
The Development of New Businesses and Quasi-Internal Labor Markets in Japanese Firms

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The objective of this paper is to investigate the approaches that Japanese firms have taken to securing and preserving human resources when entering into new businesses, and how these approaches are expected to change in the future. When entering into new businesses, Japanese firms have relocated personnel internally to protect the jobs of existing employees, and also used temporary transfers (*shukko*) and permanent transfers (*tenseki*) to expand the scope of personnel relocation to cover subsidiaries and other firms. When firms transfer employees temporarily or permanently, they face the challenges of matching the right employees to the right jobs, and providing employees with the appropriate training. The human resources departments of parent firms have accumulated experience in dealing with the former problem by gathering and analyzing information about the work and personnel in their firms and corporate groups. Firms have approached the latter problem by providing retraining for the personnel of the firm or the corporate group, including in cases when they are branching out into business fields in which they have limited know-how. Personnel relocation in Japanese firms started out as a means of preventing dismissals from being made when firms needed to restructure. However, as lifetime employment became increasingly established as a standard practice, personnel relocation came to serve as a means of maintaining the incentive for employees to improve their performance in the long term. Japanese firms have adopted this approach to personnel relocation and produced successful results when diversifying through the development of new businesses. The quasi-internal labor markets of Japanese firms hold an abundant accumulation of human resources and know-know on how to utilize these resources. Japanese firms have therefore reached the point where they need to review how they should utilize such resources when developing new businesses in the future.

I. Introduction

There are two methods for firms to procure management resources in order to respond to changes in the management environment: procure them from external sources using methods such as acquisitions, or utilize existing internal resources. In the majority of cases, Japanese firms choose to utilize existing internal resources when pursuing new businesses, and human resources are no exception. The grounds for this are strongly related to the practice of lifetime employment. It is thought that Japanese firms have prioritized the use of existing internal human resources because they upheld the concept of protecting the jobs of existing employees, which established itself as a concept in Japanese firms in the process of labor-management disputes in the post-war period and later became a social norm in Japan.

Table 1. The Distinctions between Internal Labor Markets, the External Labor Market, and Quasi-Internal Labor Markets

	Target	Employment contracts	Fundamental principles
Internal labor markets	Regular employees	Contract term is not specified	The individual rules of each firm Long-term logic Organizational principles (Relationships based on authority)
External labor market	Non-regular employees <ul style="list-style-type: none"> • Part-time employees • Employees dispatched from temporary agencies • Temporary employees commissioned by the firm 	Fixed-term contracts, employees not directly hired by the firm	Supply and demand mechanisms Short-term logic Market principles (Free movement of labor with price as a signal)
Quasi-internal labor markets	Temporary transferees Permanent transferees	Contract term is not specified	Cross between the internal markets and the external market

Source: Yashiro (2002, 8).

When firms attempt to respond to changes in the management environment while at the same time protecting the jobs of their existing employees, they face the challenge of matching the right employees to the right jobs. Unlike organizations in Europe and the United States, where individual employees are assigned with specialized roles, Japanese firms emphasize the importance of employees possessing abilities which are specific to the firm. Japanese firms have dealt with situations which do not involve significant changes to the business which they undertake—namely, cases which are limited to the restructuring of a number of factories or business locations which handle the same types of products—by relocating personnel internally. However, when faced with significant changes in the business environment, Japanese firms have at the same time pursued the practice of forming separate firms, for such purposes as reorganizing entities such as business locations or departments, preserving the organizational hierarchy, or developing new businesses. As a result, the scope of the labor markets in Japanese firms was expanded from the internal markets within the firm to quasi-internal labor markets which cover entire corporate groups, including subsidiaries. This paper will start in Section II by providing an overview of the historical background to this.

Yashiro (2002) notes that the labor market is divided into three categories: the internal labor markets within firms, which are defined by long-term relationships, the external labor market, which is defined by supply and demand mechanisms, and quasi-internal labor markets, which are a cross between the internal labor markets and the external labor market. Table 1 lists the characteristics of each of these three categories.

There are two main challenges which firms must tackle when utilizing quasi-internal labor markets. Firstly, firms need to gather and analyze the necessary human resources information to match the right employees to the right jobs. Secondly, they need to establish mechanisms for achieving smooth transfers, such as mechanisms for conducting the necessary retraining for internal human resources and for providing ongoing support for employees who are transferred. Sections III and IV of this paper will look at how Japanese firms have tackled such issues, as well as the reasons why such methods have been possible.¹

There is a strong possibility that the future will see even greater changes in management environments, and there is already a significant trend among Japanese firms toward business restructuring. There is a growing argument that Japanese firms need to not only reorganize and downsize through the “selection and concentration of business areas,” but also pursue growth by developing new businesses. At the same time, a number of Japanese firms are trying to utilize internal resources as they develop such new projects. On this note, Section V of this paper will review how quasi-internal labor markets may change along with new business developments in the future. Section VI will conclude by looking at the issues to be addressed in the future.

II. The Practice of Lifetime Employment and the Development of Quasi-Internal Labor Markets

1. The Development of Internal Labor Markets in Japanese Firms

It has been noted that Japanese firms have increased the flexibility of their organizations by transferring employees between different organizational units, such as business locations and firms, and such transfers have acted as an advantage which has assisted firms in their growth. However, in recent years transfers between organizational units have had the reverse effects of obstructing firms from developing results-oriented approaches or from responding to the competitive global environment. It is therefore also argued that reforms should be made to clarify the work parameters of each individual employee. If Japanese firms pursue such reforms, it will become difficult for them to transfer employees between organizational units, which would in turn decrease the flexibility of their organizations and

¹ In this paper, the results of interviews conducted by the author over 13 occasions at a total of 10 firms during the periods 1995–1996, 2000–2002, and 2008–2009 were used where relevant. The firms interviewed represent a number of different industries, including both manufacturing and non-manufacturing industries, but according to the agreements made with the firms interviewed, details of the specific industries are not given. As the dates, interviewed firms, and purposes of these surveys differ slightly, it is not possible to conduct a simple comparative analysis. Moreover, as the number of firms interviewed is limited, it is not possible at present to make generalizations and develop arguments based on the survey results. In order to do so, it would be necessary to conduct surveys such as questionnaire surveys. However, considering the difficulties of oral surveys on the topic of temporary and permanent transfers, it is surely worthwhile to pursue discussion based on the content of the interviews conducted.

mean that they would lose the advantage that they have held up until now. However, it is also conceivable that a new method will create an alternative advantage. As they face such conflicting arguments, what approaches should Japanese firms adopt in the future?

First of all, we need to establish how Japanese firms have dealt with this problem up until now. It is necessary to look at the practices which have established themselves in Japan over a long period of time and how the changes in the environment surrounding them have been involved. This is because the state of human resources management is formed as a reflection of both the economic environment and the social context of the moment, and also forms a reflection of public opinion. Such factors need to be addressed because while there is demand for reform of human resources management, it would be extremely problematic to make reforms which ignore the contexts against which human resources approaches were developed in the past.

As the topic of this paper is personnel transfers between organizational units, let us start with a brief overview of their history.

In what manner did personnel relocation appear in Japanese firms in the post-war period, and against what kind of background did it come to be accepted? Yoshida (2012) investigates the answers to these questions on the basis of historical materials which reveal the process by which personnel relocation became established as a practice at Nissan Motor during the firm's managerial crisis shortly after the war.

In the post-war period, Nissan Motor was facing the difficulties of corporate divestiture due to the US occupational policy, a shortage of materials, and financial difficulties. Even the continued existence of the firm was at risk, to the extent that the firm was unsure whether or not it would be able to continue paying employees' wages. In 1947, the president of Nissan Motor responded by introducing a policy to reconstruct the firm, which included personnel relocation.²

Preparations for personnel relocation were also approved by the labor union. The labor union held the opinion that personnel relocation should be conducted promptly to reform the organization and its production systems and reveal surplus human resources and surplus facilities, allowing the firm to survive by transforming these surpluses into new business.³ The labor union also considered educating union members of the necessity of personnel relocation from the perspective of reconstructing the firm.

As the case of Nissan Motor suggests, firms which suffered managerial crises in the

² In this case, "personnel relocation" does not only refer to job transfers of employees but is used in the broad sense of the meaning, which also includes the reorganization and consolidation of work in factories.

³ Yoshida (2012) offers the hypothesis that personnel relocation aimed at protecting jobs in the post-war period was a strategy proposed by the labor unions in the post-war period. He suggests that the aim of the labor unions was to make personnel relocation a personnel management measure which would act as an alternative to dismissals for restructuring, by applying personnel relocations involving significant changes—which had previously only been applied to white-collar employees—to all workers.

immediate post-war period chose to respond to these crises by using personnel relocation to avoid making dismissals when restructuring and to protect employees' jobs, while at the same time streamlining their organizations to improve productivity and diverting surplus resources to new business projects. The origins of the method of utilizing existing internal resources for the development of new projects can therefore be traced back to the post-war period.

2. The Formation and Development of Quasi-Internal Labor Markets

As Japanese firms—mainly those in the manufacturing industry—subsequently developed their businesses, they began to invest in and provide management direction and operational support to firms with which they already had close business relationships. Firms also diversified as a result of developing business from by-products created in the process of pursuing business projects, and as firms diversified, employees would be transferred beyond the framework of a certain firm. This was the origin of the practice of temporary transfers (*shukko*) and permanent transfers (*tenseki*) of employees to different firms. Temporary and permanent transfers were first adopted by firms in the 1950s, and became established systems in many major firms in the 1960s.

However, as Japan entered the period of low economic growth following the oil crisis of the 1970s, it became difficult for firms to preserve their organizational hierarchies which were based on job security and seniority-based promotion. Furthermore, under employment practices fundamentally based on lifetime employment and seniority-based promotion, there were few cases of mid-career employment opportunities for workers and the situation made it extremely difficult for workers to actively switch careers with the aim of experiencing new work. It was also highly difficult for firms to conduct dismissals to restructure on the grounds that their business performance had temporarily deteriorated. Japan's major firms therefore requested subsidiaries with which they had capital relationships to cooperate with transfers, and these subsidiaries accepted the transfers. As a result, temporary and permanent transfers helped to increase the possibility of protecting employees' jobs by expanding the scope of transfer destinations to include group firms.⁴ Prior to this firms had already been transferring employees to group firms to act as management executives, but what was distinctive in this period was that firms began to also transfer non-managerial employees. The result was the establishment of quasi-internal labor markets in which transfers transcended the internal markets within firms.

⁴ The scope of a quasi-internal labor market is assumed to be the corporate group. The firms which make up the corporate group are parent firms, which are also shareholders in other firms and have the role of guiding the operations of the corporate group; subsidiaries, for which the majority of the voting privilege is owned by the parent firm and which have their financial affairs and business policies controlled, and affiliated firms, in which the parent firm has a controlling share of between 20% or more and 50% or less. This paper uses the term "group firms" as a collective term which refers to both subsidiaries and affiliated firms to which employees are temporarily or permanently transferred.

In the 1980s, the technological innovations in the field of microelectronics sparked a surge in the development of new business projects. As firms pursued these developments by creating new subsidiaries,⁵ rather than by establishing new organizations within existing firms, the necessary personnel were temporarily or permanently transferred to subsidiaries. The amount of temporary and permanent transfers within corporate groups also further increased due to the more prominent presence of middle-aged and older employees and the establishment of systems to raise the retirement age and systems to introduce a mandatory retirement age for executives (Inagami 2003). This was due to the thinking that although new businesses are accompanied by risk, they are also significant opportunities to allow a firm to grow, and achieving growth would allow firms to protect the jobs of middle-aged and older employees at the same time. Moreover, as it is easy to ascertain shifts in employee numbers due to the practice of lifetime employment and the mandatory retirement age system, it was also possible for firms to make decisions regarding personnel on a case-by-case basis. This had the effect of guiding firms in a direction which made it easier for them to guarantee job security across entire corporate groups.

On entering the 1990s, large numbers of permanent transfers were conducted due to the transfer of business projects or division of business projects into separate firms. At the same time, there was also an increase in temporary transfers of skilled workers and young workers involved in work-site operations. These workers were expected to engage in and complete a particular task during their temporary transfer period. There were in fact cases in which the firms to which such workers were temporarily transferred highly praised the results of such workers, encouraging firms to further increase the number of temporary transfers of young skilled workers (Dan 2001). There was also a noticeable increase in temporary transfers of managerial personnel in the early stages of their career. Some firms also introduced reverse temporary transfers, in which employees from group firms are transferred to the parent firm (Inagami 2003; Dan 2004). The 1990s also saw the introduction of systems under which the timing at which employees are temporarily or permanently transferred is decided according to their managerial rank (Inagami 2003).⁶

In this period it also began to be noted that methods which made group firms assume the burden of the costs were beginning to reach their limits. This led to the appearance of the concept of “group management.” Under this concept, firms aim to maximize the results of their corporate group as a whole, and apply a group-oriented perspective to reviewing the resources which their corporate groups have accumulated over the years through patch-up measures adopted in the process of responding to changes in the business environment. Group management became a definitive trend from the fiscal year ending March 2000,

⁵ Itami (1986) calls these “external ventures,” and states that the aim of firms in establishing such ventures as separate firms was avoiding contamination from within the firm.

⁶ Temporary and permanent transfers of managerial personnel are conducted to avoid the stagnation of personnel management. Inagami notes that the grounds for this are that managerial promotions have acted as the most basic incentive for performance over the years.

when the system of consolidated accounting was formally introduced.

Along with the transition to group management, Japanese firms became conscious of the business results of their corporate groups as whole, and it became necessary for them to adapt their management approaches accordingly. For example, firms formulated strategies for their entire corporate groups, and reviewed the status of group firms in accordance with those strategies, in some cases conducting reorganization and consolidation of group firms, and even taking into consideration the acquisition of the businesses of other firms. These trends began to attract attention particularly from the mid-2000s, and were referred to as the “selection and concentration of business areas.” The trends of selection and concentration also affected temporary and permanent transfers. While firms tend to be proactive in transferring employees to firms which are thought to be playing an important role in pushing forward the strategies of the group and pursuing business ventures, they are less active in transferring employees to other group firms (Dan 2009, 2010).

Moreover, the development of this trend was accelerated by the fact that the organizational restructuring of corporate groups was facilitated by the development of legislative systems and accounting systems which allowed Japanese firms to pursue the selection and concentration of business areas—such as consolidated tax payment systems, share exchange systems, corporate divestiture systems, and the deregulation of pure holding companies (Dan 2002).

As demonstrated above, reviewing the process by which the practices of temporary and permanent transfers became established demonstrates that over the years Japanese firms have utilized temporary and permanent transfers in order to take a proactive approach to developing new businesses while adjusting employment but at the same time keeping to their fundamental premise of protecting employees’ jobs.⁷ The reason why Japanese firms did not adopt the method of flexibly utilizing external resources—the method commonly adopted in Europe and United States—and chose to utilize existing internal resources, was that developments in the past had made protecting employees’ jobs an essential element of human resources management. In particular, given that employment practices founded on lifetime employment and seniority-based wage systems are social norms in Japan, there are few opportunities for mid-career employment for workers, and it is extremely difficult to actively switch careers in order to experience new work. It was also very difficult for firms to dismiss employees for the purpose of corporate reorganization on the grounds that business performance had temporarily deteriorated. Given that the external labor market in Japan is not functioning sufficiently, quasi-internal labor markets have an important role to play.

⁷ In concluding his historical analysis of the practice of temporary and permanent transfers, Inagami (2003) states: “The practices of temporary and permanent transfers have over the years seen the repetition of the elements of “attacking,” in responding to new business developments, and “protecting,” in preserving employees’ jobs while adjusting employment.”

III. The Gathering and Analysis of Human Resources Information

1. The Advantages of Quasi-Internal Labor Markets

When utilizing existing internal resources in the development of new business projects, firms face the challenge of matching the right human resources to the right jobs. Even if the conditions for conducting flexible transfers are in place, if it is not possible for firms to gather and analyze information regarding the work and human resources available within their firms or corporate groups, it becomes difficult for them to carry out transfers effectively and expeditiously.

The state of a labor market defines the flow of information regarding work and people. Temporary and permanent transfers, which are seen as the quasi-internal labor market, have the following advantages when it comes to gathering the necessary information (Dan 2006).

Firstly, through the involvement of the firm from which the employee is temporarily or permanently transferred, there is a high possibility that a significant amount of information will be conveyed to the firm to which the employee is being temporarily or permanently transferred. This information consists of the content of the current work of and the career up until now of the employee being transferred, and the content of the work and work conditions at the firm to which they are being transferred. Moreover, in the event that the employee is being transferred to a group firm with which their current firm has close business relations, the way in which the organization is managed and other such information which was gleaned through the experience of working together is also included in the information available.

Secondly, as firms participate in gathering the job-vacancy information, it is very likely that more job-vacancy information will be obtained than would be obtained if individual employees were looking for a suitable job themselves. Particularly in the case of job-vacancy information within the corporate group, it is possible for parent firms to obtain job-vacancy information easily, because they are directly involved in personnel management.

2. The Gathering and Accumulation of Information in Human Resources Departments

In Japanese firms, human resources departments have adopted the task of gathering information in order to work across the corporate group as a whole to achieve the optimal use of human resources across the group. Human resources departments in Japan are characterized by the fact that they participate directly in organizing personnel relocations. This is significantly different from the human resources departments of firms in the United States, where the role of human resources departments is to make various improvements to the system to support the human resources decisions behind matters such as personnel relocations, rather than playing a direct role in those decisions (Hirano 2011).

In firms in Europe and the United States, the work duties assigned to each employee

are clearly defined and it is assumed that employees who are assigned a certain job have the ability to pursue that job. Transfers are also generally conducted according to an internal open recruitment system, by which employees who wish to be transferred actively submit applications themselves. Moreover, if the job itself ceases to exist within the firm, in many cases the employment relationship also ceases to exist.

In contrast, Japanese firms have adopted grading systems based on work-related abilities and performance—or “ability-based grade systems”—for the personnel management systems which they use to define the treatment of employees on the basis of ranks. These ability-based grade systems rank employees on the basis of their work performance and their potential, and are not always based on the assumption that employees will only pursue work within a predefined scope. Moreover, changing jobs does not automatically lead to a change in wage. As a result, it is possible for firms to flexibly transfer employees to different jobs with the aim of protecting jobs and allowing employees to develop their abilities.

Japanese firms have established lifetime employment as a norm and based their human resources practices on ambiguous divisions of work duties under which the scope of employees’ jobs are not predefined. They therefore place emphasis on the importance of employees developing job skills which are specific to the firm, rather than focusing on the general vocational skills of individual employees. In the case of university graduate white-collar employees, particularly those in clerical roles, if an employee remains in their first place of work they will see their skills development hit a brick wall within a few years. In order for them to develop their skills, it is necessary for them to engage in more advanced work at different workplaces. Transfers have come to be recognized as being practically essential for expanding the scope of the work and experience of university graduate white-collar employees. In order for such employees to increase their occupational skills by building up extensive work experience, their work experiences need to be mutually related, and be seamlessly incorporated in their new jobs (Hisamoto 2008). “Ability-based grade systems” were devised to support the development of human resources in this way.

Under ability-based grade systems, there are many cases of transfers which transcend the scope of responsibility of the employee’s department or firm. As it is necessary for such cases to be decided from the perspective of what is optimal for the group as a whole, human resources departments came to hold central authority over personnel management matters. The human resources departments consult and negotiate on human resources matters regarding individual employees with the line managers responsible for the employee concerned using “sticky” human resources information—that is, qualitative information about an employee’s characteristics, which is difficult to acquire because it is only available from the employee themselves or from evaluations by their colleagues—as their source of power. Human resources departments contribute to the reform of workplaces by flexibly transcending the boundaries of departments or firms to search for, select, allocate, and train the right employees (Hirano 2011).

Such characteristics are also similarly apparent in temporary and permanent transfers

within corporate groups. For example, the selection of employees to be temporarily or permanently transferred is conducted in the following ways (Dan 2001, 2004, 2009).

- Usually the human resources sections of each business division and factory and the human resources sections of the related firms each coordinate with the line of command for the employee and work out the conditions and other items through consultations. This applies not only to executives but also to non-managerial workers.
- When the information regarding a job vacancy comes, first of all each of the superiors consult together over whether or not the employee is suited to the work. The human resources department then gets involved and works out the conditions. As the human resources department has ascertained the thoughts of the employee concerned, almost all of transfer offers are accepted by employees. In the case that the employee elects not to be transferred, the reselection of candidates is started immediately. As the human resources department has obtained information regarding the thoughts of the employee through routine conversations, and uses this as reference, there are no cases in which the employee is instructed to transfer out of the blue.
- The firm's head office does not give instructions involving all exchanges of human resources, but it does ensure that it is able to ascertain the figures regarding how much human resources exchange is actually being conducted.
- The criteria for selecting the management executives of subsidiaries are not laid out in a clear-cut form, but when reselecting executives, the human resources department of the subsidiary makes inquiries to each affiliated firm regarding what should be done on that occasion regarding management personnel, receives a proposal from each affiliated firm, and makes the decision on the basis of these proposals and consultation with the parent firm.
- The authority to decide on who will be transferred and where they will be transferred to lies with the department to which the employee belongs, and the main department and managerial departments of the business. In the case of executives, the human resources department does not have such a strong authority over decisions as the selection of transferees is carried out in consultation with affiliated firms. However, transfers regarding educational training and middle-aged and older employees are generally decided through negotiation, although there may be cases in which strong measures are taken. Up until now, in many cases the human resources department has taken the lead in such consultations, but the trend is shifting such that the firm or department responsible for the business takes responsibility.

As demonstrated above, when conducting transfers the human resources departments of firm head offices try to ensure that they also obtain information from group firms on whether or not the employee can adapt to the firm to which they may be temporarily or permanently transferred. This extends the scope of transfer for temporary or permanent transfers to the corporate group, but in such cases the circumstances of the group firms must also be taken into account when conducting transfers. This is because group firms are es-

entially independent firms with no official authority relationship, and, as under group management it is necessary to optimize the results of the group as a whole, they are expected to contribute to optimizing the results of the group by producing results through their own efforts.

The parent firm therefore needs to have information about the employee being transferred, their current work and career until the present, and about the recruitment information within the group. As in the case of transfers within the firm, the human resources department of the parent firm is therefore also responsible for gathering information regarding work and human resources for conducting transfers within the group. By accumulating experience of matching human resources with work, the human resources departments of parent firms have contributed to conducting smooth permanent and temporary transfers.

3. Addressing the Needs of Group Firms and Employees

In order to move employees within the corporate group, it is necessary to first consider what kind of human resources should be moved to where within the corporate group. In the case of conventional temporary and permanent transfers within corporate groups, there was a strong tendency for firms to first start looking for transfer destinations when it became necessary to send people out of the parent firm due to a surplus of personnel.

However, in recent years there have been an increasing number of cases in which the human resources needs of each group firm and the wishes of the employee being transferred are also taken into consideration with greater sensitivity when temporary and permanent transfers are made.

Firstly, there are an increasing number of cases in which group firms present requirements which they are looking for temporary or permanent transferees to fulfil, such as the employee's abilities and the content of the work they have pursued up until that time. For example, firms adopt methods such as gathering the presidents of group firms to hear their requests, or establishing an organization which acts as an intermediary for transfers which transcend business lines (Dan 2009). Moreover, regarding posts at section manager level or above, there are also cases in which managerial-level employees have the opportunity to propose successors or present personnel relocation plans (Dan 2010). These methods are aimed at raising the cost-effectiveness of searching for information by restricting the number of possible candidates and thereby reducing the amount of information that needs to be handled.

Moreover, there are also cases in which systems have been established to allow individual employees to announce their wish to be transferred, such as voluntary application systems or open recruitment systems which are open to all employees of the corporate group. The aims of such systems are to increase the satisfaction of employees by expanding the opportunities for the employees themselves to be involved in job allocation, to discover talented employees, and to cultivate organizational climates which encourage employees to take challenges. Namely, these systems are aimed at preventing the motivation of employ-

ees from decreasing by reflecting the wishes of individual employees as far as possible, and can be seen as a trend toward expanding systems which have been developed as part of internal firm transfers and applying them to group firms.⁸

IV. Systems for Achieving Smooth Transfers

1. Transfers to New Occupations and Retraining

Up until now, Japanese firms have focused on branching out into fields in which they have already accumulated know-how to a certain extent. In the manufacturing industry, firms firstly pursued new businesses using byproducts produced in downstream processes and manufacturing. This was followed by a trend in major firms of converting services that had been provided within the firm or group into businesses with the aim of selling them externally.

When entering into new businesses, it is necessary for firms to secure the human resources needed to engage in that business. Firms have two methods with which to do this: hire new employees from outside, or relocate personnel internally. As previously described, as major firms in Japan have adopted the practice of lifetime employment and thereby made protecting employees' jobs an essential element of human resources management, they have generally fulfilled the needs of new business development by relocating personnel from within the firm and providing retraining for those personnel. These firms have worked on the concept that if the necessary transfers for new businesses can be arranged within the corporate group, there is no problem. The new businesses have also at times played a role in protecting jobs in periods of economic recession.

In such cases, the training given to transferees at the firm from which they are being transferred consists of their closest superior providing them with advice as necessary. Special training is rarely provided, and emphasis is placed on the ability of transferees to adapt flexibly to the new corporate climate and organizational culture of the firm which they are temporarily or permanently transferred to. Temporary and permanent transfers in particular are often dealt with on a case-by-case basis, rather than according to a certain system, and are conducted on the basis of consideration of the employee's compatibility with the firm to which they will be temporarily or permanently transferred, and careful and repeated consultation.

However, what becomes problematic in such cases is the question of how to provide employees with the know-how they need to pursue their new work. If employees are able to utilize the abilities that they have developed in their previous work, there may be relatively less problems accompanying transfers. However, the less a new business is related to their previous field of experience, the less know-how employees will have. Let us look at how

⁸ Shimanuki (2010) demonstrates that the provision of information and the reflection of the employee's wishes by the human resources department are raising the level of satisfaction regarding temporary and permanent transfers.

Japanese firms have dealt with this when approaching business fields in which they have limited know-how.

Ito (2001) demonstrates how a number of major electronics manufacturers responded to these problems when making changes to their organizations as they branched out into IT-related business projects in around the year 2000. His study includes details of the actual circumstances of the personnel relocation which arose as a result of such developments and the education and training which was subsequently required.⁹

In new growth areas related to IT, firms first attempt to pursue business development by relocating the newly required personnel from the most closely related field within the firm. However, as there is a poor accumulation of technique and skills within the firm, they attempt to compensate for the lack in human resources through the mid-career recruitment of personnel who are immediately able to contribute to such projects, or “industry-ready personnel.” At the same time, as the market for human resources which are newly required in emerging growth areas is a sellers’ market in which supply is not keeping up with demand, mid-career recruitment of industry-ready personnel is considerably difficult for firms.

As Japanese firms also continue to recruit inexperienced workers, creating to a certain extent a foundation of internal human resources for new projects, the growing supply-demand crisis regarding industry-ready personnel also accelerates personnel relocation through reeducation and training. At major electronics manufacturers, the labor-management relationship is such that efforts are made to protect job opportunities, and, in addition to the recruitment of industry-ready mid-career employees and inexperienced employees, firms began to actively provide education and training and transfers to shift internal human resources to new fields of development.

For example, when major electronics manufacturers responded to decreases in the profit margins of their hardware-related businesses by pursuing development in solutions businesses and concentrating business resources in their software and services divisions, they adopted this process in order to procure human resources (Ito 2001).

As demonstrated above, when pursuing diversification into business in which they have limited know-how, Japanese firms have conducted personnel relocation and retraining to utilize internal human resources as the main source of the human resources they require for developing their business.

2. Ongoing Support

When an employee is transferred, the content of their work and their personal relationships with work colleagues are also changed at the same time. It is therefore essential to provide employees with ongoing support in order to maintain their motivation in the long term. Japanese firms have also provided such support in the case of temporary and perma-

⁹ Regarding this problem, Nagano (1989) has also conducted detailed case analysis regarding expansion by infrastructure firms into family restaurant businesses and frozen food product businesses.

nent transfers.

As described earlier in this paper, the origins of such approaches can be traced back to the way in which firms handled personnel relocation in the immediate post-war period. Yoshida (2012) notes that regular union members recognized personnel relocation as an issue of critical importance and that easily accepting personnel relocation could become tantamount to dismissal, and made demands for personnel relocation to be handled more carefully and controlled by regulations.

Moreover, Umezaki (2010) reviews cases of transfers between workplaces, namely personnel relocations, which occurred in the 1960s and analyzes the process by which internal labor markets which were formerly limited to within certain workplaces were expanded to include other workplaces, and how personnel measures were developed to appeal to the wishes of the workers involved. At the time, blue collar workers, who were generally hired directly by their workplace, had significant psychological resistance to transfers beyond the same workplace, even in cases of personnel relocation. In order to mitigate such resistance, compensation for income reduction was provided for workers whose income decreased as a result of a transfer. Moreover, firms also pursued measures such as creating observation teams to actually visit the new workplaces of transferred workers and enlisting workers who had already been transferred to convince other workers.

Such efforts manifested themselves in ongoing support measures for temporary and permanent transferees, in the form of wage guarantees at the time of temporary transfers, transfers with a view to permanent transfers, and social gatherings and hearing sessions with transferred employees. It could be said that these initiatives are the outcome of long-term efforts by Japanese firms to relieve the psychological resistance of employees at the time of transfers.

V. Future Issues concerning New Business Development and Quasi-Internal Labor Markets

1. New Business Developments and Shortages of Human Resources in Japanese Firms in Recent Years

It is the efforts of firms to enter into new businesses and their accompanying diversification which established the foundations of the Japanese economy in the pre-war period and also supported the recovery of Japan in the post-war period. The majority of major Japanese firms are diversified firms which engage concurrently in a number of different businesses, and it can be said that the Japanese economy has been supported by the growth of diversified firms (Ueno 2011).

As described so far in this paper, Japanese firms have prioritized the utilization of internal human resources when entering into new business projects. In order to do this, it is necessary for firms to transfer human resources between departments and even between firms within their corporate groups. Japanese firms have successfully developed means of

conducting such transfers smoothly by devising human resources measures such as retraining and ongoing support.

However, the collapse of the economic bubble at the beginning of the 1990s was followed by a long period of economic stagnation, which has exposed Japanese firms to severe economic conditions. In such circumstances, Japanese firms have pursued the “selection and concentration of business areas.” As for whether or not such reforms are actually effective, unfortunately, no benefits have actually been gained. A phenomenon is occurring by which firms are distracted by short-term profits and forget to make investments which lead to long-term results (Ueno 2011).

When firms seek short-term results in management, they have less incentive to engage in businesses which involve a time lag until research is developed and benefits become apparent. A mid-to-long term perspective is required as a basis for making ongoing investments to develop such businesses, and if the expectations of firms are overly focused on short-term results, there is the possibility that investments in such fields will be inhibited (Ministry of Economy, Trade and Industry 2011). New business development is a high risk strategy, which conflicts with the strategy of selection and concentration, but if a firm opts to avoid those risks and instead pursue rash selection and concentration, the capacity for the firm as a whole to grow will decrease and it will be burdened with an even greater risk (Ueno 2011).

In Japan, there were formerly many cases in which venture firms and new projects with high capacity for growth were created from existing firms. One of the reasons for this is thought to be that major firms have significant numbers of talented employees due to their relationship with the recruitment market up until now. In order to create new businesses, highly-capable human resources need to be reassigned to the new business areas, and it can be said that the systems of transfers in Japanese firms have created the conditions for such reassignments to be carried out smoothly and easily.

For example, in a case study of Canon’s commercialization of display technology, Harryson (2006) explains that Canon’s success in achieving disruptive technological innovation can be attributed to their know-who based approach, under which they place importance on knowing *who* possesses the know-how necessary for such innovations. Harryson also demonstrates that the frequent transfers of employees within the firm supported that success.¹⁰

¹⁰ At Canon, the transfer of explicit and tacit knowledge from the stage of ideas at the invention level to the stage of innovative production processes was possible through the fairly seamless transfer of technicians from the creative network to the project network. Moreover, by transferring a large portion of these team members directly to the production location, it was possible in effect to avoid leaving all of the necessary capability isolated in the higher-level research facilities, but effectively incorporate them into the production process. Such transfers were facilitated by the fact that the majority of the internal researchers and technicians had experienced such transfers in the past. Through frequent division transfers, the employees had the feeling of belonging to the firm as whole, as opposed to belonging to a certain division or location. As a result, employees did not object to transfers,

As this example suggests, it is important to recognize that not only venture firms, but also existing firms play key roles in innovation in Japan. However, new business developments—in particular the establishment of ventures in existing businesses—peaked in the year 2000 and have been decreasing since, and there is a number of examples among major firms of internal ventures being established through internal open recruitment but not achieving success. There is concern that seasoned existing firms place an emphasis on maintaining existing businesses and their capacity to pursue innovation and take the risk of creating new businesses is decreasing (Ministry of Economy, Trade and Industry 2011).

This suggests the possibility that there is a lack of human resources who can drive the creation of innovation. Regarding this possibility, the Ministry of Economy, Trade and Industry (2012) notes that there is a number of Japanese firms which are currently not pursuing the training or development of the human resources required to take the lead in creating such new businesses, or alternatively which have pursued such training or development but acknowledge that they have not achieved the expected results. The reasons that firms have given for this include: “a lack of know-how regarding human resources training or development” (42.9%), “restrictions to the time and budget which can be dedicated to human resources training or development” (32.7%), and “the fact that it is not possible for the firm alone to provide sufficient human resources training or development” (29.4%). These situations which firms are currently facing are thought to have arisen from the fact that human resources training and development opportunities have declined due to excessive selection and concentration of business areas. There are therefore many firms which utilize human resources introduction services as an alternative means of finding human resources. However, at present the human resources who can actually be introduced to such firms are still limited in comparison to the increasing needs (Ministry of Economy, Trade and Industry 2011).

Moreover, 27.5% of the firms surveyed are interested in corporate venturing using internal management resources as a means of developing new businesses. Of this 27.5%, 62.1% are attempting to pursue such venturing by “starting designated types of businesses” and 59.5% are attempting to “establish internal ventures” (Ministry of Economy, Trade and Industry 2011).

For the above reasons, it can be said that it is all the more necessary for Japanese firms to approach future developments by internally training, developing, and utilizing human resources to take the lead in new business ventures.

but saw them as a necessary action to bring about innovation. Harryson concludes that this was the most significant factor which allowed Canon to succeed in the commercialization of such destructive technology which firms in Europe and the United States invented but were unable to develop into a product (Harryson 2006).

2. The Effects of Organizational Restructuring of the Corporate Group on the Gathering and Analysis of Human Resources Information

Among the organizational restructuring pursued by corporate groups in recent years, attention has been focused on switching to group structures based around a pure holding company. Unlike groups with a business holding company, in which the parent company also conducts business activities, in groups with a pure holding company there is a clear division between the pure holding company, which conducts the unification of the group as a whole, and the business firms, which conduct the business operations. For this reason, the independence of each business increases, and it is also possible to change systems of treatment for employees for each firm flexibly. Moreover, as all of the group firms are for form's sake equal under the holding firm, this system is also expected to eliminate the conventional perceptions that there are hierarchies or superiority rankings among firms.

However, while such merits exist, it has also become evident that problems are also arising. One of these problems is that in the event that systems concerning employee treatment have been changed in each group firm in order to reflect the differences in wage rates in each type of industry, it is possible that it will become difficult to conduct temporary or permanent transfers between group firms.

Moreover, due to the fact that in recent years the human resources departments of firm head offices have become the target for management reform, and the numbers of personnel allocated to such departments have been decreased (Yamashita 2008), it is feared that firms will have difficulty gathering information on work and human resources at the same level as they were able to do so before. In fact, human resources departments do not keep track of information regarding all employees who are temporarily or permanently transferred. For example, the human resources department is aware of the number of employees being transferred and where they are transferred to in cases where existing internal organizations are divided into separate firms, but in the case of other group firms, such as firms which are added to the group through acquisitions, the human resources department may not have such data regarding human resources. There are also cases in which human resources departments in effect hardly keep track of data at all after employment relationships end due to permanent transfers (Dan 2009).

Such developments definitely lead to the economization of information costs and contribute to increasing efficiency. However, it is also suggested that such developments may have the reverse effect of decreasing the ability of firms to gather and analyze human resources information, and that from the point of view of optimization of the group as whole, Japanese firms may no longer be able to enjoy the advantage of being able to flexibly transfer employees beyond the limits of each firm. There is great interest in how this trend will develop in the future.¹¹

¹¹ This may cause problems as firms attempt to create innovation in new projects. This is due to the fact that the decreased capacity of internal networks generates confusion in organizations which

VI. Conclusion

In Japan, everything starts with human resources—human resources create tasks, and draw inspiration from the outcomes of these tasks to create new strategies. In other words, Japan is strongly focused on “emergent strategy” (Hirano 2011). The diversification strategies of Japanese firms have developed in the very same way. The personnel transfers in Japanese firms started out as a means of preventing dismissals when firms needed to restructure, but as lifetime employment became increasingly established as the norm, transfers came to serve as a means of maintaining the incentive for employees to improve their performance in the long term. Japanese firms have adopted this approach to transferring personnel and produced successful results when pursuing diversification through the development of new businesses.

Moreover, through personnel relocation and transfers such as temporary and permanent transfers, Japanese firms have formed networks in order to consider what kinds of resources are where, and these networks have led to innovation. The human resources information necessary for this has been gathered and utilized by the human resources departments. Furthermore, it can also be said that in the process of establishing management centered on their head offices, firms have successfully developed methods of taking into consideration the motivation of employees. Looking at the development of transfers over the years, the method adopted in Japan can be said to be considerably time and labor-consuming, but firms have consistently upheld the stance of procuring the available resources internally as far as possible and this has generated progress.

It is not clear at this point whether or not such a method will continue to work in the future, but it is not realistic to expect firms to completely abandon the stockpiles of human resources management which they have built up over the years and search for new approaches. The development of Japanese firms up until now has been possible because firms were able to make the accumulation of such resources an advantage. There are of course many arguments suggesting that in the future there will need to be more flexibility in the handling of human resources. However, as the system of human resources management is entrenched in the institutionalized systems and social contexts of the country as a whole, drastic changes are unlikely to occur unless Japan is shocked by a firm with significant influence suddenly changing its system, and any changes are expected come about gradually (Ahmadjian and Robinson 2001). It is therefore necessary for firms to look for a means of utilizing the advantage that they have created in effectively utilizing their existing resources.

Japan’s quasi-internal labor markets contain abundant stockpiles of human resources and know-how on how to utilize such resources. It can be said that Japanese firms, which recognize creating new businesses as a task to be addressed in the mid-to-long term future,

are trying to discard old knowledge and create new knowledge, and the isolation of functions and loss of the capacity to form networks decreases the opportunities to transform knowledge into innovation (Harryson 2006).

are coming to a point where they need to investigate means of effectively utilizing their rich human resources. It is necessary for firms to conduct internal stock-takes and inspections of the human resources in their corporate groups as a whole as they consider the steps which need to be taken in the future.

However, it is also quite possible that Japanese firms will drastically rearrange their business projects in the process of pursuing growth strategies in the future. In his investigation of the business aspects of firms which have succeeded in changing their field of business, Mishina (2007) states that the only option that firms have for exceeding the lifespan of their field of business and continuing to survive is to successfully change their field of business. Among such firms, there are examples of firms which succeeded in changing to fields of business which are far removed from their traditional field. An important task for future research is to reveal what kinds of approaches these firms have adopted in terms of human resources management—for example, how they conducted transfers and the accompanying retraining—and to what extent such methods were effective.

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