

# Challenge and Integration: Adaptive Transition of HRM Systems in Japanese Enterprises in China

Su Zhongxing

School of Labor and Human Resources, Renmin University of China, Beijing, P.R.China, 100872

(E-mail: suzhongxing@ruc.edu.cn)

**Abstract** The purpose of this paper is to present the characteristics and transitions of HRM systems in Japanese firms operating in China. The results show that Japanese firms operating in China have totally abandoned the long-term-oriented HRM system featured by lifetime employment and seniority-based wages and promotion, and turned to pursuing a short-term-oriented HRM system based on market and employee individual performance. The transition of HRM systems in Japanese firms operated in China indicates that organizations will change their HRM systems as adaptive reaction to challenges from external environments, and environments in today's China prompted the firms to take a short-term-oriented HRM system.

**Key words** Japanese-style human resource management system; Transition; China

## 1 Introduction

Since the reform of China's planned economy system and the personnel management system, companies in China have begun to learn and use various means to stimulate and manage human resources effectively. During the process, the western human resource management theories, methods and techniques, represented by the United States, have been widely welcomed and used by most Chinese enterprises. At the same time, Japanese-style human resource management system featured as long-term employment and seniority system had also received widespread attention around the world.

Strategic human resource management theory argues that the effect of human resource management system depends on the degree of match between the characteristics of such systems and organizations as well as the external environment (Schuler & Jackson, 1987; Wright & Snell, 1991). Contingency theory also points out that external environmental factors will affect human resource management practices in companies (Becker and Gerhart, 1996; Wright and Sherman, 1999).

China and Japan are both located in the East Asia. While there is common habit and origin between the two countries, there are also some differences, such as the economic system, the labor market environment, the society and culture, etc. Then, in China's environment, would Japanese-style human resource management system still be viable? Would there be any adaptive changes of HRM systems for Japanese companies operated in China because of the environmental changes?

We argue, studying the changes of Japanese-style human resource management system in Chinese environment would not only provide a perspective for human resource management integration under the context of globalization, but also provides Chinese enterprises some guidance regarding how to build highly efficient human resources management system. Therefore, in this paper, we take Japanese enterprises operated in China as samples and do some research on the characteristics and transitions of their HRM systems.

## 2 Japanese-Style Human Resource Management System

According to different ways to attain and employ human resources, human resource management systems can be classified into two types: Internal System and Market-Type System (Delery & Doty, 1996). The human resource management system in Japanese enterprises is a typical example of internal System. The Japanese-style HRM system values long-term employment and adopts various management practices, which supplement and support each other, to form an inter-matched integral system. Moreover, this kind of HRM system is adapted in line with Japanese economic and social conditions, forming an external-matched system. Based on the existing research literatures about Japanese-style HRM system and interviews with some Japanese managers in China, we summarized the traditional Japanese-style human resource management system as follows.

### 2.1 Lifetime employment

Lifetime employment is a pillar of Japanese-style human resource management system, under which employees stayed in their firms for very long periods of time, often until retirement age. In times of distress, it would attempt to keep employees within the business rather than make them redundant by

relying on strategies such as cutting back on dividends, reducing overtime opportunities and offering voluntary retirement (Araki, 2005; Miles, 2007). Most large and mid-sized enterprises in Japan implement lifetime employment system. Since 1990s, the lifetime employment system in Japan has changed to some degree. However, the lifetime employment philosophy and culture is still widespread in Japan. Some scholars even argue that the lifetime employment has remained almost unchanged (Baba, 2004). This argument is verified by our interviews with Japanese expatriate managers in China. Just as a Japanese manager said, "In Japan, employees mainly stay in one company all his life. Although there is no nominal lifetime employment system in most companies today, the lifetime employment culture is still the premise of employment there."

### **2.2 Seniority system**

Seniority system is another pillar of Japanese-style human resource management system. In seniority system, employees' salary and promotion is primarily determined by their seniority in enterprises rather than their performance. People with the same seniority only have slight difference in salary. Younger employees have to wait their turn to be promoted, although they may be much more qualified than their seniors (Miles, 2007; Ma Shuping & Zhang Yichi, 2000; Li Zhongsheng, 2002). Lifetime employment system and seniority system works together to maintain a long-term-oriented employment relationship between the employer and employees, and keep on motivating employees working hard perpetually. In one of our interviews, a Japanese manager said, "Although seniority system still exists in Japanese, performance-oriented HRM is being introduced gradually. Some young employees now are promoted quickly, even surpassed senior employees. However, Japanese enterprises will adopt some measures such as establishing special titles for senior employees, or offer them off-job training opportunities to maintain the harmonious atmosphere like before".

### **2.3 Employee management participation and collective decision-making**

Japanese enterprises encourage employees participating in management, which enables them learn about operating status of the company and present their opinion about important decisions. In Japan, every staff has a sense of participation, and managers tend to believe that nothing can be well done unless everyone participates in the decision-making process and agrees with the decision. Before making important decisions, managers will first ask for opinions from all the staff affected by the decision. Only on the basis of bottom-up pooling of others' wisdom can they make the final decisions. This kind of decision-making method may waste time to some degree, however, the decisions can be carried out consistently once made, until accomplish the purpose desired (Zheng Changxing, 2003; Fan Lianying, 2006).

### **2.4 Company-based union**

Company-based unions existed parallel to lifetime employment and played an important role in the stability of labor-management relations (Tokoro, 2005). Company-based unions are organized in the unit of enterprises and attached to the enterprises. As a result, Japanese Company-based unions are more concerned about the overall interests and long-term development of the enterprises in collective bargaining, and tend to adopt cooperative strategies with the employers. This can protect employees from great loss which can be caused by negotiation failure. Thus, the union can mitigate the contradiction between employer and employees and help to form a mutual coordination and cooperation relationship and ensure the normal production and operation of the enterprises (Fan Lianying, 2006).

### **2.5 Unclear individual responsibility and emphasis on team**

In Japanese enterprises, individual's responsibility is not defined very clearly. Many companies have only department function descriptions but no job descriptions. Therefore, the management objects in Japanese companies are department-based or team-based rather than position-based or individual-based. In such system, both the responsibilities and results belong to collective organization, which is called social responsibility system by some scholars (Jue Yuefu, 2007). With personal responsibility undefined, Japanese enterprises depend on strong team spirit and group consciousness to ensure productivity of groups and departments. New employees will receive group consciousness training from the first day they join a company. The "team spirit" emphasizing group interests serves as the core belief of Japanese-style human resource management system.

### **2.6 Enterprise internal training system**

Employers invested heavily in educating and training employees on the job (Jackson and Moerke, 2005). Most Japanese companies regard training as a core element of operation and management. They establish various internal training systems and treat employee training as an important method to develop human resources. The training system in Japanese companies is combined with life-long employment, seniority system, promotion from within, firm-specific knowledge training, forbidden on

job-hopping and so on. Training courses include not only hard skills but also implicit knowledge and skills about management system, interpersonal relationship and behavioral norms within the companies. With regard to training methods, since job rotation can help companies to train generalists, it is widely used in Japanese enterprises.

### **2.7 Attach importance to the cultivating of employees' loyalty**

Unlike the western human resource management system which is based on the clear definition of individual job responsibility, the basis Japanese-style human resource management system is the harmonious spirit among the enterprise. Japanese managers generally adopt all sorts of methods to provide employees with family-like emotion and caring. By building up belief, inculcating value philosophy and so on, the employers exert subtle influence on employees' behavior, and help employees to consciously identify with enterprises' goals, add to employees' sense of belonging. Also, Akio Morita considers that a principal mission of enterprise is to cultivate a harmonious relationship between enterprise and workers, to create a kind of family-emotional atmosphere, and to foster emotion sharing weal and woe with enterprise. It is observed that, such idea embraced by most managers in Japan.

In sum, the typical Japanese-style human resource management system includes some institutional arrangement: lifetime employment, seniority system, employee participation in management, teamwork spirit, internal training system and so on. Besides that, the typical Japanese-style human resource management system is complemented with practices such as recruiting new graduates, promote from within, job rotation, separation allowance, retirement pay and so on (Jinyu Xie, 2000). It can be said that the typical Japanese-style human resource management system is a long-term-oriented employment system. The high-performance work system, high-involvement work system and high-commitment work system advocated by western scholar in recent year are all originated from Japanese-style human resource management model. Japanese enterprises have gradually introduced some western HRM methods such as performance appraisal, performance-based pay and job description since late 1990s; however, these typical Japanese HRM characteristics still widely existed in most companies in Japan even today. Meanwhile, the application of western HRM methods and techniques are still limited. For example, there is nearly no big difference between the actual appraisal results of different individuals, even the western performance appraisal system has nominally been adopted in these Japanese companies.

## **3 Human Resource Management in Japanese Enterprise in China**

The Japanese-style human resource management system has its particular social and historical conditions. What interests us is whether it still retains the typical characteristics of the HRM pattern or will make some changes in Chinese environment. First, we conducted a survey of 18 Japanese enterprises operated in China on their human resources management practices. HR managers or general managers were asked to respond in accordance with the extent of actual usage of these HR practices in their firms using a Likert 5-point scale, ranging from 1=very low to 5=very high. Table 1 describes the mean scores of all the HR practices items.

Because only small samples available in this survey, we interviewed some Chinese and Japanese managers in these companies to make sure the accuracy of the survey results and to improve the reliability of this study. According to the results of survey and interview data, we conclude some characteristics of human resource management system of Japanese enterprise operated in China as below.

### **3.1 Disappearance of long-term employment philosophy and job security**

The typical Japanese-style human resource management model is inclined to build long-term employment relationship with employees and develop internal human capital for enterprises. But, we find that the long-term employment reduces dramatically in Japanese enterprise in China. The philosophy of human resource management transfer from long-term-oriented to short-term-oriented, from internal-develop to external-purchase. Among 18 items of HRM practice and policies that we investigated, the extent to apply "providing long-term employment security to employees" ranks as the last one. At the same time, Japanese enterprises in China pay more attention to recruiting new employees from external labor market. During interviews, Japanese managers told us:

"The European and American companies are market-buyers; they are always used to recruit talents from the labor market or other companies. When they feel the employees not appropriate, they will fire them immediately. In contrast, Japanese companies tend to set up a long term employment relationship with employees. We will train and develop our employees, and hope our employees have emotional

commitment to the companies. But in China, the long term employment relationship of Japanese companies becomes a disadvantage due to some new problems which results in. For example, in long term employment system, performance appraisal, wage level may not catch up with the changes in external labor market, which result in brain draining. We develop and train the employees, but they will be easily attracted by other companies. Therefore, we need change, for the sake of adapting to China's environment".

**Table 1 Statistic Description of HRM of Japanese Enterprise in China**

Order	Human resource management policy and practice	mean	s. d.
1	Regular performance appraisal	4.29	0.98
2	Clear job or responsibility description	4.06	1.11
3	Internal promotion	3.94	1.16
4	Strict recruiting process for new employees	3.83	1.15
5	Performance-based bonus or incentive performance	3.78	0.94
6	Timely performance results feedback	3.67	1.24
7	Formal training system	3.61	1.19
8	More attention on competence in selection capability	3.50	1.15
9	Formal team work for front line workers	3.44	1.29
10	Sharing of production and financial information	3.22	1.00
11	Employees participation in management	3.17	0.98
12	Propaganda on industry situation and business strategy to employees	3.17	0.98
13	Job rotation	3.06	1.30
14	Spending more time and money in training than competitors	3.06	0.94
15	Employee attitude or advice survey	3.06	1.31
16	Profit sharing policy	2.94	1.26
17	Mechanism for workers appeal and dispute settlement	2.94	1.21
18	Long-term employment security	2.56	1.34

### 3.2 Emphasis on performance-oriented

The compensation and promotion of employees largely depends on the years they have served in seniority system in typical Japanese HRM system. However, Japanese enterprises in China reflect strong pragmatism. They pay more attention to the actual work performance rather than the length of service. The compensation and promotion plan are set on the basis of the regular evaluation of employees' performance. According to the survey results, it is found that practices such as regular performance appraisal, performance-based bonus or incentive, timely performance results feedback, have been widely used in Japanese enterprises in China. The interviews also reveal that the Japanese managers in China generally agree with the performance-oriented strategy, and they think that it is very suitable for Chinese culture.

"The human resource management models in Europe and United States, as well as in Japan have their pros and cons. It is hard to say which one is much better. In some aspects, China is more suitable to Europe and United States HRM model, e.g. performance appraisal. We try to use all kinds of methods only if they are suitable for Chinese culture, no matter they are Japanese or Western HRM model." "Although it's not so crucial to distinguish good and bad performance in Japan, in China, we need timely give the performance results feedback to the employees so that those with good performance can be promoted timely. In China, compensation and promotion based on performance is much preferred today."

### 3.3 Clearly define the individual responsibilities

In typical Japanese HRM model, the boundaries of individual responsibilities are not clear, and employees are usually supplied with the opportunities of job rotation. Therefore, the managerial objects and priority in Japanese companies are mostly department-based or team-based. However, most Japanese enterprises operating in China define each position responsibilities clearly, and employees' positions are immobile. The survey results show that "clear job or responsibility description" ranks the

second among all the management practice. This is supposed to be a result of the short-term orientation of employment system introduced by Japanese enterprises in China. Since the performance and compensation management has shifted to performance-based, it is necessary to clearly define job and individual responsibility, in order to maintain the HRM practices as a horizontal or internal fit system. The interview with Japanese managers in China also supports this change we found.

“In Japan, employees work together to complete the task. We do not have very clear division and description on individual. But in China, most Japanese enterprises introduce management by objectives. The work is break down into clear individual responsibility, and strict appraisal of performance is executed. On the meantime, we keep competitive salary and welfare by purchasing market compensation data periodically.”

Further more, the questionnaire survey shows that job rotation owns very low mean score, which means job rotation is not widely used in Japanese enterprises in China. The interview with Chinese managers in Japanese companies confirmed that job rotation is rare in China while common in Japan.

### **3.4 Other aspects**

In this study, we also find that some HR practices applied in Japan are not implemented commonly in Japanese enterprises in China, such as employees participative management, business information sharing, profit sharing, and employee complaint mechanism. This is also quite different from the typical Japanese HRM model which emphasizes employee participation, harmonious labor relations and sharing a common destiny through spiritual incentive. Meanwhile, Some HRM practices, including promotion from within and strict recruitment of new employees, are widely used by Japanese enterprises both in Japan and in China.

In summary, Japanese enterprises in China have abandoned the long-term oriented, internal-development human resource management model in favor of the short-term oriented, performance oriented and market purchasing HR system. Specifically, long-term oriented management practices such as job rotation, employee participation, profit sharing, job security has been dramatically reduced in the HRM system of Japanese companies in China, in stead, performance-based management practices such as regular performance appraisal, clear job description and performance based bonus are implemented commonly. This change is also confirmed through the interview with Japanese managers in China.

“The main difference between HRM system in China and Japan is the assumption of employment. In Japan, the employee turnover rate is very low and employees want to devote their whole life to the company, although the nominal life time employment does not exist. In China, however, short-term employment is commonly introduced. Facing with the different assumptions, we have two important things to do. One is to reward employees’ contribution timely, and the other is to ensure that all works can be done in case of someone’s leave.”

We also find that the Japanese enterprise did not employ the short-term oriented HR model in the beginning. The reality is that their implementation of long-term oriented HR model encountered challenges in China and then shifted to short-term oriented HR model gradually. So the human resource system of Japanese enterprises in China experienced a changing process of adoption to Chinese business environment. The transition of employment philosophy from long-term employment to short-term employment is the result of adaption to external environment. Subsequently, the institution and technique of human resource management will also change in order to reach the internal fit between management philosophy and technique within the HR system. Beijing Matsushita Color Picture Tube Co. (BMCC) is a typical company who witnessed this transition.

BMCC is one of the direct outcomes after Deng Xiaoping’s visit to Japan in 1980s. BMCC’ initial management system was transplanted from Matsushita Corporation (now Panasonic Corporation). Therefore, the early organization structuring and all kinds of management regulations, including human resource management system were in the same way as those in Matsushita in Japan. An older employee described the early HR system of BMCC and said:

“A lot of HR policies were implemented at that time. The purpose of these policies is to hope employee can devote their life time to the companies. The company introduced seniority system. The period of labor contract was at least eight years. The company supplied us housing, nursery, even celery cabbage. Employees have high loyalty to the company.”

By the end of 1990s, however, some problems begin to emerge under such HRM model. First, life-time employment and seniority system is based on certain history context and social condition. Although these practices are efficient in Japan, in China, the implementation of these policies went against employee motivation, since such policies shared lots of resemblances with the labor system

called “bit pot rice” and “iron rice bowl” during the era of planned economy. Second, the seniority system was confronted with the challenge of serious outflow of talent. For example, new college graduates have a very high quit rate as a result of the seniority system. In 2000, the seniority system was broken out and post wage system was introduced. New and old college graduates shared about equal pay for the same position. One’s wage and position can be raised according to their performance rather than seniority. As a result, employee quit rate falls dramatically. Now the human resource management model in BMCC has been adjusted all-roundly: life-time employment and seniority system are abolished, job descriptions are made in detailed, performance oriented practices are introduced, and so on. Consequently, the supervisors and the staff are motivated and the company is fulfilled with vitality.

#### **4 Analysis of Transition of HRM System in Japanese Company in China**

Theories of strategic human resource management argue that HRM system can help company to obtain competitive advantage when it aligns with outside environments (Schuler & Jackson, 1987; Wright & Snell, 1991; Wright, McMahan, & McWilliams, 1994). There is no doubts that the typical Japanese-style human resource management model based on life-time employment system were rooted on the Japanese social and cultural environments, such as business mode of Japanese family-owned firm, emphasizing loyalty to companies, atmosphere of collectivism emphasizing team work, diligent attitude of self-reverence, self-knowledge and self-control (Xinqi Lin, 2008). HRM pattern in Japanese enterprises have experienced a transition from long-term oriented to short-term oriented, which is meanwhile a transition from internal development to external purchases. The essence of this transition is an adapted conversion performed by the enterprises which faced the challenges from outside environments. Outside challenges facing Japanese companies in China is as follows:

##### **4.1 Challenges from external labor market**

First of all, In China, Japanese HRM pattern would encounter challenges from external labor market. The existence of Japanese HRM pattern has its own social condition. Under the underdeveloped and relatively close labor market, Japanese companies are capable of establishing internal labor market and maintaining life-time employment system. Meanwhile, changing jobs within industry is forbidden in Japan. Even if an employee change his job, it is difficult for him to get a higher pay from his new employer. Indeed it was rare for firms to hire employees with working experience from other firms to do the same work<sup>[5]</sup> (Jackson and Moerke, 2005, p. 352; Araki, 2005, p. 27).

In contrast, China has set up a more developed external labor market. The rapid economic growth in China brings a great demand for all kinds of talents of companies. Most employees can have many opportunities for seeking better career development and higher level of compensation in the labor market. According to a Japanese manager who accepted our interview, it is almost impossible for employees to gain higher compensation by changing jobs in Japan. Therefore, under much developed external labor market, employees are always unwilling to sign long-term contract with employer who actually wish to implement long-term employment strategy. Furthermore, if Japanese companies in China insist on long-term employment and seniority system, they would confront with brain-drain problems, because the external labor market enable employee to do so. In order to match with the outside environments, Japanese companies turned to short-term oriented employment strategy which lead to the change of HRM practices such as compensation, performance appraise and job responsibility management.

##### **4.2 Challenges from the social security system**

The imperfect social security system in China also brings some new problems to the employment relationship. From our interviews, we found that Chinese employees have a strong sense of insecurity about their future. In China, after the reform, most young employees feel a heavy economic pressure, because all kinds of expenditure including housing, medical service and education service depend on their short-term income. Therefore, many employees think the imperfect social security system in China makes them pay more attention to short-term rewards but less on long-term rewards, which lead to Chinese employee’s lack of long-term loyalty to one company. However, the long-term loyalty is a key factor for the success of long-term employment pattern.

“We feel our future is totally relied on ourselves in China. We will seek high pay jobs in the labor market, because we need money to pay all the expenditures. So the employment patterns of Japanese companies that ‘taking pains at young and enjoy pleasure at old’ wouldn’t be effective for Chinese employees. China social security makes us have a feeling of insecurity about our future. I think money at hand is the best choice. It makes unreality for us to choose long-term employment pattern.”

### 4.3 Challenges from the culture

Japanese companies depend on atmosphere of collectivism, diligent attitude and self-control to maintain employee's work efforts, which is the cultural condition for long-term employment pattern. Without this cultural power, life-time employment system and seniority system would lead to disadvantages such as "iron rice bowl" and "big-pot rice" occurred during the period of planned economy in China and would induce employees' lazy behavior. Though China and Japan both belong to eastern societies, Japanese inherit culture and value of collectivism better than Chinese. In China, the values of a whole generation were destroyed by Cultural Revolution. After Reform and Opening up, globalization fosters the values of a new generation. Today, to some extent, behavior of Chinese youth reflects the individualism-oriented value from western tradition, not the collectivism-oriented value from Chinese tradition. For example, Chinese employees prefer to accept individual performance-based compensation system. Chinese employees would like enlarge income gap rather than receive equalitarian wage. In contrary, in Japanese companies, although there are differences in performance between better employees and underperforming employees, the reward and punishment are not distinct. The essence of Japanese companies' performance management system is to develop employee's skills, knowledge and abilities, but not to be a measure for reward or punishment. In addition, under the atmosphere of collectivism, hierarchical culture and paternalism are allowed to exist. Hierarchical cultural atmosphere in Japan is more intense than it is in China. For example, Japanese justify the fact that some senior employees revile his subordinate, which will be condemned by most Chinese employees. Therefore, the HRM pattern of Japanese companies is also challenged by China's social culture and value.

## 5 Conclusions

This study shows that, in order to adapt to China's environment, Japanese companies broke up the long-term employment model including lifetime employment and seniority system, and set up a market-oriented and performance-oriented HRM model instead. This change of human resource management model of Japanese enterprises in China provided a good perspective to explore the change and integration of HRM system in such a global environment, and it has a certain reference value for Chinese enterprises about how to build human resource management systems with internal and external fit.

The existence of any human resources management mode has its historical and social background. After 30 years' reform and opening in China, the external environment for enterprises has changed dramatically. Competition in Product market has led to more attention to core talents, and competition for talent incentives started to appear. External labor market's maturity provides a platform for the enterprise and talent to choose each other. China's rapid economic development activated the labor market further; all kinds of talent could find its own value-added opportunities. Under such a circumstance, it is difficult for employee to hold a long-term work. Japanese companies human resource management model could not suited in this environment, and undergone a process to be re-adaptation. This change mainly reflected in the change from long term employment-oriented philosophy to the short-term employment-oriented concept, in order to achieve the match between human resources management system and the external environment. At the same time, the systems and technology of management responsibilities, salary management and performance management have also changed to adapt to the short-term employment-oriented philosophy, in order to realize the internal match among the system, technology and the concept. According to the changes of human resource management system of Japanese enterprises in China, we can see that China's social environment has actually promoted the business to choose a short-term employment-oriented model.

From a further level, the change of human resource management system of Japanese enterprises in China actually reflects the context of globalization in different human resource management model. We can see that, Japanese enterprise in China is constantly adding performance and results-oriented systems and technology to its human resources management system, even in Japan, the impact of globalization has also led to the change of traditional human resources management model, where there is less resistance than in China. At the same time, we also found that, Human resource management system in Western firms has become more focused on the concept of the spirit of the incentive and motivation, in order to overcome the shortage of institutionalization of management. The rise of high-performance work system in Western countries fully absorbed the culture of East Asia, which is the concept of harmony. Therefore, under the context of globalization, the East Asian culture, humanism, harmony

concepts and American-style human resource management systems and technology are integrating gradually.

Since the reform and opening of China, human resources management modes of Japan and the United States have always been the object of study and imitation to Chinese enterprises. While we are affirming the commitment of the U.S. model of human resources management and Japanese-style human resource management model to the transition period of China's enterprises, we should also see that these two different types of human resources management model are in an integration trend. The advantages of Japanese-style human resource management model is the spirit of the kernel, including the corporate culture and harmonious labor relations, and advantages of Human Resources Management in the United States of is the institutionalization of the merits of individual performance management and incentives. The integration of the spirit of Japanese Human Resources Management with the system and technology of the United States will be the development trends of human resources management under globalization.

Therefore, it is necessary for Chinese enterprises to attach importance to the establishment of harmonious labor relations, the establishment of the core philosophy of development of both enterprises and employees. It is also important for Chinese enterprises to attach great importance to modern human resources management system and technology, in order to improve the level of standardization and institutionalization of enterprise management level. We also need to note that the human resources management system can not be divorced from the country's economic and social development stage and management background. There are big differences in culture, system and the market among China, the United States and also Japan. Such differences will affect effect of the human resources management system. Human resources management systems from other countries will be more effective if they are combined with the background of China.

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