

<研究ノート>

欧州対日投資に影響がある人的資源

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**HR Influence on European
Companies Investment Decisions
in Japan**

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要旨

近年対日投資を倍増させるため、日本政府は様々な対策を行ってきた。ただし流入投資率はあまり増加せず、特に欧州企業の対日投資に新たな発展が見られない。投資障壁として、欧州企業にはビジネス発展のために必要な人材確保の困難があり、日本の労働市場では欧州企業が期待している能力を持つ人材が十分提供されないということが解った。他方では欧州企業の人的資源管理は日本人のスタッフに対し、魅力を示していない。日本人のスタッフのコミットメントも十分ではない。この研究の比較分析に基づき、日本の投資環境を欧州企業にアピールするためには、日本政府と欧州企業のサイド両方で改善の必要があると指摘できる。

SUMMARY

During the last decade Japan has incorporated several market reforms in order to open the Japanese market and to increase its levels of inward FDI. The level however did not increase significantly and especially European FDI into Japan has not particularly grown during the last years. One identified barrier is that European companies have difficulties in recruiting the necessary workforce in order to start or develop operations in Japan. Moreover, it is identified that the Japanese labor market does not offer sufficient workforce with the qualification required by European business. On the other hand European businesses' HRM does not offer enough prospective for Japanese employees in order to generate necessary commitment. Through a comparative analysis it is understood that improvement processes on macro side (Japanese government) and micro side (European business) are required to generate a more favourable investment environment in Japan for European companies.

1. Introduction

Foreign Direct Investment (FDI) has been the object of much analysis among researchers. Especially that of Japanese companies into other countries has received particular attention, while the inward FDI of foreign affiliated companies into Japan comparatively little. With emerging economies such as China and India providing high GDP growth rates and labor at cheap cost, the attractiveness of the Japanese market appears low and has not been subject of much interest. Dissociating the view from manufacturing and taking into account the consumer market, Japan offers several opportunities, not only for wholesale, but also for the service industry. Same potential has also been recognized by the Japanese government, which has implemented several new reforms within the last decade in order to raise inward FDI. Deregulation helped make the Japanese market more attractive to foreign investors and facilitated the further expansion of established foreign investors. Although the Japanese market has been opened and several industrial sectors are now accessible to foreign companies, inward FDI volume and the number of companies entering the Japanese market had decreased for several years, after a short investment boost at the end of the 90s. Only recently the investment volume surpassed

the levels it reached a decade ago. This can be attributed to a sudden investment increase by US-based companies, whereas the investment of European companies in Japan has not grown in the same way in the last few years. Several reasons for the lack of investment into the Japanese market are identified in literature. Among them are governmental barriers, keiretsu affiliation, and late return of investment (ROI) [Paprzycki & Fukao, 2005], to mention some. Based on more recent research and fieldwork research carried out in 2008 and 2009 it has been however identified that recently the access to qualified personnel and specialists has become the major investment barrier, especially for companies originating from Europe.

Although an important quantity of literature and research can be found analyzing the peculiarity of the Japanese employment market, and Japanese companies' employment practices and Human Resources (HR), dedicated research regarding the practices of European companies in Japan and the difficulties depending on size, time of entrance, sector and employee satisfaction is limited cf. [Wright & Haggerty, 2005]. As pointed out by [Wright & Boswell, 2002] the micro and macro aspects of Human Resource Management (HRM) are interconnected and should be reflected conjointly in this context. The author of this paper believes that a multidimensional view covering all areas

related with HR, starting from the general labor market (macro) to the host country employees' perception of European companies HR methods (micro) is necessary in order to identify potential factors which affect European business investment decisions in Japan. On macro side it has been already identified that the Japanese market recently opened to foreign investors, but the Japanese labor market is apparently not ready to provide sufficient suitable man-power, at least for new market entrants. On micro side however no actual analysis regarding recruitment difficulties of European companies and their Japanese employees' satisfaction and commitment grade has been done.

The central aim of this research is therefore to determine what HR-related factors could hinder further investment by European business in the Japanese market, both on macro and micro side by confronting business difficulties and Japanese employees' perception. The author hopes not only to provide some insights about the peculiarity of the Japanese labor market and the European companies' HR practices in the Japanese context, but aims to provide a base for further comparative research regarding HRM of non-Japanese companies in Japan. Previous research concentrated so far on difficulties of foreign companies in general; this research has the intention to determine whether there are HRM related factors which can explain the difficulties of this subgroup. The above mentioned core research is based on three functional research questions:

- 1) What main difficulties do European companies currently face in the Japanese market?
- 2) What methodologies are used by European companies in order to secure personnel?
- 3) What is the Japanese employees' perspective concerning working for European companies?

These questions are answered in the present research using as a basis two pieces of fieldwork research, and case studies involving some of the interviewed companies, in which the recruitment and HR methodologies of European companies and their difficulties in the Japanese labor market are presented. This paper is structured as follows: A short summary of the current research regarding the development of inward FDI into Japan, the difficulties, and labour market development is given in the next section. Following, the methodology is explained and the results of the fieldwork research containing European companies'

difficulties, and the motivation and concerns of Japanese employees for entering their current workplace are clarified. Finally, the last sections provide the discussion, limitations and conclusions in regards to this research.

2. Current Development

2.1 FDI into Japan

In the late 1960's and 70's Japan started to reduce the number of regulations affecting imports and inward investments. Furthermore, based on regulatory reform dialogues with the EU [Abe, 1999] and other countries, Japan reduced major investment barriers [Fukao & Ito, 2003] throughout the last decade and many obstacles to FDI have been even eliminated [European Commission RRD]. Former Prime Minister Junichiro Koizumi unveiled in 2003 a plan to double inward FDI within five years. He believed that increasing FDI into Japan would lead to greater economic efficiency by tapping the capital, technology, management know-how, sales, and procurement networks of foreign companies. [Urata, 2005]

Most research underlines particularly the fact that a) most foreign companies which entered the Japanese market have a higher degree of management efficiency and productivity than their Japanese counterparts, [Kimura & Kiyota, 2007; Fukao, Ito, & Kwon, 2005; Fukao & Murakami, 2005], b) Japanese companies merged into foreign ownership increased their productivity [Fukao, Kwon, & Takisawa, 2006], and c) FDI can make a contribution to overall growth while Japan still faces serious economic challenges. These factors brought the Japanese government to facilitate M&A [Fukao & Paprzycki, 2008] and to deregulate several sectors including the telecommunication market and parts of the finance sector [Japan Invest].

Contemplating the general development of inward FDI into Japan throughout the last 20 years we can see a modest increase in inward FDI flows [World Economy Forum]. The level is however still very low compared to those of other developed economies. It is in fact the lowest among all developed economies [UNCTAD FDI-Online Database; Ito & Fukao, 2001]. Analyzing the amount of inward FDI into Japan it can be seen that the net inward investment flow of foreign companies is increasing until 2001 (Figure 1). It can be observed that nearly contemporarily to increasing investment inflow the amount of outflow is also increasing suggesting that there is a proportionally number

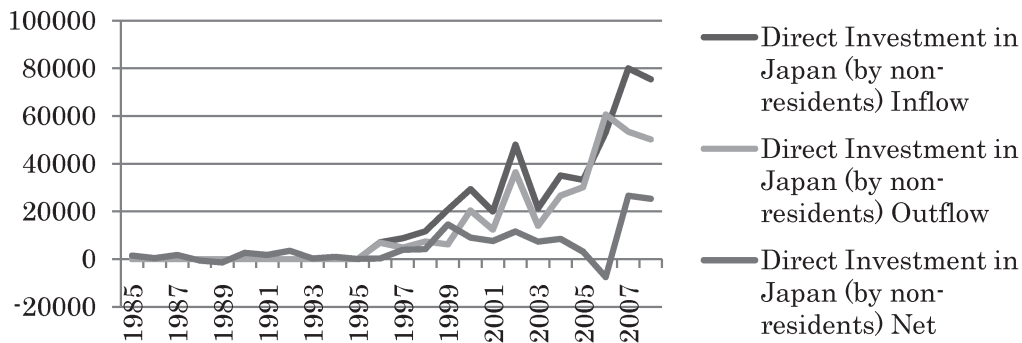


Figure 1. Total FDI inward and outward volumes in 100 Mill. Yen until 2008 Source: MOF⁴

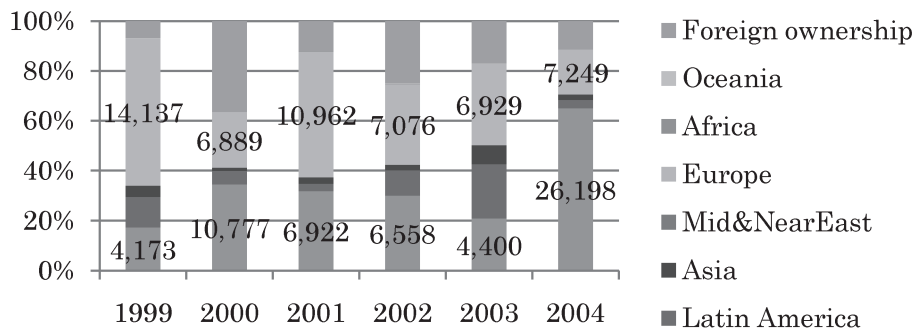


Figure 2. Total share of inward FDI into Japan by region. Source: MOF⁵

of companies leaving the Japanese as new players come in. In 2006 we can observe a major disinvestment tendency. This break is mainly the result of major disinvestments made by Vodafone and GM [The Japan Times Online, 2007]. Nonetheless, the situation within the last two years improved again, partially due to the introduction of the triangular merger scheme which permits foreign affiliated companies to merge or acquire Japanese companies with fewer legal barriers. Actually most of the recent investments were M&As of Japanese companies [WIP Japan, 2008 ; Kimino, Saal,& Driffield, 2007]. Analyzing the origin of the investment flows (Figure 2) it can be seen that until mid 90s Europe and North America had a comparable investment volume. Afterwards they were alternately investment leaders into Japan. However the US recently overtook Europe by having a nearly four times higher investment volume. In 2008 a slight disinvestment tendency can be noticed, which can be probably attributed to the general disinvestment tendency due to the financial crisis in 2007 and 2008. Recently the levels increased again. Apparently the governmental measures that have come into force have shown initial results, although the total investment volume still remains low compared to that of other developed

economies.

Major research published during the 1980s and 1990s analyzing potential reasons of why it is difficult to invest in the Japanese market mentioned market restrictions and keiretsu affiliation as the major investment barriers. Other factors mentioned were difficulties in acquiring Japanese companies, high business costs, high taxation, extensive approval periods for new products, as well as gaps in the intellectual property system. This image started to change after the economic bubble. Japan faced the reality and the result of a long-time closed investment market, and found itself in the position of lacking attractiveness to foreign investors and consequently lost potential capital. After the burst of the bubble, Keiretsu affiliation declined, the yen weakened, land prices and therefore business costs declined, and market regulations loosened. Additionally with the opening of the Japanese market to foreign investors and the previously mentioned measures to attract foreign investors, the view regarding the difficulties foreign companies face has changed [Khan & Yoshihara, 1994].

The actual barriers most companies have recently faced are not directly addressable to market restrictions but are found only after entering the market itself. Some criticism

of why foreign business in Japan fail were lack of market research, an overly strict schedule for ROI, unwillingness to adapt their products to the needs of the Japanese customers, lack of understanding of Japanese business practices, customs, and language, and insufficient pre- and post-sale services, [Paprzycki & Kyoji, 2008]. However, more recent research and the results of the fieldwork research show that although above mentioned barriers declined, an important barrier remains: The Japanese labor market.

2.2 The Japanese labor market

The Japanese labor market has recently started to experience changes. Due to major layoffs in Japanese companies, deriving from the recent recession which hit several companies¹, the concept of lifelong employment has been altered. However, lifelong employment still remains important among major Japanese companies and their employees, according to actual research [Roland Berger Strategy Consultants, 2009 ; Kato, 2001]. The basic concept of lifetime employment did not change but its implementation varied [Keizer, 2009]. Recently Japanese companies have started to transfer more personnel to affiliated companies and to reduce the number of core workers within the company [Debroux, 2003]. The rate of non-regular employees has been constantly increasing [Genda, 2005] and in 2003 Japan's ministry of Health, Labor and Welfare (MHLW) estimated that already one third of the entire work force is non-regular. While the employment of mid-careers has so far only slightly affected, the use of new graduates has decreased, which led to a higher unemployment rate particularly amongst the young generation [Dirks, et al., 2000]. Here the unemployment rate is increasing steadily and has hit a record of over 10% in 2009. With Japan's total fertility rate (TFR) at a rate of 1.3 and a high number of elder employees in top-positions, soon to retire, the need for mid-careers is going to increase further, leaving out young inexperienced university graduates.

The ideal of a Japanese employee is to enter a major company after graduating from university, go through extensive on the job training (OJT), and to work for the same company until retirement. Recruitment of new staff occurs only once a year during spring. Major Japanese companies have already well established ties to Japanese universities, where they guarantee a certain number of students to be employed [Dore & Sako, 1989]. Some

foreign MNE with a strong brand image in the Japanese market have recently started to attract graduates from Japanese universities but minor companies or those with a low brand image in Japan have difficulties in attracting not only university graduates but also qualified personnel for mid management positions [Morris, Hassard, & McCann, 2008]. Moreover, some Japanese employees are quite sceptical to work for a foreign company due to concerns about job security and the foreign companies' sustainability [JETRO, 2005]. There is still a strong perception that working for a foreign company does not offer long-term job security, as will be further explained.

The changing customs in HRM [Abe, 2007 ; Iida & Morris, 2008] supplemented by recent job cuts at several major Japanese manufacturers had raised the expectation that foreign affiliated companies should be able to more easily secure work-force [Gross & Weintraub, 2004]. However, the results of the present study show a different reality. Apparently foreign companies are focusing on the same labor market as Japanese companies: Experienced mid-career professionals with high knowledge in specific sectors.

3. Methodology

This paper is based on the outcome of an extensive study conducted between 2008 and 2009 based on qualitative interviews with leading representatives and business development managers of 21 companies and representative offices. To establish a wide differentiation in company size, time of entrance, entrance method and industrial sector was important in order to determine whether the difficulties these companies faced were restricted to the above mentioned variables. All interviews were face-to-face and were held based on a questionnaire which covered questions regarding company details, operational areas, business environment and difficulties, and the further perspective of the company. The interviewed persons had leading positions within the company and were responsible for top level decisions. Besides answering the questionnaire they also provided information regarding their personal experience in previous companies. Although this information is not quantifiable for this research, it provided important ideas for further research.

Based on the results of latter research in which the difficulties of hiring qualified personnel were identified as a major difficulty, a second fieldwork research focusing

Table 1. Results of first fieldwork research : Overview of difficulties/barriers European companies face in the Japanese market

Difficulties / Barriers	Faced in the past	Still facing / Probably facing in the future
High business costs	29%	14%
Regulations, license to practice business	33%	19%
Lack of information and insufficient incentives	29%	29%
Difficulties in financing	14%	10%
Difficulty in securing personnel:	86%	86%
Closed character and particularity of the Japanese Market	29%	19%
General living environment for foreigners	29%	14%

Table 2. Sample data of second fieldwork research : Companies and representative offices which provided HR-related information

General Data / Company	Rep Office A	Rep Office B	Comp A	Comp B	Comp C	Comp D	Comp E
Industrial Sector	Service	Service	Manufacturing	Manufacturing	Service	Wholesale	Manufacturing
Employees Worldwide	300	660	2200	6500	13000	40000	300
Employees Japan	3	2	150	60	300	3800	20
Company Type	Representative Office	Representative Office	PLC	PLC	PLC	PLC	PLC
Time of entrance	2005	2007	1970	1970	1972	1978	1980

on HR methods and the satisfaction grade of Japanese employees working in European companies was carried out. Seven out of the previously interviewed companies and representative offices allowed an additional interview and five of these distributed a hand-out questionnaire to their Japanese staff, which provides some case studies of the recruitment process of these companies in the Japanese market. Depending on the size of the company interviews were done with the respective decision makers or, if existent, with a responsible person of their human resources department. All interviewed individuals provided important insight into the recruitment practices and particular difficulties they face in the Japanese market. The questionnaire was handed out personally or by the respective HR department. In total all five sets of the questionnaire (68% response rate) were returned.

4. Fieldwork research results

4.1 European Companies Difficulties

According to recent research by Japan External Trade Organization (Jetro) [JETRO, 2008] the major difficulties among foreign affiliated companies are high business costs, high standard demand from consumers and recruiting personnel. The presented results include foreign affiliated companies in general without making a distinction of

the origin of the investing company. In contrast to Jetros' research, my research analyzes the difficulties of European companies as a subgroup and comes to a slightly different conclusion. As one result of my fieldwork research it could be identified that high business costs and high standard demand from consumers were not major barriers for European companies (table 1). However also European companies face difficulties in acquiring skilled workers such as IT specialists or engineers. In fact all of the interviewed parties who had difficulties in hiring specialists mentioned that they would invest more if they would find the right personnel. Other difficulties are worth being researched in detail, but are of little relevance for this research, hence the main focus lies on difficulties in hiring personnel.

4.1.1 Recruitment strategies

In order to determine whether the time of entrance, the size of the company or the entrance method had significance in successfully recruiting potential employees, importance was given to choose heterogeneous types of companies. Moreover diverse industrial sectors were covered which permitted to additionally gain some information about the attributes in certain sectors. Table 2 gives an overview of the interviewed parties in my second fieldwork research. For further analysis a distinction between representative offices² and established companies is made in order to cover the interests of both parties which are different due

to the nature of their setup. We define active recruitment as recruitment strategies in which a company actively searches for potential employees and passive recruitment as recruitment in which a potential employee contacts the company in search for a position. The employment strategies of non-regular employees such as part-timers are not included in this research.

Three types of recruited employees and three active recruitment strategies for full-time employees could be identified:

- a. Recruitment of university graduates
- b. Recruitment of mid-careers (management and specialists)
- c. Recruitment of agency workers.

Mostly these kinds of employees were recruited through:

1. Insertions in magazines newspapers, web portals, or other media,
2. Through acquisition of other businesses (M&A), mostly of previous partners, and
3. Agencies (General recruitment agencies or also agencies for temporary staff-*Hakengaisha*) or head hunters.

The focus of recruitment strategies varied depending on size of the interviewed companies. In the considered data set, the recruitment of university graduates was of minor interest for companies with less than 300 employees in the Japanese market, but becoming more important with growing size. The recruitment of mid-careers and specialists was of major importance to all parties and of “*crucial*” importance for the representative offices. Agency workers were of minor interest to all parties, because of their comparatively “*high cost*” and “*dependence to the agency*”. In regards to the success of the recruitment strategies all interviewed companies mentioned that insertions were a good strategy for employees appointed to office related tasks. They appeared to be unsuccessful for management positions or to acquire specialists. Acquisitions of other businesses were expensive but “*successful to a certain extent*”. However this kind of “recruitment process” should be considered as singular or infrequent, due to the time and cost involved with it. Finally, the use of head hunters resulted to be successful for some businesses, but could not always provide employees with the desired qualification. Latter type was mostly used to recruit managers and specialists.

4.1.2 Encountered Difficulties

Several concrete difficulties could be identified regarding

the employment of managers and specialists. As one of the representatives of Rep Office A mentioned:

“As new market entrants we need specialists with an in-depth knowledge of our industrial sector here in Japan. University graduates would be here of little help. Unfortunately it is very difficult for us to gain those specialists with the required business-level English skills, necessary for communicating with the headquarters. All potential candidates finally declined because they were insecure whether we would subsist in Japan during the next years. Even a quite attractive financial package could not convince them to work with us. In order to convince them (...) we need to strengthen our brand image in order to increase our attractiveness in Japan.”

A manager in Comp C provided a comment similar to those of other companies:

“Since our name has become widely known especially during the 90ties nowadays we are not facing any particular problems in gaining personnel for office tasks. In fact we get dozens of applications every week. However the recruitment of engineers (specialists) is very difficult. The whole becomes even harder when you demand English skills or other languages in general. (...) Japanese graduates are interesting only to a certain extent. By experience it requires much time to train them and they might leave the company after short time if not satisfied. Experienced workers are definitively more interesting for us.”

Regarding university graduates the representative of Comp D made a very interesting statement:

“Our company is very Japanese. We try to have as many Japanese employees as possible, even in higher management positions. Every year we are employing an important number of university graduates. Normally they are employed in our stores, a position which does not require a particular knowledge of foreign languages. In fact, we are listed as one of the 100 top employers in Japan. (...)I have to admit however that the employment of specialists is quite difficult in Japan (...). We have the impression that university education is insufficient and most of the training needs to be done on-the-job. The insufficient English knowledge makes it sometimes hard to employ Japanese in positions which requires communication with our Head-Quarter, or production sites abroad.

The takeover of previous partners is also a common strategy of European companies expanding their business in Japan. The representative of Comp A and Comp E provided some interesting details here:

“... business had reached a point at which an independent entrance into the Japanese market was necessary. We decided to have the president as the only foreign person in top management. The other employees are all Japanese. However, since we could not give the president’s position to an executive Japanese manager that time, he left the company and took his people with him. We found ourselves with insufficient staff for quite some time. (...) Now we are

a major market player and have fewer difficulties in finding personnel, but it is still quite difficult for us to find qualified sales-engineers (...)"

"When we took over them, a few persons quit their job. It seems they were afraid of the foreigner becoming the stakeholder (...). It is interesting that however they asked for reemployment after short time. Of course we took them. (...) Our business is limited by the number of engineers, who are able to service our machines. We had to decline potential clients because we do not have sufficient people for servicing the machines.

Based on the information provided by the interviewed parties fundamentally four main shortcomings in the Japanese labor market were mentioned:

- a.) insufficient language skills
- b.) extensive on-job-training (OTJ) necessary³
- c.) diffidence of Japanese employees in regards to foreign managers and foreign affiliated companies in general
- d.) the Japanese job hunting activity period (*Shushokukatsudou*) provides a too short time span to access university graduates.

Analyzing the factors which influence the success of European companies in recruiting Japanese personnel, it can be deduced that the also the time being present in the Japanese market, the brand image, and the company size have a influence on whether European business can successfully recruit personnel. Established companies mentioned to have had easier access to specialists after several years of business establishment. They engaged several employees who were working previously for customers or suppliers within their industrial sector. Increasing company size had also a similar effect. Comp D alluded that after their brand was established within the Japanese market the access to employees had become easier. Employees were able to "*proudly*" explain to friends and family what company they were working for. The recognition value of a company in the Japanese market has apparently major influence on whether a Japanese employee is willing to enter a non-Japanese company.

4.1.3 Management structure and employee evaluation

All interviewed companies had presidents from its originating country. They mentioned this to be necessary in order to ensure that the Japanese branch follows the guidelines of the headquarters. In positions which require technical expertise and for the case of technology transfer expatriates are preferred to local employees. The situation for Comp C is slightly different since the Japanese head-office is also the general head-office for the Asian market

and therefore we can find also a quite high share of third country employees.

Excluding representative offices, all companies have a mixed form of performance related pay and seniority wages. Ability related compensation is not variable but included in the monthly salary and decided before employment. For any particular ability needed by the company, the monthly salary increases accordingly to the abilities of the employee. Comp C and Comp D mentioned that their guidelines designate the same salary for comparable positions. Using the categorization provided by [Keizer, 2009] regarding Management by objectives for performance related pay, a mixed form of 'Open' MBO forms for backoffice related tasks and 'Closed' MBO forms for sales related staff are found. Further it was mentioned that performance related pay is mainly affecting the yearly bonuses, though the range of these varies according to position and department. Sales staff generally receives higher bonus payments but have a comparatively lower monthly salary compared to that of engineers or IT staff. Regarding the international human resource management (HRM) no general statement can be made due to the different size of the interviewed companies. Comp C and D mentioned to have international HRM policies for expatriates, but local HRM policies for local employees. If categorized their HRM could be defined as Multidomestic according to the definition provided by [Dickmann & Mueller-Carmen, 2006].

4.2 Japanese employees motivation and satisfaction grade working in European companies

In order to determine which factors determine the macro-micro relation in this research, following the perspective of Japanese employees are presented. In contrast to the companies' point of view, here the focus lies on the employees' main motivation for entering the current company, their concerns before and after entering the company, and their current satisfaction level covering their opinion regarding difficulties they encountered working at the current work place.

4.2.1 Motivation of Japanese employees

As can be deduced from table 3, for most of the polled employees the main motivations to enter the current company were the

- a.) Chance to use a previously learned language, and the
- b.) Chance to work in an international environment.

Table 3. Motivation factors to enter a foreign company

Motivation	Count	Percentage
Better salary	3	4.4%
Promising position	5	7.4%
The chance to use a previously learned language	32	47.1%
Personal affiliation to the company	19	27.9%
Better contractual conditions	8	11.8%
Higher segregation of private and professional life	16	23.5%
Faster promotion chances	2	2.9%
The chance to work in an international environment	33	48.5%
No suitable position in a Japanese company	5	7.4%
Other:	11	16.2%

Nearly a third indicated that it was their first work experience. Of that group more than a third did not have any overseas experience but though they wanted to use their previously learned language (60%) or wanted to work in an international environment (50%).

Following,

- c.) *higher segregation of private and professional life*,
- d.) *personal affiliation to the company*, and
- e.) *better contractual conditions*

were other motivational factors to enter the current company. Especially among females the segregation of private life and professional life appears to have a relatively high importance (25%). Directly interviewed female employees mentioned they appreciate how other colleagues generally accept when they leave the office on time. Moreover they noticed a more respectful and equal treatment with regards to their male counterparts working in similar positions compared to their previous work in Japanese companies. As one polled employee states:

“In my previous company (Japanese), nearly no one dared to leave the office before of the section manager. I have two small kids and need to leave in time since my husband works too and I am the one in charge of taking them from nursery school. Every time I left in time, my section manager and some colleagues made some very nasty comments.(...) The psychological pressure here is lower.”

In total nearly 60% of the replies were filled out by female employees. This creates the impression that the number of female employees in European companies is comparatively high. However, this could be the result of having the questionnaire answered mostly by employees being present in the office. According to the HR departments of two of the interviewed companies, sales staff and project engineers (employees who are frequently

at customer sites) are mostly male.

In contrast to the common belief that monetary factors might be the main motivation to prefer a non-Japanese company to a local one, in the present research I found that *better salary* or *better contractual conditions* are not major stimuli. This finding supports the statements made by HR departments indicating that they are paying their office workers salaries comparable to that of Japanese companies. Only high grade specialists are lured with salaries which are considerably higher than those of their Japanese counterparts. Anyhow personal comments of employees and the results regarding actual concerns indicate that some are not satisfied with their salary after having entered the company. Here several employees provided very clear personal statements:

“My salary did not increase for years. It is the same as when I entered”. “Payments, supports and benefits are so different (compared to foreign staff). It will create some gap of attitude of works”. “(Need of) top salary in the (...) industry, for highest quality (employees)”

This might suggest that in reality

- a.) seniority wages are not applied at a comparable level to that of Japanese companies,
- b.) the income is lower than in Japanese companies, or
- c.) wages don't reflect personal qualifications. Personal interviews with Japanese employees indicated that the salary rise in some companies is unsatisfactory. Here, an important observation in this context is that no Japanese employee indicated to expect better promotion chances when working for a foreign company.

4.2.2 Concerns

Analyzing the concerns (table 4) employees had before entering a foreign affiliated company we find that nearly a quarter was concerned about *easy layoffs or being easily fired*. According to several polled employees, foreign companies repeatedly laid off a significant number of employees in a short period of time in the past. This procedure has been made public several times in the media, creating the impression that foreign companies easily fire their employees, and this image still persists among most Japanese even nowadays. In contrast to this observation, the interviewed parties mentioned that there have been very rare cases of layoffs or dismissals, and if, they were mostly related to individual employees. Finally it is interesting to see that the quota of employees who were afraid of easy layoffs before entering their actual work place decreased by nearly 75%, after entering the company they are working

Table 4. Overview of concerns of Japanese employees

Concerns	Concern before entering the company		Concern continued after entering		Concern arose after entering the company	
	Count	Quota	Count	Quota	Count	Quota
Easy lay off	15	22.1%	5	7.4%	13	19.1%
High performance demand	11	16.2%	11	16.2%	7	10.3%
Promotion - seniority based promotion not applied	4	5.9%	3	4.4%	6	8.8%
Future of the company - Job security	4	5.9%	6	8.8%	21	30.9%
Salary - low salary / low increase	5	7.4%	8	11.8%	10	14.7%
Being sent overseas	4	5.9%	1	1.5%	1	1.5%
Communication problems	11	16.2%	14	20.6%	3	4.4%
Company culture	14	20.6%	13	19.1%	6	8.8%
Job security - life time employment schemes not available	11	16.2%	4	5.9%	6	8.8%
Personal suitability	6	8.8%	10	14.7%	3	4.4%
Too much self-responsibility	8	11.8%	4	5.9%	5	7.4%
Company name not known in the Japanese market	7	10.3%	9	13.2%	3	4.4%
Retirement allowance availability	7	10.3%	14	20.6%	10	14.7%
Management style	3	4.4%	10	14.7%	17	25.0%

for. A similar observation can be made looking at the concern regarding *Job security – life time employment*.

Persisting concerns are *communication problems* and *company culture*. According to personal comments provided by the interviewed employees, the quota of foreign managers is high and communication problems occur frequently. Several employees underlined that communication problems are not due to only linguistic misunderstandings but that several managers are simply not able to understand the Japanese employee's point of view. The demand for more Japanese employees in top positions underlines this observation further as can be understood by looking at some of the personal comments:

“(Foreign companies need to learn) how to motivate local native employees for getting higher performance”. “There should not be only foreign managers in top management but also local employees”. “I wish our section manager could be able to speak Japanese”

Comparing European and American companies [Khan & Yoshihara, 1994], it has been found that European companies tend to employ more foreign CEOs than their American counterparts, which tend to employ Japanese managers. In fact the majority of companies interviewed mentioned that most management positions are kept by their foreign staff and no Japanese employee belonged to senior management. In line with some findings of [Peltokorpi, 2007] European companies should employ primarily foreigners with an understanding of both cultures

Table 5. Overview whether employees are planning to work for the same company until retirement

Future prospect	Count	Quota
Planning to work for the same company	19	27.9%
Depends on the further development	41	60.3%
Planning to change company in the future	8	11.8%

Table 6. Potential reasons for leaving the current company

Answer	Count	Quota
I am worrying about the sustainability of the company	22	32.4%
I am worrying about my future position in the company	10	14.7%
I don't feel integrated	7	10.3%
My managers do not understand my opinion	2	2.9%
Limited promotion - only foreigners in top positions	13	19.1%
Japanese staff is not treated equally	18	26.5%
The cultural differences are too large	2	2.9%
The salary is not appropriate	12	17.6%
Personal reasons	22	32.4%
Other:	6	8.8%

and skills to communicate with expatriates and local employees not only to increase information flow, but also to avoid misunderstanding between both groups. Furthermore, the contractual conditions of foreign workers and Japanese workers are apparently different. Foreign workers seem

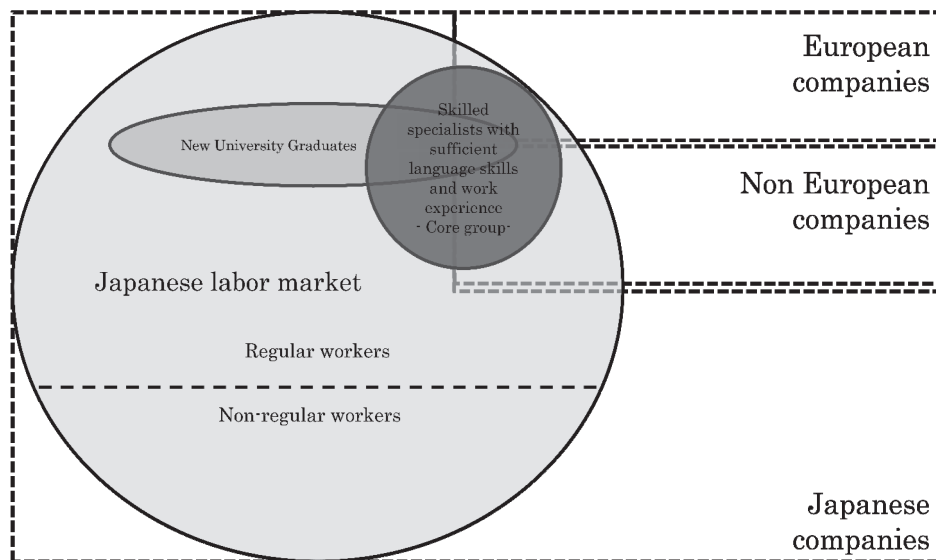


Figure 3. Japanese Labor Market Framework

to enjoy better contractual conditions, which creates dissatisfaction among the Japanese personnel.

4.2.3 Potential reasons for leaving the current company

Tables 5 and 6 show the employees' future prospect and the main reasons of why they would quit in the case they were not sure whether they would continue their current occupation. Beside personal reasons, the main motivation for changing the current position are concerns about the

- a.) *sustainability of the company*,
- b.) *limited promotion chances* and
- c.) *unequal treatment* between foreign and Japanese staff.

Although having difficulties in hiring specialists, the interviewed companies are apparently not offering sufficient self development and promotion possibilities for their Japanese staff. The preference of keeping management positions for foreign staff generates a working environment in which Japanese employees could potentially leave the company due to the lack of promotion possibilities. In case of specialists in key positions this could even compromise the sustainability of a company. With only a quarter of employees being really satisfied with their actual position, European companies might not only find difficulties in hiring specialists but also in keeping their staff loyal.

5. Discussion

The presented fieldwork and the case studies highlighted the need to address the multiple difficulties of European companies in hiring qualified personnel. So far most

research focused only on single perspectives for each of the analyzed dimensions. This research tried to unify preferences of individuals which belong to a group (European company) within a given cultural context (Japanese). For an improved understanding figure 3 presents a basic framework of the Japanese labor market and the interested parties. Please note that the presented framework is intended for explanation purposes and does not necessary represent real dimensions, since no comparative data of non-European companies is available. Moreover it does not reflect the current difficulties of new graduates in the Japanese labor market cf. [Genda, 2005].

While the access to the general labor market seems to be sufficiently secured, the access to workforce with certain characteristics as the knowledge of foreign languages or specific skills such as IT-specialists or engineers is comparatively difficult. This however represents the core group that European companies are interested in, a restricted group within the Japanese labor market, which not only European companies but also Non-European companies and Japanese companies are interested in. This generates a highly competitive market in which, European companies with insufficient market presence both in terms of length of time and size find it particularly difficult in attracting personnel.

Extending this macro view by including the dissatisfaction factors of Japanese employees as micro aspect, we find that European companies are placed in a difficult situation not only for recruiting but also for keeping their staff loyal. For the case of qualified personnel leaving a company

this might generate a major knowledge loss, which would not only complicate further investment strategies but also generate potential loss for already established businesses.

6. Limitations and suggestions for future research

The study has a few limitations. First of all the sample was limited to European companies. A comparison to Non-European companies should be made in order to determine to what extent the difficulties found in this research are attributable to European companies or foreign companies in general. Moreover, contrasting the HR-methodologies of Non-European companies to those of European companies would give a better insight on whether for example American companies do still have a higher amount of Japanese managers in top level positions and whether this organizational structure generates higher satisfaction grade among their Japanese employees and therefore a higher commitment. The identified relationship between preferences of individuals which belong to the group “European company” could be contrasted to the group “Non-European” within the same cultural context.

Lastly, this research has identified HR related difficulties as one major barrier in the eyes of European companies in the context of foreign direct investment into Japan. Other reasons might have been omitted or not sufficiently recognized as barriers by the interviewed parties. An analysis of the magnitude of single difficulties affecting FDI decisions, would certainly give a better insight on the extent of HR related difficulties` real influence on the overall investment strategies of European companies, or foreign companies in general.

7. Conclusions

Analyzing the difficulties European companies and representative offices face in Japan, it can be deduced that most companies find themselves in a contradistinctive position. Although they are not facing direct barriers, one reason of why they cannot expand or invest further is to the lack of qualified manpower. On the other hand European companies` tendency to provide top positions only to expatriates creates dissatisfaction among Japanese employees who tend to search for alternatives. Although dedicated literature propagates that with higher unemployment rate the access to qualified personnel should be easier, the reality shows a different result. The access to professionals

and specialists across several industrial sectors still remains difficult. Japanese companies and non-Japanese (incl. European) companies have gone into competition in hiring experienced personnel for management and positions requiring technical knowledge. With a steadily decreasing birth rate and aging population this situation is not expected to improve in near future. Examining this, three problems can be identified:

First, the Japanese market has been fairly opened to foreign investors but its labor market is seemingly not able to satisfy the increased demand of specialists needed for European (foreign) businesses.

Second, New market entrants have particular problems in recruiting personnel since the size, time of entrance and market reputation seem crucial factors to Japanese employees willing to work for a non-Japanese company.

Third, with several European companies providing higher managerial positions and better contractual conditions to expatriates, the satisfaction grade and commitment of Japanese employees is limited. In search for better promotion chances Japanese employees tend to leave in search for a position with better future prospects.

Although the author acknowledges that the above presented results are not necessarily restricted to the Japanese context, the particular situation of Japan trying to increase its inward FDI volume, and European companies recently struggling to increase their investment volume significantly, made a research of the situation due. The findings moreover illustrate the importance of the interdisciplinary research of FDI and HR-related matters on macro and micro aspects and should provide a base for further comparative analyses within the Japanese context.

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Endnotes

- 1 The number of unemployed workers rose from 3.6% in July 2007 to 5.3% until May 2009. More details can be found in [Ministry of Health, Labour and Welfare, 2009]
- 2 Representative offices have been included in this research due to particular exposition to potential barriers. So far no other research regarding FDI into Japan including representative offices could be identified, although they provide precious insights of market sectors that foreign companies are currently analyzing in Japan. Their exposure to market barriers is different than those of established companies and provides therefore interesting data for further research.
- 3 Companies who employed university graduates indicated that compared to students of other countries (incl. Asian countries), Japanese students needed longer OJT before being assigned for operative tasks. Several presidents complained that Japanese universities provide profound theoretical background, but do not sufficiently prepare students to business life. They mentioned that while in other countries it required few weeks to prepare freshmen for their assignment, it requires several months in Japan. The training includes not only lessons in order to develop necessary hard skills but also instructions of how to behave with colleagues and customers (soft skills).
- 4 <http://www.mof.go.jp/bpoffice/ebpdfi.htm>
- 5 <http://www.mof.go.jp/english/e1c008.htm>