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# The embeddedness of Japanese HRM practices: The case of recruiting

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## Abstract

This paper examines Japanese recruiting practices to illustrate how Japanese personnel practices are embedded in the social structure and norms of Japan. It approaches embeddedness from two angles. First, it argues that Japanese recruiting practices have been slow to adapt to the dramatically changing job market of the 1990s, because these practices have been embedded in social structures that have been slow to change. Second, it argues that the social structure underlying these practices is so firmly rooted that even powerful foreign firms have had no success in bringing about change, but have been forced to conform to Japanese practices.

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*Keywords:* Embeddedness; Japan; Recruiting practices

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## 1. Introduction

Japanese recruiting practices illustrate the embeddedness of personnel practices in the social fabric of Japan. Embeddedness here refers to organizational and economic action being “grounded in ongoing structures of social relations” (Granovetter, 1985, p. 481). As Japan faces slow recovery from recession, rapid technological change, and the increasing presence of powerful foreign firms, one would expect Japanese personnel practices to change accordingly. That these practices are not changing in response to economic and technical demands suggests that they are embedded in a social structure that is resistant to change. To illustrate the embeddedness of personnel practices, this paper looks at recruiting practices in Japan over the past decade as the economy went from expansion to recession. It then looks at

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how foreign firms in Japan, instead of influencing Japanese recruiting practices, have been forced to conform to them.

Japanese recruiting practices offer unique insight into organization–environment relations in that they are at the nexus where firms meet the labor market and the underlying social structure. While a great deal of research has examined Japanese blue-collar practices and approaches to management (Abegglen, 1958, 1985; Clark, 1979; Cole, 1979; Dore, 1973; Lincoln & Kalleberg, 1990; Marsh & Mannari, 1976; Pascale & Athos, 1981), little research has examined the personnel practices of white-collar employees, particularly in the area of recruiting (see for exception, Rohlen, 1974; Sako & Hiroki, 1997; Sato, 1997). Similarly, embeddedness has been studied domestically in the context of interorganizational relationships in the apparel industry (Uzzi, 1996, 1997) and in the relationship between daycare centers and the institutional environment (Baum & Oliver, 1992), but not as it is manifest in the relationship among organizations, the labor market, and the underlying institutional environment.

This paper examines Japanese recruiting and selection since the beginning of the recession in 1990 and between Japanese and American firms in Japan, drawing on archival sources, interviews, and a survey. It begins by comparing the Japanese labor market in terms of entry points for new college graduates and for midcareer hires. Second, it briefly outlines classic models of employment in Japan as well as recent work on recruiting in large Japanese firms. I argue that even though the Japanese job market has changed dramatically over the past decade, recruiting practices have not, suggesting that they are embedded in social structures that are slow to change. Further illustrating embeddedness is the conformity of foreign firms in Japan to Japanese labor practices, even though these practices are not a good fit for them. Given that foreign firms are taking over Japanese industries such as the insurance and financial services industries, one would think that Japanese firms might look to foreign firms as a progressive model of practices. Even as foreign firms have taken over these Japanese industries, they have not introduced foreign HRM practices, but have tended to adopt Japanese HRM practices. I argue that this captures embeddedness from another angle in that, like the recruiting practices of Japanese firms, they are embedded in social expectations that are slow to change.

## **2. Social embeddedness and country differences in personnel practices**

Embeddedness highlights the process by which social relations and structures shape economic action and organizational behavior. As Granovetter (1985, p. 487) notes, “Actors do not behave or decide as atoms outside a social context. . .their attempts at purposeful action are instead embedded in concrete, ongoing systems of social relations.” Zukin and DiMaggio (1990) classify embeddedness into four forms: (1) structural-focusing on the relational quality of interactor exchanges and the network of organizational ties, (2) cognitive-structured mental processes that direct economic logic, (3) cultural-shared beliefs and values that shape economic aims, and (4) political–institutional limits on economic power and incentives. This paper focuses on cultural embeddedness and how organizational behavior is shaped by

shared beliefs and values, as well as by other institutions such as HRM and education systems.

A growing body of research has examined organizational behavior as it reflects social embeddedness in different countries (Granovetter, 1985; Guillen, 1994; Hamilton & Woolsey Biggart, 1988; Maurice, Sellier, & Silvestre, 1986; Whitley, 1992). Examples include Guillen's (1994) study of how organizational paradigms in the United States, UK, Germany, and Spain were influenced by business elite mentalities, as well as by international pressures, industrial relations, and the state; Dobbin's (1994) study of the varying cultural belief systems that underlie government policies affecting railway systems in the United States, England, and France; and Hall's (1986) study of factors shaping economic policy such as the organization of labor, the organization of capital, the organization of the state, and the organization of the political system. However, little research has examined personnel practices in light of their social context.

Just as embeddedness constrains organizational practices from converging toward a single universal practice, it also often constrains organizational practices from adapting directly to emergent technical demands. Cole (1979) argues that culture is not a once-and-for-all influence by an ongoing process, but that the culture is continually constructed and reconstructed during interaction. However, social structures are much slower to change than are technologies or economic circumstances. When the underlying social structures are resistant to change, related organizational practices often are slow to change as well. Thus, the resistance of organizational practices to change may reflect, among other things: (1) how deeply institutionalized the underlying social structures are at the time, (2) how shared beliefs are at odds with changing technologies or economic realities, or (3) a perceived lack of need to change.

### *2.1. Embedded practices in a changing job market*

Why have Japanese recruiting practices been so slow to change when the job market has changed so dramatically in the past decade? Unemployment has risen over the past decade with the prolonged recession. The ratio of active job openings to job applicants dropped over 50% from 1.46 job openings per job applicant in 1990 to 0.71 job openings for each job applicant in 1996 (Japanese Ministry of Labor [MOL], 1999). Job openings showed a particular decline in white-collar jobs among managers, government employees, and clerical workers, as well as in blue-collar jobs in the transportation and communication industries. This significant drop in job openings since the economic boom in the late 1980s continues a trend of large fluctuations in both manufacturing and nonmanufacturing industries in Japan that started in the 1970s. Even fields little affected by business fluctuations, such as wholesale and retail trade and eating and drinking establishments, saw large changes in the numbers of job offers. MOL (1991) attributes these fluctuations to drastic changes in the final demand of private investment in plant and equipment, and to consumption, as well as to the failure of domestic demand to counteract economic fluctuations. In particular, there has been a mismatch between occupational openings and applicant occupational skills, which has tended to grow since 1986 with Japan's

economic expansion. This mismatch is the result of an increase in the number of professional and technical workers, as well as the growing desire on the part of young people to pursue white-collar jobs over blue-collar jobs. During the current recession, young job seekers have increased in number, and young people in the 15–34 age bracket contribute more to the rising unemployment than do those in other age brackets. However, the gap between labor demand and supply has not grown as fast as it would were it not for corporate efforts to maintain stable employment levels. The change in job openings raises the question of why recruiting has remained the same.

### 3. Recruiting and selection in Japan

#### 3.1. Japanese labor market entry

Large Japanese firms have traditionally focused on recruiting white-collar management track employees (*sougoushoku*) directly from college rather than from the ranks of experienced employees of other firms, precluding a secondary labor market. Through the 1990s fewer than 30% of Japanese enterprises have filled their personnel needs through midcareer hiring (1.9 million midcareer hires in 1990, 1.6 million in 1996; Economic Planning Agency, 1999; MOL, 1999), in large part because most Japanese business enterprises use transfer and long-term dispatch and rotation to secure the necessary personnel from the main line of business. Further reducing the use of midcareer hires, companies prefer to recruit young people straight out of school before they gain experience elsewhere in order to inculcate employees fully into the company's culture (*shafuu*). This allows new employees to avoid prejudicing their receptiveness to what they will learn in the company and to maximize their identification with the company. Second, Ballon (1992, p. 27) and others note that Japanese companies are reluctant to hire people with previous work experience because it is still widely perceived that such recruits are temperamentally unstable since they were unable to adjust properly to their previous employer's corporate network of human relations. Third, because Japanese firms generally invest a great deal of time and expense in training their employees, they want employees to stay for the long term; and they are unwilling to let employees leave the firm before seeing a return on this training investment. Subsequently, they try to keep them in-house through interesting task assignments, job rotation, and other perks such as company housing. In addition, once the company has hired an employee, it is very difficult to dismiss him without lowering the morale of the rest of the company's employees. As a result of training these employees in a variety of functions related specifically to one firm, employees become specialists about that firm. These firm-specific skills are not generally perceived to be applicable to other firms, so midcareer openings are generally limited to those who have specific technical skills that are urgently required as firms diversify into new technologies. Finally, new college graduates are less than one third as expensive to recruit and hire as midcareer hires (Institute for International Business Communications, 1997), making new graduates more attractive employees than midcareer hires (Table 1).

Table 1

Active job opening ratios and number of new hires by age group (1990, 1996)

| Employee age     | Active job openings ratio |      | New hires (1000s of employees) |      |
|------------------|---------------------------|------|--------------------------------|------|
|                  | 1990                      | 1996 | 1990                           | 1996 |
| 19               | 4.32                      | 2.60 | 942                            | 560  |
| 20–24            | 1.58                      | 0.83 | 1559                           | 1392 |
| 25–29            | 1.55                      | 0.86 | 652                            | 654  |
| 30–34            | 2.59                      | 1.31 | 463                            | 405  |
| 35–44            | 2.28                      | 1.39 | 904                            | 709  |
| 45–54            | 1.49                      | 0.60 | 587                            | 586  |
| 55–59            | 0.55                      | 0.27 | 223                            | 161  |
| 60–64            | 0.25                      | 0.08 | 140                            | 140  |
| 65 +             | 0.67                      | 0.25 | 52                             | 41   |
| Total (All ages) | 1.51                      | 0.74 | 5522                           | 4648 |

Active job openings ratio: number of active job openings divided by the number of active applications.

Sources: Employment Security Bureau, Ministry of Labor, 1999; Policy, Planning and Research Department, Ministry of Labor, 1999.

### 3.2. University recruiting in Japanese firms

The ratio of people who found employment to the number of active applications dropped from 7% in 1990 to 5.6% in 1996 (MOL, 1999). The acceptance rate for applicants to large Japanese companies, such as NKK, is slightly higher at 5.8% (roughly 100 out of 1700; Yagi, 1992). In the primary labor market for new recruits graduating from school, the advantages lie on the one hand with job seekers from better universities, and on the other hand, with larger firms, the symbols of stability and status in Japan. Because of the premium placed on intelligence and technical skill rather than personality traits or personal flair, much emphasis has been put on general intelligence and learning ability as measured by college entrance examinations. With the standardization of the college entrance exam preparation system through cram schools and mock-test providers, it has become relatively easy to rank both schools and student intelligence, particularly since these cram schools and mock-test providers produce lists of university facilities rated by the standard achievement score necessary for an 80% probability of passing the examination to each one. The rise, for example, of Waseda Aeronautical Engineering relative to other departments and schools such as Kyoto Civil Engineering is clearly charted and well known. The 30,000 recent graduates of the top 10 universities in Japan constitute about 1.5% of the 20- to 25-year-olds in Japan. Managers can be fairly sure that they are, if not exactly the top 1.5% of mental acumen, at least the top 3%, since Recruit, the famous recruiting firm, collects and sells back to its clients precise annual information on how many recent grads each firm has managed to recruit from the top 10 universities in Japan. With these data in hand, managers can then use the recruiting process to concentrate on how far this intelligence is accompanied by other personal qualities (Dore, 1989, p. 67).

An education from a prestigious university in turn is seen as a passport to a big company, with its prospects of better benefits and greater job security. While entry-level salaries are

uniform across firms within industries, and relatively uniform across industries, the top-flight graduates going into the elite large firms start with higher salaries. In large Japanese firms (1000+ employees), new recruits in 1997 started with an average salary of 195,000 yen (US\$1950) a month. New graduates entering medium-sized firms (100–999 employees) and small firms (10–99 employees) started with an average salary of 194,000 yen (US\$1940) and 192,000 yen (US\$1920) a month, respectively, and were likely from less prestigious schools. Rather than competing on entry-level salaries, Abegglen (1985, p. 199) notes that firms compete on reputation, with “the best students seeking out the company that appears to have the most promising long-term prospects.” Dore (1992, p. 7) cites an annual survey conducted by the Japan Productivity Center asking respondents to choose among nine alternative answers to the question—put to labor market entrants already newly installed in jobs—What influenced you most in your choice of firm to work for? “Because it seems like interesting work” accounts for 30% of the replies; “because it is a firm with a future,” 20–27%; “because I would have a chance to learn important skills,” 7–12%; “because I can develop my abilities and individuality,” 7%; and “because it has high wages,” 4–6% (Dore 1992, p. 68). Long-term prospects can be assessed from readily accessible information on current salary progressions. Dore (1992, p. 7) notes that information on salary progressions is useful for discriminating among industries rather than between firms, since the top five electronics firms, for instance, show markedly similar age-trajectories. There is no competition in bidding for salaries, so companies try to make their salaries look respectable to other companies whose unions belong to the same union federation. As a result, newspapers publish annually the results of a survey by Recruit Research on graduating students’ favorite firms. Large firms, because they offer better conditions than small ones, are more easily able to indulge the preference for hiring people straight from school and college (Table 2).

University recruiting can be divided into two categories: (1) general business staff, and (2) research and development staff. Many Japanese firms hire general business staff (*jimukei*) from undergraduate social sciences or cultural science majors. Companies pay less attention to the academic discipline in which the candidate graduated, except in the area of physical

Table 2

New school graduates who found employment, average monthly starting salary, and average monthly salary (over all levels of employment) categorized by educational attainment level (1990, 1997)

|                        | Total new hires |         | Average starting salary<br>(1000 yen/month)<br>for males |      | Average monthly salary <sup>a</sup><br>(1000 yen males) |      |
|------------------------|-----------------|---------|--|------|---|------|
|                        | 1990            | 1997    | 1990   | 1997 | 1990  | 1997 |
| Lower secondary        | 54,822          | 21,508  | 117  | 142  | 307   | 367  |
| Upper Secondary school | 622,330         | 35,963  | 133  | 156  | 313   | 329  |
| Technical college      | 7760            | 7121    | 145  | 167  | 297   | 329  |
| Junior college         | 181,229         | 150,064 |  |      |   |      |
| University             | 324,220         | 349,271 | 170  | 194  | 374   | 426  |
| Graduate school        | 22,628          | 40,424  |  |      |   |      |

Source: Ministry of Education, 1999, p. 114.

<sup>a</sup> For all employees in the company with that level of educational attainment.



sciences, and place more emphasis on university reputation, which they use as an indicator of the long-term potential of the newly hired employee (Ballon, 1992, p. 25). Traditionally, recruitment of engineers and technological researchers (*gijutsukei*) has been systematically different from recruitment of general business staff in that professors can affect decision making of students in their seminars by writing recommendations for them, although this system seems to be softening now (Table 3).

While most graduates got jobs in the company of their choice during the economic booms of the 1960s, this trend reversed in the 1970s with the entry of the baby boomers into the labor market and the oversupply of labor relative to job openings. After the economic surge of the late 1980s, the economy entered prolonged recession in the 1990s, which reduced job openings to applicants by half from 1.46 in 1990 to 0.71 in 1996 (MOL, 1999). The result has been a distortion of the ideal pyramid-shaped firm that steadily adds new recruits and grows by expanding its base at a stable, predictable rate. Inverting this pyramid, more top managers are tending to stay longer at the top as Japanese society ages, reducing for younger managers the prospect for managerial promotion, traditionally a great incentive for productivity. Indeed, over the period 1965 to 1997, the average age of the labor force increased from 32 to 40.5 years old, and the average years of service from 6.6 to 13.3 years (MOL, 1999).

### 3.3. Process of recruiting new college graduates in Japanese firms

Yagi (1992) describes NKK's recruitment in detail, which has not changed significantly over the past decade. To recruit new college graduates, NKK's personnel department sets up about 10 recruiting teams organized by alma mater which target students of major universities, and allocates target numbers of undergraduates to be interviewed by each team. Each university team works like a project team and contains a team leader (usually a senior personnel manager), a responsible younger personnel manager, a few personnel staff members, and 10 to 20 general members who graduated from the university. The team leader directs the agenda of his team and conducts semifinal interviews with students, while each of the other personnel managers controls the daily activities and decisions. As such, the personnel manager is the locomotive of this project.

Table 3

Comparison across firm size of average employee age, duration, monthly earnings and percentage share of newly hired employees (1990, 1997)

| Firm size<br>(number of<br>employees) | Average age<br>of employees |      | Average duration |      | Average monthly<br>earnings (1000s of yen) |      | Percentage share<br>of new hires |      |
|---------------------------------------|-----------------------------|------|------------------|------|--|------|----------------------------------|------|
|                                       | 1990                        | 1997 | 1990             | 1997 | 1990                                       | 1997 | 1990                             | 1997 |
| 10–99                                 | 41.0                        | 41.8 | 10.0             | 10.6 | 286  | 327  | 49                               | 52   |
| 100–999                               | 38.7                        | 39.9 | 11.9             | 12.9 | 315  | 360  | 30                               | 30   |
| 1000+                                 | 38.7                        | 39.8 | 15.8             | 16.8 | 381  | 434  | 21                               | 18   |
| Total                                 | 39.5                        | 40.5 | 12.5             | 13.3 | 326  | 372  | 5392                             | 4478 |

Source: Policy, Planning and Research Department, Ministry of Labor, 1999, pp. 110–111.

Recruiting schedules differ from year to year because, in spite of the existence of a gentlemen's agreement among large businesses, some companies violate the agreement and secretly start recruiting activity before the agreed deadline.

January: Set up a plan for recruitment (both for engineers/technical researchers and general business staff) with the section in charge of evaluation and promotion, which has the authority to approve the required number of employees for each division of the firm. Personnel managers ask young recruiters to contact their friends at their alma mater through clubs or thesis seminars. When a personnel manager gets a report from his friends that some companies have violated the gentlemen's agreement, he gathers his team members and starts the recruiting process.

March: The recruiting section of the personnel department arranges university teams and selects recruiters.

End of March: Hold a large informative meeting for recruiters.

(From here activities are conducted by each team.)

June: Call students directly to make appointments to talk about NKK.

July: Hold four to five sessions to interview students.

End of July: Choose candidates for interview by the general manager of Personnel.

Early August: The candidates have a final interview with the general manager of the Personnel. Some of them receive informal verbal offers to enter the company (*NaiNaitei*).

August 20: Gather all candidates with company approval and spend a few days together.

October 15: All the candidates from all teams meet at NKK headquarters.

October to March: The Second Section takes care of the candidates by sending letters and magazines to new entrants, training materials, and surveys about their occupational desires.

April 1: Entrance Ceremony.

Firms purchase lists of graduating students' names, addresses, schools, and majors from companies such as *Mainichi Shimbun*, *Nihon Keizai Shimbun*, *Diamond*, and *Recruit*. The personnel department uses these lists to prepare lists of major universities for the teams before the March meeting. Younger team members monitor competitors' approaches to schools, and once one firm in an industry begins to contact students, other firms follow suit. Firms in mature industries must take the initiative to contact students, as many students are more interested in financial institutes, trading firms, and government ministries.

### 3.4. Alumni faction's involvement in recruiting for Japanese firms

Some Japanese companies have very strong "old boys" networks, or *gakubatsu*, alumni factions, among graduates from specific universities. These alumni networks are very evident in contacting students during recruiting; yet alumni preference does not extend to selection, evaluation, promotion, or examination of personnel transfer in many companies. Such partiality would create perceptions of inequity, and subsequent loss of legitimacy and possible ostracism.



University-based recruiting organizations allow teams to match their approach to the characters of the various universities from which they recruit. Each university has its school traditions, and each recruiter has a different style of recruiting. Even at companies without strong alumni factions, employees who have graduated from the same university often gather a few times a year at, for example, a party after the entrance ceremony in April to welcome newcomers from a particular university. In addition to encouraging their members, these celebrations are also useful for making company contacts and exchanging information. In this way, alumni factions put their members at a slight advantage.

Yagi (1992) notes that each of the 3–5 NKK recruiting teams usually interviews 200 of the 600 students they contact. They often take a 3-day weekend to interview students and briefly introduce the company to interested applicants. Each recruiter interviews six or seven students a day, taking 45 min to 1 h for each student. The most important thing for the first meeting is to explain the company to students so as to spark interest but not to select potential employees. Selecting students at this early stage unnecessarily reduces the potential applicant pool from 200 potential candidates to 10 students, as less than 10 students on average are interested in NKK. The most efficient strategy is to attract as many students as possible and then select.

Each of the 3–5 NKK recruiting teams screens 200 students annually in five steps: (1) interest screening, (2) recruiters' selection, (3) personnel manager's selection, (4) team leader's selection, and (5) decision by the general manager of the personnel department. The 200 students recruited by each team are usually reduced to 100 semifinal applicants, mainly due to little or no interest in manufacturing, the industry, or NKK. At the second session, the recruiters and HRM staff members in each recruiting team reduce the students by half: from 100 students to 50, with the following factors as criteria: (1) preference of a student for manufacturing, (2) localism, (3) personality, and (4) potential capability, in that order of priority. It is key that the student show a deep interest in the industry; but it would be a great detriment if the student shows preference for a single location which would impede rotation to other branch offices in Japan or abroad. Sometimes a student comes for an interview simply because he wants to keep contact with the company until he gets his first offer. If an excellent candidate does not show strong interest in NKK or manufacturing after a few interviews, NKK does not follow up with them.

Both personality and potential capabilities are important criteria in selection. Successful job applicants must have at least one of the two, but usually personality is more important than capability. NKK values a spirit of teamwork over ability, because the group nature of work in the Japanese organization is perceived to transcend the exceptional ability of any one individual. Companies that maintain lifetime employment appear to place great importance on maintaining their organizational culture and therefore hire people who are willing to share this culture. Thus, companies like NKK see a 90–10% mix, where 90% of recruits are hired for their team spirit and good-natured personalities; and 10% are hired for their leadership or special creativity potential.

Next, each team's personnel manager selects 20 students out of 50 candidates by means of informal interviews or conversations. The recruiting team's final responsibility is to select the most suitable 20, but it is also important to make those 20 students eager to enter NKK.

Personnel managers take great pains to portray the firm as a good organizational culture in which to cultivate one's talent. They also stress how their businesses are important for a global economy. According to Yagi (1992), at this point, NKK talk to students about NKK and its business life in detail to let students know the "real" NKK atmosphere and let them see NKK as the best arena in which to develop their abilities.

Each of the five teamleaders selects 10 students for the final round of interviews at the company's headquarters. Each team leader's decision takes into account the opinions and recommendations of other recruiting team members. Though the general manager of the personnel division makes most final decisions at headquarters, the team leader has the authority to give final verbal approvals to a few students whom he judges to be a perfect match. Such delegation of quick decisions is necessary to compete with other companies in hiring qualified employees. Of the 600 student applicants reviewed by each team, generally 7–9% are offered positions. Yagi (1992) notes that the acceptance rate for applicants to large Japanese companies such as NKK is 100 out of 1700.

To keep desirable students from taking offers with other companies, NKK has to keep in touch with them frequently and maintain their excitement about NKK. NKK's personnel department visits Kyoto every 7 or 10 days to meet and have dinner with the Kyoto University students. The dinner is an opportunity for the students to meet together, and NKK tries to create a sense of fellowship among them. In spring, NKK, like other large companies, takes the approved students to a tourist resort and keeps them there a few days so that they cannot visit any other company. This trip is not mandatory but is regarded as an allegiance to the company. After this trip NKK recruiters "loosen up on" them and just contact them by phone; although, if they sense any change of mind in the students, they visit Kyoto again. In late summer, companies are officially allowed to give offers to students, which is done by calling all newly hired students to its headquarters. At this point, recruiting teams are dissolved, and the personnel department takes care of the students from that day forward. At NKK, students usually meet three recruiters on average before they meet with the head HR manager, though there were exceptions. With regard to starting salary, there is little difference between the starting salary of new hires newly graduated from college and new hires just out of graduate school. Salary accrues with tenure in the company.

#### **4. Recruiting and selection by American firms in Japan**

While the previous section illustrated embeddedness by examining the stability of Japanese recruiting practices through dramatically changing economic circumstances, this section examines embeddedness from the perspective of conformity of powerful foreign firms to Japanese practices. American firms lead the world in financial services and are taking over the Japanese insurance and financial service industries. Foreign firms demonstrate distinctly different approaches to recruiting, and one might think that Japanese firms might look to foreign firms as a model of progressive practices. However, despite the profitability of these foreign firms, their practices have not spread to Japanese firms, but instead have been forced to conform largely to Japanese ways. In part, this conformity arises from the relatively small

number of foreign firms in Japan. In part, it comes about because the social structure that underlies Japanese personnel practices is so strong, that it cannot easily be swayed. Like the recruiting practices of Japanese firms, the personnel practices of foreign firms must overcome social expectations and biases that are slow to change.

#### 4.1. Foreign firms in Japan

North American and European affiliated firms comprise 84.7% of the foreign-capital firms in Japan as of 1992, with half of those parent firms being America (MOL, 1992, p. 7). With regard to the percentage of foreign-capital investment across all foreign firms in Japan (regardless of parent company's country of origin or industry sector), 52.2% of the firms surveyed by the MOL (1992, p. 7) had 100% foreign capital, 15.2% had between 50% and 100% foreign-capital investment, 19.2% had exactly 50% foreign-capital investment, and 9.2% had less than 50% foreign-capital investment. Roughly half of the foreign-capital firms in Japan are wholesale/retail, eating, and drinking establishments; a quarter are manufacturing, 10% are service, and 8% are financial, and insurance-related firms (Table 4).

According to MITI, the 1000 or so foreign firms which participated in their surveys employ around 0.5% of the labor force. Most of these employees are regular employees (MOL, 1999). In general, almost 80% of all foreign firms in Japan (regardless of parent company's country of origin or industry sector) employ 100 or less employees. Only 2.7% of the 873 firms surveyed by MOL in 1992 (p. 7) employed over 1000 people (Table 5).

Half of the employees hired annually by foreign-capital firms in Japan are midcareer hires (MOL, 1992, p. 10). Interestingly, foreign-capital firms lose in a year as many employees as they hire midcareer. When looking at recruiting by industry among foreign-capital firms, over half of the new hires in wholesale/retail, banking, communication, and services are midcareer hires. In terms of the percentage of foreign investment, over half of the recruits are midcareer hires in all foreign-capital firms with majority foreign ownership (MOL, 1992, p. 10). Further, almost half of the foreign companies surveyed by MOL (42.4%,  $n = 873$ ) undertake midcareer recruiting, while only 32.5% undertake recruiting of new college graduates and

Table 4  
Composition of foreign firms in Japan by industry sector (1992, 1998)

| Sector                                  | Percentage of total foreign firms in Japan 1992 | Percentage of total foreign firms in Japan 1998 |
|---|---|---|
| Manufacturing                           | 25.2  | 25.8  |
| Wholesale, retail, eating and drinking  | 50.6  | 42.9  |
| Finance and insurance                   | 8.7   | 8.4   |
| Real Estate                             | 0.3   | 0.4   |
| Transportation, Communication and Other | 3.7   | 4.7   |
| Service Industries                      | 11.5  | 10.4  |
| Information Technology                  | –   | 7.4   |

Source: Japanese Ministry of Labor (*Gaishikei Kigyō no Roushi Kankeitou Jittai Chousa Kekka Houkokusho*). Roudoushou Rouseikyoku, Roumu Kousei Kenkyūjo, 1992, p. 7) and Toyo Keizai Gaishikei Kigyō 1998.

Table 5

Composition of foreign firms in Japan by size of firm in terms of number of employees (1992)

| Firm size              | Number of firms as a percentage of total foreign firms in Japan |
|------------------------|---|
| Fewer than 9 employees | 26.6  |
| 10–29 employees        | 29.1  |
| 30–99 employees        | 22.5  |
| 100–299 employees      | 12.4  |
| 300–499 employees      | 3.8   |
| 500–999 employees      | 2.5   |
| 1000+ employees        | 2.7   |
| Unclear                | 0.5   |

Source: Japanese Ministry of Labor, Labor Policy Research Center (*Gaishikei Kigyō no Rōshū Kankeitō Jittai Chōsa Kekka Hōkokusho*). (Roudoushou Rouseikyoku, Roumu Kousei Kenkyūjo, 1992, p. 7).

only 5.3% undertake recruiting of new high school graduates. Moreover, some foreign-capital companies rely almost solely on midcareer hiring. TPF&C found that 40% of the 204 American firms in Japan surveyed reported that over 90% of their annual recruits were midcareer hires (TPF&C, 1991).

Foreign firms in Japan thus **generally recruit for experience**, recruiting midcareer hires as a source of market expertise, functional or product experience, and technology and innovation. While recruitment in Japanese firms thus generally is limited to entrance into a career upon graduation from universities, most of the American companies in Japan started out their operations there by hiring midcareer managers or going into joint ventures to acquire market expertise to establish a position in the Japanese market. In part, new firms need midcareer managers to lead their start-up operations; but even after operations are running, foreign firms rely more heavily on midcareer hires than do Japanese firms. As suggested above, regularly recruiting new graduates is not a standard activity of foreign firms (Ballon, 1992, p. 30), such that even after 10 years of operating in Japan less than one out of two veteran foreign firms hire new graduates straight from school.

Illustrating this, even such successful companies as Nihon DEC (now part of Compaq KK), for its first 10 years, relied entirely on midcareer recruiting of managers and technical staff. Nihon DEC entered the Japanese market in 1968 to market DEC's products in Japan and to provide service and engineering support for DEC's sales. After 10 years of hiring solely midcareer hires, Nihon DEC began university recruiting in 1978 and brought seven new graduates into the firm, which had 180 employees at the time. In 1986, 191 new graduates joined Nihon DEC, accounting for 48% of all new employees that year compared to 27 midcareer managers. Currently, almost half of their total staff are employees who entered the firm as new graduates. Similarly, almost all of IBM's new recruits are new graduates, indicating that **as foreign firms gain experience in the Japanese market, the better firms have conformed to Japanese practices of hiring new recruits**.

When looking at whether they can secure the necessary talent, 41.7% of the firms surveyed by MOL said that they can secure the necessary midcareer managers, 18.8% of firms surveyed say they can secure the necessary technical midcareer hires, and 18.1% said that

they can secure the necessary new college graduates (MOL, 1992, p. 10). The following section will first examine midcareer hiring in American firms in Japan, followed by college recruiting and a brief discussion of why Japanese choose to work for foreign firms (Table 6).

#### 4.2. Recruiting midcareer hires in foreign-capital firms

Traditionally, recourse to midcareer recruiting has been widely viewed by large Japanese firms as a **sign of insufficient planning or a weak personnel program**, since the predominant practice in large Japanese firms is to meet all their managerial needs through internal development of new graduates. Total internal employee development is possible in one's home market during a long period of steady economic expansion. Yet the Japanese model of lifetime employment may be slowly eroding with the bursting of the economic bubble of the late 1980s, as even major Japanese firms have been forced to reduce their new graduate hiring. As a result, middle-management people in Japanese firms are looking with less suspicion at foreign companies that approach them with employment offers (*Japan Times*, 1999). When the economy recovers, Japanese companies too may require increased midcareer hiring to expand and lead new start-up ventures. This is especially the case in fast-growing high technology and financial service industries; where like foreign firms, Japanese firms will need people to lead new businesses and bring in new technical expertise.

Table 6

Numbers of regular and part-time employees, as well as newly recruited and separated employees in foreign firms in Japan (1992)

| Industries and no. of firms in each industry | Current employees |                  |                     |      | New hires            |                 |                       | Separated employees |
|--|-------------------|------------------|---------------------|------|----------------------|-----------------|-----------------------|---------------------|
|  | Total employees   | Female employees | Part-time employees |      | Total reg. new hires | Midcareer hires | As a % of total hires |                     |
| Total  | 990               | 144,334          | 32,068              | 5629 | 16,591               | 8220            | 50                    | 8966                |
| Construction                                 | 1                 | 9                | 1                   | –    | 1                    | 1               | 100                   | 1                   |
| Mfg.   | 326               | 94,132           | 18,980              | 2559 | 7883                 | 2849            | 36                    | 4101                |
| Wholesale and Retail                         | 431               | 30,005           | 6539                | 1154 | 4126                 | 2543            | 62                    | 2505                |
| Banking Insurance                            | 84                | 12,226           | 4864                | 582  | 3248                 | 1939            | 60                    | 1500                |
| Real Estate                                  | 2                 | 15               | 5                   | 3    | 8                    | 8               | 100                   | 1                   |
| Transport Comm.                              | 31                | 2108             | 586                 | 171  | 245                  | 128             | 52                    | 243                 |
| Services                                     | 115               | 5839             | 1093                | 1160 | 1080                 | 752             | 70                    | 615                 |
| <i>Foreign capital ratio</i>                 |                   |                  |                     |      |                      |                 |                       |                     |
| 100%   | 460               | 56,286           | 15,293              | 1786 | 6598                 | 3450            | 52                    | 3573                |
| 51–99%                                       | 155               | 20,394           | 3407                | 1022 | 2048                 | 1030            | 50                    | 1207                |
| 50%  | 259               | 48,568           | 7275                | 1824 | 4158                 | 1574            | 38                    | 2341                |
| Subsidiaries of foreign firms                | 36                | 6263             | 1158                | 283  | 748                  | 380             | 51                    | 389                 |
| Branches                                     | 80                | 12,823           | 4935                | 714  | 3039                 | 1786            | 59                    | 1456                |

Source: MOL (1992, pp. 61, 75).

From the foreign firm's point of view, finding and recruiting midcareer managers or technical specialists costs significantly more per employee and takes considerably more time than does university recruiting. One firm estimates that the cost of recruiting an experienced professional is triple that of hiring a new university graduate (IIBC, 1997). In addition, the midcareer professionals of interest to foreign firms following the Japanese model of lifetime employment are often employees of customers or competitors, so that attempts to recruit them could threaten corporate relationships with these firms. Further, as in large Japanese companies, bringing experienced people laterally into the personnel structure of foreign firms alongside lifetime employees can have an impact on compensation, promotion, and career planning that can cause problems with existing staff who entered the company at the new-graduate entry level.

#### 4.2.1. Ages of midcareer recruits

A look at the average age of employees of foreign-capital firms in Japan suggests a more senior population of managers in foreign firms than in Japanese firms. The average age of male employees of foreign-capital firms is around 40 years old, with half (50.2%) of the male employees surveyed by MOL (1992, p. 10) aged between 30 and 39, and over 40% over age 40. In contrast, the average age of female employees of foreign-capital firms is around 32 years old, with 31.2% of women surveyed being between 30 and 34 years old, and 28.8% between 25 and 29 years old (MOL, 1992, p. 10) (Table 7).

#### 4.3. Career paths of midcareer recruits

Japanese managers in foreign firms appear to come from one of two general career paths previous to their current employment: (1) short-term experience in several foreign firms and perhaps one Japanese firm, or (2) long-term experience in a single large Japanese firm. Younger Japanese managers in foreign firms in Japan appear to fall into the first category of job-hopping among foreign firms, while more senior managers tend to have been lifetime employees of a Japanese firm with business relations to the foreign firm. In the case of younger managers, it seems that once a Japanese has changed his employer, to move to yet another foreign employer is easy, but to move back to a Japanese employer is practically out

Table 7

Composition of employees of foreign firms in Japan by age and gender (1992)

| Age by group       | Percentage of men<br>in each age group | Percentage of women<br>in each age group |
|--------------------|--|--|
| Under 24 years old | 0                                      | 7.1                                      |
| 25–29 years old    | 2.4                                    | 28.8                                     |
| 30–34 years old    | 18.8                                   | 31.2                                     |
| 35–39 years old    | 31.4                                   | 16.2                                     |
| 40 and older       | 43.8                                   | 10.5                                     |
| Unclear            | 3.7                                    | 6.3                                      |

Source: Japanese Ministry of Labor (*Gaishikei Kigyō no Rōshi Kankeitō Jittai Chōsa Kekka Hōkokusho*). Roudoushou Rouseikyoku, Roumu Kousei Kenkyūjo, 1992, p. 10).



of the question. Thus, while employees in Japanese firms are stereotypically functional generalists with regard to having experience in various aspects of marketing, sales, or manufacturing; employees of American subsidiaries in Japan are often functional experts with experience in several companies, usually foreign. This is especially true of financial service firms or foreign firms undertaking only sales in Japan. Accordingly, employees of Japanese companies develop firm-specific expertise and advance their careers by moving from department to department or within the same department (often the personnel or R&D department) within the same company. On the other hand, Japanese employees of American subsidiaries in Japan often can advance their careers by developing functional or product expertise and by moving from firm to firm to gain salary increases commensurate with their market knowledge and experience.

Illustrating how some American firms in Japan still hire experienced sales people from other foreign companies so as not to have to train them in-house, many firms like Company Y, a consumer products company, often hire from other firms because their Tokyo operations are small and do not merit investing in a great deal of training. They see it as cost inefficient to train someone who will leave the company after a short time. At the same time, many people will leave the firm after a short while because there is no training to facilitate advancement within the firm. By hiring from other companies, they are able to hire people with previous experience. Sometimes this creates a vicious cycle. On one hand, it is not cost efficient for the company to train people whom they think will leave the firm shortly. On the other hand, people often leave the firm after several years because they perceive that the only way to advance themselves in terms of their skills, is to move to another company with a more challenging position. Company Y's 130-employee Tokyo operations hire 3–4 mid-career managers per year who are generally functional specialists specializing in areas such as management of information systems, planning, marketing, and sales. Ninety percent of these employees have previous experience in several (2–3) firms, and they are hired as experienced midcareer managers between the *shunin* or *kacho* level—the *shunin* being those with about 3 years of experience, and *kacho* level being the lowest level of management with anywhere from 5–10 years of experience, or more in recent years, in a given functional specialty.

More senior midcareer recruits tend to fall into the second group of managers, with long-term experience in a large Japanese firm. In the case of joint ventures, as the number of upper management positions narrows toward the top of the Japanese parent company, Japanese managers in large Japanese firms are farmed out to head or sit on the board of the joint ventures.<sup>1</sup> Thus, the general managers heading Japanese–American joint ventures in Japan often come from life-long careers with the Japanese parent. The practice in a number

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<sup>1</sup> They commonly are dispersed to branch offices, subsidiaries, and supplier firms, as well. Transferring personnel from a large company to a smaller related company (*shukkou*) occurs for various reasons: employees reach a certain age limit, managerial staff becomes redundant, or there is a need for training. Transfer can be temporary (a period of 2–3 years) or permanent, and has been used as a means of carrying out personnel reduction and or business diversification. On average, 6% of the staff of large firms are undergoing this kind of transfer (Ballon, 1992, p. 27).

of foreign firms is to recruit for a few years (*shokutaku*) a retired Japanese executive, usually in his early sixties, who may be given a position of chairman and who, besides helping the new company develop the necessary contacts in the Japanese business community, is first and foremost trusted with the task of helping the expatriate executive in recruiting new graduates and experienced personnel (Ballon, 1992, p. 31). These Japanese senior managers have often spent 20 or more years with the Japanese parent company and have only limited experience outside of that company or its affiliates. On the other hand, they usually have experience in a variety of functions, including the personnel department, a key department in Japanese companies. Subsequently, these managers often identify themselves more strongly with their Japanese parent or previous employer, even though their rank with the American firm may be higher than it was with their former Japanese employer. One reason for this may be that they perceive greater social status from their Japanese employer than they do from working for a foreign firm, particularly if the Japanese parent is a large, well-known manufacturer. Tellingly, three of the joint-venture executives I interviewed still considered their strongest social reference group to be their previous Japanese employers and constantly framed their answers in comparison to their previous Japanese employers' practices. While the pay and freedom may be greater with a foreign-capital firm, social prestige continues to appear to be greater with major Japanese firms.

#### *4.4. Reasons for leaving a Japanese firm for a foreign one*

Managers who leave Japanese firms to go to a Western firm still are not generally perceived by many Japanese to have been successful in their previous firms. Midcareer hires are seen as falling into two groups. The first group of Japanese managers is smart, but not well connected in their previous companies. At midcareer, a prospective job-changer's image of a desirable foreign employer is more likely to include the strengths associated with success in that firm's industry, such as high R&D productivity in a microelectronics firm, and firm size, plus a famous company name. The second group of Japanese managers was not successfully advancing with their Japanese employer, forcing them to seek employment elsewhere. One reason these midcareer hires are not perceived to have been "successful" in their previous firms is that most Japanese perceive that they can only move to firms with less prestige, because prestigious firms value training their employees internally. Thus, it is widely perceived that the only Japanese who leave the social prestige of their current firm are those who are not doing well there.

#### *4.5. Administering the midcareer recruiting process*

Several firms such as Company X, a chemical company, have multiple operations in Japan, some of which are wholly owned subsidiaries and some are joint-ventures with Japanese chemical firms. In their joint ventures, Company X takes two routes toward hiring Japanese employees. The first is to allow the Japanese joint venture partner to take care of hiring. As with most foreign firms in Japan, local Japanese personnel managers are often hired to take

charge of their recruiting programs. They basically communicate their expectations and let the Japanese personnel manager take full responsibility in bringing in the employees.

#### *4.5.1. The role of headhunters*

The second route to administering recruiting, used in the case of midcareer hires, is to use headhunters to screen midcareer hires. Midcareer professionals are usually hired through headhunters because the competition at job forums in United States for Japanese is very competitive and it is very expensive to recruit overseas. In Company X's case, the expense might be reduced in the future if all Company X's firms get together and hire collectively. As with other firms, these midcareer hires are functional specialists. Originally, IBM also worked closely with a large number of recruiting firms and used introductions by its present staff to locate midcareer candidates. Headhunters usually receive 30% of the first year's total compensation for salaries up to 10 million yen (US\$100,000 at 105 yen=US\$1 [2000]) from the employer, and 35% of the first year's total compensation for upper managers with salaries above 10 million yen. Compensation sometimes includes a housing allowance, but is largely in terms of salary. The Japanese government requires that companies pay for transportation, pension, and social insurance. Japanese government looks askance at headhunters and leans toward policy that limits their purview. Further, many colleagues are very hesitant to give out information about the availability of their colleagues for fear of being found out, particularly in financial services.

#### *4.5.2. The role of publications*

Companies like Recruit publish magazines for those with predominantly graduate-level skills, along with providing employers with information and testing services. Monthly issues of Recruit's publication, *B-ing* include articles on the midcareer recruitment plans at the most profitable Japanese and foreign firms. However, Japanese firms may perceive such recruiting publications to be a less discreet means of recruitment than are headhunters, as is reflected in the journal's 900 pages of job advertisements. Early on in their entry into the Japanese market, companies like Nihon DEC also advertised widely in newspapers and magazines to attract midcareer recruits. For example, at the start, DEC ran small advertisements weekly in several leading newspapers. Later, thinking that such frequent employment advertising might falsely suggest a high turnover of staff, the personnel department shifted to quarterly insertions. Ads also became much larger, on the assumption that large ads are associated in the reader's mind with large, stable companies. DEC ran magazine advertisements in computer-related publications and employment information magazines every couple of months for their first several years in Japan.

#### *4.6. Recruiting new university graduates*

Once larger American manufacturers establish R&D and manufacturing in Japan, they may begin to want to recruit new college graduates to develop talent internally. TPF&C found that 6 of the 11 firms it sampled with over 1000 employees reported that they were becoming

more successful at recruiting new college graduates (TPF&C, 1991). As one IBM personnel executive puts it, “We prefer to recruit high-quality young people, train them, and establish our own cultural patterns just as soon as they come out of school” just as major Japanese firms do (IIBC, 1997). American firms like Company X, a chemicals firm, even have begun to think about sending new Japanese employees back to America for training, partly to give exposure to the parent firm, and partly to consolidate and take advantage of training in the United States at relatively low expatriate salaries.

As Dwight Bohm, the president of Emerson-Rosemount Japan, noted, large American firms with a long-term commitment to the Japanese market realize that the best Japanese employees are often snapped up for lifetime employment upon graduation from college. Therefore, recruitment just after graduation is almost the only chance to hire high-quality personnel. However, even for American firms in Japan, once the company hires an employee, it is very difficult to dismiss him even if his ability does not reach expectations. Firing employees in Japan mars the foreign firm’s reputation as a stable firm with job security. Concurring with the importance of hiring new graduates for the long term, TPF&C’s (1991) study indicated that 41% of the 204 American firms surveyed had no turnover of new graduates for 3 years.

#### 4.7. *The recruiting process and university relations*

The personnel departments in American firms in Japan are seldom large enough to set up teams of recruiters to target students of major universities and hire large numbers of graduates as Japanese firms do. However, despite small personnel departments, the larger American firms do try to develop relations with faculty at universities to establish word of mouth reputations with students looking for jobs. Traditionally, faculty in engineering and science (*gijutsu kankei*) have had great influence on the recruitment process because the nature of laboratory work in Japan ties students much more closely to one faculty. Professors often literally assigned or allocated students to companies through the recommendations they wrote for their students. IBM Japan rates good relations with university faculty in technical disciplines as critical. However, many firms feel that professors are losing influence on students, particularly in the liberal arts, although professors still have some influence in areas such as engineering. Accordingly, some foreign firms hiring for sales or marketing rather than R&D do not go through faculty introductions or even require written recommendations.

When DEC began recruiting new graduates in 1978, the company was virtually unknown on Japanese campuses. During presentations to professors, its employment manager recalls, some heard the word Digital and asked if the company made watches. In its annual search for new graduates, Nihon DEC/Compaq KK approaches virtually every university in Japan—around 500 in all. The company has since developed its recognition and image on campus by several means. First, the firm’s three recruiting members visit universities each year, in some cases three or four times, to talk with professors and placement counselors. Second, many of its employees return to their universities for visits with their professors or for seminars, classes, and clubs. Third, company information and

recruiting bulletins are sent to all universities in Japan, and visits by the recruiters of Nihon DEC/Compaq KK to university placement staff and faculty members have played an important role in building relations. Though requests for recommendation of science and engineering seniors are made to all universities, students without university recommendations are also able to apply through an open application system. From May through August, the company holds presentation seminars weekly which currently draw 150 to 200 students. To boost student recognition of the firm and its business, Nihon DEC/Compaq KK holds a computer summer-school session each year since university recruiting began, and students attend free of charge.

Success at the universities, many American firms maintain, requires the hiring of consistent numbers of students every year. Even in difficult economic times, some firms keep up their faculty relations by representing their numerous subsidiaries in Japan as all being part of one group, so that yearly hiring appears consistent for the group as a whole even though some subsidiaries do not hire in a given year. Indeed, many Japanese professors see bad economic times as a good opportunity for recruitment. In bad economic times, Japanese firms hire fewer employees, rather than fire employees. Therefore, there is a greater supply of new college graduates than there are entry-level positions in Japanese firms. This leaves an opportunity for Western firms to hire higher quality employees than they might have access to generally.

IBM Japan's college recruiting jumped most noticeably in the 1980s, from 500 new graduate recruits in 1980 to 1400 in 1986 toward the peak of Japan's economic expansion (IIBC, 1987). That in itself helped raise the firm's popularity among students. Large recruiting programs year after year are needed to maintain a vital presence at the universities IBM Japan chooses for its recruiting. IBM's personnel department estimates that they must recruit a minimum of 300 engineers each year just to "keep the faucet open." (IIBC, 1987, 1997, pp. 33–34). In recent years IBM Japan met its recruiting requirements by concentrating its efforts at 100 major universities in metropolitan areas of Japan. The strong competition for technical graduates is illustrated by the market situation in high-demand categories such as mechanical engineers, electrical engineers, and physicists. In recent years, there were an estimated 10,000 graduates in those categories annually. Seven companies—IBM Japan and the top six Japanese computer and electronics firms—were seeking a total of 6000 of these graduates. It is not clear, however, whether this trend will continue with IBM's current performance in Japan and at home.

#### 4.8. Reaching students directly

American firms also tap graduating students directly by advertising in the numerous placement guides sent to students in the spring 1 year before graduation, by ads in the *Japan Times* newspaper, or by contacting students through currently employed alumni or lists provided by recruiting companies. In general, smaller firms publicize openings using one of the placement guides. These guides resemble telephone books in thickness, list hundreds of firms and convenient indices, and are published by newspaper publishers such as *Mainichi*

*Shimbun*, *Nihon Keizai Shimbun*, and other publishers such as Diamond and Recruit. These placement guides are sent directly to students free of charge, and usually include company profiles, available openings for students of various majors, and names and telephone numbers of alumni working there, as one venue for students to contact sempai and learn more about the company. Most of these publications also include self-addressed, stamped postcards for students to return to companies to request information. Often the recruitment books are a stronger influence on students than professors are. Many American firms in Japan make full use of putting ads in such recruiting publications.

American firms also host seminars, although they are a much softer sell than in America because, generally in Japan, people who show an interest in working for foreign firms already have knowledge about them. Because ads are very expensive in Japan, firms also resort to the news media, especially looking to have articles written about new products or activities undertaken by the firm. Several companies, like AT&T and Dow, have public affairs managers who have good connections with the press and who promote communications through news items. Some companies such as Eastman Kodak have gone the extra distance to contact commercial publishers to issue books profiling their parent companies.

Some American firms offer temporary, part-time jobs to students in their junior or senior year to give them an inside view of the company. At some universities, students have set up organizations to keep them informed about part-time job opportunities, and there are also commercial magazines in Japan (such as *From A To...*) that function as current part-time job directories and are available in many convenience and book stores. Accordingly, the image of foreign companies among students who visit a firm, attend its orientation sessions or talk with its recruiting officers is markedly better than the image held by those who make no direct contact with foreign-capital firms (IIBC, 1997).

Often American firms focus on Japanese students attending American business schools or undergraduate institutions, and work through recruiters such as Recruit or Disco to set up interviews with them. Company Y hires 3–4 employees per year for its 300-employee Tokyo office through this method. They use an agent to hire these Japanese students studying in America, and they often begin by hiring these Japanese in American MBA programs as summer interns. Tokyo office personnel then fly to New York to interview the finalists before these recruits are taken on into the Tokyo operations. Traditional Japanese firms tend to recruit postgraduate students only in technical specialties, but foreign firms often see students with newly awarded masters' degrees as an untapped source of job candidates. Postgraduates sometimes expect an appropriate salary differential, but normally are placed in the same trainee positions as the new graduate cohort.

#### 4.9. Type of student attracted to working for a foreign firm in Japan

Sakakibara et al. (1991) found that students seeking employment with foreign firms in Japan sought less group affirmation and more adventure. I spoke with several students and alumni at Hitotsubashi, Keio, and Tokyo Universities who ended up working for lucrative



American financial institutions or long time Japanese resident firms such as Coca-Cola. Many of the students at these universities were only interested in financial institutions, though some of them were interested in government ministries, or other service industries such as trading firms. A few of them wanted to enter the academic world, though this may be a result of bias given that the interviewer was an academic. In most cases the students seeking employment with foreign firms seemed to be more adventurous and not to be as security-oriented as their peers do. Interviews with employees of Baxter Medical indicated that the Japanese who are attracted to work for Western firms such as Baxter, which are generally small in size when compared to Japanese firms, have the following characteristics:

- They are people who have studied abroad or want to go abroad.
- They have a particular interest in the field in which the company operates.
- They are people who could not get a job in other companies.
- They are women who may feel that there is more room to move up and more opportunities to receive a higher salary.

#### *4.10. Type of foreign firm most attractive to Japanese*

Both new graduates and midcareer recruits are concerned with the permanence of foreign companies' operations in Japan. In considering foreign-capital firms, recruiters note, those seeking a change of company appear to prefer an affiliate organized as a Japanese corporation over one that is a branch of the parent firm; and a branch is more attractive than a representative office. Some university faculty I interviewed said they often checked out an American firm's stability and long-term presence in the market by seeing if it was listed on the Japanese Stock Exchange; though many firms, especially wholly owned American subsidiaries, are not listed there. One of the concerns that Japanese college seniors have when considering an American firm, is that the firm might not be there forever, and job security is usually a very deep concern with the Japanese. Withdrawals and liquidations of wholly foreign-owned subsidiaries in Japan, as reported by MITI, totaled less than 100 for the period 1980–1990. If foreign withdrawals from Japan-based joint ventures with Japanese partners are included, the figures are less than 300 for the period.

#### *4.11. Perceived pros and cons of working for a foreign firm in Japan*

Wages in financial services, and particularly American financial services, are high in comparison to Japanese firms. Labor Ministry data shows that, in general, foreign companies pay better salaries than do Japanese firms. As of 1997, Japanese companies paid an average of 329,000 yen (US\$3290) a month to employees with university degrees, compared to 556,000 yen (US\$5560) a month paid by foreign firms. In addition, foreign firms offer shorter working hours and longer vacations. The Japan Productivity Center (1994) found that one third of the surveyed 502 foreign firms in Japan provided an average of 120 days of vacation

per year compared to 6% of Japanese firms. Likewise, 85% of the surveyed foreign firms in Japan employed a 5-day workweek, compared 50% of Japanese firms surveyed. Nearly 70% of the foreign firms surveyed claimed that their employees worked an average of no more than 2000 h a year while the 1999 figure for Japanese firms was 2076 h ([Japan Productivity Center, 1999](#)).

In addition, students perceived that other benefits of working for a foreign firm in Japan include:

- An employee's ability were more important than nationality, age, or sex, when working for a foreign company in Japan.
- The stronger the personality, the better the evaluation of the employee.
- Employees do not have to spend time with coworkers after work.
- Female employees are not asked to quit after getting married.
- There is generally less overtime in Western companies.
- There is generally more vacation time in Western companies. Employees are encouraged to take that vacation time, and they can carry over vacation time from 1 year to another.
- Like Japanese firms, most Western firms provide housing allowances, which can run up to 75% of the rent, up to 75,000 yen (\$7500) per month. They also provide transportation and overtime to employees below management level.

On the other hand, concerns on the part of students included some of the following:

- Parent companies in the United States are often involved in mergers and acquisitions, implying that the affiliate could have an unstable future.
- Employees regarded as incompetent tend to be quickly fired. Unstable status because of nonlifetime employment guarantee.
- Not enough training.
- Too much individualism causes isolation.
- Many female employees fail to develop a relationship and get married because they spend too much time working.

Firms such as Company X often promote the following aspects of working for a foreign-capital firm:

- Competent young Japanese people see the foreign firm as an opportunity to develop their own independence and abilities.
- Foreign firms, because of their small size and great opportunity for expansion, offer greater opportunities than Japanese firms do for progressing in the company and greater speed at which to make this progress.
- Foreign firms offer an advantage to Japanese females, particularly those from liberal arts backgrounds. Japanese women in the foreign firm, particularly those from the soft sciences, are seen to be more open to dealing with people from a number of other cultures, and are also seen to know more about other cultures.

- The new female hires in Company X have two career paths. Most of the women are looking for a career as an office lady primarily. However, there are often career opportunities for those who want them. They receive equal opportunity and equal pay. In addition, foreign firms provide women with the largest opportunities for authority and autonomy.
- Company X, like many Japanese firms, has a global strategy to hire college grads and train them in-house.

Among medical equipment firms such as Baxter, some of the attractions for independent Japanese employees are:

- There are unique opportunities in engineering in such a company; and
- There is the possibility of an international career.

The reasons that Japanese may not be attracted to working for a smaller Western firm such as Baxter also include the following:

- Japanese cannot move up in the firm without a good handle on English.
- They often perceive that Japanese people do not really have controlling authority.
- Salaries are sometimes not as high.
- They are worried about layoffs.

#### *4.12. Tenure of employment in foreign-capital firms*

With regard to the average tenure of employment for male employees of foreign-capital firms, more than half of the employees surveyed by MOL (1992, p. 10) stay with a foreign firm for 6 years or less, with 22.0% of male employees staying 3–4 years in one firm, 20.7% staying less than 2 years, and an average tenure of around 6.4 years. With regard to the average tenure of employment for female employees of foreign-capital firms, over one third (34.5%) stay for less than 2 years, and over a quarter (26.5%) only stay for 3–4 years, with the average tenure for female employees of foreign firms in Japan being around 3.7 years (Table 8).

#### *4.13. Comparison of recruiting practices in Japanese firms, U.S. firms and U.S. firms in Japan*

I surveyed the HRM heads of 81 Japanese firms, 42 American firms, and 55 American firms in Japan as to their estimates of the degree of emphasis placed by the subsidiary on 15 recruiting practices. Where Japanese and American personnel practices differed in emphasis, the subsidiaries' personnel practices differed from American personnel practices but not from the Japanese practices in these samples. Of the Japanese and American recruiting practices that differed, the subsidiaries resembled (did not significantly differ from) the Japanese firms, but did significantly differ from the American firms in terms of

Table 8

Average tenure of employees of foreign firms in Japan by length of employment and gender (1992)

| Average employment tenure in a single foreign firm in Japan | Percentage of men in each tenure category | Percentage of women in each tenure category |
|---|---|---|
| Less than 2 years   | 20.7                                      | 34.5  |
| 3–4 years   | 22.0                                      | 26.5  |
| 5–6 years   | 13.3                                      | 14.4  |
| 7–9 years   | 12.9                                      | 7.6   |
| 10–14 years   | 12.3                                      | 4.4   |
| 15+ years   | 9.6                                       | 1.6   |
| Unclear   | 9.2                                       | 11.1  |

Source: Japanese Ministry of Labor (*Gaishikei Kigyō no Rōshi Kankeitō Jittai Chōsa Kekka Hōkokusho*). Roudoushou Rouseikyoku, Roumu Kousei Kenkyūjo, 1992, p. 11).

the use of objective skills and personality tests. The subsidiaries resembled *both* the Japanese firms and the American firms regarding the emphasis placed on the use of interviews by line managers and the use of recruiting for specific skills. Here, the subsidiaries placed greater emphasis on both the use of interviews by line managers and the use of recruiting for specific skills than did the Japanese firms, but less than did the American firms in America (Table 9).

Table 9

Means, standard deviations, and one-way ANOVA results for personnel practices of American firms, Japanese firms, and American subsidiaries in Japan

| Personnel practice emphasized in recruiting | Japanese firms “J” |          | American firms “Am.” |          | American subsidiaries in Japan “Sub” |          | One-way ANOVA for the three samples |        |      |                                   |
|---|--------------------|----------|----------------------|----------|--------------------------------------|----------|-------------------------------------|--------|------|-----------------------------------|
|   | Mean (S.D.)        | <i>n</i> | Mean (S.D.)          | <i>n</i> | Mean (S.D.)                          | <i>n</i> | Sub-J                               | Sub-Am | Am-J | <i>F</i> ratio<br><i>F</i> (1,95) |
| Recruitment from specific schools           | 2.60 (1.51)        | 80       | 4.00 (2.03)          | 20       | 1.75 (1.49)                          | 55       | D                                   | D      | D    | 15.50***                          |
| Objective skills tests                      | 3.57 (1.19)        | 81       | 1.02 (1.67)          | 42       | 3.98 (2.21)                          | 55       | S                                   | D      | D    | 43.06***                          |
| Personality tests                           | 5.15 (1.75)        | 81       | 0.98 (1.83)          | 42       | 4.07 (2.71)                          | 55       | S                                   | D      | D    | 54.46***                          |
| Interviews by line managers                 | 5.32 (1.19)        | 81       | 6.36 (1.21)          | 42       | 5.84 (1.55)                          | 55       | S                                   | S      | D    | 8.91***                           |
| References                                  | 5.81 (1.29)        | 81       | 5.60 (1.80)          | 42       | 3.05 (2.02)                          | 55       | D                                   | D      | S    | 49.66***                          |
| Organizational fit                          | 5.03 (1.03)        | 79       | 4.93 (1.97)          | 41       | 5.24 (1.22)                          | 55       | S                                   | S      | S    | 0.68                              |
| Specific skills                             | 4.74 (1.25)        | 77       | 5.78 (1.68)          | 41       | 5.36 (1.11)                          | 55       | S                                   | S      | D    | 8.98***                           |
| Internal recruiting                         | 4.43 (1.53)        | 79       | 4.38 (1.78)          | 42       | 4.85 (1.43)                          | 55       | S                                   | S      | S    | 1.52                              |

Standard deviations are listed in parentheses below the means. \* $P \leq .05$ , \*\* $P \leq .01$ .

Emphasis on practice measured on a 0–7 scale, with 1 indicating little emphasis, 7 indicating great emphasis and 0 indicating that the practice does not apply.

D indicates significantly different at .01 level.

S indicates NOT significantly different at .01 level different.

\*\*\* $P \leq .001$ .

## 5. Conclusion

Japanese recruiting practices highlight aspects of Japanese organizational behavior and the Japanese labor market that are deeply embedded in the Japanese social structure, suggesting that organizations are not purely rational in their behavior but bound by social concerns and constraints, and tradition, as well. In addition to numerous invisible social structures, recruiting practices illustrate the embeddedness of the firm internal labor market, the norms for what constitutes a desirable company, and the selection of new recruits on the basis of organizational fit.

One aspect of the labor market that appears deeply embedded in the Japanese social structure is the internal labor market with its single entry into the firm upon graduation from school. Economic arguments would suggest that firm internal labor markets emanate from requirements for firm-specific skills and technologies. However, most Japanese firms deal with well-developed or stable technologies that are similar across firms and products.<sup>2</sup> Instead, I argue that this organizational action is embedded in shared cultural perceptions that employees who leave a company midcareer do so because they were not doing well there. However, this cultural perception does not take into account that employees may leave not because they are not skilled or talented, but because they do not fit well with the organizational culture or have lost interest in the product or company. In industries with rapidly changing technologies, lack of labor mobility reduces the amount of specialization as well as the cross-fertilization of technologies and ideas across companies, since employees change functions within a company rather than advancing and developing expertise in one functional area by changing companies. Japanese firms would be better able to maintain technological leadership by utilizing more midcareer hires. However, social constraints and biases make them reluctant to do so.

Second, from the perspective of new recruits, the norms for determining what constitutes a desirable company emanate from the single entry to the labor market. New college graduates want to work for big companies, even though the salary does not differ significantly from that of small companies with more freedom. Large, well-known companies are seen as sources of status and security. In terms of security, entrepreneurial and foreign ventures are not as attractive because if they fail or lay off employees, there is limited opportunity to reenter the labor market midcareer. Also tied to the single entrance to the labor market is the fact that all firms, like all schools, start April 1st. While this simplifies training, it forces companies to plan 1 year in advance for their recruiting needs and does not allow for flexibility in meeting consumer demand. Even as technical demands change, social views around what constitutes a desirable company are slow to change. Companies need to adapt to fluctuating demands, but do not, because they are bound by social constraints.

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<sup>2</sup> Like organizations anywhere, it may be that the organizational culture is unique to each firm. However, most Japanese employees rotate jobs within a company three to eight times in a career, suggesting that there are company structures in place to accommodate rapid turnover and acclimate new employees.

Third, recruiting new employees on the basis of organizational fit instead of skills is also deeply embedded in social norms and not necessarily in keeping with the technical needs associated with advanced technologies. In part, Japanese firms hire for organizational fit because it is felt that people can be taught skills, but that their personalities are more difficult to improve. Yet, organizational fit can be a code word for conformity, which is reflected again and again in career advancement based on not failing, rather than on standing out or accomplishing something new. Further, such organizational fit permeates Japanese society and is reinforced by various institutions such as the educational system, not only in school activities and pedagogical philosophies, but even in the use of entrance exams based on rote memorization which requires conformity as well as hard work. Getting along with others is necessary in a system of lifetime employment and an environment where performance appraisal is heavily weighted toward teamwork, managing others, and good human relations. However, such organizational fit may not be the most effective way to move into the Internet era where technological advancement may require creativity and a degree of individualism and innovativeness. Many of Japan's most innovative products (i.e., ASCII, Ichitaro Word Processing Software, Sailor Moon animation, and Pokemon) are not products of employees who went along with the system, but of creative outsiders. As Japanese firms move toward performance appraisal that assigns more personal responsibility and rewards more individual accomplishment, recruiting for skills rather than organizational fit might be more suitable.

Even with the prolonged recession and the presence of powerful foreign firms, these monumental influences have not brought about changes in Japanese recruiting practices, suggesting that they are embedded in social structures that are slow to change. I argue that many of the practices were developed in response to social norms and institutions that were functional and effective at the time of initiation but that now may be outmoded. Circumstances have changed; many recruiting practices would do well to change also. However, until social institutions change, it is not likely that recruiting practices will.

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