

Human Resource Management Practices of Japanese Companies in Mongolia

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Abstract

This paper investigates how Japanese affiliates and subsidiaries in Mongolia are transferring their Human Resource (HR) practices to the local employees and the challenges they encounter in conveying Japanese management.

First, I briefly introduce Mongolia, about current economic condition, geographical and historical contexts that formed Mongolian management and HRM style which is originated from nomadic culture. Then I also introduce Japanese management style to compare characteristics and differences between Japanese and Mongolian HRM practices. How Japanese HR practices are working with the locals? And how are they localizing it? To what extent is Japanese management adopted in Japanese companies in Mongolia?

A qualitative study is conducted with HR specialists and CEOs who work in Japanese subsidiary and affiliated company. Japanese subsidiary and affiliated company's HRM practice were greatly influenced by Japanese HRM practices such as intensive training and job rotation, bonuses, welfare programs and internal promotion. Practices such as collective responsibility and collective decision making process, small-group activities and unified management of white and blue-collar employees, seem to have some issues in adopting.

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Introduction

Since 2010, foreign direct investment in mining sector has brought rapid economic growth to Mongolia with its peak of 17.3 percent in 2011. (WTO, Global Economic Prospects) This economic growth brought outer world attention to Mongolia and foreign companies started to open their branches and subsidiaries in Ulaanbaatar, the capital city of Mongolia.

In this research, I concentrated on Japanese companies' human resource practices in Mongolia, because Japanese HRM practice is very unique which did not have precedent in the western culture and Mongolian HRM practice is also different because of its origin of the nomadic culture. (Moriguchi, 2014) (Gombodorj, 2012)

Located in East Asia bordered by Russia and China, Mongolia is the 2nd largest landlocked country with a small population that just hit 3 million in 2015. Mongolia has a rich history and administration system of law and military. "The Mongol Empire" was the largest contiguous land empire in the world history during the 13th and 14th centuries. (Gombodorj, 2012) As a nomadic nation, Mongolians did not like boundaries and anything that limits them in any dimensions, including time and space. For centuries Mongolians thought of land just like the air and the ocean and there were no ownership of the land. (Sarlagtay, 2002) Pastoral agriculture is the main economic source for the nomads while mining industry is the major sector of the total exports and GDP. As of 2014, approximately 30 percent of the total population lives in semi-nomadic lifestyle. The management theory that came up due to the nomadic culture of Mongolians is named as "Mongolian management" or "MM". In previous studies, researchers mentioned that Mongolians who have domination of nomadic culture is not right to imitate directly foreign management theories that based on urban civilization. It can result in socio-economic dramatic consequences. (Gombodorj, 2012)

Mongolia became a socialist country in 1924 and when Soviet Union collapsed in 1990, Mongolia has transformed its political and economic system to democracy. This transformation has brought many positive changes such as multi-party election, democracy, land privatization, market economy and international cooperation. Socialism discouraged personal property, foreign trade and self-promotion. And after 70 years of socialism, people of Mongolia were not mentally ready for the capitalism which resulted social problems such as unemployment

caused by privatization of factories, poverty, immigration, increase of alcoholics caused by depression and income inequality.

In this paper, first I introduced Mongolia and its economical, geographical and historical contexts that helped to form the modern Mongolian management. I explained Mongolian management style from the nomadic nation's point of view and then compared to Japanese management style. Mongolian management focuses on individual interest and need which is often considered closer to the US management style. (Gombodorj, 2012) So what are the differences of the Mongolian management style that separates from the US management style? Lifetime employment, seniority and enterprise unions are called the three pillars of the Japanese management. (C.Abegglen, 1958) In contrary, short and medium-term employment, high turnover ratio, specialized career paths and individualism are the characteristics of Mongolian management. Ability and experience are top priorities in Mongolian companies when making hiring decision and pay less attention to applicant's moral and attitude that is also important to the company. Japanese companies hire newly graduates for the company not directly for the specific position and there is often intensive training, orientation and job rotation. Therefore, most companies look for applicants that are eager to learn and cooperate with others.

Japanese management has been used in many companies for over 15 years in both Mongolian and Japanese companies. They say "when in Rome, do as the Romans do", but this proverb doesn't often work in the business environment. There should be a reason why most Japanese companies are sticking to the Japanese management practices more. To what extent Japanese management is adopted in Mongolia? And how are they localizing it?

A qualitative study, structured interview is conducted with Japanese IT subsidiary and affiliated company's HR specialists, managers and CEOs to know about their HRM practices and what issues they encounter. What points should foreign companies consider when bringing their HRM practices?

I report major findings and propose potential solutions to the problems. I also propose developing HR practices that hybridize both Japanese and Mongolian HR practices.

Main research

Introduction to Mongolia

This section covers some of the aspects of current economy, society and history of Mongolia. As of 2014, Mongolia has 1564.1 thousand km square area and has a population of 2.9959 million people. (NSO, Mongolian Statistical Information Service, 2014) Mongolia, bordered by Russia from the north and China from the south, is the second-largest landlocked country in the world. Being a country with small population and market, it is very dependent on its enormous neighbor countries. During the communism from 1920's to 1990's, Mongolia was controlled directly by the Soviet Union. And today, Mongolia imports more than 90 percent of the petroleum products from Russia and most of its consumption final products, machines and electronics from China. (NSO, Mongolian Statistical Information Service, 2014) The main importing countries to Mongolia are the Russian Federation, the PR of China, the EU, the Republic of Korea and Japan. Imports from those five countries account for more than 80 percent of the total imports in 2013. (WTO, Trade policy review, 2014)

Table 1: Imports, by country (%)

Country	2006	2007	2008	2009	2010	2011	2013 ¹
Russian Federation	37	34	38	36	25	27	25
The PR of China	28	31	28	25	30.31	28	28
EU	8.2	10.1	9	11.6	11.1	11.2	11.08
Republic of Korea	6	6	7	6	5	7	8
Japan	7	6	5	6	7	7	7

Source: (WTO, Trade policy review, 2014)

Ulaanbaatar, the capital city of Mongolia, is a home for 1.2 million people, which is about 45 percent of the population. (NSO, Mongolian Statistical Information Service, 2014) Being overcrowded, Ulaanbaatar is the center of economy, culture and education of the country.

¹ 2013 data is a preliminary data from National statistical Office (NSO)

Transformation

Twentieth century was a century of transformation for Mongolians. Reestablished its independence from Manchu² domination in early 1900s, Mongolia became a communist state in 1924. Since then Mongolia had 70 years of communism and centrally planned economy in which economy decisions are made by the state rather than by the consumers. From 1960s, this system started to experience a downfall and eventually collapsed by the late 1990s. Inspired by the reforms in the Soviet Union in 1990, Mongolia has made a major transformation from communism to capitalism. (Zorig, 2013) Our economic and political system has transformed from communism to democracy but society is still transforming from nomadic lifestyle to settled industries in an urbanized environment. (Sarlagtay, 2002)

This transformation brought many positive changes such as multi-party election, democracy, land privatization, market economy and international cooperation. However, this transformation had its downsides. It affected people's everyday lives, some lost their jobs due to a privatization of factories and many have gone abroad to improve their life, while some returned back to the semi-nomadic³ pastoral agriculture⁴.

A Chronology of key events in Mongolian history

- 1206 Genghis khan united the small nomadic nations to Mongol Empire.
- 1688 The Manchu(Qing) empire conquers the southern Mongols, creating Inner Mongolia.
- 1911 The Qing dynasty falls and Outer Mongolia declares its independence. Russia and the Republic of China recognized its autonomy.
- 1919 Outer Mongolia was occupied by China.
- 1921 With Red Army⁵ support, Mongolian revolutionaries driven out Chinese and installed the Mongolian "people's government".

² Manchu- also called Qing dynasty, was the last imperial dynasty of China, ruling from 1644 to1912.

³ Semi-nomadic - A lifestyle of people who have no fixed home and move according to the seasons from place to place in search of food, water and grazing land. It is called semi-nomadic nowadays because of the increasing use of electricity and communication utilities.

⁴ Pastoral agriculture- livestock farming and grazing

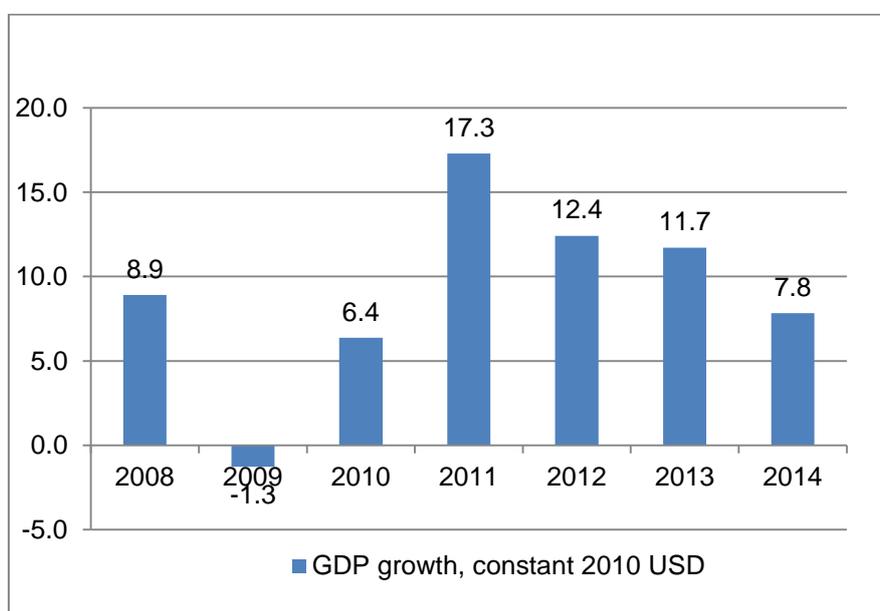
⁵ Red Army- the army and the air force of the Russian Soviet Federative Socialist Republic

- 1924 The Mongolian People's Republic was declared in Outer Mongolia. "Socialism bypassing capitalism" began.
- 1928 Collectivization began.
- 1961 The Mongolian People's Republic entered the United Nations.
- 1990 Socialism ended after 70 years.
- 1992 First democratic election was held.
- 1993 First direct presidential election took place.

Major sectors of Mongolian economy

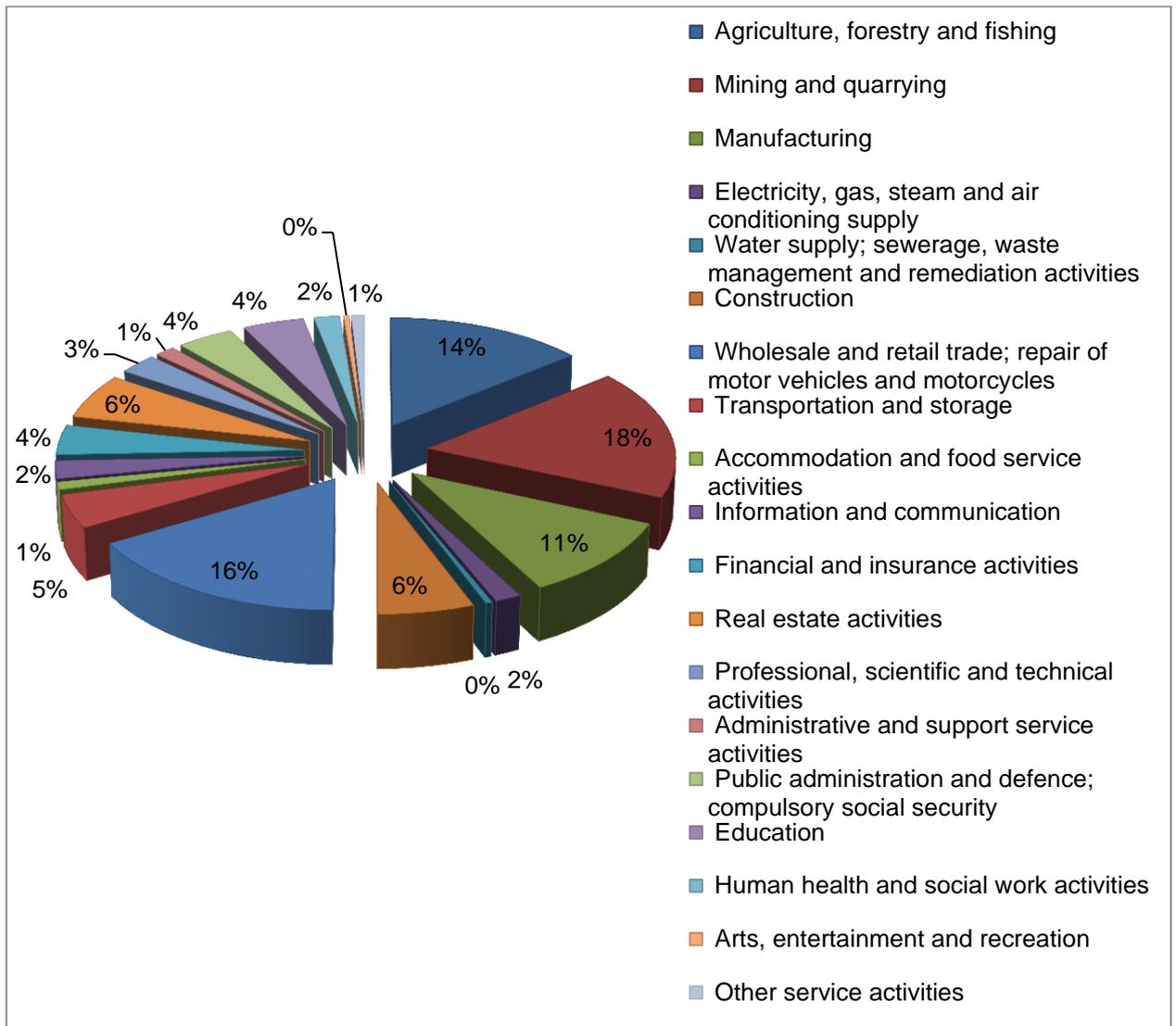
Mining, agriculture, wholesale and retail trade and manufacturing are the major sectors of our economy. (Figure 2: GDP, by sector (2014)) Supplies of main food products such as rice, sugar and vegetable oil are fully provided by imported products. In 2012, 51.2 percent of rice was imported from Japan, while 80.1 percent of sugar was imported from Thailand. The 99.0 percent of vegetable oil, 83.8 percent of flour were imported from Russia. (NSO, Statistical yearbook, 2013)

Figure 1: Mongolia GDP annual growth rate



Source: (WTO, Global Economic Prospects)

Figure 2: GDP, by sector (2014)



Source: (NSO, Mongolian Statistical Information Service, 2014)

Mining

Mineral products are dominated in Mongolia's exports. Particularly, mineral products comprised 35.2 percent of the total exports in 2000, 81.0 percent in 2010, which increased to 81.8 percent in 2013. (NSO, Statistical yearbook, 2013) Foreign direct investment in mining has been increasing since 2010 which brought rapid economic growth in 2011(17.3 percent). (Figure 1: Mongolia GDP annual growth rate) Exports of non-mineral products were 57.3 percent in 2005 and has been constantly declining and reached 18.2 percent in 2013. As of 2013, the share of mining sector in the GDP accounts for 28 percent and decreased to 18 percent at the end of the 2014. (Figure 2: GDP, by sector (2014)) Many foreign and domestic investors have been thriving to occupy Mongolian mineral deposits for years. One of

the biggest mineral deposits is “Oyu Tolgoi” which is estimated as the world’s largest undeveloped copper-gold mine is located in the southern part of Mongolia.

Agriculture

Because of the extreme weather conditions and very little arable⁶ land, agriculture industry is struggling to ensure a self-sufficiency of the national demand of major stable food products such as meat, milk, wheat flour, potatoes and vegetables. (NSO, Mongolian Statistical Information Service, 2014) Pasturing livestock husbandry⁷ plays an important role in the economy, employment and export revenues of Mongolia. Specifically livestock is the major economic sector of the country. (WTO, Trade policy review, 2014) For the preliminary estimates of 2013, 27.9 percent of GDP was produced by the agriculture sector, of which 77.5 percent accounts for livestock husbandry. As well, 35 percent of total labor force of the country is engaged in the agricultural sector and 7 percent of export income is contributed by the agriculture sector. In 2013, in total 45.1 million livestock heads were counted, grown by 4.2 million heads or 10.3 percent compared with the previous year. (NSO, Mongolian Statistical Information Service, 2014)

Information and Communication

Taking into account the rapid enhancement of various services based on information technology, citizens are provided with the opportunity to follow the activities of the Government and to participate in drafting of laws by giving their comments through open government website within the framework of the law. As a result of the above mentioned measures and introduction of new technologies into the communication sector, the income of communication service increased dramatically in the last few years, reaching 563.1 billion MNTs in 2012, which is 22.7 percent increase in comparison with the previous year. The number of mobile telephone users has increased reaching 3.4 million in 2012. This is an increase of 4.4 percent comparing to 770 thousand which was calculated in 2006. The number of internet users has also increased continuously and reached 696 thousand subscribers in 2012 which is 50 percent increase compared to the previous year. Investment in information and communication sector has also increased 10 times more in 2014 from that of 2009. (Table 2: Foreign direct investment (in million, US dollar))

⁶ Arable- capable of being farmed productively

⁷ Husbandry- Act or practice of cultivating crops and breeding and raising livestock

Table 2: Foreign direct investment (in million, US dollar)

	2006	2007	2008	2009	2010	2011	2012	2013.10
Total amount	366.54	499.96	708.92	801.15	1,025.9	4,986	3,198.7	1,076.1
The PR of China	172.01	339.61	497.8	613.06	176.04	1,015.2	243.19	30.9
Canada	72.18	0.5	2.74	1.03	147.81	72.28	18.62	7.1
Republic of Korea	16.43	22.99	41.77	31.67	38.76	54.97	54.02	14.4
Japan	4.73	2.45	46.62	5.59	7.13	21.46	34.24	12.9
USA	37.17	4.29	6.47	2.57	13.91	127.23	62.59	2.7
Russian federation	11.65	39.77	3.8	6.14	2.27	58.01	129.58	1.8

Source: (WTO, Trade policy review, 2014)

Foreign direct investment(FDI) in mining sector has brought such high economic growth from 2010 to 2012, but FDI is gradually decreasing since 2013. Annual decrease of inward FDI has reached the peak of 68 percent in 2014. (Frontier's Strategy Note, 2015)

Table 3: Division of investment

Division of investment	2014	2013	2012	2011	2010	2009
Total	5,528,412	6,577,870	9,395,799	8,387,871	3,845,809	2,146,151
Agriculture, forestry and fishing	77,393	49,996	64,573	38,006	23,284	21,035
Mining and quarrying	799,448	3,031,534	4,694,465	5,195,487	1,761,699	487,007
Manufacturing	398,780	228,747	139,208	92,149	71,465	60,922
Electricity, gas, steam and air conditioning supply, water supply	327,997	199,397	171,558	207,006	103,781	120,789
Construction	1,010,630	802,836	913,759	990,677	262,825	148,430
Wholesale and retail trade; repair of motor vehicles and motorcycles	760,197	480,678	1,466,502	326,865	497,730	304,746
Information and communication	351,411	388,492	156,215	91,634	60,399	34,879
Others						

Source: (NSO, Mongolian Statistical Information Service, 2014)

Outsourcing is bringing a new chance for this generation. During my visits back to Mongolia this year, I have met many people from Japanese subsidiaries and affiliated companies. Most of them were invested and willing to invest in IT and construction industry. Landlocked position and extreme weather conditions left us a limited choice. But we have witnessed the possibility of outsourcing from many

destinations such as India and Philippines. (Tholons Top 100 Outsourcing Destinations report, 2015) IT industry is definitely on the way to its peak in Mongolia. Therefore, I chose Japanese IT affiliated company and subsidiary in Mongolia for my target research.

Nomadic culture and its influence on today's society

Over centuries we have been keeping and embracing our nomadic culture. As of 2014, approximately 30 percent of the population, still lives in the semi-nomadic lifestyle. Being a nomad requires so much effort and abilities such as feeding and herding the 5 muzzles, making products from milk and forecasting the weather without any equipment. Nomads move their ger⁸ 3 to 5 times a year depending on the weather condition and the availability of grass and water. And these nomad's characteristics deeply relate to the people's mind and the way of thinking. City culture is comparatively new to Mongolia therefore we still have somewhat of that semi-settled or semi-nomadic mindset.

Mongolians as a nomadic nation do not like boundaries or limits. The mentality and lifestyle determined by animal husbandry cannot simply recognize any limits in any dimensions, including time and space. Liberty for Mongolians means "no limits". Unlimited nomadic activity means that there can be no private ownership of land. Land in a nomadic society is like the air or the ocean, it is impossible to divide and possess. It is not even public property, but simply a limitless expanse where we live and move. (Sarlagtay, 2002)

Land is now in demand and prices have risen. Taller and taller buildings are being constructed. Cities, mainly Ulaanbaatar, have begun to spread.

Mongolia is one of the most youthful countries in the world. 64.28 percent of the population is under thirty-five years old. (Table 3: Population, by age group) It is driving people away from the nomadic life. Many people are third to fifth generation city dwellers. (Sarlagtay, 2002) Youths today are attracted to a western lifestyle, not the nomadic traditions of generations ago. They are filled with a radical desire to reform every sphere of life. The urban lifestyle, which took root under the cultural influence of Eastern Europe during the communist regime, has provided fertile ground for the development of liberal ideas. This urban liberalism is eager to abolish

⁸ Ger – transportable home(tent) for nomads

any tradition that stands in the way of the construction of a new civilization. (Sarlagtay, 2002)

Table 3: Population, by age group

Age group	Percent
Under 15	28.1
16-34	36.2
35-64	31.7
Over 65	4

Source: (NSO, Mongolian Statistical Information Service, 2014)

As of the end of 2014, population under 15 is 28.1 percent and population under 35 is 64.28 percent of the total population.

Mongolians ability to adapt to new environment is amazing. City children spend their summer holidays in countryside in a semi-nomadic life-style. They experience both settled and nomadic life style and it prepares them to become more flexible and adaptable to new environments and conditions. For example: Job turnover ratio and short and medium-term employment is extremely high in Mongolia. Not only because many people are often laid off, but because they always try find better job opportunities. They get bored easily. There is also very little job security and punctuality when it comes the majority of people which we will discuss in the next section.

Mongolian management style

Mongolia has a rich history and administration heritage of state, military, law and economy which impacted on the civilization establishing its Great Empire⁹ in the 13th century. From this point of view, there is a facing issue to design an economic development of Mongolia, management concepts and philosophy, and Mongolian characteristics of management of the 21st century. (Gombodorj, 2012)

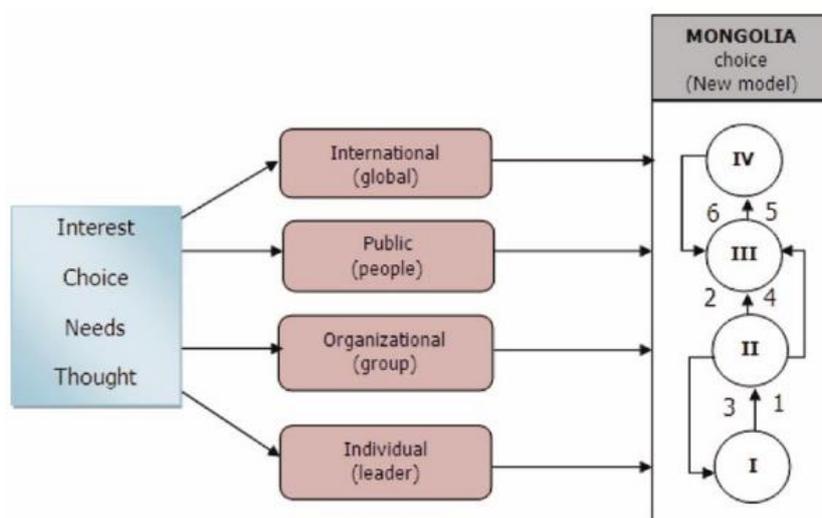
According to (Gombodorj, 2012), there are 4 different models of the management philosophy that are followed worldwide. “A”, “B”, “C” and “D” models of the management philosophy are defined the patterns of the USA, Japan, China and Sweden.

⁹ Great empire- also called The Mongol Empire, existed during the 13th and 14th centuries and was the largest contiguous land empire in the world history.

“A” model - is popular in western developed countries focuses on an individual need and interest to decide any organizational management issues clearing out how to adapt to a group’s need and interest and then the group’s interest to the national interest. (Figure 3: The philosophical model of management for Mongolia in new century) The key representative of the management philosophy is USA and the management philosophy which is followed there is a model that respects individual interest. (Gombodorj, 2012)

Management philosophy of Mongolia is included in “A” model of the above models which focuses on individual interest.

Figure 3: The philosophical model of management for Mongolia in new century



Source: (Gombodorj, 2012)

Professor Batkhurel Gombodorj has designed Mongolian management theory (MM theory) in his work in 2012. According to his study, these are the seven key factors of MM theory.

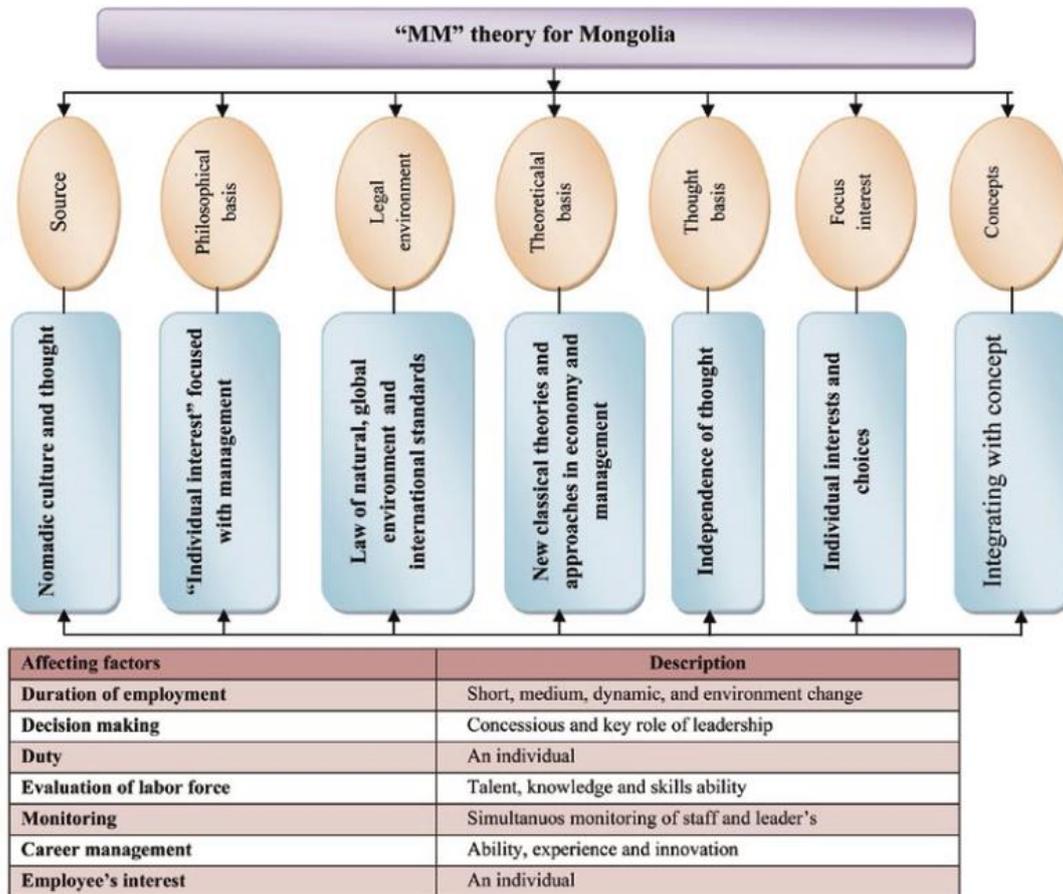
1. **Employment relationship.** In nomadic husbandry, the relationship is always based on the family relation. The men look after military and administrative activities: engage in hunting, herding the larger animals and slaughtering animals. Women care for children and old folks, boiling tea, preparing meal, milking animals, sewing, making milk products such as cheese, butter, gathering dung for fuel and taking care of the small animals. Therefore, the most important factor to promote labor production for Mongolians is a frequent labor and environmental change. Mongolians are eager to get bored

from similar frequent labors which cause short and middle-term employment agreement.

2. **Decision-making.** An elder makes decision on issues concern to animal husbandry discussing all together during the nomadic period. In modern days, leadership is based on management that settled on discussion.
3. **Duty.** An individual is responsible for a charge as the decision was made by a leader discussing with others. It is very different system from Japanese system in which all are responsible for a charge together.
4. **Evaluation of labor forces.** Mongolians trust their managing bodies preferring their talent, skill and experience, innovation, knowledge on local area and animal husbandry and reputation more.
5. **Monitoring on decision implementation.** Mongolians are cautious about any negative information on themselves and their business following the principles “A good name better than riches”, “Sticks and stones may break my bones, but words will never hurt me.” Negative information plays important role among nomads.
6. **Career management.** Mongolians highly value applicants based on their knowledge on their land and its nature.
7. **Materialistic interest.** Almost all Mongolians’ materialistic interest can be explained as “earn for or pay family livings.” Thus, status and needs of parents, relative and families were the most essential factor to work successfully and achieve good results.

The above mentioned 7 key factors were studied comparatively with the methodologies of the X, Y and Z theories and then were connected to the consequences of the nomadic culture of Mongolia. The management theory that can be arisen due to the nomadic culture of Mongolians was named as “Mongolian management” or “MM”. (Gombodorj, 2012)

Figure 4: MM theory for Mongolia



Source: (Gombodorj, 2012)

For Mongolians who have domination of nomadic culture is not right to imitate directly foreign management theories that are based on urban civilization. It can result in socio-economic dramatic consequences. “MM” theory which originated from nomadic culture is very significant not only to lead state and private sectors of Mongolia but also foreign invested and international organizations that conduct their business in Mongolia or employ Mongolians. (Gombodorj, 2012)

As mentioned above, Mongolian management style is strongly influenced by its nomadic culture.

- Less screening in hiring. Hiring is usually based on experience and talent.
- High turnover ratio
- Short and medium-term employment
- Little or no company training and job orientation
- Job-based wages/incentive pay

- Specialized career paths
- Status distinctions between white and blue-collar employees
- Frequent layoffs and limited job security

Japanese management style

3 Pillars of Japanese Management

Lifetime employment, seniority and enterprise unions are the three key Japanese management practices identified by (C.Abeggen, 1958) in his book “The Japanese Factory”.

Lifetime employment is a long established practice in large Japanese firms. Workers become employed right after their graduation from school with a particular company. The employer will not lay off his workers if possible even in the course of depression. The employee in turn will not quit his job at this company but tend to continue working there until he reaches his retirement age. (Koike, 1980)

Seniority is a system which promotion and wages are determined based on the years of service in the company. This system is based on the number of years worked and not particularly on the employee’s age.

Enterprise unions are single company unions which employees belong to. Second, these unions were comprised of full-time company employees, both blue- and white-collar workers who were below the level of section chief. Part-time workers, upper middle managers and higher were not part of the union. Third, these unions had a dual relationship with management. (Hagiwara S, 2002)

Japanese HRM model is very unique that has no precedent in the western world. According to (Moriguchi, 2014), Japanese-Style HRM Model has those seven policies that complement each other.

1. Once-a-year recruitment of new graduates - Most university and college students finish their classes in their junior year and start job hunting during their senior year, which is called shukatsu¹⁰ in Japan. After shukatsu period it becomes difficult to find a job.

¹⁰ Shukatsu – Abbreviation of “Shushoku katsudo” job hunting in Japan starts in the 3rd year of college.

2. Extensive company training – Japanese companies hire newly graduates to train them to become a valuable worker. They teach business manner, language and professional intensive training that last for months.
3. Periodic pay raises and internal promotion based on evaluations – Pay raises and promotions are usually based on the length of service. But recent years, results-oriented approach is used in many companies.
4. Flexible job assignments and small-group activities
5. Employment security until the age of mandatory retirement to elicit bottom-up innovations and productivity.
6. Enterprise union and joint labor-management consultations
7. Unified personnel management of white-collar and blue-collar employees

Table 4: Comparison of HRM Practices of 3 countries

Japanese companies	US companies	Mongolian companies
Lifetime employment Hire newly graduates	Short and medium-term employment Mid-career recruit is common	Short and medium-term employment agreement Mid-career recruit is very common
Collective decision making	Individual decision making	Individual decision making
Slow evaluation and promotion	Rapid evaluation and promotion based on performance	Evaluation and promotion based on performance and experience
Non-specialized career paths Job rotation is used	Specialized career paths	Specialized career paths
Collective responsibility	Individual responsibility	Individual responsibility
Simultaneous recruiting of new graduates	Experience and ability are top priorities	Prefers experienced and talented employees
Long-term orientation	Little commitment in training Promotion in the same position	Very little commitment in training and orientation. Prefers experienced and talented applicants. Promotion in the same position
Respect for authority is substantial	Respect for authority is minimal	Respect for authority is average
Small-group activities	Small-group activities	Group activities are rare
Unified management of white-collar and blue-collar employees	Reduced status distinctions across employee levels	Different management approach for white and blue-collar employees

Source: US [ランダル シュラー, 2009] Japanese (Moriguchi, 2014)
Mongolian (Gombodorj, 2012)

As mentioned earlier, Mongolian management style is closer to the “A” model - US management style.

Japanese companies in Mongolia

Recent years, IT industry is aggressively taking places of the share in GDP of other industries. Because of the transportation issue, domestic market capacity and extreme weather conditions, there is less investment in manufacturing and agriculture industry. Most of the Japanese companies are operating in construction, trade and IT industries. Therefore, most Japanese subsidiaries and affiliates go into small and medium enterprises category. Having 10 to 300 employees, Japanese companies in Mongolia have high reputation in terms of compensation and benefit package and reliability.

Company A's profile

Sector: Information technology, outsourcing

Number of employees: about 65 and constantly growing (As of November, 2015)

Established: 2013 as a Japanese subsidiary

Company A is a Japanese subsidiary specialized in web development and mobile application. Most of the products they make currently are for Japanese market but their vision is to make products for the world market. They have an office in Ulaanbaatar with 65 employees as of 2015, and the number is constantly increasing.

In company A, top management is dominated by Japanese expatriates whom occasionally visit Ulaanbaatar.

Interviewee1: HR manager of Ulaanbaatar subsidiary

Interviewee2: HQ representative in Japan

Company B's profile

Sector: IT, software development

Number of employees: 35 as of 2015(increasing)

Established: 2005 as a Japanese affiliated company

Company B is a Japanese affiliated company in IT industry, established in 2005. Products they make are for both Mongolian and Japanese market.

Interviewee1: HR manager

Interviewee2: HQ representative (CEO)

The Study

Study method

Qualitative case-based approach is chosen for my research. I conducted skype structured interviews with 2 companies HR managers and headquarters to know about their HR practices.

- Interview script was e-mailed to the HR managers and headquarters in advance.(available in Mongolian, English and Japanese)
- Average interview took about 30-40 minutes. Sometimes there were 2nd and 3rd short interviews to clarify some information.
- Interviewees agreed to record the interview.
- Interview script has 9 sections and 3 full pages long

Analysis of the answers are divided into the following sections:

1. Human Resource Department (HRD)
2. Recruitment and Selection
3. Human Resource Development
4. Performance Appraisal
5. Compensation and Benefits
6. Managing employee relations and conflicts
7. Employee satisfaction and turnover rate
8. Headquarter
9. Other questions

Interview Script

I'm Munkhtsetseg Ganbat, graduate student of business administration at Osaka University. I'm conducting a research for my master's thesis by asking Human Resource (HR) specialists and headquarters of a Japanese subsidiaries and affiliates in Mongolia.

In the thesis, I want to investigate how Japanese affiliates and subsidiaries in Mongolia are transferring their HR practices to the local employees and the challenges they encounter in conveying Japanese management.

I'm currently in Japan. If you have any questions regarding this interview script, please let me know. And no data will be shown by a company name. This interview will take about 30-40 minutes. Your help will be greatly appreciated.

e-mail address: muskakira@gmail.com

Munkhtsetseg Ganbat, Graduate School of Economics,
Osaka University

Part 1: Background Information

I. Company Background

1. Name
2. Year of Establishment

Company A

1. Human Resource Department (HRD)

They do not have HRD and written HR policy yet. Company A has 45 engineers, 18 employees on a temporary agreement and 2 HR managers. HR managers directly report to headquarter in Japan. HR manager I interviewed was a Japanese engineer school graduate and had 9 years of experience in that field. She speaks Japanese fluently and worked in the company since the beginning.

Her job description covers financial decision making, compensation and benefits, storekeeping and administration small duties. While the other HR manager covers recruitment and selection processes, some office works and communicating with job applicants.

Note: HR managers in company A had all the responsibilities related to administration, hiring and training. Having too many small activities and responsibilities to manage, there is very limited time for concentrating on HR.

2. Recruitment and Selection

Recruitment

Their sources of recruitment are Biznetwork, Facebook and “Shoukai” system. Biznetwork is the biggest recruiting site in Mongolia and many companies use this site to post job vacancies. Sometimes HR managers use their personal Facebook feed and groups to post job vacancies. “Shoukai” in Japanese means “to introduce”. In this system employee gets a reward if someone they introduced to the company gets hired. Recruitment demand is defined by HQs.

Note: Using Facebook as a recruiting source in the future would not be that good idea for the company reputation.

Selection

They have 4-level selection process, job application and CV screening, professional test and two-level interviews. Second interview is conducted by HR with system engineers and headquarter representative in Japan by skype. Core values they seek in employees are competence and experience.

Note: They do not evaluate candidates as a person, if they have decent manner and attitude. They are more relied on someone with experience and it could bring some conflicts and issues in the future. In japan, high morality and good attitude is very important when making hiring decision.

3. Human Resource Development

They are transferring 80/20 rule that many western IT companies use such as Google. (Alberto Savoia and Patrick Copeland, 2011) An employee can use 20 percent of his/her time for developing themselves, working on projects or attending “benkyokai”s¹¹. They also have incubators that encourage employees to come up with new ideas and work on them. Unlike Google, A company requires employees to be in the office even on their 20 percent time.

Japanese language training is offered in 2-levels. Every employee is encouraged to learn Japanese and develop their abilities. Therefore books and facilities are supplied if necessary.

¹¹ Benkyokai - study group or study meeting

Job rotation is used as their part of day-to-day operations in the company and most new employees were confused at first. In Mongolian companies, employees focus only on their designated job.

Note: Employee orientation system is definitely in need. They could lose good employees because of the lack of supervision and orientation.

4. Performance Appraisal(PA)

PA is conducted 2 times a year by the HQ. PA evaluates employee's performance, dedication and attendance. Bonus and wage amount depend on this half-yearly PA results.

Since the opening of the company, attendance rate has been the biggest issue in the company. Because many people are regularly late and that affects their wage and bonus raise even their performance was decent.

Note: Besides the nomadic perception of time and space, there is a traffic jam issue in Mongolia. Some days it could take an hour for 10 minutes driving distance. So there are times almost half of the employees show up late. Although, some employees are just not used to show up in time and regularly late for work. Especially graduates of Japanese universities are usually on time and its becoming good example for all employees. Employee's attendance rate is getting better than it was last year.

5. Compensation and Benefit

Average salary in IT industry is 875 thousand tugrik(MNT)¹² for men and 787.8 thousand MNT for women which is a little below the national average. Starting wage in Company A, starts from 1200 thousand MNTs which is above the national average. Therefore, compensation and benefit package is an important factor to maintain employees. As a result of PA twice a year, there are 2 chances in a year to improve their performance and get wage raise. Bonus salary is the same amount of monthly wage and is also twice a year.

¹² Tugrik (MNT)- Official currency of Mongolia

Table 5: Monthly average wages and salaries

(Information and communication occupation and national average)

by Divisions	Sex	2015 3/4	2015 2/4
National average	Total	836.9	853.9
	Male	902.6	903.7
	Female	772.9	804.4
Information and communication	Total	833.1	887.2
	Male	875	913.5
	Female	787.8	857.7

Source: (NSO, Mongolian Statistical Information Service, 2014)

Welfare programs

10 days paid-holiday and 4 months maternity paid leave is offered. Maternity allowance is equal to 70 percent of the average monthly wage of the employee. Company A gives 2 days paid leave for marriage and funerals and also allowance for transportation and lunch.

6. Managing employee relations and conflicts

There is no general manager or equivalent to that position. No employee has a room or private space that others cannot see. About cultural differences, HR manager said she has no cultural issue since she had graduated Japanese high school and university.

About 40 percent of the employees graduated in Japanese high school or university and 50 percent of the employees speak Japanese.

Most conflicts are based on cultural differences between employees who are familiar to Japanese culture and who are not. There are also conflicts between HR managers and employees. When HR managers are the ones handling every decision in the company, they have to face every problem especially when there are more than 40 male IT engineers versus two female HR managers. There are still some gender equality issues in our country that man has to have more power and authority.

Note: Most Mongolian companies have supervisors and managers that tell employees what to do. So when there is no such position, it brings chaos in the work environment. Everyone has something to say towards every decision in the company. There is even a saying by Genghis Khan "There cannot be two suns in the heavens" which says there should be someone with authority not two or more. When Japanese supervisors are in the company which is not often, there is less conflict.

7. Employee satisfaction and turnover rate

Generally, it is safe to say employees are satisfied with their job in the current economy condition for several reasons. Since 2012, Mongolia has been experiencing economy crisis and that made mining industry lay off thousands of people. For that reason, some people are happy to be working in a foreign company that is not dependent on domestic economy condition. Some employees are not satisfied with their position in the company, because they worked longer in the company and are still in the same position comparing to others. They get paid more but as their job descriptions and business cards say, there is not much difference.

To motivate employees, sports competitions are organized twice a year. Also there are benefits for an employee when they have their first baby and wedding. Paid holiday is mandatory for all employees as written in the Labor Law. (Ээлжийн амралт, түүний хугацаа (Paid holidays), 1999) While in Japan, many employees don't take their paid holidays. In company A, employee can also take holidays partially, twice by 5 days or even by a day or two. Most employees are newly graduates, so company A has a very young work environment which is also a plus for young applicants.

Turnover rate

Since the company established 4 people have left the company. 1 employee was fired and other 3 employees left the job on their own terms.

Note: When I clarify about why employees left the job, she answered some went abroad to study and some left because of the job overload. A new employee left the company on the third day, because he/she was overwhelmed by what he/she had to do and there was no orientation and supervisor. Working overtime is not common in Mongolia since most companies close around 5 to 7 p.m. When I ask about that incidence, HR manager replied, these three days were the only times employees had to work overtime because they had to launch new product in time. There is definitely a need of new employee orientation system.

8. Headquarter

Two HR managers are doing most of the jobs that whole department should be doing. And they were telling me that at first, they were little confused because there were very little things they could do with their authority.

Note: Mongolians are not good to be told everything. They want to be in charge of something that makes them feel accomplished and safe.

9. Other questions

They have a chatting system that everyone shares their thoughts. Any in-house news and declaration is posted on that system.

Note: If you lose track of the chat, there is no e-mail or written announcement to look at. To improve the effectiveness, using pinned post might be a good idea. Some important announcements probably should be e-mailed to employees.

Company B

Company B is a Japanese affiliated company which has more experience in the local market. There are some differences toward decision making process and management style from other Japanese subsidiaries. Both Mongolian and Japanese side can participate in the decision making process and more host country university graduates were recruited.

When analyzing Company B HRM practices, I decided to only explain different practices from Company A.

1. Human Resource Department (HRD)

They also didn't have HRD and written HR policy yet. They too have 2 HR managers that cover most of the small operational tasks and HRM activities.

2. Recruitment and Selection

Company B has a partnership agreement with top universities and recruits top graduates. They also organize a competition and offer the best students to work in their company.

Note: They prefer to hire newly graduates from the local universities and train them for the company need.

3. Human Resource Development

For a new employee there is three months on the job training (OJT) and also training in HQ of Japan. At first, training in HQ was effective for employees to learn and get

used to Japanese HR practices. But now they think it is unnecessary because many senior employees can teach new employees.

4. Performance Appraisal

PA is conducted once a year and at the news party every year, best employee gets rewarded.

Note: Attendance rate didn't seem to influence wage raise and bonus that much.

5. Compensation and Benefits

Comparing to company A, compensation and benefit policy and package were less developed. There is bonus once a year.

Welfare programs

Same as company A, 10 days paid-holiday and 4 months maternity paid leave is given. But there is no allowance for transportation and lunch.

Note: Basic wage average was more than the national average of IT industry but less than Company A.

6. Managing employee relations and conflicts

There are fewer conflicts in the company. When there are conflicts it's usually resulted from promotion of the other employees.

Note: Employees are divided into different levels, so that might be one of the reasons of lesser conflicts. And cultural background difference seems to be less in the company B because majority of the employees are local university graduates.

7. Employee satisfaction and turnover rate

Employees are generally satisfied of the work they are doing because the company is more recognized to the country. They make products for big projects in Mongolia so their reputation is more when it comes to the local market.

There is a chance to work in the Japanese office, so newly graduates are more motivated for the chance to work and live abroad for a while.

Note: 6 people have left the company since it's established in 2005. Considering employee numbers it is a lot of number. Most of the reasons were to study abroad and start their own business.

8. Headquarter and other questions

When I asked the reason why they opened their company in Mongolia, HQ representative replied below answers.

“Mongolia has a potential for IT industry, almost 70 percent of the population is under age 35 and has a high literacy rate of 95 percent. Government actively supports IT industry and IT outsourcing. Universities in Mongolia are also advanced in computer science and engineering.

According to a headquarter representative, Mongolian engineers have following qualities.

- Higher programing skills
- Higher ability of foreign languages(English and Japanese)
- Easily adaptable to new environment

He also stated that transportation to Mongolia is around 5 hours from Narita airport, Japan which is very convenient. Mongolians are very friendly toward foreigners and are welcome to outsourcing promotions.

Findings and discussion

Table 6: Differences between HRM practices of Mongolian and Japanese company, Japanese subsidiary and Japanese affiliated company

Japanese company	Mongolian company	Japanese subsidiary	Japanese affiliated company
Lifetime employment	Short and medium-term employment Mid-career recruit is very common	Short, medium and dynamic employment Mid-career recruit is common	Short, medium and dynamic employment
Simultaneous recruiting of new graduates	Prefers experienced and talented employees	Experience and ability are top priorities	Simultaneous recruiting of new graduates
Collective decision making	Individual decision making	Collective decision making	Collective decision making
Long-term orientation	Very little commitment in training and orientation. Promotion in the same position	Orientation and training is held.	Orientation and training is held.
Non-specialized career paths Job rotation is used	Specialized career paths	Non-specialized career paths Job rotation is used	Non-specialized career paths
Small-group activities	Group activities are rare	Small-group activities	Small-group activities
Collective responsibility	Individual responsibility	Collective responsibility	Collective responsibility
Slow evaluation and internal promotion	Evaluation and promotion based on performance Internal and external promotion	Fast evaluation and slow internal promotion	Fast evaluation and internal promotion
Respect for authority is substantial	Respect for authority is average	Respect for authority is average	Respect for authority is average
Unified management of white-collar and blue-collar employees	Different management approach for white and blue-collar employees	Unified management of white-collar and blue-collar employees	Unified management of white-collar and blue-collar employees

Japanese HRM practices in Mongolia

Japanese subsidiary and affiliated company's HRM practice were greatly influenced by Japanese HRM practices such as intensive training and job rotation, bonuses, welfare programs and internal promotion. Employees were generally satisfied and had good reaction toward practices above. Language and professional training, incubator and 80/20 rule are a great opportunities for employees to grow. Also compensation package and welfare system were much better than most companies in Mongolia. Performance appraisal is motivating employees for better performance and not being late. Also internal promotion is encouraging employees to work longer in the company.

Practices such as collective responsibility and collective decision making process, small-group activities and unified management of white and blue-collar employees, seem to have some issues in adopting. In Mongolian management style, individualism is such powerful concept and individual decision making and responsibility is a common practice. When employees need to work in groups and have collective responsibility, there are more conflicts. It is gradually getting better but implementing collective responsibility in Mongolia is such a difficult thing and could take long time.

Recruitment policy and core value of employee selection process were locally influenced. Mid-career recruit and short and medium-term employment were commonly seen. Company A hires experienced and talented applicants while Company B prefers newly graduates.

Both companies didn't have written HR policy yet, but generally were following what they are told from the Headquarter. HR managers in both companies had too many small responsibilities beside HRM, so there is very limited time for actually concentrating and planning on HR activities. Company B's recruitment policy was closer to Japanese style while Company A was sticking to the local practice.

In both companies, there were no job orientation and supervising system which resulted stress to new employees and even made one employee leave the job. Also, when choosing an employee, companies concentrated more on experience and less on moral and attitude which is also bringing issues in the work environment.

Conclusion

In this study, we first argued that cultural difference, landlocked position and economy condition differences make it hard to adopt Japanese management style and HRM practices directly in Mongolia. But as a result of my research, many of Japanese HRM practices such as intensive training and job rotation, bonuses and welfare programs, internal promotion, small-group activities are adopted well. Both companies are using hybridized but more Japanese influenced HRM practices.

Potential solutions

It made a big difference whether there is a Mongolian partner or not. When local person is in charge, there was less conflict. Company A could promote someone who has a rich experience and background of Japanese culture for general manager or equivalent to that position. Having daily basis conflicts bring less productivity, so why not hire someone local to a general manager in Mongolia.

Job orientation system is much needed in many companies. The reason why companies want to hire experienced person might be the answer to this. They don't want to spend more time training and orienting employees. Good orientations system could bring more productivity and good human resource to the company.

When posting job vacancies, Facebook would not be that good idea in the future. It could affect company reputation and could result decent applicants hesitate the company policy and culture.

When informing in-house news, regulations and posts, e-mail system would be a good idea especially for the important news. Too many e-mails could bring chaos but some important information should be informed officially so that everyone can get notification.

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