

# **ROUTLEDGE HANDBOOK OF HUMAN RESOURCE MANAGEMENT IN ASIA**

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## **Chapter 15**

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### **HUMAN RESOURCE MANAGEMENT IN JAPAN AND SOUTH KOREA**

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## HUMAN RESOURCE MANAGEMENT IN JAPAN AND SOUTH KOREA

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### Introduction

This chapter provides an overview of human resource management (HRM) in Japan and South Korea (henceforth Korea) and discusses the recent globalization challenges that enterprises from both countries face. Given the importance of large enterprises in these countries, though the importance of small medium enterprises (SMEs) has been emphasized recently, we focus on the HRM issues of large enterprises. Moreover, we provide the managerial implications of how Japanese and Korean enterprises can respond to the current globalization challenges, as well as suggesting avenues for future research.

Japan and Korea, located in East Asia, are successful countries that have experienced so-called miraculous economic growth in the post-World War II period. Japan's economic boom started in the 1950s and by the 1960s, the country had become the world's second largest economic giant. Korea is one of the Four Asian Tigers, or Four Asian Dragons, along with Taiwan, Singapore, and Hong Kong. These highly free-market and developed economies experienced rapid industrialization between the early 1960s and the 1990s. Simultaneously, both Japan and Korea experienced severe economic downturns. For example, Japan suffered from a long-term recession after the collapse of the bubble economy in the early 1990s and Korea's economy was heavily influenced by the Asian financial crisis in the late 1990s, but recovered quickly.

Corresponding with their economic success, Japan and Korea have many distinctive multinational enterprises (MNEs), including Toyota, Honda, Sony, Panasonic, and Mitsubishi (Japan) and Samsung, LG, Hyundai, and Posco (Korea). Most of these successful enterprises are organized into diversified business groups, so-called *keiretsu* (Japan) or *chaebols* (Korea). While both *keiretsu* and *chaebols* are characterized as conglomerates with cross-ownership amongst the various member enterprises, they also differ on several dimensions: the central role of banks in *keiretsu*, the hierarchical and centralized leadership of *chaebols*, and the stronger family bonds in *chaebols* (Hemmert, 2012).

As neighboring countries, Japan and Korea have experienced cultural exchange, trade, war, and political contact for more than 1,500 years. The cultivation of rice, Buddhism, Chinese foods, Chinese characters, and other technology came to Japan via Korea. Therefore, Japan and Korea share a similar cultural background. For example, Confucianism has influenced the culture of both countries, resulting in industrialization because the philosophy values stability,

hard work, and loyalty and respect toward authority figures. Confucianism also influences the management style of companies in both countries.

Because of Japanese companies’ great success in the world market before the economic crisis in the 1990s, Japanese management techniques, including Japanese-style HRM, have been studied extensively by international scholars. Indeed, Japanese-style HRM and US-style HRM are held up as “best practices” (Smith & Meiksins, 1995; Pudelko & Harzing, 2008). On the other hand, Korean HRM has received comparatively less attention from researchers (Tung, Paik, & Bae, 2013). Nonetheless, both Japanese and Korean HRM are worth studying and should be well understood because companies from Japan and Korea have both similarities and differences that contribute to their organizational success. Comparing and contrasting HRM practices of Japanese and Korean firms will help academic researchers and practitioners understand how the historical and cultural backgrounds of Japan and Korea have influenced their HRM, identify the source of their competitive advantage in terms of HRM, and explore the nature of the global challenges these companies face.

The remainder of this chapter is structured as follows. In the next section, we provide an overview of the HR systems in both countries. In the following section, we discuss the major challenges arising from globalization. Both Japanese and Korean MNEs are highly globalized, yet still often pursue very domestic HRM. We then provide managerial recommendations as well as avenues for future research.

### HR systems of Japan and Korea

Both Japan and Korea are well known for their distinctive HR practices (Rowley, Benson, & Warner, 2004). As a result of Japanese companies’ rapid economic success after World War II, Korean companies benchmarked and largely adopted the Japanese HR system (Bae & Rowley, 2003). However, in response to the Asian financial crisis in 1997 and the US financial crisis in 2008, Korean companies sought inspiration elsewhere (Tung et al., 2013). Japanese companies also modified their HR practices given the long domestic recession that started in the 1990s. For instance, while lifetime employment used to be the norm in the past, in recent years, poorly performing Japanese companies laid off people to reduce costs (Ahmadjian & Robinson, 2001). Notwithstanding certain similarities, several distinct differences have emerged between Japanese and Korean HR practices (Rowley et al., 2004). Table 15.1 provides an overview of the similarities and differences between HR practices in Japan and Korea, and also contrasts these with

Table 15.1 Comparison of HR systems

	<i>Japan</i>	<i>Korea</i>	<i>Western approach</i>
Organizational culture	Collectivistic, relationship focused	Collectivistic, hierarchical	Individualistic, flat hierarchies
Recruitment and retention	College recruiting, long-term employment	Entry and mid-career recruiting	Flexible
Training and development	Firm specific, long term	Extensive training, more focus on specialist skills	Focus on specialist skills
Compensation and rewards	Seniority and ability based	Seniority and performance-based, financial incentives	Performance and job based

typical Western approaches. In the following, we discuss Japanese and Korean HR practices in more depth. We organize HR practices into organizational culture, recruitment and retention, training and development, and compensation and rewards. For each subsection, we first describe the situation in Japan and Korea separately, and then provide a comparative summary.

### **Organizational culture**

**Organizational culture in Japan.** Organizational culture in Japan is deeply rooted in the national culture (Marsh & Mannari, 1976). Japanese culture is characterized by collectivism, moderate power distance, strong uncertainty avoidance, masculinity, and a long-term orientation (Hofstede, 2001). Collectivism manifests in Japanese companies in the way they organize work in teams. Also, considering the moderate power distance, teams are usually decentralized and have the autonomy to make decisions and to conduct the tasks assigned to the team. Japanese employees are known for their attachment to their organization and their long working hours (Froese, 2013; Jakonis, 2009; Li-Ping Tang, Kim, & O'Donald, 2000).

Japan is a mono-cultural, mono-racial, and mono-lingual country. In the organizational culture, Japanese firms have incorporated the notion of “in” (*uchi*) and “out” (*soto*) (Doi, 1971). They prefer group membership. This in turn creates a strong distinction between in-groups and out-groups (Gudykunst & Nishida, 2001). The way Japanese workers communicate to in-groups and out-groups is also distinctive. They hesitate to express contrasting opinions (Peltokorpi, 2008). They identify themselves mainly in terms of groups and try to fit into groups by displaying the right attitudes, behavioral patterns, and values (Nakane, 1972). Many mechanisms exist to help employees fit in with the groups and the organization (Sekiguchi, 2006).

Japanese people tend to find relief and comfort in hierarchical structures (Hofstede, 2001) and their organizational culture is strongly bonded by the relations between seniors and subordinates (Haghirian, 2010). Japanese managers are more likely to link success and failure to effort and dedication rather than employees' abilities and financial performance, as in the USA (Baba, Hanaoka, Hara, & Thompson, 1984). Moreover, in Japan, the employee–employer relationship is largely based on verbal contracts (Peltokorpi, 2008).

The organizational conditions in Japan are favorable for knowledge creation. Indeed, some scholars have called Japanese organizations knowledge-creating companies (Nonaka & Takeuchi, 1995). *Kaizen* (continuous improvement) is the basis for creating knowledge as it deals with interactive learning and problem solving (Sadler, 1997).

**Organizational cultures in Korea.** The organizational cultures of Korean companies have several unique features rooted in Confucianism and the military regime (Hemmert, 2012). Collectivism, work ethic, hierarchy, and paternalistic leadership are typical traits (Froese, 2013; Hemmert, 2012; Jöns, Froese, & Pak, 2007). Collectivism is highly regarded in Korean society and companies. Teamwork and socialization within teams and companies are important to build trust and loyalty. Thus, training, company trips (e.g., trip to Cheju Island), and outings (e.g., mountain climbing) are an integral part of their work. Colleagues usually have lunch, coffee, and dinner together. Socialization even extends beyond the organizational boundaries and it is common for colleagues to attend each other's family gatherings (e.g., weddings, funerals).

In terms of work ethic, several studies have reported Koreans' high work motivation and willingness to work long hours (e.g., Froese, 2013). Thus, it is not surprising that Korea has amongst the longest working hours in the world (Bader, Froese, & Kraeh, 2016). In 2014, Koreans worked on average 2,124 hours per year. In comparison, Germans only worked 1,371 hours per year, while Japanese and US employees worked around 1,700 hours per year. Koreans not only work longer hours each day than their European counterparts, but they also take fewer

holidays. Even though they are entitled to fifteen to twenty-five days of paid holidays a year, Korean labor laws and peer pressure result in most employees doing “holiday work” instead of taking their holidays (Suk, 2013).

Korean organizations are well known for their centralized and hierarchical structures rooted in Confucianism (Jöns et al., 2007). The several-decades-long military regime and mandatory military service for all Korean men have further enforced the hierarchical organizational culture (Chang, Chang, & Jacobs, 2009). Supervisor–subordinate relationships are also very hierarchical. Subordinates are expected to follow almost blindly the instructions of their supervisors. Supervisors in turn are expected to be benevolent leaders and provide guidance to their subordinates (Hong, Cho, Froese, & Shin, 2016).

**Comparative summary of organizational cultures.** Both Japanese and Korean enterprises are well known for their strong organizational cultures. Influenced by their national cultures, the organizational cultures in both Japan and Korea are characterized by collectivism, emphasizing teamwork, and personal relationships. However, the specific manifestations and interpretations vary somewhat. For instance, Korean companies tend to have a short-term orientation in contrast to the long-term orientation of Japanese companies. Another major difference between the countries is that work relationships and personal relationships in Korean organizations tend to be much more hierarchical than in Japanese organizations. Work and personal relationships are also more strongly interwoven in Korea than in Japan. The tendency to work long hours and sacrifice holidays is also more pronounced in Korea than in Japan (Froese, 2013). The strong sense of collectivism and strict hierarchies contradict the Western understanding of individualism and flat hierarchies, thus providing grounds for potential conflict between Korean and Western employees (Froese, Pak, & Chong, 2008).

### ***Recruitment and retention***

**Recruitment and retention in Japan.** Japanese companies have a periodic hiring system (JILPT, 2003). They focus on entry-level recruiting and prefer to hire new graduates directly from schools and colleges (Froese & Peltokorpi, 2011; Peltokorpi & Froese, 2015; Robinson, 2003). There is low mid-career movement in Japan (Auer & Cazes, 2000; JILPT, 2012), in part because of employees’ firm-specific skills (Jacoby, 2005; Ono, 2007) and the limited pension portability (Ono, 2007). Because Japanese companies look for employee attitudes and whether applicants would fit into their organization, there is less emphasis on technical expertise (Peltokorpi, 2013) during the recruitment process.

The employment relationship in Japan is long term in nature (Peltokorpi, Allen, Froese, 2015). The organization is bonded by the employee–employer relationships and hence downsizing is the last option that Japanese companies consider in difficult economic periods (Kato, 2001). As a consequence, Japanese employees are embedded in their organization and the turnover rate is much lower than in other countries (Peltokorpi et al., 2015). However, due to the long-term recession, poorly performing Japanese companies also have started to lay off employees (Ahmadjian & Robinson, 2001).

**Recruitment and retention in Korea.** In the past, Korean MNEs relied on college recruiting and then slowly promoted these recruits internally. However, since the Asian financial crisis in 1997/1998 and in response to scarcity in certain areas (e.g., engineering), Korean MNEs have expanded their recruiting sources and now actively seek talent at all levels from the external labor market (Yu & Rowley, 2009). For instance, amongst Samsung’s domestic workforce of 110,000, 36 percent were recruited from other organizations (Tung et al., 2013). However, traditional selection criteria such as the prestige of the university, personality traits, fit

with the organization, and personal relationships still play important roles in the recruitment process. Korean companies heavily emphasize the selection of candidates that best fit their needs and organizational culture. Thus, applicants go through multiple rounds of tests and interviews before a final employment decision is made. Large Korean MNEs have developed their own aptitude tests for the initial screening for entry-level positions.

While long-term careers within the same organization are still common for core employees in large, well-known Korean chaebols, there has been a change toward more flexible careers crossing different organizations. Since the Asian financial crisis in 1997, the Korean labor market has become much more flexible (Lim & Jang, 2006). As a consequence, Korean researchers have lamented the associated risks of reduced job security and reduced morale amongst Korean employees (e.g., Bae & Rowley, 2002).

**Comparative summary of recruitment and retention.** Although traditional recruitment and retention practices were relatively similar between Japan and Korea, Korean organizations adopted flexible employment systems more aggressively after the Asian financial crisis. A good fit between organizational values and (potential) employees remains an important criterion for recruiting channels in both countries. Thus, selection is an important function. However, the source of talent has changed more dramatically in Korea than in Japan. Whereas large Japanese MNEs still rely on colleges to recruit their core employees (Peltokorpi & Froese, 2015), Korean MNEs have increasingly broadened their recruitment channel mix and hired at the middle and senior level through external sources (Tung et al., 2013). This also implies that turnover rates in Korea are higher than in Japan. The flexible employment system in Korea is more in line with the Western approach.

### ***Training and development***

**Training and development in Japan.** The training in Japanese companies is largely firm-specific. Because companies in Japan promote the fit of their employees with the company, the entry-level training programs and socialization processes encourage embeddedness in the organization. The firm-specific training is largely conducted based on job rotation and on-the-job training and the accumulation of skills continues throughout employees' entire career (Peltokorpi, 2013). Indeed, the formal orientation programs and socialization efforts in Japanese companies are continuous (Morishima, 1995). These socialization efforts further help establish person-organization fit between newcomers and organizations (Cable & Parsons, 2001). Employee orientation and training of new employees are also often extensive (Ichniowski & Shaw, 1999).

Japanese organizations are characterized as learning organizations, and they place significant emphasis on employee learning and skill development throughout employees' careers (Sekiguchi, 2006). Japanese companies also emphasize job rotation to increase flexibility in employee skills and abilities (Morishima, 1995; JILPT, 2003) and to develop employees' firm-specific skills. Employees are rotated through different functions and locations. Holzhausen (2000) said that the long-term development of human capital within the firm is the core objective of the Japanese employment system. Hence, the internal labor market is the main source of knowledge and skills.

**Training and development in Korea.** Korean companies provide extensive training and development opportunities for their staffs. Once new employees enter the company, they usually receive one to several months of orientation training. The training focuses on firm-specific knowledge, socialization, and to a limited extent, job-specific content. Training and development then continue throughout the whole career.

Korean chaebols have sophisticated training programs, including various on- and off-the-job programs, tailored to specific groups of employees. The programs range from in-house training in the companies' own training facilities to sponsored MBA programs at major domestic and US business schools. Korean companies also embraced online and blended learning formats early on (Yu & Rowley, 2009). Action and experiential learning (e.g., volunteering) have become popular as well. Annual corporate training trips to domestic destinations (e.g., Cheju Island) as well as to exotic destinations (e.g., the Philippines) are also common. In recent years, however, in an attempt to reduce costs, Korean companies have concentrated their training efforts on a select group of high performers and special functions like engineering (Tung et al., 2013).

**Comparative summary of training and development.** Training and development are emphasized in both Japan and Korea. While large enterprises in both countries emphasize training and development, Korean companies tend to use a greater variety of external training methods, such as sponsored MBA programs and external executive training. Korean companies have also earlier and more aggressively adopted online and blended learning formats. In accordance with selection practices, person-organization fit is an important aspect in training and development, for instance, new recruits will be socialized into the existing corporate cultures through lengthy orientation programs. While the focus of training in Japan is on firm-specific knowledge and skills, often including rotations through different functions, Korean companies have a more balanced approach and also focus on specialist skills and knowledge. In line with the shifted focus of training, job rotations have become less common in Korea.

### ***Compensation and rewards***

**Compensation and rewards in Japan.** Compensation is determined on the basis of a combination of tenure and assessment results (Sekiguchi, 2006; Holzhausen, 2000). The assessment of employees in Japanese companies is based on an ability grading system (Sekiguchi, 2006) or a qualification grading system (Holzhausen, 2000). This system includes not only performance but also a supervisor's assessment of the employee's attitudes, abilities, and future potential (Sekiguchi, 2006; Holzhausen, 2000). Holzhausen (2000) argued that this grading system is not a tool to replace seniority-based pay but to develop competent human capital. The ability grading system is assumed to lead to more productivity than the seniority compensation system because it rewards learning efforts and contributes to knowledge creation in the company.

Usually, the total compensation package in Japanese firms consists of base pay, bonuses, and benefits. Under the ability grading system, base pay is determined by a combination of seniority and ability. Bonuses account for about 30 percent of total cash compensation and are based primarily on firm profitability and individual or group performance. Thus, seniority, ability grade, and the firm's economic prosperity affect the larger fraction of total compensation, and intra-firm individual differences in pay related to short-term job performance are relatively small (Sekiguchi, 2006).

**Compensation and rewards in Korea.** The traditional Korean compensation and rewards system was based on seniority. Compensation and rewards would automatically increase with tenure in the organization. The compensation was composed of base salary, benefits, and bonus, though the bonus was more or less guaranteed. However, in response to the Asian financial crisis, Korean companies adopted a performance-based compensation and reward system (Tung et al., 2013). While in 2000, only one-fifth of Korean companies had performance-based compensation systems, now more than two-thirds do (Korea Employment Information Service, n.d.).

Performance-based compensation is more widespread amongst large companies and more often applied to white-collar employees in higher positions. However, the performance-based compensation systems vary substantially across industries and organization in Korea (Yu &

Rowley, 2009). On the one hand, some companies, in particular banks, have transferred typical performance-based pay systems from the USA. The performance-based component of pay can be substantial. On the other hand, many Korean companies still use a combination of Western-style performance-based compensation and seniority. In addition to individual-level performance-based compensation, Korean companies increasingly consider group-level performance-based compensation as well as profit-sharing agreements, based on financial criteria (e.g., economic value added, stock price).

**Comparative summary of compensation and rewards.** In the past, compensation and rewards were mainly driven by seniority, length of time spent at the organization, and age, however, that system has been greatly under attack since the long recession in Japan, and the Asian crisis in Korea. Enterprises in both countries have sought inspiration from US performance-oriented HR practices. Even though companies in both Japan and Korea have adopted performance-based merits, the degree of implementation varies substantially. In contrast to most Japanese companies that have only reluctantly adopted performance-based merits, many Korean companies have implemented performance-based merits to a much larger extent. The performance-orientation is relatively well perceived in Korea (Froese et al., 2008), whereas the sentiments in Japan remain mixed. Some Japanese companies aggressively adopted US-style performance-based systems but converted back to traditional Japanese seniority-based systems due to the fierce opposition of their employees.

### **HR challenges in Japan and Korea: moving from ethnocentrism to global HR integration**

Japan and Korea face similar HR challenges as other industrialized countries, for example, digitalization, and gender inequality. In this chapter, we focus on global HR integration, as this is a particularly pressing issue for both Japan and Korea due to the high degree of internationalization of their economies and the historically homogenous make-up of their societies. The demographic shift in industrialized countries, including Japan and Korea, has created serious challenges in meeting their current and prospective global talent demand. This has led to a vivid practical and scholarly debate about the need to increase the participation of formerly under-represented groups of employees, such as females, older workers, and foreigners, in the workforce (e.g., Kulik, Ryan, Harper, & George, 2014). Despite the need for talent and the high degree of business globalization, Japan and Korea still struggle to integrate foreign talent in their workforces at home and abroad. The vast majority of large Korean MNEs generates more than 50 percent of sales abroad and has substantial foreign direct investments abroad. However, for their subsidiaries abroad, Japanese and Korean organizations tend to utilize parent country nationals (PCNs) in key management positions, in contrast to US and European MNEs (Harzing, 2001; Kopp, 1994). In addition, the existence of a glass ceiling has created difficulty in attracting and retaining the most talented local individuals for their overseas operations (Keeley, 2001; Kopp, 1994). This, in turn, has reinforced Japanese organizations' inclination to send Japanese expatriates to top management positions at their overseas subsidiaries, and a vicious circle has been created. This ethnocentric global staffing in Japanese MNEs is considered to be their *Achilles' heel* (Bartlett & Yoshihara, 1988). However, given the increased size of operations abroad, the challenges, and the high cost of expatriates, Japanese and Korean firms can no longer rely exclusively on PCNs in their operations abroad. Thus, MNEs must seriously reconsider their global staffing approach to remain successful in the years to come.

In addition to their challenges abroad, Japanese and Korean organizations face a shortage of labor in their home country. Due to demographic changes resulting from low fertility rates and

aging societies, their working populations are shrinking rapidly. With a median age of about 46.1 years, Japan is amongst the oldest populations in the world, and Korea has a median age of about 40.8 years (CIA, 2015). Life expectancy at birth has risen to 83.3 years in Japan, while the fertility rate has dropped to 1.4 births per woman (World Bank, 2015a). In Korea, the situation appears to be similar; on average, people are expected to live slightly shorter lives (81.5 years), while the Korean birth rate of 1.2 is amongst the lowest worldwide (World Bank, 2015b). As a consequence, the working population is not only aging but also shrinking. These developments have tremendous consequences for organizations operating in these “aging societies.” To stay competitive in the long run, organizations must attract new target groups, such as foreign applicants and female candidates, to fill the talent pipeline (Collings & Mellahi, 2009; Kemper, Bader, & Froese, 2016).

The ethnocentric management practices of Japanese and Korean MNEs and the countries’ homogenous societies make the integration of foreign workers into their talent pool difficult. Traditionally, Japan has not been diverse; rather, 99 percent of the country’s population is ethnically homogenous (Nishii & Özbilgin, 2007). Today, approximately two million foreign nationals—the official registered number in 2014 was 2,121,831—are residing in Japan (Statistics Bureau Japan, 2016). This number, however, accounts for only 1.66 percent of the entire Japanese population (Statistics Bureau Japan, 2016) and is the smallest figure amongst all industrialized countries. The number of foreigners has not changed much during the last thirty years, partly due to strict immigration laws. The situation in Korea is similar. Korea is a homogenous society and emphasizes its own cultural heritage. However, Korea has seen a huge influx of foreigners since 2000, from less than 200,000 to approximately 1.4 million today (3.2 percent of the Korean population). The vast majority of foreigners come from China. Furthermore, it should be noted that the majority of working-aged foreigners are comprised of low-skilled workers (547,300) in contrast to the small portion of highly skilled workers (47,100) (OECD, 2013). Even though the total population of foreigners has rapidly increased, the number of highly skilled foreign workers has largely remained constant.<sup>1</sup> Because of a relatively high number of highly skilled Korean emigrants, Korea actually suffers from brain drain. In summary, both Japan and Korea face a serious talent shortage and must find ways to meet their global talent demand. However, prior empirical research has shown that Japanese and Korean companies are not attractive employers abroad (Froese & Kishi, 2013).

In the following sections, we illuminate how Japanese and Korean companies deal with their respective global HR challenges. We provide an overview of the main challenges that Japanese and Korean companies face in their overseas operations and their domestic markets and suggest some tentative solutions.

### ***Global HR challenges in Japan***

Many Japanese companies are expanding their business globally and the only way to successfully compete in the global market is to recruit, develop, and retain global talent. However, the unique characteristics of the Japanese management system are making it difficult to internationalize their HR practices in both the domestic context and foreign subsidiaries. Many Japanese companies are becoming more diverse and adopting several measures to cope with the challenges created by internationalization (Sekiguchi, Froese, & Iguchi, 2016). However, many companies still lag behind in appropriately integrating the global workforce into their overall organizational structure.

In foreign subsidiaries, as mentioned earlier, this circumstance is partly due to the centralization strategy of Japanese companies; they prefer to have a control mechanism based on Japanese

expatriate managers. Many have argued that Japanese companies rely on expatriates due to the unique nature of Japanese management, as well as cultural and linguistic barriers, to convey the Japanese way of doing business. Many Japanese practices are not written down but are informally managed. This kind of management system is difficult to convey to local managers. Since Japanese MNEs are usually controlled by their headquarters, they need to have frequent communication with regard to the day-to-day operation of the subsidiary. For this, someone who is familiar with the subsidiary management and the way of doing things in the headquarters is needed. Hence, Japanese expatriate managers in subsidiaries are the solution to balance these demands. The subsidiary decisions are mostly made by expatriate managers in consultation with the headquarters. Host country national (HCN) managers and employees of the subsidiary are often left out of the decision-making process (Maki & Sekiguchi, 2016).

Japanese companies strongly believe that the homogeneity of their society is the key factor to their success and thus they tend to preserve such homogeneity and employ ethnocentric international policies and practices (Fernandez & Barr, 1993). This might create discrimination and treatment of non-Japanese employees as outsiders; it might also create a feeling of the “unique us” versus “non-Japanese them.” Japanese even tend to think that their unique culture cannot be fully understood by non-Japanese. Apparently, this attitude hinders smooth communication between Japanese and foreign employees (Keeley, 2001).

The low level of English proficiency amongst Japanese managers also impedes communication and thus reinforces the non-Japanese employees as an out-group. However, some research has shown that this miscommunication is not only a matter of language proficiency. For example, Keeley (2001) acknowledged that foreign employees hired in the headquarters in Japan, fluent in Japanese, having a good understanding of Japanese culture, and even having gained experience at headquarters, nevertheless do not feel integrated into the in-groups when they work at the foreign subsidiaries in their home country.

In Japan, foreign employees are not well integrated because of the unique Japanese culture, working environment, and traditional Japanese-style HR practices. We mentioned earlier in the organizational culture section that Japanese society emphasizes the practice of in-groups and out-groups and this is heavily reflected in the organizational culture. Foreign employees working in Japanese companies are regarded as out-groups and not included in the core structure of the company (Maki, Ebisuya, & Sekiguchi, 2014). It is quite rare for them to be promoted to the senior managerial levels. They are considered a minority group and the glass ceiling is virtually impermeable. Furthermore, there are many unwritten rules. Foreign employees find it difficult to cope with the non-verbal organizational communication and to read between the lines. The low English proficiency of Japanese employees makes it much more difficult for foreigners to communicate and become members of in-groups. Moreover, the traditional Japanese HR system is incompatible with global HR trends. Foreign employees aiming for global careers are less attracted by seniority or long-term-based employment systems.

Maki, Ebisuya, and Sekiguchi (2015) found that foreign employees working in traditional Japanese companies in Japan perceive the long-term-based employment system and job rotation as attractive. However, most of them are localized, live a Japanese lifestyle, and wish to have permanent residence in Japan (Maki et al., 2015). These foreigners were carefully selected and socialized into their Japanese companies so that they fit the Japanese and firm-specific mindset. Therefore, this kind of recruitment and training system might create more foreign employees with Japanese-like mindsets than global mindsets. While this is one way to integrate foreign employees, we need to acknowledge that only a few foreigners are willing and able to integrate into traditional, ethnocentric Japanese companies.

### **Possible global HR solutions for Japan**

Positive changes have appeared in recent years. The companies that have a high percentage of global (local) sales and supply networks are promoting a “rapid growth” scheme for HCNs in foreign subsidiaries. They pay attractive performance-based salaries and develop common practices that help these employees move transnationally (Maki & Sekiguchi, 2016).

Yamao and Sekiguchi (2015) recommended implementing HR practices that promote learning a foreign language. They argued that such HR practices have direct and interactive effects on employees’ affective and normative commitment to their firm’s globalization. Therefore, Japanese companies considering the internationalization of their business operations should consider introducing such HR practices.

Maki, Ebisuya, and Sekiguchi (2015) provided three recommendations for how Japanese companies could better integrate their foreign employees. First, in addition to teaching English language skills, Japanese companies should provide training to Japanese employees to improve their cross-cultural skills. Second, Japanese companies should develop and utilize employees with cross-cultural competencies, who can help facilitate smooth communication between Japanese and foreign employees. Third, Japanese companies should educate foreign employees on the core features of Japanese management, including the features embedded in Japanese culture and society (Sekiguchi et al., 2016).

#### **Case study: Rakuten**

Rakuten is the largest Internet service company in Japan, with aspirations to become number one in the world. Hiroshi Mikitani, the CEO of Rakuten, recognized that the most challenging task is to make his employees “speak English” so that they are able to communicate to the world. In 2010, Mikitani announced a new policy specifying that, within the next two years, all Rakuten employees must improve their English proficiency or be demoted. With mixed responses from both internal and external sources, Rakuten successfully implemented this policy.

Rakuten was the first Japanese company to formally pursue such steps. With massive coverage in the international business press, Rakuten attracted many new customers as well as global talent. When it announced its English policy in 2010, it had around 2 percent foreign employees, but after five years, this number increased to 10 percent. As the company put special effort into recruiting engineers from all over the world, about 70 percent of newly hired engineers in Japan are now foreigners. The company has been extremely successful in attracting fresh graduates from the top universities in the world.

English is not only critical to attract global talent, but it is also imperative to share information and the latest technology amongst business groups. Due to Rakuten’s English language policy, cross-border mergers and acquisitions (M&As) and other forms of international cooperation have become effective. As a consequence of the English policy, the company’s employees do not need to use interpreters to communicate to their business groups around the world (Sekiguchi, 2016), thus saving cost and facilitating communication.

Other Japanese companies are also pursuing a similar direction. For example, First Retailing (fashion) and Panasonic (electronics) have started recruiting non-Japanese as their core global staff. Bridgestone (tires), Nippon Sheet Glass (industrial glass), and Nissan have started using English as their official language.

*Source: Sekiguchi (2016); Yamao and Sekiguchi (2015)*

### ***Global HR challenges in Korea***

As a consequence of the Asian financial crisis in 1997, the International Monetary Fund (IMF) imposed changes in the regulatory system and liberalized the market. The influx of foreign direct investment had a huge impact on Korean management (e.g., Froese et al., 2008). This led to major changes in the recruitment, retention, compensation, and rewards systems, converging toward US systems (Bae & Rowley, 2001; Tung et al., 2013), as described in the previous section. The US-style HR practices of Korean companies have the potential to provide an attractive work environment for foreign workers. However, several features of the traditional Korean HR system still prevail and present major challenges for foreign talent.

Korean companies have been highly successful in entering foreign markets. While they adopted a global strategy during the early phase of internationalization, several companies have now adopted a more polycentric or geocentric approach (Tung et al., 2013). In line with their strategic orientation and following the Asian financial crisis, Korean MNEs also modified their global HR systems. Based on a case study of nine Korean MNEs, Chung, Sparrow, and Bozkurt (2014) found that Korean MNCs used a hybrid approach in their foreign subsidiaries (i.e., implementing global HR standards and adapting certain HR elements to local needs). An intriguing finding of that study is that Korean MNCs felt somewhat ashamed of their origin and instead of traditional Korean HR practices, tried to implement global best (US) practices in their overseas subsidiaries. Notwithstanding the idea of global HR, most Korean companies still maintain an ethnocentric staffing orientation and rely heavily on Korean expatriates for their key positions in their foreign subsidiaries (Tung et al., 2013). These Korean expatriate managers in turn transfer traditional Korean values such as strict hierarchies to the foreign subsidiaries (Kim & Tung, 2013; Yang & Kelly, 2008). These traditional Korean cultural features are not well perceived in foreign subsidiaries and may lead to frustration, distrust, and tension between Korean expatriate managers and local employees (Yang & Kelly, 2008). Furthermore, pay inequality and limited career opportunities further reduce the morale amongst local employees in Korean subsidiaries abroad.

Another key challenge is communication. Even though several Korean MNCs have announced English as their corporate language, Korean still remains the de facto business language. Given the centralized nature of most Korean companies where decisions are made at the headquarters, communication and coordination with the Korean headquarters are essential. However, with the limited number of Korean speakers outside Korea, key positions in foreign subsidiaries need to be staffed with Korean expatriates. This limits the career prospects of local employees. Moreover, even though Korean headquarters are able to communicate with their Korean expatriate managers abroad, Korean expatriate managers may not sufficiently communicate with local employees due to linguistic challenges and cultural differences (Yang & Kelly, 2008). The tendency of Korean expatriate managers to spend considerable time amongst themselves, not including local employees, further results in the negative stereotyping of “us” versus “them.”

The traditionally homogenous Korean society makes it difficult to integrate foreign workers in Korea. Some Korean companies have started to recruit foreign workers for their operations in Korea. They have used two common approaches. First, large Korean MNCs transfer their foreign subsidiary employees to Korea, so-called inpatriation (Froese, Kim, & Eng, 2016). This trend can be observed in certain industries and highly qualified jobs that are in high demand but lack local talent (e.g., IT professionals, engineers). These highly qualified professionals are well paid and come from countries across the globe, though mostly from other Asian countries (Kraeh, Froese, & Park, 2015). Korean MNCs usually provide housing and other benefits to

help with the integration. Second, Korean companies of various sizes and industries hire foreigners who already live in Korea. These people have various qualifications and mostly come from China and other Asian countries. Although most Chinese immigrants work in low-paid jobs in the service industry, Chinese people also represent the number one foreign student population in Korea (more than 40,000 students, more than 70 percent of the total foreign student population). Even though university-educated Chinese graduates could be a major source to fill the talent gap in Korea, more than 90 percent have no intention of finding work in Korea (Kim & Oh, 2015). University graduates from prestigious Korean universities can easily find jobs in major Korean MNCs. However, in a follow-up survey, Kim and Oh (2015) found that Chinese students wanted to leave Korea because they felt discrimination and cultural problems.

Even though most foreign workers in Korean companies have some prior experience with Korean and/or Korean companies, a majority report dissatisfaction with the working conditions and have a high tendency to leave Korea (Kraeh et al., 2015). In a survey of foreign professionals in Korea, Kraeh, Froese, and Park (2015) found that strict hierarchies, time pressure, and the lack of English communication at work were their main sources of dissatisfaction. Approximately two-thirds of respondents expressed their desire to leave Korea within the next three years. Not only foreign professionals from Western countries but also those from Asian countries had difficulty accepting the hierarchical organizational culture and leadership style in Korean companies. The group-oriented culture, particularly the separation between Korean and foreign employees, creates further tension between Korean and foreign employees (Froese, 2010). Time pressures in the form of long working hours and the *bbali, bbali* (quickly, quickly) working style also place burdens on foreign employees (Bader et al., 2016). Foreign workers are not accustomed to these unique Korean organizational cultural characteristics and cannot adapt to them.

In another study, Froese, Kim, and Eng (2016) found that not using English and the lack of understanding of cultural differences were the main reasons for the turnover intentions of foreign professionals in Korea. Only those who spoke Korean and possessed cultural intelligence could deal with the situation. The findings of this study also implied that foreign professionals who were working in a multicultural and English-speaking environment were more satisfied than those who were not. For example, foreign professors in globalized Korean universities were largely well adjusted and satisfied with their situation (Froese, 2012). By and large, differences in language and communication style are central problems for foreign workers in Korea (Froese, 2013; Froese, Jommersbach, & Klautsch, 2013; Froese, Peltokorpi & Ko, 2015).

### ***Possible global HR solutions for Korea***

As a traditional homogenous society and latecomer to the internationalization of business, Korean companies have had a difficult start but are making progress toward global HR and global talent management. While Korean companies have swiftly modified their production and marketing to meet global demands, their HR function is somewhat lagging. Several large MNCs, such as Samsung (see Case Study), have spearheaded several promising initiatives to better respond to global HR challenges. One promising step was the implementation of a hybrid approach to HR practices around the global, balancing both global best HR practices and local needs (Chung et al., 2014).

Korean companies have been fairly successful in recruiting foreign talent; however, they should put more emphasis on retaining this talent (Froese, 2010). An important step toward that goal is to adopt a geocentric approach (Tung et al., 2013). Korean companies should consider

modifying their traditional Korean organizational cultures and adopting an organizational climate that does not discriminate between Koreans and foreigners but embraces multiculturalism (Froese, 2010; Froese et al., 2016). Consistent with the geocentric approach, Korean companies should also create global talent programs, which are particularly important for highly qualified and ambitious foreign talent.

Improving the communication situation is a major challenge that cannot be solved by Korean companies alone. The Korean government should increase the English component and emphasize the value of multiculturalism in the curriculum of schools and universities and promote international exchange (Froese et al., 2012; Kraeh et al., 2015). Korean companies should also establish English as the corporate language. While such changes are recommended, the success of such initiatives hinges on their actual implementation. For instance, LG hastily introduced English as the corporate language. However, it is impossible for employees who cannot speak English to suddenly be expected to communicate in English from the next day on. Not surprisingly, the suddenly introduced policy created inconvenience and dissatisfaction amongst Korean employees. Instead, such initiatives should be well planned and carefully implemented (e.g., rolling out gradually, providing English lessons, and using English as a selection criterion for job candidates).

### **Case study: Samsung**

Samsung is the largest chaebol in Korea with more than US\$300 billion in sales annually and employing almost 500,000 worldwide. Amongst its various subsidiaries, Samsung Electronics, well known for mobile phones and flat-screen TVs, is the flagship. Samsung Electronics is highly internationalized with more than 80 percent of sales and numerous production and R&D centers abroad.

In response to the Asian financial crisis in 1997, Samsung introduced global HR practices. Samsung has several structured programs to recruit and develop global talent. First, it has dedicated global development programs primarily for Korean employees, tailored to the different hierarchical levels and corresponding purposes. The CEO Development Program is aimed at senior managers to help them develop the capability to better understand the business opportunities and challenges of a specific country. Middle managers will be sent on expatriate assignments. For lower level managers, the company introduced the Overseas Regional Specialist Program in 1990, a one-year expatriate assignment. The aim of the program is to develop experts on specific countries. Participants in this program learn the language and culture of the host country.

Second, Samsung operates dedicated programs primarily for foreigners and primarily targeting entry-level and lower level positions. In an attempt to attract and recruit excellent foreign university graduates, Samsung offers internship and scholarship programs. Samsung offers a Global Internship Program in their Korean headquarters targeting foreign master and doctoral students from prestigious universities around the world, preferably in business and engineering. In 2002, Samsung Electronics introduced the Global Scholarship Program mainly targeting Chinese and other Asian students. Students receive a two-year scholarship to study in the graduate programs at Seoul National University for engineering students or Sungkyunkwan University for business students. Upon graduation, they are supposed to work for two years for Samsung in Korea. In addition, foreign employees in Samsung's foreign subsidiaries have the opportunity to be dispatched to the Korean headquarters, which is particularly common for engineering and information technology professionals due to the labor shortage for those jobs in Korea.

Samsung is further determined to fully pursue a geocentric approach, to develop and promote employees regardless of national origin. Currently, senior positions in Korea and abroad are still predominantly filled by Koreans. As it takes time to develop global leaders, the coming years will show whether Samsung is serious about its geocentric approach.

Source: Paik and Pak, 2009; [www.samsung.com](http://www.samsung.com)<sup>2</sup>

### **Comparative summary**

As Japanese and Korean MNEs are becoming increasingly globalized, they need to better respond to global HR challenges. However, the ethnocentric management approach of Japanese and Korean MNEs and the homogenous societies at home present severe challenges for attracting and integrating foreign workers. Korean MNEs have more aggressively adopted Western HR practices than Japanese MNEs, thereby providing more attractive work environments for foreign employees. However, even in the case of Korean MNEs, the traditional organizational cultures and the ethnocentric orientation and decision-making processes cause conflicts with foreign talent (Froese, 2010; Kraeh et al., 2015; Tung et al., 2013). To overcome the current difficulties, Japanese and Korean organizations should fully integrate foreign workers into their organizations by adopting a more geocentric HRM approach. To make that happen, Japanese and Korean MNEs should create multicultural organizational cultures, install English as their business language, and add foreign employees to the global talent pool. These initiatives might help in attracting and retaining a great pool of talented workers from all over the world. Several companies have already made progress down that road (see our Case Studies for examples) and others might follow. The efforts of Japanese and Korean companies should be supported by their governments since changes toward a more global mindset and increasing the English levels of the population are strategic long-term goals that also benefit the society as a whole. In addition to embracing foreigners, Japanese and Korean companies can also embrace other under-utilized segments of the labor market, in particular women and older employees (Kemper et al., 2016).

### **Conclusions**

Japan and Korea are two highly performing economies in Asia that have developed many successful enterprises. In this chapter, we provided a comparative overview of the unique HR systems of large enterprises within these two countries. While the HR systems resembled each other in the past, economic recessions and globalization have led Korean enterprises to modify their HR systems more aggressively, mostly in line with Anglo-Saxon practices, in contrast to Japanese enterprises which have been more reluctant to implement changes. Due to increased globalization and declining demography, Japanese and Korean enterprises need to find ways to attract a sufficient number of highly and lowly skilled employees, in order to remain competitive in the long run. Homogenous societies, male-dominated cultures, centralized, unique, and ethnocentric management styles present a difficult starting point for Japanese and Korean MNEs to meet the demands of global talent. Below, we offer some indications for future research on HRM in Japan and Korea.

First, Japan and Korea share similar backgrounds, for example, geographic location, industrialized countries, homogenous societies, highly internationalized enterprises, and have developed similar HR systems in the past. However, in response to economic recessions and globalization, HRM has changed in both countries during the past twenty years, though at different speeds

and magnitude. While Korean enterprises aggressively modified their HR practices, mostly adopting US-style HR practices, Japanese enterprises were much more cautious and resistant to change. Prior research has well covered the changes and corresponding challenges in HR practices in both countries during the last decades. However, prior research was mostly confined to either Japanese HR or Korean HR. Comparative research would be recommended to better understand the underlying mechanisms, enrich our theoretical understanding, and develop managerial implications of which specific HR practices can be implemented and under what conditions. Such research could focus on how the macro-level, for example, cultural environment, influences the *meso* (organizational) and/or micro (individual) level. Future research could also focus on the success of implemented changes in specific HR areas. More than twenty years ago, Japanese electronics and car companies dominated the world market, whereas Korean companies were largely unknown. Meanwhile, Samsung has overtaken Sony, and Hyundai has become a serious competitor in the car industry. To what extent have changes in HR contributed to the recent success of Korean MNEs? More research could also explore the resistance to change of Japanese HR and how that can be overcome.

Second, in this chapter we focused on challenges related to the globalization of HR, because both Japan and Korea are facing severe challenges in managing a global workforce, yet are increasingly dependent on global talent due to their high level of internationalized MNEs and shrinking workforces at home (Froese et al., 2016; Kemper et al., 2016). The homogeneous societies coupled with the strong need for global talent make Japan and Korea fascinating countries to study global talent challenges. Sekiguchi, Froese, and Iguchi (2016) distinguish between “internal internationalization” at headquarters and “external internationalization” in foreign subsidiaries. Despite the strong need for internal internationalization in both Korea and Japan, research is still scarce but clearly needed not only from a practical point of view but also from a theoretical point of view. Although prior research has looked at internal internationalization in the USA and Europe, the cultural and regulatory environments in Japan and Korea differ substantially, requiring a replication of prior work and/or completely new investigation. Such inquiries could enrich our understanding of existing theories or could develop new theories. Discrimination, communication, and socializing foreign newcomers into Japanese or Korean headquarters seem to be key challenges (e.g., Froese et al., 2016, Keeley, 2001; Maki et al., 2014) and need further research attention. Focusing on language issues would be another promising area, particularly in Japan given the uniqueness and difficulty of learning Japanese and the low English proficiency of Japanese employees (Froese, 2010; Froese et al., 2012). For example, will Japanese MNEs introduce English as their business language? How would they do it and how would employees respond? Both Japanese and Korean MNEs have maintained their unique, tight corporate cultures, have carefully selected, and socialized foreigners into them. Will they continue to do so, or modify their corporate culture and embrace multiculturalism as recommended by some scholars (e.g., Kraeh et al., 2015)? To what extent and how do they integrate foreign university students who study in Japan and Korea, respectively? These are just a few tentative research questions that deserve attention.

Third, prior research on internal internationalization is scarce; substantial research has investigated the external internationalization of Japanese MNEs. Those studies often had a strategic HRM perspective and focused on the (intended) transfer of Japanese practices to overseas subsidiaries (e.g., Beechler & Yang, 1994), and ethnocentric staffing policies (Harzing, 2001; Kopp, 1994). Extending this line of research, future research is recommended to investigate which specific HR practices could be transferred around the globe, or meanwhile, whether a mix of global and localized practices for MNE subsidiaries from Japan and Korea would be preferable. Such an investigation could also pay attention to differences across industries and firm

characteristics (Chung et al., 2014). Sekiguchi et al. (2016) propose a conceptual model that defines the degree of path dependence and competitive advantage of Japanese style HRM practices as predictors of adoption of global HR practices. Empirical research to test this framework is encouraged. Comparatively, the HRM of Korean companies has received much less research attention (Tung et al., 2013). Given the outstanding performance of several Korean MNEs such as Samsung and Hyundai in recent years, more research on Korean companies' HRM is warranted. Insightful as prior studies on strategic HRM are, we still know relatively little about the challenges individuals face inside Japanese and Korean foreign subsidiaries. Little is known about the situation of PCN expatriates and HCNs working in foreign subsidiaries of Japanese and Korean MNEs. Prior research suggests major challenges between Japanese/Korean expatriates and HCN employees due to ethnocentric management styles, communication difficulties, and the separation between expatriates and HCN employees (Keeley, 2001; Kim & Tung, 2013; Yang & Kelly, 2008). As Japanese and Korean MNEs extend their value generation abroad, HR in foreign subsidiaries gain in importance. Thus, more research is needed to increase our understanding of the interaction between PCN expatriates and HCN employees and how Japanese and Korean companies can better attract, motivate, develop, and retain HCNs abroad. Future research could also focus on how Japanese and Korean MNEs can facilitate knowledge transfer from the headquarters to the foreign subsidiaries and vice versa.

Finally, global talent is only one source of meeting the demand for labor. Instead, Japanese and Korean enterprises could tap into segments of the existing domestic labor force that has been under-utilized. In both countries, the labor participation rate of women is still very low compared to other industrialized nations (Kemper et al., 2016). Prior research indicates that women are discriminated against in the workplace, for example, lower pay, insecure jobs, and do not receive sufficient support (Cooke, 2010; Rowley, Kang, & Lim, 2016). Although governments in both countries have started various initiatives to support women (Cooke, 2010; Mackie, Okano, & Rawstron, 2014), more research is needed to better understand how governments, enterprises, supervisors, and colleagues can better support women to start and continue their careers, even after maternity leave. Instead of a one-size-fits-all approach, future research and management practice should also consider the different career identities and objectives of women and offer tailored solutions. We hope that this chapter has provided a good overview of HRM in Korea and Japan and inspired more researchers, policy makers, and managers to tackle the HRM challenges arising from globalization and declining demography.

## Notes

- 1 Kostat, the Korean Statistical Institute, provides the following statistics for highly skilled foreigners in Korea (E1–E7). Retrieved from [http://kostat.go.kr/portal/korea/kor\\_nw/2/3/4/index.board?bmode=read&bSeq=&aSeq=356794&pageNo=1&rowNum=10&navCount=10&currPg=&sTarget=title&sTxt=](http://kostat.go.kr/portal/korea/kor_nw/2/3/4/index.board?bmode=read&bSeq=&aSeq=356794&pageNo=1&rowNum=10&navCount=10&currPg=&sTarget=title&sTxt=).
- 2 Further details can be found at: <https://news.samsung.com/kr/386>; and <https://news.samsung.com/kr/398>.

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