

Business Management, Personnel Management, and Industrial Relations of Foreign-Affiliated Pharmaceutical-Related Firms

Summary

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Section 1. Introduction

What do people associate foreign-affiliated firms with? A university student may see foreign affiliates operating in Japan as giving main emphasis on ability without any gender discrimination, which allows even young people to become division managers and section heads, as having high pay levels, free from seniority-based order and lifelong employment, as having fewer troubles in the workplace, and as being cool, advanced firms where English is the official language that many Japanese firms try to emulate.

What is correct and what is misleading? What are the elements that have been overlooked? While limiting ourselves to studying the situation in the pharmaceutical and medical care industry, we elucidate on these questions based mainly on four case studies and examine the basic characteristics of foreign-affiliated firms' management, employment, and industrial relations.

Section 2. Characteristics of foreign-affiliated firms: from a survey of existing investigations

Before going into the case analysis, we conducted a survey of existing investigations

into foreign-affiliated firms doing business in Japan to broadly grasp the characteristics of foreign firms' business management, personnel management, and industrial relations.

The results of the Ministry of Economy, Trade and Industry's "Survey of Trends in Business Activities of Foreign Affiliates" and the Ministry of Health, Labour and Welfare's "Survey on the Industrial Relations, Etc. of Foreign Affiliates," which are representative surveys on foreign firms, were compared with the results of similar surveys conducted on Japanese firms. The comparison generally shows the following characteristics of foreign affiliates' business management, personnel management, and industrial relations:

1. Foreign-affiliated firms, in comparison with Japanese firms in general, tend to place more emphasis on profitability and efficiency and give greater attention to shareholders. This trend, moreover, is becoming more marked each year.
2. With respect to personnel management, foreign affiliates are on the same track with Japanese firms in general in their emphasis on performance rather than seniority and in their effort to break away from the practice of lifelong employment. In addition, these moves are more clearly stressed by foreign affiliates. Data also show that, at foreign affiliates, job description for each worker is clearer, that personnel policies give more weight to the intentions of each worker, and that individuals generally have more presence in the organization when compared to Japanese firms in general.
3. With respect to industrial relations, it is assumed that unionization rates, existence of management-labor consulting organizations, and other institutional aspects are not very much different from Japanese firms. However, Japanese firms address a much greater number of topics in labor-management communication than foreign affiliates do. It may be that "hollowing out" of industrial relations is occurring within foreign affiliates.

Section 3. Foreign affiliates' business management, personnel management, and industrial relations: results of the case study

1. Case selection

What empirical evidences support and substantiate the characteristics of foreign-affiliated firms with respect to their business management, personnel

management, and industrial relations—of which a general image was obtained from the survey of existing investigations? What kind of a process connects these characteristics and the environment in which foreign affiliates operate? What do the constituent units of foreign affiliates' business management, personnel management, and industrial relations as well as employees who are the direct observers feel about these characteristics? And what possibility is there for such feeling to influence foreign affiliates' future business management and employment practices? To examine these questions, we decided to conduct case studies of foreign-affiliated firms operating in Japan. Dealt with in this report are three pharmaceutical companies and a manufacturer of medical equipment. The firms' enterprise unions are all members of the Japan Foreign Affiliated Trade Union. The corporate profile of each firm is as shown below in Figure 1.

Figure 1. Profile of Firms in the Case Study

	Industry	Number of employees	Capital structure	Nationality of parent company
Company A	Pharmaceutical	6,000	100% owned subsidiary	U.S.
Company B	Pharmaceutical	1,727	100% owned subsidiary	Germany
Company C	Pharmaceutical	3,000	Parent company 85%, Japanese company 15%	U.K.
Company D	Manufacture of medical equipment	1,380	Parent company 75%, Japanese company 25%	U.S.

Note: The number of employees as of end of 2003.

The reasons the subjects of our case study are limited to the pharmaceutical and medical industry is that foreign affiliates have a relatively large presence in the chemical and pharmaceutical industries and that many influential foreign affiliates that are members of the Japan Foreign Affiliated Trade Union are pharmaceutical firms. Therefore, we considered that the pattern of business management, personnel management, and industrial relations of foreign firms in the pharmaceutical-related industry can be regarded as one of the typical patterns of foreign firms in Japan.

Also, all of the firms in our case study are large firms with more than 1,000 employees. There may be questions about whether they truly represent the foreign-affiliated firms in Japan, many of which are small. It is true that, in terms of the number of employees, they hardly represent foreign firms. However, as in the case of Japanese firms, it is mostly in firms of certain size that personnel management is practiced and the relation between business and personnel management takes on a certain form. Considering that the main focus of our survey and research is to identify the characteristics of foreign firms relating to their business management, personnel management, and industrial relations, it is appropriate that we begin with the selection of large firms. Another point is that the phenomenon where large Japanese firms are joining foreign corporate groups is occurring frequently in recent years and is expected to continue in the future. In light of this, it would be more significant, in terms of research and practice, to conduct a case study on foreign affiliates that have a large number of employees.

2. Results of the case study: a summary from four aspects

Here, we present the outline of our case study and what are common and what are different among the cases by focusing on the following four points: (1) the relation with the parent company (in the expression used in Chapter 1, hereafter called the “World Headquarters (WHQ)”) regarding the management of the Japanese corporation, (2) the relation between the Japanese corporation’s management challenges and personnel

management, (3) the contents of recent years' personnel management reform, and (4) the impact of industrial relations on the Japanese corporation's business and personnel management.

(1) Relation with the parent company regarding the management of the Japanese corporation

Firstly, common to all cases is the fact that the influence of the WHQ on the management of the Japanese corporation is increasing in recent years. This is regardless of the differences in the nationality of the parent firms and in the capital structure.

From the case study, it is possible to deduce a number of factors that led to the growing influence, large or small, of the WHQ. The biggest factor is that the performance of the Japanese corporations is steadily improving, and their relative importance within their groups is rising. Because of this rise in importance, increasing revenues of the Japanese corporation is indispensable in improving the performance of the entire group. In the case of Company A, the appreciation of the yen from the 1980s to the 1990s further increased the relative importance of the firm's revenues, and, as a result, the management of the Japanese corporation apparently became strategically more important within the group.

The WHQ exerts its influence in various ways, most basically by having a greater voice in the management goals of the Japanese corporation. In all cases, the WHQ's influence was hardly felt before the mid-1990s, but from the latter half of the 1990s, the WHQ's stance to improve the performance of the group as a whole became marked, and the WHQ began to apply a part of the entire group's management goals on the Japanese corporation. In such a case, the priority management goals differ from company to company. For Companies A and B, the goals are to increase sales and the Japanese market share. For Companies C and D, they are required to secure a certain level of profits each year. In all cases, the goals set for Japanese corporations are considerably high.

The WHQ, which began to expect high revenues from the Japanese corporation after the latter half of the 1990s, also set out on the organizational reform of the Japanese corporation, which it had not done much before. From the 1980s to the early 1990s, the delegation of authority from the WHQ resulted to some extent in the establishment of "Japanese style of management" so that companies like Company A recognized itself and was recognized by others as a "typically domestic" firm. The organizational reform undertaken not just among the firms in our case study but at many foreign affiliates

after the latter half of the 1990s reversed this trend leading up to the early 1990s. The organizational reform, rather than maintaining and allowing the exercise of the independence of the Japanese corporation, aimed to bring the Japanese corporation in line with the organizational reform of the entire corporate group.

The ways in which organizational reform is carried out, however, vary from company to company, as in the case of four firms in our case study. At Company A, the group appointed a foreigner as the company president and employed people, including foreigners, with experience in international management to serve in the top management posts to oversee each department of the firm. Although to a lesser extent than Company A, the organizational reform of Company C is also being carried out through personnel changes in the top management: Foreign managers were dispatched from the group as the company president and as a director who is a candidate for the next president. At Company D, the same approach is adopted not by appointment of foreign managers but by appointment to senior management posts of Japanese that the group trained. It may be that, in this case, the group does not consider nationality as an issue as long as the managers understand the group's management style and values. At Company B, on the other hand, the intention to carry out organizational reform through assignment of senior managers appears less strong than at other three firms.

(2) Relation between the Japanese corporation's management challenges and personnel management

The management goals of all firms in our case study are determined by consultation with their respective WHQs. It is in this consultation on management goals that the basic elements of personnel management, such as the number of personnel employed and limits on personnel expenses, are determined.

In the determination of the basic elements of personnel management, the WHQs indicate certain standards in the case of Companies B, C and D. At Company C, whose top priority management goal is to secure a certain level of profits, the WHQ requires that the expense growth should be smaller than the sales growth, and allocation of personnel expenses is based on this requirement. At Company D, the management goal is to achieve a certain level of earnings growth over the previous year. Therefore, if there is no growth in sales, increase in personnel expenses should be restricted. Company B's WHQ has the most definite standard on personnel expenses. The firm must set the number of personnel so that the total personnel expenses do not exceed 25 percent of the sales. At all these firms, there are restrictions on the personnel expenses and the number of personnel employed, which are linked to management

goals.

Among the cases of our study, the situation is slightly different for Company A. For the firm's medical care pharmaceutical division, which is the firm's core business unit, the top priority management goal is sales increase, and it is trying to secure as many medical representatives (MRs) as possible, because MRs are essential for sales growth. Accordingly, the WHQ's restrictions on personnel expenses and the number of personnel employed are relatively less rigid in recent years.

(3) Description of recent years' personnel management reform

All foreign-affiliated firms in our case study introduced new systems for assessment and treatment of employees in recent years. The systems introduced by these firms have many common features, including (1) the basic policy is to do away with seniority and treat employees according to the value of work performed, (2) in-house qualifications are used to determine certain ranges of salaries, (3) promotion and the amount of bonuses are determined by performance as measured in terms of achievement of set goals, and (4) competency as well as performance are used as bases of assessment for promotion. The new systems of assessment and treatment were introduced at the initiative of the WHQ. In the case of Companies A and D, in particular, the introduction of the new personnel systems was given a special significance, within the context of the abovementioned organizational reform, as they changed how employees were treated in their firms. On the other hand, at Companies B and C, their WHQs asked them to introduce the same personnel systems used by all group firms, and they adjusted the systems to match them to their employment practices as they implemented the new systems.

(4) Impact of industrial relations on the Japanese corporation's business and personnel management

The labor unions of the firms in our case study carry out wage negotiations and consultations on the systems of assessment and treatment of employees with the management, and actually have a substantial impact on the treatment of employees. There are differences, however, in how issues related to the treatment of employees are perceived within the context of industrial relations of each firm. These differences are also reflected on how labor-management consultation is carried out.

At Company A, as the business strategy for expanding the market share in Japan began to bear fruits, the labor union shifted the emphasis of their demands to achievement of levels of salaries that were commensurate with leading firms in the

industry. The management has basically accepted the union's demands and is continuing with the negotiations.

At Companies C and D, on the other hand, the labor unions acknowledge that for the management to achieve the high management goals set by the WHQs on profitability, there is a need for the current wage system, which is essentially based on assessment of workers' performance, and for the system for assisting employees in job transfers for the purpose of carrying out medium- to long-term adjustment of the number of personnel employed. The unions, however, intend to prevent implementation of the systems if they are implemented in ways unacceptable to employees. For this purpose, the unions, from time to time, demand appropriate treatment of employees based on clearly defined standards and make proposals on the appropriate implementation of the systems at the time of wage negotiations and at the meetings of labor-management committees on assessment and treatment of employees.

Similar to the labor unions of Companies C and D, the labor union of Company B also tries to ensure that employees are treated and systems are implemented in ways that are acceptable to employees. In these efforts, Company B's labor union goes a step further than its counterparts. In implementing a new system of assessment and treatment, the labor union had repeated consultations with the management so that the system should be designed considering the actual state of affairs of the firm. It also visited the WHQ with the management and demanded and won concession on implementing the system in ways that it modified the wage assessment system that the WHQ originally wanted to introduce.

Section 4. Implications of this research and challenges for future research

What are the implications of the results of this survey and research that revolved around our case study?

Foreign affiliates today are imposed high management goals at the initiative of their WHQs, and such affiliates have implemented business and personnel management systems designed to achieve those goals. With respect to personnel management, they are promoting system reforms that give a greater emphasis on employees' ability and performance. However, as can be observed from the results of the survey taken by the Japan Foreign Affiliated Trade Union and our survey on Company D, these systems are not necessarily implemented in ways that are acceptable to many employees at these firms. Because of this and the fact that employees do not have sufficient opportunity to develop their careers within their firms, the employees' intention to stay with the firms is not very strong. Foreign affiliates recruit more workers in their mid careers than

Japanese firms in general, and they may not necessarily need to have employees work for them over the long term. Even then, it would be desirable for a firm to retain valuable human resources over the long term in order to maintain high performance. We saw in our case study that efforts are being made by some firms to introduce more fairness in the assessment and treatment of employees and to follow up on the long-term retention and development of human resources. This kind of efforts should be further increased within foreign-affiliated firms. Outside the firms, organizations such as the Japan Foreign Affiliated Trade Union should be reinforced to assist in the efforts made by individual foreign firms.

Another point is that as the WHQ's management of the entire group on the global level is reinforced, the management team of the Japanese corporation is gradually losing its authority as "employers." As a result, employees have greater difficulty in working out effective solutions through labor-management negotiations within the Japanese corporation when they face issues that have significant bearing on the employees' employment or treatment (ex. retrenchment of the production division in Japan, significant reduction in remunerations that are linked to worldwide performance, etc.). A mechanism for reflecting the views of employees of the Japanese corporation on the WHQ's management decision-making as well as ways to provide remedy for employees when effective solution cannot be found through labor-management negotiations within the Japanese corporation will need to be considered.

As for future research, it will be worth noting how foreign affiliates' business management, employment, and industrial relations will develop in the future. It is only in recent years that WHQs took greater interest in the business performance of Japanese corporations and strengthened their influence on the Japanese corporations' business and personnel management to improve performance. It will be necessary to closely follow the developments to see whether this type of business and personnel management will take root in foreign affiliates and how this will have impact on employees and industrial relations, which also includes the question of the hollowing out of the "employer status" of foreign affiliates' management team.

Foreign-affiliated Japanese corporations are also members of corporate groups that revolve around the WHQs. Their management practices are also part of their foreign corporate groups' business management. In Japan, too, there are moves to reinforce business and personnel management of the entire corporate groups. By elucidating how the business and personnel management of Japanese corporate groups has in common with or differs from that of foreign corporate groups and clarifying the factors that result in such commonalities and differences, we will be able to better understand

the characteristics of foreign affiliates' management and corporate group management.

Obviously, the cases of our study were biased with respect to the industry type and size. Some of the characteristics observed in the cases may reflect features that are unique to their industry, business, or size. To further examine the characteristics of foreign affiliates' business and personnel management and industrial relations, it is hoped that a more comprehensive survey would be conducted to cover foreign-affiliated companies in other industrial sectors and of different sizes.