

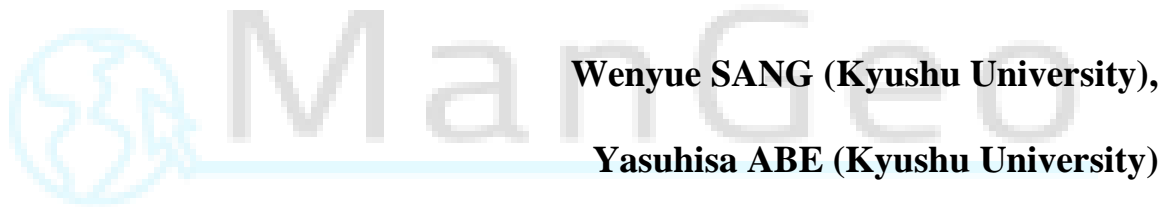


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**Post-COVID-19 Localization of Human Resources at Japanese Companies
in Urban China: The Embeddedness Theory Approach, with Insights from
White-Collar Workers**

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Abstract

This study examines the factors shaping white-collar recruitment, employment and employee retention at Japanese companies across urban China. It employed an Embeddedness Theory perspective within the context of evolving labor market structures. In recent years, China's labor market has undergone significant upheaval, with a growing trend of graduates returning to their home areas due to increasing employment challenges in major cities. Against this backdrop, Japanese companies—once attractive for their remuneration, fair job performance evaluations, and favorable work conditions – are losing their appeal, partly due to excessive localization and limited recruitment efforts on Chinese campuses. This research focuses on Japanese manufacturing, financial and service companies in major cities like Beijing, Shanghai, Shenzhen and Guangzhou, as well as lower profile large cities such as Tianjin and Suzhou. Through employee interviews, the study explores the attraction of Japanese firms, motivations for remaining loyal to them once employed, and the factors influencing those who choose to leave. Findings indicate that employees who choose to stay with Japanese firms, do so primarily due to their embeddedness in regional networks, alignment with personal career paths, and a preference for stability amid market turbulence. In contrast, those who depart cite an inability to strengthen ties with local networks as a key reason. This study provides insights into how shifts in social labor structures are impacting the strategic approaches of Japanese companies, underscoring the need for these firms to adapt effectively to remain competitive in China's dynamic employment landscape.

Keywords: Japanese firms, white-collar workers, embeddedness, employee retention, localization of human resources

I Introduction

The localization of enterprises has become an increasingly important area of research in economic geography and corporate studies, particularly with regard to how they manage their talent. Talent localization refers to the process through which foreign companies, particularly in overseas markets, gradually reduce their reliance on expatriate managers by recruiting, training, and promoting local employees. This strategy is designed to enhance a company's adaptability to the local market, improve organizational efficiency, reduce operational costs, build stronger local networks, and provide resource advantages. The approach of Japanese companies has bucked the trend however, as will be explained *et seq.*

They entered the liberalised Chinese market relatively early and, after years of development, have established a considerable presence across various industries. However, with the escalation of the US-China trade conflict in 2018, many Japanese firms have adopted "de-Sinicization" strategies in

relocating operations to other countries to mitigate tariff pressures. As well as international political dynamics and macroeconomic policies, they are driven by factors such as the depreciation of the Japanese Yen and China's strict pandemic control measures. In juxtaposition with the development of these external challenges, formidable labor-related issues have emerged. According to Japan External Trade Organization (JETRO), three of the top ten business challenges faced by Japanese companies are related to labor. Specifically, rising employee wages, employee quality, and talent acquisition.

Japanese companies have traditionally adhered to a human resource management model focused on internal development, which firstly seeks to secure core talent and then develop it through long-term training. However, the high turnover rate in China's labor market has made it difficult for these companies to fully implement this model, compelling them to consider external recruitment rather than appoint from within (Gao, 2012). Moreover, numerous studies have pointed out that Japanese companies operating abroad have a poor reputation in managing white-collar employees (Nakamura, 2005; Xu, Dong, & Yasuda, 2014). For example, when they transplant their parent company personnel systems to China, they often encounter challenges such as insufficient employee motivation, which hinders the localization process (Zhu, 2007). To address these challenges, Japanese companies must set clear strategic goals and gradually adjust their systems through long-term good practice to better meet local needs (Saito et al., 2017).

In this context, the Embeddedness Theory offers a novel analytical framework for understanding how businesses localize, by establishing deep connections with the social structures, cultural customs, and economic networks of the regions in which they operate. It is argued economic behavior and market relationships are not independent, rather that they are deeply rooted in social networks, cultural norms, and institutional structures. Economic decisions are often shaped by the social environment of businesses, individuals, or organizations.

The concept of embeddedness was first introduced by Hungarian economic sociologist, Karl Polanyi, in *The Great Transformation* (1944). He argued that economic processes are inherently intertwined with social, religious, and political structures. Individual economic behavior is influenced not only by economic factors but also by social relationships and institutional arrangements, with the social conditions of workers shaped not just by economic factors, but also by their social environment, community status, and other non-economic elements. Building on this, Mark Granovetter (1985) showed that the behaviors of individuals, businesses, and even entire economies are deeply embedded in social networks and frameworks, ranging from close personal relationships, such as between family and friends, to broader societal and cultural structures that provide cohesion and support to communities. Granovetter introduced two dimensions of embeddedness: 'structural embeddedness', which refers to the formal and institutional coordination of networks, focusing on the organization and existence of connections rather than their intensity or depth of interaction; and 'relational embeddedness', which emphasizes the quality and strength of direct social ties among stakeholders, referred to as "linkages". These linkages are

reinforced through material benefits and social interactions, playing a pivotal role in decision-making processes and sustaining economic activities. Granovetter's work spawned an avalanche of embeddedness theories, such as cognitive embeddedness, cultural embeddedness, technological embeddedness, job embeddedness, etc. This paper focuses primarily on job embeddedness, introduced by Mitchell et al. (2001), which addresses the social and relational aspects of attachment within the workplace. Beyond job satisfaction, the combination of strong social ties, alignment with organizational values, and the costs associated with leaving, all contribute to employee decisions to continue working for an organization.

In economic geography, embeddedness is the examination of how businesses strategically position themselves within the socio-economic frameworks of their locations. This perspective is particularly relevant for Japanese companies operating in urban China, as it helps illuminate the interplay of these firms integrating into local networks, their reliance on regional resources, and their responsiveness to market demands. Japanese firms often strive to embed themselves within local clusters, to access resources, establish partnerships, and align with the socio-economic characteristics of their environments. The level of a company's embeddedness is shaped by its internal strategies as well as the distinctive attributes of its operating environment. Consequently, to succeed, talent localization strategies must align with local economic patterns, labor market conditions, and cultural dynamics.

For individual employees—especially those new to an urban setting—the challenge of integrating into the city's social structure can complicate the localization process. Urban assimilation is a multidimensional process, involving economic, social, psychological, and cultural adjustments. Employees who struggle to establish meaningful local ties may feel disconnected, leading to higher turnover rates and undermining the stability of human resource management strategies. Addressing these challenges is critical for Japanese firms seeking to maintain a competitive workforce in the rapidly evolving post-COVID-19 Chinese labor market.

This research uniquely integrates the Embeddedness Theory with the context of talent localization challenges that Japanese firms face in China, exploring their strategies, focusing on new recruit motivations, factors influencing career continuation, and the constraints faced in recruitment and retention. To address these issues, the study includes interviews with 28 white-collar workers who have worked for or are currently employed by Japanese companies. It is complemented by interviews with 2 employees from 2 headhunting companies that Japanese firms use.

II Research Methodology and Research Object Overview

1. Research Methodology

This study focuses on Japanese-owned enterprises in China, with 28 of their current or former white-collar employees interviewed between April and September 2023. A further two interviews were conducted with two employees from headhunting firms that cater to Japanese companies, making a total of 30 interviewees with working knowledge of 33 different enterprises. Interviews as the research method were employed since face-to-face interactions with employees provide deeper insights into their true motivations, career trajectories, and experiences with company culture—insights that are often difficult to capture through traditional quantitative methods. Semi-structured interview also allows for the exploration of diverse perspectives shaped by individual backgrounds, experiences, and positions within the company. Each participant's unique narrative and viewpoint contribute valuable case-based evidence that enriches the study.

The researcher opted not to focus on senior executives, as is common in similar studies, but instead concentrated on white-collar employees. Senior managers might present an idealized image of the company, which may obscure the real challenges faced by the organization. In contrast, feedback from white-collar employees is likely to offer a more accurate reflection of the effectiveness of the company's localization strategies, particularly in areas such as career development, work environment, and compensation—key factors directly influencing the success of talent localization initiatives. Additionally, senior managers may lack a complete understanding of the personal career needs and circumstances of lower-level employees, which are pivotal factors in their decisions to stay with or leave a company. White-collar employees arguably provide a more accurate and comprehensive understanding of the human resource management practices of Japanese companies in China, identify the challenges they encounter, and offer a more nuanced assessment of their talent localization strategies.

2. Overview of Japanese Companies in China

Since the implementation of China's reform and opening-up policy, concomitant with closer economic ties between China and Japan, Japanese companies have gradually increased their presence in the Chinese market. According to Teikoku Databank, as of June 2024, the number of Japanese companies with local subsidiaries or production facilities in China stands at 13,034. These companies operate across a broad range of sectors, including not only in traditional manufacturing and heavy industries, but also in services, finance, and retail. Although overall interest in business expansion has been waning, 27.7% of existing Japanese companies still plan to scale up their operations (JETRO, 2023), reflective of China's geographical proximity to

Japan and dual role as both the "world's factory" and "world's market," which make it a strategically important location for Japanese businesses.

This study focuses on Japanese companies located in East China (Shanghai, Jiangsu, and Zhejiang), North China (Beijing and Tianjin), Central and South China (Guangdong, Shenzhen), and Northeast China (Liaoning). The distribution of the research subjects aligns with the overall operational footprint of Japanese companies in China, as shown in Figure 1. The distribution of Japanese enterprises in China is primarily concentrated in the economically developed coastal regions, particularly the Yangtze River Delta, Pearl River Delta, and Beijing-Tianjin-Hebei areas. However, with the growth of the economy in China's central and western regions, they too have attracted some Japanese enterprises, such as to Hubei, Sichuan, and Chongqing.

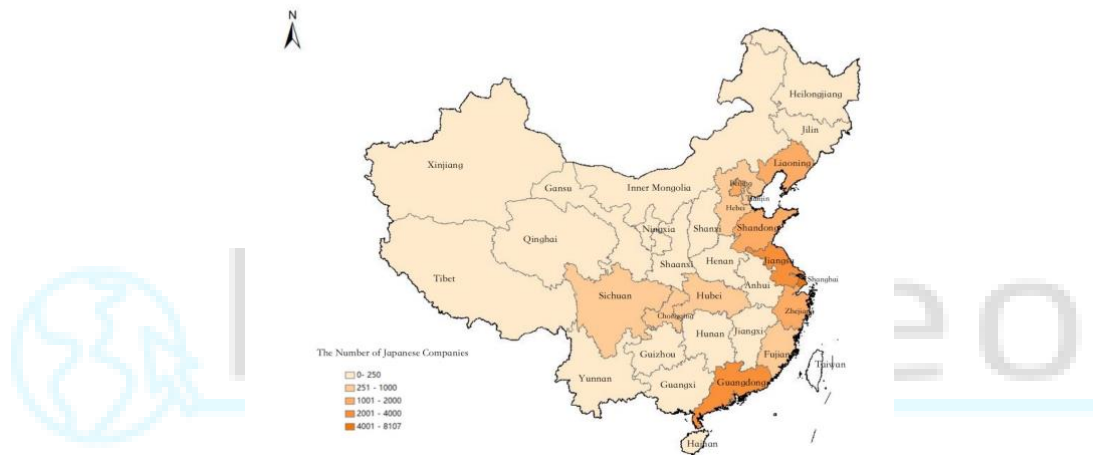


Figure1: Distribution Map of Japanese Companies in China (as of April 30, 2024)

(Source: Created by the authors based on data compiled by Rismon)

3. Overview of Japanese Enterprise White-Collar Employees

The term "white-collar" is commonly used in sociology and economics to describe employees engaged in intellectual or non-manual labor. In the 1980s and 90s, the liberalization of the Chinese market attracted forward-looking Japanese companies. Over time, their employment strategies have gradually evolved, transitioning from an initial focus on hiring blue-collar workers to incorporating white-collar professionals and, ultimately, fostering localized management teams.

They arrived primarily to take advantage of the country's low labor costs and abundant production resources. At that time, their workforces were predominantly composed of blue-collar workers engaged in manufacturing roles. However, as the Chinese market further liberalized and consumer purchasing

power grew, Japanese companies expanded their operations beyond manufacturing with the establishment of research and development, marketing and service arms. This expansion required a deeper understanding of local consumer behaviors and market trends, which led to an increased reliance on local white-collar professionals in roles such as marketing and customer service.

To support the localization of their operations, Japanese companies conceived regional management systems to better adapt to the local market. By hiring local managers and executives, they sought to reduce expatriate management costs, improve their responsiveness to the Chinese market, and enhance their social image within the region. These localized management teams often integrate Japanese management practices with local operational realities, facilitating greater flexibility in navigating market dynamics.

The white-collar employees interviewed in this study exhibit the following characteristics: (1) At least one prior employment experience with a Japanese enterprise; (2) a bachelor's degree or other higher education qualification; (3) a minimum of one year of tenure at a Japanese enterprise. The aim of the study was to delve more deeply into the localization practices of Japanese companies in China and prise out their rationale.



Table 1: Basic Employee Interviewee Information

ID	Gender	Age	Education Level	Major	Workplace	Industry
1	M	26	University	Mechanics & Japanese	Tianjin	Manufacturing
2	M	29	University	Computer Technology	Shanghai	Manufacturing
3	F	32	University	Japanese	Shenzhen	Trading Manufacturing
4	M	28	University	Mechanics	Zhejiang	Manufacturing
5	F	29	University	Japanese	Guangxi	Manufacturing
6	M	35	University	Journalism	Beijing	Food Manufacturing and Sales Consulting Research Institution
7	M	29	Graduate School	Materials Engineering	Jiangsu	Manufacturing
8	M	41	University	Business Management	Beijing	Retail
9	F	38	University	Japanese	Beijing	Retail
10	M	30	University	Japanese	Shanghai	Financial
11	M	32	University	Law & Japanese	Beijing	Trade
12	F	26	Graduate School	Japanese	Shanghai	Manufacturing
13	F	29	University	Japanese	Liaoning	Manufacturing
14	F	28	University	Japanese	Liaoning	Manufacturing
15	F	29	University	Japanese	Jiangsu	Manufacturing
16	F	26	University	Japanese	Liaoning	Trade
17	F	27	University	Japanese	Shanghai	Manufacturing
18	F	30	University	Japanese	Jiangsu	IT
19	F	28	University	Japanese	Shanghai	Manufacturing
20	M	27	University	Materials Engineering	Shanghai	Manufacturing
21	F	28	University	Japanese	Jiangsu	Information Technology Service and Consulting
22	F	27	University	Japanese	Shanghai	Manufacturing
23	M	29	University	Business Administration	Zhejiang	Retail
24	F	27	University	Marketing	Shanxi	Retail
25	F	34	University	Japanese	Jiangsu	Retail
26	M	29	University	Marketing	Zhejiang	Manufacturing
27	F	23	University	Japanese	Jiangsu	Manufacturing
28	M	28	Graduate School	Software	Shanghai	Manufacturing
29	M	27	Graduate School	Economics	Beijing	Recruitment Agency
30	M	39	Graduate School	Japanese	Beijing	Recruitment Agency

III Motivations for Joining Japanese Companies

The motivations for graduates to join Japanese companies are diverse, incorporating factors such as professional alignment, interest in company products, corporate reputation, and cultural affinity. In addition to the logic behind individual career choices, they also highlight the unique advantages Japanese companies have in attracting candidates from varied backgrounds.

Professional alignment is a primary driver. Higher education graduates, especially at prestigious institutions, often seek positions that closely align with their field of study (Wei,2017). Moreover, in a survey of 2016, Li Jinshu found that 68.8% of Japanese-language graduates pursued careers that had some association with their studies. Herein, 19 of the respondents had studied Japanese in China - some had double degrees. Their motivations for joining Japanese companies can be categorized as ‘proactive’ or ‘passive’. The former typically developed an interest in the Japanese language as early as high school or during their university studies, and were seeking to advance their linguistic proficiency professionally. In contrast, passive choices are often made by graduates facing limited career options. For example, ID9 stated, "After graduating from a Japanese-language program, the career options are quite narrow. That a Japanese language major is a prerequisite for few civil service exams is indicative of the unexceptionalism it is regarded with, while teaching Japanese at a university level requires at least a doctoral degree. For jobs in other industries, the lack of relevant expertise weakens my appeal, leaving Japanese companies as the only viable choice." Such testimony intimates Japanese companies are attractive and natural choices for Japanese language graduates, not only because their education has oriented them in that direction, but also because that same education has constricted their career options.

In contrast, graduates in fields such as engineering or management have a broader range of career options, which means their motivations for joining Japanese companies may be influenced by factors beyond just professional alignment. Interest in company products is a significant motivator. For instance, ID8, who received alternative offers from a Chinese and an American firm, ultimately chose a Japanese company due to a strong admiration for its products, even though the salary and benefits offered by all three companies were similar. Many other employees in the company also expressed a keen interest in its products prior to joining, a reminder to companies that market appeal through brand promotion can have a strong magnetic pull in tempting talent from eclectic academic backgrounds to work for them.

For STEM professionals, corporate reputation emerges as a significant factor in choosing to join Japanese companies. As ID1, ID 7 and ID 20 noted, "Japanese companies are highly regarded in technical fields. Having work experience in a Japanese company, particularly in technology development and engineering projects, is considered a testament to strong technical skills and professionalism, which greatly benefits future career prospects."

Certain candidates are drawn to Japanese companies due to their interest in Japanese culture. For example, ID7, a Journalism major, mentioned a lifelong interest in Japanese anime, while ID6 attended

a Japanese language school for two years after graduation. These individuals aim to integrate personal interests with career development and engrain themselves in Japanese culture through their professional environment.

In summary, the motivations for graduates to join Japanese companies reflect a combination of professional alignment, personal interests, and career development considerations. Graduates in STEM fields tend to prioritize a company's technological strength and reputation when choosing their employer. In contrast, Japanese language graduates are more likely to focus on professional alignment with their field of study. Meanwhile, graduates from other humanities disciplines, who do not have a background in Japanese, may place greater emphasis on personal interests and cultural factors when making their career decisions.

IV Factors Influencing White-Collar Employee Continuance in Jobs

The continuance of white-collar employees in jobs is significantly influenced by both the levels of their bonding with employers and the broader regional context. Internal factors and external contexts interact to shape the behaviors and preferences that determine whether employees choose to stay at or leave a company (Figure 2) .



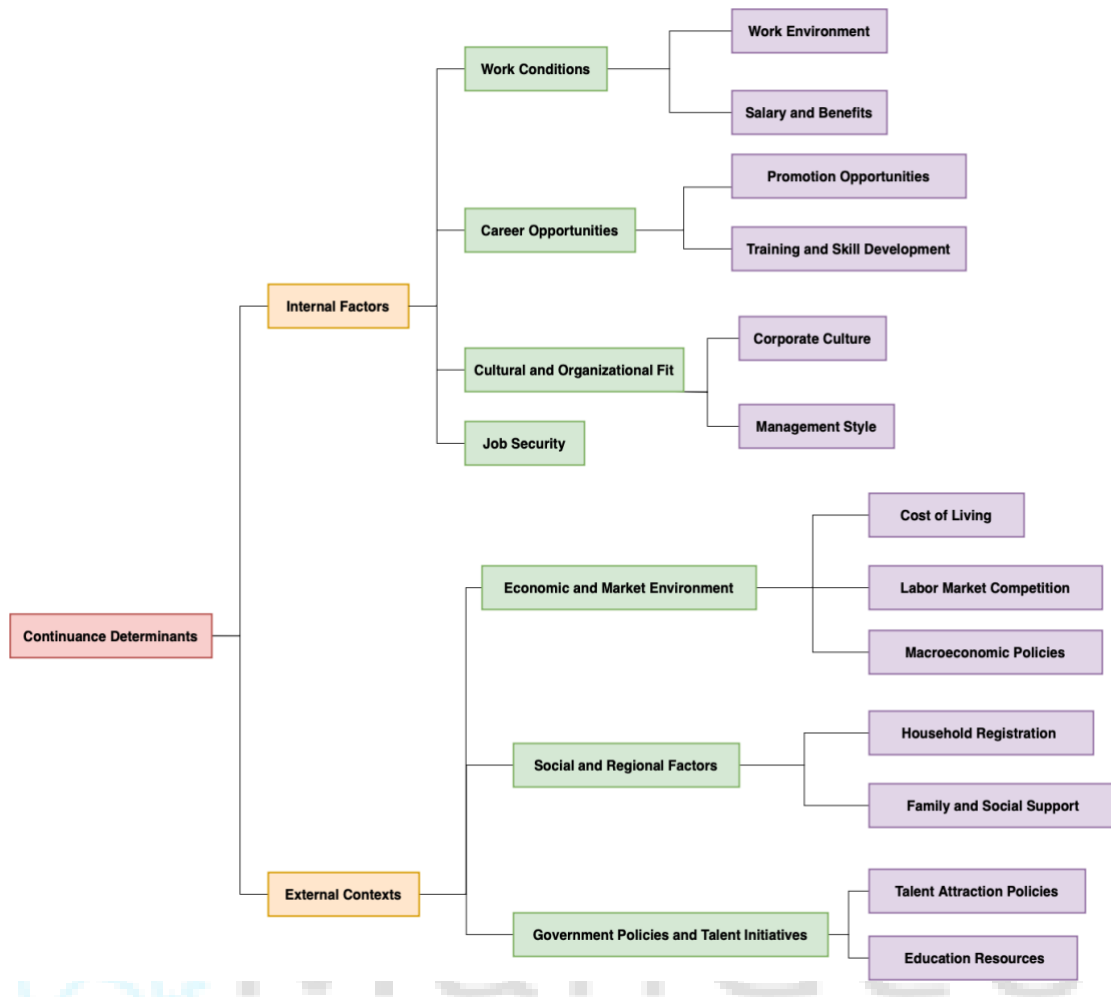


Figure 2: Continuance Determinants: Internal Factors and External Contexts

(Source: Created by the authors)

External contexts such as living costs, family support, and household registration (*hukou*) status play a pivotal role in continued employment. Housing expenses in particular constitute a substantial proportion of living costs. While Japanese firms operating in China may not offer salaries as competitive as their Western counterparts, *hukou* (household registration) possessing residents who own property tend to have lower living costs. Thereby, the financial pressures are cushioned and their reliance on salary-based incentives consequently decreases, shifting their focus toward internal factors such as job stability, workplace atmosphere, and work-related pressures.

Family dynamics also play a substantial role in influencing employee perseverance. Strong familial and social ties discourage job transience and make stable employment more attractive. ID1 noted that, after establishing a family, the propensity to seek alternative employment decreased significantly, coupled with a heightened desire for job security. Similarly, ID3 felt that working for the same organization as her spouse fostered a collective sense of professional identity, further reinforcing their commitment to the company.

For female employees especially, the implementation of family-friendly workplace policies by Japanese firms was a salient factor in wanting to stay with the company. Respondent ID22 highlighted the legally compliant and well-structured work arrangements of Japanese firms, which actively support work-life balance by minimizing out-of-hours intrusions. Additionally, generous leave and progressive equality practices increase job satisfaction and contribute to the decisions of female employees to stay.

Internal structural and operational characteristics of Japanese firms emerge as critical determinants of employee continuance in jobs. These firms are often characterized by standardized workflows, clearly defined roles, and fixed work schedules, which collectively provide a stable and organized working environment. Additionally, Japanese companies typically offer comprehensive welfare benefits and the threat of downsizing is low, with ID1, ID5, ID18, ID20, ID25 and ID26 emphasizing the stability and clockwork of the working environment, combined with robust employee benefits. These internal attributes often outweigh the perceived limitations of salary levels, making Japanese firms a preferred choice for local employees.

Job security constitutes a further critical determinant of employee embedment. Japanese firms are perceived as offering highly stable employment opportunities, characterized by minimal layoff risks and long-term career development pathways. For instance, ID14 pointed out that employees could expect tenure until retirement if the company maintained its operations. ID12 further highlighted procedural complexities insulated Japanese firms from the threat of layoffs, allaying contract termination fears, and instilling a heightened sense of job security. This organizational stability was particularly evident during the COVID-19 pandemic, as ID1 noted, when companies proactively switched to blanket remote work contingencies and ensured wages were undisrupted. Not only did the crisis management practices reinforce organizational trust, they also reasserted the employee sense of belonging and commitment.

The localization strategies adopted by Japanese firms in China demonstrate significant adaptability, further bolstering their employee retention. For example, ID1 described the implementation of individualized training programs designed to facilitate the integration of local employees into organizational workflows. ID8 emphasized the introduction of flexible management practices that gave employees more autonomy, fostering a sense of empowerment. Furthermore, ID24 highlighted the alignment of corporate activity with local cultural and societal expectations, such as, to safeguard brand reputation, suspending public relations exercises on historically sensitive dates like September 18. These localized practices reflect a nuanced understanding of the Chinese socio-cultural environment and reinforce employee identification with the organization.

In summary, the retention of local white-collar employees is shaped by a combination of regional embeddedness and organizational attributes. The unique advantages offered by Japanese firms—

particularly in terms of workplace stability, family-friendly policies, and organizational adaptability—serve to strengthen these ties.

V Constraints Faced by Japanese Companies in Talent Recruitment

The primary channel for graduates *en bloc* seeking employment remains job information provided by universities. Between 2003 and 2021, university-released employment information consistently ranked as the leading source of job opportunities (Yue, 2023), in particular at top-tier universities through official employment notices and campus recruitment events (Li Min, 2011). Social networks and third-party recruitment services were not as significant. This is because, compared to with headhunting firms, job seekers—especially fresh graduates—maintain stronger ties with their universities, and companies recommended by their universities tend to be viewed more favorably and trustily by graduates.

Counterintuitively, the recruitment strategies of Japanese companies are increasingly reliant on collaborators, and the limitations are being exposed. A key issue is the lack of direct engagement between companies and job hunters, particularly those at higher education institutions. At variance with the aforementioned overall trend reported by Yue, from a sample of 28 participants that had previously worked or were still working for Japanese companies in this survey, only three were hired through campus recruitment, with the majority recruited through social networks or other non-campus methods. Headhunters ID29 and ID30 related that Japanese companies tend to rely on these third parties to filter candidates rather than engage directly with the talent pool. While this strategy reduces time cost of recruitment processes, it dilutes intercourse between the company and job candidates. By relying heavily on intermediaries, companies may miss out on high-potential candidates—particularly top graduates—who usually receive job offers before graduation. Moreover, in another study conducted by the authors of this paper, it was found that the majority of university students have no concept of Japanese companies.

Thus, the lack of direct cooperation with universities means Japanese companies are falling behind in the competition for young, highly educated talent, especially in relation to non-Japanese companies more actively involved in campus recruitment. In the long run, this recruitment model could not only fail to promote the company brand, but also damage the quality of its talent pipeline.

VI Reasons for Employee Turnover

Local employees tend to prioritize achieving a sense of "internal embeddedness" within the organization when selecting an employer. When they perceive insufficient internal embeddedness, their

inherent external embeddedness within the local community often functions as a "safety net," enabling them to confidently seek new employment opportunities within the same locality.

In contrast, non-local employees are more focused on achieving "external embeddedness" through their work when choosing an organization. If they successfully attain external embeddedness, achieving "localization," their subsequent career decisions generally align with those of local employees. Conversely, failure to establish external embeddedness may result in their decision to leave the organization or even relocate to a different city (Figure 3) .

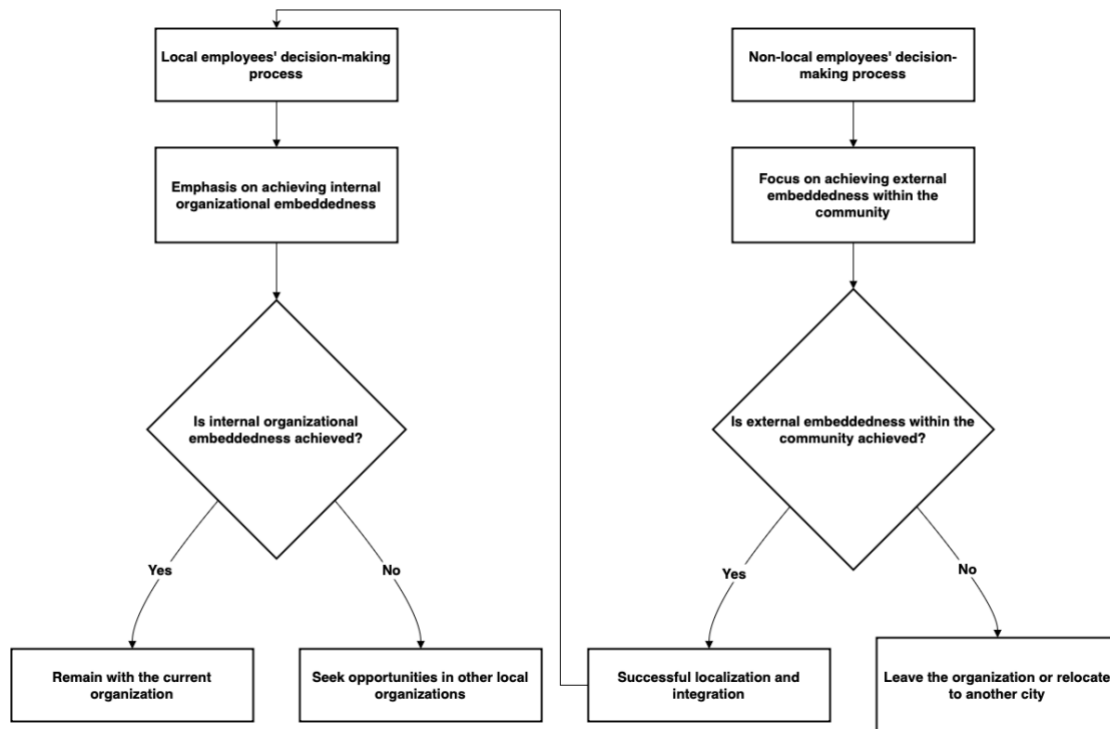


Figure 3: Employee Continuance and Transience Decision Flowchart

(Source: Created by the authors)

Employee exits from Japanese companies in China exhibit distinct patterns, such as common demographic traits, e.g. male, unmarried and with a non-local household registration. The primary drivers of turnover can be categorized into internal factors and external contexts, both deeply intertwined with the evolving labor market dynamics. For non-local employees, instability is a major issue. Unlike local employees who may benefit from family and social support systems, non-local employees often lack a strong connection to the region where they work. When companies fail to help strengthen these connections, non-local employees are more likely to seek new opportunities or leave the city. The *hukou* (household registration) system in China exacerbates this problem, serving not only as an administrative record but also playing a critical role in social resource allocation, personal development, and quality of life. Employees without *hukou* struggle to establish a foothold in major Chinese cities. Furthermore, foreign-funded enterprises, including Japanese companies, cannot provide *hukou*. Without a clear

pathway to sustainability, many non-local employees are compelled to seek opportunities in other jobs or return to their hometowns.

Economic factors are the predominant reason for migrant employees leaving Japanese companies. Most Japanese companies are in large cities, where the high cost of living, particularly housing expenses, creates financial pressure, making higher salaries and/or housing support at other companies a temptation. This is further complicated by the societal pressure for unmarried men to secure homeownership before marriage. Many view Japanese companies as a steppingstone to gain experience at before graduating to higher-paying jobs with alternative employers or returning to their hometowns with accumulated wealth. While Japanese companies are often lauded for their work-life balance, the rewards sometimes fall below the financial aspirations of employees, with, for instance, the absence of an overtime culture limiting opportunities for income growth. This is particularly significant for male employees, who, programmed by traditional norms positioning men as primary economic providers, prioritize salary progression and career advancement. Women, in contrast, are more likely to value long-term stability and work-life balance, aligning better with the structured but slower-paced environments of Japanese companies. Many male employees expressed dissatisfaction with the low and slow salary increases. For instance, ID4 noted that, in his experience, salaries at Japanese firms were significantly lower than those at European or American companies within the same industry, with average annual increases of only 5%, failing to keep pace with rising living costs. This financial issue drives higher turnover rates among male employees, who are less likely than their female counterparts to compromise on salary growth.

Internal organizational factors contribute significantly to employee turnover too. Career development opportunities are often perceived as limited. As ID5 noted, "Personal ability is definitely the foundation for promotion, but the speed of advancement largely depends on whether your boss follows traditional Japanese corporate thinking or is open to breaking away from it." Moreover, Japanese companies often implement strict confidentiality measures. This was emphasized by ID4, who stated, "New employees are assigned the most basic tasks with minimal interaction with the outside world, causing them to fall behind in terms of industry development." Similarly, ID1 noted that employees are not allowed to take laptops home after work, and their tasks are primarily repetitive. To maintain market competitiveness, as a technical employee, ID2 left for another company, where he could acquire more skills.

While cultural differences are not the primary driver of employee turnover, they nonetheless emerge as a recurrent theme in employee feedback. Sino-Japanese as well as intra-Sino inter-regional cultural divergences often create tension. ID4 related that their company held daily morning ceremonies, during which employees were expected to formally offer greetings to each other following the ringing of the work bell, with criticism directed at those not at their desks. Such practices, rooted in traditional Japanese workplace rituals, were perceived as overly rigid by some employees. ID7 recounted an uncomfortable interaction with a Japanese colleague regarding the use of honorifics. ID19 and ID22

further emphasized cultural and philosophical disparities between Japanese and Chinese workplace values. They pointed out that employees are expected to express their gratitude for their salaries and professional opportunities in Japanese companies. In contrast, the prevailing Chinese perspective treats labor compensation as a basic right. The sentiment is encapsulated in the belief, “I work, and you pay—this is only natural,” reflecting a transactional approach to employment relationships. On a domestic level, non-native ID17 felt the use of Shanghai dialects by native Shanghai colleagues both in work-related and private interaction was alienating and made it difficult to integrate into the company environment.

The root causes of these phenomena lie in both inherent Sino-Japanese cultural differences and the company’s localization strategy. Insufficient localization at the leadership level can result in talent strategies that are ill-suited to China’s national context, while excessive localization also erodes the company’s competitive edge in talent acquisition. For example, ID24 pointed out that in adopting a Chinese management model, their branch of a Japanese company had squandered its inherent advantage. Japanese management styles are often regarded as symbols of stability and a clear pathway for career development. However, when these companies shift to a more localized management model, characterized by short-term performance-driven approaches and flexible yet less standardized operations, it can create a sense of disillusionment among employees. Many question why they should choose a Japanese company if its working conditions and management philosophy mirror those of a local Chinese private enterprise. This distinction erosion diminishes employee sense of belonging and nullifies the star qualities that made Japanese companies stand out in the labor market. The composition of leadership teams has now consequently become a decisive consideration in applying for jobs. A team entirely composed of Chinese managers is often interpreted as an indication of fully localized management, which may suggest a loss of a Japanese company’s proto-attractions. Conversely, an entirely Japanese leadership team will often be perceived as a sign of limited career advancement opportunities. Such sensitive diametrically-opposed perception dilemmas make localization strategies a fine balancing act. Excessive localization risks eroding the distinct attributes that differentiate them in the job market, while insufficient localization could alienate potential recruits.

VII Conclusion

This study explores the operational status and localization strategies of Japanese companies in China, revealing both the successes and challenges they face in talent management. Based on field investigations, the following key conclusions are drawn:

The core driver of talent attraction and retention stems from the "embeddedness" of employees within their companies or regions. From the recognition of corporate culture to the connection to regional economic and social resources, embeddedness theory provides an effective framework for explaining

employee decisions to remain with Japanese companies. This study develops the traditional job embeddedness theory by distinguishing between local and non-local employees, highlighting their differing embeddedness needs, which can also be applied to other types of companies in China. For Japanese companies, the local employee sense of regional belonging and family stability significantly reduces their transience, while the appeal of the work environment, welfare policies, and gender-friendly practices provide further stability. However, Japanese companies still face significant challenges in attracting top graduates from prestigious universities and retaining non-local employees, in particular, due to insufficient focus on campus recruitment and a shortage of empathy with the career expectations of young talent. To stay competitive in China's talent market, Japanese companies should tailor their recruitment strategies to the specific needs of candidates from different backgrounds, while strengthening partnerships with universities. In terms of continuity, local employees tend to prioritize career development opportunities and workplace stability, whereas non-local employees are more influenced by external factors such as the cost of living and social support. By addressing these distinct needs, Japanese companies can better retain talent and improve their standing in the talent market.

Notes:

1. Data from the Rismon Company is referenced from their report available at https://www2.rismon.com.cn/report2404_j/?utm_source=rm&utm_medium=press&utm_campaign=240430.
2. Data from the Japan External Trade Organization is referenced from their report *FY2023 JETRO Survey on Business Conditions for Japanese-Affiliated Companies Overseas (China Edition)*, February 2024, available at https://www.jetro.go.jp/ext_images/_Reports/01/f0abf79037bfe15f/20230038.pdf.
3. Data from Teikoku Databank is available in the report *Trends of Japanese Companies Expanding into China (2024)*. Available at: [sets/d4b8e8ee91d1489c9a2abd23a4bb5219/5c143b3ac4c24148a7eae00c4baa5d5d/p240801.pdf](https://www.teikoku-databank.com/sets/d4b8e8ee91d1489c9a2abd23a4bb5219/5c143b3ac4c24148a7eae00c4baa5d5d/p240801.pdf)
4. The Yangtze River Delta, also known as the Changjiang Delta is in the eastern part of China, centered around the Yangtze River. The region includes major cities such as Shanghai, Nanjing, Suzhou, Hangzhou, and Wuxi; the Pearl River Delta is in southern China and centered around the Pearl River. It includes major cities such as Guangzhou, Shenzhen, Dongguan, Zhuhai; The Beijing-Tianjin-Hebei area, also known as the Jing-Jin-Ji region, is the largest urban agglomeration in northern China, consisting of Beijing (Jing), Tianjin (Jin), and Hebei (Ji).
5. The "traditional Japanese corporate thinking" mentioned by ID5 refers to the seniority-based system, where employee's career development is not solely based on individual performance but is significantly influenced by seniority and tenure.
6. The Employee Continuance and Transience Decision Flowchart was designed to simplify and clarify the decision-making processes of local and non-local employees. While real-world scenarios involve factors such as individual preferences and external economic conditions, which introduce significant complexities not fully captured by this model, it serves as a foundation for understanding the underlying mechanisms. Future research can incorporate additional factors to better reflect the nuances of practical scenarios.

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