# Growing Overseas Markets by Employing International Students: A Case Study of "Inclusion" at a Japanese SME, Honda Kiko Co., Ltd.

### Masayuki Furusawa

Kindai University, Japan

#### Abstract

The number of international students who work in Japan after graduation has been increasing. Since international students are familiar with a second language and culture over and above equivalent Japanese students, it is anticipated that they could be valuable human resources for Japanese companies. However, their mere enrollment alone is insufficient to reap the benefits Japanese companies seek. "Diversity" itself does not necessarily bring the positive consequences the organization strives for. In this paper, we discuss the concept of "inclusion" as a route to benefit from diversity. We focus on the case of inclusion at Honda Kiko Co., Ltd., a typical small and medium-sized enterprise (SME) in Japan, which has been expanding its overseas business by utilizing former international students as company employees. The case study enables us to draw out the implications of inclusion to further our understanding.

**Keywords:** *international students, Japanese companies, international business, diversity, inclusion, Honda Kiko Co., Ltd., small and medium-sized enterprise* 

#### 1. INTRODUCTION

The number of international students who work in Japan after graduation has been increasing. According to the Immigration Services Agency of Japan (2021), 29,689 foreigners in 2020 were permitted to change their residential visa status from student to working, an increase of 3.5 times the number in 2011.

Multilingual and multicultural international students are anticipated to be valuable human resources for Japanese companies looking to expand their international business operations. Small and medium-sized enterprises ranging from manufacturing to the services sector have increased their international outreach in both advanced and emerging countries. Furthermore, there has also been a recent drive of inbound business in Japan, i.e., attracting tourists from overseas.

Summarizing previous studies, the potential benefits of hiring international students whose cultural backgrounds differ from Japanese employees can be divided into the following three categories: 1) creation of cultural synergy; 2) functioning as boundary spanners; and 3) advancement of internal internationalization (Furusawa, 2022).

However, Japanese businesses will not reap the benefits of international students by mere employment alone. "Diversity" itself does not necessarily bring about the positive consequences the organization strives for. Early studies focusing on the employment of international students pointed out

that there exist several perception gaps between Japanese companies and international students, or former international student employees. The first gap relates to their abilities. During recruitment, many Japanese companies attach significant importance to the "Japaneseness" of international students such as a high level of Japanese language proficiency and a Japanized way of thinking and behavior, whereas international students expect their attributes as a foreigner to be appreciated (Furusawa, 2022; Moriya, 2011, 2012; Yokosuka, 2007). The second gap concerns career. The shortterm career vision of foreign employees who do not hesitate to change jobs for career development is regarded as incompatible with the long-term oriented human resource development policy of many Japanese companies (Association for Overseas Technical Scholarship, 2007). More than that, it is stated that international students have a greater entrepreneurial desire than their Japanese counterparts (DISCO, 2018). The third gap relates to personnel evaluation and salary. Based on an interview survey of former international student employees at Japanese companies, Furusawa (2022) revealed that many of them are dissatisfied with the companies' seniority-based evaluation and salary systems and desire for meritocracy. Thus, in response, Japanese companies have to come up with a process and practice to benefit from cultural diversity and create a win-win situation between the two parties.

In this paper, we focus on the concept of "inclusion" as a way of working with diversity by exploring the case of Honda Kiko Co., Ltd., a typical small and medium-sized company in Japan. The company has been expanding its overseas business by utilizing former international students as employees. This paper takes the following form: firstly, we describe the potential benefits of hiring international students and discuss the definition and theory of inclusion by reviewing relevant literature. Next, we present the case of Honda Kiko, drawing out implications from the case study to further our understanding of inclusion.

#### 2. LITERATURE REVIEW

## 2.1. Potential benefits of hiring international students for Japanese companies

#### 2.1.1. Creation of cultural synergy

Cultural synergy refers to the creation of more effective human activities and systems by building upon similarities and fusing differences (Moran & Harris, 1981: 303). According to Adler (1991, 2008), the potential productivity of a culturally diverse group is higher than that of a homogenous group because of greater resource, insight, perspective, and experiences that facilitate the creation of new and better ideas. Cultural synergy assumes heterogeneity (Adler, 1991: 105), and theory advocates that the very differences in the world's people can lead to mutual growth and accomplishment (Moran & Harris, 1981: 303). Such a synergistic approach creates organizational solutions to problems by using cultural diversity as a resource and an advantage to the organization (Adler, 1991: 116). Likewise, Yasumuro (1992, 1994) emphasized that cultural diversity can avoid the trap of groupthink and has the potential to become a source of innovation through cultural synergy. As far as Japanese companies are concerned, the employment of international students will enable them to increase their potential productivity via the promotion of cultural diversity within their organizations, which may eventually lead to cultural synergy if the diversity is managed effectively.

### 2.1.2. Functioning as boundary spanners

Boundary spanners are defined as individuals who are perceived by other members of both their own in-group and/or relevant out-groups to engage in and facilitate significant interactions between the two groups (Barner-Rasmussen et al., 2014: 887). Similarly, Schotter et al. (2017: 404) recognize boundary spanning in multinational enterprises as a set of communication and coordination activities performed by individuals within an organization and between organizations to integrate activities across multiple cultural, institutional, and organizational contexts. When companies enter international markets, they inevitably encompass geographic, cultural, and linguistic boundaries.

Boundaries that bring about both division and identification could lead to an "us and them" or "in-group and out-group" mentality (Schotter et al., 2017: 407). The other side of the coin is that companies must navigate those boundaries or cross-cultural interfaces to benefit from being international (Barner-Rasmussen et al., 2014; Hayashi, 1994; Kogut, 1990; Schotter et al., 2017). That is to say, international companies require boundary-spanning employees (Kane & Levina, 2017) and boundary spanners are more valuable for companies from homogeneous societies such as Japan (Fernandez & Barr, 1993; Yoshino, 1976). Extant studies regarded the internalization of more than two languages and cultures as potential antecedents of boundary spanners (Barner-Rusmussen et al., 2014; Brannen & Thomas, 2010; Fitzsimmons, Miska, & Stahl, 2011; Harzing, Kösner, & Mager, 2011; Hayashi, 1985, 1994; Hong, 2010). In that sense, bilingual-bicultural international students can be potential candidates as boundary spanners or cultural mediators (Okamoto & Teo, 2012). However, boundary spanning is an intrinsically challenging task, and representing multiple, sometimes contradictory, interests of a diverse group can be stressful (Kane & Levina, 2017: 543). Concerning this point, Hayashi (1985, 1994) emphasized the importance of a trust relationship with the parties concerned as a criterion for being a boundary spanner, alongside proficiency in more than two languages and understanding of more than two cultures. This suggests that the interaction between individual actors and organizations is likely to determine both the nature of boundaryspanning actions and their effectiveness (Schottter et al., 2017: 405)

### 2.1.3. Advancement of internal

internationalization

Internal internationalization means the internationalization of the headquarters and the term describes the situation where non-Japanese employees can participate in the strategic decision-making at the headquarters (Yoshihara, 1989, 1996, 2008). Yoshihara (1989, 1996, 2008) ascribed the slow progress of localization in Japanese multinational enterprises to the sluggish development of internal internationalization, or the lack of international experience and skills of staff based at the headquarters. Generally speaking, at least recently, the career path of top executives in Japanese companies has been domestic-centered, creating management teams with little overseas experience and limited foreign language capabilities. Appointing foreign nationals in top management positions of overseas subsidiaries may lead to communication issues with the headquarters which are typically staffed by only Japanese-speaking staff. In the meantime, Yoshihara (1989, 1996) demonstrated that the number of foreign staff hired in Japan is one of the factors positively associated with the progress of localization. This result implies that the employment of international students could promote the internal internationalization of Japanese companies and help resolve potential issues arising from their overseas operations. For instance, the Association for Overseas Technical Scholarship (2007) discussed that the hiring of bilingual-bicultural international students could enhance internal internationalization by making Japanese employees aware of globalization. In a similar vein, the Ministry of Economy, Trade, and Industry of Japan (2016, 2017) reported the Japanese company cases where "Japanese staff has come to improve English fluency on their own motive" or "the number of Japanese employees who hope to work on international business has increased."

## 2.2. Inclusion as the key concept to benefit from diversity

We previously discussed the potential benefits of hiring international students. However, we may not enjoy those benefits by merely employing international students. "Diversity" itself does not necessarily bring positive consequences for the organization (Ferdman & Deane, 2014; Yasumuro, 1994). On the contrary, misperception, misinterpretation, misevaluation, and miscommunication abound in a culturally diverse group as diversity increases ambiguity, complexity, and confusion (Adler, 1991: 129). In practice, no theoretical model has been developed which verified the direct causal relationship between diversity and the financial results of organizations (Funakoshi, 2021; Furusawa, 2022; Taniguchi, 2005). Along the same lines, as for the relationship with non-financial performance

	Low Belongingness	High Belongingness
Low Value in	<u>Exclusion</u> An individual is not treated as an organizational insider	Assimilation An individual is treated as an insider in the work group
Uniqueness	with unique value in the workgroup but some other employees or groups are insiders.	when they conform to organizational/ dominant culture norms and downplay uniqueness.
High Value in Uniqueness	<b>Differentiation</b> An individual is not treated as an organizational insider in the workgroup but their unique characteristics are seen as valuable and required for group/organization success.	Inclusion An individual is treated as an insider and allowed/ encouraged to retain uniqueness within the workgroup.

#### **Figure 1: Inclusion Framework**

Source: Shore et al. (2011: 1266)

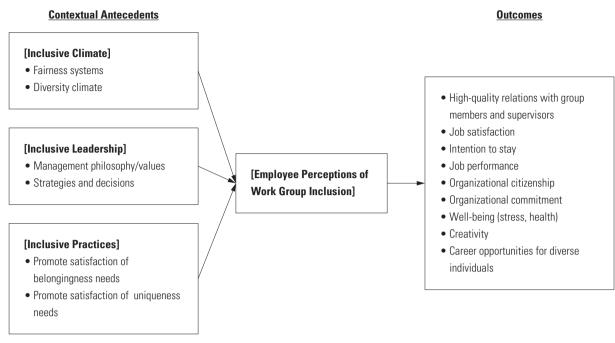
such as employees' motivation, commitment, and intention to stay, the opinions vary depending on the underlying theory (Williams & O'Reilly, 1998). For example, when the research is based on information and decision-making theory, diversity is expected to bring positive effects through increased skills and information sets. In turn, when we rely on social categorization theory or similarity/attraction theory, diversity should have negative impacts on both group process and performance as the two theories put importance on homogeneity. Hence, organizations need to manage cultural diversity so that the diversity brings about added values for competitive advantages and at the same time does not provoke conflict and/or friction. Under these circumstances, the concept of "inclusion" has emerged as a key approach to benefit from diversity (Ferdman & Deane, 2014).

As mentioned earlier, diversity itself may not carry positive consequences. Mor Barak (2017: 303) argued that diversity refers to demographic differences among members, including both observable (e.g. gender, race, age) and nonobservable (e.g. culture, cognition, education) attributes. Similarly, Ferdman & Deane (2014: 3) defined diversity as the representation of multiple identity groups and their cultures in a particular organization or workgroup, and Roberson (2006: 219) highlighted that the definitions of diversity focus primarily on differences and the demographic composition of groups.

On the other hand, inclusion is the process and practice through which groups and organizations can reap the benefits of their diversity (Ferdman & Deane, 2014: 5). More specifically, inclusion is described as the degree to which an employee is accepted and treated as an insider by others in a working system (Pelled, Ledford, & Mohman, 1999: 1014), the degree to which an individual perceives that the group provides him or her with a sense of belonging and authenticity (Jansen et al., 2014: 373), or employees' perception that their full participation in communication and decision-making processes is welcomed and that their unique contribution to the organization is appreciated (Mor Barak, 2017: 303).

As the concept of inclusion is still nascent, there is a lack of consensus on the definition or its theoretical underpinnings. Therefore, we turn to the discussion by Shore et al. (2011) cited by many research studies. Shore et al. developed a framework of inclusion by building on optimal distinctiveness theory (Brewer, 1991; Brewer & Roccas, 2001) which argues that individuals seek to balance the need for similarity and the need for uniqueness in groups to which they belong. As shown in Figure 1, they posited that uniqueness and belongingness work together to create feelings of inclusion. The "Inclusion" cell represents the situation where an employee feels a sense of belonging and simultaneously feels valued for the characteristic on which they are unique. By contrast, the cell of low uniqueness /low belongingness is named "Exclusion." The "Assimilation" cell is where an individual is treated as an insider when he or she conforms to the dominant norms in the culture and downplays uniqueness, whereas "Differentiation" reflects the situation of high uniqueness /low belongingness (Shore et al., 2011: 1272).

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**Figure 2: Antecedents and Outcomes of Inclusion** 

Source: Shore et al. (2011: 1276)

Shore et al. also presented inclusive climate, inclusive leadership, and inclusive practices as the contextual factors that may contribute to the employee's perception of inclusion and proposed the outcomes resulting from inclusion such as high-quality relations with group members and supervisors, job satisfaction, intention to stay, job performance, organizational citizenship and so on (Figure 2).

### 3. CASE OF HONDA KIKO CO., LTD.

#### 3.1. Methodology

The research conducted here adopted a qualitative approach. The author conducted in-depth interview surveys with Honda Kiko Co., Ltd. on three separate occasions. One of the surveys was done online and took the form of a semi-structured interview with the president and one of their former international student employees. The remaining two surveys were conducted by email. The qualitative data were categorized and processed using the qualitative content analysis method presented by Mayring (2000, 2004), based on the theoretical framework of inclusion by Shore et al. reviewed in the previous section. Since the discussion by Shore et al. is at a conceptual level and there is limited empirical research on their idea, at least on Japanese companies, a research gap is identified in this regard.

### 3.2. Overview of Honda Kiko Co., Ltd.

Honda Kiko was established in 1951, with the headquarters in Kama City, Fukuoka Prefecture, Japan (Table 1). They are a manufacturer of custom-made pumps and pumping equipment for industrial use and its products are shipped to about seventy countries around the world. As of 2022, they have sales amounting to around 20 million US dollars and have 143 employees. Although Honda Kiko is one of the typical small and medium-sized enterprises in Japan, the company has been expanding its overseas business through the employment of international students and was awarded for its excellence in diversity management by the Ministry of Economy, Trade, and Industry of Japan in 2015. Thus, Honda Kiko's approach to employment to expand their international business operations makes for a pertinent case study in which to

Company name	Honda Kiko Co., Ltd.	
Established	1951	
Head office	Kama City, Fukuoka Prefecture, Japan	
Main products	Custom-made pumps and pumping equipment for industrial use	
Number of employees	143 (as of 2022)	
Revenue	About 20 million US dollars (as of 2022)	

#### **Table 1: Company Profile of Honda Kiko**

understand "inclusion."

## 3.3. Background of hiring of international students

Honda Kiko found it necessary to hire international students to strengthen their overseas business. As the domestic market matured, it was inevitable for them to cultivate new customers overseas. Moreover, because their Japanese clients were also expanding overseas operations, the company had to keep up in order not to lose business. However, Honda Kiko lacked direct contact with overseas markets and found it difficult to grasp the true needs of customers as they had previously exported their products indirectly through trading companies. Furthermore, the company had no employees able to communicate in a foreign language.

Facing these challenges, President Kensuke Ryuzoji, who took the position in 2005, aimed to promote and increase the company's international presence by employing international students graduating from Japanese universities. He believed that international students who have internalized the Japanese language and culture through living and studying in Japan could become boundary spanners between Japan and their international markets. He engaged in recruitment activities himself, participating in job fairs for international students. As a result, in 2008, the company hired an international student from Tunisia with a Ph.D. degree who is fluent in five languages, namely Japanese, English, French, Spanish, and Arabic. Since then, Honda Kiko has employed 18 international students from Japanese universities, with half holding doctorates or master's degrees. The number of nationalities totaled more than ten, with employees ranging from Asian or African to Western cultures.

When they recruit international students, the company requires "sufficient" fluency in Japanese

from the applicants. However, President Ryuzojj underlines that it is crucial not to demand their Japaneseness "too much" because the company employs international students mainly for their capabilities peculiar to foreigners such as familiarity with foreign languages and cultures as well as their entrepreneurship mindset.

## 3.4. Human resource management of former international student employees

The majority of the former international student employees at Honda Kiko are in charge of international business and communicate directly with overseas customers in English or local languages.

We identify three major characteristics of human resource management of foreign staff based at Honda Koko. The first is human resource management of "one company, two systems." This means that Japanese employees are divided into labor union members (non-managerial staff) or managers, with both groups falling under the same human resource management system and rewarding them by their seniority. Conversely, the foreign staff is dealt with differently from their Japanese counterparts as non-union members. Their basic salaries are based on their abilities and their performance is reflected in pay raises and/or bonuses. In terms of benefit programs, home leave is furnished to foreign employees flexibly and available upon request.

The second characteristic is the implementation of measures for normative integration (Furusawa, 2008; Furusawa, Brewster, & Takashina, 2016). The company diffuses the corporate culture to all foreign staff by involving them in activities such as chanting corporate philosophy and code of conduct during the morning assembly, as well as involving them in factory cleaning as one of the 5S campaigns (seiri=sorting, seiton=set in order, seisou=shine, seiketsu=standardize, shitsuke=sustaining). They also have a company-wide recognition program to award all employees, including foreigners, for excellent performance and behavior based on the corporate philosophy. In addition, President Ryuzoji takes a hands-on approach to share corporate values with foreign employees by having frequent face-to-face meetings.

The third is a system of "noren wake," a Japanese traditional business custom that helps employees to establish a branch of the company. In the case of Honda Kiko, the foreign staff is assisted to set up as sales agents of Honda Kiko in their home countries. President Ryuzoji hopes that former foreign employees serve as reliable business partners when they go back to their home countries. If a noren wake application is accepted, a special retirement bonus is paid as the start-up capital of a sales agent. Today, three former staff run their own sales agents for Honda Kiko. One of them is the first foreign employee mentioned above who was later promoted to the general manager of the international marketing department.

## 3.5. The results of the employment of foreign employees

President Ryuzoji indicates three major fruits of hiring international students. The first one is the acquiring of new overseas customers. Former international student employees and sales agents who have set up their businesses by noren wake communicate directly with overseas companies in English or local languages, responding to client needs by demonstrating a familiarity with local cultures and business customs. They also work closely with Japanese staff serving as boundary spanners between the headquarters and overseas markets by internalizing the corporate culture of Honda Kiko. Consequently, the company has successfully provided overseas clients with custom-made solutions. During the 8 years after Mr. Ryuzoji took the chair of the president, their overseas sales ratio jumped from 20% to 40% with overseas sales also doubling over that same period.

The second outcome is the cost reduction in terms of time and money. The ratio of indirect export has dropped to 20% and in turn, direct export has increased owing to the employment of international students. Indirect export is considered non-profitable since it is time-consuming, and Honda Kiko must pay commissions to trading companies. Thus, by employing international students, the ratio of indirect export has decreased while direct export has increased, contributing to the profitability of Honda Kiko.

The third fruit is the advancement of internal internationalization. The contribution of foreign staff to international business has acted as a good stimulus for their Japanese colleagues and it has led to an increase in Japanese employees who also hope to engage in international business. To further this aim and improve the English ability of Japanese staff, a company-wide English class was held with the foreign employees serving as lecturers. In that sense, the employment of international students seems to generate a synergistic effect of invigorating Japanese staff.

#### 4. IMPLICATIONS AND CONCLUSIONS

Like all research, this study also has limitations. We have adopted a single case study approach which may impact the generalizability<sup>1)</sup>. Further insights into the benefits of inclusion would be forthcoming should we have had more survey informants such as Japanese employees at Honda Kiko, the sales agents run by their former staff, and their overseas clients. Comprehensive financial analysis comprising year-on-year changes in profit, overseas sales, productivity, etc., could broaden our assessment of employing international students, but such data is lacking due to Hoda Kiko being an unlisted company. Furthermore, a discussion on Honda Kiko's future international strategy such as foreign direct investment for further growth could enhance the study, however, their present strategy of exporting made-in-Japan goods by concentrating production function in Japan instead of foreign direct investment seems to be the most appropriate route for growth as bespoke manufacturing requires specialized skills. Despite these limitations, this study furthers our understanding of inclusion by presenting a best-practice case of a small and medium-sized Japanese company where international growth is realized by employing international students. The findings from this study could apply to all similar size SMEs which are at a disadvantage in attracting capable Japanese students who rather join much larger and well-known corporations.

There are three main implications from this case study. One is valuing the uniqueness of former international student employees by measures such as human resource management of "one company, two systems," flexible grant of home leave, and the system of "noren wake." President Ryuzoji mentions that those practices live up to foreign employees' expectations of performance-based evaluation and salary systems linked with their short-term career vision and their entrepreneurship. To put it differently, it seems that Honda Kiko leverages the effects of diversity on the company by satisfying the needs of foreign staff for their uniqueness. A former international student staff who the author interviewed boasts that he has contributed to the growth of the international business by making the best use of his familiarity with the local language and culture of his home region and the role may not be simply exercised by Japanese employees. Furthermore, he feels grateful to the company for the flexible grant of home leave which he believes, sincerely considers the personal issues specific to foreigners such as tending to family matters in their home countries should the need arise.

Secondly, Honda Kiko nurtured a sense of belonging for international student employees by measures of chanting corporate philosophy, factory cleaning, a company-wide recognition program, and face-to-face meetings with the president. Through these practices for normative integration which could promote the sharing of corporate culture and the building of trust with Japanese employees, the company aims for "Hondanization" of foreign staff instead of "Japanization." The foreign staff informant states that he has come to understand the corporate philosophy by participating in the morning assembly and 5S campaign, as well as by having a one-on-one meeting with the president, and now feels a sense of belonging as an insider of Honda Kiko.

The third is the coupling of belongingness and uniqueness. In other words, they should function similarly to the two wheels of a cart to get the most out of diversity. As the proposition by Shore et al. suggests, a high value in uniqueness without belongingness is liable to reduce a sense of unity as one team. On the other hand, high belongingness without uniqueness might lead to a situation where foreign employees do not feel motivated to exhibit cultural distinctiveness.

In conclusion, the inclusion or a simultaneous realization of uniqueness and belongingness presumably contributes to the growth of Honda Kiko's overseas business. It is believed that Japanese companies will be able to benefit from diversity in circumstances where the unique values of foreign employees are recognized at the same time as they feel a sense of unity with their Japanese colleagues.

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#### NOTE

 Yin (2018: 53) mentions that a single case design is eminently justifiable under certain conditions—where the case represents (a) a critical test of existing theory, (b) an extreme case or unusual circumstance, or (c) a common case, or where the case serves a (d) revelatory or (e) longitudinal purpose. We assume that condition (a) is applicable to our case study of Honda Kiko.

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Masayuki Furusawa is Professor of the Faculty of Business Administration, Kindai University, Japan. E-mail: mfurusawa@bus.kindai.ac.jp