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## Exploratory Study of Japanese Human Resources Management: Traditional versus Western-style approaches

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### Abstract

This paper explores Japanese human resources (HR) management and performance management practices. Japan is renowned for its traditional three-pillars of HR management. The popular edict suggests firms have moved away from traditional and shifted towards more transparent Western-style. However, existing research has focussed on formal HR policy rather than actual practice and there is inconsistent evidence as to the degree Japan has made the transition. This paper reviews ten company cases by interview at varying organizational levels. The research classified companies interviewed into three HR typologies: Those that were; 1) *Western-style*, with jobs clearly defined, transparent performance management, and generally strong foreign investment or international exposure. Conversely, there was the, 2) *Traditionalist-style* which exhibits a strong membership generalist employment system. Alternatively, the research defined a middle ground being a, 3) *hybrid-style* where both membership generalists and job-type specialist systems coexist. The research found that this *hybrid-style* has a *Dual-track HR* system. This means traditional Japanese generalist HR practices are preserved, whilst in parallel, a Western-styled job specialization is found. This is happening whilst Japanese working population is shrinking and there is growing competition for the available young school leaver recruits whose employment expectations are rising. Further, there is increasing foreign business investment and international engagement which is creating labour market demands and exposure of Japanese traditional firms, and their employees, to Western-style firms. Notably, young recruits, and especially women, seem increasingly attracted to Western-style job specialist type firms. The findings are useful to policy makers, practitioners and foreign investors in understanding and contemplating HR trends.

**KEY WORDS :** Japanese HR management, international exposure, hybrid dual track HR systems, talent recruitment market competition.

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## (1) Introduction

The aim of this paper is to contribute to the understanding of contemporary Japanese human resource (HR) management systems with a focus on broad HR processes, performance management and pay compensation aspects. From our research there seems limited recent discussion of this important HR management topic. This paper sets out to look at these systems and how this adds synergy to the firm by examining several major firm case studies. In order to determine how HR systems are changing in Japan, we conducted field case study interviews involving three industries, finance, manufacturing and service. In these firms we reviewed multiple organizational levels. The continuing goal is to examine more organisations and industries.

Japan is famous for its traditional three-pillar employment systems of long-term employment, seniority-based wages and promotion, and enterprise unions (Abegglen, 1958). Another pillar of this system is touted as being the contribution of women and the M-shaped participation curve (Endo, 2006) which will be elaborated upon later.

## (2) Japanese HR Management Environment

To begin, it is important to understand what is commonly understood as traditional Japanese HR management. The three pillars of post-war Japanese HRM employment are: 1) lifetime employment; 2) seniority-based pay and promotions; and, 3) company or enterprise trade unions. (Abegglen, 1958) Some key characteristics of this typical traditional Japanese HRM and performance management system are as follows

(Debroux, 2003; Sano, 1993; Waldenburger, 2019, Whitehill, 1991)

### 1. Lifetime employment (Shūshin koyō)

Also referred to as long term employment. This is a well known aspect of Japanese HRM. Employees remain with the firm for the entire period of their working life, and moving to other firms is discouraged, and a 'job-hopper' stigma is attached to anyone who does. This helps protect the company's training investment in employees and fosters a long-term organisational internal and external trust (Shinrai) or bond relationships.

### 2. Seniority pay and promotion system (Nenkō-joretsu)

Here there is a reliance upon employment seniority for both promotions and pay increases. Employee performance levels are not a criteria of pay and it is not possible to promote and reward good performers directly. Exceptional performers can only be promoted when they have accrued sufficient years of seniority to be eligible for their next promotion. However, employees who are not promoted at any given promotion seniority timepoint will find their careers either stagnate at that position or rotate to something similar.

### 3. Generalists by job rotation. Career promotion

Recruited school leavers spend the first 5-7 years of their employment rotating through different functional job areas broadly throughout the organization, before they become due for their first promotion. This is said to be important so that employees become familiar with broad aspects of the business. Further, as employees are

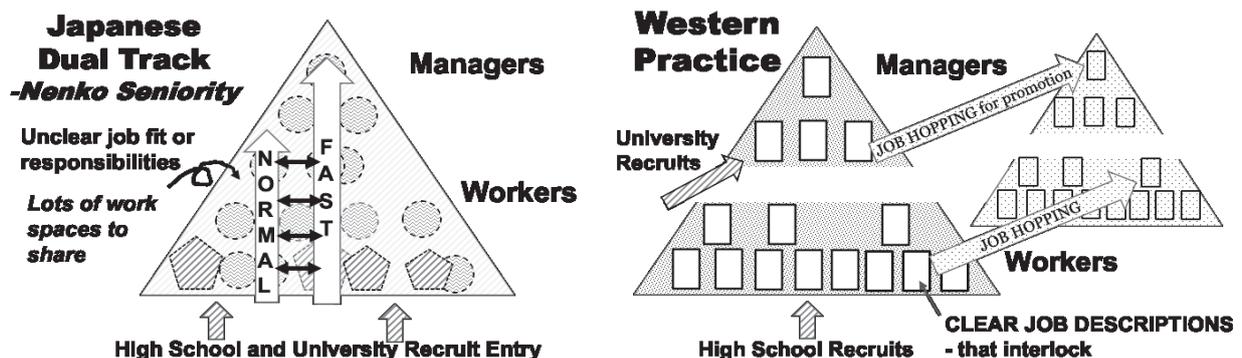


Figure 1: *Japanese HR Engagement versus Western perspective*

expected to remain long-term, there is a need to evaluate each employee so that careers can be decided. This period has a significant impact on an employee's next steps. As a result, Japanese employees are primarily generalists rather than specialists. In contrast, employees within Western companies tend to be directly appointed to specific functional positions and advance within that track.

#### 4. Compensation, Bonuses and Enterprise Unions

Employee compensation normally has three components: basic pay for position, seniority increment for years of service, and a company-wide bonus. These bonuses are a part of historical enterprise union agreements and are guaranteed and fixed. This is different to the Western-style where compensation varies with contribution of the functional position and also can have a significant component for individual performance.

It needs to be understood that with the Japanese long-term employment perspective many new recruits enter the firm directly as new graduates from either university or, to a lesser extent high-school. As stated, they are generally engaged to fulfil an unspecified job position specification or specialization and are trained and rotated accordingly. Both university and high-school graduates enter at the foundation level of the organisation. The significant difference is that university graduates enter on a "fast-track" for rotations in training and later promotion purposes. High-school entry members are on a normal track

with slower advancement. However, if high-school graduates show ability and perform well they can be offered similar opportunities and be transferred to fast-track at various review stages and visa-versa for non-performing fast-track employees. The researchers illustrate this in Figure 1.

Further the differences between the two approaches is depicted by the researchers in Figure 2. Japan with employees continually rotating functions throughout the organization, with guaranteed bonus and compensation driven by a seniority system. By contrast, the Western-style approach centres on the functional specialists, who are appointed into a functional area and at all job levels, with a strong emphasis on individual contribution, performance and the job market in determining their compensation.

#### 5. Shrinking Japanese workforce

It is important to understand that Japan's working population is rapidly aging, with 28.1% of the population aged 65 or older in 2018 (Fukuyama, 2018), and the workforce is rapidly shrinking by 20% in the next twenty years (Harding, 2019), and post-1970s stagnate birthrate means available labor market entrants will continue to decline. Since 2004 there are 17% less graduates (Ministry of Education, Science and Technology, 2019). This introduces what is regarded as Japan's fourth pillar, women (Endo, 2006).

#### 6. Japanese Women Participation

As an obvious remedy, both the Japanese

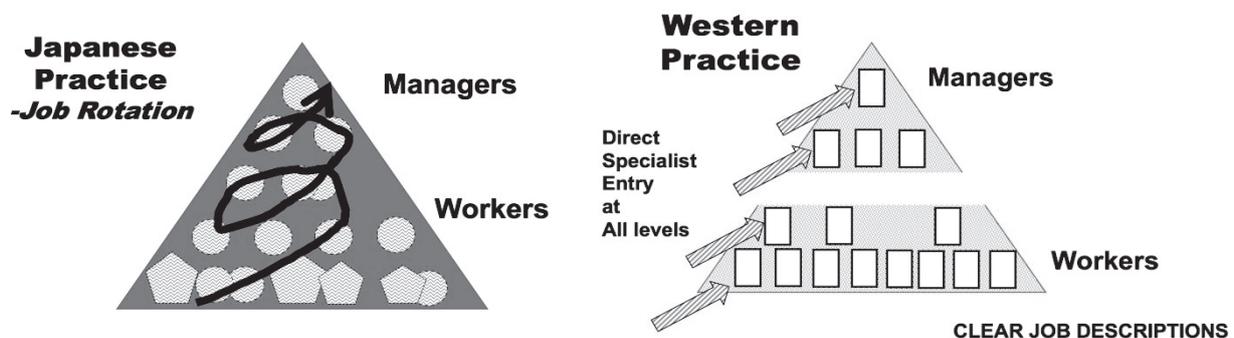


Figure 2: Comparison of Japanese and Western Job Entry  
- Adapted from Ishida (1999)

Ministry of Health, Labor and Welfare (Nikkei Asian Review, 2019) and the OECD (OECD, 2019) recommendation is that increasing full employment of women is an available resource to assist in Japan's increasing need for labour. Japanese women in their 20's do already have a high participation rate. However, Japanese women participation rates significantly drop and as women resign mid-career to support traditional family child rearing and home duties and return later (Aronsson, 2015). It is clear that if the government and society are able give more support for child rearing so that women can greater engage in their 30's this would make a significant difference. This has been an ongoing discussion since the early 2000s and the Ministry of Health, Labour, and Welfare's White Paper on Women's Labor in 2001, stated how 81.5% of the women if they could in their 30's would prefer to continue to work. If this could be achieved this would level or normalize the women participation curve.

Males of working age population participate in employment in a much larger proportion than females as illustrated by Figure 3 and if this can be made more balanced for the gender gap this would significantly add to the labour workforce numbers and reduce the pent up demand. The current total population between 15-64 years of age stands at about 74,230,887 persons (MHLW Survey, 2020)

In addition, there is the public discussion that future increased engagement of elderly and foreign workers is another possible ready source of untapped human capital. Nonetheless, currently there is certainly increased competition amongst employers to attract the best talented recruits in a shrinking available recruitment pool.

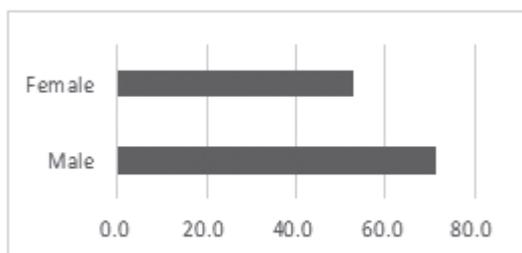


Figure 3: *Male versus Female Total Laborforce Participation Rate, 2020* Source: MHLW Survey, 2020

## 7. HR uncertainties in Japan

This study was undertaken by interviews in ten major organisations to establish what is the current state of HR management in Japan and to ascertain what trends or changes are happening. Japanese HR management research has focused upon formal established policy as reported by HR executives (e.g., Morishima, 2008; Sano, 1993). However, given this and the above-mentioned parameters, our study set out to establish what are the contemporary trends and changes in HR management focussing on systems, policies and practices. As an added important aspect to our research, we set out to learn what is the reality of the employee experience by these systems and policies so as to confirm whether stated policies were consistent with actual practice.

*Research objective 1: Explore the current state of policies and practices of human resources management.*

*Research objective 2: Determine whether policies and practice align with practice, experiences and expectations of employees.*

### (3) Methodology and Sample

In this exploratory study we adopted a grounded theory approach and conducted field interviews. The field research involved ten major Tokyo Stock Exchange listed organisations in finance, manufacturing and service IT. There was a total 33 persons interviewed at multiple organizational levels: HR executives, HR managers, mid-level and line managers, and entry level professionals. Experience ranged from two to forty years. We drew upon a diverse sample of participants, interviewing male and female, as well as Japanese and non-Japanese individuals. Interviewees were introduced by the host companies to satisfy the survey criteria of level, experience and diversity to represent the firm. Further information about our sample is contained here in Table 1.

Interviews began by asking the participant open ended questions, "what are the firm's HR practices?" and, "how closely does the company's human resource practices conform to the contemporary modern image of Japanese HR

Company Types Represented*		Job Level of Respondents	
Traditional Japanese	2	Entry-level Professional	10
Hybrid	3	Mid-career Professional	5
Western acquired Japanese	2	Top-level Professional	4
		Mid-level HR	3
<i>Total firms</i>	<i>7</i>	Senior HR	4
		Mid-level Manager	5
Respondent Nationality		Senior Manager	3
Japanese	25	Respondent Sex	
Asia (non-Japan)	5	Male	19
Non-Asian	3	Female	14
<i>Total respondents</i>	<i>33</i>		

Note: The number of company types is not equal to the number of respondents. We interviewed multiple respondents at the same company. In addition, some job-hopping respondents described their relevant experiences across multiple firms.

Table 1: *Interview sample*

management? Or, “how do you feel about your HR experience?” Follow-up questions then focused upon mapping out areas where the company HR practices diverged from the traditional Japanese practice and opinions about current trends collected. For example, we specifically explored the policy, practice and outcomes of performance management measures employed. Interviews were of about one hour’s duration.

The interviewers took independent notes and then a meeting was held to create a combined final set of interview threads. Once the interview notes were compiled, the notes were read and reread independently by the researchers, to recognize established and recurring themes (Cassell & Symon, 1994) across interviews, as well as to identify patterns and relationships for themes. These were then compared and the separate analyses were then combined.

#### (4) Results - Thematic HR Classification

From the interviews we were able to divide firms into three approach types: traditional, hybrid, and foreign. Each of these approaches has a specific set of organizational HR practices associated with it. These approaches need explanation.

##### 1. Traditional

The traditional approach was for those

firms found to be close to the Abbeglen (1958) traditional explanations of Japanese HR. We did discover subtle divergence but these were policy and more apart of superficial appearance rather than actual practice. As an example, a company might say that promotions are based upon a Western-style merit rather than seniority, yet managers would not in practice promote anybody “before their time” or eligibility window of time. What was recognised was that these firms were older and a primary focus of these firms is upon domestic Japanese markets or markets subject to considerable domestic regulatory oversight (such as banking).

##### 2. Foreign-Owned

At the other end of the spectrum was a Japanese foreign-owned company, that was more recently formed by acquisition in Japan, with HR management practices largely now following Western-style practice. For example, these firms included a genuine focus upon individual contribution, and a much greater acceptance of mid-career specialist hiring. These firms have a significant infusion of parent senior foreign management which necessitates real changes in the management systems, culture and performance management practices.

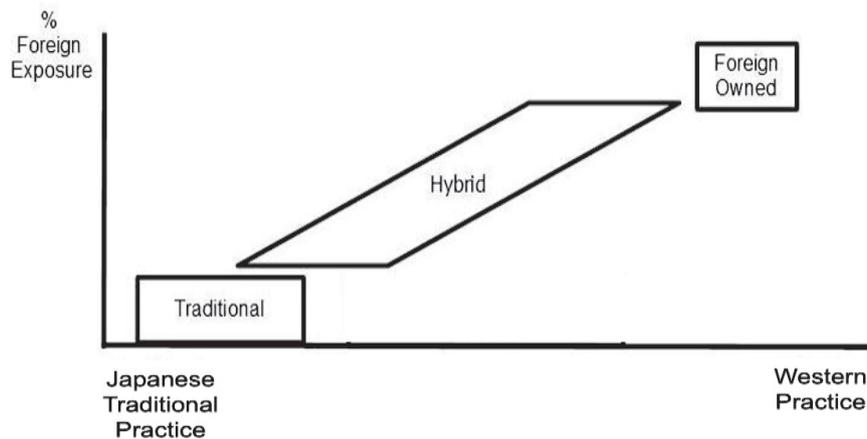


Figure 4: *HR Systems in Japan*

### 3. Hybrid

The other approach we classify as a *hybrid* type. It was discovered that there is significant movement towards the Western-style but substantial traditional Japanese elements are also being retained. For example, individual contributions are directly rewarded, but bonus payments remain guaranteed (as often established by union contract). Further, functional specialist positions exist to some extent alongside traditional generalist.

### 4. HR Systems Model

Our Figure 4 is an illustration the relationship between these different types. We found that the relative exposure degree of foreign investment, or international exposure, is clearly related to HR management style adopted. This exposure is measured by the percentage of direct foreign ownership or weight of operations/personnel directly involved with overseas partners.

*Traditional* firms were more established and regulated such as securities or banking firms and had limited international exposure or competition. While they had an interest in more transparent and Western-style systems they were resisted by middle management and unions who promoted security in exchange for loyalty to the firm. Reforms in the industry were also heavily protected and slow. A general worker commented, “there is no incentive to change and work assignments

and bonuses are not based on performance but on the attitude of the supervisor.” This was in contrast to Senior HR managers who were enthusiastic about their recently adopted Western-styled performance management systems and the related documentation of individuals performance. “Our systems are leading edge and successfully adopted organization-wide.” These responses were consistently repeated across positions and organisations in this classification.

Alternatively, one *hybrid* classified company was a younger start up IT oriented firm with a strong or growing international presence and they are hence responding to the desire of a younger more dynamic workforce. A senior manager’s comment was, “we need to compete and be international in our outlook but more importantly instil in our HR culture a global dynamic. Thus, we need to hire employees who are international in their outlook”. Overall, we found that where there tends to be younger senior managers, or those with significant international exposure, these persons tend to promote and adopt systems modeled more upon Western practices. Further, in interviews it was discovered that the current labor market competition for functional specialists has impacted the companies and this has also led to a greater emphasis and need to offer individual performance management and pay. Another comment was, “we do not have time to train

people for specialist positions, we need to hire directly and properly compensate these persons for their skills and risk taking of them later job-hopping to other firms.”

Another *hybrid* case company was a younger spin-off firm from an established Japanese firm. The parent had a history of using *traditional* approaches to Japanese management systems. However, the spin-off had moved to a mix of Japanese and Western practices. The history and existence of established systems within the traditional parent firm had made HR practices changes difficult. It was commented, “It had become impossible for the parent company to cope’. Therefore, a split had occurred allowing the spin-off to adapt to a *hybrid* style while simultaneously preserving the *traditional* parent firm’s practices for some established employees.

A third *hybrid* type is a traditional company that has significant global business exposure (eg., trading company), or a substantial number of non-Japanese employees. These international exposed or oriented employees are typically job-type *specialist* defined contract employees rather than member *generalist* permanent employees. Here the member *generalist* permanent employees are managed in the *traditional* manner, whilst simultaneously the *specialist* contract employees are more likely to be paid a higher salary and achievement bonuses but do not participate in corporate performance bonus entitlements and broader company benefits.

In all our *hybrid* cases it is important to understand that *hybrid* means independent dual systems, it is not a mix.

## 5. Structural approach adaptations

In the *traditional* Japanese company case here there is limited fundamental change from Abbeglen’s (1958) three-pillars definition of the Japanese human resource and while performance management systems exist they are ineffective and more a paper exercise than actually impacting performance or rewards through bonuses for employees.

However, in one *hybrid* manufacturing case, it

was found that to enable the rewards or benefits of Western performance management without implementing it throughout the organization is through investing in spin-off division. This spin-off adopted an individual outcomes measure of performance management for its spin-off employees and paid commensurate bonuses. However, for those parent company assigned staff, they remain under parent company’s traditional performance management system and are paid company-wide bonuses and personal outcomes are not measured. For parent company assigned staff this performance control mechanism does create dual reporting dilemma’s which is “an issue to be resolved” but was not regarded as a priority.

It was earlier mentioned in the cases of two *hybrid* and in a *foreign-owned* firm that a significant factor responsible for effective implementation of Western performance management was the number of non-Japanese executives and managers. In a foreign-owned case surveyed, it had initially only appointed a foreign CEO in the acquired firm, with over a decade passing without substantial changes from the firm’s traditional HR systems. It was only after that CEO retired, and the replacement foreign CEO replaced all the directors and appointed a non-Japanese HR director did changes finally begin to be implemented.

As an example from the literature, German Daimler’s acquisition of Mitsubishi-Fuso early on implemented policies to break away from *traditional* membership *generalist* style to *Western-style* job *specialist* systems. (Waldenberger, 2019, 95)

The established and more regulated Japanese case companies were found to largely conform to the *traditional* Japanese HR model, with any changes remotely restricted to separate international divisions where necessary (that division becoming like a spin-off *hybrid* case as mentioned earlier). Therefore, our exploratory study indicates that changes in the HR management systems tend to be minimal unless a significant degree of foreign investment

or, alternatively, exposure to overseas markets creates the situation where non-Japanese *specialist* managers are valued and brought-in to facilitate change, meet needs and this necessitates the change to new approaches.

## 6. Increases in job-hopping and mid-career hiring

Due to long-term membership employment, mid-career job-hopping moves by employees to another firm have traditionally been limited. However, it is found that mid-career hiring is dramatically increasing. More *traditional* Japanese firms still rely primarily upon entry-level school leaver hiring and internal career movements. It was observed that mid-career job-hoppers are generally job-type *specialists*. Membership *generalist* employees rarely have a defined set of skills, nonetheless, the *traditional* case firms were found to be experiencing a net outward movement of mid-career staff which was disruptive and causing a great deal of consternation amongst senior managers. One senior HR manager commented that, "Mid-career managers are more open to change in their careers given the job market and opportunities facilitated by job recruiters." A junior HR manager reported that senior leaders are experiencing "stress and frustration" as a result of this, as "they are not accustomed to the challenge of managing talent retention or filling positions intermittently".

We identified three factors fuelling the rise in job-hopping movements: 1) Aggressive recruitment by *foreign-owned* and *hybrid* Japanese firms, 2) the rapid increase in aggressive recruiting agencies, and 3) changed expectations of young and talented employees. *Hybrid* firms and *foreign-owned* are more open and competitively aggressive about mid-career hiring. One reason suggested by a senior manager was that companies were "modeling themselves after Silicon Valley firms" or finding that "many specialists and continually moving to other firms when job-hopping opportunities present themselves" causing departures and internal openings continuously. Another reason suggested by several senior and

HR managers was that there is a greater need to hire persons with "specific specialized skills sets" especially in IT, and a third consistently repeated reason across firms was that "employees were less invested in *traditional* Japanese careers....." with one single employer.

## 7. Impact of Recruitment Agencies

One of the fastest growing sectors of the Japanese economy is recruitment agencies, with growth between 5-9% annually (Ministry of Health, Labour and Welfare, 2018). As an expert for this project one of our respondents is the president of a leading foreign recruitment agency who reported company growth between 10% and 15% every year for the last 10 years. This is chiefly for mid-career hiring across all industries. This exploding growth and greater shared information this has fostered mid-career job-hopping, with employees job-hopping repeatedly. Consistently, young employees we interviewed commented on being frequently contacted by multiple job agencies with job opportunity information. Among job-hopping employees, whether young or mid-career, a clear common characteristic was a universal desire for a specialist career and pay increases. Commonly, a "30% increase" in pay was expected for changing firms using job recruiters.

## 8. Compensation and Bonuses

The traditional firm employs generalists and wage rates plus a corporate bonus with little or no individual component and typically specialists are present in limited quantities and may be treated on ad hoc non-permanent terms. For the *hybrid* and foreign firms, things are entirely different, with substantial mid-career hiring, young talent and specialists both viewed as essential to the firm. Job security is viewed as, "not so important" to recruits. These recruits all demand higher salaries and greater individual recognition for their contributions, due in part to the risks of not being long-term career employees. This has led to the development of compensation systems offering specialists positions higher pay and a new separate performance management system with in two cases direct links to individual bonuses.

## 9. Generalists and job rotation

Upon being hired the *traditional* Japanese company, young employees begin with about a year of initial training. This begins with a common core orientation program, including such things as Japanese business etiquette. Then they are then assigned to their first job assignment, typically lasting two to three years. Many job-hoppers interviewed said after their first assignment was when they executed their job-hopping options, because either they wished to avoid an unwanted job posting, or mainly to find and remain within their chosen or preferred functional specialty.

We find that the *foreign-owned*, as well as *hybrid* cases, are abandoning the practice of job-rotation with generalist managers except where necessary for few employees employed under the *traditional* system. *Foreign-owned* and *hybrid* are moving away from membership generalists and towards *job-type specialists*, but report difficulties with the traditional *generalists'* ability to adapt. Managers reporting that many colleagues "resigned as they did not wish to become specialists" or "were not happy with the performance-based compensation system". Two senior managers of case firms with experience in multiple Japanese companies, reported the same issue associated with an over-reliance upon the *generalist* manager system. These *generalists* were commonly described as often "fixated on details", "excessive analysis of data" and in all, lacked the functional expertise to determine what was important. In contrast it was commented that, "*specialists* not only improve efficiency through eliminating wasted effort, but also focus on critical or important rather than minor issues."

## 10. Labour market segmentation

Japanese young talented recruits seem to be dividing between those who value opportunities for rapid "career growth", and the other that values "security and stability". Those who value security and stability seek employment with membership *traditional* Japanese companies, where there is limited performance pressure. One manager at a *traditional* Japanese major electronics

manufacturer explained that, "many staff don't want to get promoted", estimating that "fewer than 20%" of staff wanted to get ahead, while many employees "just want to be left alone." In contrast, another in a different *traditional* firm said she only wants to work, "where there is opportunity for growth and promotion." She was considering job-hopping.

## 11. Performance-based incentives

Performance-based individual rewards and promotions lie at the heart of any standard Western-style approach to HR performance management (Ann-Rowland & David Hall, 2013). In our *foreign-owned* and *hybrid* case firms they made use of individual performance incentives. In these case firms, both operational managers, HR managers and employees agree that individual performance did influence pay compensation and promotions. As mentioned earlier, within the *traditional* Japanese companies, the senior managers and HR managers of a the case firms often stated that individual performance was being rewarded, but at the same time, the reality was that mid-level managers and employees all agreed that individual performance has no influence upon compensation, bonuses, and is a "black box" or unknown factor as to its impact upon promotions or bonuses. This is perceived by employees as an "injustice as associated personal attributions exist" with the *traditional* system. It was also observed that one of the key reasons why the *hybrid* case companies engaged a large number of non-Japanese executives and managers was in fact to effectively implement individual rewards systems that induce more effective engagement. It was found that Japanese managers seemed unable, for historical cultural reasons, to independently and aggressively appraise individual performance.

## 12. Female Opportunity

A significant number of female employees were interviewed and respondents in all positions, and industries, and all indicated that they feel that they are not treated significantly differently from their male counterparts. At the same time, overwhelmingly they stated their preference is

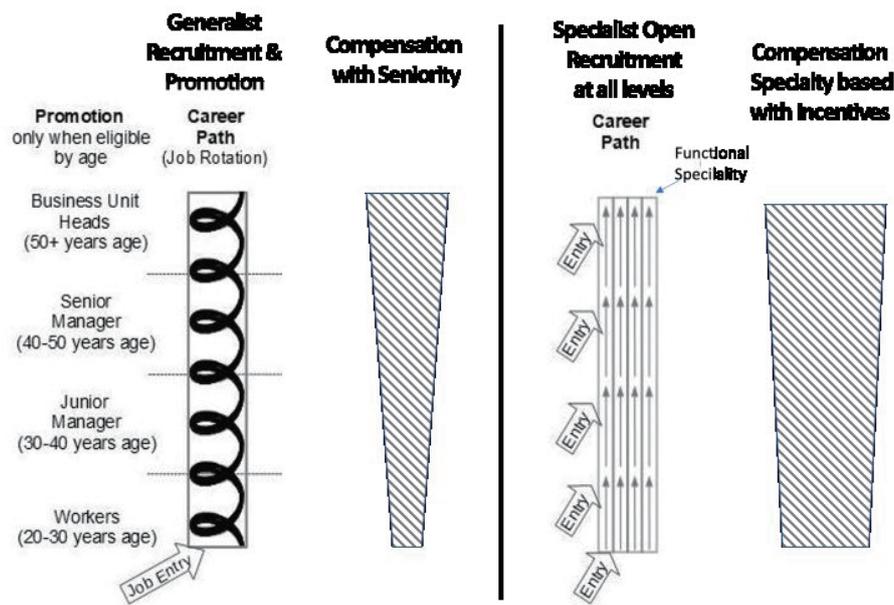


Figure 5: *The New Dual-Track Japanese HRM System*

to follow Western-style job-type specialist system that have clearer performance standards, pay and incentives. A comment was, “job-type specialist jobs have clear objectives that can be worked toward and recognition received when achieved.” This was an especially satisfactory outcome and motivated them further.

Females interviewed were all career motivated and felt that the support programs offered by Japanese firms was encouraging them to pursue careers just like their male counterparts and family support programs existed to provide them, and their male counterparts, the opportunity to also provide for a family in their careers. In addition, if women can be encouraged to re-enter the workforce after a child rearing period more mid-career job-type *specialist* posts are likely to be sought after as they will not fit well with the membership generalist style of firm.

#### (5) Discussion - Western-style HR Management in Japan is Evolving

It was clear from the interviews that senior executives and HR managers had an awareness of the need for firms to move towards a more Western-styled job specific transparent objectives for HR management, performance management, pay and bonus systems. They had seen changes.

However, they also acknowledge the actual implementation remains slow for *traditional* firms or non-effective. The research suggests the reasons that will force change are connected to five evolving and changing criteria:

- 1) Labour market competition;
- 2) Expectations of the young, women and job-hopper talented recruitment pool;
- 3) Increasing numbers of job-hoppers (and mid-career recruiters);
- 4) Growing job-type specialist demand; and,
- 5) Globalization of companies.

We suggest these criteria will likely act to reinforce the introduction of career job-type specialization, individual compensation pay and more explicit performance measures.

Even though the needs are acknowledged the following comments from workers are instructive; that, “job descriptions are commonly not applied and the work content has no specific guidelines.” One mid-level HR managers commented that, “Market and product demands require more internal specialists but we do not have them.” However, as mentioned, we know that for *traditional* firms radical system changes

are resisted by a majority of Japanese mid-level managers and employees, so companies appear reluctant or implement changes or do so superficially. Whereas, for *hybrid* and *foreign-owned* firms, a Western-style job specialized approach is accepted or regarded as necessary to be competitive and has the necessary resources and training implemented to guarantee its success.

This has resulted in *hybrid* firms emerging with a *Dual-track HR system* comprising different components of recruitment, assignment, promotion and compensation system. We illustrate this Dual-track HR system in Figure 5. The left-side signifies the traditional style, the right, Western-style but we found the evolving trend is for both to exist in parallel within the *hybrid* firm and we suggest that this, in time, this will likely become the dominant Japanese HR management practice.

Annotating the differences, the more *traditional* Japanese case as shown on the left-side and depicts the earlier description of school-leaver member recruitment, rotational *generalist* training and promotion at specific career term points with shared increasing seniority pay and company bonuses.

The right side depicts a what we term as a more *Western-style system* enabling functional *specialist* and contract employees who are recruited at any level depending on needs, often paid more than their *generalist* equivalent peers and can be offered individual performance incentives or bonuses.

In summary, for the three organizational case types we have discussed, *Foreign-owned*, *hybrid*, and *traditional*, they can all be differentiated by the relative weight given to either of these two tracks. The *Foreign-owned* companies typically follow to the right of the model. This system is comprised of employees hired at each level based the expertise brought to the job and compensated at market rates. Whereas, *traditional* Japanese firms have only limited and modest numbers of specialists who generally still focus on long-term career-based school leaver recruitment and offer security. The evolving situation is the

*hybrid* case companies where both systems are pursued. However, managers indicate they are moving towards a greater emphasis upon talented specialists recruiting with less risk adverse employees but for the moment are maintaining a mix of member *generalist* and *specialist* job tracks and do not see the two systems as competing but rather adding to the flexibility and tools of the firm. From an worker perspective the possibility of entering both systems satisfies different groups of potential recruits. However, we should keep in mind that the trend and demand is leaning towards more job-type specialization and pay rewards and mid-career hiring.

### 1. Implications

Based on these exploratory research results, there are implications for management policy makers and HR managers that we also intend to further examine. These are:

1) Japanese HR systems are gradually moving toward a *Western-style* baseline as employees become comfortable with less certainty and there is more competition for the limited talent recruitment pool.

2) *Hybrid* and *Foreign-owned* consider the *Dual-track HR system* as acceptable but it is felt that more *Western-style system* is the more attractive, desirable and viable option for the future.

3) Young talent, job-hoppers and especially females, in job searches prefer and seek *Western-style* HR system firms that offer job specific specialization with clearly defined tasks for attainment. Further in these firms' compensation systems are explicit and opportunities abound for career advancement based on individual performance, not seniority.

4) Women in the workforce also feel "opportunities abound" and seem less uncertainty avoidance driven than their male counterparts. Hence, they are the leading job seekers of *Western-style* job-type specialization firms.

### (7) Conclusion

In the past, Japanese traditionally have pursued employment security over advancement, strong labor law protections with labor unions

in exchange for loyalty to the firm. Resistance to change exists from labor unions, middle-management, and a large number of workers, especially those who enjoy seniority and seek job security. These are all significant challenges as Japanese companies who are becoming more exposed to foreign capital invested companies, global market competition and a competitive shrinking labour market.

In our exploratory research we have divided firms into three typologies: *Traditional* – those who exhibit membership generalist employment, *Western-Style* – where jobs are clearly defined and transparent performance management practices exist; and, of significance, *Hybrid* companies that in general base their HR systems on *traditional* but have added *Western-style* systems, and these work as a duopoly in parallel, not a mix.

The existence of both *Hybrid* and *Western-style* firms are found to be the product of externalities such as exposure to foreign capital investment and international markets and also reflect necessary HR management behaviours as they compete for the new generation of labour talent.

In all cases we found a recognition by senior executives, and HR managers, of a need for strong HR reforms amongst Japanese firms to remain competitive into the future. The impetus for change is primarily driven by labor market competition for the increasingly limited talent available, particularly for functional job-type specialists who are in great demand to improve operational effectiveness and efficiency. At the same time, there is recognition of the shrinking school leaver labour market and emerging reliance on career females who demand greater opportunity and commensurate pay and incentives. Given the competitiveness of the recruitment market this is a serious challenge and female opportunity is an important consideration supported by external societal expectations.

Further, while our traditional companies give the appearance to have made good progress at adopting more Western-practice, for example, in performance management measures, it is apparent

for the companies examined that poor professional implementation appears largely responsible for a superficial paper system adoption, lots of idle paperwork created but from an employee perspective a complete failure to meet practice or policy goals and more importantly, employee expectations or needs. This has resulted in poor morale and cynicism amongst workers and no change. We would argue that the problem arises from the more fundamental issue of the traditional generalist company membership mindset and resulting resistance to change and lack of required repetitive training.

Irrespective, the research indicates that traditional firms are increasingly likely to move to Hybrid and adopt the Dual-track HR systems, although, they likely will initially heavily weighted toward traditionalist type membership generalist jobs and slowly adapting. Whereas, the hybrids and foreign-owned firms are rapidly establishing more functional job-type specialists, that are employed with competitive individual based compensation, rewards and promotions tied to individual performance and goal attainment. It is likely that Foreign-owned companies and Hybrid companies will continue to attract the ambitious talented specialists job-types who are less concerned about stability but rather seek individual recognition and rewards. This will be required to capably meet the demands of the future shrinking and competitive labour market whilst being bolstered by aspiring female participants and increasing foreign investment.

As such, the research is another indicator that Japanese HR management practices are aligning or converging with broader international Western-style practices. This exploratory study contributes to our understanding of the current trends of Japanese HR management and as the foundation for further research.

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