# 9 Japanese Human Resource Management: From Being a Miracle to Needing One?

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## Introduction

One major characteristic of the Japanese business model is the importance which is attached to human resources and accordingly to human resource management (HRM). An indication of the weight given to HRM is the prominent role occupied by the HR department (Rehfeld 1995). The head of HR is often, after the president, the second most important manager in a Japanese company (Thurow 1993). It is therefore not surprising that HRM has been identified by many authors as one of the essential factors accounting for the astonishing achievements of Japanese companies in the world markets (Inohara 1990), in particular during the heyday of the Japanese success story in the 1980s and early 1990s. Japanese HRM practices have as a result received much attention in the West, in order to discover what might be learned from them (see, for example, Dore 1973; 1987; 2000; 2002; Vogel 1979; Ouchi 1981; Pascale and Athos 1981; Kenney and Florida 1988, 1993). Huczynski (1986) described the fascination with Japanese HRM in the West as a major management fad. Books suggesting what Western managers could adopt from Japanese (HR) management made it onto best-seller lists and gained almost cult status (Vogel's 'Japan as Number One' (1979); Ouchi's 'Theory Z' (1981) or Pascale and Athos' 'The Art of Japanese Management' (1981) are examples). Yet only one decade later, and most certainly also because of the crises in the Japanese economy, the Japanese management model is increasingly viewed as uncompetitive and outmoded. Paradoxically, the same HRM practices which only recently were much admired, are now being perceived as a root of the malaise. As a result, more and more authors are calling for major changes and an increased orientation towards Western management principles (Frenkel 1994; Smith 1997; Yoshimura and Anderson 1997; Crawford 1998; Ornatowski 1998; Dalton and Benson 2002). There are others, however, who while acknowledging the need for some transformation, insist on the inherent and still valid benefits of the main principles of Japanese

HRM (Dore 2000; Kono and Clegg 2001). Ballon as well as Methe (both in this edition) speak in this context about ‘continuity through change’. Sano (1993), Morishima (1995a) and Matanle (2003) take a more conciliatory approach, describing a partial convergence towards Western HRM.

In view of this controversial debate on continuity versus change in Japanese HRM methods, this article sets out to examine if and to what degree the Japanese HRM model is subject to change or even extinction, in response to the perceived crisis of the Japanese business and management model. In other words, and in reference to McLeod and Garnaut’s book on the East Asian crisis (1998) the question is: does Japanese HRM need a miracle in order to regain its competitiveness or are Japanese companies finding the right balance between maintaining traditional strengths and changing towards new approaches?

This article is structured as follows: four HRM functions essential for the set-up of any HRM model will be looked at: recruitment and dismissal of personnel; training and development; employee appraisal; promotion as well as compensation. For each of these four functions, first the key concepts and the internal logic of the ‘traditional’ Japanese HRM practices will be outlined. Subsequently, their shortcomings and the direction of possible change will be described. For the latter, reference will be made to a large-scale empirical study of Japanese HRM, undertaken by the author of this article. The conclusions will summarize the key findings and provide suggestions to improve the competitiveness of Japanese HRM.

## Recruitment and Dismissal of Personnel

A fact that is often overlooked when discussing the so-called ‘Japanese HRM model’ is that, at no point in time, did it apply to more than about a third of the Japanese workforce. In the dual structure of the Japanese employment system ‘Japanese HRM’ only pertains to the core workforce of large companies, described by Ballon (1992, p. 33) as the ‘employee aristocracy’. For all other employees, that is the workforce of small and medium sized companies as well as the marginal workforce of large companies (in particular women, part-timers, temporary workers or formally retired personnel who stay on), key elements of the Japanese HRM model have never applied (Holland 1992). What is more, only the marginal workforce, in particular the temporary workers, has allowed the overall labour system the necessary degree of flexibility to provide sufficient stability for the implementation of the

Japanese HRM model in the core workforce. In economic downturns the marginal workforce thus provided a kind of buffer to shield the core workforce from any major adversarial effects. This significant limitation should always be remembered when referring to the ‘traditional Japanese HRM model’. It is argued here that despite this qualification, the entire employment sector in Japan (and beyond, the entire educational system), continues to be centred on producing a highly motivated and skilled core workforce for large companies. Small and medium companies have to adjust their HRM practices according to the environment dictated by large companies. The white collar employee of large Japanese firms, the *salaryman*, is in the words of Matanle (2003, p. 9) ‘the principle normative embodiment of Japan’s success and, as such, he is a cultural icon and ideological model’.

This clear distinction between the core workforce of large companies and all other employees holds true for one of the key elements of the traditional HRM model in particular – the so-called lifelong employment. According to this concept, once school or university graduates join the core workforce of a large company, they will remain in this one company for their entire working life. Ouchi (1981) regards lifelong employment as the most important single characteristic of a Japanese organization, while Inohara (1990) describes it as the most essential distinction between Japanese and non-Japanese companies and as recently as 2003 Matanle (p. 8) stated that ‘the lifelong employment system in large corporations is the defining characteristic of the Japanese management system and can be regarded as the core institution of the Japanese firm’. Indeed, as will be demonstrated, lifelong employment affects the entire spectrum of HRM, including training and development, employee appraisal, and promotion and compensation.

Recruitment under the lifelong employment principle signifies adherence to a family-like relationship in which loyalty, commitment and motivation is traded for lifelong material and non-material care and support. This special relationship can be illustrated by two Japanese terms that are so specific to the Japanese context, that there are no equivalent words in the English language that fully carry the same meaning. *Ie* literally translates as ‘household’ or ‘family’. Its meaning, however, can be extended to any social relationship, including the one with and within the employing company. Because of its extended meaning, *ie* is frequently connected with the concepts of ‘paternalism’, ‘groupism’ or ‘familiarism’. This emotional sentiment of belonging is also expressed by the term *kaisha*, which usually is translated as ‘firm’, but has more the connotation of ‘my’ or ‘our’ firm (Durlabhji 1993). The Japanese company may thus be perceived as the ‘fictive kin group’ (Nakane 1970) and the embodiment of the ‘Gemeinschaft’ (Tönnies 2001), ‘Theory Y’-society (McGregor 1960) or ‘village’

(Sethi et al. 1986) concepts, which help to understand Japanese society at large. The Japanese company may be taken to symbolize the very opposite of Western society, which is described as ‘contractual’ (Sethi et al. 1986), ‘Gesellschaft’ (Tönnies 2001) or ‘Theory X’ (McGregor 1960).

It is, therefore, the feeling of mutual commitment, trust, duty and responsibility that is considered as binding and much less the legal aspect of the employment contract (the employment contract is typically just a few pages long and very unspecific anyway) (Rehfeld 1995). Therefore, the knowledge that once recruited it is (or was until recently) virtually impossible under the lifelong employment principle to be laid off again, never translated into an incentive not to work very hard (Inohara 1990). More specifically, lifelong employment has never been in any way part of a legal or contractual stipulation but has been assumed only implicitly. It is in fact legally comparatively easy for a company in Japan to lay someone off. A discharge under these circumstances, or until recently even a resignation, is perceived very negatively and raises doubts about the employee’s character. Under the conditions of a totally underdeveloped external labour market it is still very difficult to find a job of equal standard after leaving the core workforce of a large company (Aoki 1990).

Under the lifelong employment principle not only the employee but also the company does its best to fulfil its part of the implicit agreement and, thus, to avoid laying off personnel for economic reasons. Anything else means a substantial loss of confidence, both on the part of its own workforce and the public at large, and results in serious conflict with the unions. In a difficult financial situation, Japanese companies, therefore, usually curtail dividends before laying off employees, which is the opposite of what most American firms would do (Kono and Clegg 2001). Corporations with a high turnover rate are considered incompetent, if not inhuman in Japan (Inohara 1990). In 1990, for example, the annual turnover rate in Japan of 3.5 per cent was lower than the monthly rate in the USA (4 per cent) (Thurow 1993). The lifelong employment system should, however, not be misunderstood in the sense that it is impossible to reduce the workforce. Faced with high labour costs, companies are currently actively involved in downsizing (Shirakai 2002). Still, laying off members of the core workforce is done only as a measure of last resort. Before that, overtime is reduced; workers are transferred from one department to another or are transferred to subsidiaries (usually with lower salaries); new recruitment is suspended; pay cuts, temporary paid leave or unpaid holidays are introduced; and voluntary early retirement is offered (Locke et al. 1995; Kono and Clegg 2001). It is debatable, however, to what degree voluntary early retirement really is voluntary. In order to put them under pressure to leave, some employees, for example, are placed in positions where there is nothing to do. Those employees are called *madogiwa-zoku* (literally: those sitting at the window), as they sit all day long at their desks, and for lack of work look out of the window. Even the telephones are removed from some desks in order to demonstrate unmistakably that the employees should leave the firm (Sethi et al. 1986). Furthermore, companies hire (if at all) largely temporary workers as well as some mid-career specialists, instead of new recruits to the core workforce (Takahashi 1990). With the number of part-time and temporary workers substantially increasing over the last years, and a record level of unemployment, the employment system has in fact lost its former stability to a significant degree (Rowley et al. 2004).

In the absence of a quid-pro-quo-relationship stipulated in detail in a contract (fair remuneration for doing a precisely defined job), recruitment does not usually aim to find the right person for a specific position but, in contrast, to find the right person for the company and subsequently the right job for the new recruit. Typically only graduates of schools and universities are recruited and only once a year. Hiring employees at mid-career level from the external labour market is in principle not part of the traditional system. However, there have always been exceptions for a few specialists (such as in IT or R&D) (Ballon 1992). As it is assumed that a new recruit will stay in the company for his[1] entire working life, the selection is made very carefully (MSC 1987). It is, in addition, based primarily if not exclusively on social criteria (Inohara 1990). Learning potential, conformity, leadership potential, loyalty and in particular the ability to 'fit' into the team continue to be of crucial importance.

The advantages of the lifelong employment principle have certainly been considerable under the very specific circumstances of the Japanese business model. The loyalty and the commitment of the employee, who knows he will spend the next 30 to 40 years within the same company, are strengthened significantly and, accordingly, positive labour relations promoted (Bleicher 1982; Park 1985). Furthermore, as will be seen in more detail in the following sections, lifelong employment can be regarded as the basis for long-term growth orientation, intensive training, flexible job assignments, job rotation, organizational learning, the development of multiple skills, the accumulation of knowledge, and planned career development (Kono and Clegg 2001). Dore (1973) even claims that it was largely due to lifelong employment that Japan could surpass other industrialized countries in its stunning post-war economic development.

The disadvantages of lifelong employment, however, became increasingly evident over the last decade. Firstly, because of the impossibility in practice of dismissing personnel, lifelong employment functions without problems only in times of uninterrupted economic growth and increasing demand for personnel (Sethi et al. 1986). While this was the case for most of the post war period, Japan not only turned in the 1990s from a developmental, high-growth economy into a mature low-growth economy, but was also confronted, due to more structural difficulties, with very low, if not negative growth rates. As labour costs under lifelong employment have to be largely considered as fixed costs, they become an increasing financial burden in times of economic downturn. Demographics make the situation even worse. With a falling birth rate, the average age of employees rises, which in combination with the seniority principle results in increasing labour costs. Furthermore, a company not only must be able to dismiss those employees who are no longer needed but, in order to introduce new knowledge, technologies, processes, and products, it also must be able to hire from the external labour market those experts and specialists it requires. At times when speed, flexibility and adaptability to major transformations in the business environment gain more and more importance in the struggle to remain competitive, lifelong employment, with its inherent need for stability, increasingly becomes a liability (Aoki 1990). Lifelong employment can be understood as a key underlying reason for the strength of Japanese companies in pursuing long-term growth strategies, but at the same time also for their weakness in engaging quickly in major changes and restructuring. Unfortunately for the Japanese, it seems that the business environment is increasingly demanding the latter over the former.

Change, however, has not only occurred on the employer’s side. An alteration in the value system, in particular for younger people, stresses increasingly interest in the work itself, in self-actualization and independence, instead of loyalty and willingness to sacrifice (Woronoff 1992). While this behaviour is highly criticized and stigmatized by some parts of the population, in particular by the older generation, as a sign of moral decline, it is gradually being accepted by society at large. Many employees are therefore less and less willing to commit themselves to one company for their entire working life, if they see better career opportunities or higher salaries for themselves at other companies. Furthermore, while the large Japanese multinationals were until recently only matched by the Japanese elite government bureaucracy in their attractiveness as an employer, now smaller, flexible and innovative start-up companies are increasingly providing an interesting alternative for young, highly-talented, creative, and independent-minded Japanese (MSC 1987).

All these arguments indicate a rather fundamental change in lifelong employment practices. There is indeed ample evidence of companies increasingly distancing themselves from such practices, and even to the point of complete abandonment in some cases (Ornatowski 1998). Kono and Clegg (2001), Metanle (2003) and Chen et al. (2004) observe, however, that many companies are still reluctant to abandon fully and openly the principle of lifelong employment and therefore dispute its collapse. But even those companies that strive to uphold the principle of lifelong employment are forced to adapt to economic necessities. Importance is given to the concept of employability, so that an employee, if forced or wanting to leave the company, has broadly applicable skills that can easily be transferred elsewhere. People are thus increasingly encouraged to take greater responsibility for their own careers (Chiba et al. 1997). Furthermore, companies are engaging furthermore more in career development, counselling on opportunities both within but also outside the company (Kono and Clegg 2001). Consequently, whether officially remaining loyal to the principle of lifelong employment or not, recruitment practices are becoming increasingly more flexible, individualized, open and market oriented (Whitehill 1991; Matanle 2003). However, for many employees such a break with former practices signifies a breach of confidence which negatively affects their loyalty and commitment to their company. Lifelong employment is still considered by most members of the society as a much appreciated ideal (Reinhold 1992).

It should be noted when analyzing the above arguments that, with regard to both the critique of the lifelong employment principle as well as observations about its decline, the literature cited above is by no means only very recent. This indicates that change towards a more flexible, individualized, open and market oriented employment model is a gradual process that has already been ongoing for some decades. Accordingly, Matanle (2003, p. 101) states ‘Thus lifetime employment, in an institutional and organizational sense at least, must be seen as a permanently evolving, responsive, and dynamic system rather than as a static phenomenon that has remained virtually unchanged throughout most of the post-war period.’ Consequently, change observed today cannot be seen only as a reaction to the current crisis in the Japanese economy and the Japanese business and management model. Instead, it was well under way even during the heyday of the so-called Japanese management model. The question, therefore, is up to what point one can speak about gradual change *within* the system (of lifelong employment) and from what point one has to assume a radical change of the system *itself*. Does the traditional concept of lifelong employment still matter for Japanese companies or are they abandoning it altogether and replacing it with a Western-style employment system?

Some additional insight into the recruitment policies of Japanese companies might be provided by an empirical study about HRM practices of large corporations in Japan, the USA and Germany, which the author of this article himself has undertaken (Pudelko 2000). This study is based on questionnaires which were sent to the heads of human resource departments of the top 500 companies from each of the three countries. The managers were asked which of two opposing statements best describe the HRM practices of companies of their own country. It became evident in this study that the practices regarding recruitment and dismissal of personnel of Japanese corporations are still strikingly different from those of their German and particularly American counterparts. Thus, most Japanese companies (still) largely display 'recruitment of new graduates to a permanent employer-employee-relationship; more senior positions are filled exclusively using internal personnel (people-oriented)'. In contrast, both American and German recruitment practices are much more about 'finding the best qualified candidate (from within the company or externally) for a predefined position (job-oriented)'. While the American and German practices were found to be very similar, they both differ from the Japanese approach. Furthermore, in Japan 'selection [is] based on inter-personal skills', while in the USA and Germany 'selection [is] based on performance and expertise in a given area'. Also here, results for the USA and Germany are very similar, while differing strongly from the Japanese. Finally, according to the survey, both Japanese and German HRM is clearly characterized by 'low labour turnover (high degree of loyalty between employer and employee)', while American HRM is described by 'high labour turnover (low degree of loyalty between employer and employee)'. Interestingly, here Japanese and German HRM are very similar, while both differ significantly from the American practices. These results suggest that Japanese practices with regards to recruitment and dismissal of personnel are, when compared with those from the two Western countries, strongly determined by the lifelong employment principle. This finding supports the continuity argument over the change argument.

In addition to describing their own HRM practices, the HR managers were also asked if companies from their country had (since the 1980s) oriented themselves towards particular HR practices from the respective other two countries or would (in the forthcoming years) do so. Here, the results clearly indicate that the Japanese HR managers orient themselves strongly towards the American model and expect to do so in the future even more than in the past. No other country combination received more robust results than the Japanese orienting themselves towards the Americans. In contrast, the Americans had only very little inclination to learn from Japan and expected to do so much less in the future than in the past. Furthermore, the HR managers were asked in open questions which HR practices they were particularly inclined to adopt. As for practices relating to recruitment and dismissal of personnel, the following three statements were made most often by the Japanese wishing to adopt American practices: ‘turning away from lifelong employment respectively flexibility of recruitment, dismissal of personnel and change of employer’; ‘recruitment of experienced specialists for specifically advertised positions’ and ‘managers are externally recruited and can also be laid off again more easily’. All three arguments provide clear evidence that Japanese HR managers intend to move away from the lifelong employment system and wish to adopt American-style practices. To sum up, the survey indicates that current Japanese practices regarding recruitment and dismissal continue to be significantly different from American and German policies and lean more towards the ‘traditional’ Japanese HRM model. At the same time, however, Japanese HR managers intend to move away from this ‘traditional’ model and adopt more American-style practices.

## Training and Development

The Japanese school and university systems are strongly geared towards providing a broad general education, instead of delivering specialized knowledge and skills. Companies consequently cannot assume that their new recruits possess any job-relevant knowledge. It is, therefore, the task of the company to train its people thoroughly. The main objective is not to produce excellent specialists, but versatile generalists. In order to train and mould its employees, every large corporation has established a long-term oriented and exhaustive development programme. The larger the company, the more systematic and comprehensive training activities usually are.

The training commences for all new recruits in general with an introductory course lasting several weeks or even months, in which they learn about the company, its culture, history and mission. This first stage serves more to socialize the newcomers than provide any training in a stricter sense (Inohara 1990). Thurow (1993, p. 140), bluntly speaks in this connection of ‘indoctrination programmes’, comparing them to the training of soldiers. This reveals the conviction of Japanese companies that the organization which best understands how to attach its new employees to itself will be able to mobilize the strongest commitment and willingness for sacrifice in its workforce. Socialization and integration into close networks also form the primary mechanism of control in Japanese companies, more so than formalized bureaucratic control or output control (Gamble et al. 2004).

Employees are usually assigned to the HR department for a period of three to twelve months after the introductory course. In this period they will have to perform rather poorly regarded jobs. An engineer might work on the assembly line and a university graduate in economics employed by a bank might visit retail customers on his bicycle in order to cash cheques. It is only afterwards that the career paths become more differentiated, according to the employees' previous education and future potential (Inohara 1990).

Because of the low turnover rate, Japanese companies can invest heavily in their employees without having to fear the loss of these investments. They focus particularly on the training and development of workers and managers at lower and middle levels. Training activities occur during the entire employment period and are considered an essential part of everyday work. In contrast to companies in the West, having passed a specific training programme does not justify a promotion or a higher salary in Japan. Furthermore, Japanese training activities take place mainly within the company itself and are geared towards the specific needs of the individual company. Thus, they are little standardized and formalized.

According to Ballon (1992), the most important task of training and development is to promote collective learning in the company. The simplest way to achieve collective learning is teamwork and the systematic sharing of work-related knowledge with colleagues. Training in Japanese companies is thus almost exclusively focussed on gaining experience on the job and is carried out according to the learning-by-doing principle. Written manuals or instructions are largely unknown. Instead, knowledge is passed on orally from person to person and by observation of what more experienced colleagues do. No formal training programmes exist and neither do specific instructors (Inohara 1990).

The training content in Japanese companies is very comprehensive. The firm conviction behind this is that very specific knowledge and expertise becomes easily dated in a fast moving world and would render a too highly specialized employee unproductive. As the discharge of such a person and the recruitment of another who is familiar with the then required knowledge is not an option under lifelong employment, broad-based training is regarded as a guarantee for the durable value of an employee. Under these conditions, generalists provide more flexibility. Retraining for new jobs is a markedly different strategy from the American 'hire and fire' approach, according to which employees are hired to do a specific job for which they have the necessary skills and fired if their skills are not needed anymore (Kono and Clegg 2001). Training is thus to be understood as a comprehensive, continuous process in which the company invests a substantial amount of time, effort and capital in order to produce multi-skilled generalists (Aoki 1988; Purcell et al. 1998).

As a further component of generalist training and development in Japan, job rotation needs to be mentioned (McMillan 1996). Workers frequently change between various working groups and working stations, while white collar employees rotate between different departments and functions. Job rotation should not be misunderstood, however, as a pure training instrument for junior staff. In contrast, job rotation is continued up to high management levels and is less about the development of the single employee, but about creating a learning organization in which a broad basis of knowledge, understanding and experience permeates the entire corporation. This can be interpreted as the basis for all *kaizen* or continuous improvement activities. Japanese companies still value job rotation and on-the-job training throughout the employee's working life, even though there seems to be a growing emphasis on off-the-job training (Koike 1997; JIL 1998; Rowley et al. 2004). Also the *sempai-kohai*-relationship should be mentioned in which an older and more experienced company member (*sempai*) guides and advises one or two junior employees (*kohai*) who are not his direct subordinates. For Morishima (1995b), co-operation in interdepartamental working groups, job rotation and *sempai-kohai*-relationship are the three determining factors for on the job training and development in Japan.

Job descriptions are of little importance in Japan when compared with Western companies (Inohara 1990). Even though such job descriptions, in particular for workers, do exist, they are ambiguous and meant only as broad guidelines which do not preclude significant deviations according to the company's needs (Arvey et al. 1991; Morishima 1995b). Who does what in a team is not prescribed and as tasks often overlap, they will be performed by several employees collectively (Plenert 1990; Kono and Clegg 2001). Harmonious working relations are of special relevance in this context. Furthermore, frequent co-operation in working groups consisting of members from different functions increases understanding of the various perspectives of other departments (Morishima 1995b). Acquired knowledge and skills not only result in a gain in productivity for each single employee, but over the entire organization (Arvey et al. 1991). Next to those advantages stemming directly from the collective learning process, identification with the entire company and with colleagues and team members is further strengthened and thus contributes to an even stronger commitment.

The basic philosophy of the Tayloristic American model is that through specialization companies can reduce their investment in workforce training to a minimum, provided the workers are closely supervised. While about 100 different job descriptions might exist in American plants, there might be no more than seven for the same tasks in Japanese plants. One Japanese worker is thus capable of doing what needs to be performed by 10 to 20 different persons in the USA. Workers not only operate the machines, but also clean, maintain and – if possible – repair them. With a multi-skilled workforce at hand, flexibility increases substantially, as the workers can be quickly reassigned to whatever job needs to be done at a specific moment in time. The efficiency gains obtained through this and other production process innovations have substantially increased the productivity of Japanese companies over time (McMillan 1996). What Japanese firms have achieved in this context was previously perceived in the West to be impossible: improving product quality through incremental process innovations, while reducing production costs at the same time. During the phase of high economic growth in Japan, these innovations were named, rather unsurprisingly, as key factors in the success of Japanese companies.

Quality circles, instruments of the Japanese business model about which there has been much comment, should also be mentioned in the context of training and process innovation. In autonomous working groups, five to ten employees continue what basically every Japanese child learns from kindergarten onwards: to increase the collective and individual competence of everyone involved, by co-operatively trying to solve a problem. This intense co-operation, however, does not preclude a competitive aspect within quality circle activities. On the contrary, as the achievements of many quality circles are compared with one another, not only the identification with one's one circle, but also the competition with other circles increases. This competitiveness, in turn, is a major driver of motivation. The ambition to achieve autonomously good results has furthermore clearly positive effects on active learning. For Plenert (1990) and Ballon (1992), it is thus less the solution to problems which stand in the foreground of quality circles, but the identification with the process of finding the solution.

The training and development activities of Japanese companies are often subject to much praise, because of their long-term orientation, comprehensiveness and positive motivational effects. Yet, criticism is also – increasingly – being expressed in this area. With ever faster product cycles and increasing complexity of technology, there is a growing need for specialized knowledge. Japanese companies, however, have been rather reluctant to embrace training activities which are geared towards specialization. After all, specialists undermine the lifelong employment principle, as with their expertise they become increasingly exchangeable among companies. This might facilitate the hiring of experts from other companies, but by the same token also increases the risk that a company's own experts might be lured away to competitors and, in turn, makes long-term oriented, comprehensive and costly training a more uncertain business. In addition, a move away from generalist training also undermines seniority-oriented promotion and compensation. The rather egalitarian in-house generalist career path strengthened identification with the company and enhanced the feeling of being appreciated by the company. Highly specialized and externally trained experts can, however, disturb harmonious working relations. Yet, with the decline of lifelong employment and (as will be seen) the seniority principle, more specialized training and development activities are taking place. This change is also supported by a gradual transformation of the value system of Japanese employees, who increasingly are expressing their preference for specific jobs and specialized careers. Additionally, more specialized skills also increase the employee's employability which becomes more important as lifelong employment declines. In order to accommodate these demands, companies are increasingly accentuating training activities geared towards the individual interests, preferences and talents of the employees (Leme Fleury 1996).

Empirical evidence should also be provided for the training and development activities, in order to understand the current tensions between continuity and change better. According to evaluation of their own respective model by the heads of the HR departments of Japanese, American and German companies, the Japanese practices stress 'widespread training for broadly defined tasks (goal: to create a generalist)', while the German and more so the American practices are geared towards 'training focused on specific knowledge for narrowly defined tasks (goal: to create a specialist)'. While the American and German practices are evaluated very similarly, they both differ significantly from the Japanese ones. Furthermore, for training and development in Japan, there is a clear 'tendency to be extensive and focused on the work group', while in Germany and in particular in the US, for training and development there is a 'tendency to be limited and focused on the individual'. Here again, American and German practices are described in a very similar way, while they both differ strongly from the Japanese ones. As for the last criterion, the results clearly deviate from the previous pattern: both American and Japanese companies invest 'much effort in moulding the employee in accordance with the company's culture', while in German companies, there is 'little effort to mould the employee in accordance with the company's culture'. Here, Japan and the US are seen as very similar, while both deviate from Germany. Overall, it has to be noted that the differences among the three countries with respect to training and development are clearly less pronounced than was the case for recruitment and dismissal of personnel. This is also reflected in the statements made by the Japanese managers on what they would like to adopt from the US. Training and development played a comparatively insignificant role, with ‘increased formation of specialists and turning away from the formation of generalists’ as the strongest point made. This statement confirms the direction of change indicated before. By and large, however, in Japanese companies training and development seems not to be an HRM function currently experiencing significant transformation.

## Employee Appraisal and Promotion

For employee appraisal three criteria can be considered as relevant: performance, behaviour and potential. Comparative neglect of the first and stress on the last two criteria have been described as characteristic of traditional Japanese HRM (Hilb 1985). Knowing that the employee will spend his entire working life in the same company, his continuous efforts and his willingness to integrate are regarded as highly important. This explains the value which has been traditionally attached to behaviour. As for the performance appraisal, it is primarily the contribution to group objectives that stands in the foreground, less so the meeting of individual objectives. An individual contribution towards group objectives has not only to be seen in the context of meeting economic targets, but also in the context of strengthening the working morale of the entire group (Inohara 1990). As short-term achievements might also be the result of circumstances over which the assessed employee has little control, evaluations tend to be more long-term oriented. Employee appraisal is furthermore traditionally based on more implicit, subtle and informal criteria. Also, a formal appraisal interview is often not part of the Japanese appraisal procedure. A less positive evaluation might lead to a loss of face of the appraised and is therefore avoided. For the necessary feed-back, more indirect means of communication are chosen (Inohara 1990; Bloom et al. 1994).

The stress on group orientation should not be interpreted as meaning that the Japanese are not interested in pursuing individual careers and do not know interpersonal competition and rivalry. In contrast, the Japanese term *risshin-shuse* which might be translated with ‘to build up an own career’ is the motto of many ambitious Japanese. Furthermore, competition and performance orientation are integral parts of the Japanese education system. Indeed, the competitive pressure to pass the entry exams for the best universities is extreme. Yet, the competition for promotion in a Japanese company works differently from that in Western organizations, in so far as it takes place in a more concealed form. Group harmony officially takes precedence over anything else. Chang (1982) refers here to individualism through the group.

Despite anti-discrimination laws, women rarely have access to the core workforce and therefore can hardly be found in higher management positions (Arvey et al. 1991; Bloom et al. 1994). This is despite the fact, that women graduate from university as frequently as men do. However, it is still expected that women will marry after some years of employment and then fully commit themselves to their families, without taking up a job again, say after the education of their children. Companies are consequently less willing to invest much in the training of women. Japanese female university graduates are often far overqualified for the tasks they have to perform (Inohara 1990; Rehfeld 1995). Their only option to pursue a career in a corporation is to work for a subsidiary of a foreign company. But also here career possibilities are generally restricted to the subsidiary itself, as a move to the country of the headquarters is usually not an aim. Foreign observers should always be very reluctant to pronounce judgements on the fairness or unfairness of specific characteristics of other cultures. Yet, from a purely economic perspective, the neglect of a well educated (female) workforce has to be regarded as a substantial waste of resources, both from the point of view of a company and of the entire economy.

Promotion and compensation policies are strongly influenced by the seniority principle in the traditional Japanese HRM model. The seniority principle, together with lifelong employment and the company unions, make up the ‘three pillars of Japanese HRM’ (Park 1985; Taylor 2001). Promotion and compensation of employees is thus less determined by individual performance, than by length of employment. This reflects, according to Lincoln (1989), the specific East-Asian concept of appreciation of age and seniority. Therefore, fast promotion of high performers, resulting in younger employees becoming superiors of older ones would, under the seniority principle, be considered as an unjustified discrimination against older and more experienced employees, disturbing the overall harmony in the company. The seniority principle should, as with lifelong employment, not be misunderstood as an invitation towards idleness. If employees do not live up to expectations, a delay in promotion (if not a discharge) could still result. With a change of employer not being an option under the traditional Japanese life-long employment system, the possibility of a delayed promotion is a strong incentive to keep one’s own performance in line with expectations of superiors and colleagues, in order to avoid a loss of face (Inohara 1990; Ballon 1992).

As a consequence of the seniority system, young, highly motivated and outstanding employees have, not been able to rise quickly through the ranks until recently. Under the seniority principle, there is no fast-track career system, as employees are promoted in small but steady steps. Yet, in order to guarantee that important decisions are still taken by competent personnel, formal hierarchical position and (informal) decision-making authority do not necessarily coincide. Young employees with leadership qualities are entrusted from early on with significant responsibilities, even though they still lack the formal recognition of a higher position in the organization. Knowing, however, that promotion into senior management positions is based on long-term evaluation, this does not (or did not) demotivate those high achievers. Furthermore, the seniority principle facilitates the functioning of job rotation, as the concrete task to be performed is not directly linked to a specific hierarchical position. For Japanese employees it is thus easier to accept less attractive positions, knowing that their career depends on seniority and their commitment, not on their current position. Appraisal in the context of job rotation is, therefore, always related to each individual employee and not to the respective job position. This makes, however, the appraisal both more troublesome and potentially less objective. Due to these difficulties, Shibata (2000) observes the installation of obligatory appraisal training programmes for managers and of grievance systems for handling complaints related to performance appraisals.

With regards to the relative weight of the seniority principle for promotion decisions, Takahashi (1985) refers to the hierarchy level. For the lower and middle ranks seniority and commitment are the main promotion criteria, whereas for higher levels initiative and performance results are of more importance. Finally, for top management, only initiative and performance results count, with seniority being of no significance. Consequently, in the traditional Japanese HRM model, promotion depends on a combination of seniority and appraisal relating to behaviour and results.

The seniority principle has often been identified as a key factor for success in Japanese companies (Lincoln 1989). Still, by the same token, it has also always been disputed. Woronoff (1992), for example, suggested more than a decade ago that the seniority system turns Japanese companies into bureaucratic, rather than entrepreneurial, organizations. Dore (1973) comes to a similar, yet more neutral evaluation by comparing the Japanese employee not with a bureaucrat, but with a civil servant. Woronoff (1992) complains additionally that due to automatic promotions up to a certain management level, the hierarchies are permeated with less competent managers, who would already be filtered out under a more performance-oriented promotion system. With regards to the top management of a Japanese company, two more problems ensue. First, when managers finally arrive at the very top, they will be of considerable age, well past their most productive period and possibly out of touch with the latest trends and technologies. Even more worrying than having the right people arrive at the top too late is the wrong people getting to the highest level. And also here, the traditional Japanese promotion system becomes increasingly problematic. It selects loyal, highly motivated and efficient followers who don’t rock the boat, but works against outstanding leadership personalities who also have the courage to take uncomfortable decisions. In view of the economic crisis which has lingered on for more than a decade now and the arguable need for rather comprehensive change, the lack of leaders who are both willing and competent to embrace new management principles and implement them uncompromisingly can be perceived as one of the key reasons for the paralysis of Japanese business.

Furthermore, the seniority principle depends largely on a growing economy and an incessant demand for additional personnel and additional management positions. Yet, with a mature economy and in particular one in or close to recession for a long period of time, the need for more personnel and managerial positions has decreased substantially. As companies are confronted with a declining demand for managers but at the same time with a constant expectation by their employees that they will get promoted, they introduce more and more intermediate hierarchical layers. They have little organizational effect, but are an attempt to satisfy the staff. In consequence, many of the Japanese managers do not have a single subordinate. This inflation of managerial positions leads to increasing personnel costs and renders the decision-making process more ineffective and inefficient. Even with a lower overall demand for managers, experts with specialized skills are becoming more important. In order to meet the demand for them, they are increasingly recruited from the external labour market at mid-career level. Outside specialists thus become superiors of employees who have already worked as generalists at the company for many years and who were counting on being promoted themselves to these positions (Whitehill 1991; Woronoff 1992). This creates frictions which are detrimental to loyalty and motivation.

Change, however, is not only stimulated by companies, but also by employees. As corporations step back increasingly from lifelong employment, young and highly capable employees with much sort-after qualifications are becoming more and more impatient and less willing to accept slow steps in promotion and in increases in compensation. Now that they can change employers more easily, they are well-placed to push for a break-up of the rigid seniority system (Lincoln 1989; Leme Fleury 1996; Dalton and Benson 2002; Rowley et al. 2004). Given the current economic situation, the limits under which the seniority system can continue to function seem to have been reached, if not transgressed. Employees increasingly opt for more specialized career paths, as they provide better career opportunities, both within and outside the company. As employees gradually identify more with their specialization and less with their company, these changes also increase their motivation (Kono and Clegg 2001).

Consequently, several authors currently report a strong decline in the application of the seniority principle (Kono and Clegg 2001; Ballon 2002). However, it has often been overlooked in recent discussions that this process is by no means a recent phenomenon and not only a response to the present deplorable economic situation, but rather a continuous development. Sethi et al. noticed in 1986 that more competent and dynamic persons accede faster to key positions. One year later, Park (1985) noted that 96 per cent of all Japanese companies carried out performance evaluations which indicated to him that promotion was by no means an automatic process guided exclusively by seniority. Instead, according to his observation 20 years ago, individual performance became of increasing significance in order to streamline the corporate structure, to improve corporate decision making and to set incentives for high performers. Even during the heyday of the Japanese business model, in the 1980s, the seniority principle as one of its key features was therefore already highly disputed and in decline.

The shift in relative importance from seniority to performance is making a series of further changes necessary. First, more precise and transparent evaluation criteria are needed in order to measure individual performance (Sano 1993). As employee appraisal tended to be rather subjective, additional people are included within the appraisal process, in order to increase objectivity (Kono and Clegg 2001). Transparency and objectivity require in turn more specific job descriptions for which explicit performance criteria can be established. However, as discussed in the previous section, this renders job rotation more difficult. Furthermore, the stress on team work makes the assessment of individual performance rather complicated. Ultimately, these reform steps risk alienating many employees who regard these changes as a unilateral cancellation of the mutual trust relationship and a betrayal of all the values to which they were introduced by their company (Sethi et al. 1986; Whitehill 1991; Woronoff 1992; Sasajima 1993). Yet, despite these irritations, the literature seems to be rather unanimous in describing a weakening of the seniority principle in Japanese corporations. What remains controversial is, however, whether the seniority principle is now already a relic of the past which has been replaced by the more Western concept of individual performance, or if it is still of some significance for promotion decisions in Japanese corporations. More insight might be gained from the comparative empirical study.

According to the evaluation of the Japanese HR managers questioned, Japanese promotion practices are very much half way between giving a ‘heavy weighting to seniority and contribution to collective achievements’ and a ‘heavy weighting to individual achievements’. It should be noted that in comparison with all other items related to recruitment and dismissal of personnel, training and development, employee appraisal and promotion criteria as well as compensation reported here, the seniority principle is actually the least oriented towards the pole representing the traditional Japanese HRM model. Given the fact that the seniority principle was considered to be one of the cornerstones of Japanese management, this result seems to suggest a considerable change in Japanese HR practices. On the other hand, when compared to Western HR practices as described by the German and American HR managers, Japanese companies seem to be clearly (still) the most inclined towards seniority, whereas German and in particular American corporations stress individual achievements much more. This result now gives the continuity argument some credence. Regarding the criterion tested next, the results are even less straightforward. The Japanese managers see their model again very much in between ‘primarily informal, non-quantifiable promotion criteria (behaviour-oriented)’ and ‘primarily formal, quantifiable promotion criteria (results-oriented)’. As for the comparison with the judgements of the Americans and Germans, the results are so close to each other that Japanese, American and German practices have to be considered very similar. Moving on to the third criterion tested, the current Japanese practices seem to be clearly more attached to the traditional Japanese HRM model, as the ‘career path [continues to be] encompassing several departments and areas’. In contrast, according to the German and, in particular, the American experts, in their companies the ‘career path [is] usually confined to one department or area’. Here, the difference between the generalist Japanese approach based on job rotation and the specialist American and German career development is very clear. To sum up, in the area of promotion in particular the move away from the seniority principle has to be highlighted, even though Japanese companies are still valuing seniority significantly more than their American or German counterparts.

## Compensation

In order to define a compensation model, three different criteria can be distinguished: external compensation fairness (in relation to competitors), internal compensation fairness (in relation to job requirements and performance) and spread of compensation distribution (between the highest salary and the lowest wage). Japanese compensation practices are characterized by low ranking in all three dimensions. As the external labour market in Japan is traditionally underdeveloped in the context of lifelong employment, there is little need to observe equality of salaries among companies. With very differentiated bonus payment schemes, salaries between companies are also difficult to compare. The Japanese compensation system is furthermore only comparatively loosely linked to specific job positions (job rotation) and individual performance (team orientation), resulting in low internal job fairness (Hilb 1985).[2]

The spread between top salaries and lowest wages within a company is very narrow compared to Western countries. If pay cuts have to be introduced, they start with the salaries of the top management (Ballon 1992). The low income disparity between managers and workers is considered to be an important tool for reinforcing harmony in industrial relations and identification of the workforce with the company. Crystal (1991) explains the comparatively low salaries paid to Japanese managers with the fact that monetary incentives are of relatively less importance in the Japanese incentive system. For Japanese managers, recognition from colleagues with whom they co-operate over many years seems to be of higher importance. Rehfeld (1995) highlights an interesting difference from Western countries in this connection. In the West, top managers earn high salaries, gain material independence accordingly and can buy themselves expensive status symbols. In contrast, Japanese companies pay their top managers significantly lower salaries, thus increasing the feeling of solidarity among workforce and management, and keeping even top-managers financially more dependant on the company. Yet firms pay for their managers' status symbols such as nightly outings to exclusive bars, golf club membership fees and so on. If they lose their jobs, Japanese managers consequently lose not only their salary (on which they still largely rely), but also the opportunity to participate in a social life and ultimately their social recognition. While Western managers can take their money any time and leave (also for another company), Japanese managers would suffer substantially more, which is why their identification with their employer is much more pronounced.

The compensation practices of Japanese firms have also traditionally been largely determined, as with promotion, by seniority. Under the seniority system, in the first ten to fifteen years, all employees of comparable seniority status receive essentially very similar salaries with frequent but small increases. During this period, remuneration is determined by duration of employment in the company, age, education, family status and gender. Only afterwards, those showing better individual performance quietly receive somewhat higher pay increases. This compensation system holds for both the salaries of white-collar employees as well as the wages of workers (Ballon 1992). Also in related issues such as working time and vacation regulations, white-collar employees and workers receive similar treatment. Thus, solidarity among all company members is more pronounced than the hierarchical differences between them (Reinhold 1992; Itoh 1994).

A characteristic of the Japanese compensation model is the importance of bonuses, which are typically paid twice a year and can often comprise in total five times the monthly salary. They can be subdivided into bonuses related to the performance of the individual employee, the working group or the company, overtime pay as well as a series of different supplements and social benefits. Under the conditions of the seniority principle in combination with lifelong employment, salaries and wages have largely to be considered as fixed costs. It is the bonus system which provides the company with at least some degree of flexibility.

The seniority principle has strengthened the employees' attachment to lifelong employment, because wages increase with tenure. As the salary is not directly related to the specific job position, job rotation is facilitated. Consequently, compensation is more linked to the individual employee than to his job (Itoh 1994). As with promotion policy, it is the rationale of the seniority principle that compensation based largely on individual performance is going against the group orientation of the Japanese business model. To single out certain individuals in a team and declare them better performing than the other team members and pay them a higher salary disturbs the harmony and the egalitarian atmosphere of the entire team.

As mentioned, Japanese companies offer their employees a series of social benefits. They not only meet material needs, but also increase solidarity with and loyalty to the company. Examples could be housing supplements, money for the education of children, payments for widows of dead employees or even the provision of company-owned cemeteries. The organization of common leisure time pursuits and vacations, company hospitals or company internal marriage brokerage are further indications of the holistic care Japanese companies provide for their employees (White and Trevor 1983; Okabe 2002). This care is often summarized under the term paternalism. Akio Morita, former president of Sony, once joked that a Japanese firm sometimes resembles more a welfare organization than a profit seeking institution.

The seniority system with its automatically increasing salaries implies that new recruits start out on very low pay. Young employees often continue to live with their parents as they cannot afford to rent accommodation on their own. Consequently, the well-educated and capable ones in particular are significantly underpaid in comparison to their contribution. Because of the rather early retirement age and inadequate pension schemes, older people also have to live on a comparatively low income once they retire, usually at the age of 60. As a result, they often stay on in the company even after their official retirement, get a job at a subsidiary in order to liaise with former colleagues or take a different job altogether. These after-retirement jobs are usually comparatively low paid. Given the traditional appreciation of age in Eastern cultures, which is also reflected in the seniority system, this seems rather awkward (Woronoff 1992). One might, however, also maintain that the seniority system is -to the needs of employees as it benefits the middle aged who are establishing a family, buying a home and who have to pay for their children's education. In contrast, the young employees who do not have a family as yet or the retired people, whose children are by then economically independent need less and therefore also receive less.

In the discussion about promotion, it was established that the seniority principle is steadily declining in significance. The same argument has to be made in the context of compensation. As early as 1969 Abegglen observed that Japanese companies, when determining their employees' salaries, were giving more weight to qualifications, skills and performance at the expense of seniority. Merz (1986) and Sasajimma (1993) also argued more than ten years ago against the prevalence of the seniority principle in remuneration practices of Japanese corporations and gave more value to performance. Furthermore, whereas salary discrepancies due to performance differences occurred previously only after ten years or more of working, they are now introduced increasingly earlier. Salaries are thus losing substantially in uniformity and calculability. As the seniority system results in high salary costs for senior employees, companies are trying in addition to separate themselves more from their older employees (Sano 1993; Sasajima 1993). With companies subject to increasing competitive pressures, the seniority principle has become much less important over the last decade, not only with regards to promotion but also with regards to compensation. (Ornatowski 1998; Rowley et al. 2004). Despite this transformation, it appears that seniority still plays a role in determining compensation. Furthermore, what seems to remain unchanged is the rather narrow spread between management salaries and workers' wages (Kono and Clegg 2001). Greater differentiation based on performance differences is thus being introduced, but not taken to extremes.

With compensation too, changes do not only occur on the company side, but also on the motivational side of the employees. While loyal, hard working but less outstanding employees clearly lose out under a more performance-oriented compensation system, high performers find themselves better rewarded and thus more motivated (Dalton and Benson 2002; Rowley et al. 2004). As identification with the company weakens, commitment to a specific job rises, and the demand for an emotional and moral reward is replaced in some measure by the demand for a material repayment that is considered fair given the performance delivered. The willingness to sacrifice for the company (accepting positions in departments or locations considered unattractive; long but unproductive working hours; not fully voluntary renunciation of vacation time; spending evenings with colleagues instead of with the family;) is being replaced more and more with the search for fulfilment through a professional challenge in a working area of the employee's choosing.

As with the HRM functions discussed previously, empirical evidence from the survey cited should provide some additional insight into the degree to which the compensation practices of Japanese companies are subject to change. When asked if Japanese companies are directed more towards 'primarily material incentives' or towards 'a mix of material and non-material incentives', Japanese respondents see only a slight preference for the latter. Given the description of the traditional Japanese HRM model in the literature, a much stronger orientation towards more immaterial incentives might have been expected. This suggests an alignment towards Western practices. The judgements of the American and German HR managers on their own respective incentives are so similar that no difference between the Western policies can be established. Regarding the question, if 'pay depends on individual performance' or if 'pay depends on seniority', the Japanese HR managers see their practices again very much in the middle of these two poles. As with promotion, the seniority principle is also with regards to compensation the one from all items tested which was perceived by the Japanese HR mangers to be most distant from the traditional Japanese HRM practices. This suggests a major move away from this once so typical instrument of Japanese HRM. On the other hand, again as seen with promotion, the German and in particular the American compensation practices are still significantly more oriented towards individual performance. This result now supports the continuity arguments, as it highlights the (still) existing difference between Western and Japanese HR practices. Finally, Japanese HR managers strongly agree that their companies are more directed towards a 'little difference in pay between top-managers and average workers (less than 20 fold)', as opposed to a 'very large difference in pay between top-managers and average workers (more than 100 fold)'. The

Germans are also leaning more towards smaller pay differences, albeit to a much lesser extent, whereas the American HR managers clearly observe very high income discrepancies between top-managers and average workers in their companies. Here, from all 12 items tested related to the four HR functions covered in this article, the pattern of the Japanese and the American HR practices opposing each other, with Germany in the middle, is most striking. Overall, there is a clear indication, that compensation in Japanese companies is becoming increasingly differentiated, depending more and more on individual performance, but that the differences between the pay of top managers and of workers continues to remain comparatively modest.

## Conclusion

In the introduction, the objective of this article was described as finding an answer to the following question: is the Japanese HRM model subject to substantial change, or even extinction, in response to the perceived crisis in the Japanese business and management model? Both an analysis of the literature and the author’s empirical survey indeed provided strong evidence that traditional Japanese HRM is currently undergoing significant change. This transformation has a clear direction which can be summarized as a convergence with more Western-style management practices. Another indication of this trend is the strong growth in HRM-related consultancies of Western origin that are currently springing up in Japan. Interviews conducted by the author with Japanese HR managers and HR consultants in Japan, and with HR managers of Japanese subsidiaries in the USA and Germany showed clear signs of HRM in Japanese companies becoming more ‘Westernized’. The interviews furthermore clearly indicated that Japanese managers are almost exclusively focussing on the USA when looking for inspiration from abroad.

As has been described, companies are introducing HRM practices that are characterized by a higher degree of market orientation and individualization and, consequently, diversity, in order to respond better to a faster changing external environment as well as to individual differences in performance, skills, achievements and the demands of employees (see also Matanle 2003; Watanabe 2003). As discussed, this process covers a comprehensive spectrum of HRM functions, including recruitment and dismissal of personnel, training and development, employee appraisal and promotion, as well as compensation. This finding of significant change needs, however, five different kinds of substantial qualifications:

First, it should be noted that the move away from the 'traditional' Japanese model towards more Western practices is by no means a new phenomenon, as the literature analysis has indicated. Articles were cited which are already more than 20 years old and criticized key aspects of the 'traditional' Japanese HRM model (for example, lifelong employment, seniority and generalist career paths) and described tendencies towards change (for example, increasing job mobility, performance orientation and specialist career paths). What can be argued, however, is that the pressure towards change has increased substantially under the current economic crisis.

Second, it has been established that change in the sense of 'Westernization' is not to the advantage of all company members and, consequently, also meets with opposition. Broadly speaking, agents of change are often those at the very top of the hierarchy, as they carry the overall responsibility for the company and are most under pressure to keep or regain their company's competitiveness. Equally, change is in the interest of young employees with high potential and specialized expertise who are no longer constrained by lifelong employment or the seniority system and who seek a higher degree of self-actualization. They can rise quicker up the hierarchy or change employer, either way earning more money more quickly and enjoying a higher degree of autonomy. In contrast, a 'Westernization' of HR practices meets with resistance from those who suffer personal disadvantage from it. This affects mostly middle managers who made sacrifices for their company in the past (for example, low starting salaries, slow promotion process, frequent moves under job rotation) and are now counting on receiving the reward for their loyalty and hard work. Having to fear, instead, that they will not be rewarded or that they might even be dismissed makes them natural opponents of change. The question of continuity versus change is, therefore, not just about what is best for the company, but also a matter of what is in the interest of those directly involved and, thus, a question of internal power struggles. The more a company is subject to global competition and/or under economic strain, the more weight those will have who promote change. Companies in protected industries, such as construction or retailing, consequently experience less transformation than companies in sectors such as automobiles and electronics.

Third, even assuming an irreversible trend towards a gradual individualization of Japanese society and more insistent demands for self-actualization by Japanese employees, Japanese society continues to be a highly collective society and, therefore, fundamentally different from Western societies. What is often described as 'Westernization' might rightly indicate the direction in which Japanese society is evolving. Indeed, the concepts of Japan as a cultural island (Moss-Kanter 1991) or as a village (Sethi et al. 1986) are increasingly difficult to uphold, with Japan becoming more and more densely interwoven with other economies and Japanese managers being increasingly exposed internationally (Morgan et al. 2003). Consequently, globalization, demographic changes, an increasingly mature economy, material affluence, consumerism, an increasing variety of opportunities as well as new ideas about modernism, are challenging the Japanese system of values, needs and demands, stressing increasingly Western concepts such as individualism, personal happiness, self-fulfilment and self-actualization. To assume, however, that Japan will continue on this path to such a degree that it will ever become a 'Westernized' society would be fundamentally flawed. For this, (each) society is too deeply rooted in its cultural basis, which is far from being subject to rapid change (Hofstede 2001). Japanese employees will continue, consequently, to appreciate their roles and obligations within the complex web of group relationships which constitute the fundamental basis of their social life. Also self-actualization, therefore, still needs to be seen in the context of interpersonal relations and mutual obligations within a collective entity such as a company. Even though HRM practices, such as lifelong employment or the seniority system, might not guarantee the most individually fulfilling life, they continue to be appreciated by many primarily for their role in supporting relational values and the security and stability they entail. Not to be underestimated is also a certain pride in Japanese exceptionalism that would be only reluctantly abandoned in favour of 'the American way of life (and management)'. In this current period, the *salaryman* has lost his status as hero of Japanese society and his security about his role in society. He is suffering, therefore, from the emotional challenge of redefining his position in the no man's land between the rigidity and stability of the past and the flexibility and insecurity of the future. Next to the clear winners from change described here (who, consequently, support it) and the clear losers as a result of change (who, consequently, reject it), the majority of Japanese employees seem to be torn between new chances of self-realization and economic and social risks, between participating in an open and global society and the loss of 'Japaneseness'. Because of this ambiguity, pressure for change coming from within Japanese society should not be automatically equated with a straightforward desire to emulate Western social and cultural values and norms nor, more specifically, Western HRM practices (Matanle 2003).

Fourth, a comparison with American and German HRM has indicated that Japanese HR practices are for most tested items still significantly different from those in the USA and Germany and continue to lean towards the 'traditional Japanese HRM model'. Thus, a complete convergence with and dissolution into some sort of 'Western management practices' has by no means taken place. This indicates that even though the differences between

Japanese HRM practices and those of Western countries are seeming to shrink, they nonetheless still continue to exist.

Fifth, the empirical analysis demonstrated as well that it is actually erroneous to assume a stark contrast between Japanese practices on one side and a homogeneous block of Western (in this case American and German) practices on the other side. Moreover, the data presented seems to indicate the existence of a continuum, on which the highly individualistic American HRM model and the collectivistic Japanese model are in many ways at opposing poles, with the German one in between (see also Pudelko 2000). If one accepts the idea that HRM practices are at least partly defined by the specific cultural context, the concept suggested here of a continuum can be supported by the findings of arguably the two most prominent authors who have established rankings for national cultures. The same pattern, with the USA and Japan in many ways at the opposite ends and Germany in the middle can indeed be established with four out of the five of Hofstede's (2001) dimensions: individualism, masculinity, uncertainty avoidance and time perspective. Even more striking are the results for Trompenaar's culture-defining dimensions (Hampden-Turner and Trompenaars 2000), as his survey data indicates the same pattern for all of his six dimensions: universalism vs. particularism, individualism vs. communitarianism, specificity vs. diffuseness, achieved vs. ascribed status, inner vs. outer direction as well as sequential vs. synchronous time. More specifically, with regards to the three HRM models, in a previous publication (Pudelko 2000) the author of this article defined this continuum using the following opposite poles: 'short-term performance efficiency based on flexible market structures and profit orientation' (USA) and 'long-term behavioural effectiveness based on co-operative clan structures and growth orientation' (Japan). The concept of a continuum suggests now that the question of continuity (of 'traditional' Japanese approaches) versus change (towards Western practices) is not a question of either/or, but a matter of degree, as Western practices also differ amongst themselves. Thus, lifelong employment might for example well be abolished as a strict system, but employment in Japan is likely to continue to be more long-term oriented than for instance in Germany or in the USA in particular. Consequently, the continuum with the highly individualistic American HRM model, a more moderately individualistic European HRM model such as the German one, and a rather collectivistic Japanese HRM model might become shorter, but will continue to exist.

Western approaches might, in consequence, serve Japanese companies as an indicator for the direction of change; however, the extent to which this direction should be taken can only be determined under close consideration of the specific Japanese context. In other words, Western management might function as a source for inspiration, but should not be understood in any way as a blue-print to be copied (Pudelko 2004a, b). This is even more so, as the assumption of a monolithic ‘Western management model’ is misleading, as has been established here. Instead of focussing only on the American model, Japanese HR managers should perhaps broaden their search for outside inspiration, particularly in countries that also have a more partnership-oriented HRM model.

To conclude, what was once perceived as a miracle has certainly lost much of its former strength, fascination and appeal. In order to regain competitiveness, however, it is not a miracle which is needed, but the development of a rather hybrid approach between traditional practices and more Western ones, which nevertheless has to be in accordance with the specific Japanese socio-cultural context. It is, though, difficult at this stage to predict where this new equilibrium between continuity and change will lie.

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## Notes

[1] If here and in the following, only the masculine form is used for a Japanese member of the core workforce, this should reflect less a male-centeredness of the (male) author, but, instead, a male-centeredness of the Japanese employment system.

[2] The term and definition of external and internal job fairness is taken here from the literature and applied to the case of Japan. It should be noted, however, that it is problematic to attribute a low degree of fairness to the Japanese compensation system according to these Western standards. Japanese who value group efforts more than individual performance, will for example be hardly convinced that it is fair to pay a CEO two hundred times as much as a worker as can be found in the USA in particular, even though this might be characterized according to Western standards by a high degree of external and internal compensation fairness.