

According to the *Japanese Overseas Investment 2004* published by Toyo Keizai, the number of Japanese corporations that have invested overseas in locally incorporated companies in the year 2003 stood at 4,100. The number of such locally incorporated companies established by Japanese corporations was 19,815. When viewed region-wise, the number of locally incorporated companies ranks in the order of Southeast Asia with 4,685, North America with 3,804, China with 3,476 and Europe with 3,341 such companies, with similar enterprises also existing in such regions as Latin America and Oceania. According to Toyo Keizai, the results showed that, for the first time ever, China surpassed Europe in the number of locally incorporated companies. Investment in China also stands out noticeably when viewed in terms of investment figures. According to the “Outward Direct Investment” that was reported by the Ministry of Finance for the first half of FY 2004, the investment figures for China, which stood at 294.8 billion JPY, rose by 89.2% as compared to the figure for the same period from the preceding year. This figure is of a scale surpassing the investment of 231.6 billion JPY in the United States (73.3% lower as compared to the figure for the same period from the preceding year).

The total number of people dispatched overseas by Japanese companies was reported as 45,601. Viewed region-wise, of these 25,395 were deputed to Asia, 11,956 to North America, and 6,057 to Europe and so forth. Of these, 7,097 were deputed to China. When dispatching employees overseas, companies are required to provide appropriate prior education and training in areas other than the core overseas business—such as the study of the language, society, culture etc. of the destination country. In cases where those dispatched are accompanied by their family, it is also desirable that such opportunities for prior education be provided to family members as well.

On the other hand, in recent years there has been a rise in the incidence of Japanese companies promot-

ing the employment of local people to top positions in locally incorporated companies, these being positions that were traditionally held by Japanese employees. This is due to the fact that there is a growing sense of realization among Japanese corporations that employing local employees to these positions in large enterprises makes not only for lower personnel costs as compared to the deputation of Japanese employees, but also leads to higher morale among the local workforce. In addition to this, there still remain a number of issues where corporations must make an effort, such as providing a working environment for local employees, providing opportunities for training and education, and building a system of fair and acceptable labor-management relations. According to the Japan Overseas Enterprises Association, it is reported that problems such as temporary pullout due to legal violations, en-masse walk-outs from the workplace and a halt in production due to capital setbacks have been occurring in January 2005 in China, a country with significant penetration by Japanese companies.

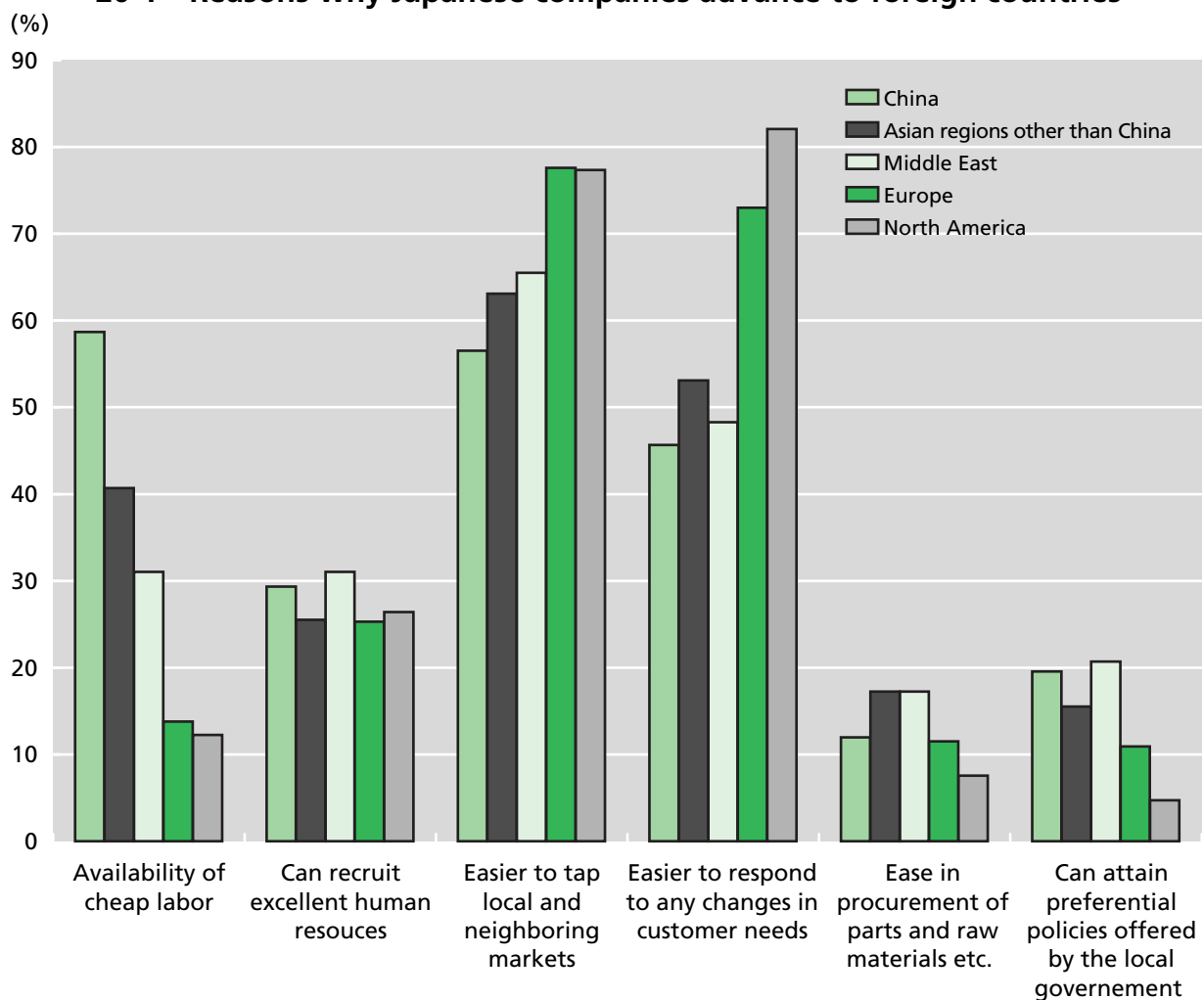
In September 2003, JILPT conducted the third Survey on Human Resource Management in Japanese Companies. This survey was conducted with the purpose of bringing to light the actual scenario of human resource and labor management in Japanese companies with overseas interests, and was based on responses collected from 861 companies located across 61 countries and regions. If the data of this survey is viewed according to the nationality of directors, middle management and general employees, it is evident that at 77.7%, the number of cases where company directors are Japanese nationals covers approximately 80%. The remaining 20% of the positions are occupied by local nationals. In the case of middle management, at 69.4%, nearly 70% of the positions are held by local nationals, making this number far larger than the number for Japanese nationals. Among general employees, 90.5% of the workforce comprises of local nationals, with

Japanese nationals and other nationalities constituting 5.2% and 3.9% respectively. The reason for the large number of Japanese at the director level can be gleaned from responses given to the question regarding why Japanese nationals are dispatched overseas (multiple responses). With 78.5% of the respondents citing “for the management of the overseas affiliated company”, and 63.9% citing “due to the fact that coordination with the main office in Japan is required,” and another 63.9% giving “there is a necessity to spread the management philosophy etc. of the parent company” as the reason, it can be concluded that the number of Japanese is large because of the communication and coordination required with the headquarters in Japan.

The advantages perceived by Japanese companies that invest overseas (multiple answers) differ accord-

ing to region (see Figure 20-1). In China, the highest response was “the availability of cheap labor” (58.7%). Apart from China, the response in favor of other parts of Asia and for Europe was “to tap local and neighboring markets” (at 63.1% and 77.6% respectively), whereas the reason cited for investment in North America was that it is “easier to respond to any changes in customer needs” (82.1%). If these same advantages are viewed according to manufacturing and non-manufacturing sectors, the most common responses for both manufacturing and non-manufacturing sectors was the same “easier to tap local and neighboring markets” (70.4% and 67.9% respectively), and “easier to respond to any changes in customer needs” (62.41% and 62.3% respectively). Thus it can be said that the advantages expected by companies vary according to region, not type of industry.

20-1 Reasons why Japanese companies advance to foreign countries



The trend in issues and problems faced from the perspective of local management is more or same across different regions (multiple answers). The top two responses provided for the case of China were “communication (between the staff deputed from Japan and the local staff)” at 51.1%, and “communication (between the head office in Japan and locally incorporated company),” at 43.5%. While the position of the responses was reversed in the case of the United States, the two primary reasons remained the same as for China (at 53.8% and 42.5% respectively). In other parts of Asia, the main responses were “lack of competence in the local-nationality middle management staff” at 39.7% and “communication (between the staff deputed from Japan and the local staff) at 37.2%, while in the case of Europe 39.7% of the respondents cited “communication (between the head office in Japan and the locally incorporated company)” and 38.5% gave “rise in personnel cost” as the main issues. For the reason behind the problem in communication between the head office in Japan and the locally incorporated company-an issue that constituted a sizeable number of the responses-the main responses stood at 38.8% for “head office does not understand the local situation” and 28.6% for “language barriers between the local staff and the

head office.” At 47.0%, “language barrier” ranked foremost as the reason for communication problems between the deputed Japanese staff and local employees. Viewed region-wise, at 65.2% the number for China stands out. On the whole, it can be said that there are a large number of Japanese firms where language issues impede proper communication.

If recruitment-related issues (separate for management level and general operational level) are viewed according to the different regions, one can understand the difficulty in recruiting people in China in particular. The responses for recruiting at managerial level can be divided as follows: “Top-class personnel do not apply” (Overall: 28.6%, China: 41.3%), “low level of responses” (Overall: 10.6%, China: 18.5%) and “severe competition with local firms over recruiting good talent” (Overall: 10.1%, China: 16.3%). Even in the case of general operational employees, the results were as follows: “Top-class personnel do not apply” (Overall: 25.3%, China: 30.4%), “severe competition with local firms over recruiting good talent” (Overall: 9.0%, China: 16.3%) and “severe competition with foreign-affiliated companies over recruiting good talent” (Overall: 9.0%, China: 13.0%).