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Mei Ling, May WONG

Lingnan University, Hong Kong, wongml@ln.edu.hk

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研 究 報 告

**COMPARING INTERNATIONAL
HUMAN RESOURCE
MANAGEMENT PRACTICES
BETWEEN YAOHAN AND JUSCO
IN HONG KONG**

*May M. L. WONG
Department of Management
Lingnan College*

LINGNAN COLLEGE

嶺 南 學 院

F A C U L T Y O F B U S I N E S S

商 學 院

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*May M. L. WONG
Department of Management
Lingnan College*

Hong Kong Institute of Business Studies
Lingnan College
Tuen Mun
New Territories
Hong Kong
Tel: (852) 2616 8373
Fax: (852) 2572 4171

**Comparing International Human Resource Management Practices between
Yaohan and Jusco in Hong Kong***

May M. L. WONG
Department of Management
Lingnan College

Tuen Mun, Hong Kong
Telephone: (852) 2616 8318
Fax: (852) 2467 0982
E-mail: wongml@ln.edu.hk

** forthcoming in Asia Pacific Business Review*

ABSTRACT

The performance of Jusco and Yaohan in Hong Kong were examined and compared by exploring their international human resource management (IHRM) practices in terms of recruitment and selection, compensation, and training and development. Yaohan and Jusco employed different IHRM systems as a response to their contextual factors – history and background of the company, competitive environment and business strategy, especially the use of retail technology. The results show that the IHRM systems employed by Yaohan and Jusco affect the performance of the company which help to explain the factors contributing to Yaohan's bankruptcy and Jusco's increasing profitability.

BACKGROUND AND OBJECTIVES OF THE STUDY

Japanese department stores dominated the Hong Kong retail market, taking more than 50 percent of the total retail sales volume in 1994 (Anonymous, 1995). However, since 1995, Japanese started to show sign of decline in department store industry when Mitsukoshi and Isetan closed some of their store outlets in 1995 and 1996 respectively (Table 1). The news of bankruptcy of Yaohan in November 1997 was not unexpected to Hong Kong's general public. Yaohan Hong Kong Corp Ltd., which owned all the shares in Hong Kong Yaohan Department Stores Ltd., had experienced a continuous and drastic decline in profitability since 1995 (Table 2).

Table 1
Japanese Department Stores in Hong Kong

Company	No.	Location	Year Established (Closed)	Operation Status
Daimaru	1	Causeway Bay	1960	Stagnant
	2	Causeway Bay	1983	
Isetan	1	Tsimshatsui	1973 (closed in 1996)	Moved to China
	2	Abardeen	1987 (closed in 1996)	
Matsuzakaya	1	Causeway Bay	1974 (to be closed in 1998)	Deficit
	2	Admiralty	1981(to be closed in 1998)	
Tokyu	1	Tsimshatsui	1981	Stagnant
Mitsukoshi	1	Causeway Bay	1981	Shrinking
	2	Tsimshatsui	1988 (closed in 1995)	
Sogo	1	Causeway Bay	1985	Expanded floor 1994
Yaohan	1	Shatin	1984 (closed in 1997)	Bankrupted
	2	Tuen Mun	1987 (closed in 1997)	
	3	Hunghom	1988 (closed in 1997)	
	4	Tsuen Wan	1990 (closed in 1997)	
	5	Tin Siu Wai	1991 (closed in 1997)	
	6, 7	Yuen Long, Lam Tin	1992 (closed in 1997)	
	8	Junk Bay	1994 (closed in 1997)	
	9	Ma On Shan	1995 (closed in 1997)	
Uny	1	Taikooshing	1987	Stagnant
Jusco	1	Taikooshing	1987	Expanding
	2	Tsuen Wan	1990	
	3	Lok Fu	1991	
	4	Tai Po	1995	
	5	Junk Bay	1997	
	6	Tze Wan Shan	1998	
Seibu	1	Admiralty	1990 (sold to a Hong Kong company in 1996)	

Source: compiled by the author based on the company reports and the author's survey of the eleven companies.

Table 2
Annual Sales and Profit/Loss of Yaohan and Jusco
(in million HK\$)

Year	Yaohan		Jusco	
	Sales	Profit (Loss)	Sales	Profits
1993/94	3,930	54	1,420	56
1994/95	3,316	(-40)	1,584	59
1995/96	3,640	(-168)	1,580	75
1996/97	4,068	(-103)	2,053	95

Source: Extracted from the annual reports of Yaohan and Jusco (1993/94), (1994/95), (1995/96), (1996/97). On the other hand, Jusco still performs exceptionally well even under the condition of Hong Kong's sluggish retail sector. Its sales and profits are increasing steadily (Table 2). In February 1998, Jusco Japan announced to offer help to Yaohan Japan's operations. In April 1998, Jusco Hong Kong had taken up one of the largest Yaohan's store outlet – Hunghom in Hong Kong – for further expansion after opening a new store outlet in Hong Kong in March, 1998 (personal communication). Jusco is one of the unusual Japanese companies continuing to expand while a majority of Japanese department stores are either stagnant, shrinking or closing their operations in Hong Kong (see Table 1).

Many explanations have been put forward to explain why Yaohan became bankrupt. Some practitioners suggested that it is because Yaohan expanded too quickly after moving its headquarters to Hong Kong by opening seven stores between the period of 1991 to 1995. This led to the adoption of an over-borrowing policy to finance store expansion projects which had cost Yaohan too much to repay. Others attributed Yaohan's decline to its lack of positioning in the retail market. However, it appears that these explanations are only parts of the causes for Yaohan's decline.

For a fuller explanations of success or failure among Japanese companies overseas, the authors turned to the existing literature on Japanese management overseas and found that a majority of existing studies on Japanese management of host-country nationals (HCNs) show that Japanese multinational corporations tend to employ ethnocentric practice¹ to manage human resources of their overseas subsidiaries (Trevor and White, 1983; Sethi, *et al.*, 1984; Kidahashi, 1987; Abo, 1989; Fucini and Fucini, 1990). Furthermore, many studies on Japanese management of parent-country nationals (PCNs) found that Japanese expatriates tend to be less acculturated to the host culture and more committed to the parent company, compared with expatriates of Western MNCs (Mendenhall and Oddou, 1985 and 1986; Nicholson, 1984; Gregersen and Black, 1990). Recurrent to these studies is the perceived need for Japanese multinational corporations to develop less ethnocentric staffing approach by promoting more local managers to senior managerial positions, and to get Japanese expatriates more acculturated to the host culture. However, little empirical research examines whether the ethnocentric staffing approach would directly lead to the diminished multinational corporations' performance. In addition, almost all these studies cannot explain the critical factors leading to the company's corporate performance. In order to examine the critical factors attributing to Yaohan's bankruptcy and Jusco's increasing profitability, a more holistic approach studying international human resource management (IHRM) aspects of the company is adopted; and the contextual, strategic and technological factors related to the company are examined. In this way, the purposes of the present study of tracing the differences in performance of Yaohan and Jusco in Hong Kong, and the factors leading to the adoption of the IHRM practices can be achieved.

LITERATURE REVIEW AND HYPOTHESES

Key positions in multinational corporations employing ethnocentric management practice are filled by PCNs. This practice is common in the early stage of internationalisation, when a company is establishing a new business in another country which does not have

¹ The ethnocentric management practice refers to a preference for putting PCNs in key positions everywhere in the world and reward them more handsomely for work than the HCNs, along with a tendency to feel that PCNs are more intelligent, capable or reliable than the HCNs. The board and top management in the headquarters and overseas subsidiaries are from the home country and have been indoctrinated with home-country experience.

appropriate skills and knowledge (Dowling *et al.*, 1994; Hendry, 1994). Furthermore, multinational corporations employ ethnocentric management practice when they perceive there is a lack of qualified HCNs, and the need to maintain good communication links with corporate headquarters. Since ethnocentric management practice has a number of disadvantages such as limiting promotion opportunities for HCNs leading to reduced productivity and increased turnover, higher chance for PCNs to make mistakes and poor decisions during their adjustment to the host culture, and higher costs attached to PCNs compensation, multinational corporations tend to use less ethnocentric management practice the longer they have operated in the host-country (Zeira, 1976; Hutton, 1988; Adler and Ghador, 1990). Therefore, hypothesis 1 is: *With the condition that qualified HCNs were available in Hong Kong, the longer the company has operated in and the closer the corporate headquarters is located to the host country, the company will practise less ethnocentric management in order to avoid the disadvantages of the practice.*

Environment is one of the major factors affecting multinational corporation's decision in adopting IHRM policy and practice. The parent company will normally decrease the level of performance control over the overseas subsidiaries when the multinational corporation's environmental complexity or heterogeneity particularly those of the external environment for both the parent and host countries increases (Egelhoff, 1988). Hence, hypothesis 2 is: *The parent company will decrease the level of performance control over their overseas operation when the external environment for both the parent and host countries increases.*

In a MNC using high level of technology, it places greater emphasis on the human resources who need to have greater technical competence and specialised knowledge (Yuen and Kee, 1993/4: 367). Precision and quality are often important consideration since human errors can be costly, companies employing technology need to have proper recruitment and selection procedures and need to invest in training and development of employees, in order to build up the morale and satisfaction, and to foster employee commitment (Sparrow and Pettigrew, 1988). Thus, hypothesis 3 is: *The more retail technology the company applies, the more equal IHRM practices the company will use.*

People feel more comfortable with others of similar background (Heenan and Perlmutter, 1979).

METHODOLOGY

The research employed a qualitative case study method to study IHRM practices of Yaohan and Jusco in Hong Kong. These two department stores were chosen from a total of eleven Japanese department stores (see Table 1) because they operated the same type of business in general merchandising chain stores, but showed different performances (Table 2). The research was conducted by in-depth interviews which were guided by a semi-structured open-ended interview schedule. A total of 10 Japanese expatriates and 40 local employees were interviewed (Table 3). Primary data from interviews was supplemented by secondary data from company documents and reports, government publications, and newspaper clippings.

Table 3
Profiles of Interviewees in Yaohan and Jusco

Hierarchical Levels	Departments	Nationalities/Number
Top Management	-	Japanese (1)
Managerial		
Operational	Apparel, Food, Household	Japanese (2) Local Chinese (6)
Administrative	General Affairs, Accounting, Personnel, EDP	Japanese (2) Local Chinese (4)
Supervisory		
Operational	Apparel, Household, Food	Local Chinese (3)
Administrative	General Affairs, Accounting, Personnel, EDP	Local Chinese (3)

Sales

Apparel,

Household, Food

Local Chinese (4)

Total number of interviewees interviewed: $25 \times 2 = 50$.

COMPARING THE IHRM PRACTICES ADOPTED BY YAOHAN AND JUSCO

Yaohan was a wholly-owned Japanese department store established in 1974. It remained dormant until its first store opened in 1984. The parent company moved its headquarters from Shizuoka, Japan to Hong Kong in 1989, and relocated to Shanghai, China in 1996. The company had opened a total of 11 store outlets in various new towns of Hong Kong, Macao and the border of China. It employed a total of around 2,700 employees in Hong Kong in 1997.

Another case company, Jusco is also a wholly-owned Japanese department store established in 1986. It opened its first store outlet in 1987, and operated six store outlets in the new towns of Hong Kong and employed 1,500 local employees in early 1998. The parent company remained in Tokyo, Japan.

The IHRM practices employed by Yaohan and Jusco are examined on the basis of three functions – recruitment and selection, compensation, training and development.

Recruitment and Selection

IHRM study includes a number of staffing issues such as executive nationality staffing policies, expatriate failure, and recruitment and selection of HCNs (Dowling *et al.*, 1994) which are examined in this study. In terms of executive nationality staffing, Yaohan was more ethnocentric than Jusco because it staff all key executives and more than 30 percent of middle managerial positions by Japanese expatriates. According to the local personnel manager of Yaohan, “Although PCNs only account for 2.25 percent out of the total number of employees, they occupy more than 80 percent of senior managerial positions.” On the other hand, Jusco employed only three PCNs (0.003 percent of the total number of employees) to head top executive positions in the head office, while HCNs to head and manage all store outlets.

Another issue to be examined is expatriate failure which is defined as a diminished performance as a result of an inability of the expatriates to handle new responsibilities effectively, and to adjust to the country of assignment (Dowling *et al.*, 1994). Both companies assigned Japanese expatriates to Hong Kong for a rather long period (an average of 5 years). Yaohan was perceived by local employees as having more problems in expatriate failure than Jusco. Compared with the less than 10 percent among Jusco's local interviewees, Yaohan had more than 90 percent of its local interviewees said that their Japanese managers were insensitive to the local culture and environment, lacked language skills, and were not able to adjust to local environment.

As far as HCNs' recruitment and selection is concerned, the major feature was that almost all HCNs of both companies were recruited to be excluded from the company's internal labour market which was exclusively monopolised by the Japanese expatriates. However, in Jusco a limited number of local professionals, such as computer specialists and accountants implementing retail technologies, were recruited into a relatively better employment condition than other local employees. This is explained in their compensation and training and development below.

Compensation

The most common challenge for expatriate compensation is managing their expenses. Many companies estimate that an expatriate employee costs three to five times as much as a local employee (Dowling *et al.*, 1994). Since Yaohan had a large number of Japanese expatriates, the cost for expatriate compensation was high. Furthermore, 80 percent of the monthly compensation for Yaohan's PCNs were paid on the basis of their seniority. Since some PCNs had been working for Yaohan for at least 20 years, they cost a big bill in expatriate compensation. The remaining 20 percent of PCNs' monthly pay included family and adjustment allowances, other allowances such as rent, parking expenses, and children's education abroad. They were also paid two yearly bonuses in yen. These allowances and bonuses also took up a large part of the company's expenditure.

On the other hand, Jusco used a so called "service contract" to pay PCNs on the basis of individual's and company's performance. For example, the Managing Director of Jusco was paid by a fixed amount of monthly salary and housing allowance of HK\$130,000 in his 1994-95 contract. The "service contract" served to motivate Japanese executives to work for a higher performance since their next contract depended on how they could fulfil the performance target.

This contract has also reduced local employees' perception of pay inequity between Japanese expatriates and local employees.

Both Yaohan and Jusco paid local employees on the basis of qualifications and experience subjected to the current market rate. All local employees received an annual bonus based on individual's and company's performance. They were not entitled to any allowances like the Japanese. However, Jusco's local professionals were paid with higher salary and bonus of at least 20 percent above the average of other HCNs.

Training and Development

The IHRM perspective of training and development includes the pre-departure training, and training and development provided to both PCNs and HCNs (Dowling, 1994). The expatriates of Yaohan and Jusco received a lifelong generalist training and development through extensive job rotation, and continuous on-the-job and off-the-job training throughout their career. Although both companies conducted some pre-departure training such as introduction of the host country culture and language courses, Yaohan had a high expatriate failure rate than Jusco. It is because compared with Yaohan, Jusco's expatriates had more overseas experience before coming to Hong Kong. The three Japanese expatriates of Jusco had at least nine years of overseas experience. For example, the Managing Director of Jusco had worked in Hong Kong for five years, and in Malaysia for six years before he was assigned back to Hong Kong. However, since Yaohan over-expanded, it had exhausted more qualified and experienced Japanese candidates for overseas assignment and had to assign younger and less experienced staff who were in supervisory grade in Japan to take up managerial tasks in Hong Kong. Furthermore, many of these young expatriates were told to come to Hong Kong with very short notice. Therefore, they were totally unprepared for the assignment not to mention the chance for pre-departure training.

Compared with Yaohan, Jusco provided more comprehensive training and development to their HCNs. Jusco introduced generalist training – “Jusco University” – to HCNs in 1992. All local managers from supervisory grade up were provided with a three level training courses. Furthermore, local professionals were given special training in Japan. The objective for the training was to facilitate local managers to take up more senior managerial positions under Jusco's localisation policy. On the other hand, Yaohan did not provide training to HCNs for localisation. Even though it conducted graduate training programmes, the local graduate trainees

had little opportunities to be promoted to senior managerial positions. Furthermore, although spiritual training – a kind of generalist training – was provided to local employees, since the purpose of such training was to spread the chairman’s religion, many HCNs were sceptical of its usefulness for developing HCNs to take up senior managerial posts (Wong, 1996).

Summary: IHRM Policies Practised by Yaohan and Jusco

From the empirical results, Yaohan practised a more ethnocentric management practice compared to Jusco. Yaohan had a much higher Japanese expatriate-local employee ratio, more Japanese expatriates occupying senior managerial positions, and higher expatriate failure rate. Furthermore, Yaohan had a less equitable compensation between Japanese expatriates and local employees. Furthermore, unlike Jusco, Yaohan did not consider any local managers to succeed senior management and executive positions in the company. In the following section, the factors leading to the use of different IHRM approach by Yaohan and Jusco are examined.

FACTORS AFFECTING IHRM POLICIES AND PRACTICES

The development of IHRM practices can be traced to external factors which can either be controlled or cannot be controlled by the company. Companies can adjust the factors – such as business and employment strategies – which they can control. However, companies are subject to many factors – such as the company’s history, background, and competitive environment – which they cannot control (Hendry, 1995). Both Yaohan and Jusco employed different types of IHRM strategies to adjust the factors they could control under the constraints of the factors which they had little control of. The contextual perspectives of the company – background, history, competitive environment and business strategy, and the policy in the use of technology – are examined to explain why Yaohan and Jusco employed different IHRM practices which might have led to their failure and success respectively.

Background and History

The development of ethnocentric IHRM practice in Yaohan can be traced back to the history of the chairman, Kazuo Wada. Wada set up Yaohan in Atami, a small town of Shizuoka in Japan in 1962. During the 1960s, many large retail chain stores, such as Seiyu and Daiei, expanded into local towns including Atami. In order to survive, Wada decided to concentrate on overseas investment in order to avoid being taken over by bigger retailers in Japan. He made the first overseas investment in Brazil in 1970 which became bankrupt in 1977. The failure of his first overseas operation had made Wada to rely more on Japanese male expatriates to run and control overseas operations (Wada, 1989). This explains why Yaohan employed more Japanese expatriates than Jusco.

Related to Yaohan's overseas expansion was its policy of placing overseas investment before domestic development in Japan. Therefore, its Hong Kong operation became one of the most important operations which ranked first amongst all department store companies in Hong Kong in 1994 in terms of annual sales turnover (Retail Association, 1995). Accompanying the increasing strategic importance of its Hong Kong operation, Wada devised two strategies which have had impacts on its IHRM policy. Firstly, he moved the corporate headquarters from Japan to Hong Kong in 1989 which had made it easier for Japanese managers to control the operation more directly. Secondly, Wada handpicked and trained Japanese managers by himself to operate its Hong Kong operation (Wada, 1992). This implies that Wada would like to tighten up his personal control through his hand-picked Japanese managers. This explains why Yaohan operated a much tighter control through the Japanese expatriate managers, compared with Jusco.

Unlike Yaohan, Jusco endeavoured to develop Japan's domestic market. It could maintain the top ten position in Japan in terms of sales turnover since the early 1980s (Nikkei Ryutsu News, 1989). Its effort in the domestic market explains why Jusco invested overseas in a more moderate manner compared with Yaohan (Anonymous, 1994). Furthermore, the top management of Jusco localised overseas operation by replacing PCNs with HCNs in senior managerial positions. This explains why it assigned only three Japanese expatriates who did not monopolise the senior positions like Yaohan. This had enhanced Jusco's flexibility to adjust to the drastically changing Hong Kong's economic environment. On the contrary, Yaohan's

ethnocentric IHRM policy reduced the company's flexibility to adjust to the environment which directly led to its collapse.

Competitive Environment

The external environment of the parent country – Japan – had been going through the longest recession since World War II. Although the parent company of Yaohan was located in Hong Kong² during the fieldwork, the source of Japanese expatriates still came from Japan. These Japanese expatriates had to face a tough external environment of Japan which was the base for their long-term career development. As they might be sent back to Japan after their Hong Kong assignment, many Japanese expatriate interviewees of Yaohan said that they had to be more conservative and risk-averse since they thought the penalty for a mistake in their overseas assignment could become harsher as their career opportunities in Japan became limited in the post-bubble recession. A Japanese manager said, “Rather than becoming a *madogawazoku* (a position with a seat by the window but with no real responsibility), we may be given *kata tataki* (tap on the shoulder signalling being asked to resign on their own initiative).” Therefore, many Japanese expatriates of Yaohan said that they had to stick to the Japanese work practices in handling HR and other business issues. This explains why Yaohan used a more ethnocentric IHRM policy.

Conversely, the parent company of Jusco had become a leading retailer in Japan during the post-bubble recession since 1992. It ranked second in Japan in 1997 (Nikkei Ryutsu News, 1998). This induced the parent company to decentralise more power to overseas operations, and the PCNs and HCNs had more autonomy to decide its own business strategy. A local manager of Jusco said, “The more open-minded Japanese expatriates could carry out more innovative IHRM practices because of the ‘hand-off’ policy adopted by the parent company in Japan. This explains we have more autonomy to implement retail technology, and provide better compensation package to the local managers who can operate the technology.” This background of the parent company attributes Jusco to adopt a more equitable IHRM system between PCNs and HCNs than that of Yaohan.

Turning to the external environment of the host country – Hong Kong, the general state of Hong Kong's economy which is normally reflected in the property rental rate, and interest

² The parent company of Yaohan moved to Hong Kong since 1989, but it moved to Shanghai in July 1996.

rate is examined. These indicators of Hong Kong economy had become more fluctuated and unpredictable since 1990s. Due to the rapid store expansion policy in the early 1990s, Yaohan resorted to over-borrowing bank loans to finance its expansion. The interest paid for the bank loans accounted for a high proportion of its overall operating costs. However, during the period of 1994 and 1995, the interest rate was increased sharply as a result of a world-wide economic slowdown, which pushed up Yaohan's interest payments. Furthermore, the world-wide economic slowdown also caused a sluggish growth in the local consumer market³, and this affected its business in terms of declining sales turnover. This explains why Yaohan's sales turnover decreased from HK\$3.93 to HK\$3.64 billion from 1994 to 1996 (as shown in Table 2). This problem of declining business was aggravated by the over-borrowing policy of Yaohan. Its diminishing profits were further offset by the higher costs of paying interest on its bank loan (South China Morning Post, 1996). This resulted in a drop of its operating profit from HK\$54 to an operating loss of HK\$168 million from 1994 to 1996 (Table 2). It in turn affected Yaohan's projected growth in sales volume which directly deterred Yaohan from using retail technology, and providing a more equitable compensation and training and development to the local employees. This explain why Yaohan's operational and human resource management got deteriorated gradually.

On the other hand, Jusco handled the fluctuating host country economy by resorting to employing more part-time staff. It helped Jusco to reduce costs and maintained its more equitable IHRM policy and the further development and implementation of retail technology which in turn strengthened the company's competitiveness and corporate performance.

Business Strategy

Corporate business strategy influences the staffing activity both at home and overseas. Yaohan pursued a rapid expansion strategy. Coupled with the ethnocentric approach, the expansion strategy exhausted the number of qualified Japanese managers for overseas assignment. As a result, more than 30 percent of PCNs had less than five-year working experience. When they were assigned to take up managerial positions, they had little experience

³ In 1994 and 1995, the overall sales in department stores recorded a 7.4 percent decrease. The unemployment rate had also increased to 3.3 percent in January 1996, whilst inflation rate maintained at 9 percent. General public became more cautious in consumption. Furthermore, renting costs increased rapidly of over 10 percent between the first and the fourth quarter of 1995 (Census and Statistics Department, 1995).

in making decisions in strategic matters such as merchandising, and financial matters such as profit disposal, borrowings and investments. Furthermore, these less experienced PCNs not only were insensitive to local culture, but were also less competent and had less technical skills and knowledge. This had directly led to the higher expatriate failure rate in Yaohan than Jusco. Due to the lower PCNs' quality, Yaohan had committed many mistakes in merchandising and staffing which led to its decline.

On the other hand, since there were only a limited number of Japanese expatriates in Jusco and most of whom were not replaced by another expatriates after they had been repatriated back to Japan. In addition, Jusco's expatriates with high performance and few problems in cross-cultural management were retained to stay in Hong Kong for a longer term. For example, the former managing director had stayed in Hong Kong for 11 years. The use of different strategies in business and staffing by the two companies explains why they had different IHRM practices and corporate performance results.

Use of Retail Technology

The use of technology is another important corporate strategy determining IHRM approach used by multinational corporations. Jusco had been working hard to implement retail technology, such as electronic point of sales (EPOS) and electronic data processing, ever since it started to operate in Hong Kong. On the 20th anniversary of its parent company in 1989, Jusco set up three establishments – head office, buying office and delivery centre – to facilitate the implementation of the company-wide EPOS system (Anonymous, 1990). In 1994, the EPOS system was installed and implemented (Annual Report, 1995/96). From the management's point of view, acquisition of new skills from the local professional staff who have the knowledge in the EPOS system and expertise in analysing data generated from the system became the underlying imperative because the company's skill requirements had become more professional-based as a result of the introduction of the retail technology (Sparrow and Pettigrew, 1988; Sparrow, 1988a, 1988b and 1988c).

However, the supply of professional staff with qualifications was insufficient in the labour market as a result of the problem of the brain drain in Hong Kong during the 1980s. Jusco experienced a "skill gap" in the professional positions, and had to adjust its employment strategies to overcome this gap. Furthermore, the management was afraid that the company's

ownership-specific advantages, derived from the EPOS technology, would dissipate to its competitors through the turnover of its professional staff. This explains why Jusco employed a positive skill supply strategy by offering local professional staff better employment conditions in pay and training opportunities and specialised job assignments, compared with other local staff with low skills (Sparrow and Pettigrew, 1988). This could attract and limit attrition of local professional staff, and made them more committed to the company. As a result, Jusco tended to employ more local professional staff as it applied retail technology. These local professionals received more opportunity for training, and a better bonus and pay as an incentive. All five local professional interviewees said that they felt they had been treated as important staff members and they could utilise their skills fully at work.

IMPLICATIONS

The central issue for international management is not to identify the best IHRM policy *per se*, but rather to find the best fit between the company's international environment, its overall strategy, its HRM policy and implementation, and keep all these dimensions in direct alignment (Adler and Ghador, 1990; Scullion, 1995). The "art" of managing HR requires interpretation in the perspective of the local host country environment (Dowling *et al.*, 1994). The IHRM practices adopted by Yaohan show that its parent company was unwilling to decrease the level of performance control over Hong Kong operation as Yaohan still heavily relied on Japanese expatriates to perform control and coordination in Hong Kong, even though it had moved its headquarters to Hong Kong.

Yaohan's ethnocentric staffing approach was not a result of the shortage of local middle managers, but a corporate strategy of the company which relied on PCNs in managing overseas operations rather than on retail technology. Furthermore, Yaohan merely employed local employees and managers to perform tasks with little decision-making power which was monopolised by the Japanese who performed control functions. Local employees had little organisational recognition from the company of their need for career planning, training and development. Furthermore, they were dissatisfied that Japanese expatriate managers who were compensated with much better compensation package with many exclusive allowances. As a result, local employees could not have much job satisfaction and had high labour turnover rate.

Since Yaohan depended much on the Japanese expatriates for control and operations, it had to select competent ones for such tasks. Conversely, Yaohan fell victim to its over-expansion and ethnocentric staffing policies as the quality of its expatriate managers decreased. This IHRM practice adopted by Yaohan can be considered as not able to align with its environment and business strategy which explains why the company declined.

On the other hand, Jusco had adopted an IHRM practice which aligned with its environment and strategy. Firstly, the special remuneration package – “service contract” – not only had motivated Japanese to achieve higher profitability in Hong Kong, but also made HCNs felt that the company was fair which made them more committed to the company. Secondly, Jusco’s positive use of local professional staff and the more equitable compensation and training practices provided to the local employees were also an effort exerted by the management of Jusco to cope with the market pressures. This partly explains why Jusco managed to make continuous profits under the present retail slump.

Thirdly, the decrease in staffing Japanese expatriates in the Hong Kong operation and the localisation policy by promoting more local managers in senior managerial positions had made Jusco more able make better corporate decisions, such as merchandising and buying decisions. Furthermore, local managers and employees became less mobile and more committed to work for Jusco. Fourthly, the “hands-off” policy from the parent company had made Jusco more able to adjust to and align with the increasingly fluctuating local economic environment of Hong Kong.

In brief, the IHRM practices adopted by Yaohan show that it employed a more ethnocentric management approach than Jusco. Since Yaohan and Jusco faced a similar external environment of Hong Kong in terms of the cost and quality of labour force and the increasingly fluctuating and complicated economic situations, both companies employed different IHRM practices and performed differently. In spite of its longer presence in Hong Kong since 1974 compared with Jusco which was set up in 1986, Yaohan did not decrease its Japanese expatriate-local employee ratio. Although Yaohan had operated in Hong Kong much longer than Jusco and moved its corporate headquarters to Hong Kong, it employed a more ethnocentric management approach, and thus incurred many disadvantages accompanied with the practice. This disconfirms *hypothesis 1*.

Furthermore, facing the increasingly complex external environment of Japan and Hong Kong, the headquarters of Yaohan did not decrease its performance control like that of Jusco. This disconfirms *hypothesis 2*. Thus, compared to Jusco, Yaohan became less capable to cope

with the changing consumer market in Hong Kong. This explains why Yaohan performed badly in merchandising activities. Finally, since Jusco had introduced retail technologies, it could employ less PCNs for controlling function, and more HCNs were promoted to senior posts. This confirms *hypothesis 3*.

CONCLUSION

Since this is a preliminary research developed to explain the collapse of Yaohan as compared to the success of Jusco, the results presented in this paper represent only those of two Japanese retail companies in Hong Kong. Thus, the research findings are rather limited and would not be suitable to allow generalisation to other retail companies in Hong Kong. Nevertheless, the following conclusion seems to be reasonable on a tentative basis as it may help to shed light on the problems of IHRM in other Japanese retail companies in Hong Kong. The ethnocentric approach to IHRM used by Yaohan can be regarded as an inappropriate strategy adopted by the top management which had directly caused its decline. On the other hand, IHRM practices adopted by Jusco is considered to match well with its external and internal environment which explains its outstanding performance in Hong Kong retail industry.

The study is a preliminary attempt to use a seldom used approach – IHRM practice – to explain the performance of the two Japanese department stores which have been discussed in popular press and the industry. It aims to provide insight and relevant information to both academics and practitioners. However, the results should not be regarded as conclusive regarding the relationship between the IHRM practices employed by the company and its performance. Further research based on a larger scale quantitative method should be adopted to explore the direct relationship between IHRM practices and corporate performance of companies.

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