

**The Spillover Effect of Japanese Foreign Direct Investment in Human  
Resource Management: A Case Study of Honda Siel**

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# **The Spillover Effect of Japanese Foreign Direct Investment in Human Resource Management: A Case Study of Honda Siel**

**Srabani Roy Choudhury\***

## **Abstract**

*When technology is slowly losing its importance as a comparative advantage in the competitive market, it is management of human resource that is giving companies their cutting edge for a sustainable lead in the corporate supremacy. The liberalized Indian Corporate faced with challenges of globalization is looking for tools to internationalize itself. The Japanese Management System more specifically its HRM that has found credence. The study of Honda Siel HR operations throw light on how Japanese Multinationals adopt, adapt and hybridized their management system to harness Indian employees strength towards efficient and productive workforce. The study concludes that transferability into Indian joint venture is slow, and those that are universal in nature has found ready acceptance. Certain culture specific and culture bound practices with modification has been adapted because of culture affinity.*

## **1. Introduction**

Foreign Direct Investment is seen as a tool in hand to facilitate technological diffusion and promote greater trade and integration of developing economies with the global market. It can therefore play a catalytic role in economic development provided the recipient country has the requisite institutions and governance structure. Since the initiation of economic reforms in India FDI has gained increasingly greater acceptance across a wide range of sectors namely, manufacturing, services and infrastructure. In 2003-04 India actually received US\$ 4.7 billion in FDI (equivalent to 0.6per cent of GDP). Further what is interesting is that CII (2004) estimated that manufactured product outsourcing mainly in auto components, consumer electronics, pharmaceuticals and others will touch US\$ 10 billion by 2015.

The destination of FDI to India is supported by continued attempts by successive governments to broaden economic policies and to integrate them to the global economy. Since 1999, India has persistently looked towards the East. It has operationalized bilateral trade agreements with Sri Lanka and Thailand and is also in advanced stages of trade agreements with other neighbouring Asian countries (see Table 1). All this is a pointer to the fact that the Asian countries should not perceive India from the Cold War point of view, rather India and the other Asian countries should be determined to engage in a spirit of cooperation and realize that there are areas where the East Asian experience can be helpful in meeting India's developmental challenges.

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**Table 1: Recently Established or Proposed FTAs in Japan and India, 1999-2004**

Country/ Grouping	Partners	Status of Agreement, 2004	Country/ Grouping	Partners	Status of Agreement, 2004
India	ASEAN China Korea Singapore Sri Lanka Thailand BIMSTEC SACU COMESA MERCOSUR Mauritius GCC Chile SAARC/SAFTA	Framework Agreement signed Proposed Proposed Under negotiation Agreement in force Agreement in force Framework Agreement signed Proposed Proposed Framework Agreement signed Under negotiation Proposed Proposed Agreement in force	Singapore	Australia Canada China Egypt EFTA EU India Japan Jordan Korea Mexico New Zealand Sri Lanka Pakistan USA Panama Pacific Three (P-3) (New Zealand and Chile)	Agreement in force Under Negotiation Proposed Proposed Agreement in force Proposed (rejected by EU) Under negotiations Agreement in force Agreement in force Under negotiations Under negotiations Agreement in force Under Negotiations Proposed Agreement in force Proposed Under negotiations
Japan	ASEAN Canada Chile Korea Malaysia Mexico Philippines Singapore Thailand Australia	Framework Agreement signed Proposed Under study Under study Under negotiation Under negotiation Under negotiation Agreement in force Under negotiation Proposed	Thailand	Australia Bahrain China India Japan Korea New Zealand Peru South Africa USA	Agreement signed Agreement signed Agreement signed Agreement in force Under negotiation Under study Under study Agreement signed Under study Under negotiation

Source: Adapted from Rajan and Sen (2004)

Among the Asian countries, Japan has been the prime mover in foreign direct investment into India. Though there was a drop in FDI from Japan in the period 2003 – 2004 (see Table 2), it has again picked up in 2005 with FDI worth US\$ 7 billion already channeled in, one-third of which has been invested by Mitsubishi in West Bengal (see Tables 3 and 4). Japan’s interest in setting-up operations in India was the low cost of production and market accessibility. While these are the apparent reasons of foreign direct investment, it is well known that FDI has an aspect of transfer of management styles and that Japanese FDI by itself could be considered as a transfer of Japanese style management. Further, a more notable aspect of foreign direct investment is that it can be used to establish a work culture that helps increase productivity, not only in units where it is initiated but also in the economy as a whole, through the diffusion process, spread over a period of time.

**Table 2: Year-wise Japan’s Outward FDI in India**

Year	Value (US\$ million)
2000	168
2001	145
2002	310
2003	87
2004	97

Source: <http://www.jetro.go.jp/en/stats/statistics/>

**Table 3: Cumulative Japan’s Outward FDI in India**

Year	Cumulative Value (US\$ million)
1951 – 2004	2,518
1985 – 2004	2,440
1992 – 2004	2,309

Source: <http://www.jetro.go.jp/en/stats/statistics/>

**Table 4: Nos. of Japanese FDI in India**

Year	Cases (No.)
2000	10
2001	6
2002	7
2003	7
2004	7

Source: <http://www.jetro.go.jp/en/stats/statistics/>

Given the growing importance of FDI transfer, this paper examines the spillover effect of FDI transfer to management styles in the host economy. The case in point is Honda Siel -a joint venture of Honda Japan and Siel. Siel is a sleeping partner and Honda Japan has complete operational and technological hold over the company. The paper tries to analyze the imbibing of “Japanese management style” and in particular the human resource management aspect into an organization.

## 2. Literature Review

The flow of Japanese foreign direct investment into the US in the late 1970s and the 1980s led to many empirical studies on strategies and adaptation of Japanese multinational corporations into the US. Most of these researches were specific to America and Europe and some included the

Pacific Rim. It is only in the late 1980s that one finds literature on the question of transferability of Japanese management system to the developing world.

Abo et al (1987), Trevor (1983; 1987) Takamiya and Thurley (1983), to name a few, carried out empirical studies of the Japanese management system established by Japanese multinationals in America and Europe. Though they used different research methodologies, one can make some broad observations. Firstly, Japanese companies operating in automobiles, machine building and engineering have been quite successful in implementing the Japanese style of production and the HRM practices that go with it. Secondly, European and American workers approve of the management's concern for restructuring jobs, careers and pay scale, job organization and labour participation. The respect for Japanese managers was higher than the respect for the local managers as they were considered to be more knowledgeable and were known to apply themselves to shop floor operation. Abo et al. hypothesized that the competitive advantage of a Japanese multinational stems from the Japanese style of management and therefore there is an attempt to introduce the superior elements of their management and production system. According to them, the focus is on the human factor of production. Kaplinsky and Posthuma (1988) who studied Japanese management techniques and their transferability to India, Brazil, the Dominican Republic, Mexico and Zimbabwe through case studies, concluded that the relatively low rate of adoption in these developing nations is because of the fact that they are late starters and that they have lived in isolation from the new ways of thinking about production. Their study encompassed a broader framework with human resource as a subset. Their findings show that first, educational qualification is not a barrier in adopting the Japanese system and that the training of employees is a vital organizational need of the company adopting the Japanese system and this leads to comprehensive modernization. Secondly, the flexibility of the production system requires the development of multi-skilling of the employees. Thus, if appropriate training after entry into the company is given to an employee and the employee is regularly updated, the need for formal education becomes redundant, (as was shown from the case study of Zimbabwe). Thirdly, most management techniques require worker participation, which, the study concluded, can be attained by diffusion of knowledge of technology at the worker level and with concentrated effort of management towards policies of co-operation.

### **3. Salient Features of Japanese Human Resource Management**

The nature and functioning of the Japanese industries and management has evoked considerable amount of research interest, both within Japan and outside. Starting with Okouchi (1952) and followed by Abbeglen (1958) and Iwata (1977), the management features that were unique to Japan was established, though the importance of the features varied according to the researchers' interpretation\*. However, there was a consensus on the issue that the Japanese management practices when compared to the Western pattern of human resource management were significantly different. It is therefore important to highlight the Japanese human resource management practices before comparing it to that of the Indian joint venture.

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\* While the salient features of the Japanese management was established by 1960s, the issue of transferability differed between the early researchers and the researchers of 1980s onwards. The researchers of the period 1950s-1970s considered Japanese management as culture specific. However, the current thought is that the Japanese management has features that are culture specific, universal and culture affected.

### **3.1 Lifetime Employment**

The term “lifetime employment” is rather misleading. It necessarily means that an employee when recruited is allowed to stay on with the company till the retirement age, which is dictated by the government. In the recent years this policy has come under scrutiny because of bulging workforces and many Japanese companies are finding ways to circumvent this policy.

### **3.2 Recruitment**

The Japanese companies recruit once a year. The employees are recruited at the entry level after high school or graduation. They are recruited not because of some special ability but rather because they are found to be conducive to the company's vision. Many Japanese companies give a premium to the university from which the candidate has graduated. Furthermore, the family background along with the teachers recommendation is also given due weight because the upbringing of the candidate foretells his sense of responsibility and his diligence towards work.

### **3.3 Training**

The Japanese companies have by principle followed the policy of lifetime employment. Thus an employee once recruited served the company till around the age of 60. This encouraged the companies to develop training programs through which the employee would be prepared to handle new assignments as he grew within the organization. The training programs can be fundamentally divided into two groups-- on-the-job training (OJT) and off-the-job training (off-JT). The Japanese companies also perfected the art of job rotation so that employees in the lower rung and at the shop floor level became multi-skilled.

### **3.4 Career Path**

The career path of the employees is a manifestation of the lifetime employment system. Thus the promotion system in Japan is distinct from that of the West. Firstly, there is no clear demarcation between the white collar and the blue collar and a blue-collar worker can on his ability move to a white collared position. Secondly, the rise to the senior level managerial post is through internal promotion and age is given due consideration. Since the employees put in many years with the company, often thirty years or more, the rise to the senior level is a long and hard fought battle. Thirdly, only the most deserving make it to the board of directors. Since the directors come from within the company and have climbed the promotion ladder from the rank and file level to the present position of a director, they are able to provide insightful recommendations during policy formulation. Fourthly, the Japanese follow the late selection criterion mixed with simultaneous and divergent promotion. The late selection criterion allows for fierce competition in the junior years of an employee. Since the mid 70's the companies have introduced the dual career system to accommodate the increasing demand for promotion among the employees. This is done by separating the status rank (*Shikaku*) and job classification (*shokkai*). Under this system only limited numbers of promoted employees are given the title of *kacho*, *buchō*, while others are given titles like ‘advisor staff’ etc.

### **3.5 Compensation**

Keeping in line with the promotion system the compensation package of any Japanese company gives due importance to “the seniority criteria”. A bonus system, which gives bonus twice a year, is appreciated by the employees and is also seen as an advantage for the company. The one time retirement benefit is yet another feature of the Japanese compensation package.

### **3.6 Union System**

The enterprise union is the formal platform for communication. The enterprise union functions at two levels. The wage bargaining known as *Shunto* or the spring offensive is an enterprise level bargaining for higher wages. At the enterprise level the union uses the joint labour consultation system. The joint consultation system is a forum where the management and the union meet to discuss a variety of issues and facilitate the dissemination of information about production, the future plan of investment, overseas investment, the adoption of new technology and manpower adjustment. Through joint consultations, the union is able to participate in strategic decision-making as well as in functional decision-making.

### **3.7 Communication**

#### ***Individual Centered Communication***

One of the major contributions of the Japanese management practice is the participatory method of decision-making. It is the Japanese management that had harnessed knowledge from the very bottom level of the corporate structure and had used it effectively to increase productivity. Each employee at the individual level participates through the QC circle and the Suggestion system. While the QC circle is group oriented, the Suggestion system is individual oriented.

#### ***Managerial Communication***

At the managerial level there are many decisions that emanate at the lower management level and are endorsed by the top management. The communication that thus takes place in a Japanese company is very informative as it is both intensive and extensive. The traditional way of bottom-up communication is achieved through the *ringi* system. The word *ringi* means getting approval on a proposed matter through the vertical, horizontal and diagonal circulation of a document to the concerned members of the company. The procedure consists of four steps---proposal, circulation, approval and record.

*Nemawashi* is a communication practice that enables the management to promote harmony among the employees and between the employees and the management. It is an informal method of arriving at a consensus. The negotiations take place informally during lunch hour or more likely at bars and nightclubs. *Nemawashi*, is a tool to foster the employee's consensus in a more diplomatic and sensitive fashion. It eschews the element of surprise and is also a "face-saving" device of the top management. *Nemawashi* is in stark contrast to the *ringi* system. These two often work hand in glove to steer the employees to take a decision unanimously, such that future implementation of decisions becomes a smoother process.

## **4. Advantages of Adaptation of Japanese Management System into India**

The success of Maruti Udyog limited, a joint venture between Suzuki of Japan and Government of India led to a few studies\* on the working of the Japanese management in India with special reference to Maruti. The author has also studied Japanese joint ventures in the automobile sector.

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\* Bhaskar Chaterjee (1990), Tripati (1994) and Panda (1999) have contributed towards understanding the Japanese management system in India context. Individually, each of them concluded that the Indian patrimonial system with its roots in common heritage of oriental culture is nearer to the personalized informal system of Japanese management. Thus their research pointed to significant possibilities for transfer of Japanese management practices.

On basis of these studies, the following advantages of adapting the Japanese management system into India were derived.

- First, the Japanese management techniques along with the HRM practices are not capital - ntensive and therefore implementing them should not be difficult.
- Second, though not conclusive because enough research has not been done on it, the Japanese management techniques depend not on formal education but on training, which is fundamental to human resource management.
- Third, Japanese management has evolved from an Asian country and since India is also in the same region there is a strong affinity of culture and therefore transferability is relatively easy.
- Finally as the Japanese management system is being recommended for high quality and high productivity, India can benefit by making its products competitive within the domestic economy as well as in the international market.

## **5. The Case Study of Honda Japan's Subsidiary Honda Siel India**

The choice of studying a joint venture of Honda Japan is for the following reasons. In Honda Japan, the human resource management practices have evolved in response to the changing economic environment. It goes to the credit of Honda Japan that its response to externalities has been immediate, which has placed it on the forefront among dynamic Japanese companies This promptitude has given rise to some unique human resource management practices in Honda Japan, which are Japanese in essence but simultaneously aligned with current international trends. Thus, the recruitment practices at Honda Japan retain the essence of the Japanese recruitment system, including attention to detail such as the recruit's family background and his ability to contribute creatively to the workplace rather than focusing just on skill and qualification. But while recruitment retains the traditional flavor, performance evaluation has incorporated contemporary global practices like self-assessment, which are different to the conventional Japanese system of assessment on account of transparency. Additionally, Honda Japan has de-linked emoluments from the seniority criterion by adopting performance linked bonus and evaluation, thereby ushering in individuality and professionalism into conventional Japanese human resource management practices.

Interestingly, while Honda Japan has given up the seniority criterion in its performance evaluation and wage system, it continues to see merit in lifetime employment. There have been no retrenchments in the company, and it continues to provide a sizeable lump sum retirement benefit, which ensures employee loyalty to the company.

Faced with global competition, the indications were clear that a certain amount of adaptability to global practices was inevitable. Since 1992, departures were effected by the company and these departures have made Honda Japan a winner and enabled it to retain its world position. It also throws up the surmise that the Japanese companies that adapted fast would tend to sustain themselves globally. Many experts believe that Honda Japan may also abandon lifetime employment in the long run, but it needs to be remembered that it is because of this character of adaptability that the company has been able to ride the current slowdown, without causing a major dent in the company's profitability. Given such credibility in its adaptability, it has proved interesting to study how Honda Japan has aligned itself with an Indian company.

## **5.1 History**

The Honda Siel Car India Ltd (HSCI), (here after called Honda Siel) is a Honda automobile production and sales subsidiary in India. Established in December 1997 with a 49 per cent Honda stake, today it stands at 99.9per cent Honda Motors. Co. Ltd. and 0.1per cent Siel Ltd. The Head Office of Honda Siel is in New Delhi, and its manufacturing unit is located in Greater Noida a part of the NCR region. The product on roll today is the Accord, the City and the CR-V model through the CBU importation programme from Japan. The manufacturing unit is situated in the green field area. The initial installed capacity of the plant was 30,000 cars per annum, on a two-shift basis. This has expanded to 50,000 cars per annum 2004-05., Employing over 2000 employees, Honda Siel is also set to increase its capacity to 100,000 units by 2010. There are three categories of employees- the permanent employees, the temporary employees and the deputed employees. At the shop floor there is a healthy mix of the local community and those of the neighbouring regions.

## **5.2 Lifetime employment**

Honda Siel believes in giving opportunities and the environment to an employee to grow and prove his/her ability. Honda Siel Ltd. India does not have any lay-off policy, so the commitment of job security from the employer exists. Retrenchment is unheard of and since even during the recent downturn of the industry Honda Siel continued to grow at 8 per cent, the need to look at this issue did not arise. At Honda Siel the labour turnover is around 4per cent and usually limited to the age group of 25-35 years. The management is not unduly worried about this low rate of turnover. Rather the head of the department of HRD at the Noida plant said that operating within this constraint is appreciated because it is better than the situation faced by their competitor. The colleagues of the employee, who leaves the organization amicably, give him a farewell party. This they do in their individual capacity but with the full consensus of the company. Shop-floor employees as well as the managers usually leave the company for a better pay packet and/or a good designation. As they leave the company on good terms, they often come back and are taken back in appropriate positions. The problem that the *HRD* faced was regarding employees leaving after a very short stint (six months to a year). This they have been counteracting through rigorous induction training.

Apart from this, the company does not have any definite retention policy. But that is nothing unusual in the Indian scenario. Manpower management is a relatively new concept in the country and Indian companies have yet to apply themselves to a retention policy. The HRD personnel at Honda Siel feel that long-term retention of the employee, though desirable, is impossible, because Indians still place a much higher premium on monetary benefits than work environment. The corporate HRD personnel contradicted this statement and looked at 1per cent to 4 per cent turnover as a healthy phenomenon, because it had ensured that fresh talent and knowledge had flowed in.

## **5.3 Recruitment**

The recruitment procedure for Honda Siel can be split into two parts. The recruitment of the managerial and the engineering recruits is handled directly by the head office with a representative from the plant (either the Chief of the human resource department or the General Manager) being present at the interview. However, shop floor level recruitment is the sole concern of the plant. The Noida plant has taken considerable trouble to recruit the right kind of individual at the shop floor level. At this level the recruit is required to be a diploma holder from one of the Industrial Training Institutes (ITI). The number of years of experience at the time of

recruitment determines the rank at which the recruit is placed. An examination is conducted to test the candidate's job knowledge, simple IQ and aptitude. The examination is followed by an interview. The head of the HRD in the plant heads the interview panel. The personnel manager at the Noida plant told the researcher that apart from technical knowledge, he looked for honesty and earnestness in the candidates. Moreover, the integrity of the candidate, past record of alcoholism, vandalism and involvement in union activities is given due consideration. The department has therefore ventured into a time consuming policy of background checks. A candidate's background is given a thorough checking by contacting his previous employer. An employee is deputed from the plant to go and meet the employees in his previous company, as well as gathers information about him from nearby shops and tea stalls. This enquiry is done to double check the employer's comments and find out greater details about the individual's behavior. For instance, if the person is found to be an alcoholic, or indulging in fighting or vandalism, then he is rejected since such attribute are not desirable and is taken as lack of integrity. Indian managers look upon unions with distrust and view employees indulging in unionism as a nuisance. The management supports this sentiment and even rejects a candidate with very good qualifications, if he is found to have some past history of unionism.

The managerial and the engineering graduates are generally recruited through campus recruitment though sometimes these positions are also advertised. A data bank of possible candidates is also maintained. Though no specific institutes are focused upon, the management trainees are usually recruited from A-grade business schools and the engineers from the regional engineering colleges. These candidates are expected to satisfy the general criteria of discipline, good manners and decorum. An interview is the final decider and the company looks for a candidate who is flexible, has originality in thinking and not overly ambitious. Since the turnover at the lower end of the management cadre is rather high, the company feels satisfied if the recruits put in a minimum of three years. Some recruits with general post graduation degrees are also being tried out because of their higher retention rate. This set of recruits is the backbone of the organization and provides the much-needed continuity at the lower-managerial level. Recruitment at the middle and the senior level of management usually takes place to fill a vacancy arising out of the departure of a manager. While selection from within is the norm, sometime managers from a rival company with a good reputation in the industry, are also hired.

#### **5.4 Training**

Honda Siel learned the importance of a systematic training the hard way, when about 75 per cent of the first batch of engineering recruits parted ways within months of recruitment. The top management then had a brain storming session about this problem and realized that comprehensive induction training was an essential prerequisite for retention of the recruits. The top management took keen interest in this matter and with an able team from the HRD department of the plant, set up an induction training program for shop floor workers, supervisors, engineers, managers and support staff. The induction program for the engineers lasts a month. The first few days are spent in classroom lectures where the company's philosophy, goal and vision are discussed. The top managers of the company spend half a day with the recruits talking about their experience. The entire exercise is carried out to inculcate a sense of pride in the recruit for having joined a company that is a leader in the motorcycle business. After this, the recruits spend several days in production related departments. During this entire period they are asked to write about the day's happenings – this provides a feedback on the training program. The new recruits in other managerial capacities also go through an induction module that is shorter as they spend a lesser number of days in the production departments. Since these managers are usually placed at the headquarters, their training is split between the Noida plant and the headquarters. Their induction training in the plant starts with similar classroom lectures about the company,

followed by shop floor observation, and by sessions with the heads of the various departments at the headquarters. The central theme in this program, once again, is to make the recruits feel proud of having made the choice of joining this company. This in turn is expected to lead to a higher level of motivation. During the training period these recruits write reports on their day's activities. At the end of the training period they are asked for suggestions for improving the training program. During the induction period the newly-recruited engineers and managers are thus given a holistic view of the operation of the company.

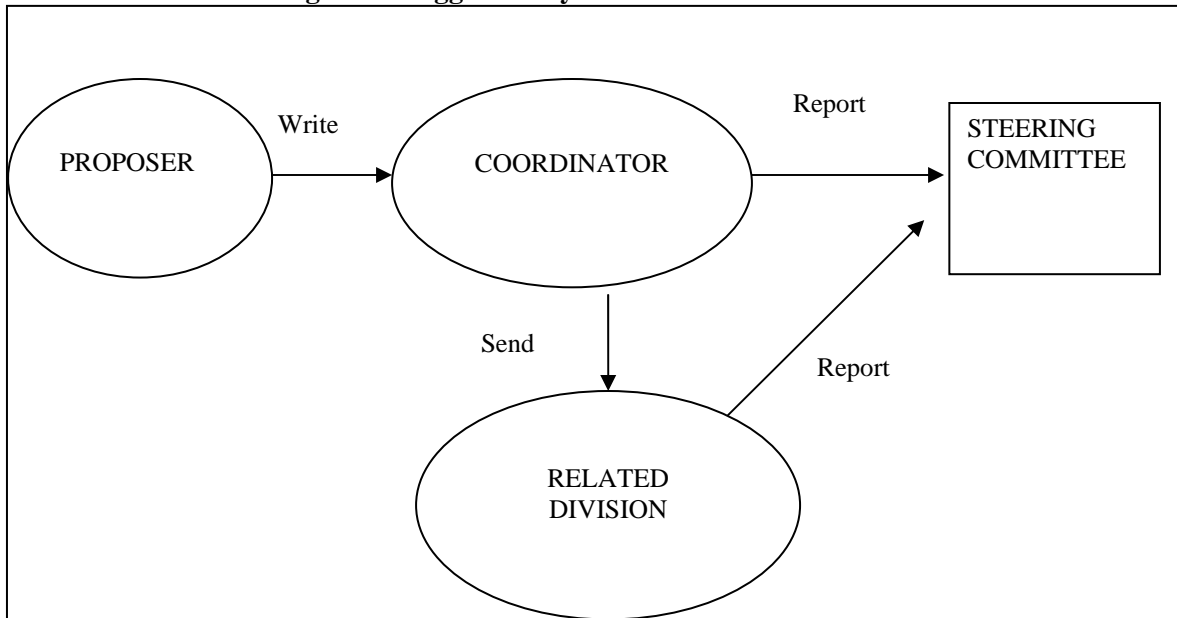
Earlier, the shop floor workers were inducted in batches of 30 to 40 workers. The induction program for this category is for two to three days. Apart from informing the workers about the philosophy, goals and vision, of the company, the emphasis is on the five golden rules. These are: Punctuality, Cleanliness (value of clean uniform and pride in the uniform and cleanliness of the work area), and Quality of work (the manager of the quality department said that he spent the day interacting with the workers to make them realize that the quality of the product lies in their hands), Care and maintenance of the machinery, Courteousness and helpfulness. The shop floor workers are then trained on fixed skills. Apart from skill-based training, the company also has an on-going training program for all employees for general training like quality control, team building, safety measures and stress management. These are run by external consulting agencies under the employee development program. Correspondence courses on Japanese management techniques are provided to deserving employees. The courses include 5S, TQC, TPM at work place, *Gemba Kaizen* and business process management. Further, employees are selected for special courses offered by the International Labour Organization and the Association of Overseas Technical Scholars. The training program of Honda Siel is highly focused towards the induction program. In fact, the success of the induction program has motivated the HRD department to explore new styles and methodologies of training - for all levels of employees so that they remain motivated to give their best to the company. OJT as part of enhancing the skills of the worker is carried out on the shop floor with the supervisor taking the initiative. However, the development of multiple skills is not prevalent in the company.

## **5.5 Career path**

Honda Siel has five broad grades to categorize its employees in hierarchical ranking. Each grade has been further classified into a cluster of three or four. At the shop floor an operator is inducted at L0 and is placed under probation for a period of one to three years. Following this, he moves to the position of an assistant operator. Within the assistant operator grade 'L' there are three sub-divisions (l0 - l3). Similarly for the support staff under grade C there are four sub-divisions (c1-c4). The managers start at grade E (e1- e4) which is the junior level. They then move on to the middle managerial level M (m1-m4) and then to the top management level SM (sm1-sm5). The minimum number of years required for each rank within a grade is pre-determined. Performance evaluation is done once a year by the immediate boss and his senior and is based on a detailed observation without any consultation with the employee. The operators are evaluated on the quality of work, job knowledge and behavioral traits on a scale of four and remarks are given for outstanding and below average cases. This is then discussed with the head of the department and a final decision regarding increments and promotions is taken. The managers are evaluated not only for their job knowledge and behavioral traits but also for their initiative, safety consciousness and creativity. Observations on their performances are written down in brief by the immediate boss and are validated by his senior. In this way, the managers are assessed and placed as outstanding, good, average or below average. This is then passed on to the head of the department for recommendations and a decision arrived at. Since there is a cluster within each grade, while all managers may be junior managers, by virtue of superior performance, one person can move to e2 or e3 in a shorter time. Thus, while on the average it takes nine years to move to

middle management level, an outstanding performer can do it in seven. This allows talented employees to grow at a faster rate and curtails frustration. Mr. Mantri in the HRD who looks after performance evaluation, feels that more transparency is required in this area and the HRD plans to devote more time in bringing about a better performance evaluation method. The Honda Japan personnel posted in India are evaluated in accordance with the Honda evaluation practice in Japan.

**Figure: 1 Suggestion System in Honda Siel India**



## 5.6 Compensation

Honda Siel has structured its wages in accordance with the wages prevalent in the industry. However, when questioned, the management was not forthcoming about the wage structure. The management cadre has a minimum salary for each grade and the actual salary at the time of recruitment is negotiable. There is some disparity of salary between the employees within the same rank and this becomes considerable at the middle and the top management level. Bonus of 20 per cent on the basic pay is paid once a year and its ceiling is decided as per the Indian Industrial Act. The operators and supervisors are covered under the ESI and Group Personal Accident Policy. All managers are covered by the “medi-claim” health insurance scheme. Coverage is determined according to rank. From the rank of the assistant executive to the senior executive the medi-claim scheme is for self; from the assistant manager to the deputy manager for self and spouse, and for the top managers for self, spouse and children. Retirement for the operators and supervisors is at the age of 55 and for managers at the age of 58. Retirement benefit is paid partly at the time of retirement and partly over a time period. Apart from gratuity, the employee comes under a family pension scheme. Further, the company has a superannuation scheme (offered by the Life Insurance Corporation) through which the nominee also gets a pension till his death.

## 5.7 Union system

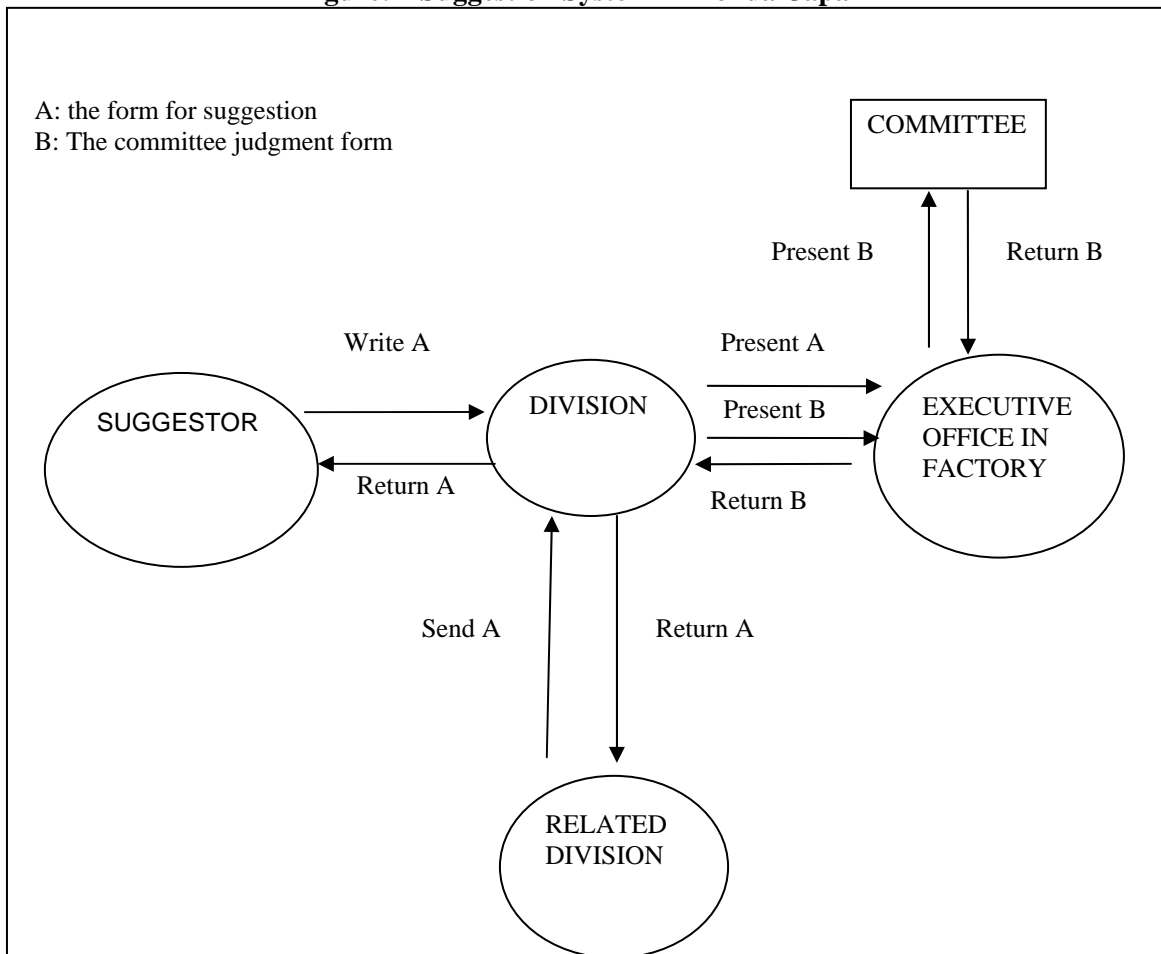
Though in principle the management agrees that a co-operative union can be an asset to the company yet given the circumstances in India, they do not want to risk encouraging unionism. They fear that once allowed to grow, the union will come in touch with the national level unions

that have political backing. And thus, there will be misuse of power. The experience of another subsidiary of Honda in Gurgaon in September 2005 has initiated the Noida plant to hold assemblies with the shop floor workers to give them assurance of transparency on policies of employment, educate them on the future of the organization and generally develop a rapport with the workers. It is but accepted that the management will be vigilant enough to curb unionism.

### 5.8 Quality Circle

At the Honda Siel factory they have Quality Circle in operation which is restricted to production activity. The Quality Circle is a group activity where about ten employees form a group and engage in quality improvement during working hours. Though there are 32 Quality Circles only 17 are in operation. They function within working time. At the time of the visit to the Noida plant more emphasis was being given to the Suggestion system by the management and Quality Circle had been relegated to a secondary role.

**Figure: 2 Suggestion System in Honda Japan**



### 5.9 Suggestion System

In 1998, soon after the Honda Siel plant in Noida started its operation, the human resource department initiated the Suggestion system scheme. Having defined and systematized the system, they have thus set an example to other business groups in the sector. Structurally, at the apex of

the Suggestion system is the steering committee consisting of all the heads of the departments who take the ultimate decision about the award. The section coordinators help this body. They are chosen from each department and work at various work sites within the plant. The role of the coordinator is to get suggestions, rate them and implement the selected suggestions which come under his purview. The steering committee and the section coordinator meet once a week to select the suggestion of the month. The basic criteria are cost saving (50 per cent), system and quality (30 per cent), originality (10 per cent) and applicability (10 per cent). A suggestion is submitted to the section coordinator (on a standardized form) by an employee. It is then scrutinized on the basis of the above criteria. In case the suggestion is for another department then it is sent to that particular department and its eligibility is considered. Once the suggestion is found eligible, the employee is notified. At the meeting of the steering committee and the section coordinators the best suggestion of the month is selected. The selected suggestion is then sent for implementation. The structure for reporting suggestions is given in Figure 1. Since the Suggestion system was in its nascent stage the reporting structure was deliberately made simpler to that of Honda Japan (Figure 2). For suggestions involving two or more departments, inter-departmental barriers are broken down. After 15 days of implementation, a check on the effectiveness of the suggestion is carried out. A reassessment (and consequently marking) is done on the basis of the report, following which the employee is awarded for the suggestion made. The employee is awarded marks on the basis of the criteria listed in Table 5.

**Table 5: Types of Awards and Successful Awardees**

Kind of Awards	Points	Number of employees
Honda award	300	106
Record award	150	658
Challenge award	100	1201
Gold award	50	1521
Silver award	30	1751
Bronze award	15	1820

Source: Honda Seil 2001-2003

All employees who make suggestions are awarded points. Further, the best suggestion of the year is given the annual award of a cash prize and the family is given a plant visit along with a free lunch at the factory cafeteria.

### **5.10 Managerial level Communication**

Honda Siel has a good communication system within the plant, though there seems to be a lot of scope for improvement in communications between the headquarters and the plant. At the shop floor, both morning meetings and shift meetings are a common practice. Some departments also hold informal discussions in the morning so that the heads of the departments are aware of their subordinates' jobs. Weekly and monthly meetings are held to discuss targets and projects and to evaluate on-going projects. Communication between the headquarters and the plant is limited in nature and often the plant employees even at the middle management level are not aware of the

decisions affecting the plant or their department or they are given very short notice to react to the decisions. A top down communication is the norm and only a few department heads followed interactive communication, which was on their individual initiative. After office hours socializing is not practiced, though the top management often has informal gatherings with the Japanese expatriates.

### **5.11 Interpretation of the Case Study**

The impression gathered from the field visit to Honda Seil has been that the company has adequate focus towards implementing Japanese human resource management practices. Among the features discussed above, some of them have been adopted while some have been adapted to suit Indian environment. However a few of them have been avoided due to the political and social system of India.

The enterprise union system that enables better communication, participation of workers in the management decisions of the company and wage settlement without any acrimony is core to the Japanese human resource management practices as it ensures a harmonious work environment. But it has been given short shrift in India, where unions are known to adopt a confrontational course to protect workers' rights, Honda Seil has thus, consciously adopted policies to discourage unions'.

The transferability of Quality-circle and Suggestion systems have been widespread because of their nature. These practices neither demand a significant monetary commitment on the part of the management, nor a reduction in the cost of production. On the other hand they encourage quality consciousness, build better communication channels and help in motivating the employees. These practices reach down to the lowest level of the employees, thus, giving them a feeling of self-importance as their suggestions contribute towards the profit and the growth of the company. The feeling of belonging and being a part of the decision making process is enhanced. These are the softer aspects of the Japanese human resource management practices and have been introduced with enthusiasm in Honda Seil and they have borne positive results.

Training programs provide support to Japanese human resource management practices that require cooperation and communication between the employees. Training programs that enhance communication, team building and motivate employees other than developing their skills, have become popular in Honda Seil. Honda Seil has found induction training as the most beneficial program as it retains employees.

However, two common practices that are distinctly Japanese – *ringi* and *nemawashi* have not found any takers. *Ringi*, because it is considered to be time consuming and also because the managers are reluctant to give up their decision-making authority. *Nemawashi* has deep social roots and therefore its transplant is more difficult.

The case study shows that transferable practices are soft aspects, which are not sensitive to the employer-employee relationship but they help in motivation and can act as an initiator to other practices. These practices do not require any modification and the success rate for the transfer is high. Certain practices do not find acceptability because they often contradict the prevalent mind frame. They comprise sensitive areas that affect employer-employee relationships and therefore require bold initiatives, which are not forthcoming. The practice of lifetime employment is considered a burden on the Japanese system and thus its replication is undesirable. The issue of company unionism requires to be examined in the context of the economic and social environment of the host country. Thus the necessity today is to take small steps towards

incorporating practices that build trust and belongingness of the employees and educate the workers to behave responsibly.

## **6. Conclusion**

While evaluating the degree of transferability based on this case study, it is found that Japanese management practices have undergone further adaptation in the country of transplant to suit local needs. While adaptation itself is not bad as has been shown by Honda Japan's experience, what is disconcerting is that despite the accolades won by the human resource management practices, there does exist a certain amount of resistance to the later in India because of local biases and rigidities. The net result has been only a partial reaping of benefits by the country where Japanese management practices have been adopted. The impression acquired during the field visit is that part of the blame for this goes to the Japanese entrepreneurs themselves. For instance, The Japanese expatriates in Honda Seil unanimously believed that allowing unionism would be detrimental. The incident in another Honda venture in Gurgaon has only strengthened this belief. Further, the Japanese feel more committed to the transfer of technology rather than management practice especially the human resource practices because it requires universal will and a platform where more dialogues can be initiated between the workers, the Indian managers and the Japanese expatriates. At the same time, the local management is also to blame since they have adopted Japanese management practices in a piece-meal fashion, on account of structural or cultural rigidities endemic to India. Thus while softer aspect of management practices like Quality Circle and Suggestion system has found ready acceptance, career growth pattern and compensation has been tuned to the industry practices prevalent in India.

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