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The Role of the Senior HR Executive in Japan and the United States: Companies, Countries, and Convergence

Sanford M. Jacoby
UCLA

Kazuro Saguchi
The University of Tokyo

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Sanford M. Jacoby
Management, History, & Policy Studies
UCLA

Kazuro Saguchi
Faculty of Economics
University of Tokyo

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ABSTRACT: Based on data from an original survey of senior HR executives in Japan and the United States, this paper provides empirical data for evaluating institutional convergence. In both countries, the headquarters HR function has shrunk and that employment decisions have become more decentralized. However, because the pace of change has been more rapid in the U.S., the national gap has widened. Differences persist in other areas, such as the HR executive's role in strategic decisions, perceived power of the HR function, how executives balance shareholder and employee interests, and the consequences of these decisions for corporate governance and organizational outcomes.

During the 1990s, capitalism was ascendant. The Soviet Union had collapsed, China was pursuing free enterprise, and neoclassical economics ruled the academic roost. Yet some social scientists observed that there was not, nor had there ever been, such a thing as pure capitalism. Rather, capitalism came in different varieties, a point first made by the German historical economists in the nineteenth century, picked up in the 1960s by Andrew Shonfield (1965), among others; in the 1970s by studies of wage restraint and corporatism; and again in the 1990s. (Hall and Soskice, 2001)

Today, capitalist nations vary along multiple dimensions. There are different national approaches to structuring the business-government relationship, everything from competition laws to systems for innovation. Nations also differ in how they protect their citizens against risk--including unemployment, sickness, and old age. Of recent interest are variations in the internal organization of corporations and in modes of corporate governance. One finds shareholder-oriented governance in the U.S. and the U.K, statutory stakeholder governance in Europe, and voluntary stakeholder governance in Japan and other parts of East Asia. (Dore, 2000)

Interactions between these various national sub-systems yield divergent macroeconomic results. Hence the "varieties of capitalism" literature suggests that there are different roads to prosperity, each with its own set of costs and benefits. The force of this argument was undercut by the stellar performance of the U.S. economy in the 1990s as compared to its main rivals in Germany and Japan. By the end of the decade, the focus had shifted from analyzing institutional variety to predicting how quickly U.S. patterns of regulation, risk-sharing, and governance would take hold around the world. (Jacoby 2002a)

Nowhere was the shift more noticeable than in Japan, a country that served as a model for a struggling U.S. economy in the 1980s and then, in the 1990s, became a model of how not to run a modern economy. In addition to high levels of coordination between business and government, Japan distinguished itself for having a mode of corporate governance that balanced different stakeholders—shareholders, customers, banks, and employees—rather than, as in the U.S., giving exclusivity to shareholders. The employees-as-stakeholder role derived from--and contributed to--such Japanese practices as intensive training and long-term employment; the willingness to shelter employees from downturns; and ubiquitous enterprise unions that cooperated with management.

A key element in the Japanese system was the headquarters HR department, which administered employment and labor relations. Among its myriad duties, the HR department was in charge of rotating managers around the company and winnowing out people for senior positions. HR was linked to corporate governance indirectly—by grooming people for the board of directors, comprised of management insiders—and directly through the board membership of the senior HR executive.

Managers viewed HR as a beneficial posting since it was a place to network with other managers. It ranked about halfway down the list of functions that were precursors to a senior executive promotion--behind marketing but ahead of engineering, R&D, and others. In the early 1990s, one-third of corporate directors in non-manufacturing firms had previous experience in the HR function. (Tachibanaki, 1998; Inohara 1990) On the company board, the HR executive voiced employee concerns to other executives and served as the advocate of the *seishain*—the career employees—in strategic decision-making.

In the United States, by contrast, the senior HR executive traditionally was low man—or woman—in the managerial hierarchy. The function's low status was reflected by a relatively high proportion of women in HR positions and relatively low pay for HR executives. (Jacoby 2002b) For the past fifty years or more, the powerhouse function of the U.S. corporation has been finance.

At various times, however, HR did have its day in the sun. During the 1940s, HR (then called "personnel") was temporarily elevated in status as U.S. companies accommodated to the rise of unions or sought ways to avoid them. In some nonunion companies, the HR executive functioned as an employee advocate, being the two-way transmission point between employees and management. In the 1960s and 1970s, new regulations put HR in the position of having to develop systems for complying with the law on affirmative action, occupational safety, and other issues. As for corporate governance, companies at least gave lip service to the notion that the corporation was a social institution with responsibilities not only to shareholders but to employees, customers, and communities.

In the 1980s and 1990s, however, most U.S. companies became increasingly financialized, undiversified, and oriented to shareholder concerns. Ties between employees and companies grew weaker, and HR executives in these companies adapted, or were forced to adapt, to the status quo. They focused on flexibility and on treating employees as costs to be minimized. Some U.S. companies, however, sought competitive advantage not in market power but in having inimitable resources such as intellectual and organizational capital. Here, HR managers took a different approach, giving rise to Japanese-style emphases on participation and culture.

Today there is pressure on Japanese companies to conform to U.S.-style corporate governance and to adopt market-oriented employment practices that would weaken the corporate HR function. Studying the role of the senior HR executive provides a window on the process of institutional adjustment in Japan and allows us to see whether there is convergence to U.S. practices. Is it, in fact, the case that HR is losing its high standing inside the Japanese corporation and becoming more like the U.S. system?

As for the U.S., despite a huge prescriptive literature on HR, we know relatively little about what is happening to HR at the top of U.S. companies and how this is related to recent changes in corporate governance and other factors. Are HR executives losing influence as the focus shifts increasingly to labor-cost minimization? Or is HR on the ascendant, either through an emphasis on intellectual capital or through a market-oriented alignment with shareholder interests?

The Study

We conducted a mail survey of senior HR executives in large public U.S. and Japanese companies[1]. We asked about various issues including the company's HR structure, the involvement of headquarters in operating and strategic decisions, and relations between HR and other corporate functions. We also surveyed CFOs (chief financial officers) in the United States. Out of about 1,000 surveys sent in each country, we had usable responses from 230 Japanese firms and from 145 U.S firms. While the response rate may seem low[2], bear in mind that this is an elite survey---of senior corporate executives—in which response rates typically are modest. There is the possibility of response bias, although we did not find any difference in the industry and size distributions of the U.S. respondents and nonrespondents. For the CFO survey, the number of respondents was low—only 81—but that was because, due to limited funds, we conducted but a single survey round for the CFOs. Of the 81 replies, 23 were from companies where the HR executive also replied, allowing for some interesting comparisons.

Keep in mind that when the surveys were conducted in 2001, each country was at a different stage of the business cycle: the U.S. was at the tail end of a boom, with very low unemployment, precisely the conditions for HR to flourish. Japan was entering its second "lost decade", during which employment, revenues, and profits grew slowly, or, in many instances, contracted.

I. Overview of the Respondents

Although the U.S. HR executives have various titles (vice president, senior vice president, director), the more important distinction is between senior HR managers who report to their CEO and those who report to someone else, either a chief operating officer or another executive. Sixty-three percent of the senior HR executives in the United States report to the CEO, which is a

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[1] The companies were listed on the New York or Tokyo Stock Exchange. The U.S. companies came from a database called Reference-USA. We selected only firms listed in the database that gave names for both the HR and finance executives.

[2] The U.S. and Japan response rates were 17 and 23 percent respectively.

major change since 1977, when only 30 percent of senior HR executives of similar companies were CEO reports. (Janger, 1977: 37)

Reporting to the CEO has real consequences. A close relationship to the CEO assimilates the HR manager more closely to the dominant (i.e., finance-driven) corporate mindset. Our survey found that CEO reports are significantly less likely ($p <.05$) than non-reports to say that they care about safeguarding employee jobs.

As for the structure of HR, CEO reports are more likely to work in companies with lean headquarters HR departments and decentralized operations in which line managers make relatively more operating decisions than headquarters. Reporting to the CEO—being part of the senior management team—puts the HR executive in a consultative rather than operational or advocacy role. CEO reports are more likely than nonreports to say that they are involved in final decision-making on senior appointments (93 percent versus 55 percent) and on mergers and acquisitions (59 percent versus 22 percent). Not surprisingly, CEO reports are more likely than non-reports to perceive that HR has more power relative to other functions such as finance and marketing.

In Japan, we did not ask about reporting to the CEO but instead asked for the respondent's rank. Japanese companies use standardized nomenclature for the hierarchy of senior management positions. About a fifth of the respondents were directors, meaning they served on the board of directors. Nearly three-fifths were general managers of the headquarters HR unit, the highest non-board rank. The remainder held some lower rank. Managing directors were not different in terms of espoused values than respondents who held lower rank.

In the United States, HR continues to be a specialty more open to women than other executive functions. Thirty-five percent of the HR respondents were female versus 11 percent for the CFOs. In Japan, on the other hand, senior management—regardless of function—is still an all-male preserve. None of our Japanese respondents was female.

Career patterns also are different. In the U.S., HR executives are specialized professionals who, on average, have spent 77 percent of their careers in the HR field. On the other hand, they are quite mobile. Mean tenure with the current employer is nine years. In Japan, the HR executives are a blend of specialists and generalists, with specialists predominating in manufacturing. Because of lifetime hiring, average tenure with current employer for a senior HR executive in Japan is twenty-six years, almost triple the U.S. figure. Consistent with weak professionalism is the fact that few Japanese executives (9 percent) planned a career in HR while still in college, whereas 28 percent of U.S. executives had thought about a career in HR while in school, which is only a tad below the proportion reported thirty years ago. (Ritzer and Trice 1969: 35)

One striking difference has to do with labor relations. Sixty-five percent of employees in Japanese companies are union members versus only 16 percent at the U.S. companies. Managers in both nations reported a decline in union membership from five years ago Yet although the U.S. companies are lightly unionized, senior managers remain concerned about unions. Thirty-percent of the U.S. executives said that they are spending *more* time on union issues now than five years ago. These companies are more likely to be make labor relations decisions at headquarters—rather than at the operating level-- than is true of companies spending less time on labor relations. Presumably the U.S. companies are concerned about maintaining their nonunion status, not usually an issue for large Japanese companies.

II. Trends and Comparisons

The following section examines recent trends in Japan and the United States, comparing the two countries along six dimensions : i) resources flowing to the HR function ii) operating authority of headquarters HR units iii) HR's strategic influence
iv) employment practices v) corporate governance and executive power and vi) executive values.

i) Resource Allocation: Large Japanese companies are cutting their HR units and decentralizing responsibility for employment management. The average number of employees in headquarters HR units fell by 22 percent over the past five years, with deeper cuts occurring in large firms. Headquarters staff has fallen more steeply than total employment, so that there are fewer headquarters staff per employee than five years ago; the current figure is 1/129 employees (versus 1/106 five years ago).

As for the U.S. sample-- where firm size is larger than Japan's and where most firms experienced employment *growth* from 1997 to 2001—the average number of staff in headquarters HR units increased by 4 percent. [3] But if we calculate staff per employee, we find that U.S. companies failed to add staff as quickly as they added employees. Hence the ratio of staff to employees fell from 1/140 in 1997 to 1/185 in 2001, much leaner than in Japan. In fact, the staffing gap *widened* between the two countries.

One reason for staff cuts is outsourcing. We asked about outsourcing of HR activities such as benefits (including welfare programs), training, recruitment, pay systems, and HR information systems. In Japan, the greatest outsourcing is of welfare services and training. However, a common type of "outsourcing" in Japan is when companies spin off welfare or training activities and then purchase them from the formerly in-house units--a way of cutting costs, making headcount look smaller, and boosting the parent company's financial performance. This kind of outsourcing is really more akin to the U.S. practice of an internal chargeback for use of HR services by internal clients. Nevertheless in Japan there is also outsourcing to entirely independent third parties, partly to get expertise and partly to shift funding from capital investments to operating expenses. Both domestic and foreign companies are active in this market in Japan, with the result that internal HR staff is shrinking and HR practices are becoming more generic.

In general, U.S. outsourcing levels are slightly lower than in Japan, which is odd, since experts in the field indicate that the outsourcing market is newer in Japan. (Dash 2001) What

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[3] This reverses a trend from earlier years: average headquarters HR size fell 13 percent between 1990 and 1995. (Mohrman et al., 1996)

appears to be the case is that Japanese companies are achieving functional convergence with U.S. companies by relying both on conventional outsourcing and spinoffs of welfare and training units.

ii) Centralization of Operating Authority: Another reason for headquarters shrinkage is decentralization of decision-making. We asked respondents to tell us how the involvement of line and operating managers had changed over the previous five years. (see Table 1)

In Japan, what once were core headquarters responsibilities—the assignment and evaluation of managers—are undergoing decentralization in roughly a third of surveyed companies. Divisions and business units now have greater control over the rotation and promotion of rank-and-file managers and there is greater scope for individual choice on assignments. Consistent with this is the reduced role of headquarters in managerial evaluation. This is due to the proliferation of individualized performance appraisal methods.

But while change is occurring in some companies, the central tendency is stasis. In the majority of companies, line involvement has remained the same. While attention in the press is often riveted on change, most companies have *not* changed. Headquarters HR units still hold substantial operating power relative to line managers for initial hiring, career rotation, transfers, and the like.

When it comes to decentralization, the U.S. is moving faster than Japan, which is surprising, given that the U.S in the 1980s already was relatively decentralized as compared to Japan. Change-rate gaps are especially wide when it comes to decisions over business unit headcount. Line managers in the U.S. have much more freedom to make hiring and layoff decisions than is the case in Japan. Again, as with the data on resource flows, the impression is that, despite change in Japan, the gap between the two countries has remained the same or even widened.

It's possible that some of the authority being given up by headquarters HR is going to HR staff elsewhere in the organization. Therefore we asked respondents to assign weights for the five activities previously mentioned--with weights distributed across line managers, unit HR departments, divisional HR departments, and headquarters HR departments--so they sum to 100. The results are shown in Table 2. [4]

Here, notice several points. First, despite decentralization, operating decisions remain more centralized in Japan than in the United States. This is a key finding. Second, in neither country do sub-headquarters units have a substantial measure of operating authority; they are squeezed between headquarters and line management. Third, in Japan, there is a strong positive correlation between headquarters operating authority and HR staff per employee. That is, centralization is associated ($r=.21$, $p<.01$) with greater resources for headquarters, as one would expect. In the U.S., while the relationship is also positive, it is not statistically significant; that is, there is no guaranteed payoff—in HR staff intensity—from centralization.

iii.) Strategic Influence: Senior management periodically makes strategic decisions that affect the organization's future. To assess the influence of the headquarters HR department on these decisions, we asked respondents to tell us at what stage(s) they were involved in five different business decisions related to growth: mergers and acquisitions; investing in new locations; creating spinoffs; expanding sites; and closing sites. The stages—not mutually exclusive—include: drawing up the proposal; evaluating its financial consequences; final decision-making; and implementation. Respondents also indicated if they were never involved or if the event did not occur [5]

Second, respondents told us what part they played in two other strategic decisions more closely related to HR concerns: the selection and remuneration of senior managers and the allocation of payroll budgets across corporate divisions. The choices--not mutually exclusive—

[4] Note that we create indices of the first and of the last columns in Table 2 that we refer to as "index of line operating authority" and "index of headquarter operating authority", shown in the last row of Table 2. These indices are used in subsequent analyses.

[5] These stages originally were identified in Marginson et al. (1993).

were: limited to the provision of information; regularly offering advice on the basis of the information; and regularly taking part in decisions; or no role. For the U.S. only, we asked CFOs to tell us about HR's role and about their own role in these decisions.

The striking thing about Table 3 is the high involvement of U.S. HR executives in strategic decisions as compared to their Japanese counterparts. With the exception of closing a facility, a majority of Japanese HR executives is not involved in these decisions, whereas non-involvement rates for U.S. executives average only around ten percent. This is a sizeable gap.

One explanation is that these issues are less salient in Japan, where M&A activity is sporadic and where business conditions at the time of the survey were depressed, making for a low rate of expansion. Hence the involvement gap is widest for these decisions. Conversely, the rate of closures was about the same in the two countries, and spinoffs were more prevalent in Japan. On these two issues, the involvement gap is smaller, especially at the earliest stage of drawing up a proposal.

Both U.S. and Japanese executives are less involved in the "decisional" parts of these events—drawing up a proposal and making final decisions about it--than they are in its implementation Also, U.S. executives who report to the CEO are more involved in these decisions, just as Japanese respondents who held the rank of managing director report higher levels of involvement. However, there remains an involvement gap between CEO reports in the U.S. and managing directors in Japan.

Another type of strategic decision lies in the domain where HR strategy meets business strategy. These decisions include the selection and remuneration of senior executives—which affect the future management of the organization--and the allocation of payroll budgets across divisions—which determines how quickly divisions will grow. Again, we asked respondents to tell us what role they played in these decisions (see Table 4). Here the gap between Japan and the United States is much smaller. Part of the explanation has to do with centralization in Japan. Another explanation is that there are national differences in business strategy: Japanese companies are more attuned to organic growth via development of core competencies—including human capital—whereas the dominant U.S. pattern is growth via acquisition and divestment of units that do not meet hurdle rates of return.

iv) Employment Practices: A striking similarity between Japan and the U.S. is the proportion of full-time employees in the workforce of large corporations. In both countries, it stands at around 85 percent, with part-time and temporary employees making up the remainder. Yet these figures conceal very different approaches to structuring internal labor markets. When asked how they would fill vacancies for either managerial or non-supervisory employees, the Japanese companies showed a strong preference for internal candidates, whereas U.S. companies were inclined to give more consideration to external candidates. (Table 5) Note the startling fact that barely any U.S. employers give strong preference to internal candidates, whereas in Japan, around a third of companies do so. Also, in Japan there are only very slight differences in hiring preferences for managerial and non-managerial employees, reflecting the persistence of single-status employment policies. But in the U.S. not only is there a cleavage between managerial and non-managerial employees, it is the managerial positions that receive fewer benefits from incumbency.

In Japan, the strength of a firm's internal labor market is related to the structure of its headquarters HR function. We found that headquarters operating authority (as defined in Table 2) is positively associated with strong internal labor markets for managerial employees ($r=.17$, $p< .01$). Where incumbent managers are employed "for life," headquarters is more likely to be involved with managerial rotations and pay decisions. Internal labor markets for non-supervisory employees also are associated with HR centralization, but the relationship is weaker than for managerial employees. Finally, Japanese companies with the strongest internal labor markets and greatest HR centralization also are the companies with the most intensive staffing levels (HR staff per employee).

When we turn to the United States, patterns are less evident. Few of the internal labor market measures are significantly related to HR variables such as centralization or staff intensity. The one exception—and it is telling—has to do with corporate governance. As the number of persons on the board who have HR backgrounds increases, so does the strength of internal labor markets ($r=.20$, $p<.05$).

v) Corporate Governance and Executive Power: An HR-relevant change in Japanese corporate governance is the advent of Sony-style corporate officer systems (*shikkyo yakuin*), which have caught on in the last five years. This system creates a small U.S.-style executive board comprised of insiders and an occasional outsider, while relegating operating managers—who used to comprise the main board--to a managing committee. Twenty-eight percent of respondents said their firms had adopted the system, a figure that jibes with other surveys. (Ahmadjian, 2001) Because of this change, and because of investor pressure to reduce board size, Japanese boards are smaller, on average, than in past years: Respondents report a mean board size of 15 persons: 11 for companies with the corporate officer system and 16 for other firms. Ten years ago, some boards had fifty or more persons and the mean was around thirty. (Schaede 1994)

These changes have not diminished HR's influence, however. We found no difference between companies with and without the corporate officer system in the perceived power of the headquarters HR unit or in its influence over strategic decisions. The implication is that the corporate officer system has not yet changed power relations inside the Japanese company.

Even where the corporate officer system is in place, Japanese boards continue to have persons serving on them with a background in HR. We asked respondents to tell us how many board members had executive experience in the HR area: 58 percent said one or two; 19 percent said three or four; and 4 percent said five or more, giving a total of 80 percent on the board with HR executive experience. The enterprise union also plays a role in grooming managers for the board. We asked how many board members previously held a leadership position in the enterprise union: 25 percent said one or two; 14 percent said three or four; and 6 percent said five or more, for a total of 45 percent. While there may be some overlap here, half of the companies with HR-experienced board members had zero board members with a union background, it's still the case that 85 percent of companies have at least one person on their board with either HR and/or union leadership experience.

In contrast, the U.S. respondents reported far fewer members of their boards with experience in the HR area: only 34 percent.. Moreover, major U.S. companies rarely have their incumbent HR executive on the board. Data from Korn/Ferry for the 900 largest U.S. companies show that only six companies have their HR manager on the board. While one might chalk this up to the tendency of U.S. boards to seek outside members, it's interesting to note that 92 of the companies nevertheless gave a board seat to their CFO. [6] Moreover, within the same company, finance is more likely to report to the CEO than is HR: 95 percent versus 72 percent. That is, in nearly a quarter of the matched HR-CFO pairs, the CFO reports to the CEO but the HR executive does not.

We asked HR executives to tell us what was the relative power of different headquarters departments to influence strategic decisions. (Table 6) While we did not define power, the results suggest that respondents understood the meaning of the word and gave consistent replies. (Perrow, 1970) Rated on a scale of 1 to 10, with ten being "most influential," the top department in the U.S. was finance, followed by marketing , production, planning or strategy and HR. The only department rated lower than HR was R&D. When CFOs were asked to answer this question, they gave similar rankings: finance rated itself as the top department and rated HR as the weakest, even weaker than R&D. These were precisely the same findings for the matched-

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[6] Korn/Ferry data as of February 2002, courtesy of Caroline Nahas and Jeremy Lawrence. Assuming that the non-*shikko yakuin* companies have an HR director on the board, the contrast is sharp: 70 percent of Japanese firms versus 0.6 percent of U.S. firms have the HR executive on the board.

pair companies: both CFOs and HR executives rated finance as the most powerful function, and, again, finance rated HR as being much weaker than HR rated itself.

However, when asked which departments have gained or lost power to influence strategic decisions over the past five years, U.S. HR executives rated the HR function as the biggest relative gainer. Seventy-five percent of the HR respondents said that HR has gained power, with finance coming in second at 50 percent. But this view is not shared by CFOs, 70 percent of whom say finance has gained power, followed by planning (45 percent), and HR (26 percent).

Of great interest is the finding that, in the United States, the perceived power of the finance function is moderated by having people on the board of directors with an HR background. As the number of these persons increases, the perceived power of finance goes down ($r=.-29$, $p<.01$). Having people with an HR background on the board also is significantly associated with career-type employment policies for managerial and non-managerial employees, as we have seen.

Thus, HR and finance executives agree that finance rules the roost. This hardly comes as a surprise, given the prevalence of the M-form type of corporate organization, the pace of M&A activity, and the meteoric rise of stock options and equity prices during the study period. HR and finance do not agree on HR's status, however. The CFOs see HR as gaining and holding less power than the HR executives think is the case. Unfortunately, there is no way of judging whose perception is correct. But it seems plausible that HR—the underdog-- has greater reason to pump itself up and to overstate its influence than finance has to understate it.

The internal decision-making process of Japanese companies is different from U.S. firms. When asked about power, Japanese respondents said the top department was planning, which typically is a small unit attached to the president's office that handles major issues of organizational design, such as spinoffs. (Table 6) Marketing came in second, finance and HR were third, while production and R&D were farther down. Thus, even if Japanese and U.S. HR managers are equally prone to hubris, it's still the case that Japanese HR managers rank themselves ahead of their U.S. counterparts.

However, when Japanese executives were asked which departments had gained or lost influence during the past five years, they were less likely than their American counterparts to say the gainer was HR: only 40 percent said HR had gained power. The big gainer in Japan was the planning department, with 54 percent saying it had gained power. Only 37 percent said finance had gained power.

Thus, finance is not the top function in Japan, nor does it dominate HR. Rather, it is the planning department –which specializes in corporate organization from a strategic rather than a financial perspective—which holds power and is gaining more of it. There is no observable trend toward the financialization of strategic decision-making in Japan. Stock options – a key mechanism in the U.S. for aligning management decision-making to shareholder interests – remain uncommon. Only nineteen percent of the companies said that they used options, while an additional ten percent said that they were considering them. Other studies have found that, when Japanese companies do offer stock options, they account for a trivial portion of total compensation. In the U. S., however, options are used by nearly all companies (97 percent), although the majority (62 percent) of firms pay them only to their managerial employees and then usually only to senior and divisional executives, the upper crust of management. There is a link between this kind of shareholder-oriented compensation and the structure of HR decision-making: the greater a company's reliance on stock options and other market-oriented forms of compensation, the more decentralized are its HR activities ($r=.23$, $p<.01$).

The perceived power of the headquarters HR function does have consequences: for the unit's strategic influence, for its role in the organization, and for the strength of its internal labor markets. Table 7 identifies Japanese and U.S. companies in the lower and upper quartiles of perceived HR power, with HR power normalized on the mean for all functions. (We call this "relative power".)[7] In both Japan and the U.S., high relative HR power is associated with stronger internal labor markets for managers; greater centralization of operating decisions; and greater influence over executive career decisions, budgetary allocations, and strategic business decisions. While HR power is associated with larger staffs, it is not associated with higher staffing ratios (staff per employee). Perhaps power is related to the sheer number of employees—which makes HR more salient—while staffing ratios are affected by economies of scale.

vi.) Values: One would expect—and studies have found-- Japanese and U.S. managers to hold different values due to national differences in culture, career patterns, and corporate governance.(Hofstede, 2001) Table 8 presents data from surveys asking how important to the manager were various issues and concerns. It includes data from a 1993 survey of Japanese corporate directors, which gives some perspective on changes in Japan during the 1990s. We expect this group to be less inclined to hold traditional HR values, even in 1993, so any gap between this group and current HR executives is probably an understatement of changes in executive values since 1993.

First, as regards Japan over the period 1993-2001, what is striking is how executive attitudes have changed: share price value has become slightly more important and market share less important. Part of this may be related to cyclical economic factors rather than secular trends. Japanese managers stress dividends and market share less than in 1993 because their markets are shrinking and profits (to pay dividends) are thin or nonexistent, while in the United States, the opposite situation prevails (or did until 2001).

However, the uptick in the importance accorded share price value is probably a secular change, reflecting the advent of a shareholder-value ethos in Japan. There remains a sizeable difference in the emphasis placed on stock prices in Japan and in the U.S, however. For U.S .HR executives, share price ranks second in importance (after fair treatment), while in Japan share

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[7] Respondents rated the various functions on a scale from 1 to 10, with 10 being most powerful.

price comes in at seventh place. And when we look at CFOs in the U.S., who are probably closer to the corporate mainstream than HR, we see share price being given more importance than anything else.

Conversely, Japanese HR managers give heavier weight to job security, ranking it their second most important concern, while their U.S. counterparts rank it ninth. But when it comes to being concerned about employee morale and fair treatment, Japanese and U.S. HR managers are close to each other, just as they are fairly close on internal management issues (hiring more managers, department budgets, coordination with other departments.) In short, there are national differences on the values that form the core of corporate governance—share prices and job security—and smaller differences on other issues.

Are these values related to organizational variables such as HR power? Table 9 examines two key values—maximizing share price and safeguarding employee jobs. For each country and each value, we identify those who rate the value as being of low or high importance and display the mean values of other variables associated with each category.

For the U.S, we hypothesized that executives with strong HR career backgrounds would show weaker support for shareholders and stronger support for employees' jobs than those having less professional backgrounds. The first but not the second hypothesis is supported by the data in Table 9. (For Japan, variations in the percent of career spent in HR do not have the same meaning.) We also expected that a strong union presence would affect an HR manager's values in a fashion similar to professionalism, but there is no relationship between a firm's unionization level and its manager's values.

However, there *is* a relationship between relative power and manager values. In both countries, HR executives who hold "shareholder" values (either to maximize share prices or to put a low value on safeguarding employees' jobs) rate their headquarters HR unit as being relatively powerful. (The size of this group is much larger in the U.S. than Japan.) Recall also our earlier finding that, in the U.S., CEO reports are more likely to hold shareholder values and to rate their departments as relatively powerful. It is tempting to think that, in the U.S. at least, the causality runs from values to power: those executives who put shareholders ahead of employees gain power for their units and themselves by demonstrating allegiance to the dominant mindset of senior management.

It may well be that a similar mindset is starting to develop inside Japanese corporations and that those HR managers who align themselves with it are able to boost their influence. However, the power differential associated with shareholder values is smaller than in the United States, so that there is less of an incentive for Japanese HR executives to adopt shareholder values as a strategy for maximizing their status.

As regards strategic influence, again the U.S. pattern is for HR managers who hold shareholder values to have more influence than managers with stakeholder values. In Japan, however, there is little evidence of this effect. In fact, those executives who care most about safeguarding employee jobs tend to have greater influence. Again, there is less incentive for Japanese HR executives to adopt shareholder values.

III. Discussion

The data show clearly the persistence of distinctive Japanese and American approaches to HR decision-making. In Japan there is greater centralization of decisions and more intensive use of central HR staff. Centralization and staff intensity are related to the fact that headquarters administers internal labor markets for managerial and nonsupervisory employees. The HR function ranks high in the corporate hierarchy and influences strategic decisions related to executive careers and payroll allocation. HR executives still have direct and indirect (by persons with an HR background) participation on company boards. The majority of HR executives espouse “stakeholder” rather than “shareholder” values. Hence two of the three Japanese pillars—enterprise unions and employment security—remain in place in large companies As for seniority--the third pillar—it is of declining relative importance, although the share of pay based on individual performance is well below U.S. levels.

Change is occurring in Japan, however, as evidenced by cutbacks in HR staff , outsourcing of HR activities, and leaner staffing ratios. While some of this is just belt tightening, there are signs that HR is being singled out, especially in very large companies. Although headquarters HR departments are in charge of implementing the transition to performance-based pay, the shift entails decentralization of operating authority.

Corporate governance also is changing, with nearly a third of companies utilizing the corporate officer system. Although the effects of this system are modest, and although stock options remain rare, nevertheless a beachhead has been established for shareholder values. A minority of Japanese HR executives currently espouse these values and, given the finding that such values are associated with HR executive power, they could become more widespread in the future. In other words, HR executives may have to choose between loyalty to shareholders and loyalty to the *shain*, creating the potential for future shifts in values and practices. In short, Japan is moving—albeit gradually—toward the market pole on the market-organization continuum, although there are fewer incentives for this to occur than in the United States.

As for large U.S. companies, while there *is* internal hiring and attention to organizational factors, employment and pay remain more market-oriented than in Japan. Hence HR decision-making is a line responsibility and headquarters HR stands at low rank in the corporate hierarchy. While both countries are decentralizing and cutting headquarters staff, the process is occurring more rapidly in the United States, even though the U.S. started from a more market-oriented position back in the 1980s. Thus on the organization-market continuum, the gap between the U.S. and Japan is widening, not narrowing.

The same divergence is occurring in corporate governance. Ten years ago, U.S. corporations already were more finance-oriented than Japanese firms. Since then, the United States has financialized more rapidly than Japan, so that finance is the powerhouse in the executive suite. Its logic dominates other functions and drives the marketization of employment. U.S. boards are shareholder-oriented and some even have CFOs serving on them. HR, on the

other hand, is almost never represented--directly or indirectly--on corporate boards. HR's modest effect on corporate governance is partly due to HR's weak power base and low standing in the eyes of pivotal figures like CFOs. It's also the result of HR executives lacking a distinctive orientation. HR executives espouse the same values as CFOs when it comes to job security and share prices. The small number of HR managers who buck convention pay a price by being less powerful than their peers. While American HR executives do care about issues like equity and fairness, they have not succeeded in persuading other managers to share their concerns.
To put it another way, finance has influenced HR much more than the other way around. The result is that in corporate governance, too, the relative positions of Japan and the U.S. have widened, not narrowed, over the last ten years. [8]

While the low status of American HR is an old story, what is new is the growing number of HR executives who report to their CEO, espouse shareholder values, and consider themselves part of the senior management team. In this new constellation, HR's role is to work closely with the CEO on strategic decisions such as mergers and acquisitions and to help with executive hiring, the importance of which has grown in recent years as both executive pay and turnover have risen. Thus the shift to the market in the U.S. has not erased but actually enhanced some of the senior HR executive's responsibilities. In addition, headquarters oversees the outsourcing process and designs companywide systems for benefits and other pay processes. But this is a smaller role than in the past, and, until HR can define its organization-specific competence and how it contributes to strategic decision-making, there is the risk of further outsourcing, even of the executive pay and selection role.

A gap that we observed between the U.S. and Japan had to do with the senior executive's role in strategic decisions about restructuring. U.S. executives, especially those who report to the

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[8] We replicated a question recently asked of Japanese directors (IIRA 2000:105) and put it to the U.S. CFOs: "Do you agree that corporations are the property of shareholders and employees merely one factor of production? " In Japan, 9 percent of directors agreed with this question; in the U.S., 67 percent of CFOs agreed. The split is striking.

CEO, are more involved in these decisions than their Japanese counterparts. Interestingly, those U.S. executives who are most inclined to hold shareholder values are also most involved in these strategic decisions, whereas the opposite is true in Japan, reducing the payoff to Japanese HR executives from switching to shareholder values.

There is a much smaller involvement gap between Japan and the U.S. when it comes to strategic decisions about executive pay, careers and divisional budgets. Here Japanese executives are *more* involved than their U.S. counterparts. It's possible that the differences between the U.S. and Japan are due, in part, to differences in the meaning of "strategy." For Japanese companies, the key strategic decisions are related to building the company's core competence while reallocating employees to meet those needs. For a U.S. company, growth is more likely to occur through acquisitions and divestments, that is, through financially-determined criteria for restructuring.

IV. Summary

Executive decision-making, employment practices, and corporate governance are a totality of interrelated parts that situate companies on an organization-market continuum. Aggregating across companies, we get a distribution that includes national means and variances. There is overlap in the national distributions due to industry-specific factors such as technology. On the other hand, despite the shift to the market in recent years, the central tendency in Japan remains some distance from the central tendency in the United States due to national differences in corporate organization and social norms. Moreover, the distance between the countries has probably widened as the U.S. has moved more rapidly to the market-oriented end of the continuum. This might account for the fact that Japanese observers are impressed with the changes that have occurred in Japan in recent years—because their comparison point is the Japanese past--while those visiting from the U.S. see a system that is transforming very slowly, because their comparison point is the United States.

HR executives in U.S. companies have carved out distinctive niches for themselves; they are hardly impotent or unimportant. Their power base is situated at the margin between the labor market and the organization, and they focus heavily on executive, rather than operating, issues. Despite higher levels of HR professionalism American HR managers are more inclined to see employees as means to an end—the end being higher share prices—than as ends in themselves.. In Japan, the HR function's power rests inside the organization: on career employment practices, the centralization of operating decisions, and on dealings with the enterprise union. Executives are somewhat more inclined to see employees as ends, that is, as stakeholders with a claim to fairness and security. In short, we have a paradox: both Japanese and U.S. firms are becoming more market-oriented yet national differences persist and may even be widening.

Table 1: Change in Line Involvement Over Five Years:
(percent of firms)

	Increased		Same		Decreased	
	Japan	U.S.	Japan	U.S.	Japan	U.S.
Introduce or modify participation plans	23	44	66	52	11	4
Develop policies toward unions	18	15	75	76	6	9
Decisions on business unit headcount	21	46	72	46	8	8
Job assignment of managers	29	40	63	52	8	7
Performance evaluation of managers	39	53	57	43	4	4

Table 2: Division of Responsibility for HR Activities, Japan and United States
(Weights sum to 100)

	Line managers		Unit HRD		Divisional HRD		Headquarters HRD	
	Japan	US	Japan	US	Japan	US	Japan	US
Introduce or modify participation plans	52	45	11	12	13	17	25	27
Develop policies toward unions	11	17	7	9	9	16	73	58
Decisions on business unit headcount	19	50	12	9	18	14	50	28
Job assignment of managers	23	62	5	9	16	14	57	16
Performance evaluation of managers	41	65	5	8	15	12	38	15
Operating Authority Index Value	28.9	50.5					48.9	26.6

Table 3: Role of HR in Strategic Business Decisions in Japan and the U.S.
{percent checking stage}

	Draw up proposal		Evaluate financial consequences		Final decision-making		Implementation		HR not involved		Event did not occur*	
	J	US	J	US	J	US	J	US	J	US	J	US
Merger or acquisition	10	32	7	61	14	47	41	85	38	3	66	18
Creation of spin-off	43	42	14	56	7	46	48	72	24	11	32	58
Invest in new site	9	33	8	45	11	38	34	62	47	22	37	21
Expand existing site	14	27	12	43	11	36	38	64	42	18	24	18
Closure of existing site	42	48	16	56	10	55	54	77	16	3	22	19

*"Did not occur" is given as ratio to all respondents. Other columns show the ratio only for those companies where the event occurred.

Table 4: Role of HR in Strategic Personnel Decisions
{percent checking role)

	Provide information		Offer advice based on information		Take part in final decisions		Not involved	
	Japan	U.S.	Japan	U.S.	Japan	U.S.	Japan	U.S.
Selecting and remunerating senior managers	15	8	62	25	67	80	1	7
Determining size and allocation of payroll budgets across divisions	10	20	32	33	74	45	8	16

Table 5: Preferred Methods for Filling Vacancies

	Japan		United States	
	Managers	Non-supervisory employees	Managers	Non-supervisory employees
Only consider internal candidates	35	30	0	1
First priority to internal; recruit outside only when needed	54	54	41	59
Consider both internal and external candidates	11	15	59	40
Prefer recruiting external candidates	0	1	1	0
Mean ILM index value *	1.238	1.121	.392	.604

* Consideration of internal candidates is coded as 2; giving first priority to internal candidates and recruit outside only when needed is coded as 1; consider both internal and external candidates is coded as 0; and prefer recruiting external candidates is coded as –2, for both managerial and non-supervisory positions.

Table 6: Perceived Power of Headquarters' Functions

	Japan HR [rank]	U.S. HR [rank}
Finance	5.7 [3]	8.4 [1]
Human Resources	5.7 [3]	6.1 [5]
Marketing/Sales	6.7 [2]	7.1 [2]
Planning/Strategy	8.2 [1]	6.3 [4]
Production/Operations	5.2 [5]	6.4 [3]
R&D	5.4 [4]	5.4 [4]

Table 7: Relative Power of the HR Function and Corporate Outcomes

	Japan		United States	
	Lower quartile, relative HR Power	Upper quartile, relative HR power	Lower quartile, relative HR power	Upper quartile, relative HR Power
Index, internal hiring, managerial employees	1.21	1.25	.30	.43
Index, internal hiring, nonsupervisory employees	0.96	1.15	.64	.58
Number of headquarters staff	18	23	23	75
Staff per employee	1/121	1/140	1/209	1/211
Centralization of operating decisions	47.4	50.3	22.1	25.9
Strategic influence:				
- senior executives & payroll allocation	5.85	6.38	4.41	5.74
- Other business decisions	1.44	2.39	3.19	4.73

Table 8: Executive Values

("What is important to you in your job?" 1=not important, 4= most important)

	1993 Japanese Directors *	Japanese HR Executives	U.S. HR Executives	U.S. CFOs
Raising dividends	2.6	2.2	2.6	1.7
Share price	2.0	2.3	3.3	3.6
Market share	2.9	2.2	2.9	2.7
Diversify & expand into new markets	2.9	2.5	2.4	2.5
Improve employee morale	NA	3.6	3.3	2.7
Insure employees are treated fairly	NA	3.0	3.4	2.7
Safeguard employees' jobs	3.3	3.2	2.1	1.8
Increase number of management positions	1.3	1.2	1.2	1.1
Increase my department's budget	1.5	1.4	1.3	1.1
Coordinate with other departments	2.4	2.8	3.2	NA
Make contribution to society	2.6	2.5	2.4	2.2

* 1993 data courtesy of Fujikazu Suzuki, RENGO Research Institute for Advancement of Living Standards (RIALS), Tokyo.

Table 9

Correlates of HR Executive Values*

	Maximize Share Price				Safeguard Employees' Jobs			
	Japan	Japan	U.S.	U.S.	Japan	Japan	U.S.	U.S.
	Low Importance	High Importance	Low Importance	High Importance	Low Importance	High Importance	Low Importance	High Importance
% career in HR	43	36	82	76	41	40	78	72
% Union	64	65	15	16	58	66	17	12
Relative HR power	.92	.95	.80	.90	1.03	.92	.94	.77
Influence in business strategy**	1.8	1.7	3.3	4.3	1.5	1.8	4.3	3.8
N	137	88	21	120	36	189	100	42

* "Low importance" : respondent rated the value as not important or somewhat important; "high importance": respondent rated the value as very important or most important.

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