



Diversity Management in German Subsidiaries in Japan

– Study Report –

Contact:

Dr. Anna Katharina Hildisch
Chair of HRM and Asian Business
Georg-August-University Goettingen
Platz der Goettinger Sieben 5 (Blauer Turm)
37073 Goettingen
Tel: +49 (0)551 39-20493
E-Mail: hrm@uni-goettingen.de

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– Executive Summary –

- The German subsidiaries in our study employed more foreigners, but slightly fewer females compared to the average workforce in Japan. However, the proportion of female managers is five percent higher.
- The main target groups of diversity management are gender, age, nationality, and functional background.
- Increasing diversity is more strongly related to positive outcomes, such as creativity or improved decision making, than negative outcomes, such as communication problems or increased training costs.
- Language training is the most commonly implemented diversity practice, followed by the integration of diversity in the corporate culture, and flexible working time agreements.
- Barriers of diversity management can be identified in the area of cultural values and work ethics, strict gender norms, and institutional barriers in Japan.
- Finally, seven key areas of successful diversity management are identified.

Sample description

The report is based on survey responses from 39 German subsidiaries and 19 personal interviews in 14 subsidiaries in Japan. Slightly more than half of the respondents of the survey, as well as the interviews were of Japanese origin. The second biggest group of respondents was German. Most of them were working either in CEO/ Director or HR director positions.

The majority of the survey respondents comprised of subsidiaries of companies with more than 10000 employees worldwide (41%). This was followed by companies between 1000 and 10000 (21%) and 100 and 1000 employees worldwide (21%). The smallest group (17%) consisted of small companies with less than 100 employees.

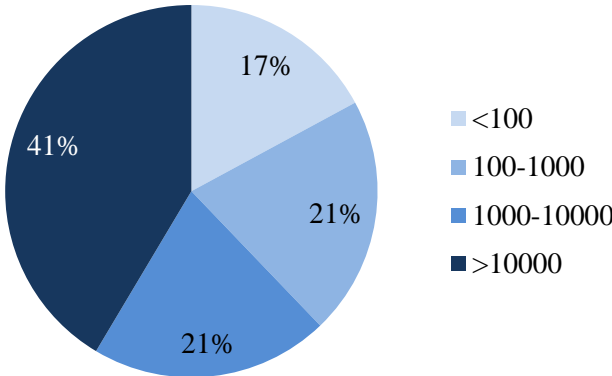


Fig. 1: Number of employees worldwide

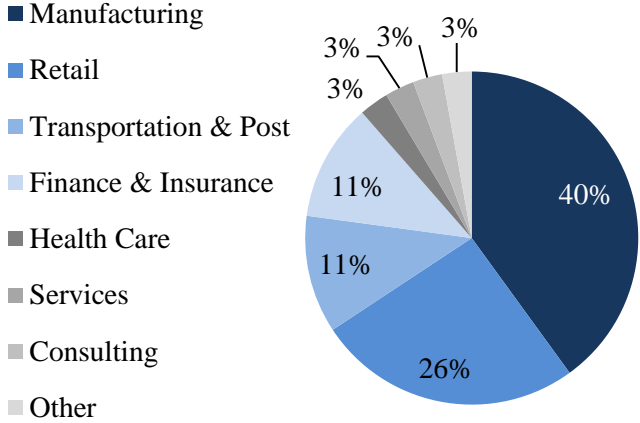


Fig. 2: Industries of participating subsidiaries

The study covers a variety of industries. The largest group is subsidiaries operating in the manufacturing industry (40%) followed by retail (26%). Companies in the transportation and post, as well as finance and insurance industry cover 11% each. Three percent are in the health care sector, services, consulting, or other industries.

Gender, age, and national diversity

At the beginning of the survey, participants were asked to indicate the percentage of employees in terms of gender, age, and national origin. Employees in the surveyed firm were predominately Japanese (88%) and male (63%). Compared to the Japanese labor market (one percent of foreigners in the total workforce¹), the German MNCs in our study employ significantly more foreigners (12%). In terms of females, the situation is slightly different. While the overall Japanese workforce is comprised of 42% women¹, females are slightly less represented in German MNCs (37%). This might be based on industry effects, as the industries of the participants of the study do not equal the overall industry distribution in Japan. However, this statistic suggests that there is potential to fill the talent pipeline by addressing females as a future workforce. Furthermore, while the age group between 40 and 50 is rather overrepresented in German subsidiaries, people aged below 30, and over 60 are promising groups, which can be a source of new labor. This is in line with existing research which have shown that subsidiaries in Japan have tended to rely on mid-career recruiting. Increasing the attention placed on graduate recruiting might help subsidiaries to face the challenges of the demographic change in the long run.

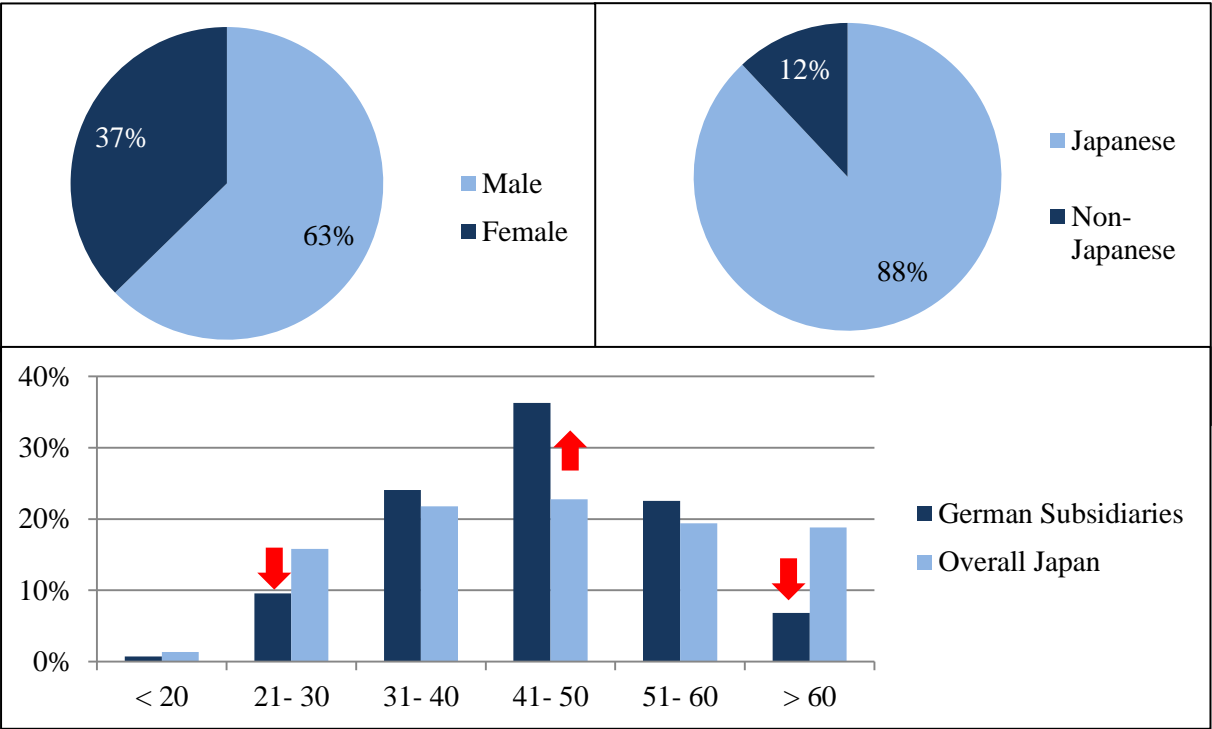


Fig. 3: Gender, age, and national diversity^{1,2}

¹ Latest data available as of 2012. See JILPT (2014) Databook of International Labour Statistics 2014. <http://www.jil.go.jp/english/estatis/databook/index.html>

Regarding equal employment opportunities for females, we also asked subsidiaries to estimate the percentage of females in management. Compared to nine percent of females in management in Japanese companies², responding subsidiaries employ a slightly higher proportion of female managers (14.4%), which indicates better promotion opportunities for females than in local companies. This could be an important advantage in the search for talent.

Definition of diversity

In the following section, we provide the results on the definition of diversity in German subsidiaries in Japan. To better understand which diversity groups are considered most important, respondents were asked to indicate which groups are part of their diversity definition. The following graph shows the percentage of companies, which include the respective characteristics.

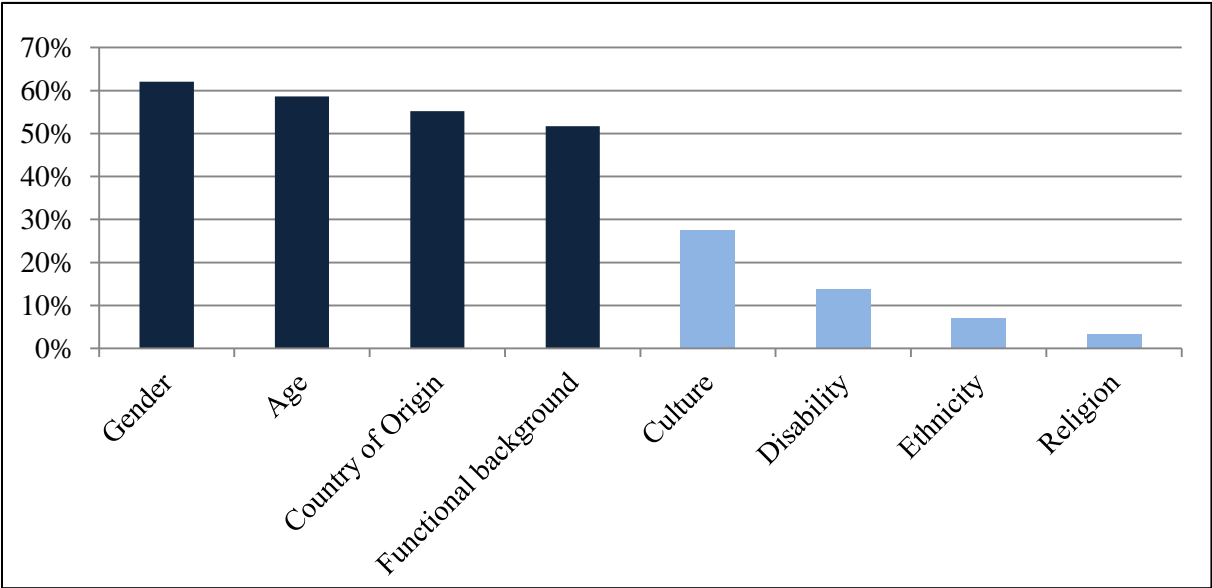


Fig. 7: Target groups of diversity management

The data suggests that gender is the top priority for the respondents. Both survey and interview data confirmed the high need to integrate females in the workforce. The two main reasons for this are demographic changes and requirements from the headquarters (HQ). While

² Grant Thornton (2014). Women in business: from classroom to boardroom. Grant Thornton International Business Report 2014. <http://www.granthornton.at/files/GTI%20IBR/women-in-business-international-business-report.pdf>

the demographic situation in Japan requires local as well as foreign employers to rethink traditional hiring patterns and target new talent pools such as females, many interviewees also stated that HQ was targeting the promotion of females either in terms of quotas, policies, or initiatives. This was often seen to be a difficult task in Japan and those with quotas were mostly behind their target.

The second most important part of the diversity definition is age. While one might assume that in Japan age is related to the integration of more senior employees, the interviews revealed that age diversity management mainly targets younger employees. Interviewees stated that they have started to be particularly interested in hiring and promoting younger employees. This is not only for demographic reasons, but also for reasons of organizational culture change. Age diversity in terms of more senior employees was often rather mentioned in terms of the need to increase openness toward diversity among this group.

Another very important characteristic of diversity is country of origin. Also, culture is part of the diversity definition in many subsidiaries. Interviewees raised various issues related to different countries of origins and cultures ranging from language barriers and general living problems to the need for international/ intercultural sensitivity.

Another highly included aspect is functional background diversity. More than 50% of the subsidiaries were indicated to include functional background in their diversity definition. Addressing this was seen as an important means to create an open and flexible organizational culture.

To comply with local legislation, subsidiaries also integrate disability in their definition of diversity; however, not all companies were affected. The major problems with disability were related to recruiting of disabled people to fulfil the legal quota. Furthermore, subsidiaries talked about different ways of integrating disabled employees. While some mainly offered low qualified positions, others tried to hire disabled employees in various types of jobs and actually integrate them in the company.

In contrast to the aforementioned characteristics, little attention is placed on ethnicity and religion. The interviewees argued that they were regarded as less business relevant in the Japanese context.

Attitudes toward diversity

The next part of the survey investigated the attitudes toward diversity among German subsidiaries. Understanding the attitudes and expectations towards diversity is an important pillar of implementing diversity management, as negative expectations can be a first barrier to implementation. Thus, the online survey examined the estimation on the effects of an increase of diversity in the workforce. Participants were asked to answer to which degree they perceive diversity to influence positive aspects, such as innovativeness and equal employment, as well as negative aspects, such as communication problems and increased training costs.

Figure 6 shows the mean values of each item. Higher values indicate a stronger perceived effect on the corresponding aspect (1 = no effect; 6 = very strong effect). Accordingly, the graphs indicate that the expectations toward diversity are generally rather positive. The effects of diversity on positive outcomes were rated higher than those on negative outcomes (overall mean = 3.81). In particular, respondents highlighted a rather strong influence of diversity on creativity, improved decision making, and the success of equal employment opportunities programs. On average, a rather low impact, however, was attributed to the better achievement of organizational goals, improved customer relations, and reflection of the community, which were, nevertheless, higher than the perceived effects on the negative outcomes. This can be explained by the fact that Japanese society was often described as a very homogeneous society, where most of the clients are also Japanese. Thus, increasing diversity does not seem to provide a great advantage over Japanese companies in the local market at first sight.

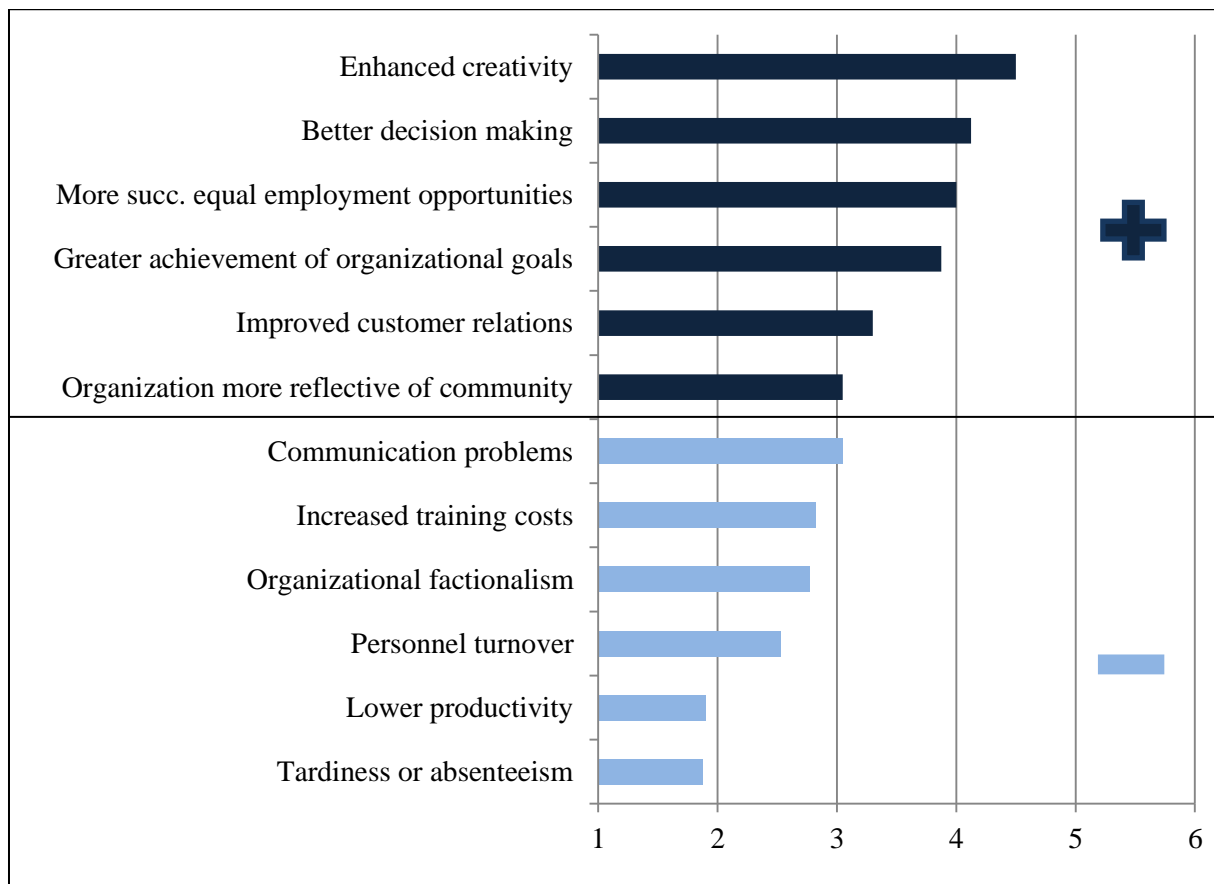


Fig. 6: Expectations toward diversity

The effects on negative results were generally rated lower (overall mean = 2.49). The highest effect is attributed to increased communications problems. Also during the interviews, communication problems were highlighted as a primary problem of international diversity. In particular, interviewees referred to difficulties caused by speaking different languages. This is followed by increased training costs and organizational factionalism. However, the influence was, on average below three. Diversity is perceived to have even less effects on turnover, and lowest on lowered productivity, and increased tardiness or absenteeism.

Implementation of diversity management

In this section, we will present the status quo of diversity management in German subsidiaries in Japan. First, we will report on the current status of diversity management measures gathered from the online-survey. Second, we will go in depth and analyze barriers of diversity management in Japan, drawing from the interview data. The third part will contain ways to effectively cope with the barriers and steps to successfully implement diversity management.

State of implementation

To investigate the status quo of the implementation of diversity management, survey respondents were asked to indicate, if particular measures were implemented in their respective companies on a scale from one to six. A value of one indicates that the practice is not implemented. A value of six stands for a practice which is implemented and very important for the company. Higher values thus indicate higher implementation and importance. The following graph shows the mean values of respondents.

Reflecting a pattern that appeared in the analysis, they can be grouped into four categories: Language, culture and working conditions, training and development as well as responsibility and support.

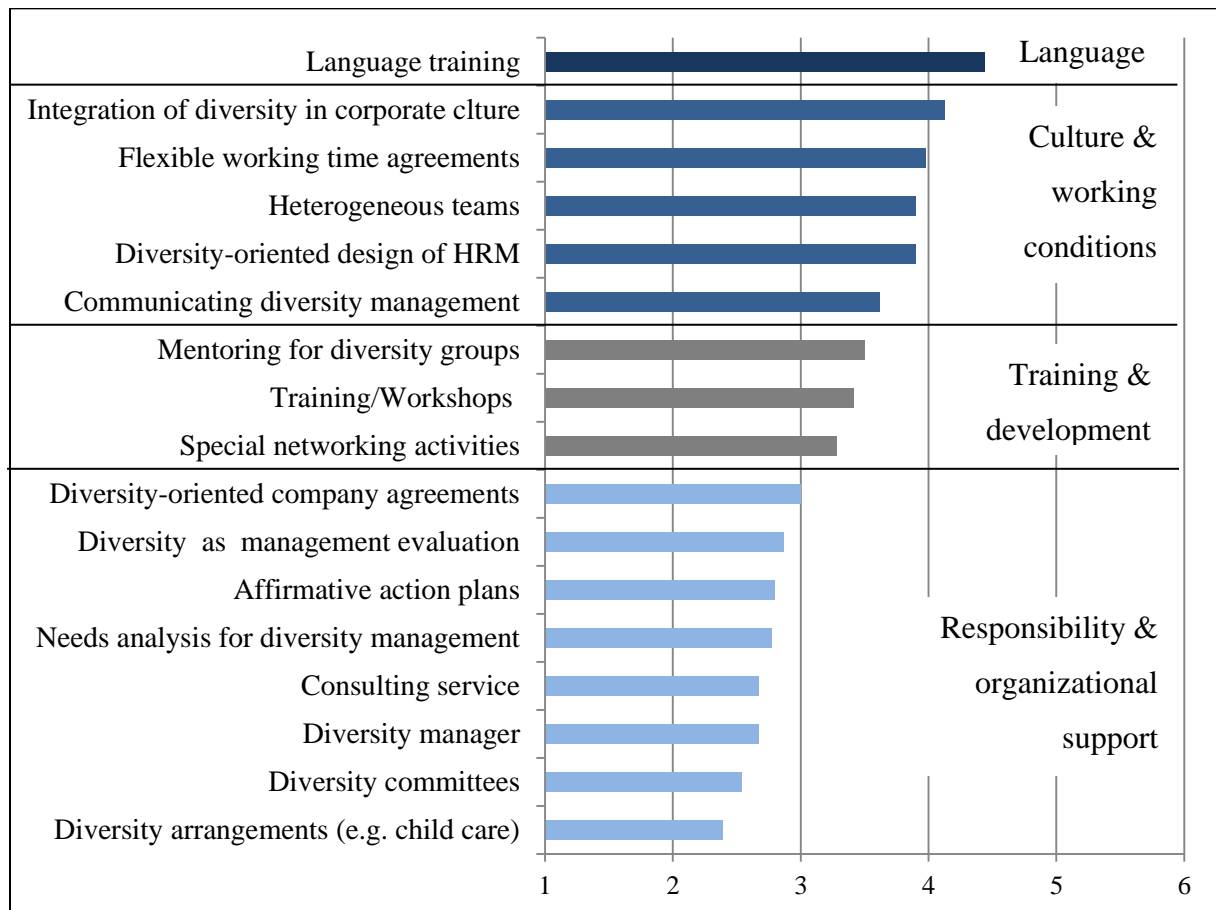


Fig. 8: Diversity management practices

Not surprising in the multinational company context is the finding that the most frequently implemented practice is language training. This is in line with the high integration of country of origin in the diversity definitions as well as the perception of increased communication problems in a diverse workforce. To allow employees with diverse national backgrounds to

communicate fluently, both English and Japanese are of importance and companies were reported to support their employees by offering language training.

The next group of practices is related to corporate culture and working conditions of a diverse workforce. Besides the particular target of integrating diversity into the corporate culture, flexible working time and heterogeneous teams are among the most prominent practices. These are followed by a diversity oriented design of human resource management and a special focus on communicating diversity management. The relative importance of these practices indicates that diversity is still in a rather conceptual phase of development. In this phase, a general change of culture and working conditions is intended. However, diversity management seems to still be in a stage of infancy.

Particular practices in terms of training and development opportunities for diverse employees are less implemented. On the one hand, training and development practices target managers to increase sensitivity and awareness of diversity issues. On the other hand, offering particular mentoring and networking opportunities is perceived to be rather important. However, many companies stated that they are still in an initial phase and these particular measures are either not intended yet, or are planned for the near future.

The last category shows that an organization-wide responsibility for diversity management and special support is yet to be established. First, many companies place little importance to diversity as an evaluation criteria for managers or fixing a particular equal employment opportunity policy. This is unfortunate, since research has shown that anchoring responsibility within the organization is a prerequisite of successful diversity management. Also, understanding the particular needs of diversity management within the organization has potential for improvement. Analyzing needs and tailoring programs toward these needs can provide a stable basis for implementing diversity and turn it into a structured and strategic process versus offering ad hoc programs. Furthermore, nominating diversity managers and committees offers the possibility to promote the topic within the organization, which has often not been leveraged. Other support measures, such as child care are according to the interviewees have most likely not been implemented due to the small size of the organizations, and budget reasons.

Barriers of effective implementation

In the following section, we report on the barriers of diversity management which were identified during the interviews. We describe them along three categories: values and work ethics, gender roles, and institutional and legal aspects.

Values and work ethics

The interviewees stated that Japan used to be a rather closed and homogeneous society and norms and values are very strict, which makes it hard for foreigners to really integrate and be accepted. These cultural particularities can be a strong barrier of successful diversity management. Japan was often characterized by highly masculine values and strong hierarchical thinking. Furthermore, status and promotions based on seniority were perceived to hinder the integration of diversity, in particular in terms of female potential. To slowly change the organizational cultures, interviewees referred to the need of a change of values among management. In particular, they argued that if managers do not change their attitude toward diversity and their leadership and promotion behavior, diversity management cannot be successful in the long run.

“And in Japan, you should listen and you should do your job, and if you do this for a very long time and if you are really good, you will develop automatically and maybe into a leader. But nowadays I think it is important that we challenge the people to grow a little bit faster than others. (...) And so I think our current leaders, they are not enough challenging these youngsters and not enough supporting them.”

Generalizing this, interviewees referred to the need of a cultural change in terms of a culture of coaching and feedback, but even more in terms of a culture of performance rather than seniority. However, they agreed that this change is difficult to achieve and will be a long-term task.

Major Barriers:

Values and work ethics:

- Masculinity
- Hierarchy & seniority
- Long working hours

Gender roles

- Females as family caretakers
- Limited promotion opportunities for females
- Limited pool of talented and ambitious women

Institutional and legal aspects

- Only recent focus on diversity
- Strict labor law in terms of flexibility
- Lack of child care facilities

The predominance of long working hours and hard work was also reported to be deeply rooted in the Japanese culture. While German employees and organizations would rather stick to shorter working hours and allow a separation of work and life, being in the office for long hours is expected from Japanese employees. This was mentioned to be particularly detrimental in terms of gender diversity. Combining the role as a mother/ family caretaker and a professional was perceived to be extremely difficult. Furthermore, interviewees mentioned that an increase in working flexibility might also increase the general flexibility of the organizational culture.

Gender roles

Research shows that Japan is characterized by very strong gender norms in comparison to other developed countries. This was also supported in the interviews. While men are regarded as bread-winners, females are still supposed to take care of the family and private life. This role separation has, according to the interviewees, started to change; however, both males and females often still stick to these roles. This has two different consequences. First, males still prefer to hire males in responsible positions and also give important tasks rather to males than females. In consequence, the career paths for females are still limited. On the other hand, females have often internalized these expectations and show lower willingness and self-esteem to take over managerial roles. Furthermore, females are underrepresented in natural sciences and engineering related studies, which makes it hard to find suitable female candidates.

“We’re always talking about the same limited number of talents and potential and we can’t increase the mass.”

Due to these issues, many interviewees raised that they face strong challenges to increase gender diversity and in particular the number of females in management.

Institutional and legal aspects

Most interviewees stated that shifts in politics have turned public attention toward gender diversity. However, this is a rather recent phenomenon. Prime Minister Abe’s politics has increased the pressure on organizations to place more emphasis on female promotion. The announcement of a quota was, however, seen as a double edged sword. On the one hand, interviewees claimed that quotas alone do not change the general attitude and might even present disadvantages for females. On the other hand, they supported the view that the higher atten-

tion placed on gender issues does have the potential to change the general attitude, and some kind of pressure is necessary for change.

“So it’s difficult, Prime Minister Abe set a new target of 30% for the whole country. However, I didn’t see any roadmap about that and it’s clear you can achieve that in some areas where of course anyhow females already play a much more important role. But in general average, I think this is really challenging. But as a top-down target, it is a signal to the society. It is very positive and means that the environment is basically given to go in that direction.”

Existing labor law, in turn, was seen as a strong barrier, in particular in terms of work flexibility. Interviewees mentioned that both home office and flexible working hour arrangements were more difficult to implement due to legal aspects. Furthermore, the interviews revealed that finding child care is still difficult, in particular within the Tokyo area. Thus, changes in the institutional environment were seen to be necessary to foster the integration of diversity.

Key areas of diversity management

Having analyzed the status quo and barriers of diversity management in German subsidiaries in Japan, the following section will provide key areas and best practices derived from the interviews to increase the success of diversity management. While presented in a sequential order, the suggestions are not meant as a step by step solution, but should be simultaneously considered and systematically planned from the outset.

Buy-in and integration of management

Interviews revealed that the most critical factor for the success of diversity management is top and line management. First, top management needs to be supportive and behave as a role model. If top management provides no back up or only pays “lip service”, other managerial levels will follow this example. Interviewees argued that this was of particular important in Japan due to the high importance of hierarchy. Second, line managers need to be aware of their crucial role in this process, because their behavior strongly shapes the organizational culture and they are responsible for employee development and promotion decisions. If they are not actively supporting diversity, minority groups will have difficulties to succeed.

To foster the buy-in, one critical aspect was particularly highlighted: The need to sell diversity from a business perspective instead of promoting it as an end in itself.

“So what we are currently doing is really setting up the business case and convince key managers why gender diversity is important. So unless top managements has bought into this initiative, I am completely convinced that you can’t go anywhere in diversity.”

Two main arguments were mainly used to support this view:

1) the need to address diversity in terms of the demographic shift to ensure human resource supply in the long run and 2) the creative and innovative value of diverse perspectives. Furthermore, providing a thorough analysis of what the actual diversity needs of the organization are, were highlighted to be an important basis for management buy-in.

To stabilize the buy-in, managers can be actively integrated in the process of implementation. Interviewees stated that inviting managers in diversity committees as well as in the design of diversity training increases the potential of successful implementation.

Communication and role models

A major influence was seen in communication. On the one hand, commitment and communication from the top management was seen as a crucial factor. On the other hand, the importance of communicating initiatives and role models was highlighted. For instance, providing a report on the intranet or internal newsletter can inspire others to follow an example.

“The first reaction to flex time and home office policies was no reaction and we had to explain a lot and talk about role models. There is a person who did this and we used our internal newspaper and announced a story. And suddenly everybody asked: ‘Oh, we can do that?’”

Key Areas:

Buy-in and integration of management

- Argue for diversity as business case
- Integrate management in design and committees

Communication and role models

- Use internal media
- Promote and invite role models

Training for managers

- Increase self-awareness
- Change behavior

Exchange

- Foster international exchange
- Create heterogeneous groups & networks

Flexibility of work

- Offer and promote flexible arrangements
- Be a role model

Special support

- Actively engage females
- Provide mentors

Events

- Plan diversity days
- Foster diversity projects

Also reporting about managers who are role models in terms of integrating diversity was a success factor. However, some initiatives in terms of communication were also reported to bear risks. For instance, one subsidiary reported that they used pictures showing diverse employees to decorate the office as a part of a global initiative. However, the pictures had to be adapted in Japan as they were perceived to not be accepted by the employees. Thus, communication efforts should also take into account the particular requirements in the host country.

In terms of females, providing and communicating role models was seen as essential, as well. Therefore, subsidiaries organized talks and roundtables with female executives. However, the lack of existing female role models within the organization made this task particularly difficult. In this case, inviting female manager from other companies can be a good alternative.

Training for managers

To increase awareness among managers, in particular diversity training can support the process. In many cases these training sessions were cascaded from the top to the bottom. Content wise these training sessions targeted the analyzing of individual behavior as well as creating sensitivity toward stereotypes and individual attitudes toward others, e.g. foreigners, females, or other age groups. Furthermore, managers' role as a coach was also within the scope of training. Additionally, training was often also provided to HR people to foster their role as change agent in the organization.

Exchange

Some interviewees stated that particularly in terms of national diversity, exchange is an essential element. Increasing the number of expatriates in terms of integrating employees from HQ, and exchanging personnel between the subsidiaries was seen as an important measure to increase cultural sensitivity and personal development.

“There is a very frequent exchange of key persons. Not only Germans to Japan, but also between the subsidiaries. I think, this is a big change.”

Furthermore, working in heterogeneous groups with mixed genders, nationalities and functional backgrounds can help to increase openness and fosters a culture of mutual understanding. Therefore, purposefully using teamwork and exchange as a means to increase openness to diversity and overall flexibility can be a promising approach. However, existing research suggest that special consideration should be given to the implementation of diverse teams, in par-

ticular in terms of leadership and support of diverse teams, because increasing diversity without adapting the environment is likely to backfire.

Another measure which was mentioned to support diversity groups was networks. By giving particular groups a platform to exchange, and events to focus on their special topics, companies can support their employees and foster their integration in, and commitment to the company.

Flexibility of work

In terms of gender equality, but also in terms of general organizational culture, promoting flexibility of working time was identified as a crucial factor. However, due to the work ethics, and in particular the long working hours in Japan, this was seen as a particular challenge. Since communicating office hours was not always successful, managers recounted nonstandard initiatives such as turning down the air condition in the evening, or purposefully going to every office to say goodbye in the evening. Furthermore, they tried to be role-models themselves and took days of home office or flexible working time. To also foster other flexible arrangements they e.g. offered part-time positions also to males. One particularly important aspect was furthermore flexibility in terms of returns from maternity leaves. Subsidiaries highlighted that offering flexibility in terms of working hours and space as well as in terms of return date was an important success factor which lead to much higher return rates than in local companies. However, in terms of flexibility, interviewees also reported limits:

“One topic which does not make sense in Japan is job-sharing. Means something like one person is working three days in a position and the other person fills the other two. Doesn’t work. (...) It’s a role thing, I guess, such as this is “my” job and working space, not yours.”

Generally, interviewees reported that they had to invest a lot of effort to communicate and integrate flexibility in their workforce. However, it was seen as a crucial pillar of the success of diversity management, as more flexibility was also related to a more open and flexible organizational culture in general.

Special support

Additionally, organizations offer special support to minority groups. In terms of females and younger employees, mentoring and creating networks was frequently mentioned. With special reference to gender diversity, interviewees also stated that many Japanese females were less

keen on making a career but saw their professional fulfillment rather in minor jobs and their main purpose in founding a family. At the same time it was mentioned that even those females with particular skills are rather insecure about their career and do not pursue it actively. Interviewees concluded that proactive help and support to females is crucial.

“In terms of gender diversity, you first have to convince a very male-dominated workforce that females can do more than administrative jobs. That is one side of the coin. The other side is that you also have to convince females to do it. That they should not be satisfied with an administrative position although they can perform in other roles.”

Actively approaching talented females and suggesting they think about promotion and managerial responsibility is thus one important anchor to foster female achievement. Additionally, the need to convince line managers to take over this responsibility and take special consideration of females for open positions was highlighted. However, interviewees also mentioned that it sometimes takes a lot of convincing and persuading and still not all females want to take over responsible roles, as it is still difficult for females to take both roles: family and work. To overcome this, interviewees again stated that it is of high importance to find and promote female role models who can show that a career is also possible for females in Japan.

Events

To foster further integration of diversity, interviewees reported that special events, such as diversity days, can raise awareness and sensitize all employees in terms of diversity matters. Beyond talks from experts and individual exchange, innovative ideas can be brought to life during such events. For instance, bringing food or showing cultural highlights such as dances from different countries can be a basis to foster openness towards differences. Also using structured procedures to allow getting to know each other during these events was reported to be successful.

“We planned a workshop where people were supposed to communicate with each other. Ahead of this workshop, we distributed guidelines to introduce yourself, but not in a classical way, but by including pictures from a private item and about hobbies and interests. Later on, we gave them time to communicate and people had to guess, who is who. This was a real success story also about how to include the Japanese way and engage the Japanese employees: With a given process that everyone had to follow, we increased communication between employees.”

These and other types of events can foster two important effects: Bringing diversity under the spotlight and at the same time increase the commitment of employees to the product or employer. However, to achieve long-term sustainability, those events are not enough. Thus, a structured approach to diversity management is necessary, which fosters long-term cultural change.

Conclusion

German subsidiaries in Japan face unique challenges in terms of increasing diversity due to the cultural and institutional particularities of the Japanese environment. In consequence, changing organizations and becoming more open toward diversity becomes a long-term process that has only recently started in Japan. The interviewees revealed various actions, which can support and accelerate this change. However, diversity management is not a one-time event or a quick win, which can be achieved in a short period of time. Strategic and long-term planning of the change is necessary to leverage the potential of a diverse workforce.

Our study showed that German subsidiaries are ahead in numbers in terms of international diversity, however, there is still potential to increase age and gender diversity. To face the demographic shift, both target groups might be pose an important opportunity to increase the pool of potential applicants. Tailoring recruiting activities to these groups might help the subsidiaries to fill their talent pipeline in the long run. However, besides increasing diversity by recruiting, our study shows that internal changes are necessary. While the attitude toward diversity among our respondents was rather positive, the implementation of diversity management is still in a stage of infancy. In particular, the need to convince top and line managers and create a culture which is open to diversity were identified to be the biggest challenges.

Building on the experiences of our interviewees, we identified seven key areas to foster organizational change, which can be considered when organizations engage in diversity management: 1) buy-in and integration of management, 2) communication and role models, 3) training for managers, 4) exchange, 5) flexibility of work, 6) special support, and 7) diversity events. The reported initiatives within each category might help to develop a strategic and tailored diversity program which will be able to integrate and leverage a more diverse workforce in the long run.