Human Resource Management in Japanese Companies Expanding into Developing Countries - A Case Study of Hunan Heiwado Employing Local Staff in order to Realize Their Business Model and Creating a Competitive Advantage -

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Competitive Advantage -

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Abstract

This paper investigates how a corporation effectively used local staff in order to realize its business model in its expansion into an emerging market and to obtain a competitive advantage. The case study is of Heiwado, a retailer with the majority of its stores in Shiga prefecture, and its human resource management after expanding into Hunan province, China, in the late 1990s. This paper first explains Heiwado’s business model and considers how they dealt with human resource management in order to realize this business model, focusing on training of local staff and evaluation and remuneration in order to increase staff motivation. There were two findings from the case study investigation. First, Heiwado became involved in human resource training, investing money in training to encourage changes in work values, previously not employed in the area, in order to ensure that local staff fulfilled staff requirements necessary to generative its core business model value. Second, Heiwado flexibly applied evaluation and remuneration practices, taking into account their experience in Japan and traits of the local staff.

Keywords:

Business model, local staff employment, training, evaluations and remuneration.
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Introduction
This paper has two purposes. First, the paper explains the business model used by Heiwado in their expansion and management of stores in Hunan province, China (hereafter referred to as Hunan Heiwado). Second, this paper considers how Hunan Heiwado combined the formula previously used in Japan and an adapted version to local circumstances in their human resource management, focusing on staff training and the use of evaluations and remuneration in order to make the most of their local staff and increase their motivation. Heiwado is a retailer with its stores mainly concentrated in Shiga prefecture and this case study investigates their actions during their expansion into Hunan province, China, during the late 1990s. The data used in this case study is made up of interviews1 of staff from Heiwado and secondary resources.

In the rest of this paper, I provide an overview of Hunan Heiwado Co., Ltd. (hereafter referred to as Hunan Heiwado) and explains Hunan Heiwado’s business model. Next, I explain the gap between the reality of the human resource market in Hunan province and the ideal candidate for realizing their business model and I consider how Hunan Heiwado filled this gap and developed human resource management aimed at utilizing local staff, with a particular focus on training and evaluations and remuneration. Finally, I will conclude with implications of these discoveries and analysis for businesses expanding into emerging markets and I will also explain the direction of future research.

1. Outline of Hunan Heiwado
Heiwado Co., Ltd. (“Heiwado”, Headquarters: Hikone, Shiga, CEO: Hirakazu Natsuhara), a major regional super-market chain based in Shiga prefecture, was founded in 1957, has capital of 11.6 billion yen and has 145 stores in its core region of Shiga prefecture and surrounding areas of Kyoto, Osaka, Hyogo, Aichi, Fukui and Ishikawa prefectures (as of July 20, 2012). Heiwado is a major regional wholesaler with its consolidated management performance in February with an operating revenue of 389.5 billion yen, an operating profit

1 The interviewees and time and location of the interview is as follows: Natsuhara, CEO of Heiwado (October 2010, at headquarters in Hikone, Shiga prefecture / March 2011, at the Hunan Heiwado store in Changsha). Sutani, head of finance at Hunan Heiwado (February 2012, in Kyoto / March 2011, at the Hunan Heiwado store in Changsha). Local manager of Hunan Heiwado and head of HR at Hunan Heiwado (March 2011 at the Hunan Heiwado store in Changsha). HR manager during Hunan Heiwado store opening (October 2010, at headquarters in Hikone, Shiga prefecture). Apart from partial citations of secondary resources, all data used in this paper related to Heiwado comes from these interviews.
of 11.9 billion yen, ordinary profit of 12.1 billion yen and net income for that period of 4.6 billion yen.

Hunan Heiwado is Heiwado’s Chinese expansion and has three department stores in Changsha, the provincial capital of Hunan province in inland China. Hunan Heiwado has maintained its position as the number one department store in Changsha since the first store opened in 1998 and the second and third stores opened in 2007 and 2009. The three stores combined had proceeds of 2.1 billion yuan in 2010 (previous year 1.7 billion) and their ordinary profit increased by 20% compared to the previous year with sales and profits rising. The business is currently considering opening a fourth store and continues to gain success as a retail business in inland China.

A strong appeal from the Hunan provincial government, twinned with Shiga prefecture, was the reason for Heiwado’s entry into China. The provincial government said, “The current infrastructure in Hunan province is not enough to improve the quality of life of the Chinese people and we would like Heiwado to set up a large-scale business in Changsha in Hunan province.” Heiijiro Natsuhara, the founder and former chairman of Heiwado, went to inspect the area in July 1994. At the time there were several state-run department stores in Hunan province but Natsuhara was taken aback when none of the staff at any of the stores said thank you or bowed their heads. The governor of Hunan told Natsuhara that the area for their store would be in the finest district in the center of the town and Natsuhara decided to set up his store with the firm intention of instilling the basic principle of business that shops are for customers as a place where consumers can enjoy the pleasure of shopping. The board of directors was opposed to this move at the time but Heijiro Natsuhara was resolved to open the store using his own capital. CEO Hirakazu Natsuhara, his son, agreed to the plan and signed a joint venture contract for a shopping center in December the same year.

When setting up the store, Heiwado employed thirty graduate employees from the area and carried out a training course in Japan lasting approximately months. The Chinese employees who undertook this course lead training in Japanese-style customer service to greet their customers with a big “welcome” and a smiling face for general staff in China. The stores also plan and hold seasonal events and it is popular among high income-earners as a space that makes shopping enjoyable. The store was originally focused on direct management but between 1999-2000 Heiwado transferred the directly managed areas to tenants, adjusted to a formula that offered products suited to the taste of Chinese consumers. In 2002, Heiwado established its current management style with clothing and cosmetics brand stalls and since then it has continued to increase its profits steadily. As a result of this work, Heiwado is renowned as the top department store in the region with comprehensive customer service.

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2 As a result of Heiwado offering products that matched consumer taste, 80% of the overall products sold in Heiwado consisted of clothing, shoes, bags and accessories including precious metals. The remaining 20% is made up of foodstuffs, food and drink services and practical goods (Yahagi, 2011, p.330)
(improving service quality and decreasing fixed costs) and a high retention rate of staff. The business model used at Hunan Heiwado has mechanisms in place that work in a more favorable cycle, with shop construction responding to the increased demand for brand-name tenants to enter the shop.

2. Heiwado’s Business Model for China
What kind of business model did Hunan Heiwado create and implement in order to make its overseas business a success? In this chapter, I discuss theories of business models and consider the business model used by Hunan Heiwado.

Kokuryo (1999, 2004) explains the concepts of business models. Kokuryo creates “the business design principles for the four questions” in economic activity and he defines the four questions as: (a) what kind of value do you present to whom? (b) how do you offer this value? (c) with what incentives will you gather the economic resources required to offer this value? (d) what kind of profit model will you use to gain from the value your business offers? Kagono (1999) presents a similar theory with his business system. This emphasizes the relatedness between competitiveness and business organization and the important questions raised by Kagono are what kind of activity the company is responsible for, what kind of relationships will be built with external parties, and the balance between activities carried out by internal and external parties (1999, p. 44-5). Based on this, Kagono and Inoue (2004, p. 260) state that the creation of a business system is the product of a process of trial and error. Hunan Heiwado’s business model can be explained as follows, based on the above theories.

First, I apply Kokuryo’s theory (1999, 2004)

(a) What kind of value do you present to whom?: Heiwado created value by aiming to become the most fashionable store with the highest sales, offering a broad variety of brands in their product lineup aimed mostly at young people in their 20s and 30s with relatively high incomes (not super-deluxe products but products in the price range that can be afforded with a bit of a splurge). Heiwado also aims to offer assurance of product quality, timely responses to customer needs, fashion advise for customers, trend creation, and to create an enjoyable store experience of customers.

(b) How do you offer this value?: Heiwado created large stores with room to stock many brands in an easily accessible and good location and offered high-quality customer service after providing comprehensive education and training to franchise staff and full-time employees, and products and advise that reflects the latest trends. Heiwado also regularly switches tenants based on indicators, including sales, responding to customer demands. Furthermore, Heiwado created an enjoyable store by carrying out fashion shows, lotteries and games, and introduced and popularized events that were previously not celebrated in the region such as Christmas, Valentines Day and New Year’s Eve.
(c) With what incentives will you gather the economic resources required to offer this value?: Heiwado raised the initial capital for facilities costs from Japan. However, Heiwado brought in tenants to its stores through competition, creating the incentive of increasing their sales, by maintaining Hunan Heiwado’s reputation as the most profitable and fashionable store. Heiwado also increased staff loyalty to the company and created a workplace that staff would want to work in for the long-term through social security, planning a pleasant working environment and leisure activities for staff, and a promotion system³.

(d) What kind of profit model will you use to gain from the offered value?: Tenants carry out the majority of the business⁴ and Heiwado makes profit from rent based on their sales.

Next, I consider the theories of Kagono (1999) and Kagono and Inoue (2004). In aiming to be the most profitable and fashionable store, Heiwado uses a system in which it creates or ends relationships with tenants based on profit per area and contribution to overall profit. Using this, Heiwado trialed the above kind of value through differentiation and as a result this process is now incorporated into the business model.

3. Ideal Staff and the Reality of the HR Market in Hunan Province

What kind of human resources are required to realize the above business model? How does the real and accessible human resource situation in Hunan province compare to this? This chapter considers the gap between the ideal staff for realizing the business model and the reality of the human resource market in Hunan province and explains the background to the human resource management Hunan Heiwado employed, which will be discussed in detail in the next chapter.

Some of the main aims of the Hunan Heiwado’s business model are to gather many brands that customers desire in a timely fashion so as to become the most profitable and fashionable store, to provide customers with fashion advise, to create an enjoyable experience for customers through events, and to create trends. However, Hunan Heiwado encountered several significant gaps between the required staff for fulfilling these goals and the actual local human resources. Table 1 shows the characteristics of the ideal staff and the actual local human resources faced by Hunan Heiwado.

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³ See chapter 4 for details.

⁴ For example, at present all fashion sales are carried out by tenants.
### Table 1. Comparison between Staff Requirement and Reality of Local Staff

<table>
<thead>
<tr>
<th>Staff Requirements</th>
<th>Reality of Local Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Able to provide a high level of customer service from a smiling welcome through to handing over products.</td>
<td>• No practice of saying welcome and bowing, variable quality in handing over products even in state-run department stores and few members of staff who can offer a high level of customer service.</td>
</tr>
<tr>
<td>• Well-versed in the latest fashions, offers information to customers, advises on product selection.</td>
<td>• Even with access to the internet, staff are not knowledgeable and do not provide advise to customers. This lead to difficulty in product line-ups and advise.</td>
</tr>
<tr>
<td>• Understands local tastes in fashion and trends in detail and provides a product line-up that meets customer needs in a timely fashion.</td>
<td>• Limited variety in experience, exclusively focused on study until university age and little experience of part-time work, meaning there were few people who could create ideas independently.</td>
</tr>
<tr>
<td>• High level of creativity to make ideas for customers to enjoy the store, including stalls and event planning.</td>
<td>• Individualistic and weak at supporting and cooperating with others in a team to work together (continuously strive) in one direction.</td>
</tr>
<tr>
<td>• Has the perseverance to realize the strategy and business model of Hunan Heiwado and able to work towards these goals in teams with the rest of the staff.</td>
<td>• People were proud, wanted to stand out and show themselves off. Women were comparatively better suited to in-store work than men.</td>
</tr>
<tr>
<td>• Supports other members of staff, has the camaraderie and team work skills to work with others.</td>
<td></td>
</tr>
<tr>
<td>• Leaders set examples to follow, teaching and acting as a model for their inferiors.</td>
<td></td>
</tr>
</tbody>
</table>

(Source) Drawn up by the authors

4. HR Management at Heiwado China
How did Hunan Heiwado bring its employees closer to the ideal candidate based on these gaps between the ideal candidate and the actual local human resource market? The following discussion will focus on training, and evaluations and remuneration.

(1) HR Planning
The human resource plan used by Hunan Heiwado focuses on the local area, using local human resources as much as possible and they currently having several people recruited as local executives. Japanese employees carried out a major role, particularly in the initial stages of the entry, launching, managerial tasks, and leading local staff training. However, Hunan Heiwado will continue to expand its focus on local work, with Hunan Heiwado opening new stores after assessing the pace at which local staff can be trained and the current Japanese CEO stating that he intends to entrust management to local staff. At present there are just 8 members of Japanese staff and around 1400 Chinese staff in Hunan. Another key point is that 80% of staff are female.

(2) Recruitment and Deployment
Hunan Heiwado carries out most of its recruitment among recent university graduates (particularly those majoring in Japanese language). Currently, they perform regular annual recruitment in April to May and also perform irregular recruitment. In the first few years of the market entry, Hunan Heiwado collaborated with local vocational high schools, dispatched employees as lecturers to carry out lessons about Heiwado and filled many of its vacancies by employing the new graduates of these schools. They have since abandoned lessons and recruitment at high schools and carry out training internally.

The career path proceeds from generalist through to role leader, group leader, departmental leader and some of those employed at the start of the expansion have already become executives of the departmental leader class. All staff, including graduates, are initially assigned to in-store work, beginning with customer service experience. Following this, members of staff are promoted through a department such as HR. However, no member of staff is re-employed if they resign and are hired at a rival company.

(3) Staff Training
After introducing the currently established education system, I will discuss the training used to ensure that local employees fulfill the staff requirements shown in table 1, beginning with the initial system.
Hunan Heiwado employees received local training and also underwent training in the Japanese headquarters. Around 20-25 staff are dispatched to Japan every year and Hunan Heiwado carry out training in Japanese customer service, product purchasing management, compliance and customer consultation rooms for potential executive-level employees of the role leader rank and above. In the initial market entry, thirty members of staff employed in the first round of recruitment spent 8 months training in Japan and fifty members of staff employed in the second round spent 3 months in Japan. The departments related to training

5 Lessons aimed at recruiting from vocational high schools were made possible through permission from the provincial board of education and backing by Hunan province.
are the educational department and the service department. These departments have a representative on each floor and the educational department provides regular drills and are responsible for monthly scheduling and information dissemination for temporary tenant employees. In contrast, the service department is responsible for leading customer service quality including day-to-day greetings and uniform checks.

Next, what was the content and purpose of the training? Below I introduce how Hunan Heiwado approached their local staff training, relating it to their staff requirements.

(a) The training carried out in Japan was aimed at staff of the role leader rank and above, however, all new recruits were trained in Japan in the initial recruitment. The purposes of this training include attitudes for customer service such as welcoming customers and carefully handing over products, creating a sense of unity throughout Heiwado by spending time with Japanese employees, as well as technical training in product management as outlined above. The local customer service employees who had experience of putting their in-store training into practice in Hunan Heiwado also lead to other members of local staff with the same principles, explaining and demonstrating the need for these customer services practices.

(b) Training in China was also comprehensive, focusing on mastery of the custom of welcoming customers, a tradition not native to China. For example, immediately before the opening of the Hunan Heiwado store, employees were dispatched from the Japanese educational department and there were several days of training, including details such as the angle and timing of a bow. The educational trainers explained that part of a job at Hunan Heiwado was to regularly welcome customers to the store, and strive to change the values of local employees. Heiwado were unable to carry out as comprehensive training for temporary tenant employees but they did provide them with a few days of training prior to starting and staff management of temporary employees includes printing staff codes after publication of a course completion certificate stating that they have been trained. The educational and service departments carried out the above training for all employees, including temporary tenant staff.\(^6\)

(c) Heiwado dispatched teachers from Japan to provide around 7-8 training sessions a year related to being creative and giving advise to customers and understanding fashions and trends. The training for permanent employees and temporary tenant employees includes courses related to the latest trends, displays, and coordination skills, with training on the latest foreign trends from Japan and other foreign countries that customers are interested in. This training allowed local employees to create ideas for events and displays that reflect fashion advise and trends for customers.

(d) Chinese people tend to be strongly individualistic and Heiwado used training techniques

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\(^6\) Training also included items that are not usually problems in Japanese stores such as not drinking on the sales floor, using staff corridors, not using customer escalators and not leaning on sales desks.
of working in small groups (5-6 members to a team) to encourage as much group responsibility in their work and training, as used in their new recruit training in Japan, in order to increase group unity and teamwork. As a result of these practices, the teamwork skills of local staff have been steadily increasing. Furthermore, Heiwado also provided training allowing staff to master leading and teaching by switching team leaders.

(4) Evaluations and Remuneration
As shown above, the ideal staff member for Hunan Heiwado included a number of areas in customer service that were previously not used in local retailers but were used in Japan such as high-quality customer service including greetings. The training used to fulfill these requirements used Japanese methods. However, Heiwado used both Japanese and unique local methods for evaluations and remuneration, based on characteristics of local human resource practice.

First, I will discuss evaluations. Heiwado employed methods that reflected the individualistic tendencies of local staff. For example, with cash register duties the cash is counted each time the cashier changes and the member of staff bears personal responsibility when it does not match the balance. Heiwado carry out re-training as well as imposing fines on members of staff who broke rules such as not greeting customers. Finally, Heiwado employed methods to encourage staff to work with pride, such as posting profits for staff including tenants (sticking stars on a board).

Next, I will discuss remuneration. Heiwado has many tools for increasing motivation such as offering rewards to staff that have excellent success in their evaluations, for example, by paying a bonus to staff who have collected enough stars on their board. Furthermore, Heiwado gives commendations to the most successful employees and encourages a competitive spirit for Chinese employees, who tend to be proud and keen to stand out. These techniques are effective at increasing motivation. Below are the key points regarding remuneration:

(a) Wages are not particularly high compared to competitor firms and there are no redundancy payments. However, many competitors do not provide social security, despite it being stipulated by law, but Hunan Heiwado does provide this and also gives employees a sense of security with systems such as sick pay for visiting hospital. The work environment is also more pleasant than other companies with air conditioning and a staff canteen.

(b) Staff can be promoted under the policy of extensive employment, providing a sense of security at work.

(c) Heiwado creates a sense of a team by creating a fun work environment among employees with corporate events each year, such as inter-departmental talent competitions.
(d) Heiwado has a system aimed at increasing staff loyalty through paid visits to various locations including Beijing, Shanghai and Hong Kong. Hunan Heiwado was flexible in its evaluation and remuneration system, by using both methods inspired by their experience in Japan and methods created based on traits of the local employees and also secures human resources that possess the traits required for fulfilling their business model.

5. Conclusion
Here I explain the implications of the analysis of this case study thus far for corporations expanding into emerging markets and I discuss future issues for research.

(1) Analysis and Implications
This paper has shown how Hunan Heiwado approached its appraisal and remuneration systems for human resources in order to secure employees that fulfill the requirements for local staff to fulfill its China business model (Table 1).
My consideration of the human resource management used by Hunan Heiwado revealed that in order to realize the core values fixed in its business model, Hunan Heiwado became involved in human resource training, even if the terms were not fixed at the beginning of the expansion and doing so meant bearing significant costs. This paper has shown that Hunan Heiwado implemented education and leadership programs aimed at changing the values of its employees, including promoting high-quality customer service, with elements not previously found in the area such as greetings, and encouraging local employees who have strong individualistic tendencies to work in teams. Further, Hunan Heiwado was flexible in its application of Japanese and Chinese methods in its human resources management system, with rewards for good work and punishments for bad work in the appraisal and remuneration systems in order to keep employees at the required level they had attained through training. For example, the use of fines, bearing responsibility and cashier handover take into account the characteristics of local human resources. However, providing stability in working conditions and posting of achievements, creating a pleasant work environment, and creating corporate events are human resources techniques created based on Heiwado’s experience in Japan.
The case study of Hunan Heiwado shows the successful creation of a competitive advantage employing local staff by using a mixture of Japanese and Chinese methods in rewards and punishments and by training local staff, even if this involves bearing costs, in order to realize a business model that presents value to customers through differentiated handling of customer needs in a timely manner, such as the creation of a pleasant shop environment, and selling the latest trends in fashion. This case study shows that corporations that need to create methods that utilize local staff in order to secure a competitive advantage through business model realization in an expansion into an emerging market should push forward with their own unique methods in human resource management and also that they should be flexible to conditions in the new target area.

(2) Future Research Issues
There are two potential areas for future research. First, interviews with Hunan Heiwado have shown that there are differences in staff traits, such as the tendency for new employees to struggle with difficulties in the work place more...
than experienced employees, due to economic development and urbanization. Further, it is predicted that new issues in human resource management will emerge in the future and there will be need to create new responses to these issues as competition to secure employees grows fierce with competitor firms entering the market due to economic development. Thus, it is important to continue to follow developments at Hunan Heiwado.

Next, this case study only considered the case of one firm, Hunan Heiwado, and showed the details and inter-relatedness of the business model and methods in human resource management in employing local talent, focusing on training and evaluations and remuneration. However, in order to gain an exhaustive and comprehensive understanding of these issues, a comparative study of multiple cases with axes of size and industry must be carried out.

References


