 2001). Institutions refer to formal rules (laws and regulations) and informal constraints (cultures, customs and norms) that structure incentives in political, economic and social relationships in a society. There are three pillars of institutions, namely, the regulative, normative and cognitive (Scott, 2001). The regulative pillar refers to rules, laws and sanctions that provide legal legitimacy. It is argued that regulative legitimacy is the most salient type of FDI legitimacy in this study; the legal system and related institutions of the host country are assumed to impact the staffing decision to choose PCNs. In order to interpret how FDI gains legitimacy, the development status of a country's legislative system is used to show the risk of business operation for FDI. If the legislative system is well established in the host country, FDI can gain legal sanctions and meet social expectations more easily. In consequence, FDI gains legitimacy and the level of business risk in overseas investment decreases. As such, MNCs can feel more comfortable in employing HCNs as subsidiary managers (Harzing, 2001a).

Peterson et al. (1996b) show that Japanese MNCs are more likely to increase their use of expatriates when the level of institutions is improved. Expatriates can serve to exert personal and cultural control, in both direct and an indirect ways (Harzing, 2001a). Control through expatriates is especially important when formal, output based control is not appropriate in countries with unfavourable institutions (Hamilton and Kashlak, 1999; Martinez and Jarillo, 1991). As FDI gains legitimacy, MNCs may arguably be more willing to implement an output based control mechanism (Hamilton and Kashlak, 1999), and reduce the use of expatriates from the parent companies. Many MNCs are confident in setting up business, in Hong Kong, for example, taking advantage of its competitive capabilities of free trade and free flow of funds to operate as a regional hub or service center. The government of Hong Kong provides an appropriate economic and legal environment to make Hong Kong an international financial center and metropolitan city (Saeed and Ajay, 2000). Although Hong Kong is to retain its own currency, legal system, and parliamentary system for fifty years after the handover to China, the Hong Kong Special Administrative Region (SAR) is part of China. Almost 20 years after Hong Kong's return to Chinese sovereignty, the city's economy is becoming increasingly integrated with that of the mainland. Hong Kong's continued prosperity will depend on further pursuing that integration, and Hong Kong

companies will continue to play a major role in the mainland's development, for example by investing in mainland infrastructure and raising funds for mainland businesses. This consequence also suggests that Hong Kong is used by companies in the mainland as a stepping-stone in their globalizing process, and that these companies accumulate substantial benefits in terms of the enhanced experience of their expatriate staff.

Actually, it is quite difficult to measure the legislative system of the province, even though there are several measures that attempt to compare each province in the market. The annual “Economic Freedom of the World” report by the Fraser Institute is one economic survey based on the foundation of economic freedom (Gwartney et al., 2015). Economic freedom in the report is dependent on the presence of sound money, rule of law, and security of property rights, among other factors. Economic Freedom of the World seeks to measure the consistency of the institutions and policies of various countries with the dimensions of economic freedom and province or city risk. In particular, the component of “legal system and property rights” reflects the institution status of the province. The key ingredients of a legal system consistent with economic freedom are rule of law, security of property rights, an independent and unbiased judiciary, and an impartial and effective enforcement of the law. In addition, security of property rights provides a foundation for both economic freedom and efficient operation of markets. As a result, the efficient allocation of resources gives individuals and businesses confidence and incentive to engage in productive activity. The fundamental concept of this research is regarded as a relevant index to indicate the business environment of each province, and facilitates investment by MNCs. In the 2014 annual report, Hong Kong was rated at the top amongst 152 countries of the world with an index of 8.97. Even though China has shown a significant improvement in the past 35 years, with its rating increasing 75% from 1980 (3.64) to 2013 (6.44), it is still far below Hong Kong, ranked 111th (see Table 2.2). The rating of “legal system and property rights” shows a similar gap between them as well. Therefore, according to aforesaid contentions, there is a tendency for MNCs to assign HCNs as CEOs if the host country can provide sufficient legitimacy for foreign invested companies through a sound legislative system.

Table 2.2: Comparison of Country Data Tables between Hong Kong and China

(Rating: points out of 10)	Hong Kong					Mainland China				
	1980	1990	2000	2010	2013	1980	1990	2000	2010	2013
Summary rating	8.72	8.73	8.86	8.96	8.97	3.64	4.09	5.75	6.26	6.44
(Rank)	(1)	(1)	(1)	(1)	(1)	(96)	(100)	(100)	(120)	(111)
Size of government	9.75	9.31	9.35	8.93	9.39	2.63	3.65	3.43	4.48	5.00
Legal system and property rights	8.13	5.94	7.23	8.18	7.95		5.79	4.95	6.25	5.86
Sound money	8.51	9.02	9.11	9.31	9.38	6.18	6.73	8.12	7.89	8.26
Freedom of trade	9.94	9.97	9.72	9.37	9.11	2.72	2.72	6.46	6.68	6.73
Regulations	7.25	9.43	8.89	9.02	9.03	3.04	1.58	5.79	6.01	6.38

Source: Gwartney, Lawson, and Hall 2015

Hypothesis 3: The development of legislative system in the host country is positively related to the likelihood of a MNC staffing the CEO position in JCCs with HCNs.

4) Influence of Industry of JCC

Insufficient previous studies put efforts to compare differences in staffing strategies among various industries like manufacturing, services, and retail. Especially in China, the tendency toward a manufacturing orientation has been changing to a focus on the service industries in recent years. HRM strategies in overseas affiliates have diverse concerns due to the different characteristics in each industry. In particular, a manufacturing business requires a certain level of technology and knowledge of production systems. Overseas subsidiaries may lack sufficient skills, even after years of operations, to make continuous process improvements. Persistent monitoring and regular updating of new manufacturing techniques are necessary to ensure the quality of products. PCNs from headquarters can be a powerful means to transfer technical expertise and management know-how to foreign ventures (Smale, 2007; Bonache and Brewster, 2001; Kuhlmann and Hutchings, 2010). Much of the knowledge transferred between units of companies is not explicit but tacit, meaning that it is not overtly articulated. Tacit knowledge is deeply rooted in an individual's experience, and can only be shared with others through its application or by being made explicit. Because tacit knowledge cannot be written or codified in manuals or through policies, international assignments may become a suitable means for the diffusion of such knowledge to overseas operations.

Knowledge transfer within MNCs through the assignment of PCN expatriates traditionally deals with competencies needed that are not held locally (Widmiera et al,

2008). In conditions where the parent company has greater proprietary knowledge, expatriates must be used to transfer the parent's knowledge to the foreign subsidiary. In addition, the quality concerns in the Japanese management system is highly important. In order to ensure an overseas subsidiary will align with the headquarters' quality policy, various activities, like quality circles, 5S, and other Kaizen programs are adopted in the overseas subsidiary (Miroshnik and Basu, 2014). The perceived need to use expatriates to transfer knowledge to foreign subsidiaries is likely to vary by the type of knowledge possessed by the parent company and across host countries. Therefore, it is suggested that MNCs in technological industries are particularly likely to assign expatriates to work in developing countries like China, where foreign companies face an inadequate supply of skilled local people for technical and managerial positions (Goodall and Wamer, 1998). Therefore, we propose the following hypothesis:

Hypothesis 4: An MNC has a relatively lower likelihood of staffing the CEO position with an HCN if the JCC is in the manufacturing industry than in a non-manufacturing industry.

5) Influence of Years of Business Operation

Referring to the aforesaid determinants of the expatriate vs. local staffing decision, it is believed that each stage of FDI will have different HRM concerns under a variety of conditions. Although previous studies stated that Japanese MNCs prefer to assign Japanese people as CEOs in their subsidiaries for various reasons, the advantages of appointing an HCN cannot be neglected. Therefore, it is considered that decisions on global businesses are primarily made by managers at the headquarters with the expectation that their foreign establishments will run more autonomously in the future with capable local staff (Thite, et al., 2009).

Youssef (1973) suggests that a MNC will increase its use of local managers as the company gains more experience in the host country. During the initial establishment stage, there are a lot of unknowns, difficulties, and unstable conditions. Especially in the first investment in the host country, the local legislations and common practices and other environmental issues are not well known by the MNCs. To ensure the progress of business operations and development congruent with the original plan, more PCNs are used to enhance the confidence of the MNCs. After years in operation,

subsidiaries may gradually become more proficient in transacting regular operations and familiar with headquarters' directions through a learning- by-doing process. Learning enables more relevant information exchange and reduces the degree of information asymmetry and associated problems, and therefore, enables to have better governance. Another study of subsidiary-headquarters relations states that the autonomy of the subsidiary increases with age (Alsegg, 1981; Boyacigiller, 1990). HCNs can help companies to improve local legitimacy after they have gained knowledge of local practices, and obtained skills from PCNs or through business activities with the headquarters' management team.

With time, the MNCs' management can both develop local managers and build up the trust; the MNC's familiarity and trust in the overseas management reduces the perceived risk of granting autonomy. Therefore, a longer presence of FDI in a host country may facilitate the development of trust relationships with HCNs through repeated transactions with satisfying results (Axelrod, 1984; Gong, 2003). To summarize, longer operation in a host country reduces agency costs and operation risks, strengthens local isomorphism, and consequently, decreases dependence on PCNs. Therefore, this study proposes the following hypothesis:

Hypothesis 5: An MNC has a higher likelihood of staffing CEO positions in JCCs with HCNs the longer the business operates in the host country.

2.3.2 Methodology

In order to know whether Japanese MNCs staff their CEO positions in JCCs with PNCs or HNCs, the data source of the 21st Century China Research Institute (2013) of JCC is used to clarify the origin of origin of each CEO. Since 1986, this institute has collected data of Japanese companies registered in the State Administration for Industry and Commerce of the People's Republic of China (SAIC) located in major provinces or cities of China. Data collected for each company includes company representative, form of business establishment, name of investor, investment amount, scope of business, established period, registered address and contact number, and so on. This data collection has been updated regularly, and the 20th edition was published in 2013. In terms of the reliability of the data source and the persistence and continuance of research, the data of this digest is an appropriate base on which to conduct the analysis in this chapter.

Among the 3,586 listed companies in Japan, 1,712 companies having establishments invested in China (including Hong Kong and Macau) are included in this book, of which 1,142 companies are listed in the first section of the Tokyo Stock Exchange. Data on 7,313 JCCs located in 30 provinces or cities in China with listed headquarters in Japan are collected. The sampling method chose every third entry chosen in sequential order of companies in five major coastal regions of Mainland China and two inland regions. Similarly, data of Hong Kong, which is a special economic region of China with significant differences in legal, economic, and social environments than Mainland China, is included to have a comprehensive analysis. Accordingly, the total sample size is 1,914 out of the selected total of 5,981 (32%) with the categories of different provinces and industries as presented in Figure 2.2 and Table 2.3.



Figure 2.2: Map of China
 Edited by author

Table 2.3: Number of sample by province and industry

Province/ Industry		Sample										Sample Total	Total	%	Note
		Agriculture, mining, metal	Construction, Property	Automobile	Manufacturing	Manufacturing	Sales, Small	Information	Bank, Finance	Other Services	Others				
Coastal	Beijing	0	8	4	29	10	39	26	3	28	7	154	468	33%	
	Shanghai	23	13	19	86	77	311	40	9	92	23	693	2,088	33%	
	GuangDong	19	1	33	85	51	65	4	2	35	9	304	971	31%	
	Jiangsu	27	3	27	90	79	20	6	0	17	12	281	935	30%	
	Liaoning	8	3	5	27	22	22	12	0	13	7	119	377	32%	
Inland	Chongqing	1	2	24	1	4	5	0	0	2	0	39	48	81%	1
	Sichuan	3	0	7	6	6	8	2	0	3	5	40	56	71%	1
Hong Kong		5	2	0	40	15	188	7	1	23	3	284	1,038	27%	
Total:		86	32	119	364	264	658	97	15	213	66	1,914	5,981	32%	

Data Source: The 21st Century China Research Institute (2013)

Note1: Due to the small number size of two regions in Chongqing and Sichuan, all relevant data was and included.

According to Figure 2.3, almost all JCCs before 1990 were located in Hong Kong. The economy of Hong Kong has provided a good investment platform for a many years due to its competitive and prosperous image to global investors, like Japanese MNCs. On the mainland, Shanghai has been the most popular location where Japanese companies had invested.

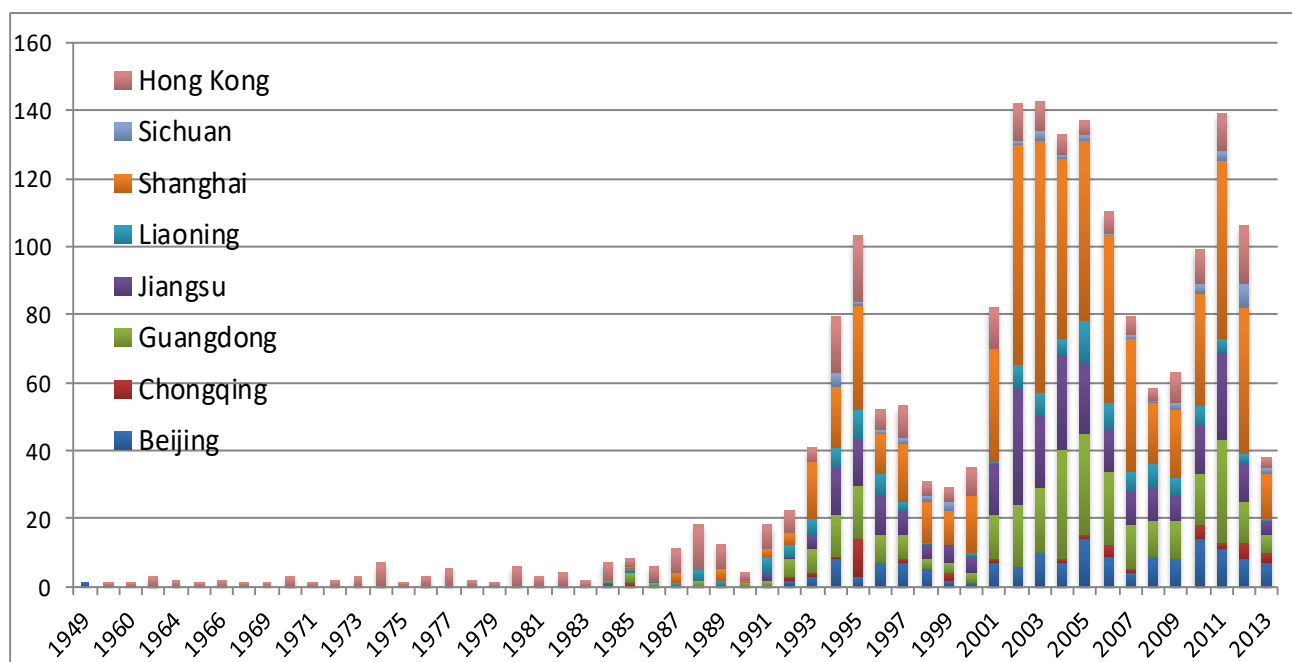


Figure 2.3: Yearly trend of sampling number of establishment of JCC (By Location)

Data Source: The 21st Century China Research Institute (2013)

Top further break down the sample by equity ownership, wholly foreign owned

enterprises (WFOEs) and China equity joint venture (CEJVs) are categorized. As shown in Figure 2.4, the majority of JCCs in Hong Kong and the coastal region are wholly foreign owned, whereas about 66% of the JCCs in the inland region are joint ventures with Chinese companies. It is assumed that Japanese MNCs need certain supports from local government or existing companies in inland area to facilitate business operations.

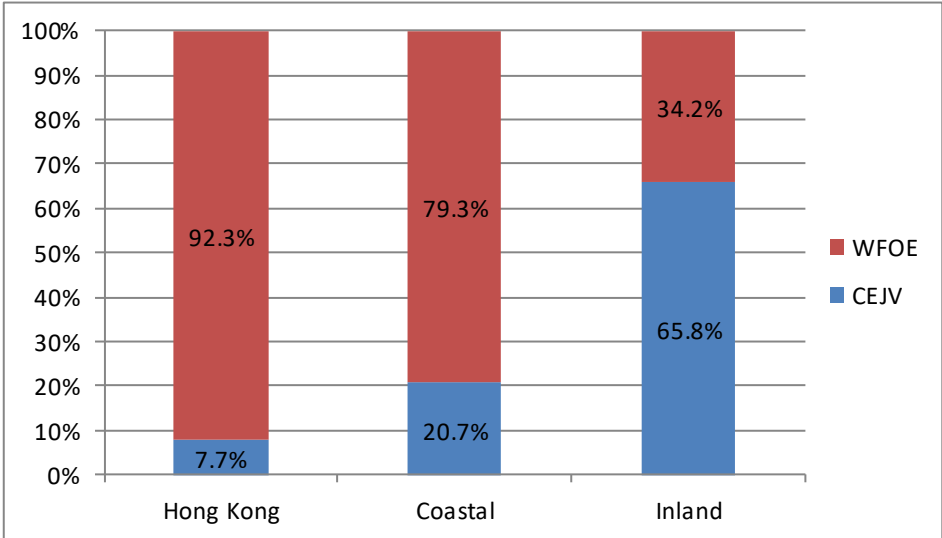


Figure 2.4: Percentage Share of Samping regions by Equity ownership
(WFOE: Whole foreign owned enterprise, CEJV: China equity joint venture)
 Data Source: The 21st Century China Research Institute (2013)

As illustrated in Figure 2.5, the number of JCCs has significantly increased over previous years. Amongst all JCCs invested in Mainland China, the majority of companies, over 70%, were located in coastal areas. Due to the effect of the subprime mortgage crisis in 2008, the number decreased to 55 and 54 companies in 2008 and 2009, respectively. Although the number rose afterwards, a significant drop occurred after 2011 and the number went down to 35 in 2013. The remarkable economic growth in China, the high labor cost and the appreciation of the Yuan have affected the business environment. Although the government has taken several action plans to improve the conditions, some investment had shifted from costal China to inland areas or other countries. Another reason for the sharp decrease in coastal investments may be due to higher operation costs that have brought operation pressure to companies. This causes investors to shift to other areas with more competitive operation cost as noted earlier. In comparison, inland investment had been stable, showing a slight increase in the past decades. It seems that there is room for attracting FDI inland.

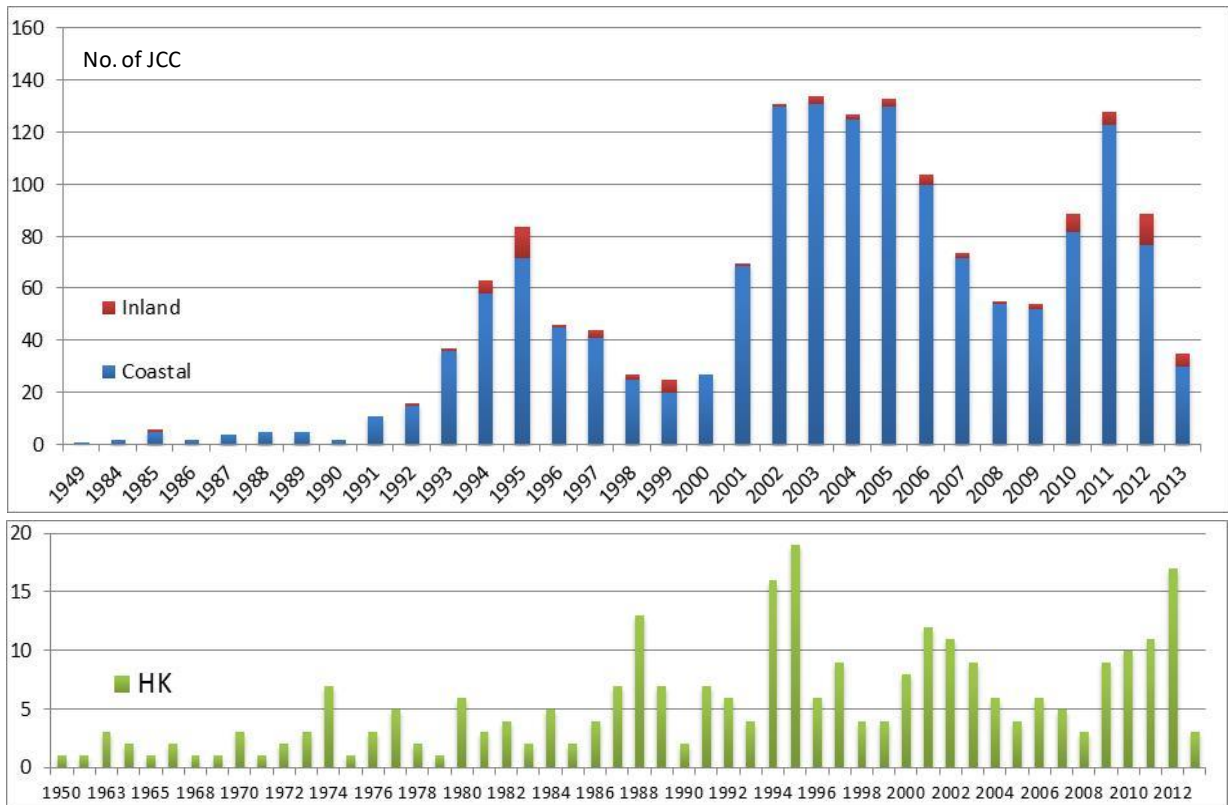


Figure 2.5: Yearly trend of sampling number of JCC (HK, Coastal vs Inland)
 Data Source: The 21st Century China Research Institute (2013)

2.4 Findings and Discussions

Referring to the sample data of the CEO's country of origin of JCC, the majority of Japanese MNCs (80%) would prefer to assign a Japanese person as CEO in their China's subsidiaries (see Figure 2.6), and only about 19% appoint local Chinese managers to take charge of the overall operation of the company. In order to find other implications, the data were further analyzed with reference to each hypothesis as follows.

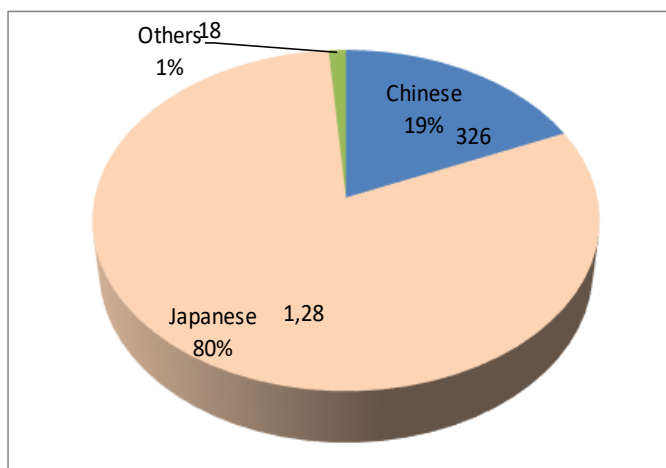


Figure 2.6: Percentage Share of CEO's Country of origin of JCC
Data Source: The 21st Century China Research Institute (2013)

2.4.1 Locational convenience of the host country

As illustrated in Figure 2.7, in JCCs only a minority of the samples in Mainland China, only 20%, had local Chinese CEOs. In Hong Kong, the results show even fewer CEOs of local origin; less than 10% of JCCs located in Hong Kong has appointed a local Chinese CEO. In the analysis by province shown in Figures 2.8 and 2.9, companies in coastal areas had around 15% to 30% local appointed CEOs or company representatives. On the other hand, in Chongqing and Sichuan, which are located in the inland area, had a relative higher ratio of local top management at 62% and 52%, respectively.

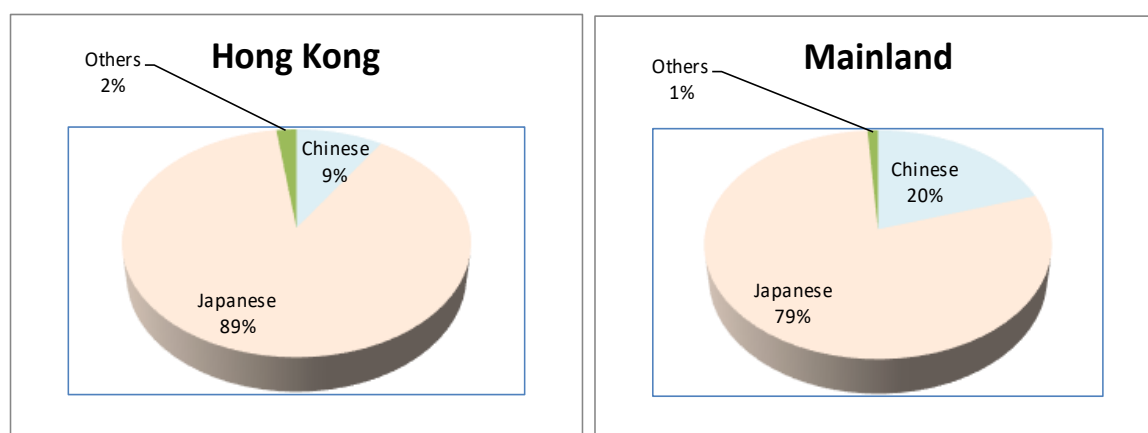


Figure 2.7: Percentage Share of CEO's Country of origin (Hong Kong and Mainland China)
(In consideration of Locational convenience)

Data Source: The 21st Century China Research Institute (2013)

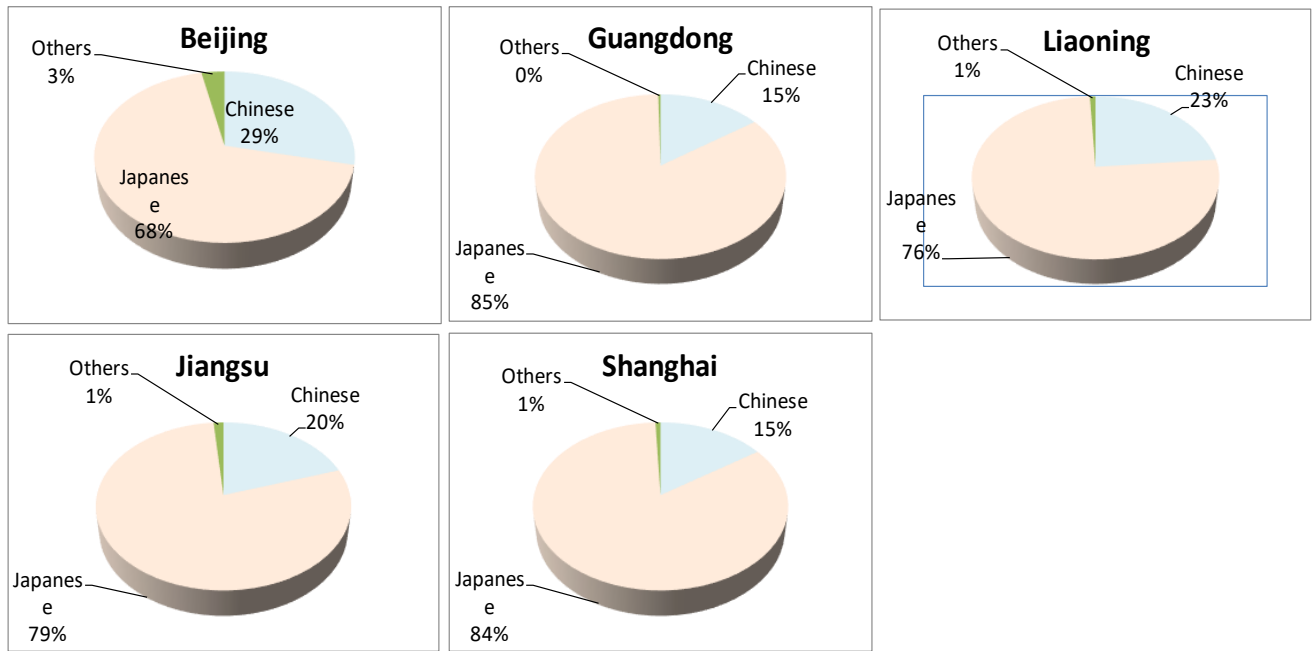


Figure 2.8: Percentage Share of CEO's Country of origin (JCC located in coastal area of mainland China)

Data Source: The 21st Century China Research Institute (2013)

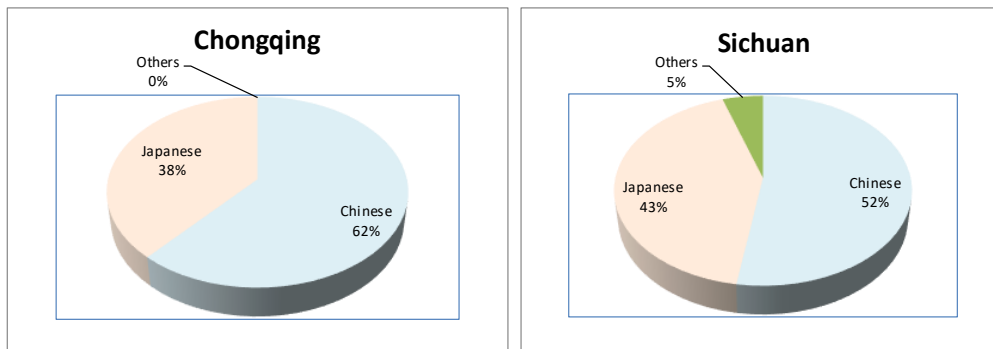


Figure 2.9: Percentage Share of CEO's Country of origin (JCC located in inland area of mainland China)

Data Source: The 21st Century China Research Institute (2013)

Figure 2.10 shows the breakdown by region. Only 18% of companies in the coastal area appointed a local Chinese CEO. However, the chart of the inland area has shows that over half of the companies (57%) in the sample assign local Chinese people to the key position. This percentage is significantly high. The cause of this result is likely due to the inconvenient location and insufficient infrastructure support in the inland region compared to the coastal regions. PCNs may hesitate to accept positions in the inland areas, anticipating difficulties in daily life. Therefore, appointing a local CEO becomes preferable.

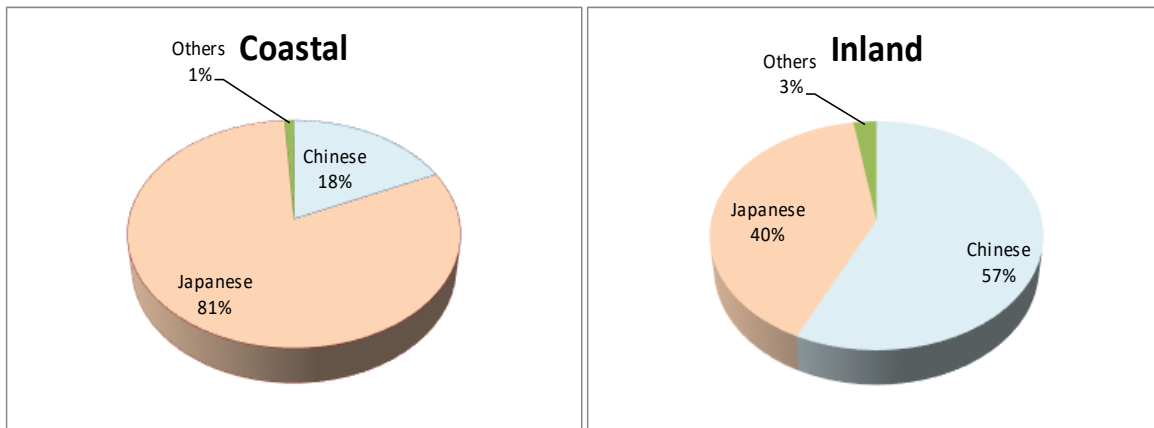


Figure 2.10: Percentage Share of CEO's Country of origin (Coastal vs Inland)

Data Source: The 21st Century China Research Institute (2013)

According to the above analysis, the result is consistent with Hypothesis 1 and indicates that the locational convenience of the host country is negatively related to the likelihood of Japanese MNCs staffing CEO positions of JCCs with HCNs.

2.4.2 Equity ownership

Referring to Figure 2.11, it is obvious that CEJV have adopted a significantly higher percentage of local Chinese people as CEOs compared to WFOE. Similarly, as shown in Figure 2.12, with further breakdown, regardless of region, whether inland, coastal or even Hong Kong, the results are consistent: the tendency of CEJVs to assign local Chinese as CEO is higher than in WFOEs. However, the inland region particularly shows that the difference between both types of equity ownership is not as significant as in the other regions. The shareholders CEO selection might be moderated by the locational convenience as stated in Hypothesis 1.

According to the above analysis, the result can explain that the investment in China by equity joint ventures is positively related to the likelihood of Japanese MNCs staffing CEO positions at JCCs with HCNs compared to wholly foreign owned enterprises, as stated in Hypothesis 2.

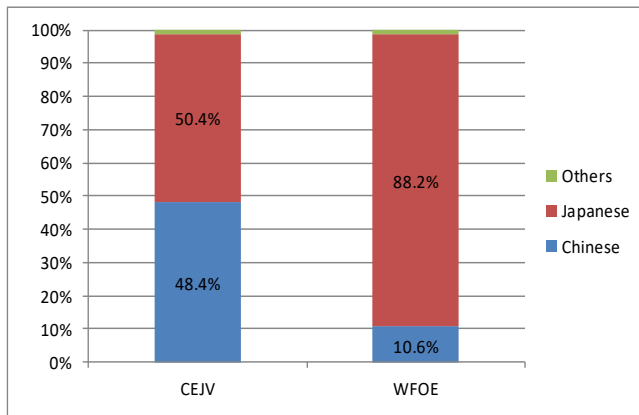


Figure 2.11: Percentage Share of CEO's Country of origin (By Equity ownership)

Data Source: The 21st Century China Research Institute (2013)

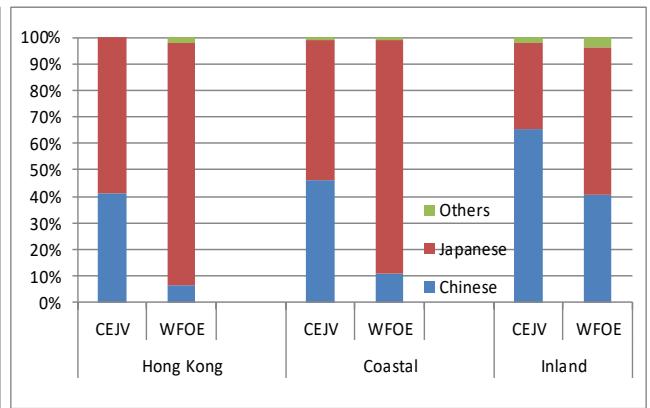
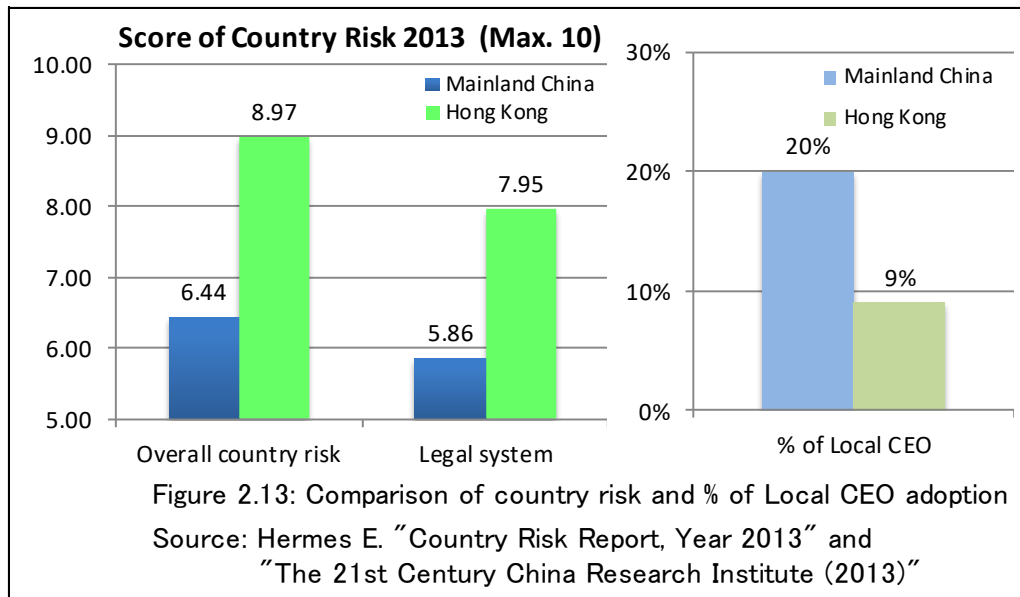


Figure 2.12: Percentage Share of CEO's Country of origin (By Equity ownership and region)

Data Source: The 21st Century China Research Institute (2013)

2.4.3 Legislative system of the host country

Hypothesis 3 predicts that an increasing legitimacy of JCC in host country is more likely to have a higher level of local CEO adoption. The development and status of legislative systems reflect whether a JCC is able to gain sufficient legitimacy. It is important for investors to be confident there is sufficient legal protection in overseas countries, and in consequence, MNCs need to feel comfortable to adopt local management staff to operate their subsidiaries. However, the result shown in Figure 2.13 are quite interesting in that both Hong Kong and Mainland China have low level of CEO positions filled by local Chinese people. Especially in Hong Kong, no matter the overall ranking or the level of legislative system, the rating is at the top range in the world (Gwartney et al., 2015). However, a startling result has shown that almost 90% of JCCs in Hong Kong still assign Japanese CEOs. Even though Hong Kong has a very high status legislative system worldwide providing legitimacy, the results reveal a slightly disappointing lower utilization of local experts.



To verify these results further, we used the legislative system ranking of individual municipalities or provinces in China in a recent survey on the level of judicial status in China. The report on the "China Justice Index 2015" was a significant project, supported by the Cooperative Innovation Center of Judicial Civilization (Zhang, 2015). The primary objectives of the center are to promote judicially civilized nation-building, upgrading the recognition of the Chinese judicial system and letting its voice be heard in the world of contemporary civilization system. The index of China Justice reflects the level of legal standings that can impact business operations, for each municipality or province in China. In this survey, an index of 10 dimensions of justice, which are regarded as first level indicators, were used to show the level and ranking of 20 major municipalities and provinces in China. Amongst those dimensions, things like "parties' litigation rights", "open justice and public trust" and "judicial culture" are regarded as having direct impact on the confidence of foreign investors. According to the result of this study, Shanghai has the highest score amongst 20 municipalities, and it is assumed that Shanghai gives foreign investors sufficient confidence for business operation and adoption of local people as top management staff. However, the percentage of companies using a local CEO in Shanghai JCCs is very low, less than 30%. As shown in Figure 2.14, the trend of local CEO adoption in Shanghai JCCs has shown similar results, regardless of the year of the JCC was established. This result tells us that even the province with most well-developed legislative system cannot induce Japanese MNCs to appoint an HCN as CEO in their subsidiaries located in Mainland China.

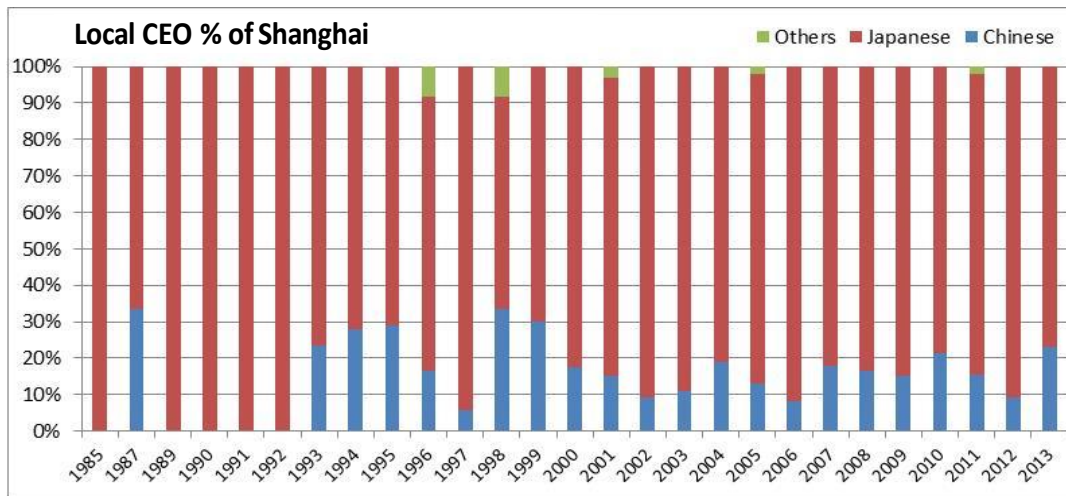


Figure 2.14: Local CEO adoption in Shanghai with year of establishment
 Data Source: The 21st Century China Research Institute (2013)

The result of the above analysis does not tend to support Hypothesis 3 because the status of the legislative system of the host country has not shown to be positively related to the likelihood of Japanese MNCs staffing CEO positions with local HNCs in JCCs. Other factors, like the negative locational effects, may outweigh the positive impact of JCCs' ability to gain legitimacy in the adoption of local HNCs.

2.4.4 Industry of JCC

To investigate any significant differences between each industry, Figure 2.15 shows the results classified by ten categories of industry in China. The result illustrate that there are insignificant differences between most industries, only about 20 to 30% companies in most industries appoint a local CEO instead of a Japanese CEO. Even though the banking and finance industry has a higher percentage (53%) adopting a local CEO, the number of samples is small and it may not be representable. In summary, as shown in Figure 2.16, the result cannot demonstrate a higher tendency of to appoint Japanese PCNs in the manufacturing sector vs. the non-manufacturing sector.

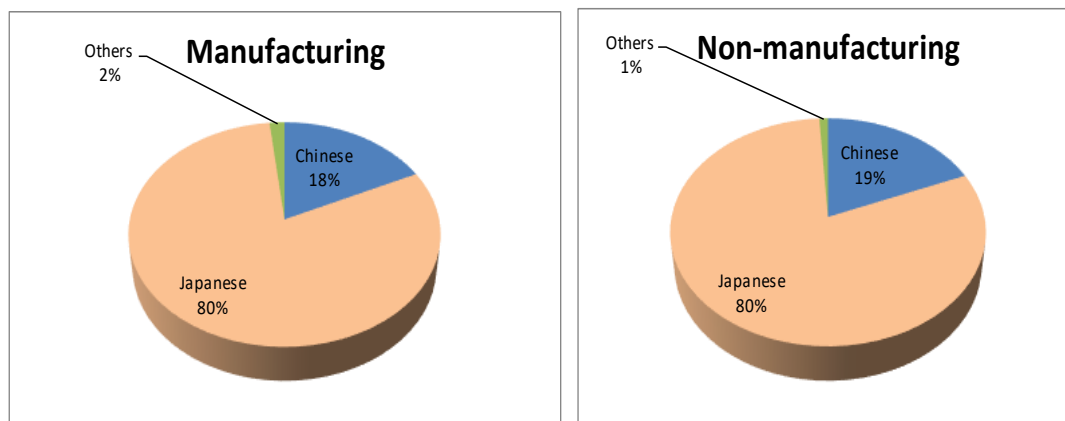
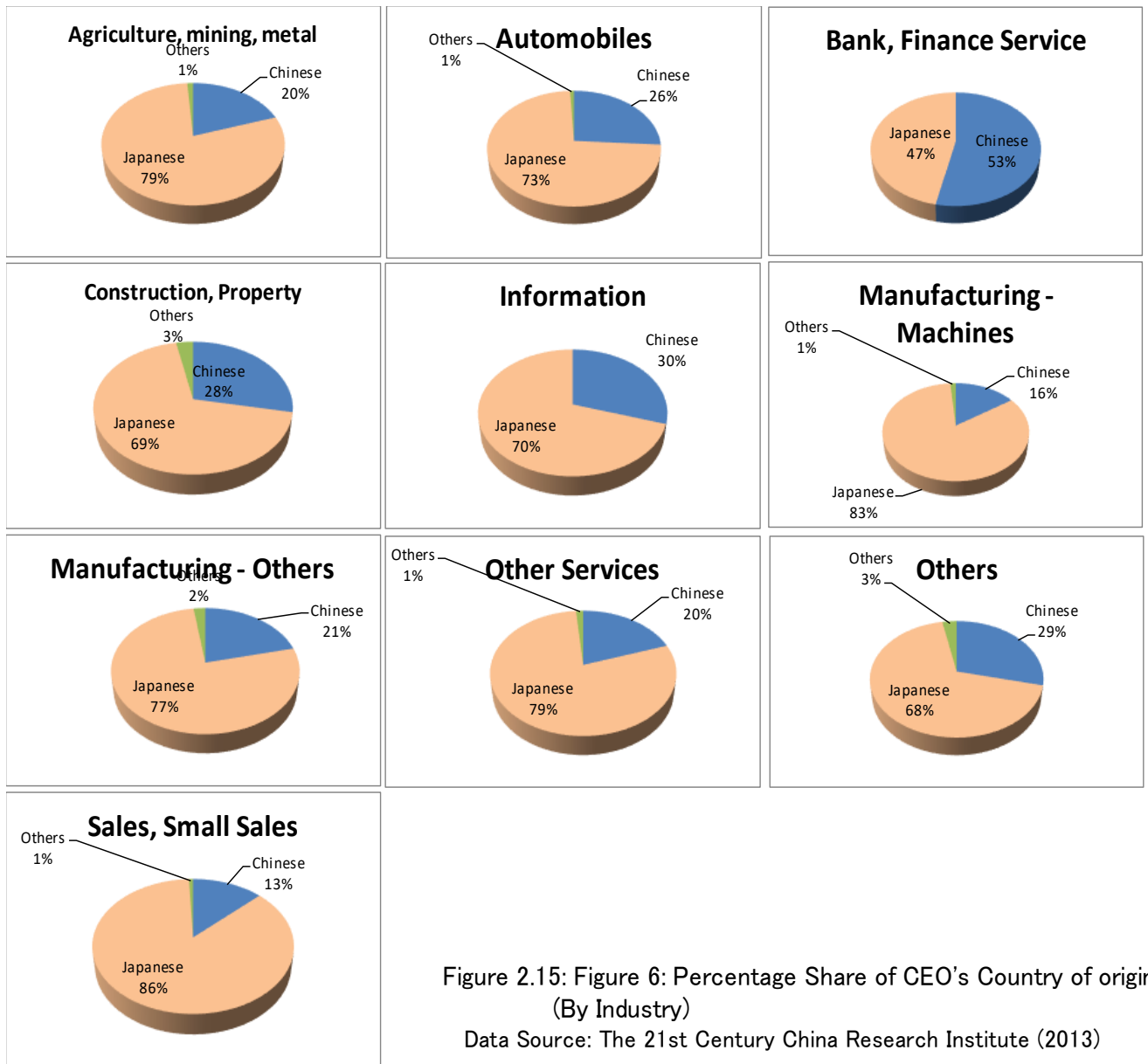


Figure 2.16: Percentage Share of CEO's Country of origin (Manufacturing vs Non-manufacturing)
Data Source: The 21st Century China Research Institute (2013)

To further understand the comparison of CEO assignment between manufacturing and non-manufacturing enterprises, we looked at the subsectors of ‘Machines’ and ‘Sales - small sales’. These subsectors were selected for deeper analysis because they had the largest number of JCCs in the manufacturing and non-manufacturing fields, respectively. Figure 2.17 shows the yearly trend of local CEO adoption in ‘Machines’ and “Sales, small sales’. Both result do not have significant difference, regardless of the year the JCC was established. The ratio of adopting local CEO is less than 20% on average.

According to the result of the above analysis, Hypothesis 4 is unlikely to be supported. Japanese MNCs have not shown a relatively lower likelihood of staffing its subsidiaries with HCN CEOs whether the subsidiary is in manufacturing sector in or the non-manufacturing sector.

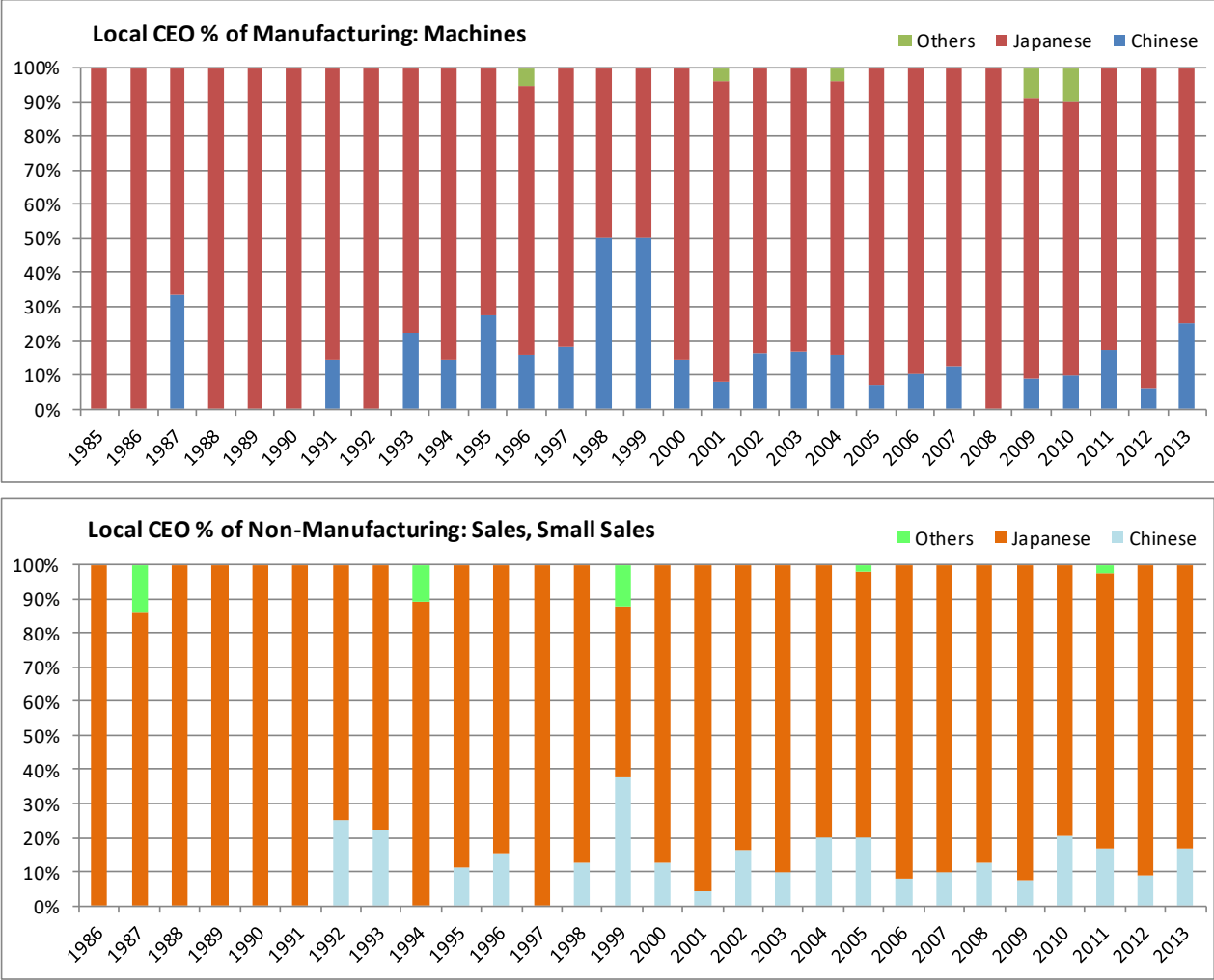


Figure 2.17: Local CEO adoption in Manufacturing (Machines) and Non-Manufacturing (Sales, Small Sales)
 Data Source: The 21st Century China Research Institute (2013)

2.4.5 Years of business operation

Looking at years of business operation, we see similar results as in Figure 2.17. Regardless of number of years of business operation, the majority of Japanese MNCs appoint Japanese CEOs in both Hong Kong and Mainland China companies. With further analysis, Figure 2.18 and figure 2.19 reveal another startling result by different group of years of business operation. Previous studies stated that the longer a JCC operates in an overseas country, the higher tendency of appointing local staff in management level. According to our result, however, JCCs with over 30 years of business operation in China (mainly in Hong Kong) are still assigning Japanese CEOs.

According to the above analysis, the result is not favourable to support Hypothesis 5. Japanese MNCs have not shown a higher likelihood of staffing their JCCs with HCN CEOs when the JCCs have been in business operation longer.

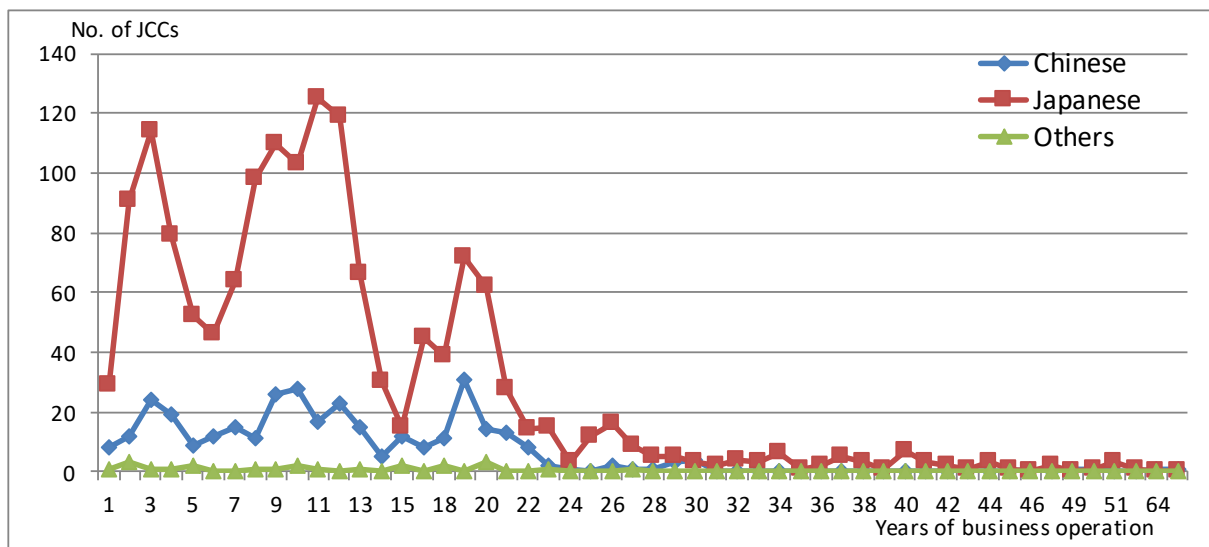


Figure 2.18: Trend of CEO's Country of origin (By Years of Business operation)

Data Source: The 21st Century China Research Institute (2013)

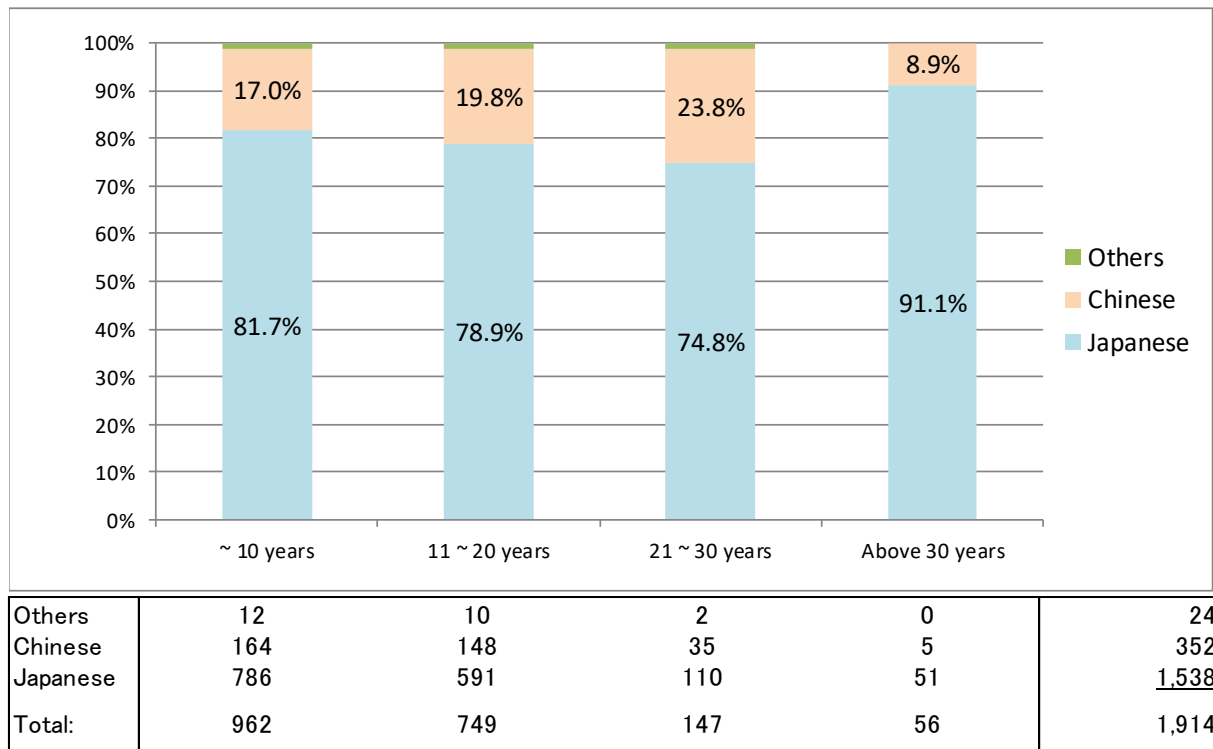


Figure 2.19: Percentage Share of CEO's Country of origin (By Years of Business operation)
 Data Source: The 21st Century China Research Institute (2013)

This analysis attempts to verify the common determinants of MNCs selecting a CEO to manage their foreign investment affiliate companies, specifically as they apply to Japanese MNCs investing in China. According to the result of the analysis, we see that a majority of JCCs select Japanese CEOs to manage their subsidiary business operation, regardless of the quality of the legislative system, investments shareholding, industry, and years of business operation. Only locational convenience and equity ownership of the JCC have significant influence on the Japanese MNCs' selection of CEOs for their overseas subsidiaries. The percentage of inland investment companies with local CEOs was higher than those located in coastal regions. There are probably three reasons to explain this result. First, due to the transportation problems, companies located in inland areas may focus on more domestic demand. To capture the local market demand, the company representative should understand the local network, local customers and local government policy. Therefore, a having a local CEO is a higher priority due to their better bargaining power compared to overseas expatriates. Second, the transportation, living environment, and infrastructure of inland regions are not as developed as the coastal region. The performance of an overseas expatriate CEO might suffer due to difficulties or trouble adapting to the living environment. Third, the size of inland investments may not be as significant as

coastal ones; MNCs are likely to put more resources and efforts into coastal enterprises. Subsequently, the ratio of appointments of local CEOs in inland companies is high. However, it is not difficult to imagine that in joint venture companies there is a tendency to appointment local Chinese CEOs, because they are not solely decided by the Japanese MNCs. On the contrary, Japanese MNCs may seek the advantage of local competency to facilitate their business operations in China through a partnership with locally owned companies.

Only Hypotheses 1 and 2 are supported; the other three hypotheses seem not to be supported. This implies that factors that are commonly regarded as supporting the assignment of local CEOs in overseas subsidiaries do not apply to Japanese companies. Regarding Hypothesis 3, it is surprising that Hong Kong's sound legislative system, free trade economy and high-caliber candidates, which are well known in the world, does not result in more local CEOs. In fact, less than 10% of JCCs in Hong Kong have local Chinese CEOs. Control through expatriates is especially important when formal, output based control is needed in nations with unfavourable institutions (Hamilton and Kashlak, 1999; Martinez and Jarillo, 1991). In general, the use of expatriates should reduce as FDI gains legitimacy. However, Peng and Beamish (2007) state that other factors, like the size or age of the subsidiary, might moderate the result of the relationship between Japanese expatriate assignments and increasing FDI legitimacy. They argue that smaller subsidiaries may require the headquarters to take more control by sending more expatriates to pursue FDI legitimacy. In addition, competition also intensifies as FDI gains legitimacy. Companies adjust their staffing strategies based on a thorough understanding of the tension between institutional and competitive pressures and the utilization of local competency (Peng and Beamish 2007). Consequently, the above factors may cause MNCs to increase the number of expatriates from headquarters in order to control the performance under severe competition.

Referring to the result comparing manufacturing and non-manufacturing sectors, high expatriation is adopted, which is different than the aforementioned expectations. Wickramasinghe and Fonseka (2012) indicate that HR is a more critical factor in the service-based sector in than any other sector of a country. Since the assets of companies in the service sector become less tangible, HR should pay increased attention on human resources. Notably, other scholars suggest the equal importance of HR to all sectors (Foong et al., 2003; Verma and Dewe, 2004). For instance, Foong

et al. (2003) state that knowledge is a key differentiator in the provision of services but knowledge is also increasingly important in high-value-added manufacturing-based businesses. In this regard, the decision of CEO assignment in JCCs depends on the importance placed on local knowledge vs. headquarters' expertise. Again, the size and age of JCCs may influence the result of comparison between companies in the manufacturing and the service sectors. The initial cost of investment in an overseas establishment reflects the importance and scale of overseas operations, which is another critical factors affecting MNCs in appointing CEOs, beyond the consideration of industry.

It is undeniable that foreign investment companies become more proficient and attain sufficient understanding of parent company policies after years of operation. In addition, subsidiary autonomy improves when a company operates longer and attains more business experience (Alsegg, 1981). Japanese companies must reduce the reliance on expatriate managers, and access local talents to fill overseas managerial positions in companies with rapidly growing affiliate networks as they operate businesses longer in overseas countries. However, several reports and surveys indicate that Japanese companies' heavy reliance on expatriates negatively impacts the competitiveness of their operations by increasing costs and hampering the ability to attract competent local managers due to negative perceptions of promotion possibilities (Belderbos and Heijltjes, 2005). The analysis result shows that for a majority of JCCs, the selection of CEO seems not to be affected by the years of business operations. One of the possible reasons may be that Japanese MNCs are unable to attract capable talents to fill the positions of top management in overseas subsidiaries. Another survey done by Nomura Research Institute indicates that Japanese companies feature lower wages and slower wage increases than do Western companies. They fail to recognize achievements and differentiate employees. Respondents in the Nomura survey indicated that a career with a Japanese firm was not an appealing choice. Although performance-based wage systems have recently gained momentum among Japanese companies, their basic wage systems have not directly related to the wage increment and still wages rise relatively slowly (Taura, 2005).

2.5 Conclusions

This study provides further verification of certain underlying factors—well recognized

in other countries—that affect global staffing choices of top management in China. As mentioned above, the worsening position of Japan in the world competitive ranking is a critical signal to Japanese MNCs. Feasible improvement ideas must be generated for their management, especially for those companies that have had FDI in China continuously. Also, through the analysis of JCCs, the findings provide us additional evidence on the divergence of the global staffing strategy of Japanese MNCs in China compared to other countries. Based on the verification of the five hypotheses, it is clear that most Japanese MNCs do not want to select local Chinese CEOs, but do so when the situation is not favourable for expatriates like locational inconvenience. Because of the major challenges of global staffing strategies, getting the right skills where they are needed is crucial. Since exclusive reliance on PCN-based staffing can directly impact the effective management of a global HRM, MNCs should try to widen their range of staffing options (Harvey et al., 2001). Ignorance of local competency is regarded as one of the major reasons Japanese MNCs are unable to break through the current dilemma in global business. As companies move from a regionalization stage into a globalization stage, they need to effectively utilize the best and brightest talent, regardless of their origins. In addition, the global arena requires finding out the optimal configuration of global integration and local responsiveness and producing the product, process, and business innovation needed to facilitate continuous growth beyond geographic expansion. Thus, a heavy reliance on PCNs makes it difficult to achieve this goal (Stewart and Morrison, 2010). Although there is some research indicating the number of Japanese expatriates is declining, the phenomenon is still not prevalent. There is room to expand the empowerment of local management to become truly global competitors (Beamish and Inkpen, 1998).

The analysis in this chapter still has room for further follow-up. First, regarding the age of a subsidiary, the data have included the number of PCNs in subsidiaries at a specific period of time. According to the aforementioned determinants of expatriate/local staffing decisions, it is believed that a subsidiary at different stages has different status and concerns. Only a few studies have looked at a single subsidiary over a period of time to see whether diverse staffing strategies are adopted. Dai (2007) has stated that each development stage of the subsidiary, like Microsoft (China), has diverse considerations for the staffing decision of top management. Therefore, it will be worthwhile to verify the trend of staffing decisions in a single company in different periods of time to see how the staff strategy changes over the life

of the business. Second, even though the above analysis included a comparison of different industries, the result does not show any significant difference. It would be meaningful to conduct in-depth analysis of staffing strategies among various industries like manufacturing, service, retail, etc. Especially in China, the tendency toward a manufacturing orientation has been changing to a greater focus on the service industries in recent years. It is believed that the HRM strategies in overseas affiliates have diverse concerns due to different characteristics in each industry. Third, since the target of this study are Japanese companies in China, the sample was limited and did not include other countries, like the North American or European countries. Hence, the generalizability of the findings is open to question. The generalizability can be improved if similar studies are conducted with data of other countries. Fourth, this research only examined the country of origin of the CEO. Each functional department requires various competencies, which can be found in PCNs or HCNs. Therefore, it would enhance this study to include further analysis or case studies that can involve other management positions of Japanese companies in China, such as directors and division managers, to provide more comprehensive pictures of global staffing strategies. Fifth, even though the staffing decision is regarded one of most important strategies in global HRM practices, other areas including compensation, training and development, and performance appraisal should not be neglected. An in-depth interview or case study with related companies for the purpose of understanding other HRM's difficulties and problems can provide valuable insights for Japanese MNCs in their quest for a comprehensive global HR strategy. A relevant case study and empirical study will be conducted in the following chapters to supplement the above insufficiencies.

Regardless of the staffing decision made by MNCs, the most important element of the arrangement is whether it can help the overseas subsidiary run well and become profitable. Even though some studies have tried to measure and compare performance of using a PCN or an HCN, the results are still questionable and arguable, because various factors and external environments can affect company performance simultaneously.

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Chapter 3:

Global Human Resource Management (HRM) Practices: A Case Study of a Leading Japanese Manufacturing MNC

Abstract: For the purpose of thoroughly understanding the global human resource management (HRM) practices of Japanese Multinational Corporations (MNCs), a case study is used in this chapter to deeply discuss several global HRM practical issues and problems of a leading manufacturing MNC in Japan. In this company, strict adherence to rules, guidance by company mottos, and respect for human concerns and human development are regarded as the key principles of the company philosophy; while the road to compliance is believed as fundamental to the success of the business. Therefore, similar to other Japanese MNCs, this company follows a staffing strategy of sending a number of expatriates from the headquarters to overseas subsidiaries to promote the transfer of knowledge, the transmission of corporate culture, and improvement of local management. However, insufficient planning of expatriation, over expatriation, and inadequate involvement in overseas HRM practices are critical issues in its global HR strategy. On the positive side, the company has shown an encouraging tendency to support localization by drawing from local talents in selecting a director, by conducting a variety of activities that support the transmission of corporate culture and by providing training to overseas employees. A detailed analysis of the HRM practices of this company can provide some implications for improving the global HRM practices of other Japanese MNCs.

Keywords: Case study, Japanese MNCs, HRM; Corporate Culture Expatriate

3.1 Introduction

People, rather than goods or money, are at the center of Japanese management, especially compared with Western and other Asian management (Ohsawa, 1989). Lifetime employment, a seniority system for salaries and promotions, and labor unions within the corporation are the main three characteristics of Japanese management system. This mechanism was created in the post WWII era because individuals,

corporations, and the country agreed to restore Japan itself as well as to improve the lifestyle of the Japanese people. The relationship between employers and employees in a traditional Japanese company is like a family, and the company has responsibility for taking care of each employee. The employment contract is based upon a trusting relationship between employers and employees, instead of restrictive terms or conditions. The employer guarantees the security of an employee's job and salary until the employee's retirement at 60 years of age. Lay-offs are not commonly accepted in the Japanese society except in emergency situations. Japanese management is based on the principle of group harmony with a concern for the relationship between superior and subordinates. Any success is credited to team efforts instead of individual performance.

Many people consider that human concern is the remarkable management characteristic of Japanese corporations. However, in recent years, global human resource management (HRM) is regarded as a major obstacle for Japanese MNCs to maintain a high competitive ranking amongst other countries. Neglect of high caliber local talents and over-reliance on expatriates from the Japanese parent company are considered as main reasons that Japanese MNCs' competitive positioning has worsened (Stewart and Morrison, 2010; Takatsu and Dominique, 2012). Particularly, an assignment of an expatriate, or a parent company national (PCN), is a complicated decision, because various factors must be taken into consideration. Knowledge transfer, improvement of corporate communication, integration of corporate policy, transmission of corporate culture, and training of future competent PCNs are common reasons to assign PCNs to overseas affiliates. The parent company managers must think deeply of the merits and drawbacks of each arrangement and whether it is appropriate in the particular scenario. Globally, there is trend of MNCs adopting local talents to manage the overseas affiliates. Local talents understand the domestic market and the local government's legislative requirements. Hence, they can easily access and capture market needs (Takatsu and Dominique, 2012). However, the percentage of PCNs working for overseas affiliates of Japanese MNCs is still high and far from the others, like the US, Europe and Korea (Wang et al., 2007) MNCs.

Previous research primarily focused on the overall trend of Japanese MNCs compared with other countries. A detailed analysis of a specific company's HRM practices is rarely conducted. Therefore, the objectives of this chapter are to demonstrate the details of the global HRM practice, especially staffing strategy, of a

well-developed Japanese MNC that has several affiliates overseas, exploring the underlying factors of the HRM practices, and deeply discussing the positive and negatives of the current practices. Since the selected company also places human concerns at the top place in their business, it is believed that this case study with in-depth discussions and analysis of the company's global HRM practice can provide invaluable insights that will verify the previous standpoints about global HR features, but also serve as a reference for other Japanese MNCs faced with similar challenges.

A single case study is used in this analysis. A well-established manufacturing MNC located in Kyushu is selected (called "the Company" hereinafter). This chapter starts with brief discussions of previous studies about the common practice of global HRM in Japanese MNCs. Then, the methodology of this case study is illustrated, and an introduction of the selected MNC's background and management philosophy is demonstrated. Subsequently, an analysis of related information and data collected from discussions and interviews with management staff in charge of the overseas affiliate, the Company's homepage, and other sources are executed. Finally, this chapter concludes with a summary of the main findings and recommendations for improvement of global HRM practices for the Company and other Japanese MNCs.

3.2 Review of Previous Case Studies

The government of Japan indicates that the weak domestic demand following the collapse of the bubbled economy has contributed to the significant drop in the number of businesses in Japan. Therefore, a reliance on export and FDI has taken prevalence in recent years. However, the value of outward FDI from Japan has not increased or has even shown a sign of decline. When we look into the trend of Japan's outward FDI (see Figure 3.1), the total number of FDIs has shown a decreasing trend in the past few years, especially for FDI in China. On the other hand, the number of divestments is showing an opposite trend; there is an increase in withdrawal of Japan's FDI.

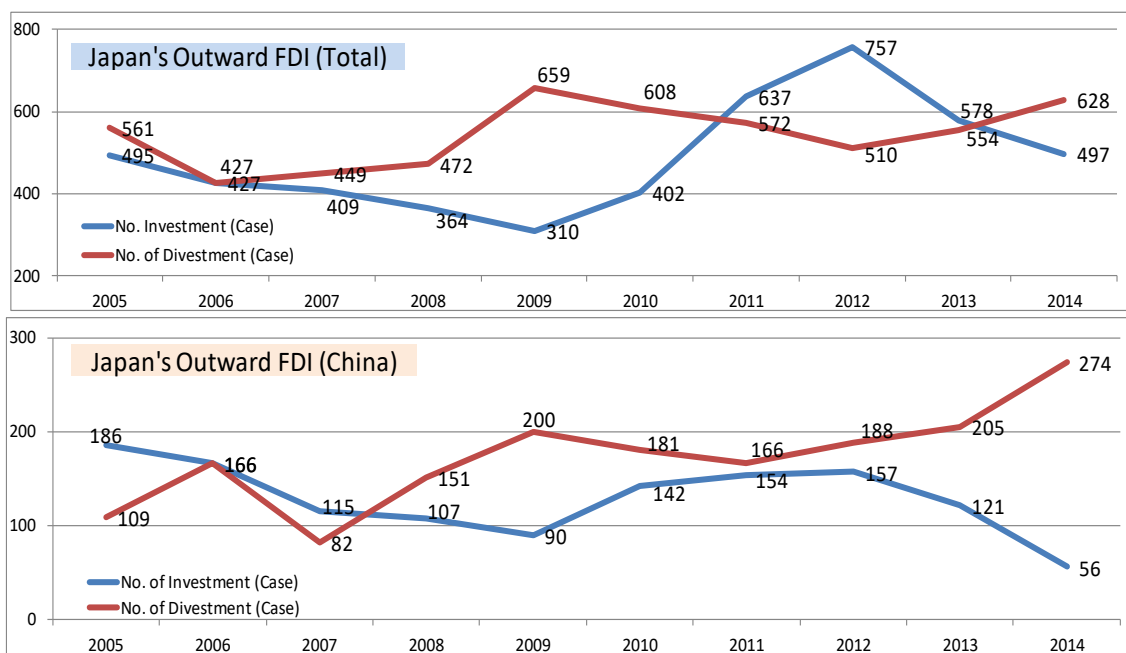


Figure 3.1: Trend of Japan's Outward FDI (Comparison with number of investment and divestment case: Total and China)
 Source JETRO 2005 ~ 2014

In addition, the net amount of total Japan's outward FDI has remained flat in the past few years after a rebound in 2010. In 2015, the amount has declined by 4.2% to US \$130.8 billion (see Figure 3.2) after four years of continuous increase. One of the major reasons was due to a significant drop of FDI in China by over 35% from the peak in 2012 to 2015. There are various explanations for the decrease of Japan's outward FDI in China, including the fragility of the economy, the uncertain political environment, operational trouble, and other environmental factors. Since manufacturing has been a major driver of Japan's FDI in China, as labor costs increasingly rose in the recent years, companies in labor-intensive industries have turned their focus toward cheaper emerging economies. In addition to the political relationship between Japan and China, the confidence of continuous business in China has been affected.

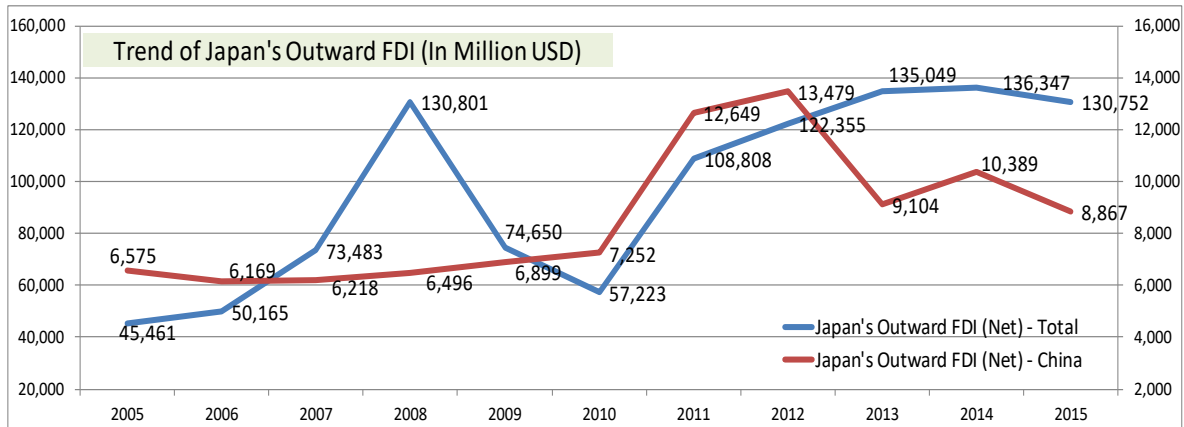


Figure 3.2: Trend of Japan's Outward FDI (Comparison with investment amount: Total and China)
Source JETRO 2005 ~ 2014

Notably, the global competitive ranking of Japan has had a significant drop in the past 15 years, as indicated in previous chapters. Besides an insufficient demand for high quality products, a failure of product marketing, and insufficient long-term business plans, Stewart and Morrison (2010) state that an ineffective global HR strategy is one of the major reasons of this consequence. Among various HRM practices, the most challenging issues are staffing policies, including selecting and retaining talented employees, training and development, encouraging employees to be innovative and creative, and adherence to legal labor rules, which have been described in previous chapters. Although each of previous case studies of HRM practice has portrayed a unique perspective, most of them have emphasized the importance of HR function to MNCs through a detailed discussions of HR planning, design, and execution of the daily management of people and work. Global HR functions are important because it influences the business performance of subsidiaries as well as the MNC as a whole (Colakoglu et al., 2009; Kang and Shen, 2013).

HRM is a movement in management practices and studies that attempts to impose control systems through supervision for the purpose of achieving the functional goals of strategic integration, commitment, flexibility or adaptability, and quality (Guest, 1991; Kunda, 1992; Aloysius, 2011). Takeuchi et al. (2009) point out that quality enhancement, cost reduction, and differentiation are regarded as critical issues for Japanese manufacturing MNCs who have to cope with fierce competition in the global market, especially in China. HRM is a valid function that can align the strategic policies and strategies in order to maintain a competitive position. In respect of a commitment to quality assurance, long-term employment and human development are salient among manufacturers. Performance-based compensation is extensively used.

A result-oriented HRM policy is regarded as the primary input to a quality enhancement strategy and the role of each employee in creating the market success is highly valued. Njanja et al. (2013) also indicate a well-designed reward structure is able to facilitate an organization's strategic goals and the goals of individual employees. Moreover, Schular and Jackson (1987) point out that MNCs pursue cost reduction strategies through tight controls of manpower, overhead minimization, and the tendency to pursue economies of scale. Therefore, minimizing the number of employees and reducing the labor cost constitute basic HR functions of the companies (Schular and Jackson, 1987; Sanz-Valle et al., 1999).

In order to differentiate from other competitors, a competent human team is regarded as an essential prerequisite of a successful global player. Britt and Kreyer (2011) illustrates in their IBM case that the company continues to struggle to resolve a number of critical human challenges, especially in the development of effective and agile global leaders who are capable of performing across various cultures, geographies and time zones. HR professionals have to anticipate and nurture the necessary workforce skills and capabilities. Connecting people and ideas can foster global collaboration and knowledge sharing (Bonache and Brewster, 2001). A move towards growth-driven strategies has profound implications for the workforce. Similarly, Tang (2005) mentions the demand for talented people in enterprises has continued to increase worldwide. Even though China has an abundant labor force, talented people with up-to-date scientific knowledge and skill are still insufficient to satisfy the needs of human power for economic development. Matsuo (2015) indicates the influence of vision and values of the company play important roles in guiding the employees to reflect on their work appropriately. A visionary support guides employees to appropriate reflection by providing the criteria for decision-making, and inducing employees to reflect on solutions to achieve goals.

Most Japanese MNCs prefer to transfer their organizational culture into overseas subsidiaries through various means, of which the most common method is expatriation (Oki, 2013). An MNC's ability to transfer organizational systems and HRM strategies is influenced by the bargaining power of its headquarters and subsidiaries. According to Ferner et al. (2001), strong local institutional effects may work as a counterforce against an MNC's transfer of organizational practices and HRM strategies, thus inhibiting subsidiaries from emulating their headquarters' effects. When the Japanese headquarters assigns CEO, who believes that the parent company's HRM practices

are both competent and applicable to different contexts, the original management template transferred from the Japanese parent company can be sustained and reinforced (Delios and Bjorkman, 2000; Takeuchi et al., 2009).

One necessary condition for effective global business is that capable leaders know how to determine which aspects of the business to globally integrate and standardize, and which ones to locally adapt and differentiate (Widmier et al., 2008; Ekhsan and Othman, 2009; Kuhlmann and Hutchings, 2010). The contribution of using expatriates from the parent company is undeniable. The role of expatriates can be considered multidimensional, including disseminating the management principles/methods of the Japanese headquarters and transferring technology/management know-how to the subsidiaries. They can also be trained as successors themselves (Boyacigiller, 1990). As mentioned in previous chapters, the majority of Japanese MNCs dispatch managers from the Japanese headquarters to supervise overseas subsidiaries. Many scholars claim that Japanese MNCs show a high degree of centralization in decision-making (Agarwal, 1993; Jochen, 2002) and disseminating of the management principles and methods of the Japanese headquarters. The high reliance on expatriates by Japanese companies reflects the extraordinarily strong personal focus of the Japanese management style at home and which influences the business system overseas (Ferner, 1997; Chang and Smale, 2013). This also holds true for control and co-ordination by socialization and networks. This control mechanism is an important characteristic of the Japanese domestic business system (Nonaka and Takeuchi, 1995; Ando et al., 2008). However, a centralized, expatriate-based approach has its drawbacks. The insufficient number of competent expatriate from headquarters is an obstacle in assigning the right person to achieve the predetermined objectives. Especially in communication with overseas employees, language is a typical obstacle. Local managers are expected to have a better position in negotiating with local governments and companies than expatriates from parent companies; this may have a positive impact on performance, particularly in developing countries (Itagaki, 2009; Yan, 2013). Local responsiveness requires MNCs to make strategic decisions based on local conditions. The drivers for local responsiveness include the differences in consumer preferences, the typical characteristics of the product system in host countries, global administrative costs, improvements in technologies, the trade and legislative barriers, among others (Roth and Morrison, 1990). In order to improve the ability to respond and adapt to market changes, it is necessary to strengthen local

business expertise, which would in turn, enable rapid and effective decision-making based on local intelligence.

The traditional Japanese compensation systems, “nenko” pay and lifetime employment are not considered appropriate to apply abroad. Taking China as an example, as businesses target the local Chinese market, investment increases, and R&D and corporate strategy functions become more significant. This, in turn, increases the necessity to recruit talented human resources locally. In this situation, Japanese companies can expect to face more challenges than their counterparts from the US and Europe (Matsuo, 1995; McConnell, 1996; Matsuo, 2015). The Western working style can be defined as a demarcation of job areas, with information-sharing and problem-solving methods that relate to the strengths and weaknesses of the job categories (Kagono et al., 1987). In contrast, Japanese companies generally do not standardize job categories like the US or other Asian companies do, but rather allocate work and assignments flexibly to individual employees (Kagono et al., 1987; Jacoby, 2005). Pucik (1999) states that American executives of Japanese’ affiliates in the US often complain about the lack of clarity of performance objectives and the quality of performance feedback that they receive. It is likely that similar challenges occur in China. Leung et al. (1997); Ma (1998); Taylor (1999) and Jochen (2002) argue that many qualified local employees in China become frustrated and resign from the company because of inadequate participation in decision process, limited promotion opportunities and a non-performance-based appraisal system. In addition, Japanese companies are less able to be flexible in their response to market needs because insufficient information flows from the bottom up. Dunning (1986) suggests that Japanese efficiency is only location-specific to Japan. Kenney and Florida (1993) argue that an overseas transfer of a wide range of Japanese management practices is possible, but only where 'functional equivalents' to the Japanese socio-economic environment exist (Taylor, 1999).

An insufficient repatriation program can also restrain the participation of suitable talents in overseas assignments. An ambiguous repatriation policy limits the potential caliber of people assigned in overseas affiliates (Gregersen and Stewart, 1996; Paik et al., 2002). HR professionals at Japanese headquarters only concentrate on the domestic practices without understanding the details of overseas labor legislation and common practices. Expatriates are able to make needed self-adjustments, working through any discomforts they may face upon repatriation (Furuya et al., 2007).

Adjusting to the new environment is a prerequisite to maximizing learning. Thus, for a successful transfer of competencies to occur, repatriates must be able to adjust to their post-repatriation assignment. In Gregersen's research (1990), 66% of the Japanese repatriates and 68% of the US repatriates indicated that they were uncertain what their return job would be immediately before coming home. A lack of emphasis on career development, readjustment, and personal and family issues in repatriation is more likely to contribute to high repatriate turnover (Lazarova and Caligiuri, 2001; Shen and Edwards, 2004). Therefore, a more active interest in planning and selecting appropriate job assignments for repatriates is necessary to encourage more capable and suitable talents willing to go abroad.

In the case of two investment multinational banks in Tanzania (Aloysius, 2011), the discussion's findings illustrate that HR should directly involve critical decision-making and the process of business strategy formulation from the outset or at the earliest stage. HR issues were taken into account in conjunction with the business and corporate strategies. It is important that management clearly acknowledges the importance of HR involvement in strategic decision-making, the integration of HR strategy and the contribution of HR to the bottom line. If HR representation is included at the board level and has a direct reporting relationship with top management, a significant contribution, leading to support and commitment from MDs and line managers can be enhanced. Extensive participation, involvement, and close relationships between HR and line managers jointly contributed to solving business problems.

3.3 Objectives of this Study

Given the review outlined above, this research examines the dimensions of the integration of Global HRM practices in a well-established Japanese manufacturing MNC in Japan with typical business challenges. In comparison to past studies, the approach of this case study is relatively different, with operation difficulties and practical issues of the company illustrated in more detail with relevant examples. The research objectives are as follows:

- 1) Discuss the details of the global HRM practices of a typical Japanese MNC, including the staffing strategy of expatriation, progress of localization, adoption of third country nationals (TCNs), transmission of corporate culture, and other

HRM issues.

- 2) Explore the underlying factors of the related practices and illustrate the difficulties the company is facing, such as the failure of previous FDIs or obstacles to doing business in China.
- 3) Determine practical implications not only for the Company, but also for other MNCs as reference.

This research employs the discussions of the literature review in Chapter 1 and the findings on factors affecting the selection of JCCs' CEOs in Chapter 2 as a basis to develop the research questions. By studying the case of one selected MNC, we expect to gain insights on the features and challenges of global HR strategy of Japanese companies. Thus, the following research questions are posed:

1. What are the main features of the global staffing strategy of the Company, in particular, the implementation of expatriation?
2. What kind of challenges is the Company facing related to the expatriation and repatriation?
3. To what extent is the localization adopted?
4. How does the Company adopt the employment of third country nationals (TCN)?
5. Does expatriation contribute to the business performance of the Company?

3.4 Research Methodology

3.4.1 Research Design

The primary method of analysis used in this chapter is qualitative with a single case study. As a global expert in this company⁶, the author expresses the findings based on past years' hands-on experience in the HR field, interactions with various overseas affiliates' persons in charge, and discussions with top management. In addition, interviews with HR managers from overseas affiliates of the Company have also contributed to the research material. Since subjective comments might be included during personal comments or interview, secondary data from the company's homepage and reference books that detail the nature and business activities of the company were obtained as further supporting evidence. The selected company is a major electrical

⁶ The author had been working at HT-HK for 17 years in the field of financial control and human resources. After the manufacturing business in Hong Kong was stopped, the author was transferred to the headquarters of the company in Japan as a Global Expert in which the position is required to support overseas subsidiaries in respect to finance and HR issues since year of 2010.

and electronics companies in Japan. For confidentiality purposes, pseudonyms are used and the organizations are referred to as HT-Group (or the Company).

3.4.2 Data Source

1) Company to be selected:

HT-Group is a listed company in Japan. As a listed company, to comply with legislation, most of those financial data and company backgrounds are disclosed to public. In addition, there are two reference books regarding the history and management philosophy of HT-Group and its founder (Koga, 1995; Nakashima, 2014). Through this information, the general idea of the business philosophy of HT group can be gathered. The detailed introduction of the company profile and background is demonstrated in the following section *3.4.3 Company Profile* of this chapter.

2) Information from TCN – Global Expert of HT-Group:

The trend of expatriation, backgrounds of overseas affiliates of the Company, and other general information are provided and explained by the Global Expert (i.e. the author), who has worked for HT-Group over 20 years. Due to the nature of his job, frequent communication with overseas employees and management staff over a long period of time ensures the information collected is relevant to the global HR issues of Japanese companies and contributive to this case study significantly.

3) Discussion with local directors and interviews with HR managers of overseas subsidiaries:

The purpose here is to collect the additional comments and insights of HR practices in each subsidiary. Their invaluable comments can additionally explain the current global HR practices based on the viewpoint of each domestic environment. Since all local directors visit the headquarters in Japan and attend quarterly management meetings, the author is able to it has conduct discussions and hear each director's point of view. In addition, other discussions with two HR managers of overseas subsidiaries were conducted⁷. The scope of interview questions were semi-structured and their replies were recorded with written notes since the participants hesitated to make an official record by tape recording, the author prepared a memo-record is only for his own reference.

⁷ Respective interview and discussion with HT-SG and HT-ML were arranged during a business trip of the author and the information of their difficulties of local HR practices were collected; the comments of internal and external HR topics were shared as well.
Schedule: HT-SG on 13th November, 2015 (13:30 to14:00), HT-ML on 18 November, 2015 (9:30 to10:00)

Creswell (1998) mentions that a case study is a methodology in which the researcher explores a single entity or phenomenon bounded by time and activity and collects detailed information, using a variety of data collection procedures over a sustained period of time. Case studies, unlike superficial and generalizing methods, are intended to provide a level of detail and understanding. Bennett and Elman (2010) also identify the advantages of single case studies that are implicitly comparative. In deviant case whose outcome does not fit with prior theoretical expectations or wider empirical patterns, the use of inductive process tracing has the advantage of potentially generating new hypotheses , and potentially allowing them to be generalizable to a broader population. Various forms of single case study analysis can provide a nuanced and holistic account of specific phenomena through the application of multiple qualitative and/or quantitative research methods (Willis, 2014).

This study adopts a single case study approach. Single case study analysis has been subject to a number of criticisms, the most common of which concern the inter-related issues of methodological rigor, researcher subjectivity, and external validity. Each case itself is unique, but the learning can be applied to other situations; there is always some room for generalizability of lessons learned from a case. Indeed, there is more than one kind of generalizability. The transferable generalizability is regarded as analytic generalizability, instead of statistical generalizability. Imagination and attention are needed to see whether the case fits new situations (Gilgun, 2005; Lee, 1975).

Although there are limitations to the effectiveness of a single-case study, Yin (2003) argues that a single-case design is warranted or appropriate on the basis that the case is revelatory⁸. A revelatory case is one for which there is a belief or assumption that the problem discovered in a particular case are common to other cases as well. On the other hand, one can often generalize on the basis of a single case, and the case study may be central to scientific development via generalization as supplement or alternative to other methods. Often, it is not desirable to summarize and generalize case studies. Good studies should be read as narratives in their entirety (Flyvbjerg, 2006).

⁸ Five rationales are given by Yins (2002), 1) a critical test of existing theory, 2) a rare or unique circumstances, 3) representative or typical case or when the case serves a 4) revelatory or 5) longitudinal purpose.

The case of the HT-Group can be regarded as a revelatory case because the company is a typical Japanese multinational corporation, which has several overseas establishments dealing with a global business. Even though some Japanese companies that are located in metropolitan cities, like Tokyo or Osaka, are changing their management style in order to fit into the trends of multinational business, a majority of them still rely on the traditional Japanese management style. HT-Group is located in Kyushu, which is in the southern part of Japan, with abundant traditional Japanese cultural characteristics. If HT-Group can serve as a revelatory case, then there is a basis, according to Yin, for discovering and describing problems that may be common to other cases of global staffing problems.

On the other hand, Stake (1994) suggests that a case study is useful when “opportunity to learn is of primary importance.” A case study approach provides a mode of inquiry for an in-depth examination of a phenomenon. He classified cases able to have three kinds of purpose: (1) intrinsic, (2) instrumental, and (3) collective. In instrumental case study research the focus of the study is more likely to be known in advance and designed around established theory or methods. Hence, it is used to provide insight into an issue. The study is instrumental to the extent that it may shed light on problems and issues that can be common to other global companies. Thus, as a revelatory case, the study of HT-Group is aligned with Stake’s suggestion that a case study can serve instrumental purposes. This qualitative case study is an approach of research that facilitates exploration of a phenomenon within its context using a variety of data sources. This ensures that the issue is not explored through one angle, but rather a variety of directions, which allows for multiple facets of the phenomenon to be revealed and clarified.

3.4.3 Company Profile

HT-Group was established in Japan by its founder, and began manufacturing operations in 1949; it officially incorporated in 1957. HT-Group is a leading Japanese manufacturer of electronic parts used in semi-conductor packages, and motor cores used for automobiles and mobile phones. In order to produce above products, a high precision tool is a prerequisite for ensuring the accuracy requirement. The company is engaged in manufacturing and sales to customers located in Japan, and other Asian countries principally, and supporting certain markets in the US and Europe, as well. The annual turnover in consolidation base including overseas affiliates’ results was

over 65 billion Japanese yen in 2014. The company was listed in the Second Section of the Tokyo Stock Exchange in 1985 and the First Section of Tokyo Stock Exchange in 1991. The total number of employees, including overseas affiliates, is over 3,400 in the latest figures.

The company's mission is "to provide goods, which satisfy the needs of the people in the world by providing customers with goods of the best quality that meets the demand of each era and the required quantity at a reasonable price". They recognize that contributions to the clean energy field and dealing with the demands from developing countries are their important challenges of business development in the 21st Century, and they strive to produce products for a bright and rich future with the slogan: "Saving energy and resources is the best present for posterity". These aspirations are underpinned by the company's business strategy, sound strategic planning, high precision quality products, and safe working environment. In addition, the company supports all of their associates by promoting employees' prosperity, and building an ideal and humane workplace based on the spirit of equality. Similarly, human concern is always the first priority in most decisions.

A majority of the company's business policies and management philosophy are based on the founder of HT-Group. Through his tenacious spirit, he achieved industry paradigm shifts for technology and the founder values the foundation of education and human development. Each new employee is required to participate in a tough fine-tuning process within his or her first month. Regardless of gender and position, new employees have to use their hands to fabricate a part with a simple tool without any machines' support. This philosophy is to have each new employee be able to grasp the fundamental knowledge of manufacturing by his/her own experience. In addition, the "Toyota way" is also widely used in the manufacturing process. The "Three Actuals Philosophy (*Sangen Shugi*)" is emphasized so employees know that they must investigate to understand the real situation: the actual place, the actual part, the actual situation.

Regarding the global human issue, the founder respected the culture of each country and tried to adhere to domestic ways of business practice. Even though he could not communicate well with overseas' employees in his own language, he insisted on demonstrating and explaining his technical and management point of view to them by himself, every time he visited an overseas affiliate site until the age of 80. Therefore,

most overseas' employees have great esteem for his attitudes towards people, as well as his drive and enthusiasm in technology development.

The "road to compliance" is the ideology that all employees in HT-Group have to reference and follow. All of the employees follow the corporate guidelines of the company. One of the major policies is the respect of human rights. All employees respect each other's dignity, construct strong interpersonal relationships with each other, and prohibit any prejudice and harassment. It is believed the above policy has great influence on the global HRM of the HT-Group. In addition, each employee has to observe laws, regulations, and corporate guidelines in every phase of corporate activity, striving to ensure that corporate activity is in accordance with accepted practice and complies with social ethics. Management staff members shall provide concrete guidance, advice, education, and supervision to ensure that all subsidiary employees observe the compliance, and consequently, each corporate activity must be fair and sound to contribute to society. In addition, HT-Group has set a corporate slogan of "Resource and energy conservation is the greatest gift we can give to our descendants", and is proud to have implemented concrete and proactive programmes since its foundation as a leader in environmentally aware management. The company continuously contributes to the protection of the global environment, striving to create a richer, more comfortable society. All employees carry out their duties to ensure a safe and cheery workplace environment. Although the founder of HT-Group passed away in 2008, his human spirit and management philosophy still remain in each employee's mind, and influence the global business operation continuously.

Overseas Affiliates Roadmap:

Regarding the business scale of HT-Group, there are five production plants, two subsidiaries, and five sales offices supporting the domestic demand and serving the local market in Japan. With the continuous expansion of business, global operations launched in overseas markets and the first production factory, which is still in operation, was constructed in Singapore in 1972. Two major manufacturing plants followed in Hong Kong and Malaysia. Because of customers leaving the Hong Kong market, HT-HK closed its manufacturing operation there and currently only remains in Hong Kong as a trading business to support other overseas affiliates. Under the policy of end-user-oriented siting of factories and business offices, several subsidiaries were established in the 1990s, including locations in Taiwan, Thailand, the

Philippines, and Mainland China.

The business policy of HT-Group is to strive for the satisfaction of customers. Hence, the establishment of overseas production plants allowed for the expansion of production capacity and penetration of the global market, but also for the needs of products for overseas customers. In response to the urgent demand for parts, the HT-Group can shorten lead times of delivery to prevent customers facing problems of material shortage. There are several sales or administration offices in each region throughout the world for various purposes. In the Beijing regional office, the primary functions include the assistance of production plant set up, improvement of government relations, market research, updating the latest legislation, and other business liaison in China.

As shown in Table 3.1⁹, except for two companies that closed their manufacturing business, the other seven production sites in Southeast Asia and People's Republic of China are close to the customers in each district and actively provide the production support and service. Those seven companies are the subjects of this study, and related discussions will follow accordingly.

Table 3.1: Overseas Establishments of HT-Group:

Manufacturing Plant				Rep. Office	
	Incorporation	Location	Pseudonyms	Year of Estab	Place
1	1972	Singapore	HT-SG	1961	Chicago
2	1973	Hong Kong *	HT-HK	1980	San Francisco
3	1987	Malaysia	HT-ML	1993	Beijing
4	1993	China - Guangdong	HT-GD	1999	Milian
5	1994	Philippine*	HT-PH	2004	Casablanca
6	1994	China - Tianjin	HT-TJ		
7	1996	China - Shanghai	HT-SH		
8	1998	Taiwan	HT-TW		
9	1999	Thailand	HT-TH		

* HT-HK and HT-PH had terminated the manufacturing business in year 2009, and only the trading offices are remained in both site.

3.5 Findings and Discussions

3.5.1 Global Staffing Strategy of the Company

⁹ All tables and figures of the findings are summarized by author based on the survey results, unless further indicated.

According to above company profile, HT-Group has shown a significant degree of globalization in the world, especially in Asia. Notably, as shown in Table 3.2, all current CEOs in overseas affiliates are Japanese. The formation process of such a situation is very interesting. In the early 1970s, HT-Group started to expand their business by investing in production plant in overseas countries. Because the company's managers lacked experience in business operations outside of Japan, local management staff members were assigned as CEO in the beginning stage in HT-SG and HT-TW. The Company recognized the importance of a local competent leader, who could help the company launch the global business. In a similar manner, today the person in charge of the Beijing representative office, is a local Chinese person; he works for the enhancement of the government relationship, keeps updates of the local legislation, and supports three subsidiaries in China since the start of investment in Mainland China. However, in operation plants after the two local CEOs of HT-SG and HT-TW resigned after a few years due to personal reasons all of other CEOs of overseas affiliates are Japanese people expatriated from the headquarters in Japan. Although most local employees recognize the importance of localization and expect an increase in opportunities for local talents, they still feel comfortable to having a Japanese CEO appointed from headquarters. One of the major reasons is that the local employees want their CEO to be able to communicate well with headquarters. In case of any difficulties or requests, their CEOs are capable to negotiate because they are familiar with the network and connections in Japan. Certainly, in some circumstances, overseas local employees sometimes worry that their CEO only considers the standpoints of the Japan headquarters' side, instead of considering the local situation.

Table 3.2: Country of origin: Overseas subsidiaries' CEO

Subsidiary	Location	Country of Origin	
		Initial Period *	Other Periods
HT-SG	Singapore	Local	Japanese
HT-ML	Malaysia	Japanese	Japanese
HT-GD	China-Guangdong	Japanese	Japanese
HT-TJ	China-Tianjin	Japanese	Japanese
HT-SH	China-Shanghai	Japanese	Japanese
HT-TW	Taiwan	Local	Japanese
HT-TH	Thailand	Japanese	Japanese

* Less than 3 years after an initial development of the company.

Table 3.3: Personal profile of Overseas subsidiaries' CEO

Subsidiary	Age	Expertise	Other expatriate experience
HT-SG	Middle 50's	Production	Yes
HT-ML	Early 50's	Sales	Yes
HT-GD	Early 50's	Administration	Yes
HT-TJ	Early 50's	Production	Yes
HT-SH	Middle 50's	Production	Yes
HT-TW	Middle 50's	Production	Yes
HT-TH	Middle 40's	Sales	Yes

* Even though this position is appointed working in overseas affiliates, each CEO still has own position in Japan headquarters.
(Example of seniority ranking: Division Manager, Senior Manager, Manager, Officer).

Regarding the profile details of each CEO, as shown in Table 3.3, most of them are over 50 years old with working experience in HT-Group, and all of them have at least once experience as expatriates in overseas countries. Since HT-Group is a manufacturing company, the professional backgrounds of most CEOs are in the production and technical fields. Next, expertise in sales is also considered important criteria for being a CEO in overseas affiliates. Each CEO's original position in Japan headquarters: some of them are merely middle management staff at headquarters, but have to manage the whole company operations in an overseas affiliate.

There is no doubt that previous overseas working experience is an important to consideration in the assignment of a proper candidate as CEO in overseas affiliates. In reality, the company has been facing a shortage of suitable candidates to assign to such important positions. Some management staff members commented that they always have difficulties when the time to select expatriates approaches, especially for the top position of CEO. Previously, one of the key requirements to be appointed as top management is the language capability. A certain level of communication in English is an essential prerequisite for the appointment as an overseas' CEO, otherwise, the CEO would be unable to communicate with local employees or even the customers in overseas markets. However, in recent years this trend is changing because the number of overseas employees' capability in the Japanese language is increasing. Particularly in China, affiliates have several motivation systems for encouraging employees to study foreign language, like Japanese and English. Therefore, today, if expatriates

from headquarters can speak only Japanese, they still can manage the overseas company well. In addition, there is a growing trend of assigning people from the younger generation to top positions. The CEO of HT-TH is the youngest person to be assigned the CEO position of an overseas affiliate in the group. This is a new trend, bolstered by the shortage of human resources that has become a company policy to give more opportunities to younger employees, allowing them to manage a whole overseas company for the purpose of the enhancement of training and development of human competence.

3.5.2 Assignment of expatriates from the headquarters

Besides the CEO, there are other positions filled by Japanese expatriates in overseas subsidiaries. As shown in Table 3.4, the percentages of expatriating PCNs to overseas affiliates are about 2% and 4% for companies of around 300 employees and less than 100 employees, respectively. This ratio is relatively higher than the average of other Japanese companies. According data of “Survey of Japanese Companies’ Globalization (2014)”, the average ratio of Japanese expatriate assigned to overseas affiliates in manufacturing sectors was 1.2% (Ito 2014). This means the HT-Group still has room for further improving the adoption of local talents. As shown in Table 3.5, in departmental allocation, the majority of Japanese expatriates belong to the production area.

Table 3.4: Percentage of Expatriates from Japan Headquarters

Subsidiary	Location	No. of PCN	Total Employee	% of PCN
HT-SG	Singapore	6	300	2.0%
HT-ML	Malaysia	5	250	2.0%
HT-GD	China-Guangdong	3	80	3.8%
HT-TJ	China-Tianjin	4	90	4.4%
HT-SH	China-Shanghai	8	300	2.7%
HT-TW	Taiwan	5	250	2.0%
HT-TH	Thailand	2	50	4.0%

Table 3.5: Departmental allocation of Expatriates

Subsidiary	Location	Total of PCN	CEO	Sales	Technical/ Production	Account/ Office
HT-SG	Singapore	6	1	1	4	0
HT-ML	Malaysia	5	1	1	3	0
HT-GD	China-Guangdong	3	1	0	2	0
HT-TJ	China-Tianjin	4	1	1	2	0
HT-SH	China-Shanghai	8	1	3	4	0
HT-TW	Taiwan	5	1	1	4	0
HT-TH	Thailand	2	1	1	0	0

Since HT-Group is a manufacturing based company, transfer of technical knowledge is probably an important reason for assigning expatriates from the headquarters. However, there are also not any Japanese expatriates assigned in accounting or office administration. As a traditional Japanese manufacturing company, production and technical related areas are always given the highest priority. In some circumstances, office clerical staff help in production support like packing, or simple assembly work. Some of the overseas affiliates have such similar culture to the headquarters. In addition, labor costs are another concern at the overseas sites. In order to effectively allocate the labor cost, the minimum number of PCNs will be assigned. Thus, the necessary quota will be normally given to the technical side, and expatriates in accounting or office administration are seldom assigned to work overseas. Perhaps it can be interpreted in this way: local employees are in better position to understand the domestic requirements and customs of administration work. It is obvious that the availability of capable employees in Japan who can understand the overseas operations in accounting, taxes, and local HR management is very limited.

3.5.3 Challenges of Expatriation and Repatriation

Good planning is a key to the success of every management assignment. Although the benefits of expatriation are well known to most companies, not every expatriation results in success. Since the preparation differs from one expatriation to another, the role of the HR department at the headquarters is very important. HT-Group seems to be facing obstacles due to insufficient planning of expatriation. The author reveals that the system of expatriation is insufficient to make clear when, how, and who should be assigned. There are, in general, three scenarios necessary to consider the

assignment of expatriation in the company: a request from the overseas affiliates for production or customers' support, expiration of existing expatriates' terms, and a special order from headquarters. No matter the scenario, top management staff members struggle to find suitable candidates to fill positions.

The HR department at the headquarters has not developed an official system to handle expatriate issues. There is no pool of capable and suitable talents who can meet the needs of overseas' assignment. Although the Company offers training provided by related departments before the departure of expatriates, the preparation should differ from one expatriation to another. A staff member preparing for his first expatriation may require more and varied training, different than someone who has experience working and living overseas. The first expatriation will have certain impacts on the next expatriation and the ability to prepare for cultural differences, acculturation and changes in context. In addition, having the same training program for potential expatriates with different working experiences and backgrounds will become a troublesome issue. The person in charge of the overseas' HR department also pointed out that some young expatriates did not have management experience, but were assigned as managers in overseas affiliates. Except for the CEO, most of the other expatriates were not even middle management staff at the headquarters. In addition, the HR department at the headquarters cannot grasp cultural differences and management characteristics of the overseas affiliates, not to mention provide trainings for expatriates.

HT-Group offers their employees a repatriation program after they arrive home. This is a useful way to prepare the returnees and their families about all the challenges coming with their readjustment. Normally, a repatriation program takes about one to three months. The returnees study the latest company policies and technology. During this period, the company will assist their families for adjustments of daily life and related living arrangements. In certain circumstances, some expatriates felt uncertainties at the initial stage when they are told to repatriate to headquarters. They might worry there will not be any suitable positions available for them after their return. This indicates that there is not enough clear planning or explanation for expatriates before they return after their overseas' assignments are completed. However, some employees consider working abroad an invaluable opportunity preferring to live in overseas countries, and expecting the assignment will help their career path in future. Some of them might consider that after they overcome

their perturbed feelings, the steps of promotion seems to be more smooth than other employees at the headquarters. Actually, several previous and current top management staff had overseas working experiences and were expatriated overseas for certain periods. As shown in Table 3.6, over half of the current and previous top management teams members had been assigned to overseas affiliates. This implies that global experience is well recognized by the company.

Table 3.6: Expatriation experience of Top management staff in HT-Group (Headquarter in Japan)

	Current Organization:		Yr. 2010's Organization	
	No. of Person	No. with Expatriation Experience	No. of Person	No. with Expatriation Experience
CEO	1	1	1	1
General Manager	1	1	1	1
Director	5	2	3	2
Auditor	2	1	2	1

3.5.4 Localization and the adoption of local talents

At HT-Group, management values the importance of human development concerning both the prospect of employees in the headquarters in Japan, but also promoting the adoption of local talents in overseas locations. The founder had demonstrated a strong respect for local employees and has promoted local directors since the 1990s. As shown in Table 3.7, almost all overseas affiliates have local directors who assist their CEO in managing the overseas company. Consistent with the Japanese management characteristic of seniority-wage system (*Nenko system*), most of the local directors have been working at the overseas companies for a certain period of time. Especially in HT-SG and HT-ML, they are pioneers of the companies, who made great contributions in the past. Local directors have expressed their appreciation and put in this way:

It is very encouraging that local employees can be promoted to top management staff in Japanese organizations. Many people recognized that a majority of top management staff in Japanese overseas affiliates should be Japanese and seldom even have females appointed to such positions. However, it is very important to give a clear signal to every employee overseas that each of them has an equal opportunity to be promoted if his or her performance is satisfactory, regardless of gender.

In the company's headquarters in Japan, over 90% of the management staff, including those at the middle management level, are male. At two of the overseas affiliates, HT-SG and HT-TH, female employees were promoted to be local directors because of their excellent performance, especially their great contributions during the initial set up period. They assisted the companies in liaising with the government, searching for new customers, recruiting new employees, and other contributions. Currently, all overseas local directors go to the headquarters and attend the regular quarterly meeting. In addition, when they visit the headquarters, a meeting is specially arranged for communication with the CEO and GM of the headquarters for the purpose of sharing business information and any difficulties through a discussion between top management staff from different districts.

Table 3.7: Promotion of Local Directors

Subsidiary	Location	Year of Company Incorporation	No. of Local Directors	Gender	Specialization	Timing of Promotion
HT-SG	Singapore	1972	1	Female	Sales	Early of 1990s
			1	Male	Production	Early of 1990s
HT-ML	Malaysia	1987	1	Male	Production	Middle of 1990s
HT-HK	Hong Kong	1973	1	Male	Finance	Early of 2000s
			1	Male	Sales	Middle of 2000s
HT-GD	China-Guangdong	1993	1	Male	Administration	Late of 2000s
HT-TJ	China-Tianjin	1994	0		-	-
HT-SH	China-Shanghai	1996	1	Male	Production	Late of 2000s
HT-TW	Taiwan	1998	0		-	-
HT-TH	Thailand	1999	1	Female	Administration	Middle of 2010s

3.5.5 Employment of third country nationals (TCNs)

The role of third country national (TCN) ¹⁰ is becoming more important in multinational corporations (MNCs). As previously mentioned, two overseas affiliates had closed their manufacturing operations due to a lack of customers in their regions and an increase in operation costs. At that time, most of the employees of HT-HK and HT-PH were laid off after the production was transferred to other sites. However, the company tried to retain certain key employees, especially those in top management or who had received long-term training in the headquarters in Japan. The company wanted to utilize their experience and technical knowledge in other overseas affiliates. As shown in Table 3.8, a total of seven ex-employees of HT-HK and six ex-employees of HT-PH were employed by another overseas affiliates or the headquarters in Japan.

¹⁰ Third Country National (TCN) can refer to any individuals who are residing or working in countries that are not their country of origin.

Table 3.8: Third Country National (TCN) in HT-Group

		Current Employment				
		HT-TW (Taiwan)	HT-GD (Guangdong)	HT-SG (Singapore)	HT-HQ (Japan)	Total
Original Employee	HT-HK (Hong Kong)	3	1	0	3 *	7
	HT-PH (Philippine)	4	0	2	0	6

* Two TCNs are seconded to HT-TW and one TCN is working in HT-HQ.
All TCNs employed by headquarters are directors of HT-HK.

For the case of HT-PH, six ex-employees were experienced engineers and capable of supporting other overseas affiliates' technical issues and improvements. At HT-HK, there are three local directors who are under the employment contract as global employees at the headquarters. In fact, the author is assigned as a Global Expert at the headquarters. The other two work at the Taiwan affiliate as management staff. They have expressed the same gratitude to the company as the author that the company recognizes their past performance and contributions, and allows them to continue to work for the company. They can continuously utilize their knowledge and working experience in supporting other overseas companies, even broadening the scope of work by servicing more than one company. Considering the ex-employees of HT-PH, for example, it was not easy for a Filipino person to work in Taiwan due to the obstacles of communication and political reasons. During the past few years, HT-TW helped to apply and negotiate with the local government for a renewal of the HT-PH ex-employees' working visa in Taiwan. After couple of years' working in Taiwan, the employee can communicate with other local employees with simple Chinese and enjoy daily life there. He has shown a great desire to work at HT-TW because he can utilize his working experience and technical knowledge. The most important thing for this employee is to receive respect and recognition by the HT-Group.

As a multinational corporation, it is believed that the flexible utilization of human resources from other countries is helpful and vital in global business. The adoption of capable TCNs should be a trend and talents from other countries bring new ideas and different insights to the company. Although the benefits of employing TCNs are many, it is not easy for them to start their working life, especially at the beginning stage. Many locals find it relatively easy to accept PNCs as representatives of the parent

company. But TCNs are of different nationalities and have not worked at the headquarters. As mentioned above, language and culture differences are immediate difficulties for foreigners working in a different environment. For them to quickly adapt to a new life, support provided by the local company is very helpful, including language training, a comprehensive orientation program, and help with accommodation. Regular communication and follow-up are also important to be aware of any problems in advance.

TCNs provide an additional source of personnel, they usually cost less, and they are helpful. Besides the relocation of HT-HK and HT-PH after the closing of their manufacturing business, HT-SG is employing a certain number of TCNs from Malaysia and Mainland China for the purpose of supporting the manpower shortage in Singapore, especially in the manufacturing field. The HR manager of HT-SG put it this way:

The Singapore government is setting aside a billion dollars each year to help Singaporeans gain deeper skills valued by industries. Several such ambitious programs seek to increase labor productivity by developing the workforce so that the skills of employees are more aligned to what employers need.

Singapore has an open door policy for foreign skilled/professional labor. First and foremost, the traditional notion of manufacturing has to evolve. Only lean manufacturing is the way forward for any manufacturing activities in Singapore regardless of the nationalities of the companies, including Singapore's Small Medium Enterprises. Government policies will not favour businesses that rely heavily on human resources, especially those who are low-skill. Businesses are advised to take advantage of the government's incentive to upgrade their operations through automation. Manufacturing must shift from being labor-intensive and having low productivity to become an industry that develops high value-add products. To achieve this, manufacturing companies will require higher skilled workers and this may translate into a greater need for the use of our recruitment services to find these talents. Although skills are increasingly demanded as the Singapore economy restructures, a complementary demand for foreign low-wage service workers is still necessary for the purpose of controlling business costs and keeping competitive.

In the near future, the Singapore government will keep its foreign workforce to 1/3 of the total workforce here. That's why the government will continue to emphasize automation and companies that show progress in this area will be given

priority for recruitment of foreign labor. The Singapore government cannot and will not increase its foreign workforce since the influx of TCNs put a constraint on our already limited infrastructure, transport and accommodations. Certainly, high labor cost is hindering the development of the manufacturing sectors. Besides automation, supporting low labor cost regions seems to be the only way to ease the current situation. Like our company, besides workers from Malaysia, a number of operators from Mainland China have sharply increased in recent years. Honestly speaking, they always show an aggressive attitude in their work, and some of their performances are really outstanding, and even better than locals.

3.5.6 Contribution of expatriation to business performance

Each expatriation has own objectives to achieve, including knowledge transfer, local talents' development, or company business performance improvements. Similar to MNCs in general, HT-Group has no clear mechanism to evaluate expatriate performance during their period overseas or after their completion. Therefore, there is uncertainty whether expatriates are doing well or not. Even though the financial performance of the company is on a positive trend in the past years, it is still difficult to judge how expatriates from headquarters contribute to sales turnover. However, after several overseas production plants were built, the production capacity and market shares of the company increased. As seen in Figure 3.3, the sales in 2014 was about double the amount of 10 years prior. Almost half of the total sales amount in 2014 was contributed by all overseas affiliates. Therefore, we can understand the significant influence of the performance of overseas establishments.

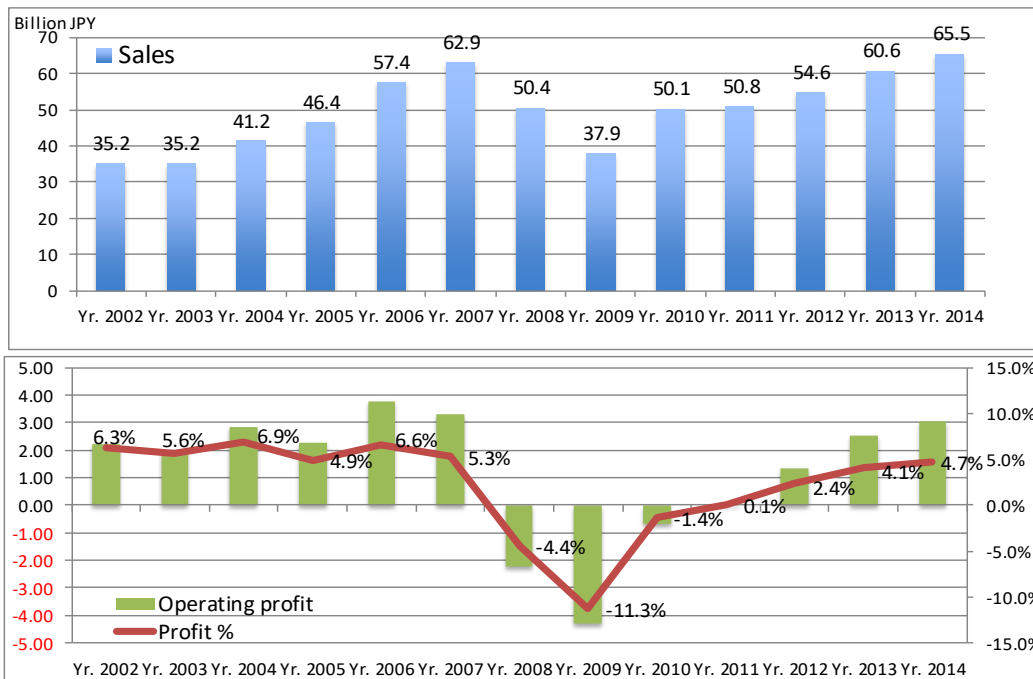


Figure 3.3: Yearly Trend of Sales and Operating Profit of HT-Group

3.5.7 Other global HRM practices

In general, HT-Group has had minimal influence on the HRM of overseas affiliates. Thus far, each local HR person in charge has to take care of the majority of his/her own HRM practices, including recruitment, appraisal, salary reviews, and benefits system, without seeking advice from the headquarters. Final approvals are mainly subject to the CEO of each overseas affiliate. In line with comments from other scholars, it is not an easy task for MNCs to transfer their HRM practices into host countries where managerial circumstances are different. The functions of the subsystems and elements of the whole managerial system are sustained and reinforced by each other. These subsystems have been developed under the circumstances of the home countries of the MNCs. Japanese MNCs, in particular, face difficulties in the transplantation of their HRM practices.

On the surface, overseas affiliates should be glad that the headquarters in Japan have not interfered too much of their HR practices. However, HR decisions are eventually approved by the CEOs, who are assigned from headquarters. Most CEOs more or less will refer to the common practices in Japan. Even though they try to respect the local practices, it is still difficult for overseas affiliates to compete with other Western MNCs' overseas affiliates in terms of some HR arrangements, especially in the area of the salary and promotion system. Meanwhile, the HR department at the

headquarters in Japan does not grasp the details of overseas' HR practices. Therefore, solid suggestions or advice from headquarters cannot be expected in the case of critical scenario or difficulties, like company re-structuring, or redundancy.

The company still has various activities or programs to promote the transmission of corporate culture to overseas affiliates. For instance, booklets of company mottos and compliance were made in different language, and distributed to all employees in the company. Employees are required to go through the contents, and each of them has to read a small part of contents at every morning meeting. In addition, there are several opportunities, as shown in Table 3.9, with various purposes that overseas affiliates' employees have chances to visit the headquarters. During their visit, the interactions with headquarters employees and the attendance at meetings or training can promote the corporate culture to overseas employees. They can deeply understand the characteristics of actual operations at the Japan headquarters. Two typical corporate activities, the long service reward system and the one-year training program are conducted at the headquarters to enhance the employees' motivation, training and development of local staff, and knowledge transfer. Regarding the long service reward system, employees are entitled to a one-week trip to Japan after 10 years working in overseas affiliates. They can experience the real culture of Japan in person. During the trip, they are not only able to travel in Japan, but also have a chance to visit the headquarters of the company. They are updated on the latest technology and development progress of the company. The HR managers of overseas affiliates have stated that this long service award is a very encouraging program; it can motivate the employees, improve their loyalty to the company, and deepen the human relationship between headquarters and overseas affiliates.

Table 3.9: Opportunities of visit for Overseas affiliates employees

Activity	Frequency	Period of Stay	Related Employee
One-Year Training	Twice per year	One year	Fresh employees or middle management staff
Technical exchange meeting	Monthly	2~ 3 days	Middle management staff
Long service trip	Twice per year	One week	Employee with 10 years service
Memorial ceremony	Yearly	2 days	Employee with 15 years service
Business trip	Irregular	Not fixed	(Every 5 years afterwards)
Director meeting (Overseas affiliates)	Quarterly	3 days	Local directors (Overseas affiliates)

In addition, HT-Group launched a one-year training program in 2000. Each overseas affiliate has two opportunities per year to send local employees to the one-year training program. The trainees can be from different specialized area, without limitation. Table 3.10 shows the summary of trainees from each overseas affiliate. Up to now, there were over 100 trainees studied in Japan headquarters. Within a year, each trainee will receive a short lesson in the Japanese language provided by external teachers in first two months. At the same time, they will attend orientation by the HR department to learn about the general daily life and other customs in Japan. After that, trainees are assigned to different specialized area for further training. The company expects each trainee will bring back what he or she learns and share it with other overseas colleagues. It is believed this program is a valid means of transferring the corporate culture to each subsidiary. Since those overseas trainees come from different countries, like Singapore, Malaysia, Taiwan, Thailand, and China, it is very interesting that their communication method is based on the Japanese language. The HR Managers of HT-SG and HT-ML also revealed that:

This training program is a very special activity to link up with people from different regions. Although only one year is not enough for them to study sufficient technical knowledge, the important things are that they can deeply experience the Japan life and the corporate culture of our company. Due to the nature of our work, overseas employees have to contact headquarters or other overseas affiliates to exchange technical knowledge regularly. It is helpful to improve the connection network and facilitate their daily work.

Table 3.10: Summary of Long Term Training (One-year program)
(From year 2007 ~ 2015)

		Sales	Quality	Production	Office Admin.
HT-SG	Singapore	*		*	
HT-ML	Malaysia		*	*	
HT-TH	Thailand		*	*	
HT-HK	Hong Kong			*	*
HT-TW	Taiwan	*	*	*	
HT-GD	Guangdong	*	*	*	
HT-TJ	Tianjin	*	*	*	
HT-SH	Shanghai	*	*	*	
HT-PH	Philippines			*	

3.6 Implications of the Findings

Based on the author's long-time experience in the company, frequent discussion with the HR sector management staff of overseas subsidiaries, and data of company history, this chapter examined the global HR practices of a typical manufacturing MNC in Japan. The aim of this chapter is to explore the way a well-developed Japanese MNC implements specific global HRM strategies in their subsidiaries, including the staffing strategies of expatriation and repatriation, localization progress, and other programs promoting the transfer of corporate culture. Also, this chapter set out to illustrate the company's problems in global HR practices that other MNCs may also face for the purpose of serving as references and providing insights. The key findings about the global HR practices of HT-Group can be summarized as follows:

- 1) HT-Group has a strong corporate culture and emphasizes human concerns. All of its internal policies are aligned with the policy of the company "the road to compliance. The transmission of the corporate culture and compliance policy is accomplished through a variety of activities with overseas affiliates.
- 2) Under certain circumstances, the company significantly recognizes the contribution of local talents with various promotion opportunities and education programs, but continues to assign expatriates from Japan headquarters.
- 3) The person in charge of each overseas affiliates' HR function is independent and able take charge of his or her own work with minimal intervention from the headquarters in Japan. This implies that the manager in charge of HR at the headquarters has not grasped the operations of overseas' HR practices, and they find it hard to understand the HR related difficulties in overseas affiliates.
- 4) Similar to some other MNCs, HT-Group has no comprehensive policy of expatriation and repatriation. Various ambiguities include the selection of competent candidates, the assignment period, roles and responsibilities, and performance evaluations.
- 5) In general, the company tends to overemphasize practical working experience and engineering techniques, rather than focus on management concepts or professional knowledge.

The company has shown an encouraging attitude toward adopting local talents as directors to assist the Japanese CEO in daily operations. Although the company's policy on the importance of human respect has a strong influence on HR practices in

overseas affiliates, there is still room for further improvement in facilitating the development of localization. The interaction of the headquarters and the overseas companies can promote an exchange of HR ideas from different regions and may be able to solve HR problems in overseas affiliates with support from the headquarters. The transmission of corporate culture is achieved through different activities, like a variety of training programmes, a long service award scheme, and global technical meetings to enhance the companies' overall performance on a global scale. In addition, the company policy of strict adherence to rules is shared in similar way through the above programs. Consequently, the road to compliance and concern for human needs can be executed persistently among all overseas affiliates.

The above findings indicate that the company transfers the corporate policy to overseas subsidiaries by using the expatriation from the Japan headquarters. This is consistent with previous research reporting that expatriation serves as an importance conduit between headquarters and the local organization to manage and ensure a uniform company policy, direction and coordination in overseas affiliates. Consequently, the result of knowledge transfer, management development, and the creation of common organizational culture can be achieved (Boyacigiller, 1990; Harzing, 2001a; Belderbos and Heijltjes, 2005).

The case also shows that human concern and compliance are regarded as important company visions that guide employees to reflect on their work appropriately. This is also consistent with previous studies reporting that vision communication, or the act of motivating followers by communicating images of the future of the collective, is positively correlated to leadership effectiveness and company growth. A charismatic or transformational leadership tends to be positively associated with followers' performance, attitudes, and perceptions. Leaders can also reinforce the values inherent in the vision nonverbally, such as through dramatic gestures, role modeling, and the way they select, train, and reward employees (Baum et al., 1998; Stam et al., 2014; Locke et al., 1991; Matsuo, 2015), which were attributes of the founder and his policies of this selected case.

In response to the obstacles facing HT-Group, the following recommendations may be helpful for improving its global HR practice.

- 1) Although it has been over 60 years since HT-Group was established, there is no official person in charge of global HR functions at the Japan headquarters. Limited

understanding of the overseas HR operations can result in various management problems and consequently, the overseas talents are not utilized effectively. Therefore, an increase in global HR function is a must for the company. A team of existing HR employees at the Japan headquarters should be established to become more involved in overseas activities. A variety of related overseas operations, including labor laws, the salary and welfare system, recruitment, and related tax schemes should be reviewed and comprehended one by one. The major scope of works should include setting the overall corporate HR policies, expatriate strategies and administration, executive resource activities for the senior local staff, programs enhancing the transmission of corporate culture, and support to regions and local HR groups. In order to move forward with the above tasks, regular meetings with the overseas HR person in charge will enhance the exchange of HR issue and professional ideas in each country. Similarly, the Japan headquarters staff will begin to understand any difficulties that overseas affiliates are facing, and give suggestions or supports.

- 2) With reference to Stewart and Morrison (2012), one of the weaknesses in the Japanese management system is the inability to recognize the importance of management theory, or looking askance at any accomplishment by individual employees who spend years in such study. HT-Group has a similar situation in which they rely heavily on work experience, especially the internal manufacturing training system. Each employee follows the system of job rotation and aims at becoming a generalist, instead of being trained at a professional caliber in a specific field. Without neglecting the importance of practical hands-on skills or knowledge, each potential management staff should be encouraged to equip themselves and improve professional knowledge for further advancement. Then, when faced with difficult business situations or obstacles, they will be able to render professional insights, and make alignments with top management directions.
- 3) Even though HT-Group has its own internal procedures for expatriation, in order to achieve the pre-determined outcomes of expatriation assignment, comprehensive planning is an indispensable element of success.

(1) As seen in the case of HT-Group, clarification of the primary purpose of each expatriation is a crucial point for improvement. Transfer of technical knowledge, improvement of business or production operations management, and training of

headquarters' future management staff are the common objectives of expatriation.

(2) Next, the period of expatriation, selection and staffing, role and position in overseas affiliate's organization should be discussed with the related parties in advance and then decided accordingly.

(3) After the above preliminary considerations are fixed, an appropriate training program should be conducted for the selected candidate. However, the lack of a pool of potential candidates is the bottleneck in the process of selection and staffing. One idea is to establish a new program to increase the number and create a pool of capable candidates for future expatriation. A certain number of potential candidates can be selected from various departments for a short-term program, six months to one year, to enhance the experience and related knowledge about overseas operations in advance. Before departure, a clear explanation of expatriation's objective is important for expatriates' to understand their roles in overseas projects. When they arrive and start their new working life in overseas affiliates, a comprehensive orientation program can help the expatriates to fit into the new environment. The company should cooperate with the overseas affiliates' HR person in charge to establish the orientation program in alignment with headquarters' direction.

(4) In addition, a periodical review of expatriates' performance with related parties, including the senior local and Japanese management staff would provide relevant feedbacks to enhance the effectiveness of the expatriates' performance and reinforce their motivation and determination. Except for exceptional situations, each expatriate should follow the original term and return to the Japan headquarters. A comprehensive repatriation arrangement must be prepared in order to reduce uneasy feelings. It is necessary to have discussions in advance with expatriates who are completing their mission. A proper arrangement of expatriation and repatriation can enhance the motivation of each potential candidate working overseas. An overview of a guideline for the official flow of expatriation can be seen in Figure 3.5, based on one suggested by Saphiere (2008).

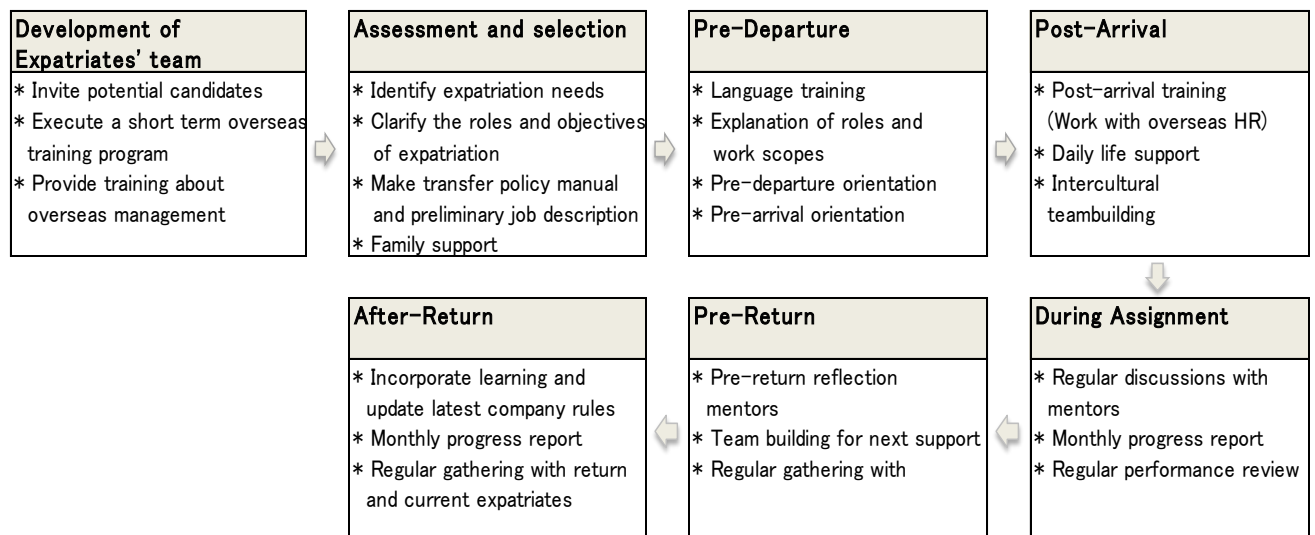


Figure 3.5: Overview of a Comprehensive Expatriate Support System

Source: Saphiere (2008), and modified by author.

Although this study has generated various insights from a typical manufacturing MNC in Japan, some limitations still need to be acknowledged. First, the company examined in this study is manufacturing-based. MNCs in other industries, like trading or service, may have different features in their global HRM practices. Hence, the results must be viewed with caution since the findings may not be generalized to all other areas. Second, this study did not provide quantitative evidence to test the findings derived from the qualitative findings, due to limited resources. A comprehensive quantitative study with detailed information on the employees in each overseas affiliate would enhance the reliability and objectivity of the results. Finally, the drawbacks of a single case study cannot be neglected, even if it represents a typical case among other companies, as mentioned previously. The most common criticisms concern the inter-related issues of methodological rigor, researcher subjectivity, and external validity. However, pure objectivity is not a meaningful concept if the goal is to measure intangibles, as these concepts only exist because we can interpret them. Quantitative measures appear objective, but only if there are no questions about where and how the data were produced (Berg and Lune, 2012). In accordance with above limitations, the strategic choice of case may greatly add to the generalizability of a case study. Carefully chosen experiments, cases, and experience are also critical to the development of the case study. Since the objective is to achieve the greatest possible amount of information on a given problem or phenomenon, a random sample, which is often not the richest in information, may not be the most appropriate strategy. Besides, further investigation with a similar approach can help empirically test the

results of this case. Theoretically, the findings of the paper can serve as a foundation for formulating more testable hypotheses on global strategy by using quantitative survey data for future studies in this field.

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Chapter 4:

HR Strategy of Japanese Companies in China: A Comparison between the Manufacturing Sector and the Service Sector

Abstract: An investigation of how Japanese MNCs manage their overseas affiliates from the perspective of HRM practices and an exploration of the underlying factors affecting each practice can contribute to both academic study and business practice. Especially considering the dramatic change of industry structure and the related business environment in China, further study of the manufacturing sector and service sector of Japanese MNCs' affiliates in China is desirable. This chapter adopts a quantitative survey method. The sample is 180 valid replies from employees of Chinese affiliates, of which 113 come from Mainland China and 67 from Hong Kong. According to the survey result, performance appraisal is the area of most concern area among five human resource management (HRM) practices, and it is considered as the area most needing further improvement, as well. Since most Japanese MNCs still rely on expatriation, corporate policy and the complexity of the business in overseas affiliates are the main factors affecting the considerations of expatriation from the viewpoint of headquarters and locals, respectively. Although the difference is not very obvious, certain dissimilarities of HRM practices between the manufacturing sector and the service sector in industry, location, age, and size of the companies are found.

Keywords: Global HRM, Japanese MNCs, Manufacturing sector Service sector Mainland China, Hong Kong

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4.1. Introduction

A number of factors have been inducing an influx of foreign direct investment (FDI) into China. The sheer size of the labor pool and the market and the prospect for growth have created a great interest in China. In the past 30 years, manufacturing has been a major sector bringing a dramatic growth to the Chinese economy. However, China is losing some conditions of its status as the "World's Factory", and some investors are shifting their production bases to other developing countries seeking cheaper labor costs. In addition, several government reports have shown that the over-capacity in the manufacturing sector has put pressure on China's economy, and most of those

industries also have excess outputs and inventories (Wang, 2014). In addition, after years of economic growth, there is a lack in many industries like the medical, finance, logistic and some public service industries. Hence, the Chinese government has recently announced an acceleration of development in the service industry (tertiary industries) as an important target. Obviously, an imminent change of the business environment in China is inevitable.

Japan has a great quantity of FDI in China, and the foreseeable changes pose various threats to Japanese multinational corporations (MNCs) operating in China. In addition, the world competitiveness ranking of Japan had worsened in recent years, according to data from the IMD World Competitiveness Yearbook and Fortune Global 500, as mentioned in Chapter 1 of this paper. An ineffective global HR strategy is regarded as one of the major reasons for the drop of Japanese companies in the global competitiveness ranking (Stewart and Morrison, 2010). Over-reliance on expatriates from headquarters and conventional Japanese management styles are criticized as drawbacks of global Japanese MNCs. Therefore, the management staff of Japanese MNCs should be alert and attempt to find solutions to survive under this challenge in their overseas business.

The majority of previous studies on human resource management (HRM) practices were conducted in a general manner (Bartlett and Yoshihara, 1988; Beechler et al., 1993). A few of them compared differences of the HRM strategies between industries, especially the sectors of manufacturing and service. Wickramasinghe and Fonseka (2012) state that HRM is a more critical factor to the service sector than any other sectors of a country, because as the assets of companies become less tangible there is an increased focus on HRM. Thus, an analysis of the underlying differences of the manufacturing and service sectors' HRM strategies, especially from a global perspective, with empirical evidence, is interesting and contributive.

A review of past research is a prerequisite for preparing this report. Seeking a variety of discussions of China business environments, Japanese management characteristics, and the key components of global HRM strategies is necessary to provide a complete picture in this chapter. Subsequently, a quantitative study, using a questionnaire will attempt to achieve the objectives of this chapter, which are to compare the global HR strategy of Japanese MNCs in China with the perspectives of the manufacturing and service sectors, to find out the degree of localization in HRM

practices, explore the underlying factors affecting the decision of global staffing strategies as a major part of global HR strategy, and determine the implications and future considerations for improving the competitive position of Japanese MNCs in China from an HR perspective. During the recent decades, the service sector in the Hong Kong economy has gained greater prominence. Since the growth of the service sector in China is an important change in China, the inclusion of Hong Kong in the sample can specifically point to features of HR issues in the service sector that may apply to Mainland China and subsequently, enhance the result of the analysis.

Closed-end questionnaires were sent to 3,730 Japanese companies in China (JCCs) located in Mainland China and Hong Kong. Five HRM practices were examined, including recruitment and staffing, performance appraisal, training and development, labor relations, and compensation and reward. The data analysis was conducted based on the valid replies from 180 JCCs in manufacturing and service sectors. In addition, the extent of localization and other related global HR concerns were discussed as well. Consequently, the relevant recommendations will be illustrated for the purpose of improvement of global HRM practices of Japanese MNCs doing business in China.

4.2 Changes of the Business Environment for JCCs

4.2.1 Change of the business environment in Mainland China

Since 1978, the FDI inflows into China and the amount of investment increased due to economic reform. According to data from NBS (2014), mentioned in previous chapters of this paper, in 2013 there were 24,773 FDI projects in China and the value of the FDI was USD 112 billion. Even though the number of projects has been decreasing since 1993, the yearly value of FDI has increased about three times compared with 20 years before. According to Figure 4.1 (NBS, 2014), the capital formation rate (percentage of GDP) in China had shown a continuous increasing trend, with an adjustment period in each cycle every few years. This was due to the Chinese government executing measures to control continuous growth. In principle, it is not surprisingly the growth of China's economy has stagnated occasionally. Until 2008, the growth ratio had reached 43.8% but it did not stop and it hit another high record afterwards. Finally, the latest record achieved an atypically high level at almost 50%. In general, increasing an economy's capital stock also increases its capacity for production, which means the economy can produce more. However, investors became

unsure that continuing a high level of investment in China could generate the same return proportionately. We may get some hints from the ratio between the national output and the capital investment. As shown in Figure 4.2 (NBS, 2014), ICOR has been showing an increasing trend (ICOR: increment capital output ratio, calculated by annual investment/annual increase in GDP). Even though the average ratio was about 3.26 in the period from 1978 to 2013, the latest figure shows that the ratio had climbed to the highest level at 6.66 in 2013. That means it is necessary to invest RMB 6.66 to gain a return of RMB 1 output value in 2013. The return of investment in China had been reducing and this implies that over-investments occurred. In other words, the demand and supply were out of equilibrium and the ratio of capital expenditure per GDP became rampant. The supply of output was far exceeding the demand and a situation of overproduction capacity prevailed (Wang 2014).

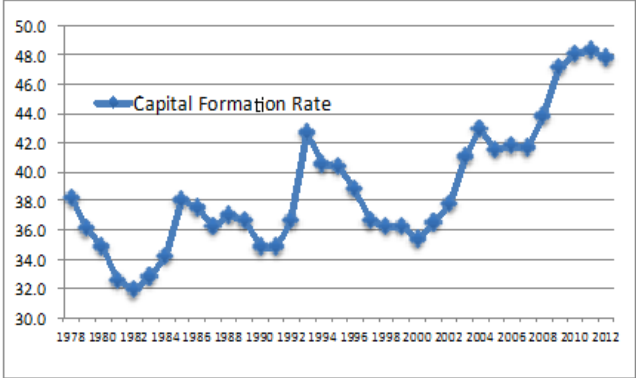


Figure 4.1: Capital Formation rate of GDP in China
Source: NBS 2014

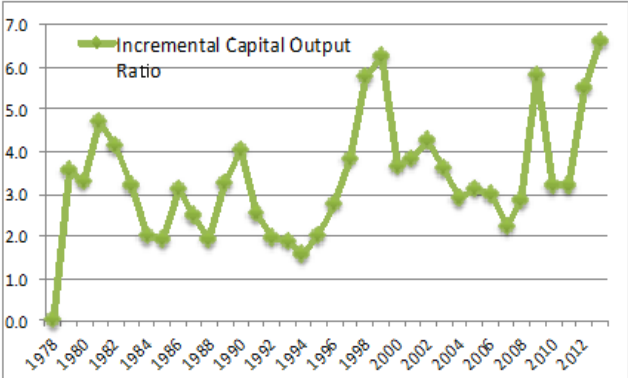


Figure 4.2: Ratio of Incremental Capital Output Ratio (ICOR) in China
Source: NBS 2014

The National Development and Reform Commission highlighted that the industries of aluminum, coal, textiles, and home appliances had over capacity and excess outputs. In addition, a report from International Monetary Fund (IMF) indicated that the overall production capacity utilization in China was about 60% in 2012 (IMF, 2012) . Basically, the Chinese government also recognized such risk and implemented measures to soften or hinder the atypical economic growth. Even though the country may tentatively confront some problems like company bankruptcies or unemployment during this transitional period due to contract policies, the changes will not be detrimental to the economy in the long run. China will need to have a better reallocation of resources to improve its efficiency in economic activities. Since China’s government was alert to the above problems and implemented measures to alleviate the troubles, the situation has not seen significant alleviation. In addition, a direction change of development in the manufacturing sector is prevailing in China. Currently,

most of China's manufacturing industry is at the low-end of the global value chain and it must fight for the "technical advantage" and "brand advantage" in the higher end of the "smiling curve"¹¹ value chain. China should not be satisfied with the role of being the "world's factory" and should instead move up both ends of the "smiling curve" as soon as possible. On the other hand, China's government recently released new targets and changes for future development in accordance with the continuance of the reform and opening-up policy. Investment environments are likely to be different from the previous era. One of the important targets is to speed up the development of the service industry in China. As mentioned above, the average wage has been getting higher in China. The increasing labor cost will accelerate changes to automation in manufacturing instead of labor-intensive operations. As mentioned in Chapter 1, China is highly populated and it is important for China to ensure employment in order to stabilize the society. Thus, the enhancement of employment, instead of "GDP Suprematism", will be the main government policy in China.

Currently, most service enterprises in China are traditional firms like small food companies and small businesses, and they seem to be abundant. In contrast, there is a lack of a sufficient supply of medical, finance, logistic and public service industries. In addition, the turnover tax system was abolished and changed to a value added tax in 2012. The purpose was to encourage more investors in the service area since the burden of turnover tax was considered high previously. It is obvious that China's government intends to expedite the development of the service industry. China had started a new "Free Trade Zone (FTZ)" program since Sep 2013 and Shanghai was selected as the first testing zone. Within a FTZ, it is possible for enterprises to enjoy certain tax privileges, freedom of foreign currency exchange with the RMB and a consideration of market interest rate for certain specified service industries. In addition, the majority of services industries are still directly or indirectly dominated by state owned enterprises. Market efficiency of the allocation of resources cannot be achieved. Further institutional change and policy reform is necessary for not only the banking industry, but also other service industries like energy, transportation, education, and health care. Thus, one of the reasons to set up a FTZ is to induce more private companies to compete with the traditional state-owned enterprises and

¹¹ A *smiling curve* is an illustration of value-adding potentials of different components of the value chain in an IT-related manufacturing industry which was first proposed by Stan Shih, the founder of Acer, an IT company headquartered in Taiwan, around 1992. According to his concept, both ends of the value chain command higher values added to the product than the middle part of the value chain.

improve international competitiveness. It remains to be seen if China’s leadership will be flexible enough and strong enough reduce the misallocation of resources. Figure 4.3 (NBS, 2014) shows that over the past three decades, the secondary (manufacturing) sector kept a stable ratio of contribution to China’s GDP. From early 2010 onward, the composition ratio in the secondary sector was changing and started to reduce sharply, while the tertiary, or service sector had a steadily increasing trend in its contribution to China’s GDP. On the other hand, Figure 4.4 (NBS, 2014) indicates that the change in the number of people employed in the secondary sector of industry dropped compared with previous year since year 2013, while the change of number of people employed in the tertiary or service sector has recorded a significant increase during the same period. Both trends indicate the momentous change of these sectors’ contribution to China’s GDP and related employment.

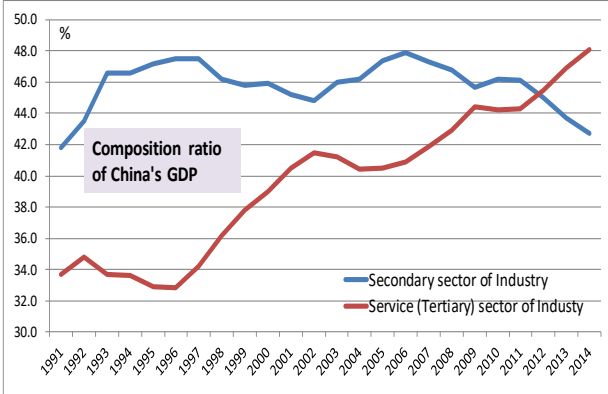


Figure 4.3: Composition of China's GDP by sector of Industry
Source: NBS (2014)

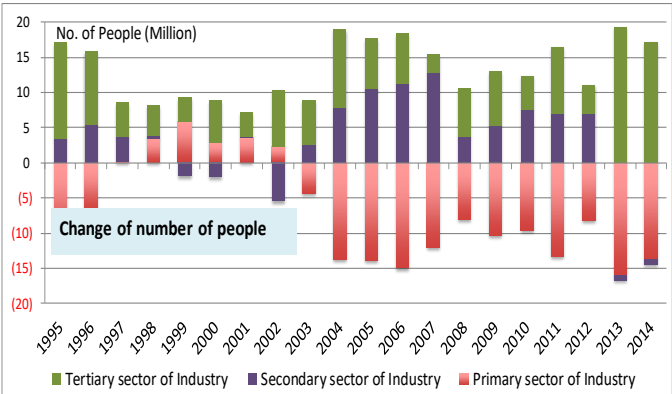


Figure 4.4: Change of number of people employed by sector of industry
Source: NBS (2014)

By any standard, China’s economic performance over the last three decades has been impressive. Since there are many signs pointing that the growth had moderated in recent years, a question is raised whether China can maintain the growth with current pace or will slow down even further. In Table 4.1, China’s GDP growth is predicted to decline gradually from an average 8.5 percent in 2011 to 2015 to around 5 percent in 2026 to 2030 (The World Bank 2013). One of the reasons for the slowdown is that majority of the growth contribution from shifting resources from agriculture to industry has already occurred. Going forward, the continued accumulation of capital, although sizable, will inevitably contribute less to growth as the capital-labor ratio rises. Other indicators of future contributions to the GDP and the labor ratio show that the tertiary or service sectors will persistently increase in importance in influencing China’s economy in 2020 and beyond. As an economy approaches its

technology frontier and exhausts the potential for acquiring and applying technology from abroad, the role of the government and its relationship to markets and the private sector need to change fundamentally. While rendering relatively fewer “tangible” public goods and services directly, the government will need to provide more intangible public goods and services like systems, regulations, and policies, which increase production efficiency, promote competition, facilitate specialization, enhance the efficiency of resource allocation, protect the environment, and reduce risks and uncertainties. Although emerging market economies will retain a comparative advantage in manufacturing, increasing unit labor costs will further raise their relative share of services, hence, overall growth would slow because productivity growth in services is usually lower than in manufacturing (The World Bank, 2013).

Table 4.1: Economic Forecast of China in 2016 – 2030

(Unit: %)	1995 – 2010	2011 – 2015	2016 – 2020	2021 – 2025	2026 – 2030
GDP Growth rate (Yearly)					
Labor Growth	0.9	0.3	-0.2	-0.2	-0.4
Labor Productivity Growth	8.9	8.3	7.1	6.2	5.5
	9.9	8.6	7.0	5.9	5.0
Economic Index (End of Year)					
Investment/ GDP	46.4	42.0	38.0	36.0	34.0
Consumption/ GDP	48.6	56.0	60.0	63.0	66.0
Manufacturing/ GDP	46.9	43.8	41.0	38.0	34.6
Service/ GDP	43.0	47.6	51.6	56.1	61.1
Labor ratio of primary sector of industry	38.1	30.0	23.7	18.2	12.5
Labor ratio of tertiary sector of industry	34.1	42.0	47.6	52.9	59.0

Source: The World Bank (2013)

4.2.2 Remarkable expansion of the service sector in Hong Kong

The government of the Hong Kong Special Administrative Region adopts an “appropriately proactive” economic strategy, with a view to creating a business-friendly environment; building Hong Kong as an international financial center; strengthening Hong Kong’s position as the region’s hub for headquarters, trade, logistics, shipping, and tourism; enhancing the competitiveness of the pillar industries; promoting new industries with growth potential; and developing links with emerging economies (Li et al., 2009; Meyer, 2008). As an international financial, trade and shipping center, Hong Kong has always been active in regional and international economic affairs, and its economic strengths include a sound banking system, virtually no public debt, a strong legal system, ample foreign exchange reserves, rigorous anti-corruption measures and close ties with Mainland China. It has the most efficient and corruption-free application procedure, free trading, the lowest income tax and

corporate tax as well as sustainable government finance. With a central location in East Asia and with a rapidly growing Mainland China as its hinterland, Hong Kong is the largest offshore deposit of Reminbi (RMB) center in the world; at the end of 2015 there was over 850 billion RMB deposited in Hong Kong (HK Finance Center). In 2015, a service trading free agreement was concluded between Mainland China and Hong Kong. Hong Kong has been continuously developing into a modern, vibrant and cosmopolitan services economy, underpinning the role of the city as a global business platform.

During the past decade, the service sector in the Hong Kong economy has gained greater prominence. By meeting the challenges of rapid technological change and the increasingly intense competition brought by globalization, the Hong Kong economy has been moving up the value chain, shifting towards higher value-added services and more knowledge-based activities. At the same time, the economic and financial integration between Hong Kong and Mainland China has been going from strength to strength, creating numerous business opportunities for a wide range of services. These evolving developments have seen rapid expansion in Hong Kong's service sector over the past decades. However, Hong Kong faced the biggest economic hurdle in their colorful history when Great Britain ended more than 150 years of colonial rule in 1997 and returned the region back to China. Under the "one country, two systems" arrangement, the Hong Kong government has tried to maintain the prosperous economy with its own currency, border checkpoints with China and fiscal independence from Beijing. During that period, Hong Kong's manufacturing sector was restructured, and labor-intensive and sophisticated industries were moved to China, mainly to the neighboring Guangdong Province. Then, Hong Kong entered a new period of structural change with the increasing shift of back-office jobs to Guangdong province. Hong Kong's economy has undergone a remarkable transformation in the past two decades. The service industry has become the most important sector for maintaining the prosperity of Hong Kong. In 2013, this sector generated 92.9 per cent of Hong Kong's Gross Domestic Product (GDP). Even excluding the public sector, services still accounted for about 83 per cent of GDP in 2013 (Census and Statistics Department, 2015).

A new agreement on trade in services between Hong Kong and Mainland China under the framework of the Closer Economic Partnership Arrangement (CEPA) was signed in November 2015. There are 153 sectors that the mainland has fully or

partially opened up to Hong Kong's services sector, 95.6 per cent of the 160 World Trade Organization services trade sectors. The agreement has liberalization measures in a number of important service sectors, including legal, accounting, insurance, security, banking, and transport. The agreement will fundamentally achieve freedom of trade in services between the mainland and Hong Kong, enabling both sides to reach new milestones over the years after continuous freedom of trade in services through CEPA. To entice MNCs and Mainland China enterprises to establish corporate treasury centers in Hong Kong new tax reduction legislation has been introduced. The new legislation covers a concessionary profits tax rate for corporate treasury centers, new deduction rules for interest expenses incurred by intra-group financing businesses, and new profits tax and stamp duty treatments in respect of regulatory capital securities. This new tax regime puts Hong Kong in a competitive position when MNCs consider where in Asia to set up or relocate their regional treasury centers, and strengthen Hong Kong's position as the region's hub for company headquarters. Hong Kong now steps into another new generation to develop service sectors continuously and promote global business hubs building on its past years of successful experiences in those fields, while Mainland China has started to grow its service sectors. The past brilliant performance of Hong Kong's service sectors can provide numerous insights to Mainland China for future development.

4.2.3 Japanese MNCs' competitive position

As mentioned above, the world competitiveness ranking of Japan has worsened in recent years. Besides insufficient demand for high quality products, failure of product marketing, lacking long-term business plan, Stewart and Morrison (2010) state that an ineffective global HR strategy is one of the major reasons for the drop in Japanese companies' global competitive ranking. Pfeffer (1994) mentioned that HRM could be regarded as an outcrop of the current interest in corporate and business strategy. A growing body of research has persuasively argued that there is now evidence of a causal link between certain HRM practices and firm level outcomes, such as financial performance and organizational effectiveness (Alfes et al., 2013). From a global perspective, HR must consider global talent development in the placement of people on overseas assignments either as expatriates or temporary teams. The balance of assigning expatriates and deploying locals is still considered a major challenge of global HRM practice (Ulrich et al., 2013). Therefore, the staffing strategy of "parent country national (PCN)" vs. "host country national" (HCN) becomes the key measure

of effective global HRM practice (Dessler, 2011). Capable leaders have to know how to determine which aspects of the business to globally integrate and standardize and which parts to locally adapt and differentiate. The important strategic direction in global challenges is the struggle of strategic direction choice between “global integration” and “local responsiveness”. Regarding the factors affecting the decision of expatriation, several were illustrated in Chapter 1; they contribute various significant influences on global staffing decisions under different conditions.

Japanese MNCs are criticized for over-assignment of PCNs or expatriates to their overseas affiliates. With reference to the previous studies mentioned in Table 2.1 and Figure 2.1 of Chapter 2, over 70% Japanese companies appointed PCNs to their affiliates as senior management staff, like directors or middle management. In contrast, US and German MNCs’ appointment of expatriates of in their Asia affiliates was less than 30%, far below Japanese companies (Wang et al., 2007). In addition, according to the analysis in Figure 2.6 of Chapter 2, the majority of Chief Executive Officers (CEOs) of Japanese companies in China (JCCs) are expatriated from Japan headquarters, in fact, less than 20% of the sample JCCs’ CEOs positions were held by local Chinese people. In the highly hierarchical Japanese companies, serious barriers exist between local managers and Japanese expatriates. It is evident that Japanese companies still hesitate to expedite the appointment of local managers. This is considered as one of the major obstacles of the improvement of Japan’s global competitive position.

In particular, the Japanese management style is regarded in some ways poorly suited to the working style in the Chinese business environment. Japanese companies rely on employee loyalty, docility and sacrifice in its work culture. Ma (1998), Taylor (1999), Jochen (2002) argue that many qualified local employees in China became frustrated and resigned from their Japanese-owned companies because of inadequate participation in decision process, limited promotion opportunities (especially for females), and a non-performance based appraisal system. In a study by Deloitte Shanghai (2013), fresh university graduates in China indicated their priority of considerations in their employment. Amongst several factors of consideration, they showed high concern for the chance of promotion (69.2%) and remuneration (61.4%) provided by the company (Shown in Figure 4.5).

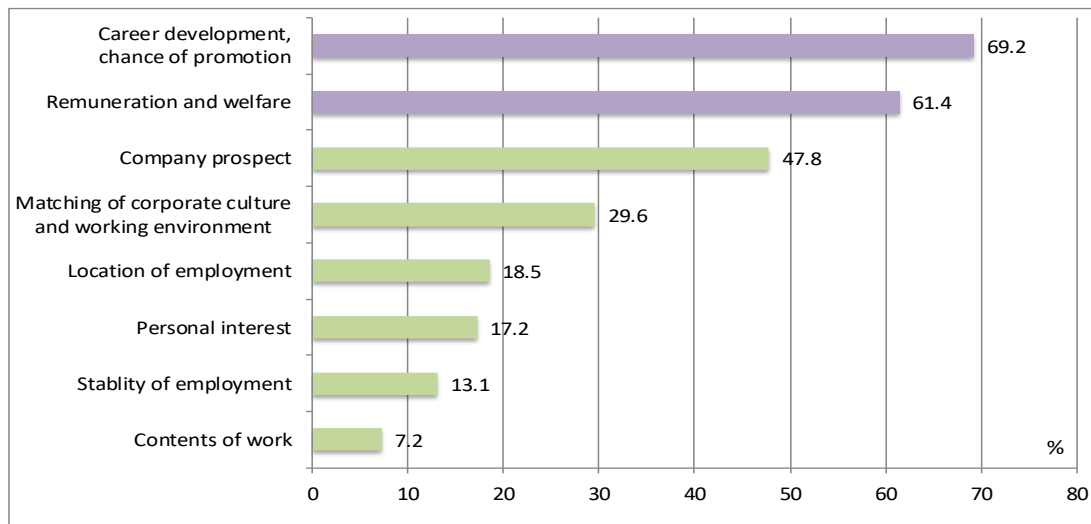


Figure 4.5: Considerations of employment for China fresh graduates
 Source: Deloitte Shanghai (2013)

When we look back at the previous discussions of Figure 7 and 8 of Chapter 1, respondents in China did not have a strong impression that Japanese companies provided competitive compensation and good career paths. In addition, they also put an extremely low priority on selecting a Japanese company as their employer (5.5%); most of the respondents preferred to work for US companies (66.8%). According to a report from JBIC (2012), US companies and European companies indicated the limitation of human resources and the management of labor turnover as one of five major issues in their business operations. However, it is interesting that Japanese companies did not take this issue as their major concern. This may be interpreted that Japanese companies were not as alert to the importance of human resource problems as US companies and European companies. Like the analysis result of Chapter 2, most JCCs have not assigned local employees to their top management staff. The importance of localization in overseas management has not been recognized by Japanese MNCs, and most HRM are unlikely to adopt the local practice. Facing changes in China's business environments, Japanese MNC are in a difficult position in handling the human issues and managing their business in China (Wang, 2014).

4.3 Hypothesis on the Characteristics of JCC's HRM by Industry

4.3.1 Review of management characteristics of the manufacturing sector and the service sector

Researchers have sought to compare manufacturing and service companies on various aspects, such as organizational performance (Chu and Chen, 2007; Goddard et al., 2015; Larsen et al., 2006; and Sengupta et al., 2006). This characterization of service

draws attention to specific aspects that generally distinguish service companies from manufacturing companies. The difference between the manufacturing sector and the service sector can be categorized as the tangibility of their product—whether produced on demand or for inventory, whether customers are actively involved in the production or services, whether labor-intensive or automated operations, and the consumption timing of services and products are all factors (Bowen and Schneider, 1988; Jackson and Schuler, 1995; Wickramasinghe and Fonseka, 2012). In summary, the core difference between products and services might be their tangibility. Furthermore, manufacturing is usually low customer contact, but service provision has high interaction with customers.

Due to the fundamental difference in manufacturing and service companies, a HRM practices should vary accordingly. In the manufacturing sector, the presence of unions is an important factor that affects HRM practices, which include the knowledge of union contract issues and negotiation skills. HRM policies should ensure that the working conditions like lighting, ventilation, temperature and ambience are comfortable for the employees and the occupational health and safety measures are in place. HR in manufacturing is much more rules-driven and consistent concerning discipline as well. Communicating with blue-collar employees is not easy and frequent face-to-face meetings are necessary to foster productive relationships with employees. Moreover, according to Schneider (1994), there is a significant correlation between employee satisfaction and customer satisfaction. Therefore, HRM practices of service industries should have customer satisfaction and improving service excellence as their primary goals. In addition, a highly-educated workforce, recognition of employee skills and competencies, close proximity to the market, unique and personalized service offerings, active customer participation in the development of the service provided and the capacity to quickly and efficiently respond to the demand for new services are also important features for service companies. Measuring productivity from a HRM perspective is extremely difficult and has proven to be a limitation within the service sector. Given that the outcomes are not tangible, both academics and practitioners have struggled with measuring their effectiveness. A measure of job performance should be valid, reliable, practical and free from bias. Having job performance measured through customer ratings is neither practical nor free from bias, while the job performance measured solely by supervisors or peers does not take into account the customer perspective, as well.

A past study (Krishnaveni and Deepa, 2011) showed that the low prevalence of offering a probation period to new recruits is a critical implication of the customer centric model of service industries. New employees should be trained to focus on customer requirements and customer satisfaction when they are inducted into the organization. In addition, customer satisfaction is a measure of performance for both the service organization and the individual. This is taken very seriously by the service industry and these companies should include customer input and employee input in their appraisals with clear metrics and well-design reward systems. According to the study by Beattie and Smith (2010), absenteeism, remuneration, training budget, and employees differentiated by function were the most internally collated indicators by manufacturing sector companies, while training budget, tracking of training expenditure against budget, absenteeism, remuneration, and employee performance were the most internally collated indicators by service sector's companies (Wickramasinghe and Fonseka, 2012).

On the basis of the human capital theory and system theory views of the relationship between human and technical subsystems, there are differences in the hiring, compensation and development practices between advanced technology manufacturing companies and traditional technology manufacturing companies (Snell and Dean, 1992). The structures of manufacturing companies commonly are product, geographical, functional, and matrix organizations, while there are different structures in service companies (Wickramasinghe and Fonseka, 2012). It is important for companies to establish HRM practices that suit their business strategies if they want to generate high profits (Taylor, 1999). Recent studies linking strategy and HRM usually highlight people-related activities that a company implements. An efficient enterprise strategy systemically manages all HR measures to directly persuade employee thoughts and performance in a way that guides the business to accomplish its competitive strategy (Huang 2001). Accordingly, there are also significant difference in HRM practices in service or non-manufacturing companies compared with manufacturing companies.

4.3.2 Women in management

Although increased employment of women has been one of the major changes in the labor force in recent years, several considerable barriers still exist for women moving to senior management positions. The reality remains that the executive board is still

resistant to women’s entry regardless of their capabilities and qualifications (Izraeli and Adler, 1994). Previous scholars have tried to identify specific reasons for women’s lack of promotion to management positions. Men have historically had greater access to power, privilege and wealth than women in most societies. Another important hurdle for women in management in most industrialized countries is the persistent stereotype that associates management with men. In addition, for international management, formal organizational policies have impacts on informal procedures, which may affect the participation of female managers in global business operation (Linehan, 2006).

Japan is no exception in the evolution regarding women in the workplace and in management roles facing pressures from the Western influence on Japanese society. Although the level of participation of women in management is still low worldwide, Japan is quite grave in comparison to other countries. According to an estimate by OECD.Stat (2015), Japan had almost the lowest level of the share of women on boards of directors amongst Forbes Global 500 companies, and was far from the average figure (see Figure 4.6).

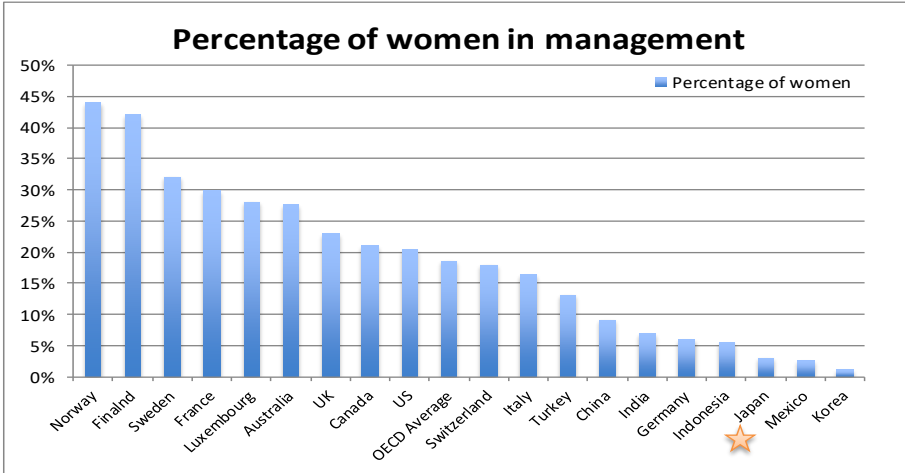


Figure 4.6: Share of women on boards of directors (Forbes Global 500 companies)
 Source: OECD.Stat (2015)

In Sep 2013, Prime Minister Shinzo Abe gave a speech at the U.N. General Assembly in which he admitted the seriousness of Japan’s gender gap. Mr. Abe stated that it is a matter of the greatest priority to create an environment that women find comfortable to work, and enhancing opportunities for women to work and to be active in society. He clearly laid out how important it is to encourage female participation in Japan’s economy.

4.3.3 Some hypotheses on the JCC's HRM by industry

Based on the review and above discussions, we can induce the following hypotheses, which will be examined in this chapter.

Hypothesis 1: JCCs are likely to adopt Japanese expatriates to act as top management staff, like the Chief Executive Officer (CEO) or General Manager (GM), regardless of manufacturing sector or service sector.

Hypothesis 2: There are significant differences in HRM practices between JCCs in the manufacturing sector and the service sector.

Hypothesis 3: There are significant differences in the extent of localization of each HRM practice between JCCs in the manufacturing sector and the service sector.

Hypothesis 4: There are significant differences in deciding on expatriation between JCCs in the manufacturing sector and the service sector.

Hypothesis 5: There are significant differences in assigning women to management staff between JCCs in the manufacturing sector and the service sector.

4.4 Research Methodology

4.4.1 The questionnaire survey conducted in this study

Using a survey method, a questionnaire was adopted to assess various HRM practices and the extent of localization of Japanese companies located in Mainland China and Hong Kong. In addition to the above discussions, various insights were obtained during the interview with persons in charge of HR of Japanese companies in Chapter 3 for the purpose of preparing the questionnaire with original questions based on issues uncovered in the exploratory study. Target organizations in this survey were Japanese companies located in China (JCC), regardless of ownership type or size, in order to ensure adequate number of responses to generate meaningful statistical results. The questionnaires were sent and addressed to the CEO, HR manager or the related person in charge. The choice of these types of respondents was presumed that they could respond to show the employers' perspectives through their official capacity.

Since the main objective in this chapter is to distinguish the difference of HRM practices between manufacturing and service sectors in Mainland China and Hong Kong, companies in different industries and locations were included in this survey.

Regarding the data collections, mainly two different methods were executed for the purpose to increase the response rate and cover certain regions in China.

1) The cooperation of three Japanese organizations located in Mainland China or Hong Kong was obtained, and they supported this project and assisted to distribute the questionnaires to their clients or members without bias. The business natures of these three Japanese organizations include a business consultancy, a recruitment agency, and a Japanese business club (See Table 2¹²). At first, drafts of an introductory letter and questionnaire were prepared and sent to these organizations to solicit further advice. Since the target respondents are Japanese or local Chinese, the documents were translated into both Chinese and Japanese languages. After fine-tuning the contents, the draft questionnaire was finalized (Appendix 1). An introductory letter stating the purpose of the research along with the questionnaire were sent to the respondents by email through those three organizations. The respondents were assured that the data collected would be confidential for academic analysis purposes. A data analysis report was offered to those respondents after the survey was completed, for their business reference.

In order to cover a diversity of locations, other companies in Mainland China were contacted and the questionnaires were sent by similar email methods. The selected provinces of Mainland China, included several coastal and inland provinces, are consistent with the samples provinces in the previous study in Chapter 2: The Staffing strategy of JCCs in China: Selection of CEOs. The same source, the 21st Century China Research Institute of JCCs (2013) was used, but only the telephone numbers were shown in the book. The success rate of requesting and obtaining an email address of a related person in charge through the self-contact method was about 34.8%¹³.

¹² Table 2 to 4, and Figure 7 to 10 are summarized by the author based on the sampling information and demographic data of survey, unless further indicated.

¹³ After 1,078 potential respondents were contacted randomly through cold call, about 188 of them were willing to provide the email address of the related person in charge. Amongst the contacts with email address, there were 51 valid replies. The author gained 22 additional replies through personal connections, resulting in 73 valid replies in total through the self-contact method; a response rate of about 34.8% (73/(188+22)).

Table 4.2: Profiles of Japanese organizations which supported the survey

Organization:	Org1	Org2	Org3
Location	Hong Kong	Guangdong	Shanghai
Establishment:	1993 in Hong Kong	1997 in Japan	1982 in Shanghai
Business Nature:	Labour Law Consulting HR Development and training HR System Consulting Recruiting Process Consulting	Membership service: Advisory service of company set up, recruitment, related system establishment. Individual Project: Tailored made service, like M&A, liquidation, re-structure.	Research and related information collection of trade, investment, finance, logistic, other economical activities. Promotion of communication between Japanese companies located in Shanghai. Regular arrangement of various seminars and conference.
Email sent	120	400	3,000
Invalid replies	2	3	0
Valid replies	49	51	7
Successful response rate:	40.8%	12.8%	0.2%
Remarks:			* The extremely low response rate was due to another survey was under execution with their own purpose simultaneously.

A total of 3,730 emails were sent and 180 valid replies¹⁴ were received, after five were excluded that did not meet criteria specified for inclusion in this study for several reasons. The response rates by different data collection methods were uneven, 40.8% by the Hong Kong agent, 12.8% by the Guangdong agent, and 0.2% by the Shanghai agent (See Table 4.2). Regarding the self-contact method, the response rate was about 34.8%. Table 4.3 shows the distribution of samples by industry and location.

¹⁴ A total of 180 valid replies include 49 by Org 1 (Hong Kong), 51 by Org 2 (Guangdong), 7 by Org 3 (Shanghai) and 73 by the self-contact method.

Table 4.3: Distribution of samples by industry and location

	Beijing	Guangdong	Shanghai	Tianjin	Liaoning	HuNam/ Ke Nam	Sichuan/ Zhongqing	Hong Kong	Total:
Manufacturing									
Automobiles		3	2		1	3	1	1	11
Chemical, oil	1	2	4					5	12
Conveyance machine		1	1					1	3
Electric, machine	1	27	7	1	1	1		9	47
Steel, metal products		7	1			1			9
Sales – mfg	1	3	2					4	10
Food and beverage	1							2	3
Others-mfg		4	2					7	13
Subtotal:	4	47	19	1	2	5	1	29	108
Service									
Education			2						2
Finance			1			1		4	6
Information related	2		4					1	7
Insurance								2	2
Logistic			3				1	6	10
Medical health care	1								1
Service	1		4					3	8
Trading	2	1	4					15	22
Other sales	1		6					7	14
Subtotal:	7	1	24	0	0	1	1	38	72
Total:	11	48	43	1	2	6	2	67	180

Regarding other details of all respondents, Figure 4.7, and Figure 4.8 show the distributions by industry and location. Figure 4.9 and Figure 4.10 show the distribution by years of business operation and company size with number of employees. Regarding the distribution by industry, 108 subsidiaries are engaged in manufacturing, while the rest (72) operate in the service industry. Amongst the personal profile of respondents, a majority of them are male (74.4%). Other details are shown in Table 4.4.

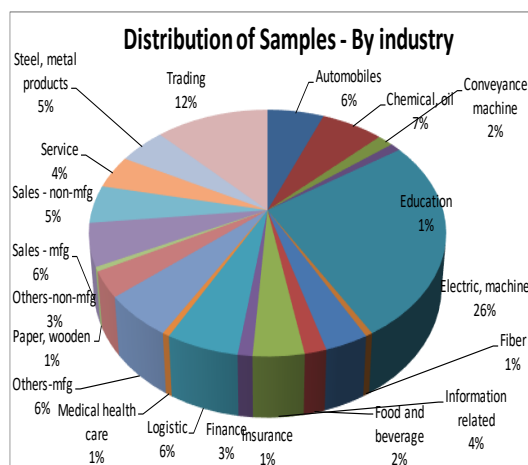


Figure 4.7: Distribution of Samples by industry

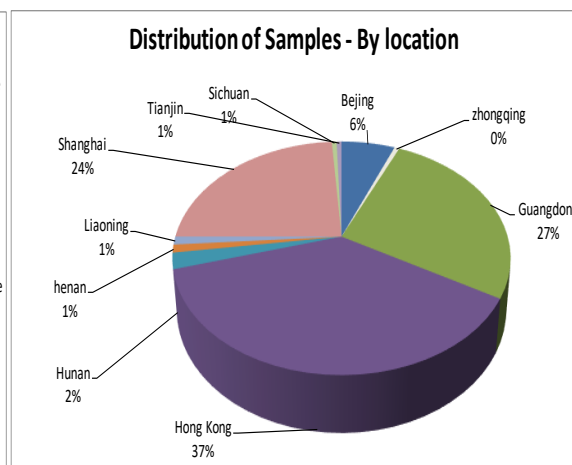


Figure 4.8: Distribution of Samples by location

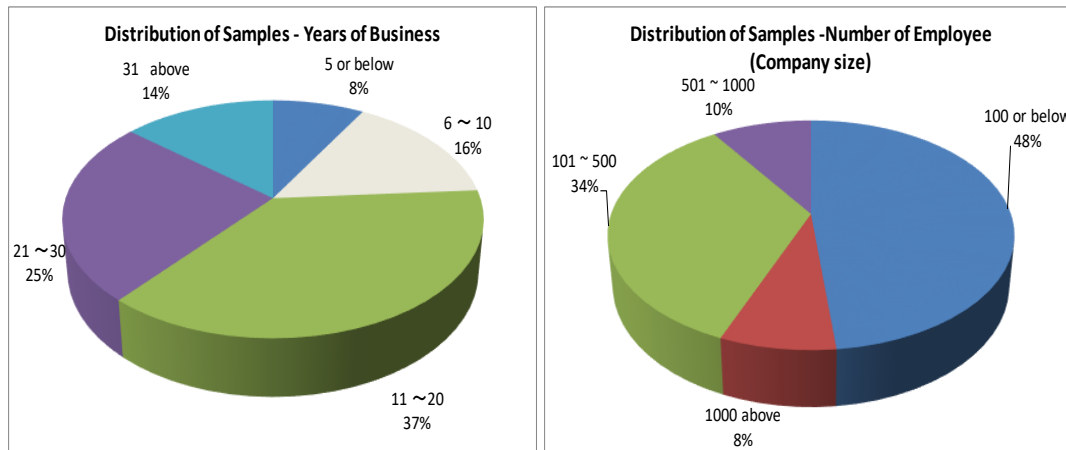


Figure 4.9: Distribution of Samples by years of business Figure 4.10: Distribution of Samples by number of employee

Table 4.4: Distribution of respondents' personal profiles

Distribution of respondents' personal profiles:	Japan		Local		Others	
	54.4%		45.0%		0.6%	
	Male	Female	Male	Female	Male	Female
	52.2%	2.2%	21.7%	23.3%	0.6%	0.0%
Degree	40%	2%	18%	20%	0%	0%
High school	5%	1%	2%	1%	1%	0%
Master or above	6%	0%	2%	3%	0%	0%
CEO/ GM	38%	1%	6%	0%	0%	0%
General (HR)	0%	0%	3%	12%	0%	0%
General (Others)	0%	0%	0%	1%	0%	0%
Management (HR)	10%	1%	9%	10%	1%	0%
Management (Others)	4%	1%	4%	1%	0%	0%

4.4.2 Measurement of dependent variables:

The dependent variables of the explanatory framework in this study include the features of HRM of JCCs. They are measured as follows. For the measurement of CEOs' country of origin, a single item was asked to the potential respondents to indicate whether the CEO or GM of the company is Japanese or a local employee. Regarding the measurement of the degree of importance of the five HRM practices, they were measured by asking two questions regarding “*the ranking of importance of HRM practices*” and “*HRM practices necessary for further improvement*”. Potential respondents were asked to rank five HRM practices, which included recruitment and expatriation, performance appraisal, training and education, labor relations, and compensation and reward by indicating their top three: 1 as the most important, 2 as the second most important, and 3 as the third most important. The weighting of priority would be taken into consideration for data analysis.

The extent of localization of overseas operation was measured on a five-point Likert scale ranging from 1 (completely decided by headquarters) to 5 (completely decided by the overseas affiliate) asking about the extent of above five HRM practices. The respondents were asked about the level of local control (localization) in things like recruitment and performance appraisal for four different classes of employees, including local directors, senior managers, middle management staff, and general staff.

Regarding the consideration of expatriation, with reference to the deep discussions in previous chapters, several factors of influence were used and separated into two main categories: “from headquarters’ point of view” and “from overseas affiliate’s point of view”. The respondent was asked to put the top three important factors affecting the decision of expatriation by indicating 1 as the most important, 2 as the second most important, and 3 as the third most important in each category. A ten-point scale was used to measure the extent to adopt females as management staff. Response options ranged from 1 = above 90% male to 10 = above 90% female.

4.4.3 The explanatory variables

Four company attributes: industry sector, age, size, and location were included as explanatory variables for the difference of HRM practices between various JCCs.

(1) Industry attributes

Our analysis is focused on the difference between JCCs in manufacturing sector and service sector. However, an additional verification with a detailed specific industry analysis will contribute extra insight in this study. Industry was measured by a single item that asked the respondent to choose the industry from a list of 20 possible choices, including automobiles, electric machines, trading, finance, logistic, and so on, with grouping in manufacturing and servicing categories.

(2) Age of JCC

With time, overseas subsidiaries gradually accumulate operational experience, grow familiar with operations, mitigate the anxiety of overseas operation, and reduce the impact of environmental risks. Considering this, the organization’s life cycle can have a direct effect on HRM practices. Thus, other things being equal, longer experience in overseas operation would impact the tendency of localization, decision of expatriation, or considerations of each HRM practice of the JCC.

(3) Company size of JCC (number of employees)

Company size shows an indication of the investment scale of an overseas operation by Japanese MNCs, and indirectly reflects the contribution of revenue to the parent company in Japan. Larger overseas companies can be considered as being more important to their parent companies (Benito et al., 2005). In addition, the focus of HRM changes according to the size of company. For example, labor relation becomes more important when the number of employees increases.

(4) Locational factor

As mentioned in previous chapters, the locational factor will have direct impacts on the management style of overseas operation. In alignment with Chapter 2, several provinces in Mainland China were categorized into coastal and inland regions to verify if location had an influence on HRM practices. Access to local human resources, availability of capable talents, and convenience of transportation are considered to have an impact on business operations. In the case of a company that can actively and easily access the local networks and industrial clusters, significant benefits in promoting productivity and innovation and relevant resources and information can be obtained (Luo, 2001a).

In addition, five demographic variables of respondents were also recorded for further reference: gender, origin of origin, title of position, education level, and experience in studying abroad or working in overseas countries.

4.5 Findings and Discussions

The objective of this chapter is to clarify the differences of HRM practices of JCCs in various perspectives between the manufacturing and the service sectors. Descriptive quantitative analysis with both numerical tables and graphs is used to analyze the data collected through the questionnaire, which is comprised of 12 main questions with five categories, to verify the above hypotheses. Furthermore, another four questions were asked to gather additional comments about practical HR operational issues.

4.5.1 Country of origin of top management – CEO

Similar to results verified in previous chapters, the respondents indicated that the majority of CEOs of JCCs are Japanese (see Figure 6 in Chapter 2). Overall, less than 10% of respondents had stated that the CEOs of their companies were locals, which is

consistent with previous findings. To further verify the result between various perspectives, Figure 4.11¹⁵ shows that the results between different industrial sectors and regional location are slightly different. In the service sector in Mainland China, 21% of respondents said their companies adopted locals as top management staff. Similarly, one-fourth of companies located in inland region adopted locals as well. Since understanding customers' needs is very important in the service sector, it may be one of the reasons these companies adopt more locals to better approach the market and customers. Regarding the locational effect, the inconvenience factor seems to pose an obstacle to Japanese CEOs working inland, and more locals are employed as top management staff.

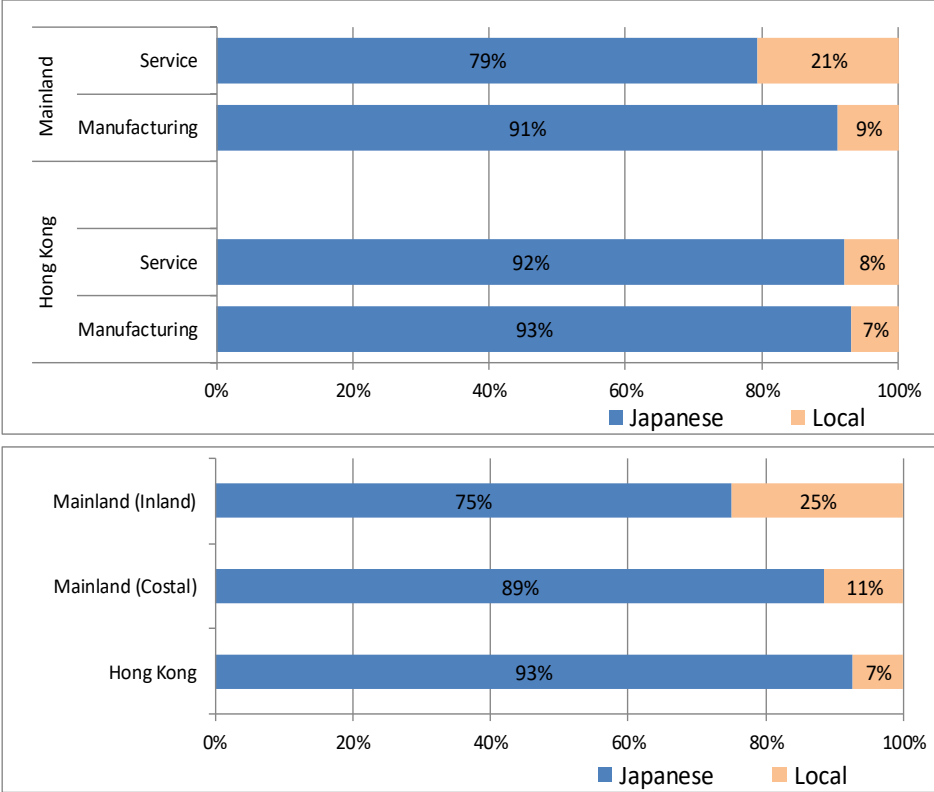


Figure 4.11: Country of origin of JCCs' CEO
(Manufacturing sector vs Service sector between Mainland China and Hong Kong)

Figure 4.12 shows the further comparison by illustrating two provinces of Mainland China with more replies. The result show that more companies located in Shanghai adopt locals, compared with the Guangdong area. In the same figure, we see that there are no significant differences between the different sizes or ages of companies. In general, according to this result, the majority of JCCs' CEOs are

¹⁵ All tables and figures of the findings are summarized by author based on the survey results, unless further indicated.

Japanese. Therefore, similar to the outcomes seen in previous chapters, the result tends to support Hypothesis 1.

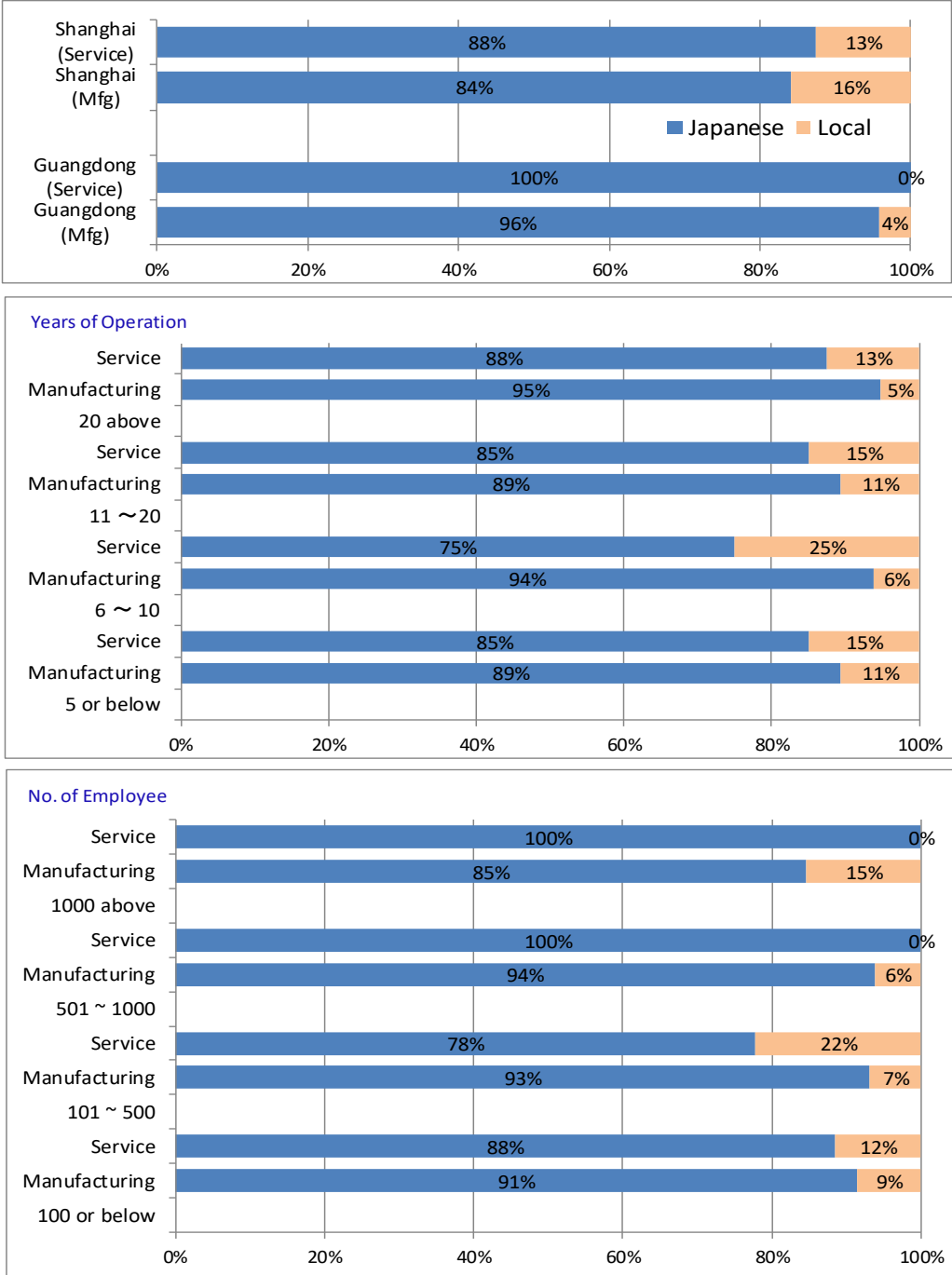


Figure 4.12: Country of origin of JCCs' CEO
 (Manufacturing sector vs Service sector between various location, size, business age, and size of companies)

4.5.2 Ranking of importance and improvement priority of HRM practices

At first, respondents were asked to identify the importance level by ranking their top three of the five key HRM practices (1= most important, 2 = second most important, and 3 = third most important) by using a traditional grade-point scale, where “most important” gets 3 points, “second most important” gets 2 points, and “third most

important” gets 1 point. Figure 4.13 shows the result of the manufacturing sector and the service sector in Mainland China and Hong Kong, respectively. Since the number of samples of each sector is different, 100% as a total of the five HRM practices in each sector is used to compare with each other. It was found that they rated “performance appraisal” as the most important in most sectors, except for the service sector in Mainland China—those respondents rated “compensation and rewards” as the most important HRM practice. Actually, the difference of ranking between the most important (performance appraisal) and second most important (compensation and rewards) was very small.

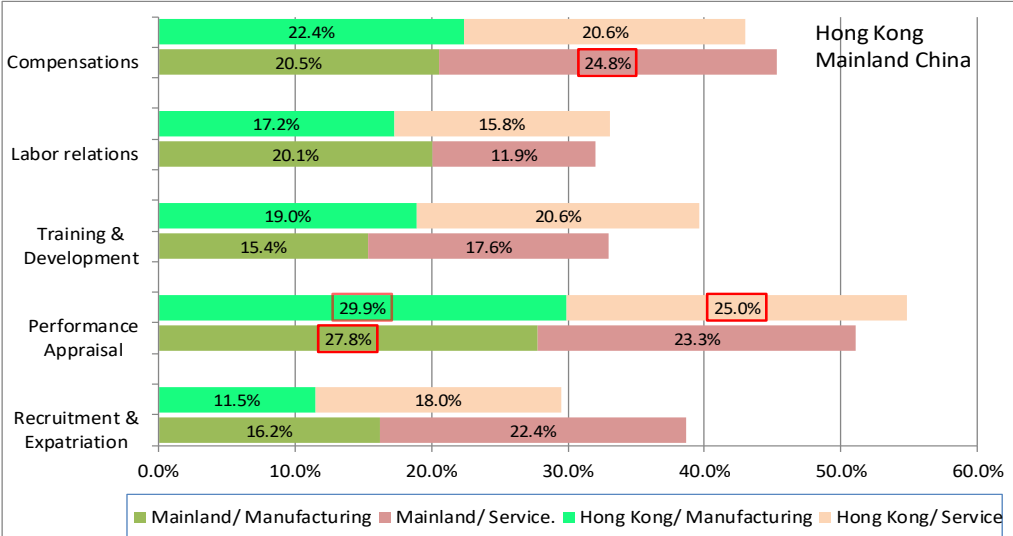


Figure 4.13: Ranking of importance of HRM Practice (Manufacturing sector vs Service sector between Mainland China and Hong Kong)

Related data was further tested by looking at each independent variable, including size, age, location, and industry in the sample group with the most number of replies. Figure 4.14 indicates that companies in the service sector with 11 to 20 years of business, or with 100 employees or fewer rated “compensation and rewards” as the most important HRM practice. Notably, companies in the service sector located in Shanghai and Guangdong put the highest rating on “compensation and rewards” and “training and education”, respectively. Regarding the result based on industry, the respondents from automobiles, chemical, and electronic machines industries in the manufacturing sector ranked “performance appraisal” as the most important practice, while companies involved in trading and other service industries in the service sector gave the highest rating to “compensation and rewards” and “recruitment”, respectively (see Figure 4.15).

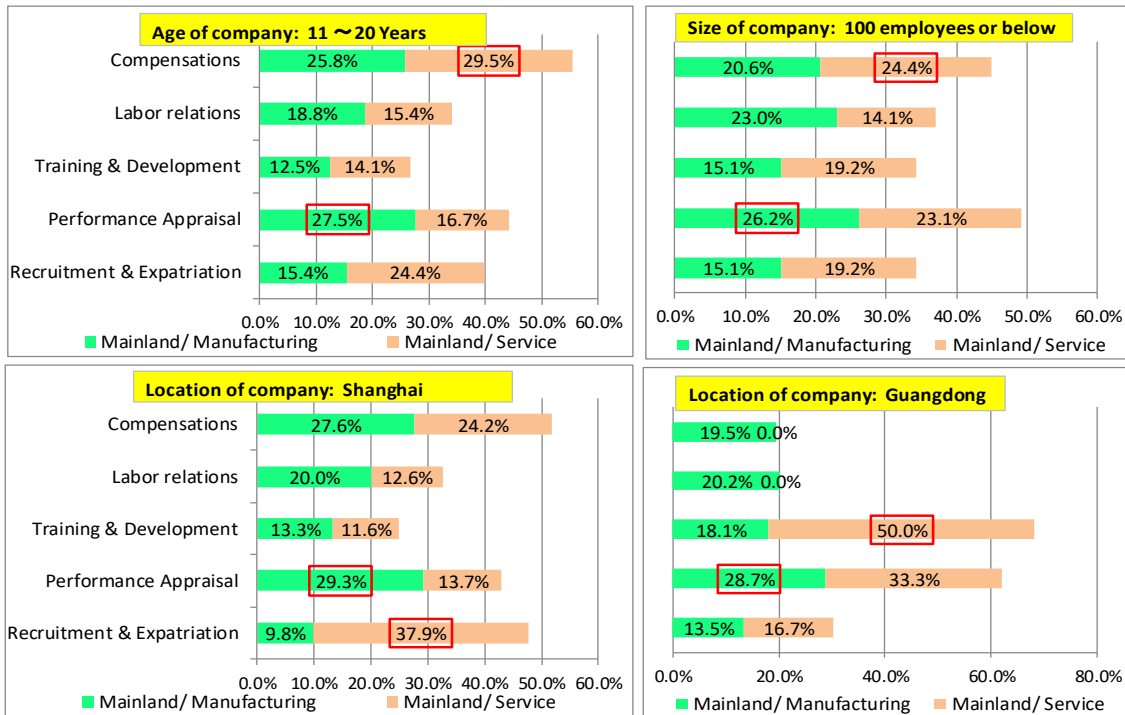


Figure 4.14: Ranking of importance of HRM Practice (Manufacturing sector vs Service sector between various location, size, business age, and size of companies)

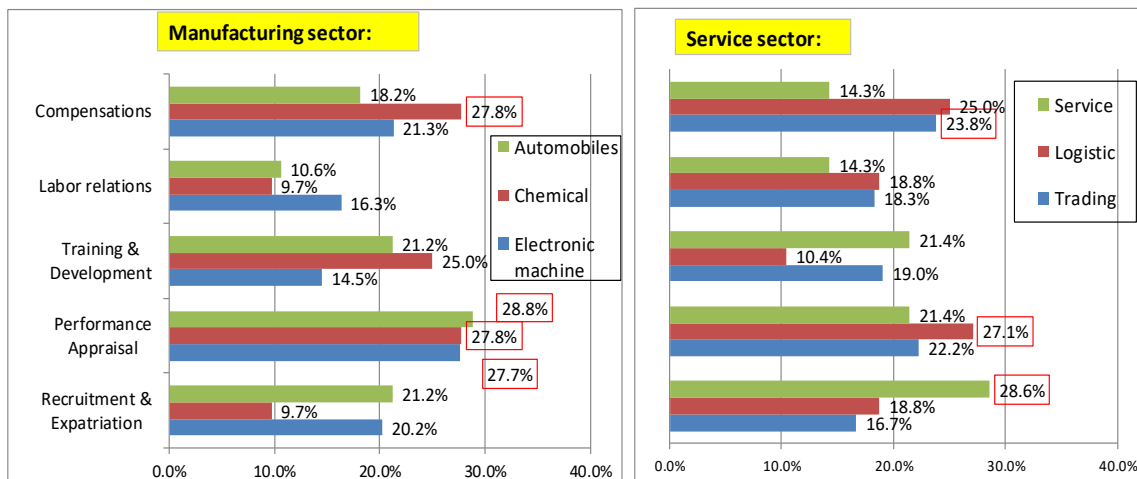


Figure 4.15: Ranking of importance of HRM Practice (Manufacturing sector vs Service sector between various industries of companies)

Another question asked the respondents to rank the most urgent HRM practice for improvement. Using the same point scale and method of summation, the result of the manufacturing sector and the service sector between Mainland China and Hong Kong is illustrated in Figure 4.16. Interestingly, the result was similar as the last question in that “performance appraisal” was considered as the most urgent HRM practice for further improvement.

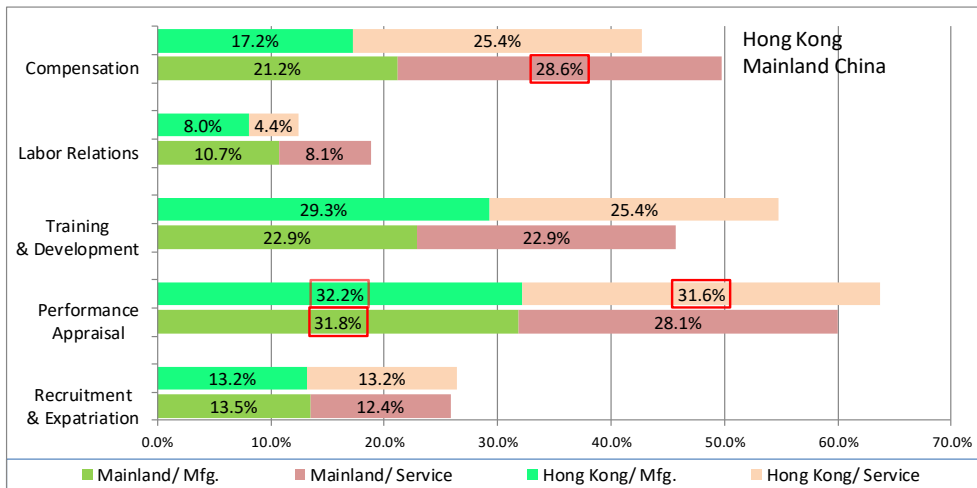


Figure 4.16: Ranking of HRM Practice's priority for improvement (Manufacturing sector vs Service sector between Mainland China and Hong Kong)

With reference to Figures 4.17 and 4.18, companies located in Shanghai and companies in other service industries placed higher priority on improving “compensation” compared with other HRM practices. Based on the above findings, the result tends to support Hypothesis 2, since there are certain difference of JCCs’ HRM practices between the manufacturing and the service sector.



Figure 4.17: Ranking of HRM Practice's priority for improvement (Manufacturing sector vs Service sector between various location, size, business age, and size of companies)

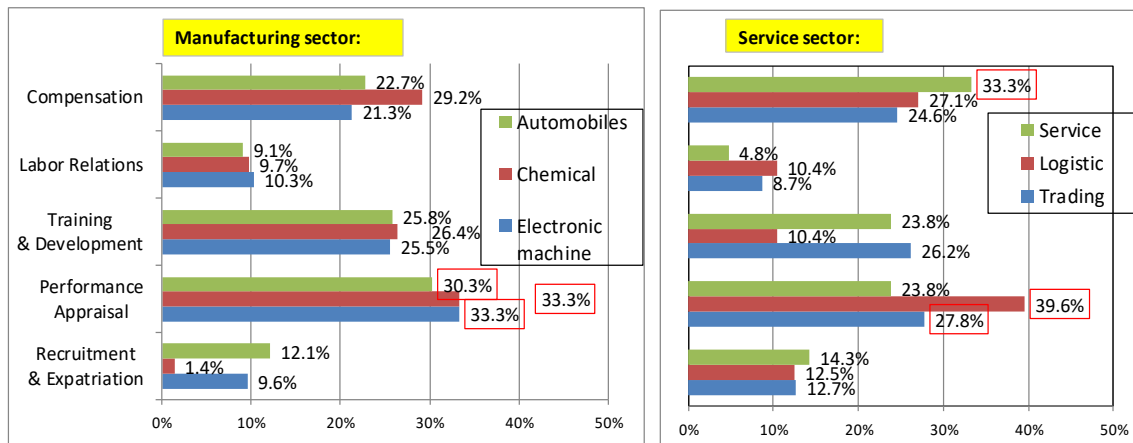


Figure 4.18: Ranking of HRM Practice's priority for improvement (Manufacturing sector vs Service sector between various industries of companies)

4.5.3 Level of localization in HRM practices

One of the objectives of localization in HRM practice is to use the local systems that fit the local human resources customs, laws, and culture, enabling them to attract local employees with competitive opportunities. A variety of aspects were investigated by using a five-point Likert scale question to indicate the level of localization from “completely influenced by headquarters (1 point)” to “completely decided by overseas companies (5 points)”. Respondents were asked to specify their answers in each HRM practice reflecting on the aspects in their companies.

(1) Recruitment and selection

Employees were categorized into four groups, including local director, manager, supervisor, and general staff. Figure 4.19 shows the result of the level of localization in each category of the companies between the manufacturing sector and the service sector in Mainland China and Hong Kong. Basically, we see overseas companies manage the recruitment of employees at the general and supervisory level, but the headquarters in Japan influences the selection process of recruiting senior employees, like managers and local directors. Indeed, it is not difficult to imagine this result. In comparison of the manufacturing sector and the service sector, the result indicates no significant difference in each group of employees. However, those companies located in Hong Kong tend to have more localization in recruitment practice of managerial level of employees than those in Mainland China, regardless of sector.

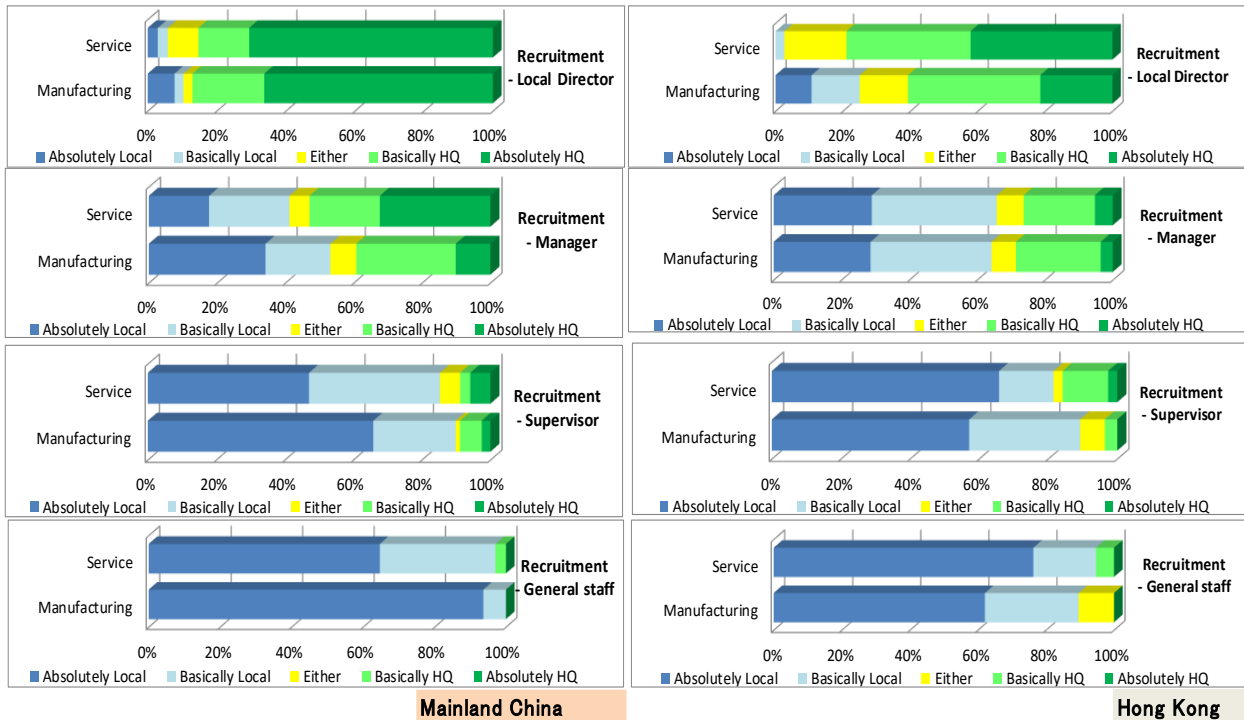


Figure 4.19: Indication of localization's level of Overseas affiliates' HRM Practice – Recruitment and Selection

Similarly, other factors were used to further verify the result of localization between the manufacturing sector and the service sector. According to the outcome after the calculation of rating, companies in coastal area indicated a higher degree of rating for recruitment of managers than the inland companies, although there is no significant difference in recruitment of the local director (higher score as high degree of localization). On the other hand, when we compared the ranges of age and sizes of companies, it was quite obvious that the practice of recruiting managers or local directors tends to be managed by locals more in the companies with longer business experience or more employees (See Table 4.5). This result implies that Japanese MNCs may feel comfortable relying on locals to manage those HRM practice if the overseas companies have long enough business experience or well-established with a greater scale of operations.

Table 4.5: Indication of localization's level of Overseas affiliates' HRM Practice – Recruitment and Selection
(Selective location, age and size of company)

Recruit and Selection	Locational effect				Age of company			Size of company		
	Mainland Overall	Hong Kong Overall	Mainland Only Coastal	Mainland Only Inland	10 or below (Years)	11~20 (Years)	21 or above (Years)	100 or below	101 ~ 500	Above 500
Manufacturing	1.6	2.5	1.6	1.7	1.5	1.8	2.2	1.7	1.8	2.2
Service	1.5	1.8	1.5	1.5	1.7	1.5	1.8	1.6	1.9	2.0
Total:	1.6	2.1								
Local Director										
Manufacturing	3.4	3.6	3.5	1.8	3.3	3.4	3.7	3.2	3.2	4.1
Service	2.7	3.6	2.8	2.5	2.9	2.7	3.7	3.1	3.5	3.5
Total:	3.2	3.6								
Manager										
Manufacturing	4.4	4.4	4.4	4.7	4.6	4.3	4.6	4.3	4.5	4.6
Service	4.2	4.3	4.2	4.0	3.9	4.2	4.5	4.3	4.1	3.5
Total:	4.4	4.3								
Supervisor										
Manufacturing	4.9	4.5	4.9	4.8	4.7	4.8	4.9	4.7	4.9	4.9
Service	4.6	4.7	4.6	4.5	4.6	4.5	4.7	4.7	4.3	5.0
Total:	4.8	4.6								
General staff										

(2) Performance appraisal

In a similar manner, all respondents were asked to rate the level of localization of the practice of “performance appraisal”. With regard to Figure 4.20 and Table 4.6, the result is quite close to the practice of “recruitment and selection”.

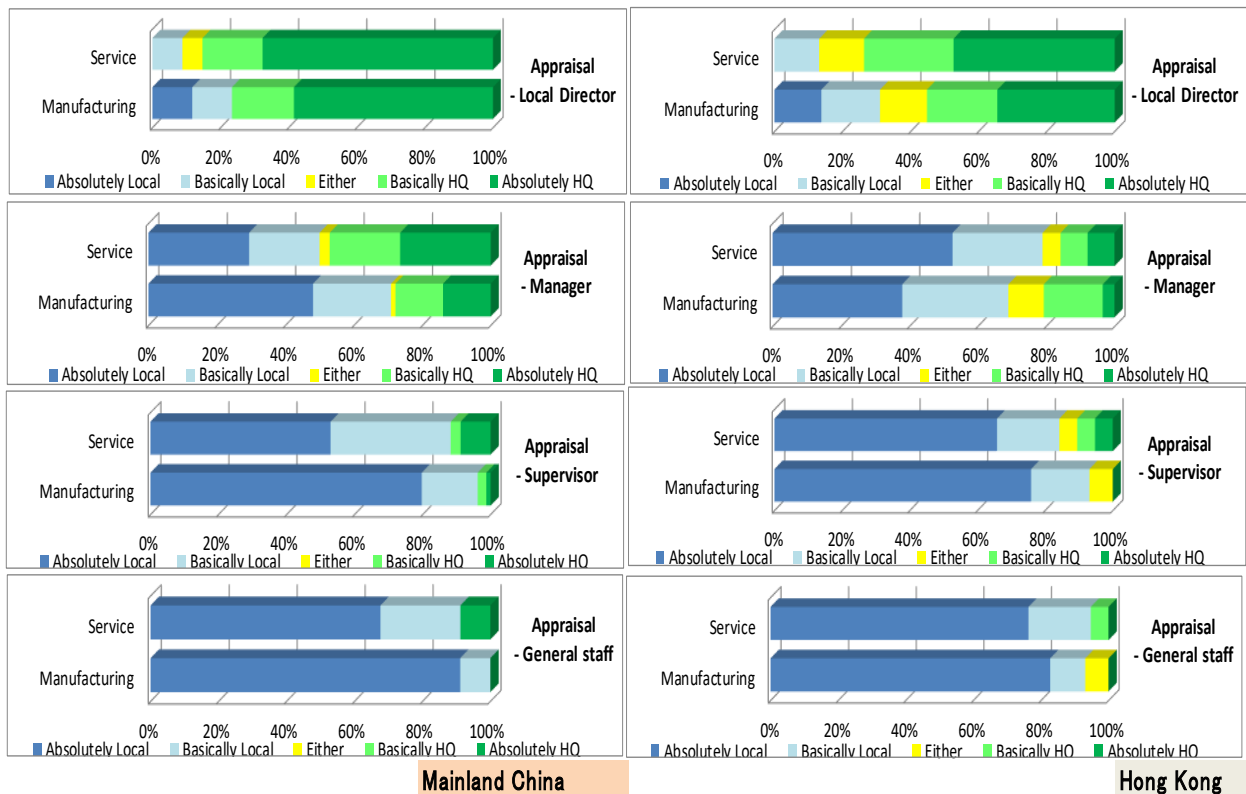


Figure 4.20: Indication of localization's level of Overseas affiliates' HRM Practice – Performance Appraisal

**Table 4.6: Indication of localization's level of Overseas affiliates' HRM Practice – Performance Appraisal
(Selective location, age and size of company)**

Performance Appraisal	Locational effect				Age of company			Size of company		
	Mainland Overall	Hong Kong Overall	Mainland Only	Mainland Coastal Only	10 or below (Years)	11~20 (Years)	21 or above (Years)	100 or below	101 ~ 500	Above 500
Manufacturing	2.0	2.6	1.6	1.7	1.5	1.8	2.2	1.7	1.8	2.2
Service	1.6	1.9	1.5	1.5	1.7	1.5	1.8	1.6	1.9	2.0
Total:	1.9	2.2								
Local Director										
Manufacturing	3.8	3.8	3.5	1.8	3.3	3.4	3.7	3.2	3.2	4.1
Service	3.1	4.1	2.8	2.5	2.9	2.7	3.7	3.1	3.5	3.5
Total:	3.6	4.0								
Manager										
Manufacturing	4.7	4.7	4.4	4.7	4.6	4.3	4.6	4.3	4.5	4.6
Service	4.2	4.3	4.2	4.0	3.9	4.2	4.5	4.3	4.1	3.5
Total:	4.6	4.5								
Supervisor										
Manufacturing	4.9	4.8	4.9	4.8	4.7	4.8	4.9	4.7	4.9	4.9
Service	4.4	4.7	4.6	4.5	4.6	4.5	4.7	4.7	4.3	5.0
Total:	4.8	4.7								
General staff										

(3) Training and development

The respondents were asked about three tasks of training and development: objective setting, program planning, and implementation. According to the result shown in Figure 4.21, the majority of JCCs manage all those training tasks on their own. As for Hong Kong respondents, there are nearly no significant differences in how all three of these training tasks are managed between the manufacturing sector and the service sector, with about 80% of the respondents indicating that they are able to decide these tasks on their own. In Mainland China, however, only 65% of the JCCs in the service sector showed they could manage without interference from headquarters.

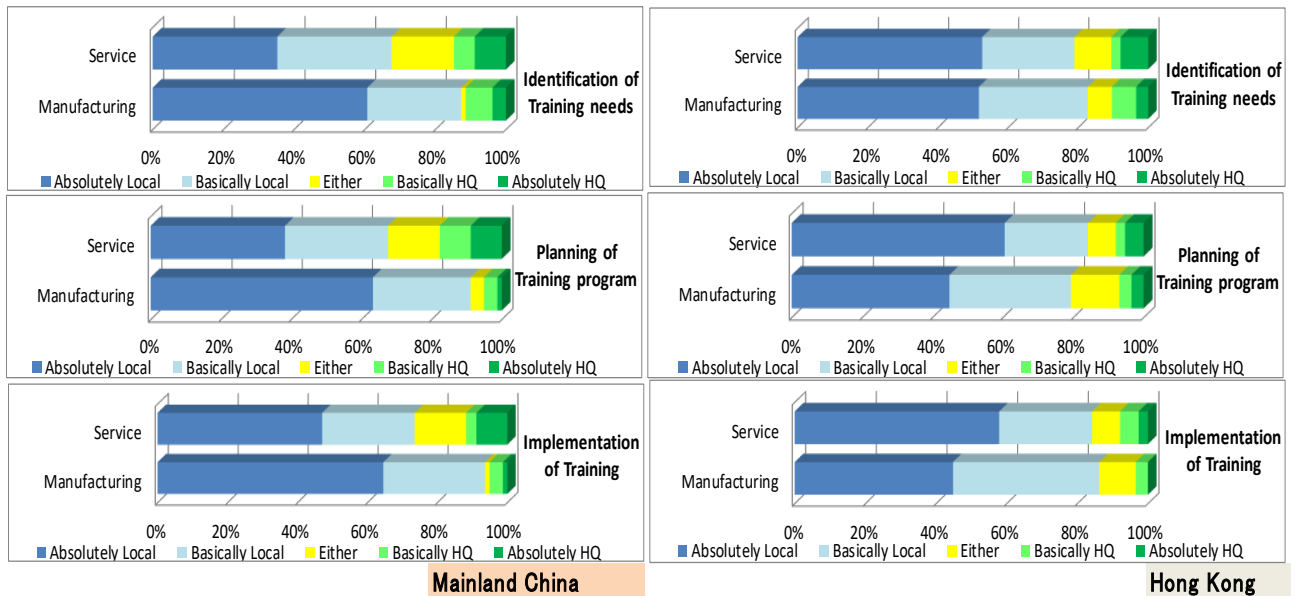


Figure 4.21: Indication of localization's level of Overseas affiliates' HRM Practice – Training & Development

When analyzing the other selected factors, there are also no significant differences between JCCs in the manufacturing sector and the service sector, with scores of over 4 points in all three training tasks overall, as shown in Table 4.7.

Table 4.7: Indication of localization's level of Overseas affiliates' HRM Practice – Training & Development (Selective location, age and size of company)

Training and Development	Locational effect				Age of company			Size of company		
	Mainland Overall	Hong Kong Overall	Mainland Only Coastal	Mainland Only Inland	10 or below (Years)	11~20 (Years)	21 or above (Years)	100 or below	101 ~ 500	Above 500
Manufacturing	4.3	4.2	4.4	4.0	4.8	4.2	4.3	4.4	4.3	4.4
Service	3.8	4.1	3.8	4.5	3.9	3.9	4.1	3.9	4.1	4.5
Identification of Training needs	4.2	4.2								
Manufacturing	4.5	4.1	4.5	4.5	4.9	4.3	4.4	4.5	4.3	4.7
Service	3.8	4.3	3.8	4.5	3.7	3.9	4.4	4.0	4.2	4.5
Planning of Training program	4.3	4.2								
Manufacturing	4.5	4.3	4.5	4.5	4.9	4.3	4.6	4.6	4.4	4.7
Service	4.0	4.3	4.0	4.5	3.9	4.1	4.4	4.1	4.4	4.5
Implementation of Training	4.4	4.3								

(4) Labor relations

Not all companies have labor unions, especially non-manufacturing companies located in Hong Kong. According to their responses, 10 out of the 67 JCCs in Hong Kong and 103 out of 113 JCCs in Mainland China have labor unions in their companies. Figure 4.22 shows that the service sector JCCs in Mainland China has a higher degree of interference by the Japan headquarters regarding labor union issues compared to manufacturing JCCs. Notably, the majority of respondents in

both sectors indicated that the labor ordinance is mainly updated by local management.

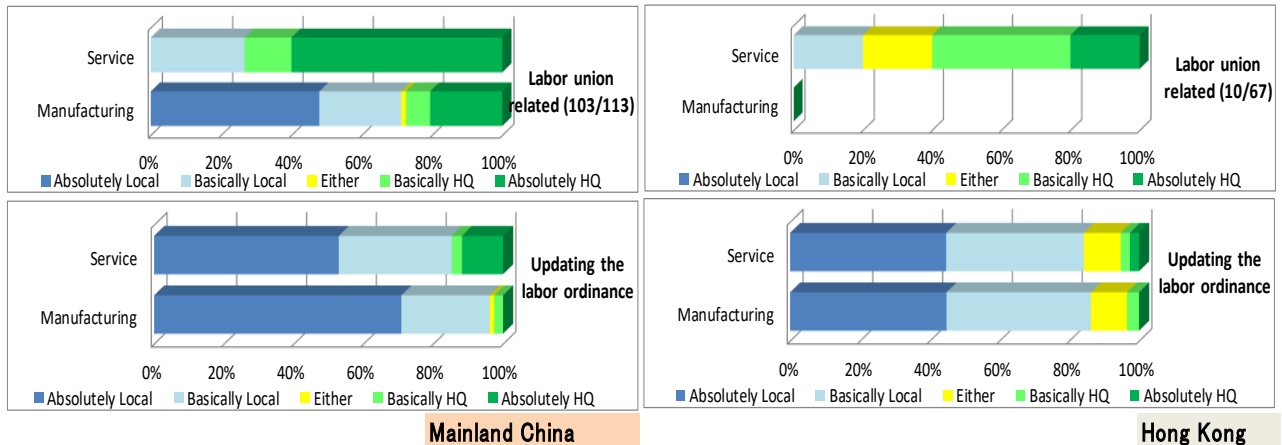


Figure 4.22: Indication of localization's level of Overseas affiliates' HRM Practice – Labor Relations related

In Table 4.8, we see the result is similar in “recruitment” and “performance appraisal”, that those JCCs with longer business experience or who are sizeable in terms of the number of employees have more autonomy to manage the business matters of labor union and to update the labor ordinance.

Table 4.8: Indication of localization's level of Overseas affiliates' HRM Practice – Labor Relations related (Selective location, age and size of company)

Labor Relations	Locational effect				Age of company			Size of company		
	Mainland Overall	Hong Kong Overall	Mainland Only	Mainland Coastal/Inland	10 or below (Years)	11~20 (Years)	21 or above (Years)	100 or below	101 ~ 500	Above 500
Manufacturing	3.7	N/A	4.7	5.0	4.8	4.7	4.9	4.7	4.7	4.9
Service	1.9	2.4	3.8	3.5	3.5	4.0	4.2	4.0	3.7	0.0
Labor Union related	3.2	2.4								
Manufacturing	4.6	4.3	4.6	5.0	4.3	4.4	4.8	3.4	4.6	4.7
Service	4.1	4.2	4.1	3.0	4.0	4.2	4.2	4.1	4.1	4.5
Updating the Labor ordinance	4.5	4.2								

(5) Compensation

Respondents were asked to rate the influence on decisions of salary and welfare by Japanese headquarters. Among all the responses (see Figure 4.23 and Table 4.9), it is obvious that over 90% of the JCCs' Japanese expatriates' salary and welfare (or fringe benefit) are decided by the Japan headquarters, without significant differences between the manufacturing and service sectors. On the contrary, overseas companies handle and manage both salary and welfare for local managers and general staff. In consideration of the difference between industrial sectors, there is a slight difference between the manufacturing and service sectors, in both

the mainland and Hong Kong. JCCs in the manufacturing sectors enjoy considerable autonomy in managing the salaries and welfare of managerial level employees. Regarding the comparison by location, age, and size of the companies, there are no significant differences, according to the result.

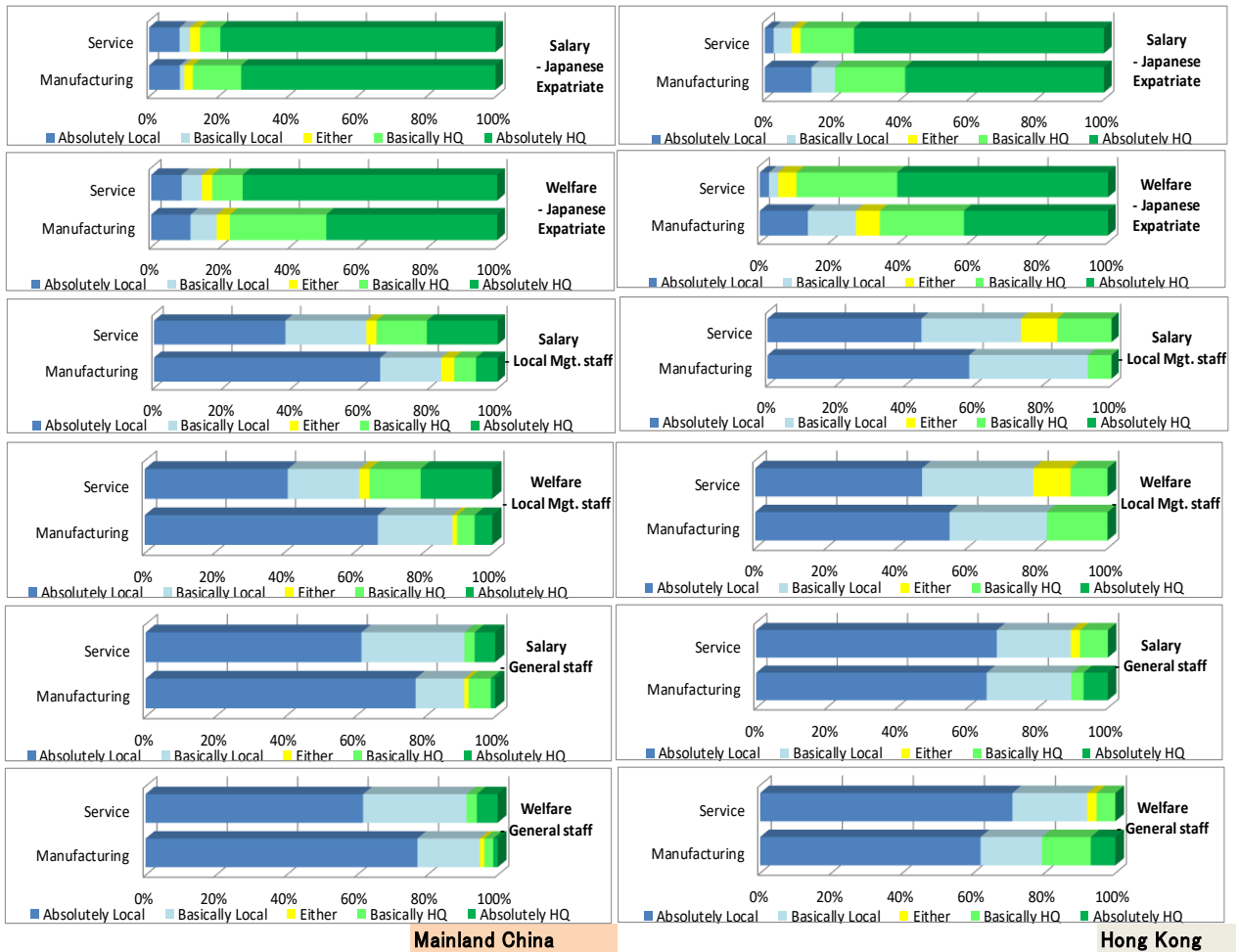


Figure 4.23: Indication of localization's level of Overseas affiliates' HRM Practice – Compensation

Table 4.9 Indication of localization's level of Overseas affiliates' HRM Practice – Compensation
(Selective location, age and size of company)

Compensation	Locational effect				Age of company			Size of company		
	Mainland Overall	Hong Kong Overall	Mainland Only Coastal	Mainland Only Inland	10 or below (Years)	11~20 (Years)	21 or above (Years)	100 or below	101 ~ 500	Above 500
Manufacturing Service	1.6	2.0	1.4	3.0	1.4	1.7	2.6	1.6	1.6	1.8
Salary – Japanese Expatriate	1.6	1.5	1.5	1.5	1.3	1.5	1.6	1.3	2.1	1.0
Manufacturing Service	2.0	2.3	1.9	3.0	1.9	2.2	2.1	2.0	1.6	2.3
Welfare – Japanese Expatriate	1.7	1.6	1.6	1.5	1.5	1.5	1.7	1.4	2.1	1.0
Manufacturing Service	4.3	4.4	4.3	4.3	4.6	4.2	4.6	4.4	4.5	4.3
Salary – Local Managers	3.4	4.0	3.4	4.0	0.0	3.6	4.1	3.7	3.8	4.0
Manufacturing Service	4.4	4.2	4.4	4.3	4.6	4.3	4.5	4.4	4.4	4.6
Welfare – Local Managers	3.5	4.2	3.4	4.0	3.4	3.8	4.2	3.8	3.8	4.0
Manufacturing Service	4.6	4.4	4.6	5.0	4.4	4.5	4.8	4.4	4.7	4.5
Salary – General staff	4.4	4.5	4.4	4.5	4.3	4.4	4.6	4.6	4.1	4.5
Manufacturing Service	4.7	4.1	4.6	5.0	4.4	4.5	4.8	4.3	4.6	4.7
Welfare – General staff	4.4	4.6	4.4	4.5	4.3	4.5	4.5	4.6	4.1	4.5

There are only minor differences of localization in each HRM practice between JCCs in the manufacturing sector and the service sector. Therefore, the result partially supports Hypothesis 3.

4.5.4 Considerations of expatriation

To indicate the ranking of expatriation, several factors were categorized into two groupings: the Japan headquarters side and the overseas subsidiaries side. Figure 4.24 shows the result of the rankings on the Japan headquarters side. The majority of respondents rated “corporate policy for integration” as the most important factor affecting the decision of assigning expatriates working in overseas subsidiaries (26.6% in the Mainland manufacturing sector, 27.9% in the Mainland service sector, and 35.3% in the Hong Kong service sector), while respondents from the Hong Kong manufacturing sector rated “contribution of overseas subsidiaries to headquarters” as the most important factor. Most respondents felt that the Japan headquarters uses Japanese expatriates to achieve their purpose of integrating overseas operation. Besides the Mainland manufacturing sector, the Mainland service sector, and the Hong Kong service sector also rated “contribution of overseas subsidiaries to headquarters” as the second most important consideration of expatriation, while the

Mainland service sector rated “experience of global business (17.6%)” as the second most important consideration of expatriation.

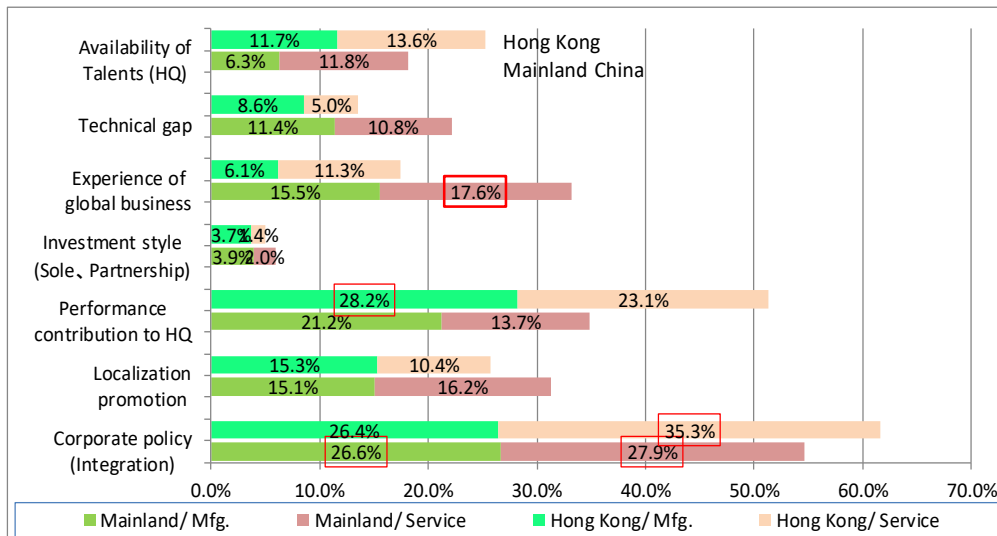


Figure 4.24: Important factors of Expatriation's considerations (From Headquarters' point of view) (Manufacturing sector vs Service sector between Mainland China and Hong Kong)

In Figure 4.25, a similar result was obtained in each selected range of years of business, size, and specified location of JCCs.

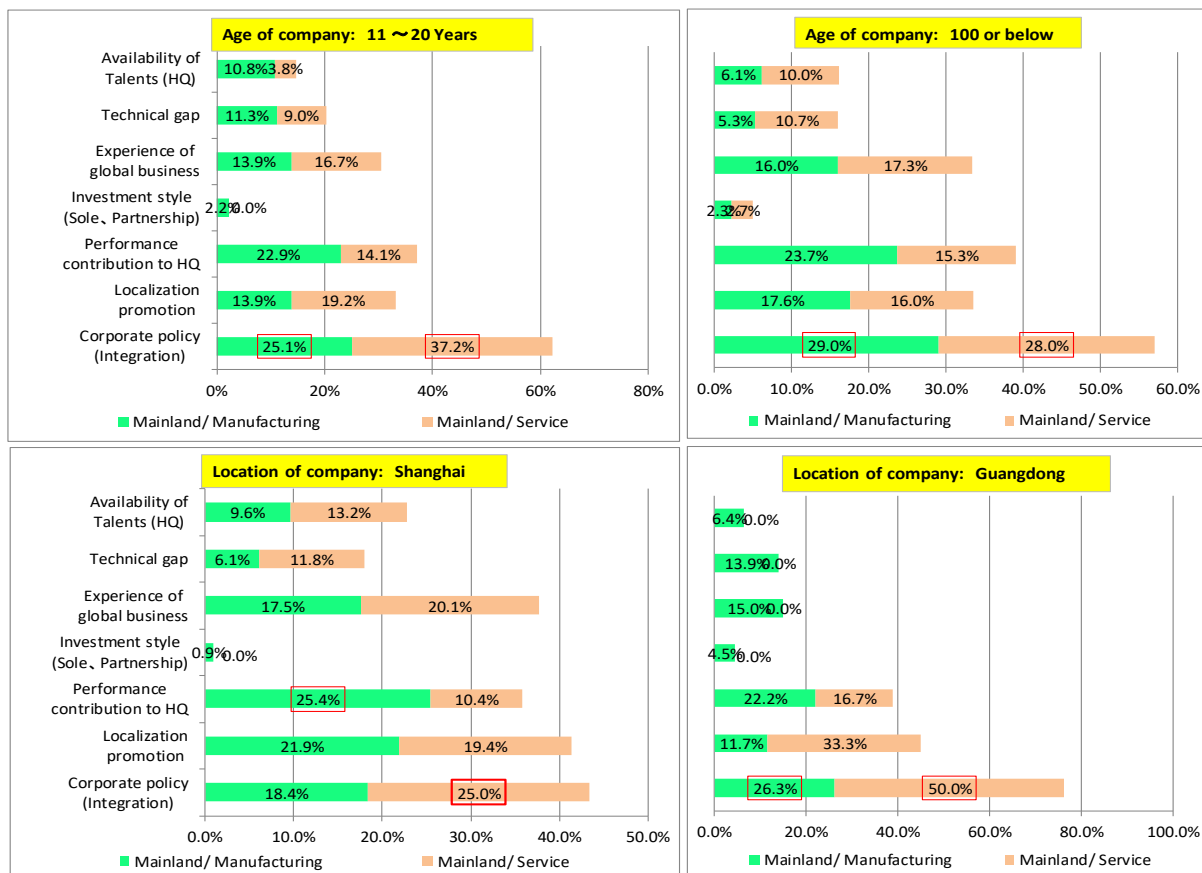


Figure 4.25: Important factors of Expatriation's considerations (From Headquarters' point of view) (Manufacturing sector vs Service sector between various location, size, business age, and size of companies)

Figure 4.26 and 4.27 show the result of the overseas subsidiaries side. Over one-

third of each group of respondents ranked “complexity of business” as the most important factor of expatriation’s consideration. This implies that overseas affiliates expect support from headquarters when they encounter difficulties in running the business. Notably, “availability of local talents” and “local operation risks” were rated as the second and third most important factors affecting the expatriation’s consideration from the overseas affiliates’ point of view.

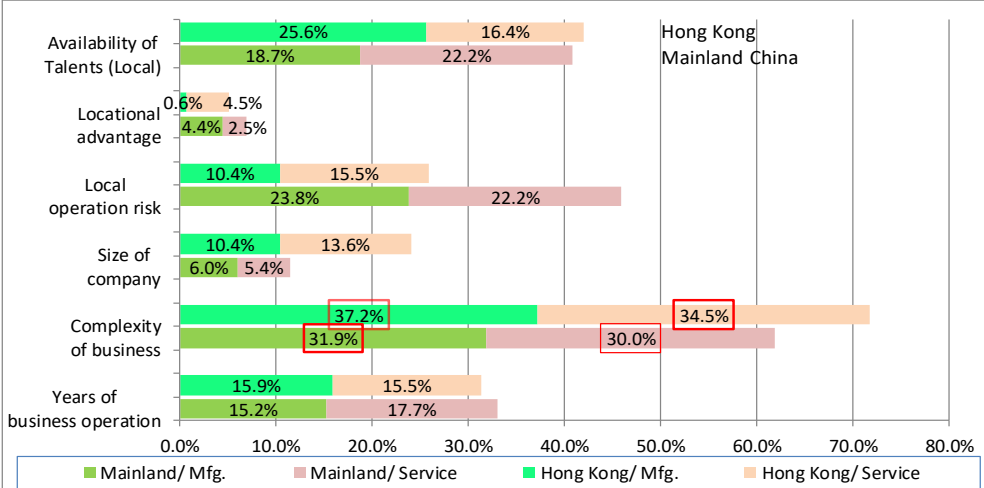


Figure 4.26: Important factors of Expatriation’s considerations (From Subsidiaries’ point of view) (Manufacturing sector vs Service sector between various location, size, business age, and size of companies)

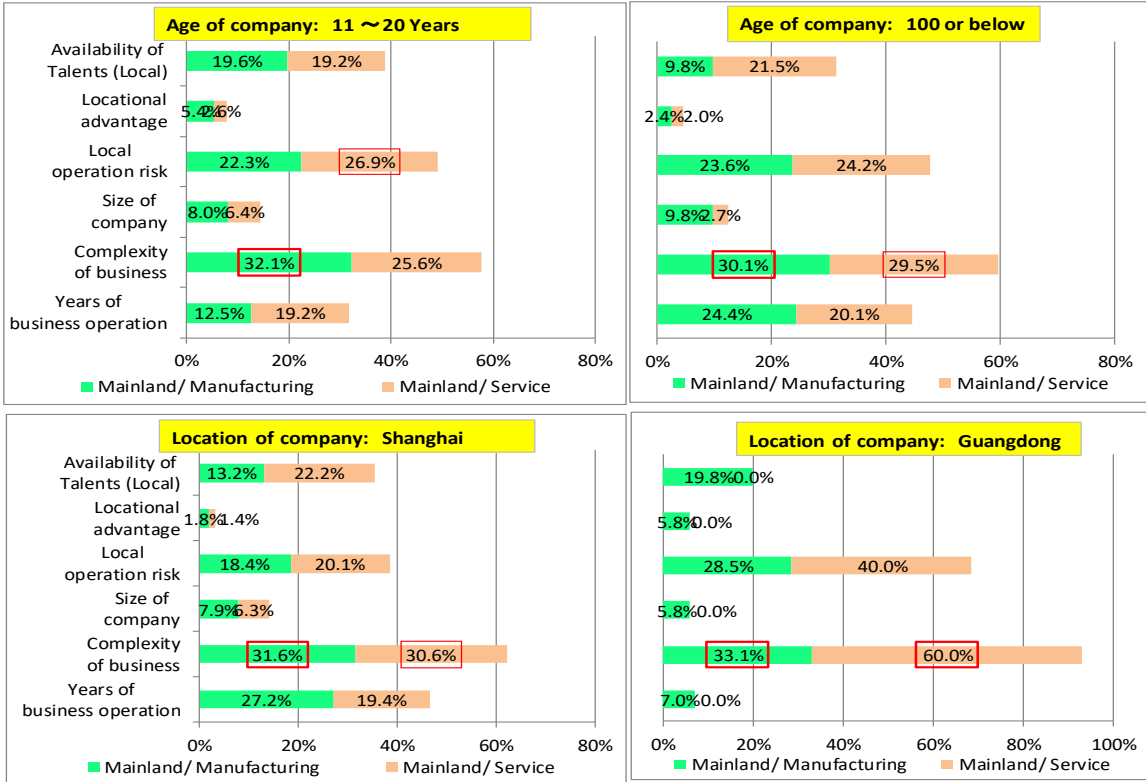


Figure 4.27: Important factors of Expatriation’s considerations (From Subsidiaries’ point of view) (Manufacturing sector vs Service sector between various location, size, business age, and size of companies)

Besides the factors affecting the consideration of expatriation, respondents were asked to rank the main reason for expatriation. Interestingly, according to the result

shown in Figure 4.28, respondents of the manufacturing sector and the service sector in both Mainland China and Hong Kong indicate different reason of expatriation. Over 40% of respondents in the service sector reported “communication enhancement between headquarters and subsidiaries” as the main reason for expatriation, while nearly 40% of respondents in the manufacturing sector put the highest rating on “improvement of local management”.

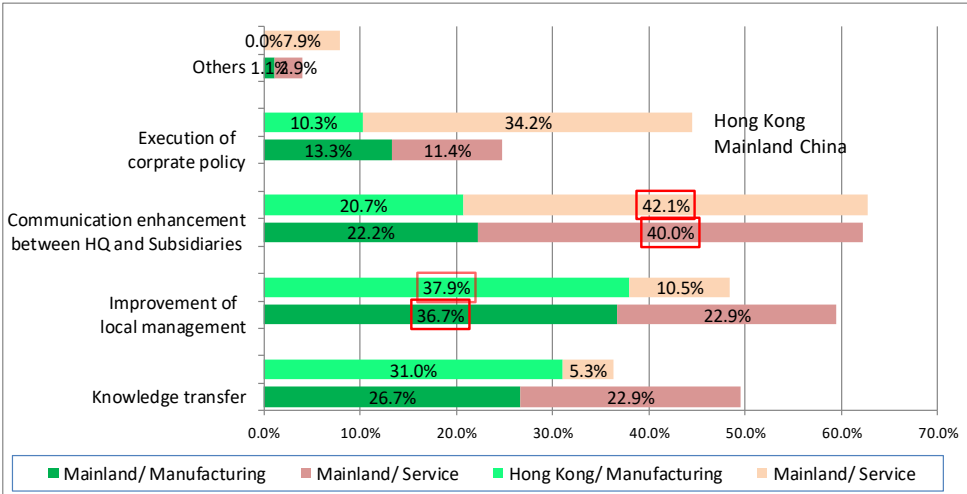


Figure 4.28: Main Purpose of Expatriation from Japan headquarters' view)

During the further review using the other factors, a variety of outcomes are obtained see Figures 4.29 and 4.30). JCCs in the age group of 11 to 20 years in the Mainland manufacturing sector, and JCCs with 100 or below employees in both the Mainland manufacturing sector and service sector rated “communication enhancement between headquarters and subsidiaries” as the main reason for expatriation. JCCs in the age group of 11 to 20 years in the Mainland service sector put the highest rating on “improvement of local management”. In addition, Shanghai’s JCCs in manufacturing sector and service sector rated “improvement of local management” and “transfer of knowledge” as the main reasons, respectively. Regarding the individual industries in the manufacturing and service sectors, JCCs of each group have different rating about the main reason of expatriation from Japan headquarters.

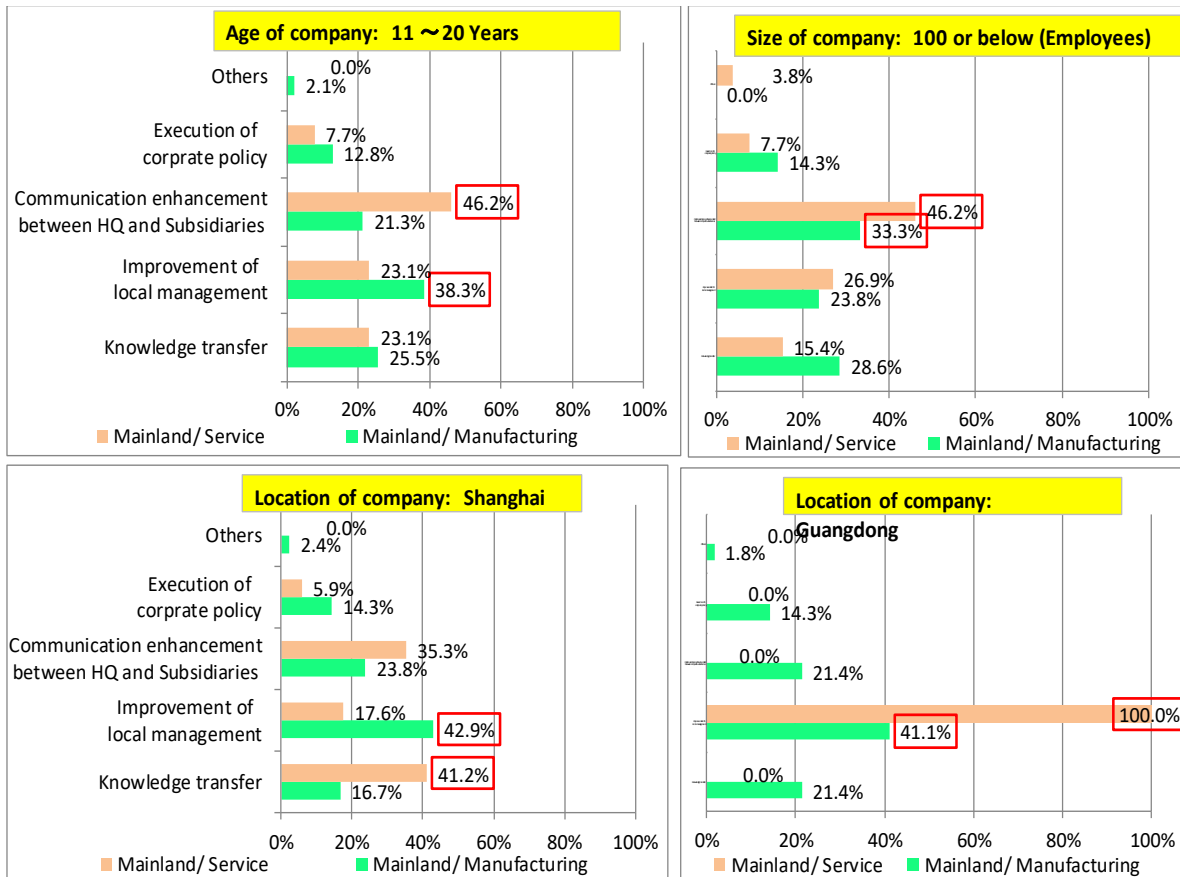


Figure 4.29: Main Purpose of Expatriation from Japan headquarters' view)
(Manufacturing sector vs Service sector between selected location, business age, and size of companies)

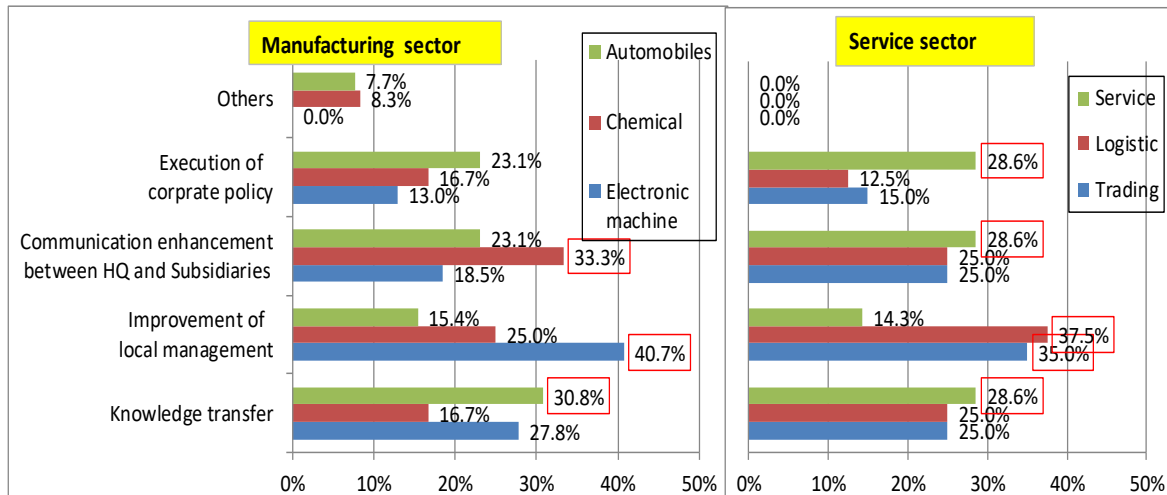


Figure 4.30: Main Purpose of Expatriation from Japan headquarters' view)
(Manufacturing sector vs Service sector between various industries of companies)

Since there are a certain amount of expatriates from Japan headquarters assigned and working in overseas subsidiaries, respondents were asked to identify the expected criteria for expatriates. According the result shown in Figure 4.31, “own skills and knowledge of expatriate” gets the highest rating among all groups of the manufacturing and the service sectors in Mainland China and Hong Kong. Next,

“handling skills of culture difference” is the second highest chosen requirement of expatriates.

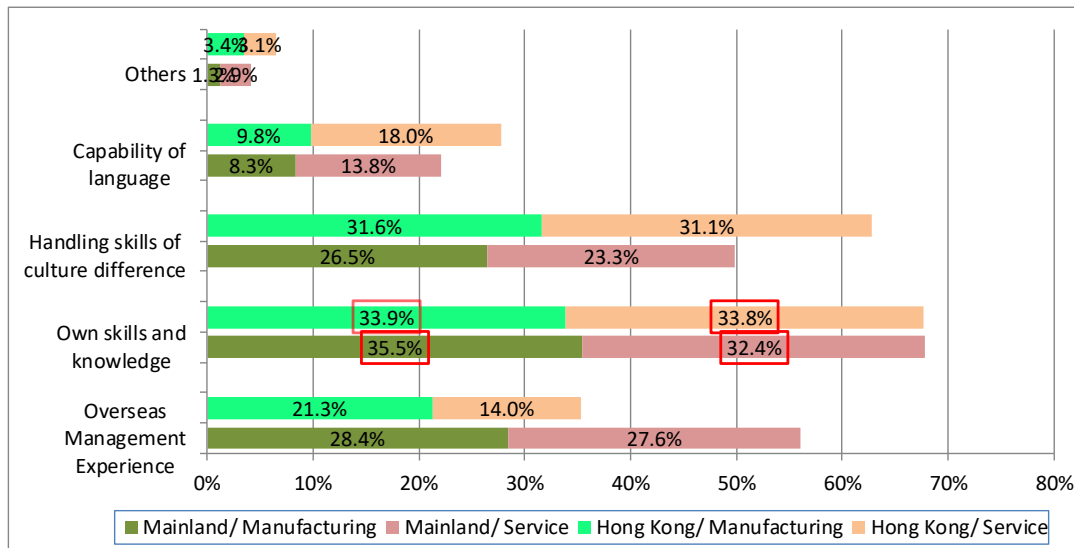


Figure 4.31: Important criteria of expatriates' selection (Manufacturing sector vs Service sector between Mainland China and Hong Kong)

Regarding each independent group, their responses did not show significant differences in the manufacturing sector and the service sector compared to the previous result (see Figures 4.32 and 4.33). Regarding the testing result of Hypothesis 4, it is interesting that there are certain differences in “the main purpose of expatriation” and “the factors affecting the consideration of expatriation from overseas subsidiaries’ point of view” between the manufacturing sector and the service sector, while there are no significant differences of “the criteria of expatriates’ selection” and “the factors affecting the consideration of expatriation from the headquarters’ point of view”.

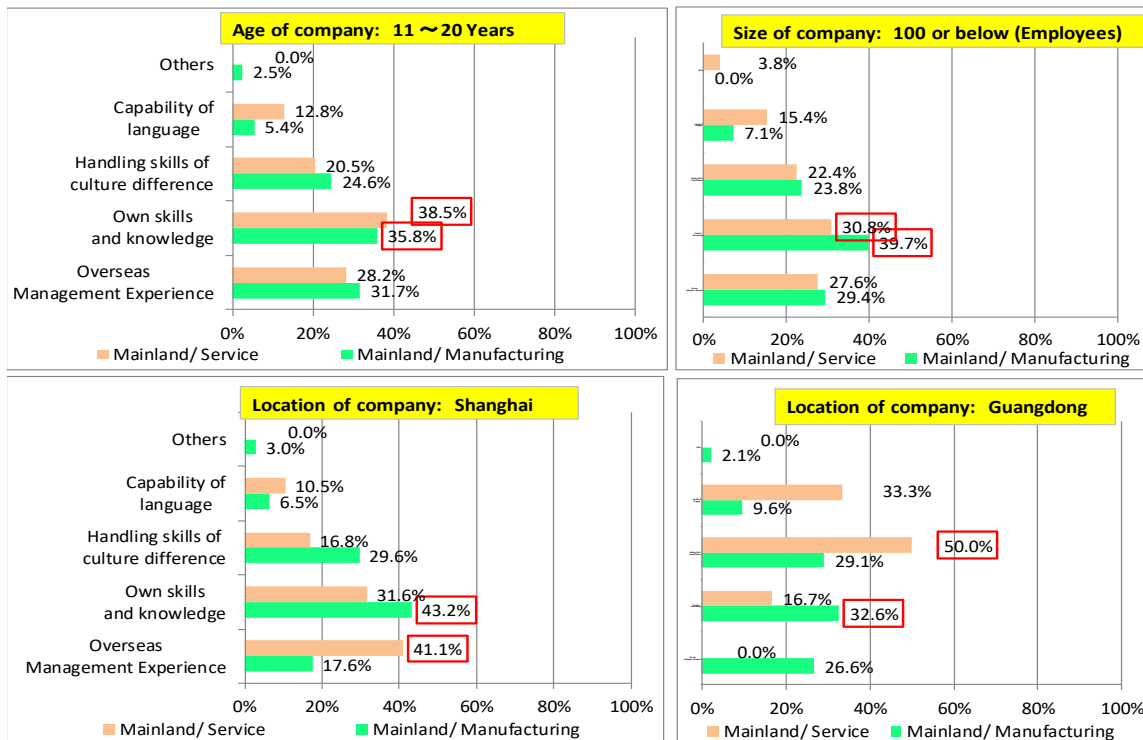


Figure 4.32: Important criteria of expatriates' selection (Manufacturing sector vs Service sector between selected location, business age, and size of companies)

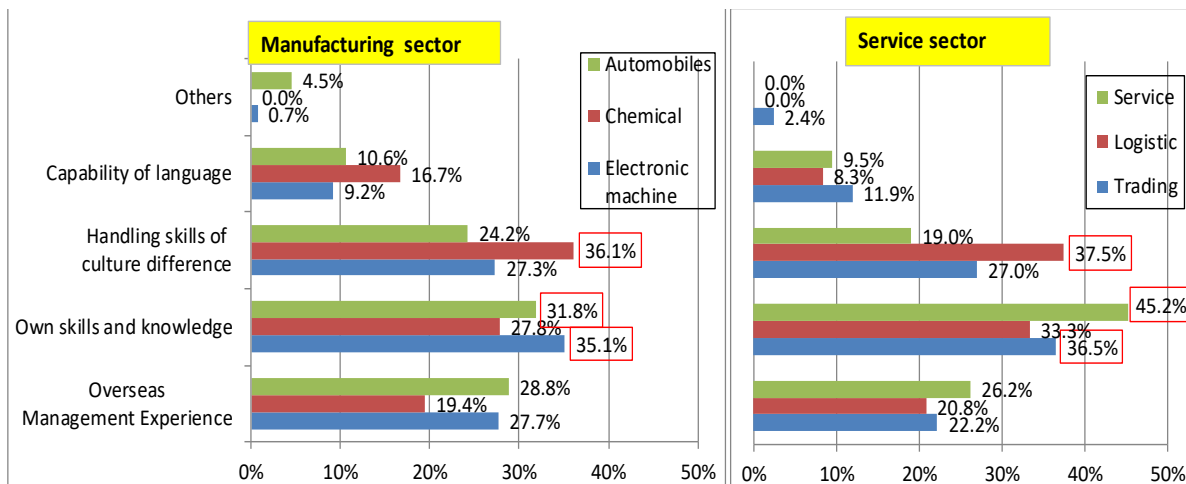


Figure 4.33: Important criteria of expatriates' selection (Manufacturing sector vs Service sector between various industries of companies)

4.5.5 Women in management

Although women are entering the labor force in ever-increasing numbers, the progression to the rank of management is still often blocked by an invisible barrier. Respondents were asked to state their companies' ratio of management between men and women. Obviously, in general, the majority of management staff members are men in our samples. However, with reference to Figure 4.34, percentage of women in JCCs overall is better than percentage of women in all companies in Japan, noted in

previous research. When we review the data analysis in a further breakdown, JCCs in Hong Kong have a higher ratio of employing women in management compared with Mainland China (see Figure 4.35). With regards to the industrial sectors, the percentage of women management in the service sector is higher than in the manufacturing sector in both Mainland China and Hong Kong. According to the findings with significant outcomes between the manufacturing and the service sectors, Hypothesis 5 tends to be supported by the data result.

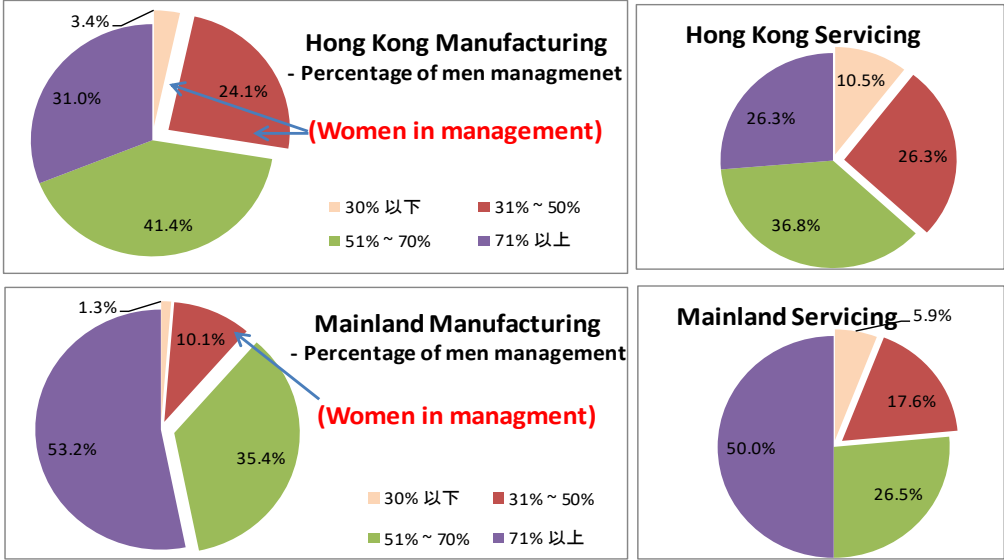


Figure 4.34: Analysis of Gender's Percentage of Management staff
(Total number of 180 respondents)

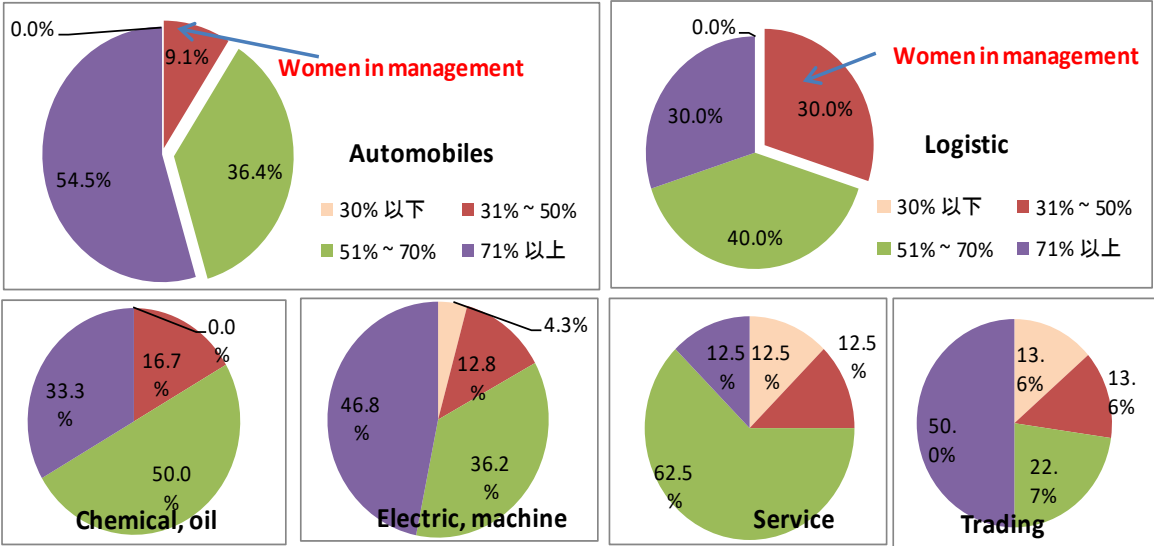


Figure 4.35: Analysis of Gender's Percentage of Management staff
(Manufacturing sector vs service sector between various industries of companies)

4.5.6 Other findings

During the preparation of the questionnaires, feedback from Japanese companies that participated this project was received and extra questions were added to the questionnaire to gain more insight about the HRM issues in China. Under a keen competitive environment, CEOs and HR leaders focused on understanding the labor market, designing a suitable work environment that engages people, and constructing an enhanced model of leadership and career development. Besides the major questions related to the verification of hypotheses, another four practical questions were asked and summarized as follows.

1) Application of the performance appraisal's result (see Figure 4.36)

A properly executed appraisal acts as a basis for hiring new employees, training and development of current employees, restructuring of workflow and employee motivation. Respondents were asked to select those applications of the performance appraisal's result, in which they could select more than one choice. Not surprisingly, almost 90% of respondents reported that the result of appraisal applies to the consideration of "salary review". Regarding the difference between manufacturing sectors and service sectors, slightly more of the manufacturing sector's respondents (84.6%) reported that appraisal's result also affects the decision of "promotion" than the service sector's respondents with the same choice (74.3%).

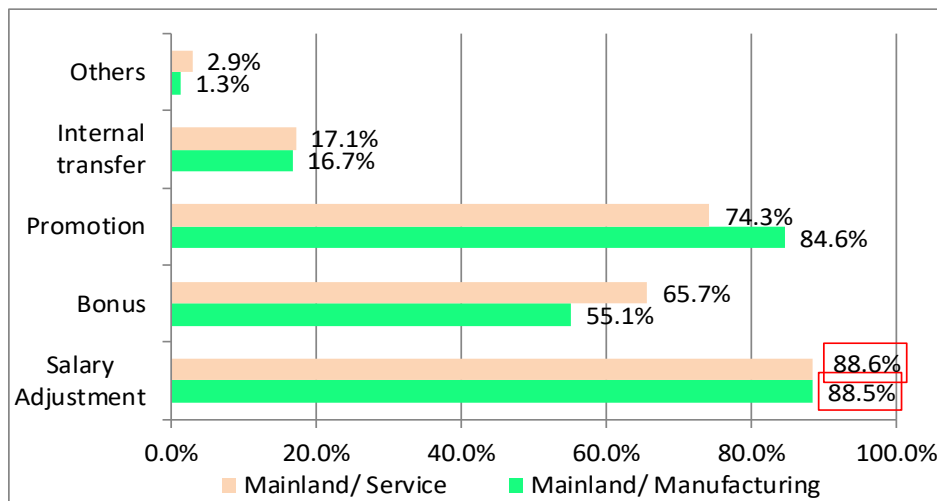


Figure 4.36: Application of the Performance Appraisal's result (Manufacturing sector vs Service sector in Mainland China)

2) Key person influencing the performance appraisal (see Figure 4.37)

With reference to the performance appraisal, respondents were also asked to indicate the person who has the most power in influencing the result. Within the

manufacturing sector, the majority of respondents (49.3%) mentioned that each department head is the most powerful person in deciding the process of performance appraisal. Regarding the service sector, 54.3% of the respondents stated that only the top management, like the CEO or GM, has decision power over the performance appraisal. Interestingly, HR department heads seem to lack the authority of this decision; only around 10% of replied HR department head in both sectors.

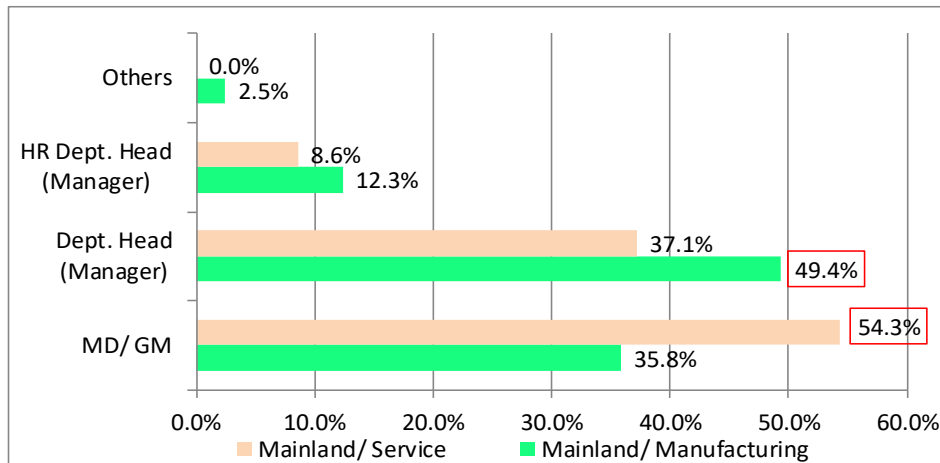


Figure 4.37: Key person in charge of Performance Appraisal (Manufacturing sector vs Service sector in Mainland China)

3) Main external factor affecting the salary decision (see Figure 4.38)

The process for determining starting salaries for new hires, and the appropriate salary adjustments for existing employees, is a critical managerial matter that must consider various issues. The compensation package has been designed to allow considerable flexibility in managing pay, while maintaining the institution’s market competitiveness and ensuring internal equity. Therefore, the respondents were asked to indicate the main external factor that affects salary determination, outside internal considerations like performance of employees. According to the result, 56% of respondents in the manufacturing sector and 73% in the service sector cite the market index as the most important factor of salary’s consideration, which can provide an objective indicator with fairness of the salary decision. Although minimum wage is the second most important factor selected among all respondents, in particular, only 10% of the responses from the service sector chose this factor. This may be interpreted that the minimum wage is only a minimum requirement to comply with the labor legislation, but not enough for to affect the competitive salary packages in the service sector. However, the minimum wage is slight more important

to the manufacturing sector for salary determination (30.3%) because the majority of employees are production workers. Interestingly, very few (less than 10%) indicated that headquarters' advice was the main factor in salary determination. This indicates that the local managers determine salary based on the local market.

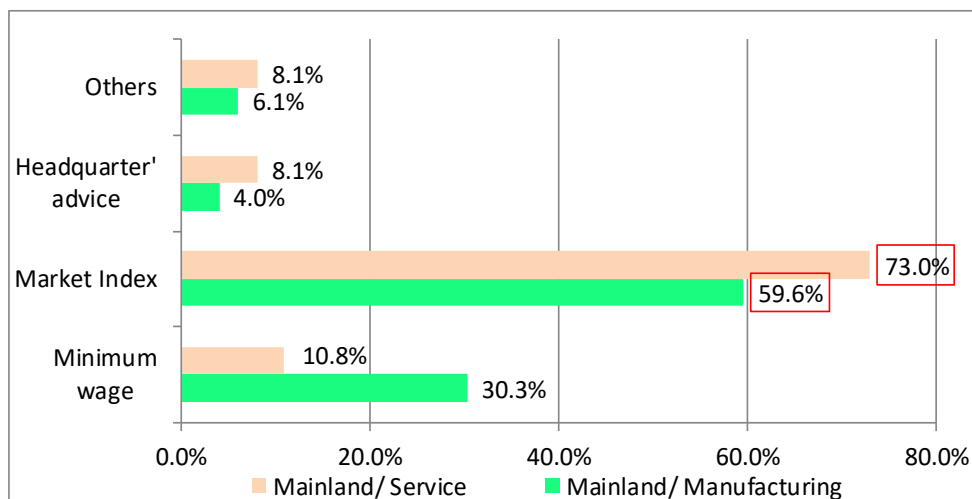


Figure 4.38: Main factor influencing the salary determination (Manufacturing sector vs Service sector in Mainland China)

4) Main factor enhancing the labor relations (see Figure 4.39)

Enhancing labor relations with employees must rely on more than just the establishment of labor unions or compliance with labor laws. The respondents were asked another question to find out the most important factor that enhances the labor relations in each organization. The majority of respondents indicated “respect and communication” as the most important factor improving labor relations, while other factors were considered less significant. In particular, over half of the respondents from the service sector (56.1%) report that respect and sound communication can contribute to the success of the company’s labor relations.

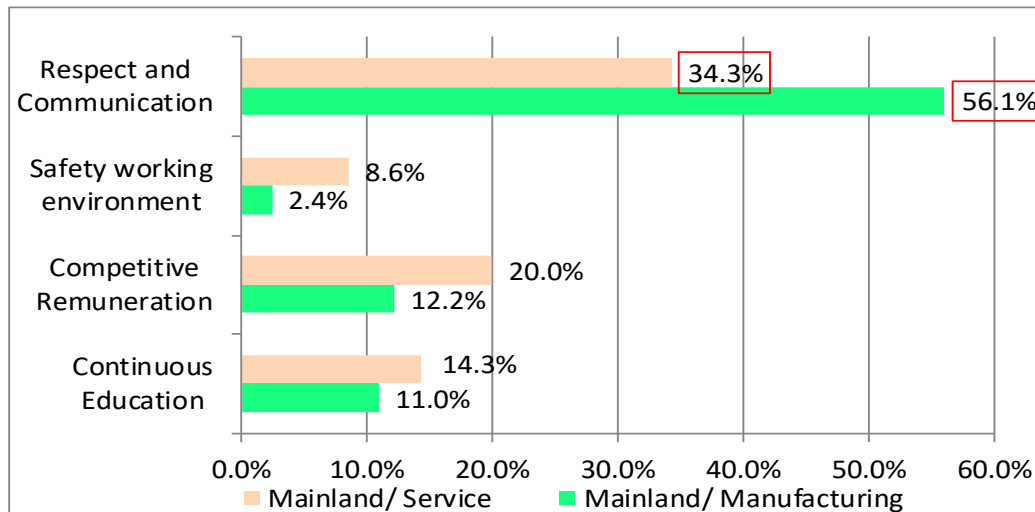


Figure 4.39: Main factor enhancing the labor relations (Manufacturing sector vs Service sector in Mainland China)

4.6 Implications of the Findings

The primary objectives of this chapter were to compare the differences of human resources (HR) strategy between Mainland China-based and Hong Kong-based Japanese companies, and analyze the underlying factors of the above differences. Since the business environment in Mainland China is changing towards becoming more service oriented, understanding the differences in managing overseas business from an HR perspective between manufacturing and service firms becomes an essential prerequisite. The rapid growth of Hong Kong's services sector in the past two decades has displayed remarkable results as discussed previously. An analysis including data of Hong Kong, where rapid expansion has been observed in the service sector over the past years, is expected to contribute a significant reference for JCCs to determine appropriate HR strategies. Therefore, this chapter has explored and compared the differences of HRM practices between JCCs of the manufacturing sector and of the service sector in both Mainland China and Hong Kong. In general, most of the data analysis has revealed similar result between two sectors. However, certain variances are found in terms of different industry attributes, locations, ages, and sizes of companies.

In line with the discussion in previous chapters, the findings in this survey show that the majority of CEOs or top managers of JCCs are Japanese, regardless of various other comparison factors. Although other researchers cited a higher ratio of CEOs selected from local talents in other countries, it is still difficult to assert that

localization in managing overseas operation is better than integrated control by headquarters in every case. Since the assignment of a CEO to an overseas subsidiary is a crucial decision, each MNC has to consider deeply and arrange the assignment in a flexible way. For example, the higher percentage locals in CEO positions in the service sector can be interpreted as the need for top management staff in overseas subsidiaries to be close to the domestic market and able to manage the local employees effectively. However, it is interesting to see that Hong Kong’s JCCs have an extremely high percentage of Japanese CEOs, implying that those Japanese MNCs are still unable to fully recognize the need to have a local leader, even though the Hong Kong service industry is a mature and stable business environment.

A limited amount of capable talents at the headquarters able to providing full support to overseas operation has resulted in an unavoidable obstacle to managing global business. There is no doubt that the adoption of local management in overseas operation is necessary in the long run. As illustrated in Figure 4.40, local talents with high caliber should not be confined to working as top management staff in overseas subsidiaries, but also be promoted and assigned to different regions, even the headquarters. Thus, MNCs should have a comprehensive plan for training and providing more opportunities to locals who can be valuable assets to the company.

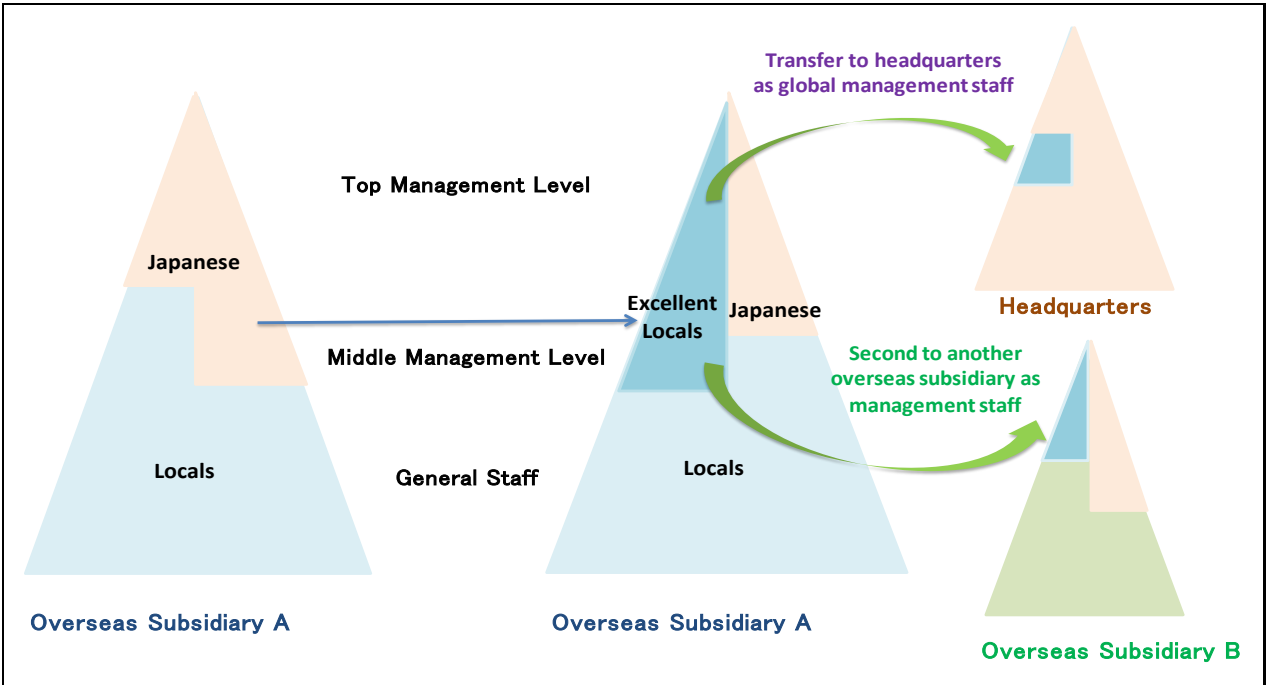


Figure 4.40: Promotion of Localization and Globalization of Excellent Employees
 Edited by author

In regard to each HRM practice, different results in the degree of localization tells

us that JCCs adjust their management directions according to a variety of characteristics of each HR task and level of designation. Most of the respondents expressed that JCCs manage HR issues locally without interference from headquarters in the recruitment and appraisal and training. According to the results analysis, there are still certain differences of local practices in HRM between different industries, locations, sizes, and ages of companies as mentioned above. For instance, local management tends to manage both recruitment and appraisal tasks in companies with a larger size or longer business life. The above results indicate that a company has to fine-tune necessary management tasks with flexibility by using local talents under various conditions and scenarios.

Among all HRM practices, performance appraisal is the most critical concern and the practice that respondents were eager for further improvement. Besides that, compensation is the second most important concern to most JCCs, especially respondents from Shanghai and service companies in Mainland China. The result seems to be slightly affected by various other factors. Although all HRM practices are inter-related to each other, the result of performance appraisal directly influences other HR fields, especially the determination of remuneration (see Figure 4.41).

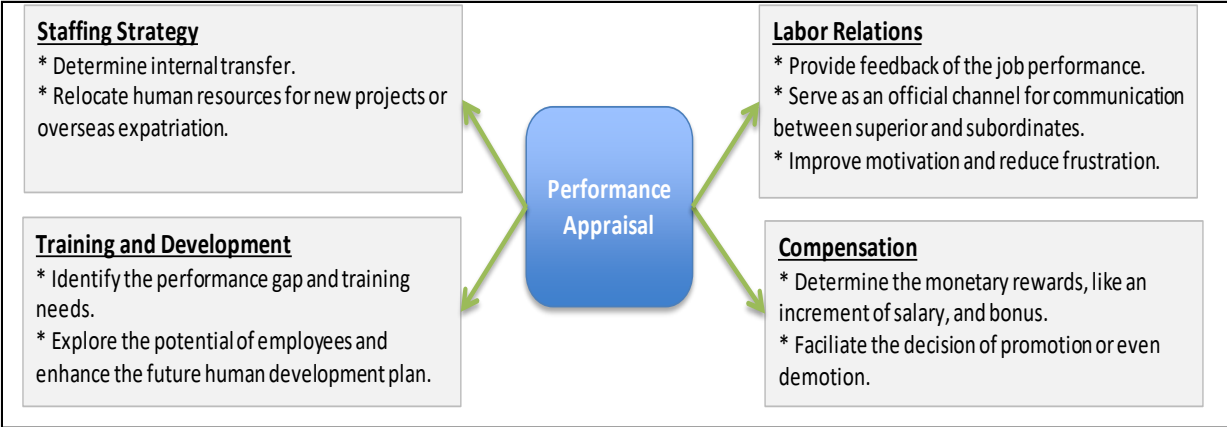
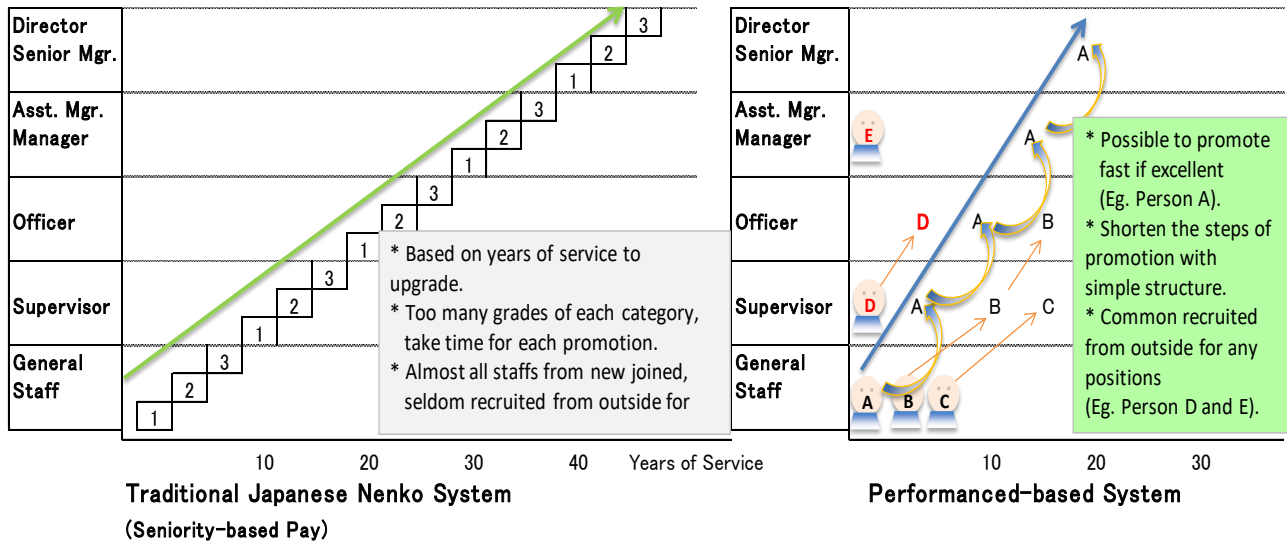


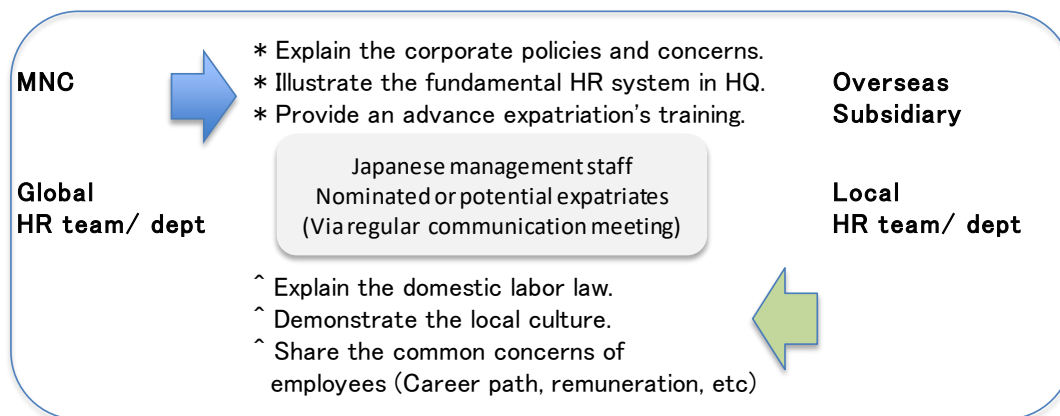
Figure 4.41: Contribution of Performance Appraisal to other HRM Practices
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With reference to the characteristics of Japanese management, the traditional culture affects two HRM practices in JCCs significantly. Typically, most Japanese companies do not have clear job descriptions and job specifications due to frequent job rotation. Each employee is expected to accept any works assigned by the company. This situation will pose certain difficulties in designing an appropriate appraisal system. In addition, the outcome of appraisal can serve a guideline for promotion and

salary determination of an employee. However, the majority of Japanese companies still maintain a “seniority-based” system, which has long been linked to job security in Japanese companies, to decide the salary adjustment and promotion. Today, lifetime employment cannot be guaranteed, as it is not practical in the global labor market. Capable employees expect to have a clear career path with prominent remuneration differences based on their contribution. Otherwise, if they recognize a significant gap between their performance and remuneration in comparison to the market rate, they will leave and look for new opportunities. As highlighted above, university graduates in Shanghai, China, ranked the most important factors for their job application as the chance for promotion and remuneration (see Figure 4.5). Therefore, performance-based pay systems need to be implemented in overseas subsidiaries. Indeed, several major Japanese companies have started to adopt performance-based systems with results-based appraisal systems. Figure 4.42 illustrates a comparison between two mechanisms of career path progress in a company, one seniority-based and the other, performance based. In practice, companies in Japan are facing difficulties in implementing a renovated system to evaluate their employees’ performance. It is not easy to set an objective target that is considered a fair and reasonable benchmark for measurement. In fact, traditional Japanese culture discourages individual performance and places importance on team contribution. This is an obstacle to the adoption of individual performance-based system. Most of the top management staff members are Japanese people who are assigned from the Japan headquarters. They are accustomed to the traditional system and it is difficult for them to understand or accept a significantly different, new system in the overseas operation. However, if JCCs are unable to adapt and instill an appropriate appraisal and compensation system, it may result in high labor turnover and poor motivation in overseas subsidiaries.



Without thoroughly understanding the common practices in overseas countries, it is hard for Japanese expatriates to formulate an effective remuneration plan with a sound performance appraisal mechanism. It is necessary to establish an enhanced global HR function at the headquarters that serves to coordinate and improve information sharing to ensure sufficient trainings to potential expatriates in advance, especially for top management staff of overseas subsidiaries (see Figure 4.43).



Besides the CEO, Japanese JCCs also tend to appoint a higher ratio of expatriates from the headquarters to work in overseas affiliates than subsidiaries of MNCs of US or European countries. Most of the manufacturing respondents in our survey cited that the purpose of expatriation should be “the improvement of local management” and “knowledge transfer”. They expect that technology from headquarters will

transfer to overseas subsidiaries who will further develop or catch up to a similar technical level. Similarly, a majority of respondents stated “skills and knowledge of expatriates” as the most important criteria to work overseas. Therefore, Japan MNCs have to ensure potential candidates have sufficient technical skills and ability to educate or transfer to workers at the overseas companies. In addition, “skill in handling culture differences” shows another concern about the culture gap between expatriates and local employees. In order to eliminate this hurdle, a solid understanding of the related culture and local practices is helpful for expatriates to become involved in the local working environment quickly. Respondents from the service sector had different concerns and cited that the purpose of expatriation should be “the improvement of communication between headquarters and overseas subsidiaries”. This may imply that service companies are sensitive to certain troubles or difficulties when the local employees communicate with the Japan headquarters due to language barriers, difficult in making contact, different understandings of the actual situations, and so on. Therefore, Japanese MNCs have to clearly explain to potential candidates before expatriation that one of their objectives is to be a communication bridge between the headquarters and the overseas subsidiaries.

Compared to domestic companies in Japan, the degree of adopting women managers in JCCs is slightly higher. Since Hong Kong is a major metropolitan city, women can have the same career opportunities as men, including management level positions, without specific barriers or resistances. Not surprisingly, respondents from Hong Kong indicated a higher percentage of women in management, whether in the manufacturing sector or the service sector, relative to Mainland China. In order to maintain a competitive advantage, real and fair opportunities for diversity of employment, not only in gender, must be more available. Equal opportunity policies and flexible work patterns are an inevitable trend worldwide. Women in management will become more important in the domestic labor market and in expatriation. Their numbers in more professions previously dominated by men will increase as well. Simultaneously, professional women are interested in competing and succeeding in the male corporate world. However, formal organizational policies in the manufacturing sector are often formed by gender-based societal assumptions. The outcome of the data analysis on the perspective of women in management in this study matches this phenomenon.

The above analysis of HRM practices indicated several notable findings in analyzing the differences between the manufacturing and the service sectors in JCCs, even though the differences are not very obvious. Certain highlights by industry, location, age, and size of companies provide an invaluable insight for different Japanese MNCs formulating business strategies in terms of a HRM perspective. In particular, the HRM concerns caused by the trend of an increasing demand for service companies in Mainland China is not confined to the JCCs in the service sector. Labor mobility due to the increasing employment demand in various service industries and less demand for jobs in manufacturing businesses may pose several severe difficulties in HRM issues in the current manufacturing sector, as well.

Although this chapter provides a variety of ideas and comments, the results presented herein should be read with caution because certain theoretical and empirical limitations exist. First of all, even though the objective is focused on Japanese companies in China, the generalizability of this study might be affected, because the sample for this study typically tied to a single country setting. However, a similar approach can be further executed and applied in other regions, and then the overall analysis with enhanced comparisons across countries will become more comprehensive. Next, the small sample size may induce a possibility of bias of sample distribution by industry and region in this study, which hinders more reliable in-depth analysis on the differences in HRM practices between Hong Kong JCCs and Mainland China JCCs. Nevertheless, future research with larger samples or in specified areas can complement the smaller scales of this study. An enhanced study with detailed interview in individual areas can also provide deeper and richer information.

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Appendix: Questionnaire of the Survey - English Version

Questionnaire: Global HRM Practices

Part I:

1 Please select the three most important HRM practices in sequence of 1~3.

(1= Most important, 2= 2nd important, 3= 3rd important)

- * Recruitmet and Expatriation _____
- * Performance Appraisal _____
- * Training and Education _____
- * Labour Relations _____
- * Compensation and Reward _____

2 With reference to the influence from headquarters to overseas affiliates regarding each HRM practice, please put the on suitable selection.

	Completely decided by overseas affiliate	Basically decided by overseas affiliate	Not clearly defined	Basically decided by headquarter	Completely decided by headquarter
2.1 Recruitment					
* Local Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Senior manager, manager	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Officer, Middle management staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* General staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 Performance Appraisal					
* Local Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Senior manager, manager	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Officer, Middle management staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* General staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 Training and Development					
* Define the objective and target	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Plan the program and activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Execute and implement the program	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.4 Labor Relations					
* Labor union related	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Response to update of labor legislation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.5 Compensation and Rewards					
Japanese Expatriate from headquarter:					
* Salary, Bonus	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Employee Welfare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Local Management Staff (Assistant Manager or above):					
* Salary, Bonus	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Employee Welfare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Local General Staff:					
* Salary, Bonus	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* Employee Welfare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3 With reference to the situation of your company, please select three HRM practices which are necessary to have improvement in importance sequence of 1~3 (1= Most important, 2= 2nd important, 3= 3rd important).

- * Recruitmet and Expatriation _____
- * Performance Appraisal _____
- * Training and Education _____
- * Labour Relations _____
- * Compensation and Reward _____

4 Globalization and Expatriation related

(Please put on the suitable selection)

* Origin Ethnicity of CEO or General Manager Japan Local Other

(Please indicate the number of people)

* Expatriate from Japan

(Except CEO, General Manager)
By department

1. Sales, Marketing	_____ Person	2. Purchasing, Logistic	_____ Person
3. Human Resource	_____ Person	4. Production, Technical,	_____ Person
5. Production Control	_____ Person	6. Accounting and Finance	_____ Person
7. Public Relations	_____ Person	8. Others	_____ Person

(Details: _____)

* Number of staff who studied in Japan previously

(Except CEO, General Manager)
By department

1. Sales, Marketing	_____ Person	2. Purchasing, Logistic	_____ Person
3. Human Resource	_____ Person	4. Production, Technical,	_____ Person
5. Production Control	_____ Person	6. Accounting and Finance	_____ Person
7. Public Relations	_____ Person	8. Others	_____ Person

(Details: _____)

5 Based on the viewpoints of headquarter and overseas affiliate, please select three most important factors of consideration in expatriation of Japanese staff working in overseas affiliates in importance sequence of 1~3.

(1= Most important, 2= 2nd important, 3= 3rd important)

Headquarter side (Please select three factors)

Integration of corporate policy (mission) _____
 Localization promotion _____
 Investment style (Sole investment, Partnership) _____
 Affiliates performance's influence on headquarter's result _____
 Experience of global business _____
 Elimination of technology gap _____
 Availability of talents (Headquarter) _____

Overseas affiliate side (Please select three factors)

Support for short business life of overseas affiliate _____
 Complexity of the business and operation _____
 Company size and employee number of overseas affiliate _____
 Risk of local business environment _____
 Convenience of life _____
 Availability of talents (Locals) _____

6 With reference to the capability of Japanese expatriate when considering the overseas expatriation, please select three important skills in importance sequence of 1~3 (1= Most important, 2= 2nd important, 3= 3rd important).

* Experience of overseas management _____
 * Own professional knowledge and skills _____
 * Capability of handling the culture difference _____
 * Capability of language _____
 * Others (Detail: _____)

7 With reference to the reasons of assigning Japanese expatriates working in overseas affiliates, please put the on the most important reason (Select one answer).

* Technical skill and knowledge transfer
 * Improvement of local management
 * Strengthening the communication between headquarter and overseas affiliates
 * Execution of corporate policy
 * Others (Detail: _____)

8 According to the ratio of men/ women in management (Assistant Manager or above) in your company, please put the on the most suitable selection (Select one answer).

Above 90% Men	<input type="checkbox"/>	40% Men 60% Women	<input type="checkbox"/>
80% Men 20% Women	<input type="checkbox"/>	30% Men 70% Women	<input type="checkbox"/>
70% Men 30% Women	<input type="checkbox"/>	20% Men 80% Women	<input type="checkbox"/>
60% Men 40% Women	<input type="checkbox"/>	10% Men 90% Women	<input type="checkbox"/>
50% Men 50% Women	<input type="checkbox"/>	Above 90% Women	<input type="checkbox"/>

Part II:

9 Which of the following HR decision will be affected by the result of performance appraisal? Please put the on the suitable selections (Select one or more answers).

* Salary Adjustment
 * Bonus
 * Promotion
 * Inter-transfer
 * Others (Detail: _____)

10 Please select the key person who influence the implementation of performance appraisal (Select one answer).

- * CEO/ GM
- * Related department head (Manager)
- * HR department head (Manager)
- * Others (Detail: _____)

11 Please select the most important external factor affecting the determination of salary (Select one answer).

- * Minimum wage
- * Market wage
- * Advice from headquarters
- * Others (Detail: _____)

12 Please select the most important factor improving the human relations (Select one answer).

- * Continous training and development
- * Competitive remuneration
- * Suitable and safe working environment
- * Good communication and mutual respect
- * Sound corporate culture
- * Others (Detail: _____)

Company information :

Please put the on the suitable selection.

Business Category	Manufacturing:	1. Food, beverage	<input type="checkbox"/>	2. Clothing	<input type="checkbox"/>	
		3. Paper, Wooden product	<input type="checkbox"/>	4. Chemical, Oil product	<input type="checkbox"/>	
		5. Sales-Mfg.	<input type="checkbox"/>	6. Steel, Metal product	<input type="checkbox"/>	
		7. Electric, machine	<input type="checkbox"/>	8. Conveyance machine	<input type="checkbox"/>	
		9. Automobiles	<input type="checkbox"/>	10. Others:	<input type="checkbox"/>	(Detail: _____)
	Service:	1. Finance	<input type="checkbox"/>	2. Logistics, warehouse	<input type="checkbox"/>	
		3. Medical, health care	<input type="checkbox"/>	4. Trading	<input type="checkbox"/>	
		5. Retails	<input type="checkbox"/>	6. Other services	<input type="checkbox"/>	
		7. Education	<input type="checkbox"/>	8. Information technology	<input type="checkbox"/>	
		9. Insurance	<input type="checkbox"/>	10. Others	<input type="checkbox"/>	(Detail: _____)
Number of employees (Person):	100 or below	<input type="checkbox"/>	101 ~ 500	<input type="checkbox"/>		
	501 ~ 1000	<input type="checkbox"/>	1001 or above	<input type="checkbox"/>		
Age of business (Year):	5 or below	<input type="checkbox"/>	6 ~ 10	<input type="checkbox"/>	11 ~ 20 <input type="checkbox"/>	
	21 ~ 30	<input type="checkbox"/>	31 or above	<input type="checkbox"/>		
Location of the company:	Hong Kong	<input type="checkbox"/>				
	Mainland Chir 1. Beijing	<input type="checkbox"/>	2. Shanghai	<input type="checkbox"/>	3. Jiangsu <input type="checkbox"/>	
	4. Liaoning	<input type="checkbox"/>	5. Guangdong	<input type="checkbox"/>	6. Chongqing <input type="checkbox"/>	
	7. Sichuan	<input type="checkbox"/>	8. Others::	<input type="checkbox"/>	(Detail: _____)	

Responden's profile :

Gender	Male	<input type="checkbox"/>	Female	<input type="checkbox"/>
Ethnic origin	Japan	<input type="checkbox"/>	Local	<input type="checkbox"/>
			Others	<input type="checkbox"/>
				(Detail: _____)
Designation	CEO or GM	<input type="checkbox"/>	Manager (HR)	<input type="checkbox"/>
	General staff (HR)	<input type="checkbox"/>	General staff (Other depts)	<input type="checkbox"/>
Education	Master or above	<input type="checkbox"/>	Bachelor	<input type="checkbox"/>
			High school	<input type="checkbox"/>
Overseas experience	Worked abroad besides own country	<input type="checkbox"/>		
	Studied abroad besides own country	<input type="checkbox"/>		

Thanks for cooperation!!

Appendix: Questionnaire of the Survey - Japanese Version

グローバル人的資源管理の調査

第一部分:

1 下記の人事管理業務について、特に重要と思われる3つを選び、回答欄に1~3の番号をつけてご回答下さい。

(1=最も重要、2=2番目に重要、3=3番目に重要)

- * 人員募集、派遣 _____
- * 人事考課、評価 _____
- * 研修開発、教育 _____
- * 労使関係 _____
- * 報酬管理 _____

2 海外子会社の人的資源管理項目に対する、日本の本社の影響について、該当するレベルの欄に☑印を付けてください。

	完全に子会社 自身で決定可	原則として 子会社自身 で決定可	どちらが決定 するか決まっ ていない	原則として 日本本社で 決定	完全に日本 本社で決定
2.1 人材採用					
* 現地取締役	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 上級管理者、管理者(部長)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 主事、中級管理者(課長)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 一般社員	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 人事考課					
* 現地取締役	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 上級管理者、管理者(部長)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 主事、中級管理者(課長)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 一般社員	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 研修開発					
* 研修目的の確立	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 研修活動の策定	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 研修の実施、推進	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.4 労使関係					
* 労働組合に関連する事項(なければ、回答不要)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 労働関連法の変更に関連する対応方法	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.5 報酬管理					
日本の本社から派遣される日本人の:					
* 給料、賞与	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 福利厚生	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
現地管理者 (Assistant Manager 以上)の:					
* 給料、賞与	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 福利厚生	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
現地一般社員の:					
* 給料、賞与	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 福利厚生	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3 貴社の人事管理業務について、特に改善が必要だと思われる3つを選び、回答欄に1~3の番号をつけてご回答下さい。

(1=最も重要、2=2番目に重要、3=3番目に重要)

- * 人員募集、派遣 _____
- * 人事考課、評価 _____
- * 研修開発、教育 _____
- * 労使関係 _____
- * 報酬管理 _____

4 グローバル人材派遣

(該当するものを選んで欄に☑印を付けてください)

- * 董事長又は総経理の出身地 日本 現地 その他

(該当する箇所にのみ人数をご記入ください)

* 日本駐在員数

(董事長、総経理を除く)	1. 営業	_____人	2. 資材、物流	_____人	3. 人事管理	_____人
部門別	4. 生産、技術、品管	_____人	5. 生産管理	_____人	6. 経理財務	_____人
	7. 広報情報	_____人	8. その他	_____人	(詳細:_____)	

* 日本に留学経験のある社員数

(董事長、総経理、日本人社員を除く)	1. 営業	_____人	2. 資材、物流	_____人	3. 人事管理	_____人
部門別	4. 生産、技術、品管	_____人	5. 生産管理	_____人	6. 経理財務	_____人
	7. 広報情報	_____人	8. その他	_____人	(詳細:_____)	

5 海外子会社に日本人駐在員を派遣するか否かの決定に最も影響すると思われる3つを選び、回答欄に1~3の番号をつけてご回答下さい。

(1=最も重要、2=2番目に重要、3=3番目に重要)

本社側 (3つを選び)

海外子会社側 (3つを選び)

企業方針の統一化(企業ミッションなど)	_____	操業年数の短さにまつわる本社サポートの必要性	_____
現地化推進のためのサポート	_____	事業・業務の難易度の高さ	_____
派遣決定の自由度(合併・独資などの違い)	_____	子会社規模、社員数	_____
子会社業績の本社への影響度	_____	現地操業環境のリスク	_____
海外子会社管理経験者の存在	_____	所在地の生活利便性	_____
技術ギャップの解消	_____	特定業務を担当する人材採用の困難性	_____
本社における適正人材の有無	_____		

6 海外子会社に派遣する日本人駐在員の能力について、最も重要と思われる3つを選び、回答欄に1~3の番号をつけてご回答下さい。

(1=最も重要、2=2番目に重要、3=3番目に重要)

* 海外マネジメント経験 _____

* 社員が保有する固有の能力や技術 _____

* 異文化への対応能力 _____

* 語学力 _____

* その他 (詳細:_____)

7 海外子会社への日本人の派遣主要な理由について、次の中から1つ選んで欄に☐印を付けてください。

* 技術知識の移転

* 現地管理の改善

* 本社と子会社間コミュニケーションの強化

* 企業方針の実施

* その他 (詳細:_____)

8 貴社の管理者(Assistant Manager以上)の男女比率について、該当する範囲に選んで欄に☐印を付けてください。

91%以上が男性 <input type="checkbox"/>	40% 男性 60% 女性 <input type="checkbox"/>
80% 男性 20% 女性 <input type="checkbox"/>	30% 男性 70% 女性 <input type="checkbox"/>
70% 男性 30% 女性 <input type="checkbox"/>	20% 男性 80% 女性 <input type="checkbox"/>
60% 男性 40% 女性 <input type="checkbox"/>	10% 男性 90% 女性 <input type="checkbox"/>
50% 男性 50% 女性 <input type="checkbox"/>	91%以上が女性 <input type="checkbox"/>

第二部分 (オプション):

9 人事考課の結果が与える社員への影響について、該当する範囲に選んで欄に☐印を付けてください(複数回答可)。

* 給料調整

* 賞与

* 昇進

* 部門間の異動

* その他 (詳細:_____)

10 人事考課の主導について、該当する責任者の中1つを選んで欄に☐印を付けてください。

* 社長/ 総経理

* 該当部門主管(部長)

* 人事部門主管(部長)

* その他 (詳細:_____)

11 貴社の給料を決定した際の最重要な参考要因について、次の中1つ選んで欄に☐印を付けてください(複数回答可)。

- * 最低賃金
- * 市場指標
- * 本社のアドバイス
- * その他 (詳細: _____)

12 労使関係の改善のための重要な要素について、次の中1つ選んで欄に☐印を付けてください。

- * 継続的な人材育成
- * 競争力のある報酬パッケージ
- * 適正な安全作業環境
- * 良好なコミュニケーションと相互尊重
- * 優良な企業文化
- * その他 (詳細: _____)

企業の概要:

以下から一つ選んで、欄に☐印を付けてください。

業種分類	製造業:	1. 食品、飲料 <input type="checkbox"/>	2. 繊維 <input type="checkbox"/>	3. 紙、木材製品、家具 <input type="checkbox"/>
		4. 化学、石油製品 <input type="checkbox"/>	5. 小売、卸売 <input type="checkbox"/>	6. 鉄鋼、金属製品 <input type="checkbox"/>
		7. 電気、機械器具 <input type="checkbox"/>	8. 輸送用機械 <input type="checkbox"/>	9. 自動車 <input type="checkbox"/>
		10. その他: <input type="checkbox"/> (詳細: _____)		
	サービス産業:	1. 金融 <input type="checkbox"/>	2. 運輸倉庫 <input type="checkbox"/>	3. 医療、健康管理 <input type="checkbox"/>
		4. 貿易 <input type="checkbox"/>	5. 小売、卸売 <input type="checkbox"/>	6. サービス <input type="checkbox"/>
		7. 教育 <input type="checkbox"/>	8. 情報サービス <input type="checkbox"/>	9. 保険 <input type="checkbox"/>
		10. その他: <input type="checkbox"/> (詳細: _____)		
従業者数(人)		100 以下 <input type="checkbox"/>	101 ~500 <input type="checkbox"/>	
		501 ~ 1000 <input type="checkbox"/>	1001 以上 <input type="checkbox"/>	
操業年数(年)		5 以下 <input type="checkbox"/>	6 ~ 10 <input type="checkbox"/>	11 ~20 <input type="checkbox"/>
		21 ~30 <input type="checkbox"/>	31 以上 <input type="checkbox"/>	
会社所在地	香港 <input type="checkbox"/>			
	中国大陸:	1. 北京 <input type="checkbox"/>	2. 上海 <input type="checkbox"/>	3. 江蘇 <input type="checkbox"/>
		4. 遼寧 <input type="checkbox"/>	5. 広東 <input type="checkbox"/>	6. 重慶 <input type="checkbox"/>
		7. 四川 <input type="checkbox"/>	8. その他: <input type="checkbox"/> (詳細: _____)	

回答者の情報:

性別	男性 <input type="checkbox"/>	女性 <input type="checkbox"/>
出身地	日本 <input type="checkbox"/>	現地 <input type="checkbox"/>
		その他 <input type="checkbox"/> (詳細: _____)
役職	董事長又は総経理 <input type="checkbox"/>	管理者(人事) <input type="checkbox"/>
	一般社員(人事) <input type="checkbox"/>	一般社員(他の部署) <input type="checkbox"/>
学歴	修士以上 <input type="checkbox"/>	大卒 <input type="checkbox"/>
海外経験		高卒 <input type="checkbox"/>
	母国以外の他の国で勤務したことがある <input type="checkbox"/>	母国以外の他の国に留学したことがある <input type="checkbox"/>

ご協力ありがとうございました

Appendix: Questionnaire of the Survey - Chinese Version

环球人事管理问卷调查

第一部分:

1 请参考以下, 按先后次序填上1~3选出最重要的前3位的人事管理业务。

(1=最重要、2=第2重要、3=第3重要)

- * 人员招募、派遣 _____
- * 人事考核、评价 _____
- * 研修培训、教育 _____
- * 劳资关系 _____
- * 报酬福利 _____

2 有关人事管理项目, 就总公司对海外分公司的影响, 请在以下适当栏位打勾☐。

	完全海外 分公司自行 决定	原则上海外 分公司可以 自行决定	没有清楚 界定哪方 作决定	原则上 总公司可以 作决定	完全 总公司 作决定
2.1 人员招募	↓	↓	↓	↓	↓
* 本地董事	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 高级管理层、管理层(经理)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 主任、中级管理层(经理)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 一般员工	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 人事考核					
* 本地董事	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 高级管理层、管理层(经理)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 主任、中级管理层(经理)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 一般员工	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 研修培训					
* 研修目的的设置	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 研修活动的策划	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 研修的实施及推进	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.4 劳资关系					
* 有关工会的事宜(如适用)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 劳资相关法例的变更的对应	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.5 报酬福利					
总公司派遣的日本人的:					
* 薪酬、花红奖金	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 员工福利	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
本地管理层(副经理或以上)的:					
* 薪酬、花红奖金	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 员工福利	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
本地一般员工的:					
* 薪酬、花红奖金	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
* 员工福利	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3 就贵公司来说, 认为哪一项人事管理业务是最须要作出改善, 请按先后次序填上1~3选出最重要的前3位。

(1=最重要、2=第2重要、3=第3重要)

- * 人员招募、派遣 _____
- * 人事考核、评价 _____
- * 研修培训、教育 _____
- * 劳资关系 _____
- * 报酬福利 _____

4 有关环球人员派遣

(请在以下适当栏位打勾☑)

* 董事长或总经理的出身 日本 本地 其他

(请在以下适当栏位打勾☑)

* 日本派遣员工

(董事长、总经理除外)

按部门

1. 營業, 市場 _____人 2. 採購、物流 _____人 3. 人事管理 _____人
 4. 生產、技術、品管 _____人 5. 生產管理 _____人 6. 會計財務 _____人
 7. 宣傳公關 _____人 8. 其他 _____人 (詳細:_____)

* 有日本留学经验的员工人数

(董事长、总经理、日本人工除外)

按部门

1. 營業, 市場 _____人 2. 採購、物流 _____人 3. 人事管理 _____人
 4. 生產、技術、品管 _____人 5. 生產管理 _____人 6. 會計財務 _____人
 7. 宣傳公關 _____人 8. 其他 _____人 (詳細:_____)

5 对于派遣日本人到海外公司的有关决定, 就总公司及海外分公司角度, 以先后次序填上1~3选出最重要的前3位考虑因素。

(1=最重要、2=第2重要、3=第3重要)

总公司方面 (请选3个)

统一公司方针 _____
 本地化推进的支援 _____
 派遣决定的自由度 (合并或独资) _____
 海外分公司业绩对总公司的影响度 _____
 海外分公司的管理经验 _____
 技术差异的消除 _____
 总公司有否适合的人材 _____

海外分方面 (请选3个)

对于营业年间比较短的分公司的支援 _____
 事业·业务的复杂程度 _____
 分公司的规模、员工人数 _____
 本地营业环境的风险 _____
 所在地的生活便利性 _____
 特定业务人材的招聘的困难性 _____

6 有关派遣到海外公司的日本人的能力条件, 请按先后次序填上1~3选出最重要的前3位。

(1=最重要、2=第2重要、3=第3重要)

* 海外管理经验 _____
 * 员工本身拥有的知识, 能力及技术 _____
 * 文化差异的对应能力 _____
 * 语言能力 _____
 * 其他 (详细:_____)

7 就对海外分公司派遣日本人的主要理由, 请在以下选出1个最适合的答案并打勾☑。

* 技术知识的传递
 * 本地管理上的改善
 * 强化总公司及分公司之间的沟通
 * 公司方针的实施
 * 其他 (详细:_____)

8 按贵公司的管理层(Assistant Manager以上)的男女比率, 请选出适当答案并于该栏位打☑。

90%以上男性 40% 男性 60% 女性
 80% 男性 20% 女性 30% 男性 70% 女性
 70% 男性 30% 女性 20% 男性 80% 女性
 60% 男性 40% 女性 10% 男性 90% 女性
 50% 男性 50% 女性 90%以上女性

第二部分 (选择性):

9 就人事考核的结果对员工的影响, 请选出适当答案并于该栏位打☑ (可复数选择)。

* 薪金调整
 * 花红
 * 升进
 * 部门间的调动
 * 其他 (详细:_____)

10 有关人事考核主要的执行者, 请在以下选出1个最适合的答案并打勾☑。

- * 董事长/ 总经理
- * 相关部门的主管(经理)
- * 人事部门主管(经理)
- * 其他 (详细: _____)

11 贵公司对员工薪金决定的时候, 请在以下选出1个最重要的考虑因素并打勾☑。

- * 最低工资
- * 市场指标
- * 总公司建议
- * 其他 (详细: _____)

12 对于劳资关系的改善, 请在以下选出1个最重要的元素并打勾☑。

- * 持续的人材培育
- * 具竞争力的报酬
- * 适当的安全工作环境
- * 良好的沟通及互相尊重
- * 优良的企业文化
- * 其他 (详细: _____)

公司资料:

请在以下适合的选其中一个答案, 并打勾☑。

行业分类	制造业:	1. 食品、饮料 <input type="checkbox"/>	2. 制衣 <input type="checkbox"/>	3. 纸、木材制品、家具 <input type="checkbox"/>
		4. 化学、石油制品 <input type="checkbox"/>	5. 销售 <input type="checkbox"/>	6. 钢铁、金属制品 <input type="checkbox"/>
		7. 电气、机械器具 <input type="checkbox"/>	8. 输送用机器 <input type="checkbox"/>	9. 汽车 <input type="checkbox"/>
		10. 其他: <input type="checkbox"/> (详细: _____)		
	服务业:	1. 金融 <input type="checkbox"/>	2. 运输仓库 <input type="checkbox"/>	3. 医疗、健康管理 <input type="checkbox"/>
		4. 贸易 <input type="checkbox"/>	5. 销售、零售 <input type="checkbox"/>	6. 服务 <input type="checkbox"/>
		7. 教育 <input type="checkbox"/>	8. 情报资讯 <input type="checkbox"/>	9. 保险 <input type="checkbox"/>
		10. 其他 <input type="checkbox"/> (详细: _____)		
员工人数(人)		100 以下 <input type="checkbox"/>	101 ~ 500 <input type="checkbox"/>	
		501 ~ 1000 <input type="checkbox"/>	1001 以上 <input type="checkbox"/>	
经营年数(年)		5 以下 <input type="checkbox"/>	6 ~ 10 <input type="checkbox"/>	11 ~ 20 <input type="checkbox"/>
		21 ~ 30 <input type="checkbox"/>	31 以上 <input type="checkbox"/>	
会社所在地区	香港 <input type="checkbox"/>			
	中国大陆:	1. 北京 <input type="checkbox"/>	2. 上海 <input type="checkbox"/>	3. 江苏 <input type="checkbox"/>
		4. 辽宁 <input type="checkbox"/>	5. 广东 <input type="checkbox"/>	6. 重庆 <input type="checkbox"/>
		7. 四川 <input type="checkbox"/>	8. その他: <input type="checkbox"/> (详细: _____)	

回答者资料:

性别	男性 <input type="checkbox"/>	女性 <input type="checkbox"/>	
出身地	日本 <input type="checkbox"/>	当地 <input type="checkbox"/>	其他 <input type="checkbox"/> (详细: _____)
职务	董事长或总经理 <input type="checkbox"/>	经理(人事) <input type="checkbox"/>	经理(其他部门) <input type="checkbox"/>
	一般员工(人事) <input type="checkbox"/>	一般员工(其他部门) <input type="checkbox"/>	
学历	硕士或以上 <input type="checkbox"/>	大学 <input type="checkbox"/>	中学 <input type="checkbox"/>
海外经验	曾于母国以外的国家工作 <input type="checkbox"/>		
	曾于母国以外的国家留学 <input type="checkbox"/>		

感谢合作

Conclusions and Implications of this Dissertation

As the most advanced country in Asia, Japan is one of major countries having a great amount of foreign direct investment (FDI) in China. However, statistical reports have indicated the trend of Japanese FDI in China is declining in recent years. Several large Japanese multinational corporations (MNCs) have closed part of their production plants and withdrawn investments out of China, one after another. Why is this happening? Besides the reasons of the changes in China's business environment including an increase of labor cost in China, Japanese companies may be encountering other operation and management obstacles in their China businesses as well. In fact, Japanese multinational corporations have been criticized that the competitive positioning of their global businesses has been decreasing since the late 1990s. A variety of reasons for the failure in global business of Japanese MNCs were argued in the literature. Among all of the underlying factors of failure, an ineffective global human resource (HR) strategy is regarded as one of major reasons for the drop by Japanese companies in global competitiveness positioning. An effective global business should have capable leaders who know how to determine which aspects of the business to globally integrate and standardize, and which ones to locally adapt and differentiate from competitors. The business environment in China is changing after long periods of manufacturing development and economic growth. Particularly, China's government has released a new target to speed up the development of the service industries in the country. All of these issues have been discussed in four chapters of this paper for the purpose of determining feasible solutions for improvement.

In Chapter 1, for the purpose of gaining insights for further analysis, previous literature on the importance of HRM practices, factors affecting global HR strategies, and the influence of traditional Japanese culture on global HR strategies were reviewed.

In Chapter 2, it is pointed out that an effective staffing strategy is important for Japanese MNCs' selection of top management personnel like the Chief Executive Officer (CEO). According to the data analysis based on 1,914 samples of JCCs from the survey by the 21st Century China Research Institute, the result reveals that the majority of JCCs prefer to assign a Japanese person as their CEO, regardless of a variety of conditions, except for the locational inconvenience of inland regions and joint

decision-making needed in contractual alliances in joint operations.

In Chapter 3, a case study is used to deeply discuss several global HRM practical issues and operations problems of a leading and well-known manufacturing MNC in Japan for the purpose of examining the dimensions of the integration of global HRM practices and providing related improvement suggestions. Similar to other Japanese MNCs, the company uses a staffing strategy of assigning a certain amount of expatriates from the headquarters to the overseas affiliates for the transfer of knowledge, transmission of corporate culture, and improvement of local management. However, insufficient planning of expatriation and inadequate involvement of overseas HRM practices are still critical concerns in their global HR strategies.

In Chapter 4, with the aim of examining the differences in HRM practice of Japanese companies in China (JCCs) in the manufacturing sector and the service sector in two designated regions, a quantitative survey with 180 valid replies of JCCs: 113 from Mainland China and 67 from Hong Kong, was conducted. According to the findings of the analysis, performance appraisal is the greatest area of concern and compensation is the next, among five human resource management (HRM) practices. These two areas are also considered to be necessary areas for further improvement. Since most Japanese MNCs still rely on expatriation, corporate policy and the complexity of the businesses in overseas affiliates are the major considerations of expatriation from the viewpoint of both the headquarters and the local managers at the affiliates. Although the differences are not very obvious, there are still certain dissimilarities of HRM practices between the manufacturing sector and the service sector, especially when looking more closely at various industries, locations, ages, and sizes of the companies. The above analysis of HRM practices indicated several notable findings in analyzing the difference between the manufacturing and the service sectors in JCCs. The trend of increasing growth in the service industry in Mainland China, influences the HRM of JCCs in the service sector; but also, this trend is leading to a labor shortage in the manufacturing sector, influencing the HRM of JCCs in this sector as well. Flexible implementation of localization, transparent and practical appraisal systems, and motivated compensation and promotion mechanisms will contribute to the improvement of Japanese MNCs' global business.

The analysis results in these four chapters imply that Japanese MNCs have to fine-

tune the high degree of expatriation with Japanese staff, and select the appropriate HRM practices subject to the business conditions to succeed in their global operation, including, but not confined to business in China.

The primary aims of this dissertation are to reveal the difference of HRM practices of JCCs between Mainland China and Hong Kong for the purpose of highlighting potential hurdles and determining counter measures for Japanese MNCs, against the significant business environmental change of an increasing service orientation in China. The analysis includes data of Hong Kong, which has shown rapid expansion in service sector over recent years; this is expected to be contributive to Japanese MNCs with FDIs to China. Not only China business, Japanese MNCs also encounter same troubles in other global businesses due to similar cause of failure. The common issues of HRM of other Japanese MNCs for further studies is examined in this research as well. Even though this paper focuses on the latest changes in China, the same approach can be extended to other countries. The final goal is to arouse the attention of Japanese MNCs to review whether or not their current global HR strategies are appropriate.

During the process of analysis in this paper, several similar studies of the expatriation of Japanese people in overseas affiliates have been found. This implies that the fundamental problem of over-adoption of Japanese expatriates has not been solved or improved for a long time. As mentioned above, the traditional Japanese workplace culture is one of the root causes of this dilemma. Tremendous change of Japanese traditional culture, which has many unique elements and precious features unable to be found in other countries, is not likely. Rather, an awareness of the advantages of localization and recognition of local talents and cultures along with a well-planned HRM plan is needed by Japanese MNCs. Although many previous studies emphasize the advantage of localization, balancing global integration and localization felicitously is the key success in overseas business. In accordance with the results of Chapters 2 and 4, adjusting the degree of integrated control with a flexible approach under various business or locational environments appropriately, based on size and scale of business, or specific projects, will be the prerequisite in handling global business successfully. Trends in leadership, talent acquisition, capability development, analytics, and HR transformation are all impacted by globalization. Companies that learn to leverage global talent markets while localizing their HR strategies will be poised for strong performance.

Apart from the global business in overseas countries, local Japanese companies also increase their opportunities to deal with international business through export and import, and knowing how to communicate well with overseas' customers and suppliers is a challenge for them. Although language barriers was not the top selection of expatriate's requirement indicated in the analysis in Chapter 4, language should be considered as an essential skill for dealing with global business, instead of optional knowledge. Compared to other Asian countries, like China and Korea, the level of English use and proficiency in Japan has not shown significant improvement in past years. The main reasons for the failure in learning to communicate with English include a lack of reinforcement with real-world materials and inadequate practice. Several reports also indicate that the English education system in Japan is still in desperate need of reform. A recent phenomenon of an increasing number of Japanese students going abroad for exchange studies and short trips may indicate some changes in Japan. Such program may help to widen the horizon of younger generations with better understanding of the worldwide market, instead of being limited to Japan's domestic market. Therefore, the fundamental support of language study should begin with government renovation and changes in the educational environment.

Indeed, the fundamental global HR issues have not yet been solved in Japanese MNCs for long time, not to mention the handling of contemporary subjects. HRM is going to change to be more akin to "human investment". Human capital management (HCM) is a recent approach to employee staffing that perceives people as valuable assets whose current value can be measured and whose future value can be enhanced through investment. Human capital is considered as a collection of resources, including all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively by individuals in a population. Employee engagement, passion for work, and retention are also contemporary concerns in the HCM perspective. Information technology (IT), as well, poses certain innovations in management and convenience, making it possible for teams to work in remote locations across the world. The latest technology has transformed the world of recruiting, the world of education and training, and even the way people work. Each organization faces an imperative to find ways to absorb more technology while simultaneously simplifying and sharing tasks with teams across the world.

As business becomes increasingly global, companies have to improve their ability

to build and manage a global workforce, often in places in which they have not operated before. Transforming HR to deliver forward-thinking capabilities can help companies respond more timely and effectively to changes in the business environment, and ultimately improve competitiveness, profitability, and growth.

This dissertation offers both practical and academic contributions in the perspective of global HRM practice. First, one of the special features of this study, which is differentiated from other scholars' studies, is the inclusion of a variety of practical elements in discussing the related difficulties, verifying the past research findings, and providing various recommendations and insights for the practitioners of Japanese MNCs and their subsidiaries. Second, three approaches, including an in-depth case study, a statistical analysis using published data of a large scale survey on JCCs, and a comparison analysis based on a new questionnaire survey by the author, are adopted to explore the subjects of global HR strategy and examine hypothesis developed from previous literatures. The three approaches mutually supplement each other and the analyses cover and discuss in detail several hands-on management issues on overseas subsidiaries, including over-expatriation, the extent of localization in various HR practices, factors affecting the consideration of expatriation and HRM practices concerns of MNCs. Unlike most of the previous studies, which usually focused on the effect of a single factor on the global HR practice, the effects of multiple factors are examined in this dissertation, indicating that the effect of each factor can be offset by or have inter-influence with other factors under different conditions. Third, a comprehensive data analysis is conducted for empirically examining the difference of related global HR issues between the manufacturing and the service sectors of Mainland China and Hong Kong. Such an in-depth analysis of global HR issues with the comparison of different industrial sectors is not only very contributive for JCCs, who are facing rapid changes in China's business environment, but also crucial in promoting the development of HRM theory.

The complexities and challenges of staffing an MNC's global operations are widely acknowledged. Both academics and practitioners need valid information and reliable analysis to determine appropriate global HR strategies. It is believed that the approaches and findings in this paper can provide additional insights to the findings of previous studies.