Asia-Pacific
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Strategic Human Resource for Successful Foreign Direct Investment in APEC

Cases and Prototype Guide

APEC
Human Resources Development Working Group
Capacity Building Network
April 2015

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HUMAN RESOURCES DEVELOPMENT WORKING GROUP
CAPACITY BUILDING NETWORK

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Foreword

The year 2014 marked the 25th anniversary of the Asia-Pacific Economic Cooperation (APEC). Since its foundation in 1989, APEC has achieved impressive results over the past years in pursuit of regional economic integration as well as trade and investment liberalisation. At the same time, an integrated and interdependent economy has been bringing up new challenges to the region in various aspects.

The APEC Human Resources Development Working Group Capacity Building Network (HRDWG-CBN) has been implementing a number of projects to address some of these emerging issues by building the management capacity of enterprises as well as governments and public institutions. To name a few, the projects, “Strategic Intellectual Asset Management for Emerging Enterprises” and “Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC,” were implemented by the Institute for International Studies and Training (IIST), a non-profit, non-government organization, under the supervision of the Ministry of Economy, Trade and Industry (METI), Japan. Our initiatives were supported by APEC member economies.

This project entitled “Strategic Human Resource Management for Successful Foreign Investment in APEC” is another one of these efforts. Its objective is to enhance the capacities of entrepreneurs and managers who are engaged in foreign direct investment (FDI), either as investors or as partners, to effectively apply human resource management (HRM) systems to their respective enterprises operating under varying social systems and cultures. The project aims to identify HRM issues for improving performance in a company’s foreign affiliates and develop a prototype Guide to Strategic HRM for FDI.

The project was implemented for the duration of August 2014-April 2015, and involved the following activities: conduct of research focusing on actual business cases; development of a draft HRM Guide; and holding of a workshop to present the results of research and other project outputs. All the activities were joined by the eight APEC experts who did research on the current HRM issues in enterprises’ foreign affiliates, and provided valuable inputs throughout all stages of project implementation.

As the project overseer, we would like to take this opportunity to express our heartfelt appreciation to all those who have contributed to the successful completion of the project.

We would like to extend our sincere gratitude to the experts, APEC representatives as well as their nominating organizations, for their contribution at various stages of implementation. Our special recognition is given to the project coordinators, Dr Gloria M. De Guzman and Ms Etsu Inaba, who vigorously led the project team and shared an impressive range of professional expertise in directing the program design and delivery.

Our deepest appreciation goes to Workforce Development Agency, Ministry of Labour as well as Foundation for Women’s Rights Promotion and Development for their splendid arrangements in co-organising the workshop on 28 January 2015 in Taipei, Chinese Taipei. The workshop was attended by representatives from businesses and public organisations in the local community who made possible the successful outcomes owing to their active interaction with the participating experts and APEC representatives.

We would also like to extend our sincere thanks to Ms Lorna Balina, who was responsible for the final editing of the developed research materials for publication. We are truly thankful for the strong support and helpful advice provided by the APEC Secretariat in implementing the project. Last but not the least, our special thanks are due to IIST, the project organizer headed by Mr Hisashi Saigo, and we specially thank Ms Reiko Toyoshima for her dedication and hard work which contributed to the successful completion of this undertaking.

This publication is comprised of a synthesis, a prototype HRM Guide developed under the project and ten research cases written by the experts. We hope that the outputs of the project will be widely utilised in APEC member economies and will contribute to the further progress of sustainable economic growth and prosperity in the APEC region.

APEC Office
Ministry of Economy, Trade and Industry

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(Please note that the term "economy" is used to indicate APEC members, instead of "country" or "nation," as an APEC-accepted nomenclature.)

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A Synthesis

Foreign Investment and Strategic Human Resource Management

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Background

Foreign Investments (FI) within the APEC region have significantly been on the rise. In 2012, FI inflows increased by 16% over the previous year and reached a total of US$733 billion, outperforming the rest of the world. Such notable increases may be explained by the push, on the part of the investing companies, for lower labour costs or their search for new or bigger markets. On the other hand, many recipient economies and their companies are trying to attract or pull in foreign investments primarily to augment limited financial resources as well as to access new technologies. As a whole, foreign investments have increasingly opened up opportunities for SMEs (Small and Medium Enterprises) in the APEC region to become part of the global supply chain and be active participants in the global market.

Despite the opportunities, however, there are mixed results in the outcome of foreign investments. A key factor that this project is specifically focusing on is the role and impact of Human Resource Management (HRM) policies, systems and practices on the success and sustainability of foreign investments. It would seem that HRM is not top of mind among executives of enterprises seeking to start operations in economies other than their own. Most often, they have diligently conducted industry and market research, perhaps even a feasibility study, covering marketing, finance and operations. It is very likely, however, that the human resources aspect may not have merited as much attention at the start-up stage of the business.

The literature on HRM in international contexts has increasingly noted the contribution of the HRM function in ensuring the long-term viability and sustainability of business operations (Wright, Gardner and Moynihan 2003; Ulrich and Brockbank, 2005; Lepak and Shaw 2008; Ulrich *et al*., 2013). In the complex, interconnected, information and knowledge-driven world in which we live today, HRM professionals and practitioners in North America and Western Europe have claimed that human resources are not only key to delivering business results but are, in fact, the source of enduring competitive advantage. After all, people formulate strategies, implement them, create new products and services, design systems and processes, and most importantly, actually produce and deliver the product or service.

Two key concepts – namely *internal* and *external* fit – are suggested as crucial to the effective linkage of HRM strategies and systems with foreign direct investment initiatives. The first requires that all HRM programmes should be designed for, and aligned with, a company's 'internal' culture; the second demands that such programmes also be tailored to meet the needs of their 'external' industry, national and regional contexts. In the international environment it is this amalgam of HRM strategies which is most likely to ensure sustainable FDI (Guest 2011; Butler & McEvoy 2012; Ulrich *et al*., 2013). "Much of the recent research suggests that HRM practices can positively affect firm performance, primarily through their impacts on human and social capital…the HRM objectives are to establish and promote a clear alignment of capabilities at all levels with the firm's strategic goals and to create the culture, norms, motivation and opportunity to engage in actions that contribute to these goals" (Butler & McEvoy 2012: 54).

Much recent literature has even gone further in advocating that the scope of the HRM function must be broadened to include providing service not only to internal customers such as employees and line managers, but to external customers as well, including the customers themselves, shareholders, and both local and global communities. The latter is especially pertinent for foreign investors in APEC economies (Lawler and Mohrman

2003; Schuler and Jackson 2005; Ulrich and Brockbank 2005; Wright and Snell 2005; Ulrich, D., Brockbank, W., Ulrich, M. & Younger, J. 2013).

APEC, through its Human Resources Development Working Group - Capacity Building Network (HRDWG-CBN), has also undertaken projects that examined issues of FDI with its report entitled "Opportunities and Challenges for Foreign Investment in the APEC Region" which was published in 2008. In the recently conducted project "Strengthening Human Resource Management Systems of SMEs for Facilitating Successful Trade and Investment in APEC," a recommendation was made to develop more in-depth, skill-oriented training programme to provide practical know-how for SMEs to establish effective HRM systems.

The Project

This project on Strategic Human Resources Management for Successful Foreign Direct Investment in APEC was carried out with the aim to build the HRM capacities of entrepreneurs and managers engaged in FDI, either as foreign investors or as local partners. It endeavours to facilitate successful FDI through a set of prototype guides for establishing appropriate and effective HRM systems required to recruit, retain and develop local workforce as quality human capital.

The project had the following specific objectives:
(1) To identify key success factors for HRM to positively affect workforce performance in a company's foreign affiliates;
(2) To develop a set of prototype guides for HRM systems in different social and cultural settings;
(3) To formulate a practical dissemination strategy of the outputs.

Conceptual and process frameworks have also been developed to design training programme(s) that take into account the diversity of APEC members, both in terms of economic and technological development as well as cultural backgrounds. A variety of issues from among APEC members in relation to HRM was collected in the form of case studies and mini cases which are illustrations of actual situations.

This paper also identifies significant opportunities to further enhance the capacities of entrepreneurs and managers engaged in FDI by using the prototype guide and building on them with additional inputs and local experiences. Some alternative ways to carry out such activities are also recommended for consideration by the APEC Human Resource Development Working Group (HRDWG), in collaboration with other APEC fora.

Structure of the Synthesis

This synthesis report summarises the findings from the project implementation process, including the development of the cases by the resource persons, and sharing of knowledge and experiences among key stakeholders and other APEC representatives at the workshop held in Chinese Taipei in late January 2015.

The synthesis report is structured as follows:
- Conceptual Framework related to FDI and HRM in FDI
- Key Issues of Strategic HRM in FDI

- Profiles and Highlights of the Cases
- Key Success Factors of Effective SHRM for Sustainable FDI
- The Way Forward

Putting together the synthesis paper in its final form was made possible by the combined inputs of other project members and the valuable contribution of Dr Alan Nankervis, who shared some of his earlier research materials.

Conceptual Framework

Foreign direct investment (FDI) from one economy to another is by no means a new phenomenon. Whether from China and India in the late 17th century, or from Europe in the 19th and early 20th centuries, FDI was the key goal of colonial ventures in Africa, Asia and the Middle East. However, the fundamental difference between historic and more contemporary FDI strategies is that the former were promoted by imperialist governments, while the latter are largely associated with the global expansion of first, large US and European corporations, and second, emerging global organisations from all continents and regions, notably in the APEC region. The complexity of contemporary FDI is also a distinguishing factor, as global corporations often operate across multiple economies with different forms of operation and diverse approaches to their associated HRM strategies and practices, whereas colonial FDI tended to standardise their financial, production and employment systems.

The key debate in HRM has been the relative impact of context on human resource practices and organisational effectiveness (Wood *et al.,* 2014). Given the diversity of economies and enterprises undertaking FDI, and the variety of political, economic and socio-cultural contexts within which it is undertaken, it is inevitable that the nature of the relationships between FDI and HRM will differ from one context to another. It is also clear that these relationships will continue to be progressive and fluid.

Definitions of FDI and HRM

Modern FDI can be defined as “the acquisition by a foreign firm of a lasting interest in, or effective management control over, an enterprise in another economy, and is distinct from portfolio flows which consist of equity flows and bond issues pursued by foreign investors” (Addison *et al*., 2006, cited in Wood *et al*., 2014: 181). FDI may be enacted by multiple means, including (but not restricted to) import-export relationships, joint ventures, foreign-owned subsidiaries, mergers and acquisitions. Each of these forms of investment may entail different HRM strategies and practices consonant with the number of employees, legal requirements, socio-cultural challenges and opportunities of the home and host economy environments, industry differences and labour market characteristics.

Human resource management (HRM) may be defined as the convergence of three factors – human beings, human ‘resources,’ and their management – “where human beings have the actual and potential resources (knowledge, skills and capabilities) that can be harnessed through effective management techniques to achieve short and long-term organisational goals as well as personal needs” (Nankervis *et al.*, 2014: 15).

Global HRM involves the adaptation of all associated activities (e.g., job design, staffing, learning and development, remuneration, performance review, occupational health and safety) from one geopolitical context to another, ensuring that they are effective in meeting both organisational and employees' goals and needs. In fact, the World Bank's "Ease of Doing Business" survey suggested that "foreign firms which adapt their HRM practices to (local) markets perform better than firms with globally-standardised HRM practices" (Friedmann *et al.*, 2008: 4). Others identify "a growing recognition that differences in HRM remain persistently different...and that multinational corporations, in many cases, have to fit in with local realities" (Wood *et al.*, 2014: 180).

FDI attractors and enablers

While there is little doubt that inward FDI has been increasing continually over the last two decades from both developed and developing economies, especially within the APEC region, it is becoming evident that its purposes and its relationships with human capital development at the economy level, and with HRM strategies and practices at the institutional level, are undergoing significant changes due to a confluence of factors. Predominantly low-cost and semi-skilled manufacturing models of FDI are being complemented (or supplanted) by highly-skilled competitive communications and information technology models which accordingly demand more sophisticated HRM approaches.

Thus, until the end of the 20th century, the key FDI attractors for many foreign investors were the low cost of semi-skilled labour, and minimal prescribed employment conditions for the production of such goods as clothing, footwear, white goods, furniture and handicrafts. During this period, many foreign investors relocated their manufacturing operations to APEC economies such as China; Indonesia; the Philippines; and Viet Nam, or outside APEC such as Bangladesh and Pakistan for such purposes, often with little regard for workers' employment conditions and entitlements.

The main imperative then was to minimise production costs with the intention of maximising the return on their investment, and sometimes also increasing their market share within the region. Heyman & Teisceva (2010: 26), for example, suggested that "human capital (development) does not constitute a factor in attracting FDI in China," inferring that global companies were generally unconcerned with broad national characteristics with beneficial macro-outcomes. A relatively recent review of the literature on FDI determinants concluded that the levels of local Gross Domestic Product (GDP), supportive government investment policies and attractive taxation incentives ('soft infrastructures'), and the industrial base were also considered to be FDI enhancers (Heyman & Teisceva, 2010). FDI recipient economies were usually prepared to accept the exploitative nature of the foreign investments in return for their expected positive contributions to employment and their economies.

Over the last decade or so, a number of global and local developments appeared to have broadened the perspectives and increased the obligations of FDI providers, especially in the APEC region, with identifiable links to HRM strategies and practices. These included, but were not restricted to, a significant increase in global business competitiveness from outside and within the APEC region; transitions in industry sectors from low-cost to high tech manufacturing and services; the relatively greater importance of World Trade Organisation (WTO) membership and its impact on local employment laws; lessons learned from foreign investors' exploitative employment behaviours in some industries and economies; changing demographics and dynamic labour markets; and rising education levels across the region.

As a consequence of these developments, it is argued that FDI location choices are increasingly influenced by both (national) human capital management and (institutional) HRM characteristics, rather than merely the availability of low-cost semi-skilled labour and attractive taxation incentives. Thus, some authors have suggested that foreign investors are now more likely to establish their international operations in economies which possess strong vocational and higher education systems, highly-skilled workforces, high literacy levels and sound technology infrastructures (Rasiah, 2005; Heyman & Teisceva, 2010; Wood *et al.*, 2014).

At the institutional level, while employee salaries and benefits are still a consideration in location choice for FDI, such HRM programmes as ongoing learning and development, performance management, career development, and occupational health and safety (OHS) are becoming accepted components of competitive advantage for many foreign investors. This is due to WTO requirements, recipient governments' employment policy and legal developments; and in tight labour markets, the growing talent war. The latter issue is exacerbated in aging societies such as Australia; China; Japan; Singapore; and the US. Despite these encouraging developments, the existence of strong and adversarial industrial relations systems in economies such as Australia and Korea is still considered a significant constraint to FDI (Lee, 2000; Rasiah, 2005; Wood *et al.*, 2014).

HRM outcomes from FDI

Given the changing FDI attractors and enablers discussed above, it is not surprising that foreign investors have, to varying degrees, also altered their perspectives on their necessary contributions to local economies and utilisation of HRM strategies and practices. The literature suggests, however, that there are identifiable differences in the approaches adopted by foreign investors from developed and emerging economies. "In the case of emerging market economies, there often appears to be little interest in securing access to local skills and capabilities...and more, in securing very cheap labour, wage rates are the most important human resource factors" (Wood *et al.*, 2014: 195). Most likely, such investors are still engaged in low-cost manufacturing industries and/or not bound by WTO regulations.

However, the trend for FDI to be more closely linked with progressive HRM approaches appears predominant. Thus, many foreign investors are likely to be concerned with the promotion of their brand and reputation in order to better connect with highly-skilled employees in tight labour markets; to use targeted recruitment, and more complex selection techniques; to design fluid rather than static jobs intended to challenge employees and enable future organisational change; to localise the majority of its senior management positions and develop their career paths; to provide ongoing learning and development programmes (often in conjunction with local vocational and higher education institutions); to implement performance management systems, linked to development and career progression; to pay above minimum wages and benefits; and to provide occupational health and safety programmes. The additional business costs of such initiatives are justified as investments with respect to workforce loyalty and commitment, local human capital development, together with adherence to WTO requirements.

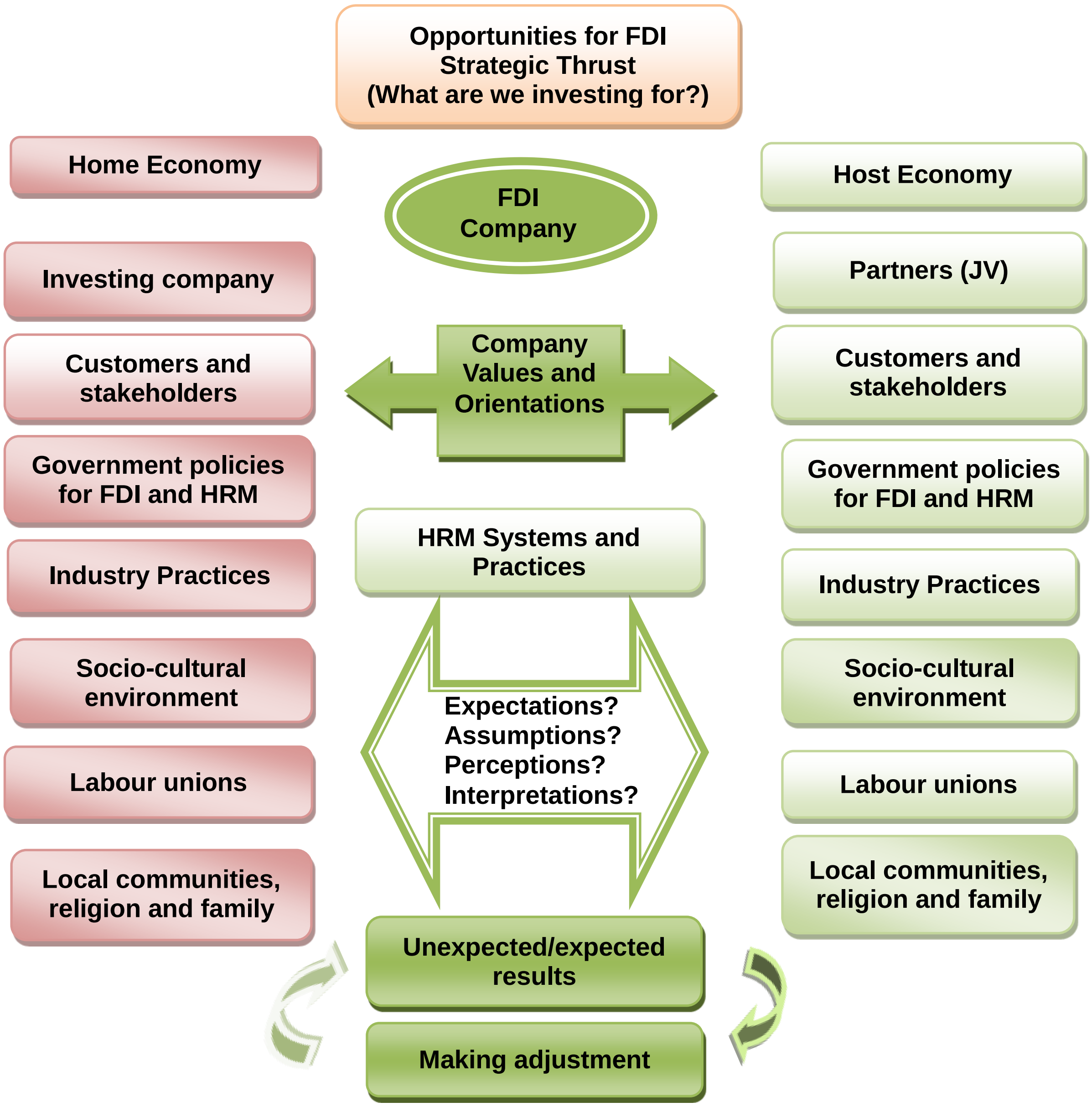
Some of these investors have gone further, by implementing employee work-life balance programmes, child- and elder-care services, corporate social responsibility and community development initiatives, in order to maintain their reputations as socially responsible corporate citizens.

Key Issues of SHRM in Foreign Direct Investment

Overall Research Framework for SHRM in FDI

The following framework was used to identify main issues and challenges faced by the FDI companies and how these were addressed by each of the companies studied.

Figure 1: Strategic Human Resource Management Framework (SHRM) in FDI



This SHRM in FDI Framework proposes that in developing the HRM Systems and Practices for the FDI company, opportunities for FDI must be assessed from the perspectives of both the Home and Host Economies as applied to environmental factors which may include but are not limited to:

- Characteristics of both the investing company from the Home Economy and the business partners in the Host Economy
- Government policies
- Industry practices
- Socio-cultural environment
- Labour unions
- Communities, religion, and family

Those involved in FDI must identify, articulate, and clarify their own expectations, assumptions, perceptions and interpretations in relation to these factors. More importantly, they must recognise the need for flexibility, openness, and readiness to make adjustments in their expectations, perceptions, assumptions and interpretations.

Foreign investors and their FDI partners (owners and managers) may decide to use the HRM practices of the foreign partner, follow the local practices, or a combination of both. Because of the differences in social or cultural or environmental contexts of business in the societies where the FDI operates, expected effects or results of the original HRM may or may not happen, making it necessary to make some modifications or adjustments.

The main focus of this project was to learn from the experiences of others, and identify some of the key elements of successful HRM implementation in FDI. In particular, the project has tried to capture emerging issues and problems which the companies in FDI encountered and the adjustments they made during the course of their operations. If problems surfaced, how were these handled and what were the reasons for taking a particular line of action to address them?

This initial research framework serves as a guide to an understanding of the critical aspects of both the investing company environment and the host economy environment which might affect HRM systems and practices. It further looks at the process of developing HRM practices, which are best developed in line with the business strategy, based on the articulated or implied values and orientation of the investors. If the assumptions, expectations, perceptions and interpretations of the people involved were aligned, expected results are more likely to be delivered. On the other hand, without the congruence of corporate and personal goals or expectations, targeted results may not likely be achieved and problems may arise, necessitating major adjustments from all people concerned.

Although all the cases developed do not highlight all the above elements, they illustrate many of the key points and provide important practical lessons, based on actual FDI company experience.

Project Cases

Under the project, eight case studies and two illustrative mini cases were prepared involving 11 APEC economies. The cases illustrate real life issues and problems, and showcase successful measures to address the identified issues and challenges. They also highlight commonalities and differences of HRM issues in various APEC economies.

Table 1 below presents a summary of the 10 cases and highlighted HRM issues.

Table 1: Summary of Cases Developed

Investor & Host Economies	Case/ Industries	Type of Investment		HRM Issues					
		Ownership	History	Recruit	Evaluate/ reward	Retain	Train	Succes sion	Culture
Chinese Taipei in Viet Nam	Taipei Shoes (Shoe making)*	JV to Subsidiary	Green**	◎	◎	◎	◎	◎	◎
Australia In Malaysia	PolyPacific (Plastic Resin)	JV to Subsidiary	Green	◎	◎	◎	◎	◎	◎
China in Indonesia	XYZ (Oil & Gas)*	JV	Existing**	◎	◎	◎	◎	◎	◎
Japan in China	Karasawa (Bicycle brakes)	JV to Subsidiary	Existing Green				◎	◎	◎
Japan in Singapore/HK/ Chinese Taipei	QB Net (Barbershop)	JV to Subsidiary	Green	◎	◎	◎	◎		◎
Japan in the Philippines	Toyota Motor Philippines (Automobile)	JV	Green	◎	◎	◎	◎	◎	◎
Chinese Taipei in China	Outward FDI and Chinese Taipei Firm Domestic Employment (Empirical study)			**N.A.**	**N.A.**	**N.A.**	◎		
United States in Viet Nam	American Feed Co. (Animal Feed)	Subsidiary	Existing (state owned)	◎	◎	◎	◎	◎	◎
Asia * in Australia	NVK (Electric appliance)*	JV to Subsidiary	Green	◎	◎	◎			◎
Asia * in United States	LL Enterprises (IT) *	Subsidiary HQ	Existing	◎	◎	◎			◎

*Names are disguised.
**Green indicates "Greenfield" investment, while existing indicates buying into an existing operation.

Profiles and Highlights of the Cases

Presented below are brief abstracts of the cases developed under the project.

Taipei Shoe Company (Chinese Taipei company in Viet Nam)

The Taipei Shoe Company invested in Viet Nam, initially as a joint venture and later as a wholly owned subsidiary, to produce shoes on original equipment manufacturer (OEM) basis. The initial objective of the foreign investment was to take advantage of a low-cost, low value-added operation. Later, however, the company upgraded its operation into original design manufacturer (ODM). With Viet Nam's accession to the WTO, improved working conditions for employees became a requirement.

A new, younger, and US-educated general manager, who replaced the original general manager, introduced an integrated range of modern HRM practices within a transformational leadership style, with significant employee attraction and retention, productivity and financial benefits. Productivity increased as he replaced all the middle managers from Chinese Taipei with local managers. To promote innovation in the company, he collaborated with the HR manager to develop a three-year performance-based employment contract. Coupled with in-house learning, including structured job rotation and clear career progression prospects, and the use of media, he was able to establish the company as an attractive employer.

The company faced an unexpected challenge when anti-Chinese riots spread following the eruption of political conflict between China and Viet Nam over the disputed South China Sea. The company quickly responded by closely communicating with employees and reassuring them of the company's commitment in Viet Nam.

PolyPacific Pty. Ltd (Australian company in Malaysia)

An Australian family-owned small-medium enterprise producing polypropylene compounds for use in manufactured plastic goods established a manufacturing operation in Malaysia, after marketing their products as an exporter. The company's competitive advantage relied on flexible manufacturing - being able to work with customers to identify their needs and quickly supply small as well as large volumes of required product at high quality standards. To achieve this, employees In Malaysia had to understand customer needs accurately and to make necessary decisions locally. This did not fit well with the existing Malaysian culture which respected authority and preferred to rely on directions from above. With constant mentoring by the general manager, local managers started to express their opinions, and progressively make decisions and assume more responsibility for them.

The case also discusses changes in the host government policy on FDI, affecting the company's ownership structure. The government eased local ownership requirements and currently allows wholly-owned subsidiaries. This also affected management practices in the company.

As a multi-racial society and with the government's "bumiputera" policy, there were initial government requirements to employ a certain percentage of ethnic Malays in all workforces. The company was able to manage this process while maintaining the parent company's fair treatment practice of employing people on their merits. Managing racial issues in the workforce nonetheless required constant management attention. The company has managed its workforce to avoid hiring labour from other economies.

Being a small company, PolyPacific's HRM was relatively informal, with performance management being carried out through day to day interactions between managers and employees. Hiring policies were directed at finding people who could grow with the company rather than hiring those at the top of the profession. PolyPacific was fortunate to have "culturally appropriate" leaders for each strategic stage of its investment who were likewise prepared to take on the required expatriate challenges.

XYZ (Oil & Gas) (Chinese company in Indonesia)

A large multinational company's investment in an established local oil and gas exploration company faced the challenge of dealing with the substantial exodus of skilled engineers who were attracted to foreign employment posts for much higher compensation. The host government restricted employment of foreign workers, making it necessary to seek new local hires. With declining production due to the age of the exploration site, XYZ had to secure employees with necessary skills at minimum cost. Instead of hiring skilled engineers, XYZ decided to hire fresh graduates and train them in-house. Extensive training programmes, using a competency model and a substantial budget allocation, were instituted in addition to rehiring retired employees as consultant trainers, and providing tutoring and mentoring support. Both Indonesian employees, as well as foreign investors and their families, participated in cultural training programmes which proved to be effective in enhancing the understanding between the foreign managers and the local employees.

While the company was successful in signalling the change of ownership by changing company logos and colours in the offices, the commitment of employees to stay with the company required greater effort on the part of the management, particularly with the declining production of the operation. Possibilities of acquiring experience and working in the company's other sites may entice the workforce to stay, particularly those with technical expertise.

QB Net (Japanese company in Hong Kong, China; Singapore and Chinese Taipei)

An innovative "10 minute-cut only" barbershop chain from Japan started to invest overseas, to provide their services to the customer segment that placed much value on their time. After failed joint venture and franchise attempts, QB Net started its own subsidiaries in Singapore; Hong Kong, China; and later in Chinese Taipei. Unlike in Japan, where qualification standards were clearly laid out, basic knowledge and skill levels were varied in the foreign locations. A new training programme for beginners in cutting and knowledge of sanitation had to be devised. Stylists' turnover of almost 50% a year was an issue. Analysing exit survey results indicated the reason for the high turnover as unfair performance evaluation. This was effectively addressed by establishing clear evaluation criteria as well as potential career paths for the stylists towards management or trainers' positions, thus substantially reducing the turnover rates.

Other measures included developing an organisational culture to encourage team spirit with their recognition programme and to share mistakes with other members, thus enhancing organisational learning. Styling contests held in Japan generated a pride in "craftsmanship" among the stylists.

QB Net was confronted with the Singapore government policy on the employment of foreign nationals, which the company was able to address successfully. At the same time QB Net's FDI was greatly assisted by local financial institutions and host government investment promotion offices that facilitated information sharing. A possibility for a joint skill development programme with a public training institution was being explored.

Karasawa Seisakusho (Japanese company in China)

A small bicycle brake producer from Japan expanded its operation to China, following the path of most of its Japanese bicycle industry competitors, as well as to take advantage of China' s growing bicycle market. It put up its China operation in 1993, initially as a joint venture with a township and village enterprise, and later as a wholly-owned subsidiary. Since the second generation owner did not have manpower to send to manage the operation in China, the company assigned the young Chinese, who had been studying in Japan under the company umbrella to head the local subsidiary. With the very close involvement of other company staff, the company chairman was able to impart his values and philosophies as well as technical aspects of the business to this young and enthusiastic Chinese, who was groomed to head the local operations in China.

Unlike most Japanese companies, Karasawa had been successful in localising management in their overseas operation. Aside from the cultural immersion of the local management, simple and clear guidelines regarding the responsibilities and limits of local decisions were laid out. The inputs for the development of new products from the local management addressed local needs which would not have been known to the parent company. As the company in China grows, there is likely to be a need to move to a more formal and structured HRM system.

Toyota Motor Philippines (Japanese JV company in the Philippines)

The case describes the process undertaken by a joint venture company with well - established partners with similar values and visions. Toyota Motor Philippines (TMP) was a fast growing auto assembly and sales company in the Philippines. Due to its fast growth, coupled with Toyota's policy of internal promotions, technically competent employees were promoted to supervisory and managerial positions, without adequate people management skills. As a result, the dissatisfaction of employees was neither recognised nor contained, leading to an illegal labour strike.

After the strike, HR officers, together with management, focused on rebuilding TMP. As a first step, they launched a company-wide initiative to consult all Team Members, including those who had joined the strike, on what everyone wanted the company to be, where they wanted it to go, how they wanted it to get there, and what was really important to everybody. The result was the TMP Vision, Mission and Values, developed by consensus among Team Members.

In addition, extensive talent management, training, structured rotation and the overseas assignment of local staff were instituted. A review of compensation and benefits produced a cafeteria benefit programme, addressing different needs of the members with a menu of options. The performance appraisal system was redesigned to be competency-based and linked to business and management goals. Communication at all levels was strengthened to demonstrate trust and respect for Team Members. Such efforts produced a highly stable, productive and amicable work environment with the efficiency and quality required by the management. The HR function was recognised as one of the key strategic elements, with the full support and cooperation of both management and employees.

Outward FDI and Chinese Taipei Firms Domestic Employment (Empirical Study)

This empirical study explored the impact of Chinese Taipei FDI to China on employment in the home economy, in particular whether a "hollowing effect" was taking place or not. This study showed that while FDI had no direct effect on employment in the production area, it however appeared to have increased the demand for management level skills.

A case of C-store (which belonged to the Ruentex Group) indicated that new store managers were fielded from Chinese Taipei to China to start up the business and to further improve the service level of the franchisees. The study indicated that building the capacity of managerial level personnel and R&D staff would be important to facilitate outward FDI.

American Feed Co. (US company in Viet Nam)

The American Feed Company (AFC), initially established by an American company taking stakes in the state-owned enterprises shifted its old planned economy culture to a quality and productivity-centred culture, providing higher salary and benefits. In the process, the company had to change a culturally-entrenched work habit of spending longer holidays during the festive seasons, and effectively address emerging militant labour disputes in the industrial zones.

When AFC became a member of Singapore-based Gold Coin Holdings, foreign managers were dismissed, followed by the termination of the excess workforce during the financial crisis. When the economy recovered, the company faced challenges of recruitment. A new local CEO was hired, who not only understood the local situation but was also able to make prompt and decisive decisions. AFC resorted to hiring fresh graduates and local workers without skills and providing them in-house training. The company strengthened its sales activities and recruited an HR manager who formalised policies and benefits, and enhanced the work environment. As AFC expanded (the third plant was built in 2014), the local CEO strengthened the workforce's belief in AFC's corporate values and introduce new HRM practices, including a 360 degree evaluation process and attractive employee benefits.

NVK Australia (Asian company in Australia)

The case shows the difficulties associated with the transference of the parent company HRM practices of a large Asian company to the different industrial relations system of Australia. Implementation of the company vision used some rhetorical expressions and symbolism which were not acceptable to the Australian employees and managers. Evaluating the workforce performance leading to a possible dismissal for underperformers could be taken as illegal under the Australian labour laws. Facing strong negative reactions from the employees, the management had to make adjustment in consultation with the labour union.

LL Enterprises (Asian company in the United States)

The case captures the dilemma presented by the application of comprehensive but rather rigid performance-based HRM practices in a large Asian company to an innovative information technology subsidiary in the US. Some of the terminologies used by the management were unacceptable in the Western context, and such a rigid evaluation system proved inimical to the company's desire to foster a creative and innovative corporate culture.

Since this investment was an acquisition of an existing operation, the past experience of the employees affected their perception of the management at the time when the business faced the global economic crisis.

Project Presentations

Following are brief summaries of presentations of APEC representatives on their respective economies' HRM issues and concerns with FDI.

HRM Concerns in Indonesia

Being the world 16th largest economy, Indonesia is attracting inward investment by both large multinationals and SMEs. As a result, the skilled workforce, in particular, information and communication technology-related professionals, is in short supply. The retention of the workforce in such professions requires good working environments, prospects for career advancement and self-development, and company brand name as important considerations, in addition to salary and benefits.

Large multinational companies operating in Indonesia pointed to talent management, succession planning and leadership development as the most important issues for HRM in Indonesia. Treating employees with respect and promoting good communication between management and workers were regarded as the top priority considerations for foreign investors.

HRM Concerns in the Philippines

The Philippines enjoys a young, abundant and educated population, and provides competitive wages for inward FDI. However, there is a job-skill mismatch and an inadequate supply of highly qualified managerial or technical professional talents. Skill deficiencies exist in interpersonal, communication and problem solving skills. The government is promoting educational reform, job matching, industry-led career advocacy, as well as making efforts to establish regional agreement, mutual recognition agreements (MRAs) and qualification frameworks.

To address technical skill deficiencies for international competitiveness, effective public and private collaboration in technical development has been attempted. One of the most recent FDI sectors is in the business process outsourcing (BPO) industry. To address skill deficiencies, the government skill development institution (TESDA-Technical Education & Skills Development Authority) and the BPO industry association formed a partnership, providing industry specific training at a reduced cost.

HRM Concerns in Thailand

Thailand has relied on FDI flows for its economic growth in the past decades, and has benefitted from technology transfers and employment generation. To optimise the benefit of FDI, effective HRM has received great attention. A recent survey indicated that the key HRM concerns among the Thai companies are 1) result-based management, 2) human resource development (in particular occupational development and training), and 3) human resource planning, in terms of recruitment, to replace those who leave the company in order to sustain growth.

The case of Milott Laboratories, a Japanese FDI in the pharmaceutical industry on OEM, indicates that the key success factors of their investment were good partners, and human resources who valued honesty, transparency and quality. The company stressed the importance of continuously promoting and developing competencies of employees, acting with fairness, listening to ideas and suggestions, and promoting the right to lodge complaints at work, in addition to providing appropriate compensation and welfare.

Further, providing safe and hygienic workplaces and respecting the rights and privacy of employees are important aspects in HRM strategies. Corporate social responsibility (CSR) can help improve the staff as well as the community's perception of the company as an asset to the economy.

Factors Influencing HRM Systems and Practices

From the cases developed, the workshop participants identified some of the major factors influencing HRM systems and practices which should be taken into consideration in preparing or instituting HRM systems and practices in FDI (Refer to Table 2).

Table 2: Influencing Factors

Nature and Characteristics of the Enterprise to be Set up with FDI			
Industry	Manufacturing	Service	Information Technology
Purpose of FDI	Access to local market	Access to labour	Access to resource (Raw material)
Operation history	Greenfield	Existing (Good)	Existing (Poor)
Pace of growth	Rapid ramp-up	Slow growth	Planned and controlled
Business situation	Profitable and growing	Stagnant	Extremely competitive
Location of operation	Rural	Industrial estate	City centre
Customers and supply chain	Local	Regional	Global
Competition	Local	Regional	Global
Investor/Investing Companies			
Experience of investor	First time investor(s)	Limited experience	Rich past experiences
Situation in Host Economy			
Employment situation in host economy	Abundant supply	Locally competitive for required skills	Globally competitive for required skills
Labour union in host economy	Militant	Cooperative	No union
Situation in Both Host and Originating Economies			
Laws and regulations in host economy	Clear and stable	Vague and changing	Inadequate

Laws and regulations in host and home economies	Practically the same	Very similar but minor differences	Very different and changing

Key Success Factors of Effective SHRM for Sustainable FDI

A review of literature and case studies developed under this project as well as discussions held during the workshop in Chinese Taipei, indicated the following key success factors for developing strategic HRM for FDI. (See Exhibit 1, with detailed references to the cases.)

Table 3: Key Success Factors Identified through Cases and Discussions

1. Access to quality and up-to-date information on government policies	
	Government policies and regulations change over time, which may affect the company's HRM policies and practices. It is important to keep abreast of these changes or even anticipate them, establishing quality information sources.
2. Management self-awareness	
	Self-awareness is crucial. Being able to understand one's own organisational strengths and weaknesses (biases) and making best use of them is essential for FDI.
3. Cultural sensitivity	
	It is essential to understand differences in value orientation of the people in home and host economies, without stereotyping and prejudging, and to adjust the attraction, performance evaluation, recognition, training and career path systems to suit or adapt to employee behaviours. Differences in values also come from gender and generation.
	When using symbols and anecdotes, it is important to double check what they mean in different cultural contexts to ensure that the right message is received.
	When investing in an existing company, it is critical to fully understand the existing culture and values, as well as the past history and sentiments of the workforce.
4. Awareness and use of networks and linkages	
	Have the ability to link with existing institutions in meeting the training needs (to seek a 'win-win' relationship)
5. People orientation	
	It is important to understand and address the needs and concerns of the people in the organisation. Anticipate their concerns in time of unexpected crises to send timely messages and support.
6 Characteristics of FDI Manager	
	Choose expatriates who have a global mindset, are culturally-sensitive, keen to face new challenges and have the capacity to learn from their international experiences. Keep in mind the eventual localisation of most management positions.
7. Importance accorded to the HR function and credibility of the HR Department/ staff	
	Consider HRM as strategic and a management priority, implemented in close coordination with middle and line managers

8. Employee value proposition	
	Establish a unique reputation of what the enterprise stands for in HR terms in the local community by optimising its international (or global) experience, knowledge and linkages.

Based on the findings from the case studies and relevant research, and the sharing of experiences among the project participants, A "Prototype Guide to Strategic Human Resource Management (SHRM) in Foreign Direct Investment (FDI) Enterprises" is proposed in the next section.

THE WAY FORWARD

Orientation Programme (Workshop programme to introduce/build on/discuss/refine guidelines)

To disseminate and further expound on the "Prototype Guide to SHRM in FDI Enterprises," a sample format for a workshop is presented as a model to be implemented in the future. It is hoped that the relevant organisations and agencies in APEC member economies will add more relevant examples as case studies and modify the prototype guide, to fit their own situations in the future.

Exhibit 5: Programme Template

Learning Goals and Objectives

Identifying Key Success Factors of HRM for FDI Operation

The programme's key learning objectives are that participants will be able to:

Understand the strategic importance of HRM systems and practices to organisational performance in FDI operations

Appreciate common issues of HRM systems and practices in FDI operations

Identify key success factors for aligning HRM systems and practices for successful and sustainable FDI

Workshop Programme Topic & Methodologies

Aligning Strategy, Vision, Mission with HRM Policies and Practices

Identifying gaps and mismatches in HRM practices

Generating different adjustment approaches to suit social context

Identifying useful outside support and collaboration

HRM Systems and Practices as Enablers for High Performance, Growth and Expansion (Recruitment, Training and Development, Performance Management, Rewards and Recognition in FDIs)

Presentations of cases
Sharing of experiences of investors and recipients on issues and approaches
Introduction and discussion of guidelines
Introduction of locally - available resources
Discussions

Programme variation

In order to address specific needs of the potential or existing investors or recipients of FDI, the following special-focused programmes may be considered, with additional inputs and cases by the experts with actual experience.

a) Industry-specific contents (e.g., FDI in IT related or service industries)
b) Destination-specific contents (e.g., Investment from Western economy to Asia or vice-versa)
c) Size-specific contents (e.g., FDI of small and medium scale industries)

Other dissemination possibilities

In order to increase visibility and usage of the outputs of the project, the following ideas were suggested for consideration:

a) Communicate formally to schools, universities, chambers of commerce, government foreign trade agencies, APEC member economy embassies, small and medium business associations, or other relevant organisations promoting FD and invite them to use the materials from the websites.
b) Encourage member economies participating in APEC meetings to disseminate the report domestically.

Apart from the above dissemination plans, the following ideas were discussed during the workshop. It was agreed that the feasibility of carrying out the suggested ideas in the future shall be explored.

a) Prepare a short introductory (or animation) video which can be placed on video-sharing websites, with URL links provided to relevant agencies
b) Individual APEC members should explore the possibility to expound the prototype guides by adding their own examples for relevant issues, industries, and with link to the output of this project
c) Introduce to individual APEC members the developed case studies as practical illustrations to be used for a series of half day/one day workshops on Successful HRM for sustainable FDI, with local partners across APEC economies

Possible future activities for APEC HRDWG

The following activities can be explored for implementation in the future:

1. To build on the output of this project, additional case studies from different economies and different industries can be collected by the educational institutions and/or investment promotion organisations, to be placed on their respective websites. Possibility of linking to this project site and additional materials generated by different institutions can be explored, using APEC HRD Wiki or other mechanisms.

2. Capacity building programme materials, such as case studies for discussion, video clips, or animations, can also be developed, so as to make the cases more user - friendly for busy business executives.

Exhibit 1: Summary of Issues, Responses & Key Success Factors

Issues & Challenges	HRM Issues	Responses	Relevant Cases	Key Success Factors for Effective HRM for Sustainable FDI Operation
Effects of government policies and international rules (FDI, employment quota, minimum wage, etc.)	FDI related local ownership requirement.	Finding a compatible partners for investment	Toyota Motor Philippines	Recognising that government policies do change, it is necessary to have reliable information sources to anticipate such changes, which may affect the industry or FDI operation
		Shifted from JV to subsidiary	PolyPacific, Taipei Shoe	
	Bumiputra policy (ownership and employment quota)	Consistent use of original merit based employment policy	PolyPacific	
	Restrictions on foreign worker employment	Complied with hiring local employees with extensive training and benefit adjustments	PolyPacific, QB Net XYZ	
Matching own strengths with opportunity to overcome problems and to succeed	Informal HRM practices of family corporation	GM spearheading HRM, including performance evaluation and training.	PolyPacific	Management self-awareness is crucial. Being able to understand one's own strengths and weaknesses (including biases) is essential for FDI
	Transitioning from low-cost manufacturing to higher value added	Transformational leadership with modern HRM. Replacing home economy manager with local managers. Applied 3-year performance based contract. Structured job rotation and career paths. Brand equity as attractive employer.	Taipei Shoe	
	Quality and production system without people skills	Review of work values by all members to redefine important values and build HR systems and practices taking the strengths of partners	Toyota Motor Philippines	
Difference of social values and modifying behaviours	Respect of authority, not expressing own opinions in public	Constant reminder, allowing wrong decisions (rather than no decision). Language (English) training.	PolyPacific	
	Not sharing mistakes with others Keep cleanliness and punctuality Job hopping as career progression	Store based award system to build team spirit Evaluation system to include both hard and soft components Providing career opportunities for stylists	QB Net	Understanding difference in value orientation and double-checking if the message and meanings are correctly interpreted, expectations are in line with each other.
	Use of symbols and anecdotes to illustrate important values	Negative reactions due to different perceptions and interpretation of the symbols and anecdotes	XYZ NVK/ LL Enterprises	
	Local festivities disrupt attendance	Adjusting to incorporate benefits and rules to the needs of local practices	American Feed	When investing in an existing company, it is critical to fully understand the existing culture and values, as well as past history of the people.
History of organisation, if existing company is involved.	Interpretation of message and measures taken by management was unexpected	Corrective actions had to be taken, after some negative feedbacks	American Feed LL Enterprises XYZ	

Shortage of qualified workforce	No qualification standards	Providing in-house training programme	QB Net	Ability to link with existing institutions for filling the training needs (to seek a win-win relationship)
	New skills and attitudes development for newly developing industry (BPO)	Industry association to link with existing educational/skill development institutions to design and implement industry specific programme	Philippines(TESDA)	
	Better opportunities outside of the economy (international competition)	Recruit fresh graduates with extensive training and opportunity to work in other operations	XYZ C-Store (Chinese Taipei)	
Establishing relationship based on trust between management and employees	Work disruption due to reasons outside of company control (Natural disaster, political issues)	Communicating and reassuring the company stand and maintaining employment (using paid leave)	Taipei Shoe Toyota Motor Philippines	Understanding the needs and concerns of people in the organisation and addressing them through firm communication pipes.
		Retrench workforce at the time of economic crisis, reminded of past experience	LL Enterprise	
	Labour union going on strike	Revisiting values by all members and identifying critical missing points. Different needs for company benefits were provided as cafeteria style	Toyota Motor Philippines	
	Exit survey revealed reason for leaving as career progress prospect	Providing career progression opportunities to retain skilled workforce	American Feed QB Net	
Selection of management to be assigned in FDI	Localisation of management	Total immersion and full understanding of the investing company values and practices by the local management (candidates)	American Feed Karasawa	Choose expatriate who is culturally sensitive, taking on challenges, with localisation of management in mind
	Investor and FDI company's relationship	Clear guidelines on responsibilities and authorities to be given, and reporting practices	Karasawa	
	Desirable personality of expatriate manager	Culturally sensitive, open-minded personality Enjoy challenge, Grow with the company	PolyPacific QB Net	
Attracting and retaining quality workforce	Inadequate middle management staff	Recruitment and evaluation done by committee and line managers involvement	American Feed Taipei Shoe Toyota Motor Philippines	Taking HRM as a strategic management priority, implemented in close coordination with line managers
	Need for varied career opportunities	Structured job rotation, including possibilities of foreign assignment	QB Net Toyota Motor Philippines XYZ	Optimise the international (or global) linkage Offer distinct employee value proposition in the local community to be included as an employer of choice
	Inadequate appreciation of home office reputation	Study tours to home office/sites	PolyPacific QB Net	
	Inadequate social recognition of the profession	Skills contest for stylist to promote pride of "craftsmanship"	QB Net	
	Past experience of hardship or labour disputes	Recognised in the community as a model employer through good benefits and fair compensation package	American Feed Taipei Shoe Toyota Motor Philippines	

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Asia-Pacific
Economic Cooperation

A Prototype Guide to Strategic Human Resource Management (SHRM) in Foreign Direct Investment (FDI) Enterprises

This Guide is offered to provide a set of preliminary human resource management (HRM) guidelines to owners and managers of enterprises within the APEC region who are currently, or are considering, operating foreign affiliates through foreign direct investment (FDI). HRM managers in local firms that are current or potential partners of enterprises with FDI may also find use for this Guide. Other potential users include government officials and policymakers responsible for FDI as well as related public organisations, business schools and HR consultants within or outside APEC.

Why this Guide

There currently exists a wealth of information, guidelines, and other resources offered by government agencies involved in trade and investments, consulting organisations, and even the academe to assist companies wanting to expand operations beyond their borders. Many of these materials focus on the "international readiness" of companies to go overseas. International readiness has been defined in many different ways, including marketing/operational readiness (Leonidou, 1995), functional readiness (Suarez-Ortega, 2003) and managerial commitment readiness (e.g., Nummela, *et.al*., 2004).

This Guide focuses very specifically on the Human Resource Management dimension to ensure the success and long-term sustainability of foreign investments. While the availability of qualified personnel and the low cost of labour may have been considered as critical inputs to the foreign investor's decision to go overseas, the HRM perspective is normally overshadowed by operational concerns related to product or service delivery at the start-up phase of the enterprise. Policies and practices related to recruitment, selection, training and career development, performance appraisal, compensation and benefits, employee relations, workplace climate and organisational culture are most often incrementally developed in response to operational issues and problems as these arise, or transferred from the originating company.

It is, therefore, the intent of this Guide to present HRM content and process frameworks, and checklists that will aid users in designing, formulating, and implementing HRM systems, policies, and practices that can help attract, retain, and motivate peak performance from the workforce. These will thereby contribute to the success and long-term sustainability of the overseas operations, in both start-up and subsequent phases of business development.

This Guide draws heavily from the research findings, case development and workshop discussion conducted under the project "Strategic Human Resource Management for Successful Foreign Direct Investment." Since APEC consists of members at diverse economic stages, with different cultural orientations and FDI development stages, each member therefore presents its unique issues, challenges, and HRM solutions. The project partners wish the relevant parties engaged in FDI in APEC to use this Guide as a starting point and to adapt the contents to their own experiences, particularly those faced by managers and owners of the enterprises engaged in FDI, so as to enrich the lessons with more varied perspectives.

This Guide is not intended to be a "step-by step" or "how to" guide. Different economies have different challenges, and different enterprises have different objectives, values, and capabilities. What it offers are a practical framework and checklists that users can draw from and use in combination, depending on their particular circumstances and challenges.

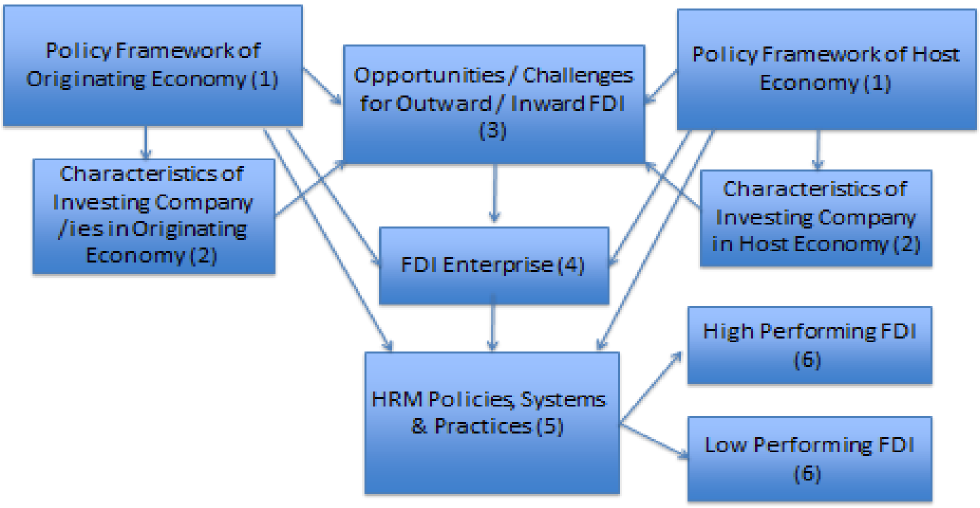
This Guide covers the following areas:

1. Overall Framework for FDI
2. Aligning Context, Strategy, Organisational Characteristics, and HRM Practices for Successful FDI
3. HR Issues and Challenges at Various Stages of the Organisational Life Cycle
4. Key Success Factors Influencing HRM for FDI

Overall Framework for FDI

A number of factors can influence the decision to engage in business operations beyond national borders. Figure 1 identifies the factors that were noted to influence the decision to establish and operate a foreign affiliate, and proposes that the design and implementation of appropriate HRM systems, policies, and practices can determine the viability and long-term sustainability of the enterprise.

Figure 1: Overall Framework for FDI



The framework asks the following questions:

1. What is the policy framework of the originating and host economies in relation to trade and investment? Are the policies clear, consistent, and stable? Do they facilitate and support FDI?

2. What are the characteristics of the investing companies in the originating and host economies?

3. What are the opportunities and challenges for outward or inward FDI presented by the policy frameworks in both the originating and host economies? What are the opportunities and challenges for outward or inward FDI presented by the unique characteristics of the investing companies?

4. What is, or will be the nature and characteristics of the FDI enterprise?

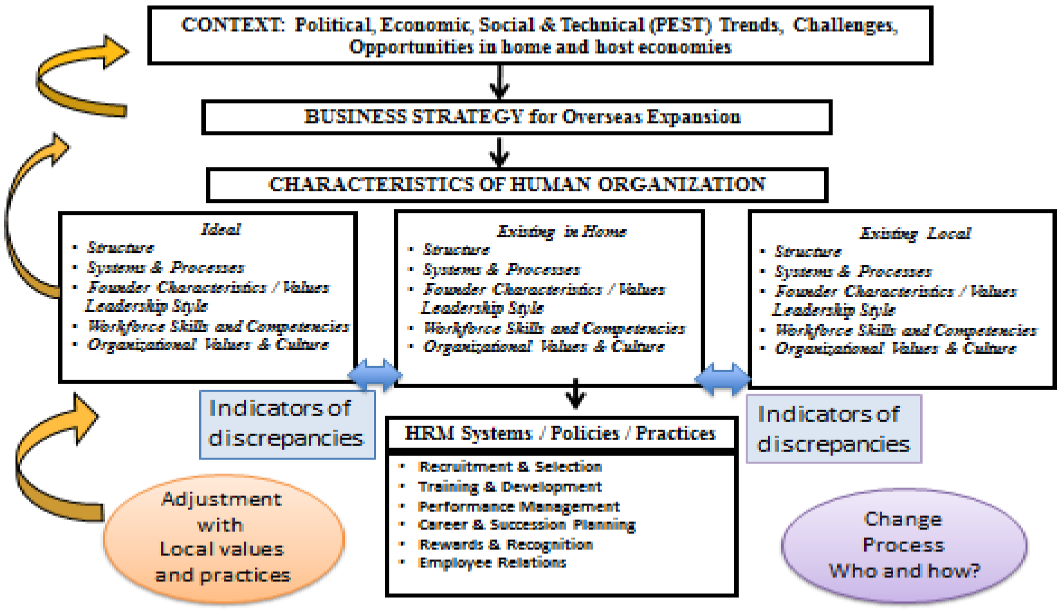
5. What appropriate HRM systems, policies, and practices should be designed and implemented by the FDI enterprise to ensure a viable and sustainable overseas operation?

6. To what extent will the HRM systems, policies, and practices contribute to high or low enterprise performance?

Some careful thought devoted to these questions would enable the investing company to: 1) assess the attractiveness of the decision to establish operations in the host economy; and 2) design the appropriate HRM systems, policies and practices that would enhance the chances of successful FDI.

Aligning Context, Strategy, Organisational Characteristics and HRM Practices for Successful FDI

Figure 2: Aligning Context, Strategy, Organisational Characteristics and HRM Practices for Successful FDI



This framework offers the following propositions:

1. The Environmental Context offers opportunities and threats that an organisation may respond to in terms of a specific business strategy. Consideration should be given to the political, economic, social and technical issues (PEST) that are relevant in the home economy, in the host economy and globally.

2. The resulting business strategy provides relevant parameters for determining the characteristics that ideally the organisation should possess in order to deliver on its business strategy.

   A comparison of the ideal and the actual or existing characteristics of the organisations in the home and host economies would identify the gaps that need to be addressed.

3. The strategy to address the gaps suggests the appropriate HRM systems, policies and practices that need to be formulated.

4. When appropriate HRM systems, policies and practices for recruitment, selection, training, performance appraisal, rewards, etc. are developed as a total integrated

system, they can, in turn, create the ideal organisation that will deliver on the business strategy formulated to respond to the challenges and opportunities presented by the enterprise environment.

The process described above presents an approach that will align the HRM systems, policies, and practices with the organisation's business strategy.

This framework suggests that HRM systems, policies, and practices cannot be formulated in a vacuum, but must proceed from an understanding and appreciation of the organisational context of the enterprise under study. This would encompass the political, economic, social, and technological trends, challenges, and opportunities in both the home and host economies. More specifically, the organisational context should be defined and understood in terms of the existing legal framework for trade and investments, supply and demand for labour, costs of doing business, literacy rate, skills levels, culture and values, technological infrastructure available, and other similar considerations.

The key concepts of the framework are *internal fit*, *external fit* and *alignment*. Internal fit requires that all HRM programs should be designed for, and aligned with, a company's business strategy and its desired structure, processes, competencies and culture. For example, if the FDI enterprise's strategy is product excellence, then its culture, training programs, appraisal and reward practices must encourage behaviours that reinforce product excellence.

The various components of HRM should also be aligned, such that the performance criteria are supported by the recruitment criteria as well as the training and reward considerations. Without this alignment, problems and issues in recruitment may be due to unattractive rewards. Similarly, problems and issues in training and development may be due to recruitment of the wrong people, and problems with the reward system may be due to misalignment between what is measured / assessed and what is rewarded.

External fit requires that HRM programs meet the needs of the organisation's 'external' industry, national and regional contexts. For example, reward practices, to be effective in attracting the desired people, must be at least comparable to, if not competitive with, industry practices. The quality of available skilled labour would affect the extent of retraining that FDI enterprises need to undertake to ensure the desired level of employee productivity.

A consideration of this framework would help FDI managers to ensure that the HRM systems, policies, and practices to be developed for the FDI enterprise have internal and external alignment in order to contribute to the successful and sustainable operation of the FDI enterprise.

HR Issues and Challenges at Various Stages of the Organisational Life Cycle

There are different stages in an organisation's life cycle. These may include start-up, initial years, growth and expansion, maybe even decline and a possible rebirth or second wind. For the purposes of this Guide, however, the focus will only be on the first three stages.

Table 1: HRM Components with Organisational Life Cycle

HUMAN RESOURCE COMPONENT	STAGES OF THE ORGANISATIONAL LIFE CYCLE		
	Start-up	Initial Years	Growth and Expansion
Job/Work design	Simple, diffused, informal, multi-tasking	Formal job descriptions and clear reporting relationships	Job sculpting or designing jobs around needed talent
Sourcing/selection	"Buy" informal skills and experience; recruit for the job	Start identifying mission-critical positions; recruit for potential	Broader talent sourcing through networks with schools and professional associations; recruit for potential "grow" and "buy" needed talent
Performance Appraisal	Informal, on-the-job feedback	Formal forms-driven performance appraisal	Competency and performance-based, with specific KPIs
Compensation/ Rewards	Comparable to, or better than market	Comparable to, or better than market	Attractive base pay plus performance-based bonus and incentives
Training/ Development	On-the-job; one-on-one mentoring	Training to address performance gaps	Training curriculum aligned with business strategy and career path
Employee Relations	Very likely none	Initiating simple employee involvement programs	Employee empowerment
Climate/Corporate Culture	Very likely none	Very likely none yet	Building a culture aligned with business strategy
Management of Change	Very likely none	Very likely none yet	Developing a culture and mindset of change-readiness

The chart above illustrates what may be the possible focus of attention of the FDI manager at various stages of the organisation's life cycle in terms of specific components of the HR function. It may be noted that there is a degree of increasing formalisation in the HR practices as the organisation moves to the next stage of the life cycle. There is also an increasing awareness of the need to be change-ready and align HR practices with the organisation's business strategy and desired organisational culture.

This framework is not prescriptive but only suggestive of the possible configuration of the FDI enterprise's HRM policies and practices, depending on the investing enterprises' prevailing HRM philosophy, systems, policies and practices.

Even at the preparatory stage prior to the start-up, there are certain issues and concerns that the FDI manager may need to take into consideration. These are presented in the Table below.

Table 2: HRM Concerns at Preparatory Stage

Activities	Issues and concerns	Considerations/Options
Preparatory Stage 1		
Comprehensive analysis of host economy and society	Government labour legislation and regulations	Are they clear, stable? Potential threats?
	Potential partners	Compatibility, values, synergies
	Customers	Local, regional, global
	Competitors/suppliers	Local, regional, global
Preparatory Stage 2		
Analysis of availability and characteristics of the local labour market (s)	Central and local labour supply	Skill, technical, professional, managerial
		Cultural, age and gender characteristics
	Education system	Vocational, higher education, qualification
	Wage and benefits systems;	In specific industry and location
	Industrial/employment relations practices	In specific industry and location
Preparatory Stage 3		
Structure of new venture (Wholly owned or joint venture)	Partner's HRM responsibilities	Roles and balance between parent and host economy
	Manpower requirement	Numbers/positions/qualifications required in new venture
	Transference of parent company HRM practices	What to maintain and what to localise?

Once the preparation is completed, HRM systems and practices need to be developed. The following Table describes some of the typical issues and concerns that the management may face, with possible options or consideration, in developing the systems and practices.

Table 3: Typical HRM Issues, Concerns and Considerations

Activities	Issues and concerns	Considerations/Options
Employee attraction	Degree of difficulty	Company branding ('employer of choice'), reference group
	Global and/or local recruitment techniques	Social media/internet, local community partnerships/networks, referrals
	Use of third party	Government agencies, private providers, executive search
	Numbers/positions/qualifications required in new venture	Scaling and timing
Selection process	Formal/informal	Applications, tests, medical examinations, references
	Simple/complex	
	Group/individual/panel interviews	Participants
	Decision-making processes	Participants (Top Management, HR, Line Manager)

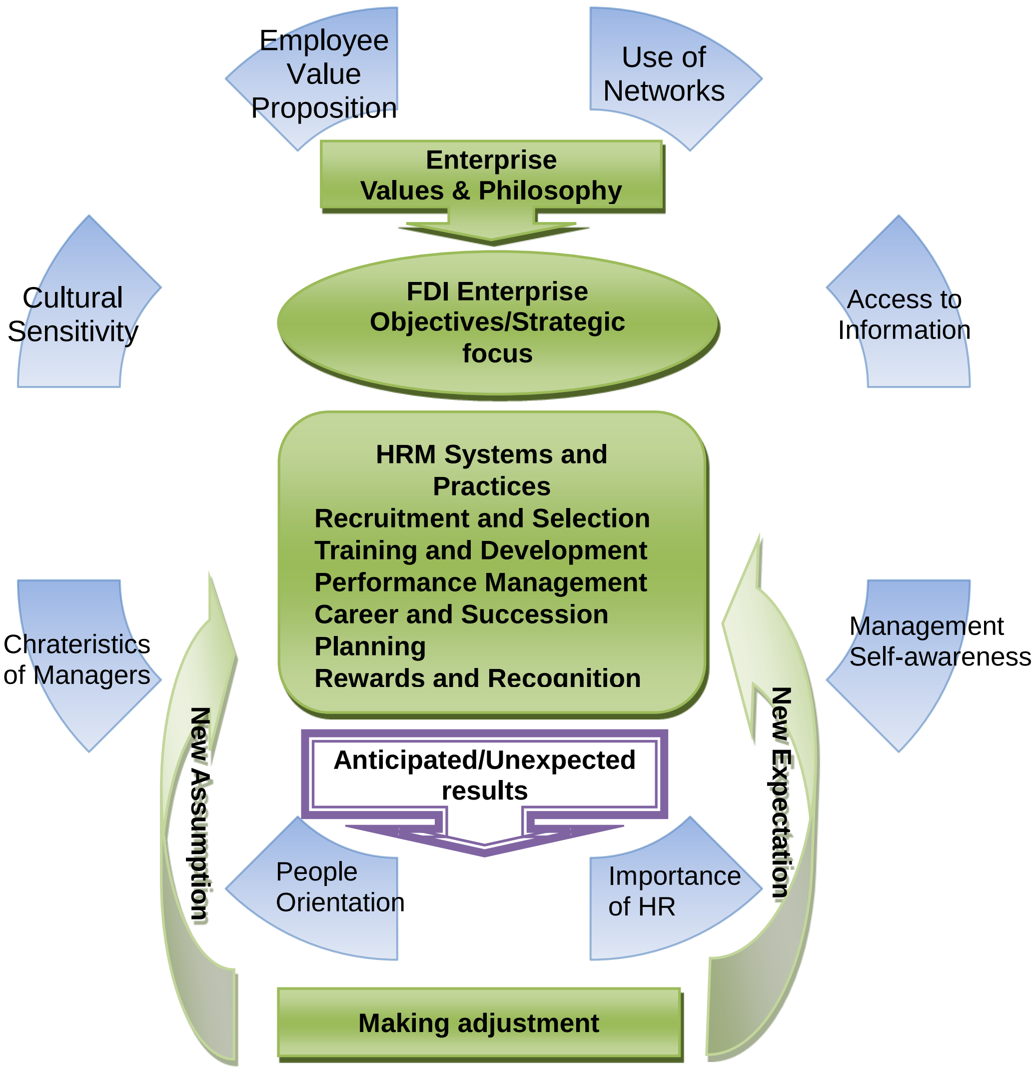
Hiring and firing	Employment contract	Government regulation
	Terms of contract	Degree of details of responsibilities, duration
Training needs analysis	Current and projected	Formal/informal
	Potential links to career development and remuneration	What and how to link
	Implementation	In-house and/or external service providers
	Decision-making processes	Management, HR, Line manager
Training and development	Training techniques	On the job, off-the-job, on-line Deductive/inductive, experiential
	Delivery	In-house or outsourced
	Programme and contents	In-house or buy
	Evaluation of costs and benefits	Effectiveness measures
Performance management	Goals	Who and how
	Approaches	Punitive/developmental/rewards-based
	Formal/informal	Evaluator and frequency
	Criteria of evaluation	Simple/complex
	Links to other elements	Training and development, career development/rewards and remuneration
	Assessment	Individual versus group approaches
Career and succession planning	Challenges and opportunities	Size and type of enterprise Difference between parent economy and host economy nationals
	Links to other measures	Training and development, remuneration
	Methods of preparation	Mentoring, coaching, shadowing opportunities (total immersion)
Rewards and recognition	Balance between salary/wage and benefits	Government requirements, community expectations, competitor rates
	Individual versus group/team rewards	Criteria of evaluation and method of sharing
	Importance of recognition/social programs	Cultural influences, relevant reference group norms
	Company-wide versus localised systems	Global, regional or site specific
	Costs versus benefits	Measurements
Employee relations	Government policies and regulations	
	Nature of industry/employee relations	Unionised or non-unionised workplace Trade union or enterprise union
	Nature of relations	Conflict versus harmony
	Management style	Hierarchical/paternalistic, egalitarian

Once the FDI enterprise starts operation, the management may encounter unexpected responses or changes in the environment. In such an instance, HRM programs have to be reviewed and evaluated, with ongoing adjustment as the need arises.

Key Success Factors for Effective Strategic Human Resource Management in FDI

While there may be other Key Success Factors for effective SHRM in FDI, the analysis of the cases developed by this APEC project highlighted the role of the following eight factors. These eight factors are briefly explained below.

Figure 3: Key Success Factors of SHRM-FDI



1. Employee Value Proposition (EVP)
   In order to attract and retain desired quality managers and workforce, the FDI enterprise has to establish a distinct and unique reputation of what it is and what it stands for in HR terms as well as in a marketing sense. Conscious efforts to build an EVP have to be made. Optimising the international nature of the company, career or development opportunities, contribution to relevant fields, and recognition in the community can be highlighted. (Refer to American Feed, PolyPacific, QB Net, Taipei Shoe Company, Toyota Motor Philippines, XYZ.)

Some questions to consider in relation to EVP are:

- Does the FDI enterprise have a clearly articulated set of benefits and policies that are attractive to current and potential employees?
- Is the EVP communicated clearly and convincingly to both external and internal customers?
- Is the EVP reflected in the recruitment, training, performance appraisal and reward systems and practices of the FDI enterprise?
- Are there indicators that the EVP is recognised and valued by the internal and external stakeholders?

2. Effective use of networks

   The FDI enterprise should actively search for, and seize opportunities to collaborate with existing or new networks of organisations and people who share the same, similar, or complementary objectives. Training institutions, universities, professional and industry associations may be potential partners for skills and knowledge enhancement. Supplier networks may be another. Instead of trying to address issues on their own, using such networks may be a more cost effective approach to accessing resources and addressing other enterprise needs. Moreover, networks are also an important source of information that may affect the FDI operations. (Refer to QB Net, Toyota Motor Philippines, TESDA Philippines, XYZ.)

   Some questions to consider in relation to effective use of networks are:

   - What networks are most relevant and useful to the enterprise?
   - Is the enterprise actively connecting with these networks?
   - Who could be a possible conduit or bridge in getting the enterprise to access these networks?

3. Access to quality information

   In a foreign operation, access to information may be limited to the investors. Changes in government policies and regulations related to HR, for example, may affect the operation. Identifying compatible and appropriate partners also require quality information. Having an access to timely and accurate information will ensure readiness in addressing them. (Refer to PolyPacifc, QB Net, Taipei Shoe Company, Toyota Motor Philippines, XYZ.)

   Some questions to consider in relation to access to quality information are:

   - Is the FDI enterprise management aware of the critical information it needs to make important decisions?
   - Does the FDI enterprise know and have access to reliable and timely sources of quality information it needs for decision-making?

4. Cultural sensitivity

   In an FDI operation, it is critical for all the members of the enterprise to have cultural sensitivity. Understanding the partners' language may enhance this. Also in developing management systems and practices, the values of the originating society may be unconsciously embedded in the assumptions and expectations. It is important to consider these value orientations and to choose the most appropriate approaches and languages, whether it is expression of values, evaluation system, reward and punishment, etc. When symbols and anecdotes are used, it is wise to double check if the message is accurately received. (Refer to American Feed, LL Enterprises, NVK, PolyPacific, QB Net, Taipei Shoe Company, XYZ.)

Some questions to consider in relation to cultural sensitivity are:

- Is cultural sensitivity one of the qualities considered in identifying managers to be involved in an FDI enterprise?
- Does the FDI enterprise provide cultural sensitivity training and exposure to managers involved in FDI before assigning them to an FDI operation?
- What are the resources and programs available to the FDI managers to enhance their cultural sensitivity?
- Is the FDI enterprise aware of institutions, agencies, or consultants who provide cultural sensitivity programmes?

5. Characteristics of managers in FDI
   Choosing managers to head the FDI operation is critical. While aspects such as availability and long-term view of the enterprise may affect the choice, the research suggests the qualities essential for a local manager are cultural sensitivity and willingness to take challenges. Local staff with full appreciation of the values of the FDI enterprise with clear responsibility and authorities would also be effective. (Refer to American Feed, Karasawa, PolyPacific, QB Net, Taipei Shoe Company.)

   Some questions to consider in relation to characteristics of managers in FDI are:
   - Has the FDI enterprise identified the characteristics of managers that will enhance the successful launch and continuing operations of the enterprise?
   - Does the FDI enterprise have a training and development plan to ensure that the managers have the needed characteristics?
   - To what extent does your manager candidate exhibit the value of the company you want to promote?
   - To what extent can the manager candidate handle pressure in unknown situations?
   - Does your manager candidate show sincerity when listening to people under him/her?

6. Self- awareness of the management in investing enterprises
   Often investors take things for granted. It is essential to have their strengths and weaknesses clearly identified when they operate an FDI enterprise, to take maximum benefit of their strengths and address their weaknesses. (Refer to PolyPacific, Taipei Shoe Company, Toyota Motor Philippines.)

   Some questions to consider in relation to self-awareness of the investor are:
   - Do the investors have a high level of awareness and strong sense of their strengths and capabilities as well as their blind spots?
   - Do they have a clear understanding of their motivations for engaging in FDI?
   - Are the investors aware of the risks involved in FDI and their own capacity for risk-taking and dealing with its consequences?
   - Do the investors have the courage and determination to pursue opportunities, as well as the humility to admit and rectify misjudgment?
   - Have the investors identified the possible shortcomings of the people in FDI which need to be improved?

7. People orientation
   In order to establish trust between management and employees in FDI, management needs to understand employees' needs and concerns. Various mechanisms and communication pipelines have to be established and double-checked. Knowing the

true reasons for individuals leaving the company, for example, can lead to solutions to address their concerns. In the face of anticipated negative reaction, the process or sequence of actions taken may be more important than the actual actions. (Refer to LL Enterprise, PolyPacific, QB Net, Taipei Shoe Company, Toyota Motor Philippines.)

Some questions to consider in relation to people orientation are:

- What is the FDI management's people philosophy? Does it genuinely believe that people are its most important asset?
- Does the FDI enterprise have mechanisms for communicating policies and decisions to its workforce?
- Does the FDI enterprise management welcome, even solicit, feedback from the workforce on matters affecting them?
- Does the FDI enterprise management take into account important days and occasions the people value when formulating policies and instituting operations systems?
- Does the FDI enterprise management challenge and encourage local employees to try new things even at the risk of committing mistakes?

8. Importance accorded to the HR function
When the scale of operation is still small, dedicated HR specialist may or may not be available in the FDI enterprise. Unlike operations or marketing areas, HR functions may be considered less of an issue. However, the cases indicate that treating HRM as a strategic management priority produces good results. Ensuring effective HRM capability in the selection of senior and line managers, particularly expatriate managers, can also produce good results. (Refer to American Feed, PolyPacific, Taipei Shoe Company, Toyota Motor Philippines.)

Some questions to consider in relation to importance given to the HR function are:

- Does the FDI enterprise have/need to have a fully dedicated person looking after the HR function? Is he/she involved in business decisions?
- Is the role of the HR function in the FDI enterprise strategic or administrative?
- Does he/she get exposed to new locally and/or globally relevant HR systems and practices?
- Do the line or operating managers work in partnership with the HR manager in implementing the business strategy?
- Does the FDI enterprise have a mechanism to exercise and develop people management techniques?

The questions offered above are merely illustrative and are meant to stimulate the thinking of the user along the suggested areas, and even beyond. Hopefully, after going through the questions, the user can map out an approach for assisting the FDI enterprise in addressing its people issues through SHRM.

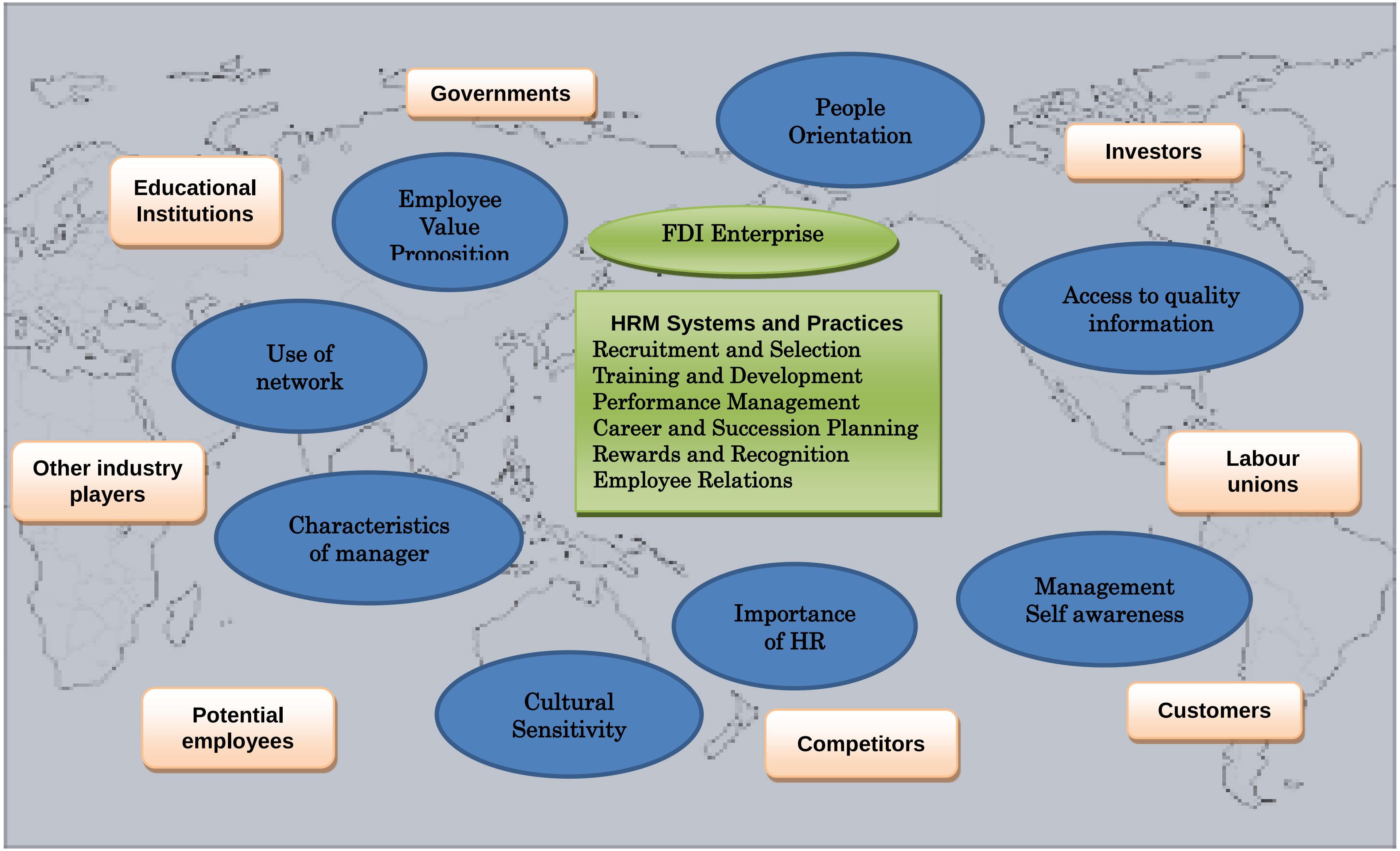
Ecosystem of Strategic Human Resource Management (SHRM) in FDI

Finally, in summary, the following framework is offered to illustrate important relationships and points to consider in developing or adjusting the HRM systems and practices. While greater focus and clarity might have been achieved in discussing in isolation the Key Success Factors affecting the development and formulation of HRM systems, policies, and practices, the actual context is more complex, interconnected, and interdependent, as depicted in Figure 4 below (Ecosystem of Strategic Human Resource Management in FDI).

Figure 4 indicates that in addition to the process of developing and adjusting SHRM in FDI incorporating Key Success Factors, a recognition of the key influencers and stakeholders in the host economy is equally important. They include:

- Educational institutions that impact on the quality and quantity of available skilled and qualified workforce
- Governments whose policies impact on the legal and political framework within which FDIs operate
- Customers whose needs and wants must be addressed through a ‘customer-centric workforce’
- Competitors who want access to, and share of the same market, talent sourcing pool, and other resources
- Investors who are sources of needed capital and other resources
- Labour unions who may positively or negatively influence the workforce towards supporting organisational goals and objectives
- Employees / potential employees who may or may not be attracted, motivated, and encouraged to stay by the HRM policies in place
- Other stakeholders who may have needs and interests that must be served to ensure the viability and sustainability of the FDI enterprise.

Figure 4: Ecosystem of SHRM in FDI



Indeed, the SHRM Ecosystem is complex, with interconnected and interdependent elements. It is important for the FDI management to identify and understand the role and impact of the likely influencers and stakeholders who may affect the design and formulation of its HRM systems, policies, and practices. Only then can HRM contribute meaningfully to FDI's operations, and ensure as well as enhance its viability and sustainability.

Selected Information Sources Related to HRM in FDI

Presented below are additional resources that the FDI enterprise can access in its efforts to develop effective HRM for successful FDI.

Useful Information Sources for FDI

Information/ attractiveness	World Bank Ease of doing Business Reports: http://www.doingbusiness.org/reports/global-reports/doing-business-2015
	World competitiveness report (information on HR issues): http://www.weforum.org/reports/global-competitiveness-report-2014-2015
	Mercer global HR issues: http://www.mercer.com/insights.html
Investment statistics and policies	UNCTAD Investment information: http://unctad.org/en/pages/DIAE/DIAE.aspx
	OECD Policy Framework for Investment – Review of Good Practices (Chapter 8 deals with human capital issues): http://www.oecd.org/investment/toolkit/
Corruption	OECD material on dealing with corruption: http://www.oecd.org/investment/anti-bribery/
	UN Anti-corruption measures: http://www.unodc.org/unodc/en/treaties/CAC/
	Corruption perceptions index: http://www.transparency.org/research/cpi/overview
Culture models	Hofstede's model: http://geert-hofstede.com/countries.html
	Harzing's links to culture dimensions material: http://www.harzing.com/weblinks7.htm
	Cultural Intelligence Centre model: http://www.culturalq.com/tmpl/resources/resources.php
Selecting for assignments	Thunderbird University Global mindset inventory: http://globalmindset.thunderbird.edu/home/global-mindset-inventory
Regional differences Model (Triangle model)	Zhu, Y, Warner, M, Rowley, C (2007), Human resource management with 'Asian' characteristics: a hybrid people-management system in East Asia. International Journal of Human Resource Management, Vol. 18 Issue 5, p745-768. Diagram found on p763
People issues	Additional illustration of problems arising from not understanding HR in FDI: http://www.iist.or.jp/en-m/2011/0198-0807/
People issues important	http://mthink.mercer.com/people-issues-affect-ma-transactions-more-than-ever

Ten steps to Global HR strategy	http://www.strategy-business.com/article/9967?gko=db7b9
Additional Illustration	http://www.accenture.com/us-en/outlook/Pages/outlook-journal-2013-human-touch-behind-Asia-global-push.aspx
Related APEC Case Books	Opportunities and Challenges for Foreign Investment in the APEC Region” Strategic Intellectual Asset Management for Emerging Enterprises Strengthening Human Resource Management Systems of SMEs for Facilitating Successful Trade and Investment in APEC,

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Chinese Taipei Shoe Company

Viet Nam

FDI and HRM: A Case Study of the Chinese Taipei Shoe Company

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The case was developed with the cooperation of Chinese Taipei Shoe Company (names of company and individuals have been disguised) solely for educational purposes as a contribution to the project entitled "Strategic Human Resource Management for Successful Foreign Direct Investment in APEC," conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

Executive Summary

The following case study explores the challenges associated with the foreign direct investment (FDI) of a medium size Chinese Taipei shoe design and manufacturing company in provincial Viet Nam. The company, Chinese Taipei Shoe Company (CTSC),[*] initially invested in the plant due to the potential profits to be made from the available low cost labour and relatively minimal employment conditions during the early 2000s. However, by 2009 a combination of global, industry and local factors demanded a new model of FDI in order to maintain the ongoing value of its investment. A new General Manager was appointed and undertook a comprehensive revision of all its operations.

It soon became clear that the most urgent issue was a thorough overhaul of its human resource management (HRM) systems and practices which was subsequently implemented, mostly with favourable results in terms of competitiveness, productivity and profitability as well as with respect to employee engagement and commitment. The case details the challenges faced and solutions implemented by CTSC, and analyses the relationships between FDI and HRM. In addition, it makes a series of practical suggestions which may be applied more generally to large, medium and small companies with operations in similar APEC economies.

Foreign Direct Investment (FDI) of Viet Nam

Overview of FDI and industry structure

According to reliable sources (APEC 2013; CIA 2014; UNCTAD 2014), Viet Nam's economy was growing at a comparatively healthy rate compared with other APEC member economies. Its gross domestic product (GDP) growth was around 5.3% annually and inward FDI in 2013 was estimated to be US$85 billion,[1] representing approximately 48% GDP.[2] Unlike some other APEC member economies, notably China and Korea, Viet Nam's industry structure remained somewhat static, with over 70% of the population and nearly half of its labour force residing in rural areas and engaged in the agricultural sector.[3] The services and manufacturing sectors were growing in importance, employing approximately 31% and 20%, respectively, of the estimated 53 million strong workforce out of a total population of 93.5 million.[4]

FDI strategies and objectives in transition

While many local and foreign-invested enterprises (FIEs) in the services and manufacturing sectors were located in, or near large cities such as Ho Chi Minh City and Ha Noi, some FIEs, particularly in manufacturing, took advantage of available labour markets and less expensive leasing and taxation opportunities by locating their operations in semi-rural areas in south, central and eastern Viet Nam. These decisions were initially taken to enhance the key strategic purpose of their FDI which was to further maximise the competitive advantage offered by low-cost semi-skilled labour. However, in recent years, these projected opportunities have, to an extent, rebounded on these employers, due to the unreliability of some rural workers and their skills deficiencies; rising wages and benefits, and associated wildcat strikes in several garment and shoe factories; changing local and global legislative and regulatory requirements; demands from international suppliers and contractors; and the skills challenges associated with

[*] Names of company and individuals have been changed due to privacy and commercial reasons.

the adoption of new manufacturing technologies, especially in the shoe and garment manufacturing industries. It was estimated that there were investors from nearly 80 foreign economies in Viet Nam as of 2015. The top 20 investors were from Chinese Taipei with more than 1,700 projects and invested capital estimated between US$8billion to US$9 billion.[5]

Challenges of Viet Nam's Labour Market

Viet Nam's population, the 15th largest in the world, was considerably younger than most of the APEC member economies (except Indonesia), with a median age of 29 years (28 years for males, 30 for females). The prime-aged workforce (15-65) made up around 60% of the total workforce and more than 87% were under 55 years old. The literacy level was high at 93.5%.[6] Thus, while Viet Nam had the considerable human capital advantage of a "demographic dividend," this potential productivity benefit might be offset by the "scarcity in plenty" paradox, that is, an over-supply of available labour but an under-supply of qualified and skilled employees.[7] Two-thirds of potential Vietnamese employees lacked work-ready training and three quarters were in uncertain jobs with low income.[8]

A 2012 World Bank survey estimated that two-thirds of foreign-owned enterprises experienced lower productivity due to an absence of skilled workers. Another study claimed that more than 80% of employees lacked work experience, and around 70% had inadequate qualifications.[9] In 2013, Nguyen observed that 3.7% of the labour force were illiterate in 2012, with 11.2% not having adequate literacy skills to pass primary school. Only 26.6% were sufficiently proficient to pass a literacy test at a higher level.[10]

The causes of these skill shortages were manifold but interconnected. Labour demand was stimulated by economic growth, technological change and the more recent shift from low to high tech manufacturing, together with the more demanding expectations of local private and foreign-owned companies. Labour supply challenges largely derived from the nature of vocational and higher education systems, weak linkages between them, and the relative absence of complementary workplace training programmes.

As in China, Viet Nam's educational infrastructure at both vocational and university levels suffered from an overemphasis on theory (theory-oriented and scholastically-driven)[11] rather than practice associated with a social preference for higher rather than technical education, and outdated curricula – "a curriculum that is isolated from the employment market and employers' needs in association with low-level commitment to skills development in tertiary education."[12] In addition, many vocational and higher education professionals themselves lacked either the training or experience needed to pass on such practical skills.

Government Legislative and Regulatory Frameworks

To its credit, the central government had been progressively addressing the challenges with its educational and employment systems, consistent with the requirements of its *doi moi* (economic renovation) policy since the late 1980s, and its entry into the World Trade Organisation (WTO) in 2007, through the development of a comprehensive suite of associated legislation. Thus, it introduced a Bankruptcy Law, a law on Trade Unions, an Equitisation Law and a Corporations Law in 1993. It likewise significantly revised its

Labour Code in 1994 and 2002, amended the Foreign-Invested Law in 1997 and 2000, and revised its Vocational Training Law in 2013.

While all these laws were relevant to foreign companies investing in Viet Nam, perhaps the most important with respect to the relationship between FDI and human resource management (HRM) strategies and practices was the Labour Code. The Code encompassed a broad range of employment conditions, including more flexible employment contracts, job training, collective work agreements, minimum wages, holidays, hiring and firing, unions, occupational health and safety, rewards and compensation, female worker conditions, employee welfare, medical insurance and social security.

Some HRM functions were prescribed. For example, FDI companies were allowed to design their own rewards systems, provided that these were equal to, or greater than, those available in state-owned enterprises (SOEs). The Labour Code also provided guidelines for the resolution of employer-employee grievances and disputes monitored by the Ministry of Labour, Invalids and Social Assistance (MOLISA). Where there was a dispute, both parties must negotiate a resolution according to the principles of equality and unity. Neither party could impose its will on the other.[13]

Chinese Taipei Shoe Company (CTSC)

Background

The total outward FDI of companies from Chinese Taipei amounted to almost half of its total GDP.[14] A substantial and steadily growing proportion of FDI was invested in APEC member economies over the last decade. Cross-border mergers and acquisitions (M&As) from Chinese Taipei companies declined during the global financial crisis (GFC) but had subsequently risen to almost half of the pre-GFC levels. In 2012, for example, there were over 2,000 such M & As.[15]

The Chinese Taipei Shoe Company (CTSC) was one of these foreign-invested companies, initially operating in Viet Nam with a local partner in joint venture mode to manufacture sports and dress shoes, under contract to global brands such as Nike, Adidas, Asics and Converse. In 2010, it decided to buy out its local partner. As of January 2015, the company traded as a wholly-owned foreign-invested shoe manufacturer.

In their start-up phase, such companies usually attempted to replicate similar values, traditions, and work cultures of their home economy. Initially, CTSC adopted this approach in Viet Nam. Similar to many APEC member economies, the work culture of many Chinese Taipei firms was high context, reflecting its Buddhist, Taoist and Confucian heritages, including values such as belief in a natural order; the complementary forces of yin and yang; the importance of family and the group as the primary unit of social organisation; the value of thrift and hard work; hierarchical management styles; and non-confrontational negotiation approaches.[16]

Management values & styles in Chinese Taipei companies

Unlike in China, such traditional social values and their applications to work cultures in Chinese Taipei were modified in practice through exposure to influences from both

American and Japanese companies and management styles representing a hybrid blend of American, Chinese and Japanese cultures[17] or the integration of Western and Asian leadership styles.[18] These characteristics were illustrated by the co-existence of seemingly contradictory elements such as the acceptance of collectivism alongside employee demands for individual rights, rewards based on individual performance, competitive employment and promotions, and gender equality.[19] Unlike some other APEC member economies, Chinese Taipei culture also appeared to focus equally on **task** and **relationships**. All three traditions reinforced the social and organisational value of education and training.

A practical workplace application of these characteristics could be seen among companies from Chinese Taipei which expected their employees to work 20% more than their counterparts in Japan and the US, 30% more than in the UK, and 50% more than in Germany (12 hours were the norm).[20] The impacts of globalisation via internet technology and generational change also affected the culture of Chinese Taipei companies both at home and in their FDI operations. Diverse generational expectations required different forms of employment relationships and customised management styles. CTSC's experience in Viet Nam reflected such issues.

The Chinese Taipei Shoe Company (CTSC)

Company Profile

Headquarters: Hsinchu City, Chinese Taipei, founded in 1995
Size: 4,000 employees (HQ); 2,500 employees (Indonesia – 1,500 & Viet Nam – 1,000)
(Classified as a medium size company in its Viet Nam subsidiary)
Industry: Shoe Design & Manufacturing
Products: Sports and dress shoes (approximately 100 million pairs annually)
Revenue: $10+ million (USD) per year
Subsidiaries: Indonesia, Viet Nam (50% of total sales)
Major Customers: NIKE, Adidas, Asics, Converse
Exports to: US, Southeast Asia, Europe

Company History

In the mid to late 1990s, CTSC began to produce sports shoes as an original equipment manufacturer (OEM). In the early 2000s, having improved its product quality, manufacturing process, and research and development capabilities, CTSC expanded its operations as an original design manufacturer (ODM) for major international brand name companies such as Nike, Adidas, Asics, and Converse. In 2002, CTSC established factories in Indonesia and Viet Nam initially as joint ventures. However, because of difficulties with its local partner, CTSC in Viet Nam became a wholly-owned foreign enterprise in 2004.

Company Vision

To be the best sports and dress shoe designer, manufacturer and distributor in Viet Nam and Indonesia

To provide value for our investors, global customers, employees, suppliers and local communities

Company Values

- Professionalism
- Innovation
- Superior Service

CTSC's Viet Nam operations

CTSC could be considered a late entry second tier, medium size foreign-invested enterprise in Viet Nam. Initially, the company's FDI focused on employing unskilled and semi-skilled manufacturing employees to produce sports and dress shoes for its global customers on relatively low wages, albeit slightly higher than in comparable SOEs, as required by the Viet Nam Labour Code, in order to maximise the return on its investment. Its headquarters management structure included a Board of Directors, the Chair, the President, and two Vice Presidents (responsible for Chinese Taipei and international operations in Indonesia and Viet Nam). Each of its international subsidiaries had a General Manager (Factory); together with a Finance Manager, Operations Manager, Export Sales Manager, Administration Manager and a Human Resource Manager, all of whom reported directly to the General Manager (Factory).

CTSC established its shoe manufacturing factory in Dong Nai Province in Viet Nam in 2002. Production involved preparation, cutting, stitching, assembly and packaging of sport and dress shoes. The company originally employed 600 employees, but had gradually grown its workforce to around 1,000 by 2014. By 2015, it was employing local Vietnamese workers in a range of jobs, including factory hands, forklift drivers, machine operators, drivers, packers and trainers. There were also several levels of operations management (line, middle and senior), a finance manager, an operations manager, an export sales manager, an administration and a human resource manager.

From 2002 until 2009, the Viet Nam subsidiary was overseen by an experienced but aging senior manager, Mr Chiang, from the Chinese Taipei headquarters whose priorities included tight control of the manufacturing and financial management processes and hierarchical leadership. Consequently, during this period, all senior managers except the HR manager were recruited from Chinese Taipei, and local employees filled all other manufacturing positions. Wages were only slightly above the required levels, and there was little or no training, career development, union consultation, or consideration of work-life balance issues. Nevertheless, the company expanded and maintained reasonable profitability levels, and managed to compete effectively with its local rivals.

Challenges in its Viet Nam operations

The global financial crisis (GFC) between 2008 and 2009 damaged CTSC's (Viet Nam) profit levels due to a coincidence of unexpected factors. First, demand from its main global customers weakened suddenly due to financial difficulties. Second, the Vietnamese government, as a consequence of its industrial modernisation policies and requirements associated with its entry into the WTO, passed new and revised labour legislation which demanded improved conditions for employees, entailing more sophisticated human resource management strategies and practices. Third, in response to these expectations, manufacturing unions (e.g., the Viet Nam Textile and Apparel Association) began to gather strength and a plethora of wildcat strikes interfered with production in many shoe factories in Viet Nam, including CTSC in 2011.

The Viet Nam Central Council of Labour (VCCL) also supported the move to improve workers conditions. Finally, as a result, and consonant with the US-Viet Nam bilateral treaty of 2001, global brand companies began to put pressure on their suppliers to conform to international standards of employment conditions, with emphases on wages, benefits, training and development, occupational health and safety, opportunities for career development, and even work-life balance. A new international body, the Fair Labour Association (FLA) was set up to monitor and report on abuses of these minimum conditions, especially in Asian economies.

Strategies to address the company's challenges in Viet Nam

Inevitably, all these new demands put considerable pressure on the company's earlier FDI model of profit through minimum wages and conditions alone. Hence, in 2009 the General Manager was recalled and replaced by Mr Zhang, a younger, former middle manager from the company's headquarters. An accounting and marketing graduate from one of Chinese Taipei's most prestigious universities and more recently an MBA graduate from Stanford University in the US, Mr Zhang's work experience included senior accounting and marketing management positions in several manufacturing firms. His directive was to drive a new model of FDI in Viet Nam in order to ensure greater profitability and market share through enhanced employee motivation and engagement, a more efficient production system including the implementation of new manufacturing technology, and greater community consultation and involvement. Mr Zhang represented the amalgam of Asian and Western values and management styles personified by modern Chinese Taipei. His focus was on developing a coherent HRM system which would address the new industrial issues, and by so doing would ensure the maintenance of CTSC's foreign investment in Viet Nam.

While many of Mr Zhang's initiatives were successful in more effectively addressing the demands of the government, its customers, international associations, employees and their unions, together with ensuring increased profitability levels consistent with FDI expectations, new challenges were presented to the company in 2014. These emanated from the series of anti-Chinese riots in manufacturing companies, including CTSC, in protests associated with the China-Viet Nam conflict over marine oil drilling.

HRM Strategies and Systems – Challenges and Solutions

Mr Zhang's approach to the development of an enduring new model of FDI in the company's Viet Nam operations involved a SWOT (strengths, weaknesses, opportunities and threats) analysis which, apart from its financial and operations components, primarily focused on HRM strategies and practices which would motivate and engage its employees by providing improved conditions and incentives, while also ensuring ongoing productivity increases. This was reflective of the company's intention to gradually transition from low cost to high value-added products in which skills and flexibilities were the key to success, and strict managerial control was replaced by greater delegation and employee engagement.

HRM strategies

The HRM strategies and practices involved the localisation of senior management positions; the utilisation of performance-based fixed-term employment contracts for both managers and workers; new employee communication and consultation systems; formal job design; innovative attraction and retention techniques; learning and development; performance review and rewards processes; career development; union consultation; and changes in overall management styles.

Mr Zhang decided that significant production efficiencies could be achieved by replacing all the Chinese Taipei senior managers with local professionals who communicated more effectively with the factory workers. Those he recruited in consultation with the Vietnamese HR manager were also younger and more innovative. They were all employed on three year performance-based contracts. Following a 6-month shadowing programme with the former managers, the local employees demonstrated their ability to achieve most of their production and financial goals. In addition, the reduction in costs associated with the employment of expatriate managers provided significant financial benefit.

HRM practices

In accordance with the revised Labour Code, and following consultation with the local branch of the Viet Nam Textile and Apparel Association, all factory workers were placed on three year fixed-term renewable contracts which included a 10% team wage increase intended to motivate the workers, to enhance product quality and to reinforce a collectivist approach to production. The General Manager also initiated regular communication forums with the workers and employee suggestion boxes with respect to company values, changes to work processes and the airing of grievances. He also arranged social occasions for the staff, recognition events, and family celebrations. However, the employee suggestion boxes were not particularly valuable, as employees generally failed to use them, preferring to contact their union for information and support in the resolution of grievances.

Although scientific job design was not commonly used in many companies in Chinese Taipei or Viet Nam due to the tendency to tailor jobs to friends or family, [21] Mr Zhang decided to review all job descriptions as the foundation for subsequent training and career development opportunities. Using western job analysis techniques, the workers, their supervisors and work teams were requested to prepare sample job descriptions and personal specifications (details of employees' personal qualifications, experiences, skills and qualities) which were then approved by the Operations Manager. The union was not consulted in this process, which caused some difficulties. Eventually, however, these were resolved through compromises in the job expectations, and management assurances that effective job performance would be directly related to training and development and career development opportunities.

The latter HRM practices were central to Mr Zhang's reform imperatives for CTSC Viet Nam. He envisaged a structured job rotation and associated career development programme for factory employees involving progression from production workers to forklift drivers to line and middle management, which would be facilitated by on-the-job and vocational training provided by provincial educational institutions. He consulted with the provincial government, local vocational training institutions and the union, and used a range of media such as radio broadcasts, Young Workers' Associations, and Women's Associations to promote the benefits of working for CTSC. These initiatives were quite effective in attracting new talents. After two years, the attrition rate of production workers dropped from 20% to 5% annually. Mr Zhang considered this a sign of the success of his new recruitment and retention initiatives.

As Chen *et al*., (2011) study suggested, the top priorities of Chinese Taipei companies' best practices included learning/training and development (nearly 50%), followed by research and development.[22] Thus, Mr Zhang developed a structured in-house learning programme which incorporated basic production skills, together with an introduction to supervisory and leadership capabilities, in conjunction with the provincial government and certified by local vocational institutions. It was designed to be linked to CTSC Viet Nam's career development programme and ultimately to its wage enhancement system, but only a few factory workers opted to take advantage of these opportunities. The performance-based job descriptions were similarly less than successful, given the collectivist orientation of the local employees. Some younger workers however were receptive to the incentives and a few of them rose from production workers to middle management positions. The company was generally satisfied with these outcomes, feeling that more workers would take up some of these opportunities in the longer term.

Not surprisingly, occupational health and safety (OHS) was also identified as an important issue to be addressed in CTSC's Viet Nam factory. Apart from wages and benefits inequities, OHS concerns were regarded as crucial to productivity and the maintenance of good relations between the company and its workers, their families and the local community. Between 2002 and 2009, there were 28 incidents of injury caused by machinery, toxic chemicals or manual handling. Following the installation of guards on the machines, the supply of protective equipment for all workers (hard hats, glasses), safety training for all employees and their supervisors, and regular management-union consultations, only two incidents were reported in 2013. While these OHS initiatives added costs to the company's operations, their benefits were relatively quickly recouped in the reduction of compensation payments to employees required by Vietnamese law, increased productivity, and enhanced company reputation within the local community.

Recent challenges and company solutions

In May 2014, a series of anti-Chinese riots in many factories in Viet Nam erupted due to alleged conflicts between China and Viet Nam over Beijing's decision to install an oil drilling rig in the disputed South China Sea. CTSC suffered collateral damage. The company quickly responded by communicating to employees that neither Chinese Taipei nor CTSC had any interests in the dispute. It also engaged with the local community to reassure them that the company's key concern was to support the workforce and enhance their capabilities and skills. At the same time, the company provided high quality early childhood education for their children while they worked.

CTSC established The Green World Kindergarten which could accommodate and teach up to 500 children aged two to five years old. The kindergarten was designed under a Green Certification System called Lotus. Under Lotus, CTSC committed to promote a sustainable and adaptive education environment for the employees children. The Vietnamese government was also proactive in this regard, offering lowered interest rates on business loans and waiving credit guarantee fees.

FDI and HRM in CTSC

Dynamic FDI goals and objectives

As illustrated by this case, the purposes and imperatives of FDI in the APEC region have changed significantly over recent decades. Initially, the pursuit of wealth, market penetration and increased global competitiveness by multinational companies (MNCs) focused almost entirely on cost-reduction and profitability through the minimisation of labour costs associated with low-cost economies, minimal worker benefits, negligible employee protections or entitlements, and sometimes hazardous workplace conditions.

As Marley and Ravenswood explained, MNCs chose their locations based on the industrial relations framework of the host economy with factors such as weak unionisation and employment legislation and strong management authority preferred.[23]

Accordingly, it is not surprising that few foreign-invested companies in the past implemented HRM practices such as rigorous job design, learning and development, performance review, remuneration, OHS or employee engagement and commitment, whether or not they utilised such practices in their home economy operations. With some exceptions, foreign investment was narrowly understood as purely financial and focused on the company's interests alone, with little consideration of the needs or concerns of their host governments, employees and/or their local communities. MNEs generally appeared to extend labour rights no further than host economy legislation requires.[24]

Stakeholder influences on FDI and HRM strategies

During the last decade or so, due to a combination of factors – the GFC, a series of publicly-reported human rights abuses by MNCs, improved employee protection legislation, greater competition, and the transition from low-cost to high tech manufacturing and services industries – many MNCs began to link long-term FDI ventures much more closely to comprehensive human capital management of the company, community and macro-economic levels. Imperatives such as enhanced company branding, cross-cultural communication, employer-employee trust and commitment, workforce morale, conflict resolution and adaptive management styles were frequently presented as key contributors to productivity, competitiveness, profitability and long-term financial effectiveness in such cross-border operations. These human capital outcomes derived from the combination of strategies, systems, processes and practices which comprised human resource management, and were beginning to be demanded by prospective MNC employees in often tight labour markets such as China and Viet Nam. "A discernible trend is that Western HR policies are being accepted and internalised by the younger generation of the Chinese (and Viet Nam) workforce."[25]

Innovative FDI-HRM Linkages

In this new perspective of FDI, many more companies were investing in such key HRM practices as formal job design and staffing techniques; extensive and articulated learning and development programmes, including apprenticeships and traineeships (often in conjunction with local vocational and higher education institutions); the localisation of managerial and professional positions; goal-oriented performance review schemes; enhanced employment conditions (wages and benefits, working hours, OHS); union consultation; and employee motivation and engagement systems. "FDI (is) an important factor in improving living standards for workers."[26]

Zhu more explicitly suggested that FDI "enables SMEs to recruit skilled managers from local sources, provide more training programmes for employees, implement formal performance evaluation systems, and offer employees higher levels of compensation...which is also an internal requirement for SMEs' development."[27] There was also some evidence that FDI could lead to broader community benefits such as higher levels of sanitation, improved transportation infrastructure, and the enhancement of local educational institutions.

It should be noted that such approaches were by no means consistently utilised in all MNCs nor in all APEC economies. Large global companies were more likely to identify and implement these links between FDI and HRM than their SME counterparts. However, more medium-size companies (such as CTSC) have begun to do so, if on a smaller scale,

Like many of its FDI competitors, CTSC recognised that the best way to protect its manufacturing investment in Viet Nam was to move from its earlier focus on low-cost semi-skilled production towards a more strategic approach to address the key HRM and leadership issues in order to enhance innovation, productivity, competitiveness and increased profitability.[28] A younger globally-educated General Manager was required to drive these changes, and he was largely successful in doing so, despite a myriad of internal and external challenges. However, some of the company's success in these areas could be attributed to growing pressures for the reform of HRM practices from the local government, global customers, suppliers, and international human rights monitoring organisations.

Lessons from the Case

The CTSC case reinforces four key issues associated with the links between FDI and HRM which may be applicable in many APEC economies and for a broad range of multinational companies.

First, it suggests that the investment of MNCs in APEC economies (whether large or SMEs) can no longer rely solely on the short term financial benefits of low cost semi-skilled labour to achieve their desired profit goals. External influences such as the GFC, dynamic host economy priorities, global customer imperatives, increased regional competition, and expectations of greater transparency, have transformed the economic, industry and social contexts within which such companies now conduct their businesses.

Contemporary global operations demand more strategic and comprehensive financial, marketing and HRM approaches, in order to assure their ongoing competitiveness and effectiveness. As the case illustrates, one size does not fit all, and FDI companies therefore need to tailor their strategies to both replicate their home economy's HRM programmes and to adapt them according to host economy expectations and legislative requirements. Thus, as a medium size company from Chinese Taipei, CTSC needed to progress from a narrow and potentially exploitative approach to an employee developmental focus in order to optimise its long term FDI value.

Second, in an increasingly competitive but tight labour market in Viet Nam, CTSC needed to enhance its employer branding in order to attract and retain the best job applicants and to distinguish itself from its numerous and larger rivals. It also required a more transformational-type leader who would be able to appreciate the need to significantly modernise and expand the company's HRM practices in order to develop and retain its best workers, and to motivate and engage with them towards more innovative work processes and increased productivity. These outcomes would enable the achievement of the cost-reductions which would support CTSC's ongoing FDI strategies in Viet Nam.

Third, in the changing political, economic and social contexts of Viet Nam, the company was required to deepen its understanding of the broad cultural and business frameworks necessary to maintain effective linkages with national and provincial government representatives; local labour markets and relevant manufacturing unions; vocational and higher education institutions; and especially community organisations. While these relationships were always central to the maintenance of their investment, the tension caused by the recent attacks on factories such as CTSC only strengthened the need, and the company's desire to present itself as an attractive, trustworthy and responsible employer with genuine concern for its workers, the local community, and Viet Nam as a whole.

Fundamental to this strategy was strict compliance with all employment legislation and active participation in global and local fair labour audits. Other company-sponsored programmes such as employee healthcare and childcare facilities, non-discrimination policies, and a degree of flexibility in shifts and/or working hours, have also proved valuable in this regard.

Finally, the utilisation of labour contracts, as permitted by the amended Vietnamese Labour Code, needed to be complemented by a comprehensive range of modern HRM practices, including, but not limited to, accurate job descriptions, competitive rewards and benefits systems, structured training and development linked to career development, goal-oriented and team-based performance reviews, and effective occupational health and safety systems.

Above all, the gradual localisation of the senior management group supported by appropriate remuneration commensurate with that provided in the company's other global locations, was a key factor in their motivation, engagement and productivity, resulting in significant returns on CTSC's foreign investment.

Endnotes

[1] CIA 2014.
[2] UNCTAD 2014.
[3] Van 2007: 5; CIA 2014.
[4] CIA 2014.
[5] AmCham 2013; Van 2007: 6.
[6] CIA 2014.
[7] Montague 2013: 209.
[8] Hoe 2013: 54.
[9] Anonymous 2013.
[10] Nguyen (2013).
[11] Pham and Tran 2013: 16.
[12] Ibid.
[13] Collins 2009: 123.
[14] UNCTAD 2014.
[15] Ibid.
[16] Huang 2011; Sui 2012; Yu and Miller 2003.
[17] Huang 2011: 3.
[18] Yu & Miller 2003: 25.
[19] Huang 2011; Yu & Miller 2003.
[20] Sui 2012.
[21] Huang 2011: 37.
[22] NIKE 2009.
[23] Marley and Ravenswood 2009:18
[24] Marley and Ravenswood 2009: 13
[25] Cooke, 2006
[26] Marley and Ravenswood, 2009: 10

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[27] Zhu 2007: 817
[28] Hsu, 2006; NIKE, 2009

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PolyPacific Proprietary Ltd
Malaysia

SME Company FDI: Strategic HRM and PolyPacific's Malaysian Investment

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Introduction

This case reviews the human resource approaches taken by a small-medium enterprise (SME) Australian company in the course of a direct investment made in Malaysia in 1995.[1]

At its simplest, "strategic human resource management" (SHRM) is the alignment of human resource policies and procedures with the strategic needs of the organisation. Considering SHRM in the context of a company undertaking foreign direct investment involves identification of the strategic approach to be taken in making that investment and aligning HR policies with that strategy. In contrast with SHRM in a domestic context, this necessarily involves consideration of the complexities of expatriate management, the different institutional framework in the target economy and the different cultural dimensions that affect performance in that economy.

Many academic discussions of SHRM have, at least implicitly, focused on the activities of the human resource function in the organisation. These could include, among others, determining what activities were different for the HR function and what different services had to be provided to assist the expatriate (see for example the well-used textbook on international human resource management by Dowling, Festing and Engle [1]). However, despite being the predominant form of enterprise and accounting for 50-75% of value added in Organisation for Economic Co-operation and Development (OECD) economies,[2] small medium enterprises (SMEs) have often lacked professional human resource support. In Australia for example, surveys have indicated that only 22% of SMEs had an HR department and 69% of SMEs did not have a manager whose principal responsibility covered human resources.[3] Recent work[4] indicates that in the service sector in Malaysia at least half of SMEs had their own HR departments. Care in interpretation needs to be taken here because where foreign labour is used, the requirements for managing that labour, including work permits every two years, medical, housing, 12 hour shifts, off time, behavioural management, etc., could result in an HR role being a requirement rather than a choice. Nonetheless, Osman *et al* (2011)[5] found that companies with an HR department were more likely to have a higher level of training and development and more (job) satisfied employees. Other researches have also suggested that not having HR specialists impacted directly and adversely on organisational effectiveness[6].

The Company: PolyPacific Proprietary Limited

This case study looks at the experience of a small-medium enterprise (SME), PolyPacific Proprietary Limited, whose investment in Malaysia in 1995 was highly successful and indicates that while there are high risks, SMEs do not necessarily need to be daunted by human resource concerns. The case is based on an interview with Mr Malcolm Fisher, General Manager, Export for PolyPacific, and General Manager, PolyPacific Polymers Sdn Bhd in Malaysia.

PolyPacific Pty Limited is a producer of raw material plastic resin (polypropylene compounds) for use in the manufacture of plastic products such as automotive components, white goods, appliances, general industrial and outdoor seating. The company was established in Melbourne, Australia in 1980. It is a 50/50 joint venture between LyondellBasell Australia (Holdings) Pty Ltd and Mirlex Australia Pty Ltd, a family owned private Australian company. As of 2015, the

[1] The generous time provided, and assistance with review, by Mr Malcolm Fisher, General Manager – Export, for PolyPacific Pty Limited is acknowledged with sincere thanks.

company employed around 60 people in Australia and generated an annual group revenue of US$70 million. Management of PolyPacific rests with the Australian family company with LyondellBasell involvement being predominantly at the Board of Directors level and in the provision of links to their global network.

In its state of the art facilities in Melbourne, Victoria, the company manufactures and markets high quality polypropylene compounds, elastomers and masterbatches using technology developed by the Australian company. The company has a very close relationship with the automotive industry in the economies where it operated. Much of its research and development was driven by the needs of the automotive industry which adopted polypropylene compounds as the main polymer for exterior, interior and under bonnet components in vehicles.

The Company's Strategic and HR Approach

As an SME based in a high cost economy, PolyPacific followed a differentiation strategy. The foundation of this strategy was the company's capacity for flexible manufacturing and a highly developed capability to work with customers to meet their technical needs through targeted research and development. The company met their customers' service needs because they had the capability to meet the market requirement for both small volume specialty grades and high volume grades, with short lead times and with great attention to quality. The company has achieved accreditation to ISO 9001 and TS 16949 standards which meant that the product could be supplied to a wide range of industries. As Malcolm Fisher explained:

> Our competitive advantage is how quickly we can develop new grades and our preparedness to support small quantities. Clearly, large batches enable lower prices, but by supporting smaller batches we provide the total package. Our expertise lies in a very flexible manufacturing process and more importantly, in flexible, customer focused staff which altogether provide us with a market niche. Bigger companies do not want to be involved with small quantities and limit the number of grades they supply. We also have an advantage over the smaller companies in the region who do not have the ability or prior knowledge to be able to supply at the technical level that is required by the automotive industry in their home economy. We have the experience, and can eliminate the risk for the end user.

PolyPacific's approach to human resources in Australia could best be described as a combination of personnel management dealing with payroll and other common concerns, together with line management of people issues. In common with many other SMEs, the company has never had a specialised HR manager and did not have detailed HR policies or systems in place. The general approach was "if you do a good job today, you can come back tomorrow," coupled with the belief that in a small organisation, managers were well aware of who was performing and who was not; they could take appropriate action to encourage the good performers and deal with any poor performance issues.

Expansion via Exports into Asia

The company had become a leader in each of its market segments in Australia. In the 1980s, it moved to supply regional manufacturers through exports. However, the company soon found that while the technology was still valid in Asia, the demand was for local production.

PolyPacific followed a commonly used approach to its internationalisation by initially establishing agency arrangements in Asia to handle export sales in the ASEAN region[7]. As the need for greater technical knowledge and a more targeted sales approach emerged as essential in order to take advantage of increasing opportunities, the company established a Representative Office in Singapore. The role of the manager for this subsidiary office required a person with a broad range of skills to be able to develop the market and also provide the necessary technical knowledge and understanding in meeting the needs of customers. Malcolm Fisher was sent as an expatriate in 1991 to open this office. He had been with PolyPacific Pty Ltd since its inception and had worked for the family company before the joint venture was established. Mr Fisher had worked in R&D, Technical Service and Sales in Australia and had a personal interest in the overseas assignment. As an expatriate, he noted that coming from a small business meant that employment terms and conditions were generally at a lower level than those of expatriates working for major multinationals in the region:

> You learned as an expatriate working for a small business, that you never talked about expatriate packages around the table with other expatriates. You needed to take into account the economics of a small business. However it was a question of accepting a package that ensured that you were not worse off and to take advantage of a different opportunity, doing things that you could not do at home. The expatriate's life outside the business could also provide a lot of rewards as well.

At the time, PolyPacific's major market was in Singapore, meeting the needs of two large manufacturers of domestic appliances and also covering exports to Indonesia; Malaysia; the Philippines; and Thailand. After a period of operation in Singapore, the company considered whether they should move or not to the next stage and establish a manufacturing facility to readily meet customer needs in the region. However, at the time, manufacturing of plastic parts was beginning to move out of Singapore into Johor Bahru, being just over the causeway in Malaysia. It was also difficult to get and keep labour in Singapore. Mr Fisher recalled that you would drive past the big factories and they would have a banner in front saying "Stay a month and get a free toaster." It was also difficult to buy land in Singapore. As a polypropylene compounder, a lot more warehouse space was needed than what was required by the manufacturing process. However, the Singapore government judged a company's attractiveness as an investor and determined the amount of land that could be leased, based on the investing company's actual manufacturing space requirement and the number of employees it had.

At this point, Proton, the Malaysian car manufacturer, sought to become more independent from its Japanese partners and wanted to support the local parts manufacturers with locally produced raw materials. In addition, there was a need for suppliers that could assist the local parts suppliers to gain the knowledge required to maintain the quality of the products supplied.[8] This provided an opportunity for PolyPacific to do business with these companies. As mentioned above, PolyPacific's approach was to work with the customer to ensure that its needs were met; hence, Polypacific worked to build its relationship with Proton and the parts suppliers. It provided information and worked with the company to qualify as a bidder, and earn the right to quote a price to supply material. This contrasted with the Japanese approach at the time.

From Exports to Manufacturing via FDI

As exports from PolyPacific Australia increased, it became apparent that local manufacturing was necessary to protect the existing business and to expand its growth opportunities. The company then negotiated a manufacturing license with the Malaysian Industrial Development

Authority. At this point, the company was advised that the percentage of foreign ownership possible was to be the percentage of exports expected from the plant. In addition, as a manufacturer in the automotive industry, Polypacific was required to have a minimum of 51% Bumiputera ownership.

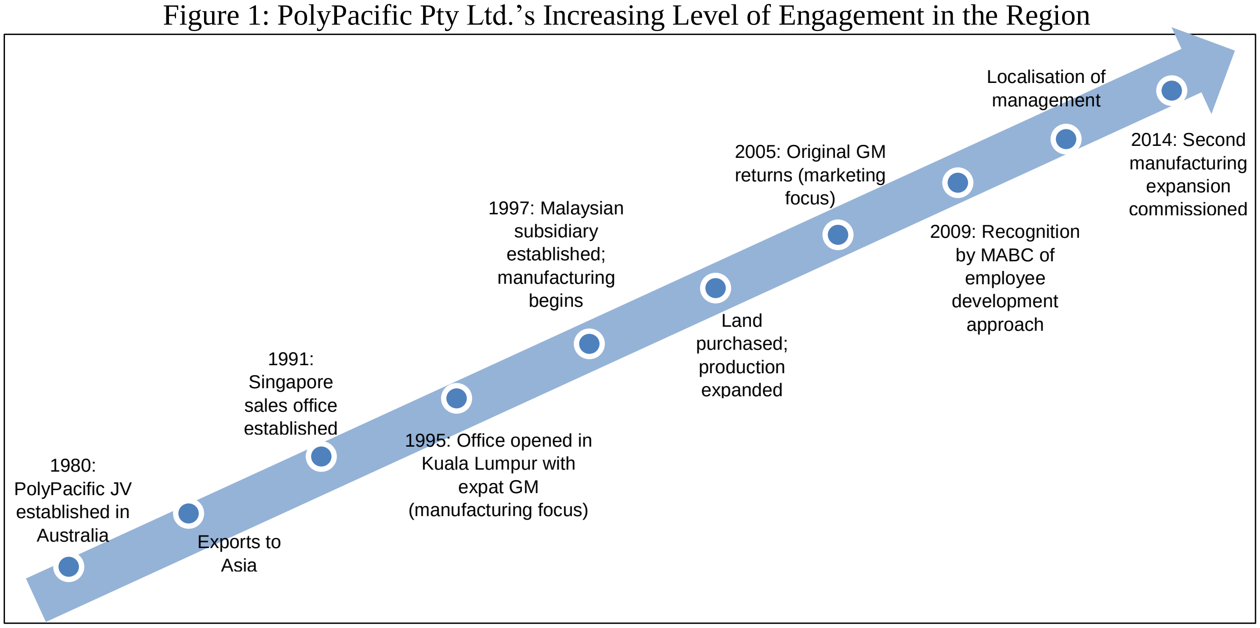
PolyPacific negotiated an initial 50% start-up ownership arrangement. As it transpired, this requirement was reviewed over time and as of 2015, local ownership is no longer required. Accordingly, in 1995, a representative office was established in Kuala Lumpur and a new (second) expatriate general manager was selected to oversee development of manufacturing operations. The new general manager, who was unaccompanied, was chosen primarily for his manufacturing, technical and quality assurance skills, and his expressed interest in the overseas assignment.

In 1997, PolyPacific Polymers Sdn Bhd was established. To mitigate risk, the initial plant was established in rented premises in Port Klang near Kuala Lumpur and new equipment was installed. As confidence in the business grew, the company decided to purchase the existing land and buildings. Additional expatriates were seconded to project manage the building of a new warehouse on additional land and to increase manufacturing capacity with a new line. Key criteria for selection were engineering skills plus technical manufacturing knowledge and the ability to work with the engineering group in Australia. The additional expatriates were on an unaccompanied basis and the company did experience some difficulty in finding appropriate people to send on the conditions offered. Nonetheless, the expanded production line was successfully installed and Mr Fisher subsequently returned as general manager with a mandate to strengthen relationships with existing customers and further develop the market in the region.

After two expansions of production lines, the Malaysian company found itself with 42 employees. Around 50% of them were in manufacturing and 50% were in Administration/R&D, and technical support/accounts/sales. No foreign labour was used in the plant. An additional expansion was commissioned in September 2014.

Figure 1 indicates the path of increasing engagement followed by the company over the past three decades.

Figure 1: PolyPacific Pty Ltd.'s Increasing Level of Engagement in the Region



Malaysia's Institutional and Cultural Issues

Government development plans

Malaysia's recent economic development has been governed by the New Economic Policy which was first enunciated in 1971. In addition to focusing on economic development and encouraging foreign investment, the policy also focused on improving the position of the ethnic Malay community (Bumiputera) and, as a general rule, required new public firms to provide at least 30% Bumiputera ownership. Prior to the mid-1990s, the approach to development was via import substitution; however, in the second half of the decade, at the time the PolyPacific investment was made, the emphasis shifted to export-led growth and an increase in manufacturing. While initially the focus was on manufacturing for low-cost production, this proved to be an increasingly elusive target as wage costs increased relative to other economies in the region. The New Economic Model and the Economic Transformation Programme announced in 2010, changed the focus to increase value added production and productivity. Hence, since 2003, and particularly in 2009, there had been a relaxation of equity conditions, particularly limitations on foreign ownership and Bumiputera involvement, to encourage FDI.[9] Foreign direct investment was very important to the Malaysian economy and was supported by government policies for many years. The stock of foreign direct investment was about 46% of Malaysian gross domestic product in 2013.

Malaysia's sixth and seventh development plans and Vision 2020 announced in 1991, emphasised the need to improve its human resource capability, and introduced a focus on training and development, including extension of double tax deductions for training in productivity, quality control, supervisory and technical skills plans.[10] Pursuant to the sixth plan, a levy and grant system was also introduced in 1992 to support those firms introducing training. However, the Plan also continued the policy requiring at least 30% Bumiputera participation in equity investments, though it set no specific time frame for this. This policy was relaxed beginning in 1997.

Labour relations

While there was an established union structure in Malaysia, based on the Industrial Relations Act 1967, which provided some basic rights, unions were not strong in Malaysia with trade union density placed at around 7-9% of the paid workforce.[11] Strikes and labour disputes were strongly discouraged by the government and by national culture. Indeed in five years (2008-2012) only eight strikes were reported to the Department of Industrial Relations Malaysia[12]. PolyPacific does not have a unionised workforce and has not been troubled by labour disputes since its establishment in Malaysia.

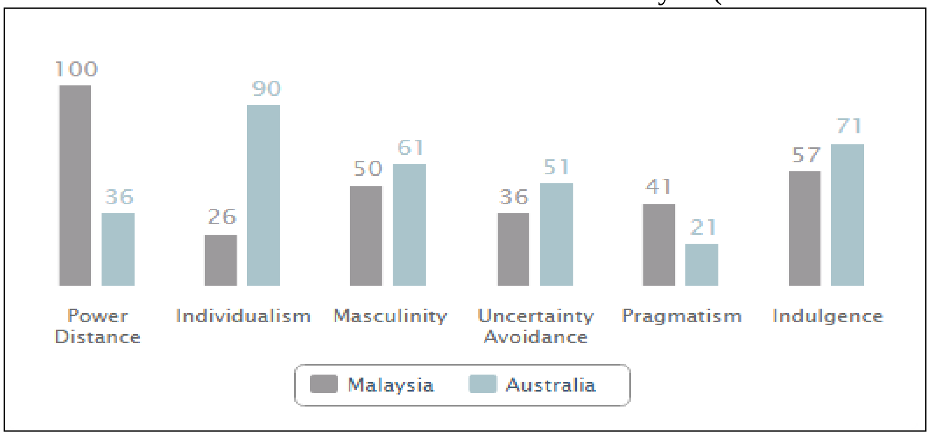
National culture

Malaysian culture was essentially based on principles of collectivism and respect for authority. Figure 2 shows Hofstede's (2014)[13] illustration of the difference between Australian and Malaysian cultures. While noting the danger of such broad generalisations, the dimension of power distance or respect for authority and the individualism/collectivism dimension together highlight areas where HR approaches and practices in Australia were likely to face implementation issues if transferred to Malaysia.

While not shown in the chart, ethnic Chinese and Malays shared similar Confucian dimensions of power distance and individualism/collectivism, but differed quite markedly in the masculinity dimension, which measured the drive for success and achievement. On this dimension, Chinese Malaysians scored higher and this was reflected in the bulk of first level supervisory positions in companies they occupied.[14] This was not reflected in the staffing structure of PolyPacific Polymers Sdn Bhd, but was reflected in the more senior positions. These dimensions are referred to further below.

Of course care must be taken in generalising national cultural dimensions, particularly in Malaysia, which has large ethnic groups of Malay Bumiputera (sons of the soil), Chinese Malaysians and Indian Malaysians. According to Bhopal and Rowley, “ethnicity has been the organising principle of politics since independence (1957), as well as a significant factor in the political economy.”[15] Bhopal and Rowley also described instances where company employees grouped together and acted along ethnic lines, and where there was distrust in workplaces between different racial groups. These issues could be divisive and create management issues. PolyPacific’s experience has borne this out.

Figure 2: Hofstede Cultural Dimensions for Australia and Malaysia (The Hofstede Centre 2014).



Approach to Human Resource Issues

Human resource systems

One question that arises when companies make international investments is whether to transfer home-based HR practices to the overseas operation. As noted above, PolyPacific did not have elaborate HRM policies and processes. In this approach, the company was not far out of step with practices in Australia and Malaysia. Human resource management as a business discipline was quite new in Malaysia although the development of human capital had been a key plank of Malaysian government policy for many years.[16] However, the company was fortunate that the strategic HR needs of the business were successfully fulfilled by the appointments that were made in the Malaysian operation. The key strategic requirements were initially market development, then manufacturing business establishment, followed by marketing and relationship development, making use of the company’s core capabilities of flexible manufacturing, customer focused R&D and the ability to work with the customer to meet customer needs.

The company's utilisation of, and focus on, its key capability, flexible manufacturing to meet customer needs with its attendant capacity to meet or exceed market prices, has enabled PolyPacific to retain its competitive position in Malaysia even as wage costs increase.

Employee resourcing

Recruitment by PolyPacific in Malaysia followed the same approach as the company in Australia. Jobs were advertised, generally in front gate banners, local newspapers and recently, online. This was also the approach generally taken by Malaysian companies.[17] The selection approach was in line with the company's Australian practice of involving managers in the selection rather than engaging employment agencies. As Mr Fisher noted:

> We have never used employment agencies; that's part of our culture because we are often looking for people with the right fit rather than with explicit skills. An employee's ability to develop and grow with the business is of tantamount importance. When an ad goes in, it describes the perfect person, and our belief is that we can make a judgment about the relative strength of skills required. We prefer to bring in somebody who has experience/skills in areas we cannot develop and expand on this with skills that we can teach. For example someone may have an interest in selling, but no sales experience, however they have good industry knowledge that will assist with communication at the customer coalface. An employment agent cannot make judgments about this. So we have always undertaken direct advertising and direct interviews. We still do, both in Australia and Malaysia.

According to Mr Fisher, the company did not find it difficult to recruit people. The opportunity to work with an overseas company and the employment package offered, contrasted with the wages and working conditions (no Saturday morning work, and sometimes erratic payment of wages) of local companies at the time. The focus was on individuals with broad experience who were prepared to grow with the business. The company recognised that small businesses often had difficulty in providing a career path and, as a consequence, would, for example, seek to employ one mid-level manager who could take on HR functions and a range of other responsibilities, rather than a human resource expert. They did not recruit individuals who were at the top level of their career but someone at a lower level who could grow into the job. This provided greater opportunity for an individual to develop along with the business. It also meant that the individual was interested in learning about the culture of the business rather than seeking to change the business to fit what they believed was the "best/their" way. The company also hired individuals with an understanding of English, believing that those who spoke English might have additional broader skills to deal with language and cultural gaps. This overall approach appeared to have worked well in Malaysia, making it possible for the company to recruit highly qualified staff and overcome competition from much larger MNCs for the very top level managers or employees.

For PolyPacific it was important that the Australian culture be influential in the business. As Mr Fisher observed:

> The Australian culture should not necessarily dominate, but will undoubtedly have an enormous influence in the business. It still has to be a Malaysian business view of the marketplace, but you still want to be able to build a strong company culture. There is regular two way communication with head office and you need to be able to still meet head office expectations, which you can only do within a certain culture. It's not a Malaysian culture but a business culture. In our sense it's a family culture as well.

The company developed and rigorously followed a fair employment policy based on merit in its recruitment. The same employment policy that existed in Australia applied. For example, during the interview there were no questions on what were considered as illegal in Australia such as age, marital status, race, religion, etc. This enabled the company to deal with underlying racial identity issues related to employment. Mr Fisher believed all staff accepted that performance and ability were the deciding factors in employment and future opportunities for their growth.

Employee development

Employee development in PolyPacific centred around the development of technical skills in the application of the proprietary technology and what the company considered to be unique for the sector — a strong customer focus which included flexibility in dealing with customer needs. Training was principally on-the–job, reflecting the proprietary nature of the company's technology.

A key driver in the development of the company culture was the need to develop excellent communication and listening skills in the workforce and to communicate across departments and multiple levels within the business. Hierarchical communication channels limited an employee's ability to quickly meet the customer's expectations. Mr Fisher introduced voluntary English lessons for the majority of staff as part of the process of addressing these issues. He noted that Bahasa Malaya had few variations in pronunciation while English had many. When Malaysians tried to learn English, they tended to concentrate on structure and grammar while "we wanted to concentrate on listening skills, so that the staff would learn to listen to what was being said, not how it was pronounced. I was trying to help them understand that listening skills were important to good communication and that there were different ways of saying the same thing."

The introduction of English language classes was received differently by different people in the company. It was available to senior and mid-level staff, storemen, shift supervisors and leading hands and while it was voluntary, the rule was that if you started the course you had to finish it. Malcolm Fisher explained that some suspected the motive behind the language classes. One of the leading hands asked him why he was teaching them English. He replied that "language is about confidence and what we are teaching is not so much English, but confidence. If you have the confidence to speak in English, you can go home and help your kids with their English and they look at you not just as a factory person but as someone who can help. They hold you in more respect and you feel better about yourself and come to work more confident and happy about being here, and therefore you do a better job. A win-win situation."

As part of employee development, the company, where appropriate, brought Malaysian employees to Australia for training as part of the implementation of new projects or new equipment in addition to sending Australians to Malaysia to provide the training. This improved communication with the Australian head office; employees in Malaysia were encouraged to directly call their counterparts in Australia to resolve issues rather than go through the hierarchical organisational structure.

As of 2014, PolyPacific Polymers had its own experienced R&D department in Malaysia with a staff of four, reflecting the company's strategic approach to human resource management. To effectively meet customer demands in the region, there had to be an R&D capacity closer to the customer: Mr Fisher observed that it was difficult for someone operating in Malaysia to obtain priority in having their problems resolved quickly in Australia.

Employee rewards

PolyPacific did not experience difficulty in recruiting appropriate employees. This was not because they were more generous than others in the industry (research findings have suggested that multinationals were more generous employers[18]). The company provided mid-range salaries, but they also offered a number of other benefits that were clearly of value to employees. As Mr Fisher explains:

> We gave other benefits in terms of respecting Saturdays, holidays, respecting knockoff time and work life balance. In the long run this becomes more important than salary. Paying on time, and a couple of days earlier for major holidays, distinguished us from other companies in the area. What we were trying to do was to create a community, a family business perspective where people look out for each other.

This organisational concern for employee welfare was one of the approaches to reduce turnover identified by Chew in her study of five Malaysian companies' HR practices[19]. In addition, and at considerably greater cost, the company also provided private medical coverage for employees. Only 40% of Malaysians had medical insurance, with the rest using government health centres, so this was of considerable value to employees.[20] This overall package of rewards and development appeared to have been successful with staff turnover dropping from 22% per year (significantly above the Malaysian average of 16-17%), down to about 2 - 3%.[21]

Unlike in Australia, the company in Malaysia provided bonuses to its employees. According to Mr Fisher, "in Australia, if you do a good job today you can come back tomorrow, that's the bonus." In Malaysia the bonus system was built around the 13th month payment commonly paid at end of the year. While this was not mandated, the company knew that it was a difficult custom to break. Initially, bonus payments were the same for all employees at the same level. However, on returning to Malaysia as the general manager in 2005, Mr Fisher introduced variable bonus payments to recognise those individuals who were contributing the most. The level of differentiation in bonuses was based on managerial discretion rather than achievement of agreed targets. The differentials in payment could be significant. This appeared to reflect the use of differential rewards, which were increasing in Malaysia, both in level and coverage.[22] Further, PolyPacific's approach appeared to be consistent with the approach to rewards in other Malaysian firms[23] though it has been pointed out that the effectiveness of performance-based reward in Malaysia has been limited by poor application of performance goals and measures.[24]

Performance management

The company has not established a formal performance management system in Malaysia (nor in Australia), reflecting its small size. Mr Fisher explained:

> We run a business where everybody knows everybody and the general manager had some involvement in the employment of everyone, including the staff on the factory floor. Managers are walking around all the time on the factory floor to see how people were performing, so performance management is more of an everyday arrangement. There was that constant sort of monitoring. We have never been a report driven company so we built a system where there is unencumbered communication, instead of a formal performance system.

This approach might have fortuitously or consciously avoided the problems which could come from implementing a formal performance appraisal system in a collectivist economy (see Figure 1) where social harmony was important.[25]

Employee relations

While union relations have not been a major issue for PolyPacific, the company has had to be constantly conscious of race issues, which are a fundamental part of the Malaysian institutional and government system. The company knew that there would always be underlying racial issues driven by history and the government and these had to be handled sensitively. This impacted on all aspects of the company's operations. In recruitment, some people responsible for making the selection would prefer to recruit from their own race despite the company's policy of recruitment on the basis of merit. In reporting on the company's staffing to the government, the forms included questions on the racial mix of employees. The government encouraged meeting certain racial targets in recruitment which could have been a challenge to the "recruitment on merit approach." Over the years, the company found it possible to maintain its fair employment policy without running into major problems with these issues. However, even social activities within the company required constant consideration of racial issues. In organising functions, one had to be aware of racial and religious issues to ensure that all appropriate interests were respected.

Organisational development:

Alignment with strategy

PolyPacific's organisational structure in Malaysia has evolved with the growth of its operations and the change in customer needs. In Australia, the organisational structure emphasised sales. In Malaysia, the original organisational structure was more manufacturing oriented, largely because the first expatriate general manager of the operation tasked with the establishment of a manufacturing operation came from a manufacturing background. However, once established, the key success factor became flexible customer service. When Mr Fisher returned to Malaysia his task was to change the organisation from a manufacturing to a service focused organisation. This was required to build the business. As Malcolm explained it:

> If you have a manufacturing focus and people come to you with an order, the response is likely to say 'we need three weeks in order to run it in sequence.' We wanted to build a flexible organisation where you responded to customer needs. The only differentiator these days is service and if you are successful in removing problems relating to service then price becomes less of an issue. You need to build a market niche because that's the only way you will survive in these types of markets, particularly in Asia where there is little or no loyalty to the local product (just as in Australia).

PolyPacific was able to do this successfully by building on their employees' flexibility. For example, one of the managers had flexible working hours, arriving mid-morning (which was better from a traffic point of view) but was always there at eight or nine o'clock at night to provide customer service if someone called at that time. They were also able to make deliveries at night through arrangement with the transport company. Mr Fisher observed that flexibility worked well in Malaysia because "people were more flexible and had better work ethic in terms of working hours; people continued to work to do what they needed to do." However, one of the consequences was that people were probably more worried about making sure everything was absolutely correct and this led them sometimes to do things that did not add value to the business or the customer.

<u>Decentralising decision making</u>

One human resource based approach to changing the focus from manufacturing to service was developing the capacity of individuals to make decisions rather than relying on the most senior person making the decision. Attempts to push decision-making further down the management line came up against the high power distance attribute of Malaysian culture - see Figure 1 above and a recent study by Santa Maria *et a*l.[26] As Hofstede notes "in the large power distance situation, superiors and subordinates consider each other as existentially unequal…Subordinates expect to be told what to do."[27] This style of management fitted with the management style of the general manager of the manufacturing operation but had to change if employees were to respond to customer needs effectively and develop a service culture.

Mr Fisher approached this issue by attempting to change the relative importance of the process and the outcome. "My concern was that people were process driven, where the process was more important than the outcome. To me the outcome was more important than the process. My concern was that we were not using the local knowledge because people did not have the confidence to make the decision or at least attempt to influence the decision."

In order to make this change in the management team, Mr Fisher started to push the team to participate in decision-making. In meetings, he made it clear that he was not going to provide the answer to major questions and "we would sit there until someone else did." Mr Fisher consciously recruited one Malaysian manager because he "always had an opinion and, in expressing it, forced others to comment." He also imbued the decisions made in meetings with finality and authority. "In the past," he said, "we made decisions in a meeting but everybody would want to talk about the issue after the meeting. I made it clear that the opportunity for discussion was during the meeting and that once the team agreed on an idea and the agreement was recorded in the minutes of the meeting, then that is what would apply." This forced people to come to the meeting having discussed the issues before the meeting.

Fisher's leadership style encouraged more junior managers to bring their experience, specialist knowledge and ideas to the table. Again this clashed with the desire to avoid uncertainty and the "high power distance" which was common in Malaysia (see Figure 2). It was important to capture and utilise the expertise that individuals had and it was not possible for a senior manager to know every aspect of the business, particularly the day to day issues and processes. Accordingly, Mr Fisher tried to build the confidence of managers to make decisions. He made it clear that as the general manager, it was his job to take the responsibility for whatever mistakes senior managers would make, but not necessarily to make the decision. "If I've allowed you to make that mistake then I'm responsible," he said. Mr Fisher noted that of course, over time, that responsibility would by default be passed back to the individual managers. He believed the key in changing the power distance aspect of the culture was giving people the ability to make decisions. His role would then be not to criticise, but provide them an opportunity to talk about how to avoid the mistakes in the future.

These changes took time to implement but in Malcolm Fisher's view, people gained confidence in their ability to come up with ideas, put them on the table and worry about a problem, talking it over with others and coming to meetings with ideas for solutions. The tendency, however, was to only worry about fixing today's problems and not worry about what action can be taken today to prevent a problem tomorrow. Being prepared to make a decision is an important step in solving problems ahead of time. Mr Fisher was named the 2009 Business Person of the year by the Malaysian Australia Business Council for his approach to leadership through the adoption of an inclusive approach to develop the skills and experience of local staff.

As of 2015, the devolving of management responsibility has reached a stage where the general manager for the Malaysia operation operates out of Australia, with Malaysia-based department heads managing the day-to-day operations. At this stage, it is believed there is no need for an additional senior layer of management to be based in Malaysia and the department heads report to Mr Fisher in Australia. Mr Fisher notes that "it is now an electronic world and I can see all the orders and how they are processing through the plant, seeing the outputs of every section." The rule of thumb is that if the general manager is not available and two of the department heads make a decision, then Mr Fisher will support it (even if he does not necessarily agree with it).

Expatriate management

PolyPacific adopted an informal approach to expatriate selection and assignment. This was consistent with the approach of most SMEs.[28] There were only two expatriate general managers plus three specialists during periods of expansion over the 20 year life of the Malaysian company, PolyPacific Polymers. The company was fortunate to have identified individuals with the requisite skills and interest in undertaking the expatriate assignment. However, for each of the assignees, there appeared to be issues on the length of the assignment and succession planning for replacement. In a small company, it was often difficult to find people within the organisation who had the required skills and interest in an overseas assignment. In addition, finding a position for the returning expatriate was as much a concern as selecting a candidate to move in the first place. This was compounded by the economic imperatives in a small company that made it difficult to provide generous overseas allowance to attract people. The company was fortunate in selecting individuals who were long term employees sufficiently committed to the company to overcome this issue. As of 2015, this issue was resolved by not having an on-site general manager but further expansion in operations may demand a change in this approach.

As a whole, the company dealt with a number of significant human resource challenges and relied on managerial knowledge and decision-making rather than the skills of a dedicated HR function. The issues, responses and consequences of the approaches taken are summarised in Table 1.

Table 1: Human Resource Challenges and Responses

HR challenges	Company responses	Consequences
HR Systems – should home based systems be transferred to the subsidiary?	While HR systems were limited in Australia, the company applied similar approaches in Malaysia	Over time the family based approach was successfully applied in Malaysia
Sourcing of employees	In Australia the company's approach was to advertise and have managers make the selection. Recruitment directed at people who could grow with the company rather than current 'top of field'. This approach was also followed in Malaysia	Successful recruitment of quality employees was possible following this approach.
Employee development	Development was focused on technical growth, and communications development through language training. Where appropriate, Malaysian employees visited Australia.	Quality technical staff available, aligned with strategy. Good direct communication between Australia and Malaysia.

Employee rewards – whether to pay high or in line with market?	Approach was to pay in line with local market, but to enhance this with other benefits and to respect people's work-life balance	Stable workforce with turnover well below average for the economy
Performance management: was a system necessary?	In Australia the company had no formal system and did not want to introduce a system in Malaysia.	Performance was managed by manager observation and direct feedback. Works effectively in small organisation.
Employee relations: maintenance of "fair employment policy" in face of racial targets	While recognising the government's objectives on racial balance, the company maintained its fair employment policy, recruiting on the basis of merit.	Constant attention to race-based issues was necessary to ensure race and religious issues were respected.
Changing human resource approaches to align with strategy	The company relied on selection of expatriate general managers with the appropriate focus and skill to change human resource approaches in line with changing strategic needs.	As the company developed from an export focus to a manufacturing organisation and then to a service based organisation; changes in leadership enabled changes in approach.
How to ensure host economy employees make decisions in absence of expatriate management, contrary to cultural expectations	Determined management approach to require host economy managers to take decisions by initially removing responsibility for "wrong" decisions and then gradually building this back into accountabilities.	Over time, host economy managers accepted responsibility for decision-making. This led to a significant reduction in general management time spent in Malaysia and a fully Malaysian workforce.
Expatriate management: finding suitable people to manage the foreign investment.	As a small company there was limited staff available for expatriate assignments. However the company was able to find sufficient people with the sufficient skills and background to undertake the general manager assignments. Localisation of accountability for decisions helped solve the issue.	The company was successful in finding the appropriate people to manage the overseas investment and in localising most management decisions.

Lessons

Companies in the SME category are sometimes deterred from undertaking foreign direct investment by a perception that overall uncertainty, human resource issues and expatriate costs add significantly to the risk of investment. The experience of PolyPacific in investing in Malaysia suggests that these issues may not always be as significant as they seem, provided a cautious approach is taken, the investment has a clear strategic driver, and the individuals selected for expatriate assignment are able to deliver an approach to human resource that is consistent with the strategy for growth.

1. Approach with caution

PolyPacific utilised a traditional approach to its internationalisation, moving from exports using a sales agent, to the establishment of a regional sales office, and finally to a manufacturing operation. This facilitated the development of local institutional and cultural knowledge and an understanding of the market and its opportunities, before significant investment was made. Even then, a cautious approach was taken by renting rather than purchasing the facilities in the first few years. The 'export first' approach with subsequent establishment of a sales office before investment is an effective way to reduce the human resource barriers identified by the OECD[29]as a major impediment to FDI by SMEs.

2. Focus on the basic HR issues

The significant institutional (Bumiputera and foreign investment regulations) and cultural issues were managed by line managers without the aid of specialised HR functions in the organisation. The literature suggests that a more explicit and extensive attention to HR policies might improve productivity, but the experience of PolyPacific suggests attention to the basics might be sufficient for success. PolyPacific managed to develop a committed and engaged workforce without the use of a dedicated HR function. This might well have been possible due to the overall absence of high performance HR practices in Malaysia.

As Rowley and Abdul-Rahman have noted, "Overall, Malaysian people management generally would be better characterised as still more like 'personnel' rather than 'HR' management. Any acceptance of the HRM concept by Malaysian companies had been slow and cautious." [30] However in a subsequent paper, these authors noted that for at least some Malaysian manufacturers, this was changing. "Malaysian firms have begun to focus significant attention towards HRM, innovation and productivity as Malaysian managers realise that people are capable of generating competitive advantages."[31] Chew's research supports this finding[32]. A question that may need to be considered by PolyPacific is how much longer they can continue without some form of specialist HR support, and whether they could even further enhance their competitive position by a higher focus on HR management. Outsourcing or consultant HR advice might be valuable to the company.

3. Ensure expatriate leaders' skills address the strategic need

The selection by the company of the expatriate general managers provided the kind of culturally appropriate leadership required to initiate a new investment and get it established, and then develop the required customer focus. Certainly, the selection was driven by the strategic and operational needs of the company as it moved from export to overseas manufacturing, and then customer service, and market development. It was fortunate that the company had internal people with the requisite skills and cultural adaptability, though these resources were in short supply and may well be tested in any future expansion.

4. Expatriates do not need to be very expensive

For the future, PolyPacific will need to give greater attention to recruiting expatriates for the Malaysian operation, should further extension be undertaken. The company demonstrated that it was unnecessary to pay high expatriate packages, relying on the expatriate's desire to contribute and take on the job challenge. If further expansion occurs in the future, the question is whether such an approach can be repeated, particularly in the light of the possible difficulty in finding a suitable internal candidate with the requisite skills. Nonetheless, the increase in the use of the 'local plus'[33] and 'expat light'[34] expatriate packages suggests that this may not be an issue.

5. National culture need not prevent establishment of a company culture

National cultures are often built on generalisations and assumptions that all people are the same. By working with the individual at the base level, however, it is possible to create a company culture that may appear on the surface contrary to the economy's culture, but in fact is what individuals are comfortable with. In PolyPacific's case this might be the influence of the family business and a family culture, which are often at the heart of many economies' value systems. The company was able to export its unique family based culture, with shared decision making, to the Malaysian subsidiary, despite a local culture that preferred top down decision making. While this took time, it has worked effectively and has reduced the need for full time expatriate management in Malaysia.

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XYZ Ltd
Indonesia

FDI and HRM: A Case Study of the Chinese Oil and Gas Company in Indonesia

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Executive Summary

The study explores the challenges associated with the foreign direct investment (FDI) of a big Chinese Oil & Gas Company in Indonesia, XYZ Ltd Indonesia.[*] The company's investment in Indonesia was its first overseas acquisition, taking over a concession that had been explored for more than 40 years by earlier investors. The investment was made to provide China the needed supply of petroleum for its domestic use. It was strategic on the part of the company to acquire existing oil and gas fields that would result in immediate production rather than starting a newly explored field with no guarantee of oil or gas discovery or being economically viable.

Besides the decreasing oil production due to the age of the fields, the other immediate issues were human resource related. The company believed that building individual competencies was key to achieving its target and therefore individual training/development programmes had to be carried out. The objective was to ensure that the people would keep themselves abreast of the new technology installed and improve productivity. The people development programme was provided a big budget to keep up with the demand for high level skills of the modern technology adopted throughout the entire company. The training and development programmes for individuals followed a competency matrix. Other human resource development programmes and initiatives were implemented both for management and staff, including special cultural programmes to enhance understanding among company staff from different cultures. Attracting people from outside the organisation and retaining the core personnel were also perceived as important.

Overview of FDI and Industry Structure

Crude oil or petroleum – a fossil fuel that forms the basis for oil fuel, petrol and many chemical products – is a vital energy resource as oil accounts for a significant percentage of the world's energy consumption.[1] Increased demand for crude oil, combined with supply issues during the 2000s, caused the oil price to reach historic heights. Inasmuch as China accounted for a large share of the world's energy consumption, it affected world market prices for primary energy sources. Its consumption is forecast to rise significantly in the foreseeable future, particularly if it can sustain rapid economic growth.

Starting in the 1990s, Indonesia's crude oil production experienced a steady downward trend due to lack of exploration and investment in this sector. As of 2013, Indonesia produced 825,000 bpd (barrels per day) (See Table 1).

Table 1: Indonesia's Oil Production (in thousand barrels per day)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
BOPD	1,096	1,062	1,006	954	977	949	945	902	860	825

Source: BP Statistical Review of World Energy, 2014.

Indonesia had been active in the oil and gas sector for more than 125 years after its first oil discovery in North Sumatra in 1885. It continued to be a significant player in the international oil and gas industry.

[*] Names of company and individuals have been disguised.

[1] www.indonesia-investments.com/doing-business/commodities/crude-oil-item 267.

Indonesia held proven oil reserves of 4 billion barrels and ranked 21st among world oil producers, accounting for approximately 1.2% of world oil production. Declining oil production and increased consumption however made Indonesia a net oil importer in late 2004. After the industry's volatility over the last five years, investment in the oil and gas industry and associated revenue were on the rise. Investment in the oil and gas industry in Indonesia reached US$12.8 billion in 2011 and contributed US$34.4 billion to state revenue. Further, in 2011, Indonesia entered into more than 30 new oil and gas contracts. Table 2 shows Indonesia's major oil producers in 2012.

Table 2: Indonesia Major Oil Producers as of March 2012

Companies	% of Total Production (Indonesia)
Chevron Pacific	47%
Pertamina	17%
Total E&P Indonesia	10%
ConocoPhillips Indonesia	7%
Chevron Indonesia	4%
PHE-ONWJ	4%
XYZ Ltd	**4%**
Mobil Cepu	3%
PHE – West Madura Offshore	2%
PetroChina Int (Jabung) Ltd	2%

Source: www.pwc.com/id/enpubllications/assets/oil-and-gas-guide,_2012.

Indonesia Labour Market

The *PWC Indonesia Oil and Gas Survey, 2014* indicated that there was still a great deal of competition for skilled staff in the industry. Therefore every economy needed to look outside of their boundaries to supplement its human resource. Indonesia was no exception although, given the size and age of its industry, it had a bigger pool of experienced people compared to many other economies. The international market, particularly the Middle East, attracted the skilled Indonesians because of higher pay. This left the local industry short of highly skilled technical staff. A further restriction on expatriate labour made it difficult to bring in skilled technical staff, thus slowing industry activity.

Antoine Rostand, Managing Director, Schlumberger Business Consulting (SBC) in the publication, "Never a better time to be a Petrotechnical Professional," (21 January 2014*)*, described this situation:

> Challenges faced by Human Resource (HR) came from the difference between the new generation and its predecessor. For newcomers, career prospects, industry image, and lifestyle considerations were as important as monetary compensation and benefit packages. Companies that aimed to attract younger generation professionals would have a competitive advantage over their peers if they could create a more comprehensive employee value proposition. The number of petrotechnical professionals will decrease until 2016, with majority of them retiring. The industry will need to produce oil and gas with less experienced technical talent, while pushing for the successful transfer of knowledge from the experienced technical professional to the young generation. The next challenge will arise from the impact that the generational shift has on leadership management and succession plan. Investment in

recruiting and training should not be based on the latest oil price fluctuations but on an organisation's expected long term needs for the number of experienced petrotechnical.[2]

Indonesian Government Regulations on Education and Training Programmes

The Indonesian law on Production Sharing Contracts stated that the contractors were required to carry out development, education and training programmes for Indonesian workers. Contractors should give preference to local manpower but might use foreign manpower for expertise that could not be met by Indonesian personnel. The Special Task Force for Upstream Oil and Gas Business Activities (SKK Migas), a government body created to manage the upstream oil and gas business activities under a Cooperation Contract, controlled the number of expatriate positions and these positions were reviewed annually.

The Investor Company: XYZ LTD*

Company Profile

XYZ Ltd was an oil and gas company based in Beijing, the People's Republic of China (China). XYZ Ltd incorporated in Hong Kong Special Administration Region in 1999, and was listed in the New York Stock Exchange and the Stock Exchange of Hong Kong SAR in 2001. The company was the largest producer of crude oil and natural gas in China and one of the largest independent oil and gas exploration and production companies in the world. XYZ Ltd mainly engaged in exploration, development, production and sale of oil and natural gas. Besides operating in China, the company had oil and gas assets in Africa, Asia, Europe, North America, Oceania and South America. It had more than 17,000 employees all over the world and an average daily net production of more than 1.0 million barrels of oil.

Following the creation of the expanded XYZ Ltd upstream business in Asia and the development of a revised global strategy, XYZ Ltd actively entered the international market with enthusiasm and optimism. In particular, XYZ was looking forward to the business opportunities in Indonesia in 2015 and in the future.

To pursue this challenge, XYZ Ltd invested in its subsidiary, XYZ Ltd Indonesia, in 2002 in order to promote and to grow partnership with SKK Migas and other business partners in Indonesia. In early 2002, besides acquiring four other oil and gas concessions in Indonesia as participating partners (non-operator), XYZ Ltd acquired 65.54% share in XYZ Ltd Indonesia and operated an oil concession with a production of 115,004 BOPD. Total oil production from 2005 to 2014 is presented in Table 3.

Table 3: Oil Production (in BOPD): 2005-2013

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (oct)
Oil Prod	65,356	57,003	51,118	46,545	43,359	40,449	34,592	31,805	34,917	33,189

[2] "The principal HR challenges experienced by the Oil and Gas Industry since 2004," *(www.slb.comresources/ublications/industry_articlesbusiness/200101_wpc_reruitmting.aspx)*

* The names of the company and individuals have been disguised.

The concession area, which had been operating since late 1960, ran under the Production Sharing Contract with the government of Indonesia (SKK Migas). Although the concession was a mature field, the production still reached 115,004 BOPD when XYZ Ltd acquired it. Total production, however, declined from the 2005 level to only 33,189 BOPD in October 2014. The decline in the oil production as shown above was due mainly to the almost 40-year old oil field. With the technology and good maintenance of the installations, the decline in oil production was brought to manageable and still economically profitable levels.

Signaling the Change

Immediately after acquisition, the XYZ Ltd tried to establish its presence by changing the logo and the color of the office and office stationeries with the company color, blue, instead of dark magenta. The personnel ID card was also changed with a new color and logo. These actions were effective in signaling the change in management, but it took additional efforts on the part of management to institute the work culture as XYZ experienced an exodus of engineers in the following years.

The workforce’s perception of the new owner was that of stringent control of expenses and tightening of the budget. As the volume of production was declining, the management instituted some of the cost cutting measures, which were interpreted negatively by the workforce. Labour disputes and strikes followed. The management had to review some of the actions taken for cost cutting measures.

HRM Practices and Challenges at XYZ Ltd

XYZ Ltd had three types of employment in Indonesia:

1. Home/Parent Economy National were expatriates from headquarters (HQ) or other global areas who were assigned as experts in Indonesia;
2. Third Economy National were expatriates who were employed; they might not be from HQ or other affiliated companies but had the expertise not available in Indonesia or in other affiliated companies; and
3. Host Economy National were Indonesian national employees (See Table 4).

Table 4: Total Number of Employees at XYZ Ltd Indonesia

Total Employees	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Host Economy National (HEN)-Indonesian	774	797	773	776	772	737	756	764	677	662
Parent Economy National (PEN)	31	30	33	31	29	31	29	27	29	29
Third Economy National (TEN)	4	3	4	4	5	3	2	3	2	0

XYZ Ltd employed a number of core engineers composed of geologist, geophysicist, reservoir engineer and production engineer (Table 5).

Table 5: Total Number of Core Engineers, XYZ Ltd Indonesia

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (oct)
Expatriates	10	10	13	12	15	14	12	13	13	11
Indonesian	49	57	60	61	61	57	65	68	52	48

The company limited the employment of expatriates to be more cost efficient and observe government regulations limiting the employment of expatriates. The objective of having expatriates in XYZ was to effect transfer of knowledge through training and development programmes, mentoring, tutorial, field trips, and others.

The company still maintained a big number of expatriates to meet its staffing needs since many Indonesian staff left the company as shown in the statistics presented in Table 6. Majority of expatriates however were from China since it was less expensive to engage them than those from other economies. From the time the XYZ Ltd came to Indonesia, there had been an exodus of Indonesian engineers because of the high market demand for engineers, especially in the Middle East. The following Table shows the number of Indonesian core engineers who left the company.

Table 6: Number of Engineers Who Left the Company: 2003-2014

Year left	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Engineer	9	14	29	28	31	14	14	26	15	22	20	9	231
Non Engineer	8	5	8	11	7	4	3	13	10	11	8	7	95

Organisational Structure

The organisation of XYZ Ltd was divided into two main functions:

1. Primary activities (exploration, formation evaluation/appraisal, drilling, production, construction/engineering/maintenance, logistics/storage, procurement, marine operations).
2. Supporting activities (general management, finance and accounting, internal audit, human resources, legal, quality health safety and environment, (external) relations, security, non-technical support (office and general services).

Job Grouping

The company grouped jobs into two categories:

1. **Structural Job or Line Function** was mainly involved with supervision, coordination and/or management of other jobs/functions. Structural jobs were classified into management/supervision hierarchical levels:

Job Level	Title
Executive	President/EVP/GM/VP/Sr Manager
Upper Management	High: Manager Low: Sr. Head
Middle Management	High: Head
	Low: Superintendent
Lower Management	Supervisor

2. **Non Structural Job (functional Job), or staff function** was responsible for the performance of specific tasks/duties not related to supervision/management of other jobs/functions. The incumbent was usually an individual contributor with specific job knowledge or competencies.

Job Level	Title
Senior Specialist	Sr. Specialist
Specialist	Specialist
Senior	Senior
Professional	-
Junior	Junior Associate

As shown in Table 7, the primary activities and non-structural or functional job levels, suffered more because a total of 231 engineers belonging to these levels left the company in 11 years since XYZ Ltd Indonesia acquired the concession. Most of the Indonesian engineers left for the Middle East and the neighboring economies such as Malaysia (Petronas). As a response to the exodus, instead of hiring experienced engineers, XYZ Ltd decided to hire fresh graduates mainly to save on costs since they were paid less than those with work experience.

Table 7: Number of Engineers Hired: 2003-2014

Year of hiring	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Engineer	1	1	9	31	21	27	10	19	16	25	9	24	193
Non Engineer	1	4	14	11	1	16	16	4	12	14	5	10	108

XYZ Ltd realised that accelerating the development of these new graduates, particularly for its Indonesian operations, was not only necessary but essential to achieve its production target. The company decided to use competency models as the bases for planning the people development programmes so that the result, the budget and time dedicated to the programmes could be easily measured. The competency models were also used for measuring employee performance which was the basis for salary increase and incentives.

Employee Competency Models

XYZ Ltd set up employee competency models consisting of the following:

Core Competency – competencies necessary for all employees across grades and departments. Core competencies reflected the values that the Chinese investor wanted to apply in its Indonesian operations. The six elements of the core competencies were:

1. Drive for results
2. Continuous improvement and innovation
3. Teamwork and cooperation
4. Stakeholders service orientation
5. Commitment to safety and environment
6. Empathy and multi-culture sensitivity and integrity

Leadership Competency - competencies necessary for all managerial and supervisory positions, or positions accountable for managing people in the department work unit. It involved three elements: a) team leadership, b) developing others, and c) change leadership.

Job Family Competency – competencies necessary for each job family (group of jobs having similar nature of work or process) in line with the nature and demand of the jobs. The nine elements of this competency were:

1. Analytical thinking
2. Concern for order (organized)
3. Initiative
4. Organisational commitment
5. Information seeking
6. Impact and influence
7. Strategic orientation
8. Relationship building
9. Organisational awareness

Other Competencies

Besides the above competencies, XYZ Ltd also set up professional/technical and safety competencies which mirrored the best practices in the industry. All these competencies were then assigned to each job based on the level of competency required.

Filling the Competency Gap/s through People Development Programme

XYZ – People Development Philosophy

The company believed that employees were the most important resource for their **inimitability, appropriateness, scarcity, and mobility to form the company's core competence.** The Company's growth and success depended on the contribution of employees' knowledge, skill and attitude during their services. The Company realised that in order to be able to give optimal contribution, employees needed to develop their competence to meet challenges faced by the Company. Therefore, training or other efforts that could develop employees expertise in conjunction with the Company's requirements, should be planned, performed, and controlled so that continuous improvement of the Company's performance could be achieved through better individual performance. Thus the Company implemented individual people development to improve productivity and efficiency, and effect people's quality enhancement.

In executing the training and development programmes, both HR and line managers and supervisors played important roles, among which were the following: a) actively engaged in identifiying current and future development of individuals and groups, b) ensured that programmes were well executed and within budget; c) monitored improvement of applied knowledge, behaviour and skills; and d) provided feedback for improvement of programmes. The line managers and supervisors also had to train their subordinates on-the-job.

XYZ Ltd believed that the competent people were the key enablers to achieve its short and long term objectives and therefore employed a number of strategies to implement its people development programmes. This was considered important especially because most core engineers were fresh graduates with minimum work experiences. XYZ Ltd also aimed to develop its global pool of talents for its global expansion.

Formal Training

In-house training
This referred to off the job training that could be conducted most effectively and economically in the "in-house" environment identified and designed by HR and line departments, and prepared to fullfill specific training needs. In-house training programmes might also be conducted with internal or external facilitators. For example, an in-house training programme on Production Sharing Models for new hires was normally conducted by internal facilitators from the Economic group.

External training
The programme sent employees to a public course conducted by external training institutions, either domestic or overseas.

Development Programme

On the job training
Training was conducted while the employee was on the job. This was a structured training which involved establishing the individual's learning objectives, providing expert coaches or mentors to support the learning, and fully supporting the employee in learning, practicing, and mastering the skills while on the job.

E-Learning
This was designed mostly for core engineers; it was conducted through XYZ Ltd Indonesia web based programme. The company acquired programmes from the International Human Resources Development Corporation (IHRDC) on core engineers' competency as part of their learning to meet the technical competency which would be assessed every year as part of performance evaluation.

Education

Education Programme and Oil Academy
The company sponsored selected potential/promising employees to be developed further by pursuing relevant higher education courses either in local or overseas institutions, according to their career plans.

Continuing Education Programme
The company supported employees' initiative and motivation to be developed further by attending an accredited higher education institution in the form of the Tuition Refund Programme. The employee chose the course/study which must benefit his/her present and/or future work with the company. At least two to three production operators signed in to this programme every year. They were allowed to leave the job fulltime for two years to obtain higher level education. When they came back from school, they were promoted as first line production supervisors.

Tutorial

Tutorial was defined as a process of transferring skill and knowledge to employees by an expert with knowledgable expertise through a series of scheduled classes, discussions, and other interactions. This involved the process of sharing, discussion, question-answer, facilitating and counselling to enhance problem solving skill of the “new on the job” person facing real-life work. The company conducted four tutorial programmes each for the duration of at least one year. The tutors were newly retired senior personnel and the subjects covered were: Operations Management, Maintenance Management (these two were aimed for operations personnel in the field) and Petroleum Engineering and Geology (for the Engineers and Geologist/Geophysicists in the office).

Since government regulations prohibited retired personnel from being hired as part of a structured hierarchy, this tutorial programme was one of the means of transferring knowledge from the senior to the junior personnel.

Mentoring

The process involved expeditious technology, skill and knowledge transfer from an expert employee (expatriate and local) to others through a formal and long term relationship of facilitation, coaching and counselling to support the succession plan in the company. It was mandatory for all expatriates to become mentors to Indonesian employees throughout the duration of their employment with the company. Inasmuch as expatriates were only allowed to work in Indonesia for a maximum of four years, most of the time, the expatriates’ mentee or understudy became their successors. Most of the subjects of mentoring sessions were the expatriates’ technical areas of expertise.

Other Individual Development Programmes

Guest Speaker/Lecturer Assignment
The company might assign a certain employee to be a guest speaker or a lecturer for a limited period as a response to a request from a university or an institution. The programme aimed to develop and maintain good relationship with the academe or other insititutions. Beside the Indonesian employee participants in this programme, the company also sent one or two expatriates to the Institute of Technology Bandung (ITB) every year to handle Geological and Petroleum Engineering subjects.

Management and Leadership Training
These training programmes equipped new and current supervisors and managers to be knowledgable in exercising leadership in their respective groups. Most of the Management and Leadership Training were also based on the Leadership competencies. A series of special Management Development programmes were conducted by a consultant from the Asian Institute of Management (AIM) for both the Indonesian employees and the expatriates. The participants were taught, among others, Operation Management, Financial Management and HR Management, with real cases on the day to day operations.

Most of the Indonesian employees and the expatriates were assigned to the supervisory job level because of their technical competence although they still lacked management skills. Hence the leadership training programmes were perceived as necessary and important to support their work as supervisors or superiors.

Cultural Training
Cultural training programmes were important and urgent at the time the company started its operation in Indonesia mainly because the Chinese work culture (being the new employer) was quite different from that of the previous employer’s North American based company culture. It was also obvious that the new Chinese expatriates needed to

understand the Indonesian culture as well since it was their first overseas assignments. In addition, the employees of the company were also from different economies.

Cultural training programmes were implemented to understand the other individuals' cultural background as part of team building, where they must appreciate other culture as unique. All expatriates were required to spend time on this cultural training when they first came to work with the company in Indonesia. The Indonesians also attended these programmes to appreciate other cultures.

Special cultural programmes were introduced not long after the acquisition by XYZ Ltd. It was perceived as necessary and important for the expatriates, some of whom were non-Chinese who were employed by the previous management, to blend with the Indonesians. The first batch of the programme was attended by the General Manager and Senior Managers. The programme resulted in a better understanding of each other's culture and the improvement of daily communication. The expatriates and their families were also offered language programmes to learn Bahasa Indonesia from native teachers and special programmes of the government on Indonesian culture. The expatriates enjoyed the programme and regarded Indonesia in a more positive way.

English Course
The mother tongue of the HENs was mostly Bahasa Indonesia. However English proficiency or the equivalent of TOEFL 450 was a must during recruitment. To ensure that the level of English profiency continued to improve, HENs were also encouraged to take the English course with company sponsorship. An employee who was sent to overseas training programme should meet English Proficiency standard with a minmum TOEFL score 500 or TOEIC score 700.

Table 8 shows the number of employees who attended various training programmes under XYZ.

Table 8: Total Number of People Trained (Mancourse Run)

Type of Employees	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Core	1,951	1,429	1,444	2,084	2,414	2,368	1,852	1,786	2,084	1,119
Non Core	691	567	340	462	663	810	524	546	548	319
Total	2,642	1,996	1,784	2,546	3,077	3,178	2,376	2,332	2,632	1,438

Data as of October 2014.

Training Budget

To accommodate the higher fees required, budget for core engineers training was 200% higher than the budget for non core personnel (Table 9). The company emphasized that there was no direct link between the training programmes provided to core personnel and career promotion. However, since the philosopy and the objective of training programmes was to enhance core people's knowledge/knowhow in fullfilling the requirements of the job, it was expected that they would support the advancement of people's career through promotion.

Table 9: Personnel Training and Development Budget (In '000 USD)

Year	5	6	7	8	9	10	11	12	13	14
Total Budget	2,467	1,671	1,882	1,885	2,587	2,591	3,020	4,338	4,287	4,739

For Core people	1,939	1,192	1,287	1,271	1,809	1,920	1,899	2,633	2,758	2,896

Attracting People from outside and retaining

The trend of people leaving the company to work overseas was seen during 2004 to 2007. XYZ Ltd introduced a special remuneration package in 2008 to attract new professionals and to retain the existing personnel. It consisted of a special bonus of up to three years salary for a stay of at least three years with the company. This retention programme worked well as the number of people leaving in 2008 to 2009 decreased. As seen in Table 10, however, the number of resignations started to rise again in the wake of higher oil prices which prompted many Middle East based companies to recruit engineers from Indonesia.

Table 10: Number of Resigned Employees: 2003-2014

Year left	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Engineer	9	14	29	28	31	14	14	26	15	22	20	9	231
Non Engineer	8	5	8	11	7	4	3	13	10	11	8	7	95

Lessons Learned

1. As the new investor acquiring a 40-year old oil field with declining production and oil reserves, XYZ obviously did not have to overhaul the business process but had to bring its technology to attain the projected level of production. To bring in the company values and work culture from mainland China, XYZ adopted and implemented various Human Resource Management systems and practices such as cultural training programmes, changing of office colors, etc.

2. The high oil prices also brought about the exodus of the core engineers to other parts of the world, particularly Malaysia and the Middle East, and the resulting company loss of a number of core engineers. With the production declining and core engineers leaving the company, XYZ Ltd decided not to hire experienced professionals but instead bring in some expatriates from HQ China and Indonesian new graduates. However since employment of expatriates was limited by government policy, it was imperative to train and develop the new Indonesian graduates who still lacked experience when they joined the company.

3. XYZ devoted a sizeable amount to training and its human resource development programmes. It enabled the company to bring in services from outside the company to accelerate the development programmes through e-learning and on-the-job training. At the same time, the company also used internal resources to run tutorial and mentoring programmes. Cultural training programmes were also mandated for everyone to understand cultural differences and to introduce China's culture. The Indonesian government likewise offered Indonesian cultural programmes for new expatriates and their families.

QB Net Co. Ltd

Hong Kong, China; Singapore; Chinese Taipei

HRM Towards Successful FDI in the Service Industry

Written by

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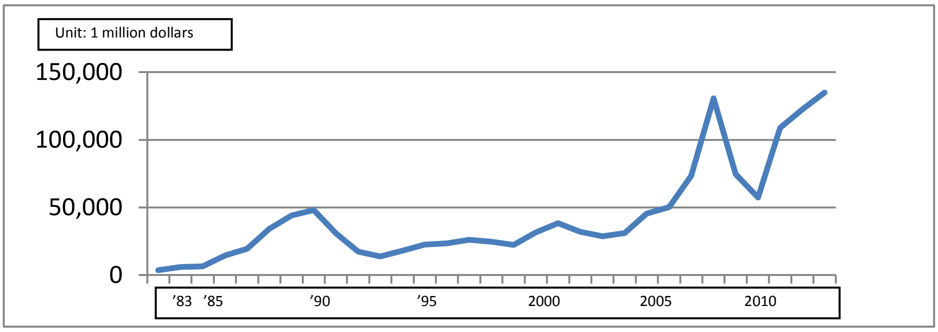
Background

Japan's foreign direct investment (FDI) grew rapidly after the Plaza Accord was signed in 1985 which was to redress the growing imbalance of international trade. The exchange rate of the Japanese yen to the dollar strengthened from 240 yen to the dollar before the Plaza Accord to 150 yen in 1986 and further to 120 yen by the end of 1987. With the strengthening of the currency, Japan's manufacturing sector accelerated its FDI. At the beginning of the 1990s, Japan experienced the bursting of the bubble economy and the ensuing stagnant economic situation, termed as the "lost decade." During this period, Japan's FDI stagnated as well but showed a steady growth after 2000. The shift of manufacturing sector overseas, however, raised a concern that the hollowing effect would be felt in the long run. In fact, unemployment rate in Japan increased from 2% in 1980 to over 5% in 2002, though it might not have been entirely due to FDI (Figure 1).

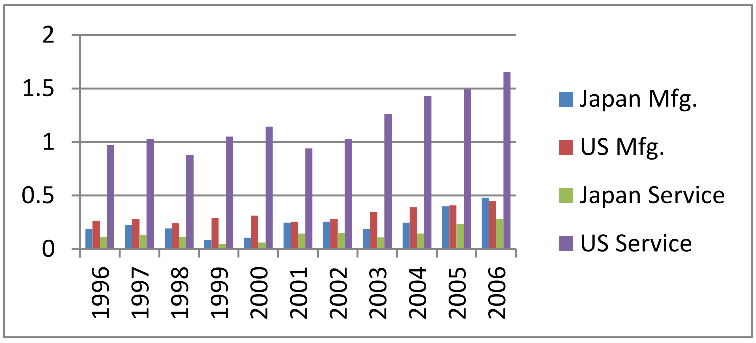
Figure 1: Japan's Foreign Direct Investment
(International Balance of Trade, Net, Flow) 1983-2013



Source: JETRO FDI Statistics 2014.

While the economic situation in Japan stayed stagnant, economies in Asia experienced a strong recovery from the Asian financial crisis. This drew new attention to FDI in the non-manufacturing sector, the service sector in particular. In addition, the prospect of a "graying society" and a smaller population in Japan in the future, spawned interest in the overseas opportunities in the service sector.

Figure 2: Comparison of Profit Receipts from FDI by Sector (%)



Source: "White Paper on International Economy & Trade," 2007, METI.

The US-Japan comparison of the profit contribution of the service sector vis-à-vis the manufacturing sector, in terms of percentage of GDP indicates that while manufacturing sector FDI of the two economies were very similar, that of the service sector significantly differed, with the US leading far ahead of Japan (See Figure 2). Considering that approximately 70% of Japan's economy was contributed by the non-manufacturing sector, capturing overseas opportunities by that sector was expected to be bright.

In particular, building on the Japanese reputation for delicate attention to details to meet varied customer needs was considered an advantage. Thus, Japanese businessmen association (Keizai Doyukai) and Japan External Trade Organization (JETRO) have been consolidating policy recommendations[1]and conducting surveys[2] to identify issues and challenges of the service sector's foreign direct investment.

For the 8-year period between 2005 and 2013, FDI in the service sector increased sevenfold. While the manufacturing sector's growth was 1.6 times and such sectors as cargo delivery and retail's figures were 1.9 times and 2.8 times, respectively, it was evident that the growth of the service sector FDI was spectacular. Nevertheless, the total investment figure of the service sector constituted only 6% of the total FDI.

In the past, foreign investment in the service sector was considered more challenging than FDI in the manufacturing sector, as the services of the investing companies were developed with the needs of the operating markets in mind and therefore, might or might not be appropriate to the investing markets.

Personal preferences, feelings and perception influence the appreciation of the services by the market due to the service industry's unique characteristics as follows: a) "intangible" in which physical product may or may not be a significant factor; b) "inseparable" as the producer and the customer of the service have to engage in the exchanges of services together, and c) "perishable" as it has to be delivered in real time, and it cannot be put in an inventory. So, if the customer is not present at the time when the service is available, the opportunity to provide such services will be gone forever.

The characteristics of the service also include the difficulty of identifying and maintaining the customers' expected quality. Gaps may emerge between what the customer expects to obtain and how the provider of the service defines its quality. The technical capability of the service provider, and even the means of communicating with the customer may all affect the perceived "quality" of the service by the customer. In addition to the quality of the service itself, other factors such as cleanliness, attitudes of the person providing the service and how to deal with complaints, all influence the perception of the customer regarding the quality of service. If the service is novel, it can also cause some resistance from the customers. In order for the provider to get their service accepted and appreciated, it is often necessary to "educate" the customer on the merit of the service.

The service industry involves a varied mix of physical, technological and human inputs in different degrees from sector to sector, such as restaurant, hotels, logistics, beauty/hair care, massage, and so on. Also, some services can be made available because of the physical or technological application to a traditionally all-human labour, thus making it accessible in an economical manner.

The following case on QB Net shows an example of a service sector company's foreign direct investment, and the issues, challenges and opportunities presented to its human resource management aspect.

[1] Keizai Doyukai, "Learn, Go to the World with the Japanese Service Brand," 2012.
[2] JETRO, "2nd Survey of Status of Overseas Investment in the Service Industry," March 2013.

QB Net

The idea

QB Net was a brainchild of Mr Kuniyoshi Konishi, who always thought that "spending one hour at a barbershop is really a waste of time," so he brought the new service to the market in 1996. In the past, barbershops in Japan provided male customers the full set of cutting, shampooing, setting and shaving as one package. The price of the service, which took about one hour, was usually around 4,000 yen. Further, waiting time for the service was quite long, often exceeding more than one hour on weekends. Mr Konishi observed that "when an ordinary salary-man (office worker) could eat lunch for 1,000 yen, barber's service was far too expensive. We could shave ourselves easily using an electric shaver. We could also wash our hair at home ourselves. What we could not do ourselves and would require professional service is to cut hair nicely." However, no barbershop gave customers any options. They provided all the services as a package.

In order to see if it was only he who had this desire, Mr Konishi asked a consulting company to conduct a market research in June 1995 in Osaka, the second biggest business and commercial city in Japan. The results indicated that 90% of businessman respondents wanted a haircut in a shorter time. Further, 85% responded that they felt the current price too high and 35% were willing to try out "cut only" service, if such service became available.

Mr Konishi remembered thinking at that time: "All right, so it is not only me. Lots of people are also wishing to have their hair cut in a shorter time at a lower cost. Let's develop such a service in the most innovative manner - keeping the cost down, and yet providing satisfaction to the customers." Mr Konishi was determined to make this happen.

Barber industry and government restrictions in Japan

In Japan, a barbershop or a beauty salon was under the jurisdiction of the Ministry of Health, Labour and Welfare. In order to start a barbershop or a beauty salon, it was necessary to register at the municipal office and obtain approval following the site inspection by the local public health center. At the barbershops and beauty salons, only national qualification certificate holders for barbers and beauticians could provide services to the customers. The qualification could be obtained by attending two years of schooling in barber/beautician courses, or three years of correspondence courses, and passing a national qualification examination.

The Ministry set various restrictions, such as minimum space between barber's chairs, sanitation of towels, combs and brushes, tap water and drainage system, and other detailed cleanliness standards. The regulations also prohibited barbers and beauticians from working at the same shop. This in effect was in consideration of the customers' gender. Barbers were to serve men for cutting/trimming hair, setting hair and shaving, while beauticians were to enhance the appearance of customers by providing hair care such as colouring and perm, make-up and dressing services. In the past, these two services were synonymous to customers' gender. Beauty salons catered to women, providing more delicate and elaborate services towards customers, while barbershops tended to boast of their hair cutting and shaving skills to attract customers. Recently, however, the distinction has become blurred, as male customers have started to get their hair permed or coloured.

In 1995, the number of barbershops in Japan reached over 140,000, and the number of barbers totaled around 250,000.[3] Most of the barbershops were family-owned, with an average of three chairs. Medium sized shops with six to eight chairs, having over 10 people, accounted for less than 5% of the total. The typical financial status of such barbershop indicated 93% fixed costs, including rent and manpower which constituted 60%. Employees were paid monthly salaries. Higher qualified stylists with high skills of cutting and with longer services could command wages of as much as 30% higher than others.

Barbers or beauticians each established their trade associations, which set various rules and regulations for the members, including working days (usually closed every Monday for barbers and Tuesday for beauty salons) and the number of opening hours (from 10 a.m. to 7 p.m.) Most barbershops belonged to such associations, whose members aligned even the pricing of their services to that of the other members as part of a "gentleman's agreement." These were intended to avoid unnecessary competition among the shops. The choice of the customers, therefore, depended on the location, shop's ambiance, and skills and quality of services.

Developing service concept – analysing current activities and designing systems

His inquiring mind prompted Mr Konishi to question the existing "logic" of the barbershop industry. Mr Konishi then analysed all the unnecessary activities performed in a barbershop in detail so as to develop a new innovative barbershop service. As a result of his analysis, he concluded that by specialising on haircut, he could achieve a variety of efficiencies. To develop a new system, "Kaizen (improvement)" of existing service was not enough; instead, he was determined to innovate from the base up and "destroy" everything else. In addition to analysing existing operations of competitors, Mr Konishi asked an engineer friend, who had been in the manufacturing industry with its stringent discipline on quality and cost, to come up with a new business model, using such systems as just-in-time, re-engineering, value engineering and time-and-motion analysis. The results of the analysis indicated that cutting hair alone could be done in around 10 minutes and all the rest was a waste. Thus, Mr Konishi decided to work on a new service concept, "10 minutes haircut, at 1,000 yen with satisfaction guaranteed!"

The new service the group came up with was as follows: First, they took out shaving from the existing services. This shortened the process by about 10 minutes, with no need for towels, soaps, and shaving knives. Next, shampoo was taken out. Depending on the volume of hair, shampoo took an average of 7-8 minutes plus an equal length of time to dry. Also shampoo required soaps, dry towels, hot and cold water and a sink. Removing shampoo therefore had a great impact on both service time and cost.

By analysing the purpose of shampoo and generating alternative ways to meet the needs of the customers, the group came up with the idea of using a vacuum device to take the cut hair particles out of the customers' neck, shoulders and hair. A new extended nozzle attached to a vacuum was invented. Many other innovations were implemented to raise work efficiency. (See Exhibit 1 for QB Net System.)

Further, ideas to reduce costs were also generated. In Japan, since the land price and rents were high, various ideas for reducing spaces were considered. The group came up with a signal-like device to indicate the number of waiting customers so that the potential

[3] Zenriren, 2004, http://www.riyo.or.jp/about/tokei_data.html.

customers could make a choice to enter the shop or return later, thus minimising the space for a waiting lounge. (Green indicated a customer could be treated right away, yellow, in 5 minutes and red in 10 minutes.) Other activities such as handling money, preparing change and keeping books, which were often additional burden on the barbers and stylists, were minimised by creating a special ticketing machine to accept 1,000 yen. The device not only eliminated handling of cash from customers but also sent necessary information via telephone line linked to the head office computer. Data such as number of customers, time of entry to and exit from the shop, etc. were also transmitted, eliminating much of the reporting activities. The system enabled monitoring and accounting without requiring time and effort on the part of the stylists.

Human resource management

Because of the national qualifications requirement, barbers and beauticians in Japan had knowledge and understanding of the basics. However, people with knowledge alone could not provide satisfactory services. Since customers had hair of different textures as well as different shapes of head, actual hands-on cutting experience was extremely important. Further, providing a 10-minute haircut required a high level of technical understanding, delivery and imagination. QB Net hired stylists with cutting experience as a requirement. The company further thoroughly retrained them on the necessary skills to be able to cut hair in 10 minutes. In addition to enhancing cutting skills, QB Net's in-house training also emphasised appropriate procedures to eliminate wasteful movements and thorough attention to sanitary control methods. When customer complaints on the quality of cut were received, the stylist in charge could go back to their in-house training again.

Market reaction

In 1996, QB Net opened its first shop in Japan, which carried the brand name, QB House. Specialising on "haircut only," QB House opened in the business district in Tokyo. The shop was open from 10 a.m. to 8 p.m. throughout the year, to make it convenient for busy business people. Since the idea was so unique, it attracted a lot of media attention. As a result, upon opening, many people came to line up to try its service. Initially, there was concern on the negative image of the air washer and its semblance to a vacuum cleaner, but it was accepted by the customers without any problem. Convenience, affordable pricing, and minimum wasteful activities were all appreciated by the customers.

To the competitors operating nearby, QB House's low pricing at less than one-third of their prices was considered a threat, but they were initially optimistic that not too many people would use the service. As the publicity of QB House increased, the associations tried to put restrictions on this new service, and put pressure on them through politicians. However, backed up by ordinary people as customers, the business of QB House prospered. The success of QB House invited entry of many copycats, which appeared on the surface to be similar to QB House but the system that QB House developed from scratch had a great deal of detailed and sophisticated know-how, many of which could not be copied easily.

Further business development and emerging issues

In 2005, 10 years after its establishment, QB House had 290 shops in Japan, with the number of customer visits exceeding 800,000 a year. Mr Konishi, being extremely active and prompt in decision making, resolved a number of challenges himself with speed from top-down. As the operation grew, internal coordination and management of the company started to show some discrepancies. At the same time, profitability started to slip, even if the number of shops continued to grow. This was due partly to the inefficiency of the organisation.

Mr Konishi decided to recruit young core management candidates for his head office to streamline the organisation for further growth. He delegated authority to them so that they could implement necessary changes in organisation. One of them was Mr Yasuo Kitano, who joined QB Net in 2005 with his banking experience.

When Mr Kitano joined QB Net, he found that people problem at the shop level was starting to emerge. By that time, "cut only" QB House attracted women customers in addition to the originally targeted male business persons. Traditionally, due to restrictions, barbers and beauticians who were considered as belonging to separate professions were not allowed by regulation to work in the same place. As QB House started to recruit both barbers and beauticians, it had to assign them to separate locations. This resulted in inefficient shop management and the absence of synergy between the two professions. This also posed a great challenge for QB House whose aim was to provide uniform quality service at any outlet. As requests for the opening of new shops mounted, QB House as an organisation increasingly veered away from its original objective of providing high quality services due partly to its inadequate investment in human resource development.

Moreover, QB Net's initial business model was designed to use franchising to expand the business in a short span of time, but the service levels provided by the franchisees started to be varied. The difference between the popular shops and not so popular ones became increasingly apparent. While QB Net, based on feedbacks, constantly improved its systems to enable the franchisees to regularly upgrade the system, the franchisees which were not making enough profits did not want to put in additional investments. It was also difficult to accept this "scrap and build" model of progress, as the people involved in developing the initial system took the process as a denial of their own creation.

Under those circumstances Mr Kitano and his new colleagues had to address various issues emerging within the organisation from their own perspective. They first reconfirmed the ideal organisation, taking the basic values of QB House, and articulated "what needed to stay solid" and "what needed to change" through a series of discussions among the senior executives. They took a hard look at inefficiencies caused by decisions based on individual incidents, rather than on total organisational perspective. They also considered a long term perspective of the growth of the going concern. They attempted creating a structure, establishing various decision–making processes, reviewing contractual terms and changing certain procedures.

Mr Kitano was not a stylist nor was he from the barbershop industry. While working at a bank during the post bubble economy, Mr Kitano had the great opportunity to observe a number of companies that collapsed or overcame difficulties. Through his experience, Mr Kitano observed the common features of the declining companies. In particular, in most of those companies which diversified to unrelated fields, or made decisions without detailed analysis, the role of the top management to strengthen the organisation made a difference. He concluded that the important abilities of top management were to gain an insight into the need to consider the worst scenarios, make the best effort to act and avoid such worst scenarios, and be able to consolidate the organisational strengths to overcome the situation.

Mr Kitano thought the problem of QB Net at that time was one of fast growth, where management attention did not reach the entire organisation. On the other hand, because the company had experienced a series of business successes, it failed to generate innovative ideas from the people. Unlike in the initial start-up period when failures were the norm to overcome, they were no longer acceptable at the latter stage. As a result, only a few new ideas were generated.

This knowledge and analysis guided Mr Kitano when he was tasked by Mr Konishi to take over as QB Net President in 2009. Thus, he started to polish up clear ideas on “what needed to remain solid” and “what could be changed”.

Building organisation and new attempt for human resource development

First, Mr Kitano clarified what important values should stay solid. The five points of the basic concepts were low price, speed and convenience, simple (haircut only), and free, (with no reservations or appointments required). (See Exhibit 5). In other words, he sent everyone a clear message that they were encouraged to change anything outside of these. The key members of the management discussed among themselves and came up with a translation of the company mission as:

> We will thrive to receive “Thank you” from our customers
> by providing uniform, safe and reliable services in an easily accessible manner
> and try to make our services required by the greatest number of customers
> around the world.

Various efforts were attempted to make the service quality at the same high level anywhere. Mr Kitano presented his own commitment before anyone else. Directors and area managers (who supervised about 20 shops each) in turn discussed among themselves and came up with various rules of conduct for everyone in the organisation. One of the approaches Mr Kitano encouraged them to adopt was to create an environment where people shared their experiences and mistakes, and analysed why they did what they did, and not to cover up their mistakes. On the other hand, creating detailed operational manuals could have its downside effect, as people might depend on them too much and could not address unexpected incidents. So, it was decided that in order that they could think independently, the managers should establish a minimum standard of manners (basic rules) and as they encountered various issues, they should discuss and build a common understanding of the issue with their staff.

In general, it was observed that stylists were not used to recognise each other’s merits and share their knowledge. In most of the barbershops, the stylists generally worked on an appointment basis and they did not want to endorse their customers even to their colleagues. Some believed that if the veteran stylist trained their junior people, the latter might become a competitor. That was the reason why they did not want to train the younger generation. At QB House, where there was no appointment system, the stylists were encouraged to train their colleagues and such action was reflected as a positive evaluation of their own performance. To facilitate this, they created a career path for the stylist to become a store manager or trainer. If a store manager produced good results, he or she could be promoted as Area Manager, with greater responsibility and authority.

Alternatively, a highly skilled stylist had a career route to become a stylist trainer. If they trained others, everyone would be able to have better results together.

Initially, to attract stylists, QB House offered higher pay than the competition, but Mr. Kitano later realised that “the people left for the same reason for which they came together.” In other words, those who were attracted to a higher pay would leave for other opportunities for a higher offer. Quite a number of stylists started to be recruited away. They decided that in order to provide high quality service on a constant basis, it was necessary to retain those existing stylists, rather than attract them with better conditions. They instituted surveys on why people resigned from the shops. They found that most of the reasons were related to issues on human relations; in particular, the complaint focused on performance evaluation, with some of them saying that their efforts were not fairly appreciated even though they were doing their best.

To address the issue, Mr Kitano gathered opinions from other people to review their evaluation criteria and the way the evaluation was to be carried out. The effects of this attempt started to show in the results of 2013. One of the ways to fill the gap between the evaluation by the managers and the stylists, was to document the areas of the job which the stylists in question could do and what needed to be improved. These had to be discussed between the evaluator and the stylists much more frequently than before. By investing in time to share their perceptions, it became clearer to both parties what needed to be worked on, to recognise the abilities of the members of the group, and to set a stage of helping each other. Various activities were instituted which provided opportunity for everyone to consider attitudes and mindsets as professionals, complementing their skills training. Through these efforts, the organisational atmosphere shifted to value appreciation of other peoples’ skills and handling of people, thus helping improve the service levels to make it uniform within the organisation. “With a strong belief that companies can grow as fast as the growth of their members, we devote our efforts in developing the existing staff carefully to achieve sustained growth,” remarked Mr Kitano.

Overseas operations of QB Net

The founder, Mr Konishi, always mentioned that “this is a business which has no national boundaries and has no end.” He always had overseas expansion in mind from the beginning.

Mr Kitano shared Mr Konishi’s views. He recalled that when he was a student, he travelled around various places in the world, and he used to have a problem of having his hair cut properly. “It was either not very clean, or the cut was not as I liked…” At the end, in Europe, he was thrown out of the shop by a barber who was halfway into cutting his hair who said, ‘Your hair is too hard and coarse, if I continue to cut, my scissors would be damaged. So, please leave…” That encounter proved to be a great shock to Mr Kitano. Those experiences taught him the highest quality level of the Japanese barbershop and beauty parlors.

One of the motives of QB Net to go abroad was that within Japan, there were too many unnecessary regulations which made it difficult for QB Net to use their innovations (such as mobile barbershop) in the market,

Starting with trial and error

The services of QB Net received recognition and won a 1998 Asian Innovation Award from the Wall Street Journal, one of the international newspapers. The incidence attracted the attention of many overseas businesses and QB Net received inquiries to link with QB Net service in their markets. At that time, the arrangement considered was franchising and the management only thought of selling the system and “spreading the brand name.”

One of the first overseas operations was in Thailand, where the great potential for economic development was expected. QB Net entered into a joint venture with a large local corporation, with QB Net taking a minority ownership to meet government regulations. Unfortunately, the expected appreciation of the market for quick barber services was not readily present in Thailand, and as a result, the same success formula that worked in Japan did not work. Due to its minority ownership, QB Net experienced difficulty in having their views considered in decision making. Different cultures and values led to diverse objectives. In the end, QB Net had to make a difficult decision to get out of the joint venture relations after five years.

On the other hand, entry to Singapore was carried out in 2002, with preferential treatment by the Singapore Government, through a franchise agreement with a company running a restaurant chain. However, in 2005, the franchisee suddenly, without any prior notice, changed all the logos of the existing shops into a new name while maintaining all other aspects of the operations. Faced with the situation that its own brand, QB House, could disappear from the Singapore market, QB Net had to act fast.

Challenges of Direct Management in Singapore

Starting from scratch

While they were fighting a legal battle against the former franchisee for its one-sided termination of the contract, QB Net decided to operate its own barbershop chain in order to protect the QB House brand in Singapore. Fortunately, one of the shops operated by the former franchisee was located in a shopping center, whose owner insisted that the tenant should be the original QB House. As a result, QB Net was able to retain that outlet. With a few staff and stylists from the outlet and a few others who decided to work for QB Net, its Singapore operation had a difficult but fresh start.

Up until that time, most of the barbershops in Japan were run by the franchise arrangement. It was practically new for QB Net to operate its own shops from scratch. With a strong conviction to succeed, QB Net selected store locations at the prime office area, incurring a great amount of expense. As a result, even though the shop was popular, high rent pushed the profit down. Also, it was not easy to attract stylists. Unlike in Japan, there was no qualification system for stylists in Singapore, so the training had to be done from scratch. Mr Shu Matsumoto, who took the lead in restarting operations overseas, reflected of that time:

> I joined QB Net in 2004, from the banking sector, and for two years since, I was on extended assignments to Singapore and Hong Kong, China on a visiting basis. In order to protect our own brand, we had to start the Hong Kong, China operation at about the same time, ahead of other investors attempting to penetrate the market. An experienced stylist accompanied me and we had to start on a trial and error basis. We brought most of what

> we did in Japan to the overseas operation with one existing shop and another shell-type shop. (See Exhibit 2 for Shell type, mini-shop.) Fortunately, we had a few stylists who were familiar with the QB House system from the former franchisee as core members.

Since then they had opened six shops each year. By 2014, there were 32 shops operating in Singapore.

QB Net experienced a difference in contractual documentation overseas. Since it was new to them, they availed of expert's advice in preparing employment contract with thick documents stipulating detailed agreement of duties to perform and the duty of confidentiality. However, they realised that very often it was not easy to exercise their legal rights, such as preventing their employees from transferring to competitors, as there was freedom of choice of profession.

QB Net's marketing and human resource development approaches in Singapore followed what they were doing in Japan. They also developed more detailed operational manuals wherein the local managers were heavily involved in interpreting and improving for better understanding. Starting in 2007, QB Net fielded a full time Japanese stylist trainer from QB House who developed a complete six-month training programme on the basics for beginners in Singapore. The programme was later exported back to Japan and formed the basis of LogisThcut Professional School (LogisTh represents "Logical Thinking"), located in Tokyo and Osaka.

In 2014, the annual number of customer visits in QB Net Singapore exceeded one million (This was in the context of Singapore's five million population). The number of visitors reached 90,000 for the month of the Lunar New Year. The key members in Singapore operations had been there from the beginning. With a strong will to improve, the key people continued to hone their management capabilities, in addition to high technical skills and abilities to help other people. QB Net management had high hopes that they could take on important responsibilities in the future. With their language capability, (Chinese, Malay, English, etc.), the management was hopeful that they would constitute the core members for future overseas operations of QB Net.

Changes in government policies

QB Net encountered a unique situation in Singapore in 2012. Up until that time, the Singapore government was relatively lenient towards employment of foreign nationals in their service sector. However, they shifted this policy to limit the foreign national ratio in an organisation from 50% to less than 35% within two years. Since QB Net in Singapore had a majority of Malaysian nationals, it was necessary to deal with the requirements. However, it was not easy to recruit Singaporeans for the service sector which required them to work on Saturdays and Sundays and to be standing all the time. The service sector was considered a foreigner's job and was not attractive to the Singaporeans. However, the company was able to meet the requirement by improving various working conditions and compensations.

QB Net also experienced a swift change in government policies which directly affected them. Singapore provided various social insurance requiring employers' contribution, which sometimes changed in a short span of time. The management had to be aware of these developments. Managing from Japan, therefore, was not possible. Decision making at the local level was a requirement. There was no labour union, but the senior managers maintained a good grasp of the views and ideas of the employees, as they themselves were promoted from the shop floor. The managers were also given career paths and provided training for basic management, which included the concepts of ratio of payroll to gross profit, personnel cost ratio, etc. - tools commonly used to analyse the situation for effective management of an organisation.

The Hong Kong, China experience

In Hong Kong, China as in Singapore, there was no qualification for barbers and beauticians. Compared to Singapore, where people were highly conscious of the need for cleanliness, in Hong Kong, China people appeared to be less sensitive to cleanliness. In general, people in Hong Kong, China tended to be less concerned about being on time or following the rules, so employee tardiness appeared to be a common practice. When their attention was called, the employees would quit the job. Also as observed by people from QB Net, employees in other shops were seen eating in front of the customers or sitting on the customer's chair and reading newspapers when no customers were present. Moreover, the fallen hair was left on the floor for a long time, so maintaining the cleanliness of the shop was not easy.

Training and development

When QB House in Hong Kong, China started, a trainer from Japan was fielded on a temporary visiting basis. However, it was only after the trainer was stationed in Hong Kong, China and able to constantly coach their stylists on the Japanese way of cleanliness and attention to details on a one-on-one basis, that local stylists internalised and improved their sensitivity to cleanliness. It required three years to make the level of service acceptable in Hong Kong, China. QB House always made it a rule not to scold their stylist when he or she made a mistake. Instead, the manager asked questions so that the stylist would "think" on his or her feet and analyse why a mistake occurred. This was a process which ensured that each stylist would learn from the mistake, and at the same time would encourage them to share their mistakes with others.

In addition to enhancing the stylist's cutting techniques, training focused on how to draw the customers' needs and wishes in a counseling manner and how to deal with the customer. The on-the-job training could take one to two months. The stylists' performance evaluation included both hard data and soft data, which included the managers' observation of the skills and attitudes shown on a numerical indicator. These were discussed individually, so that the employees and the managers had the same level of understanding of the shortcomings and took time to redress them.

Job hopping as a routine career path

In Hong Kong, China attrition rate was high for workers in general, and for the service industry such as food service or beauty parlors/barbershops in particular. Job hopping was considered a career progression path. At QB House for the first few years (until 2010), the turn-over of stylist was almost 50% within a year. The employees decided to change their job for higher pay. If the stylists who were trained and developed by the company leave the shop, the service level could deteriorate, causing the customers to leave as well. It was imperative to cut the vicious cycle and the need to maintain stylists for a long time became one of the major issues.

In order to maintain stylists on long-term employment, QB Net introduced a Japanese style career path for the stylist, which was unheard of in Hong Kong, China, where the influence of the British system and the western style of management was prevalent.

Workers and the management staff had clear, separate career paths. It was hardly possible for the stylists, however capable he or she might be, to move up to the management level. QB Net decided to challenge this social practice and opened the way for the capable stylists to take greater responsibilities as a store manager or an area manager, and go higher in their career path within the organisation. The area managers, with significant authority, would be responsible for managing several stores in the area, including the responsibility of marketing and human resource assignments and allocation. Rather than aiming for short-term benefits, QB Net tried to use a long term and holistic view in assigning and developing local management talents, who could identify themselves with the organisation. With their field knowledge, the managers could very well relate to the stylists. This was based on the premise that once you hired a person, the organisation as a whole would develop him or her. In order for the employees to stay with the company, good salary, management training and career upward mobility were instituted, resulting in the significant retention of stylists in the last couple of years.

Further, QB Net in each economy provided an award system for the shop's monthly sales, "Ganbatta Award (Well-done award)" not to an individual but to a shop unit. In addition to the sales and number of customers, they used a "mystery shopper" to simulate customer's evaluation of their services. This was designed to promote cooperation and mutual assistance among the shop members, so that they worked as a team. At the same time, the award encouraged the organisational culture of acknowledging members' contribution. QB Net also invited some of the overseas members to Japan for a field visit and training. The occasion provided a team building opportunity with other members of QB Net from around the region and gave a sense of scale, future prospects and international perspectives to the participants.

Entry to Chinese Taipei

QB Net expanded its operations in Chinese Taipei in 2012. In contrast to its past entries overseas, in Chinese Taipei, there was an existing chain, patterned after QB House. They offered an extremely cheap rate of 100 NT dollars (roughly US$3.2). Their shop's outside appearance and the appearance of the barber units looked very similar to QB House. After careful market research for about one year, QB Net in Chinese Taipei determined that the competitor's quality was relatively low, and therefore, entry to this new area had a good chance of success. Thus, they decided to establish their own subsidiary in Chinese Taipei.

Conscious of the competitor, QB House decided to set the price at 300 NT dollars and included styling in addition to haircut, which the local customers preferred to have. To project the Japanese high quality of service, they took a different approach. The outside appearance and interiors reflected the image of high quality with wooden panel, with some chairs facing outside. By 2014, QB House had 13 shops. The management considered that a breakthrough point would be at 20 stores, at which time the management would review the prospects in Chinese Taipei. Until that time, QB House intended to move ahead.

Until recently, there was a national qualification system for barbers and beauticians in Chinese Taipei, but in line with the deregulation trends of the government, the system was abolished. As a result, it is expected that recruiting people with necessary knowledge and skills may become increasingly difficult. Also it was observed that in Chinese Taipei, stylists tended to prefer to show their individual expressions in styling.

This may work counter to what QB House is trying to do, to provide their service in a uniform manner.

In developing business in Chinese Taipei, QB Net received various information and assistance from the office of InvestTaiwan Service Center, an official investment promotion office, in addition to the banks QB Net had dealings with. In terms of human resource management in particular, discussion is currently going on to see if a collaborative programme to develop quality stylists can be developed by QB Net and a local vocational training organisation. If successfully implemented, it would provide opportunities to develop skills necessary for the industry.

Road to top stylists in the world

QB Net started to organise a “cut contest” among their stylists once a year. The rules were to cut hair in 10 minutes with 5 minutes styling. In 2012, a Singaporean stylist won the third prize for the first time. Some Japanese veteran stylists thought that stylists from overseas would not be at par with them. However, when they saw the skill level of the overseas stylists, it gave them a big shock. At the same time, the contest offered the stylists from abroad a good opportunity to see both the high level of skills and efficient manner with which the Japanese stylists provided their services. Such occasion promoted professionalism and changed the way they looked at their own work with pride. “Technology speaks louder than words.” They felt that barber services had no boundaries, and stylists would continue to cultivate their skills in earnest.

Future prospects and issues

As Mr Konishi used to say, “Money can be earned again if you lose it, but time cannot be brought back if you lose it once.” Mr Kitano intended to stress the value of time, and meet the challenge to make their services available in major cities of the world. Guided by a simple and easy to understand corporate vision, the company intended to promote common understanding between the employees and management and strive to improve their skills.

Mr Kitano cited his own experience:

> From the past experience, I realise that maintaining the quality of service is not easy. If you become complacent, you can easily lose your uniqueness. You should keep polishing up what you do very well or “what you should maintain of QB House,” and keep changing the rest. We would like to make a continuous effort to keep the equally high quality service anywhere in the world and strive to be the number One haircut specialists in the world. We will keep at it in the future, as we did before.

By June 2014, QB Net had invested in three economies. With the number of shops and customer visits steadily increasing, QB Net was looking at other opportunities. (See Exhibit 3 and 4 for company performance.) In the past, all FDIs of QB Net were in Asia, where people shared relatively similar values. However, in the future, the company intends to expand into other parts of the world, where values and cultures may be very different. Mr Kitano articulated his idea of an ideal person for overseas assignments, regardless of the nationality:

> In investing overseas, it is extremely important to whom you will entrust the operations. It may be ideal for someone to speak the local languages, but more importantly, we need someone who would not run away from challenges. In fact, someone who would enjoy

> tackling difficulties and someone who would be cheerful and happy would be ideal. In overseas assignment, many unexpected things will occur. As you accumulate experiences, you will become tougher to meet those difficulties. By overcoming each of these difficulties, that person will develop his/her capabilities. Sometimes, you may burn your fingers, but I would fully support the person I choose.

Lessons from QB Net on Human Resources Management in FDI

From the case on QB Net's foreign direct investments over the years, the following may be drawn as lessons in the field of human resources management:

Clarification of corporate vision and mission

It is important to translate the corporate vision and mission to the concrete level that each member of the company can identify with in his/her work area. It appears to be particularly important to involve the members of the overseas operations in the process of interpreting the corporate values in their own way.

Creation of an atmosphere and mechanism where negative information can be shared

For organisational learning to be accelerated everyone's experience and in particular, their mistakes, should be shared with the rest of the company. That way, the same mistakes would not be repeated and better ways of dealing with similar situations can be considered among the members. Combined with hard data to learn from the mistakes, collaborative and open minded relationship among the managers and subordinates, and among the peers is extremely important. This is particularly so in the service industry, where production and delivery take place in real time.

Understanding and addressing employee needs for successful recruitment and retention

Exit survey reveals a great deal of information on the sentiments of employees. Without waiting for the resignation of employees, frequent survey or interviews will produce opportunities to learn about the issues in order that the company can address them. Instead of leaving the company for other opportunities, QB Net provided career paths for stylists to take on greater responsibilities or challenges as shop manager and area manager or stylist trainer.

Promote professionalism by recognising skills to the level of "craftsmanship"

QB Net constantly trained their stylists and developed their pride as professionals. With the introduction of the "cut contest" the skilled stylists continued to polish and enhance their skills and get recognised by their peers, regardless of nationality.

Take advantage of the merits of international (global) enterprise and overseas assignments

Foreign investors can highlight the advantages of being a part of international operations by creating challenges and opportunities for their members. Being part of a larger group and appreciating the contributions from different perspectives of overseas members can be a motivating factor for the local members. Visits to the investor operation by local members can promote better understanding of scale and scope of operation.

Overseas assignment entails meeting unknowns and unexpected incidents, including changes in government policies. Those assigned overseas need to welcome such challenges, rather than worry about them. Such qualities can be developed through exposure and can be enhanced when the company delegates authority to overseas staff.

Optimise the existing public and private organisations for information sources and linkages

If FDI is done without local partners, use local offices of financial institutions or public offices which promote FDI for variety of information and linkages which can be available for the investors.

Exhibit 1: Various QB Net Systems for Efficiency

Station Corner: Minimising Stylist's Movement

Disposable Shoulder Cover

Disposable Comb (Can take home)

Ultra-Violet Steriliser of Tools

Built in Closet of Station Corner

Air Washer, eliminating shampoo

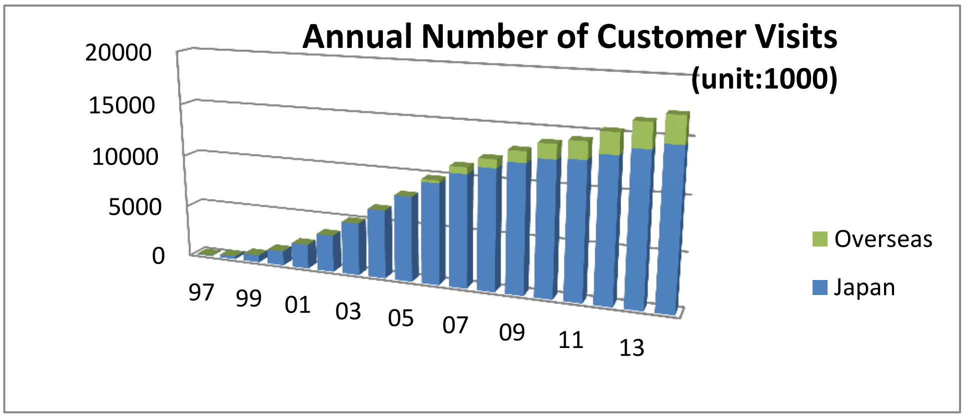
Exhibit 2: Shell shop

Space saving shop: unit can be placed at the elevator hall
Source: QB Net

Exhibit 3: Historical Trend of QB Net Performance

A. Number of shops existing (unit)

Year	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14
Japan	4	16	36	57	91	137	182	229	291	337	357	378	395	408	417	440	463	480
Over seas	--	--	--	--	--	--	--	--	4	11	23	33	44	51	58	69	79	85



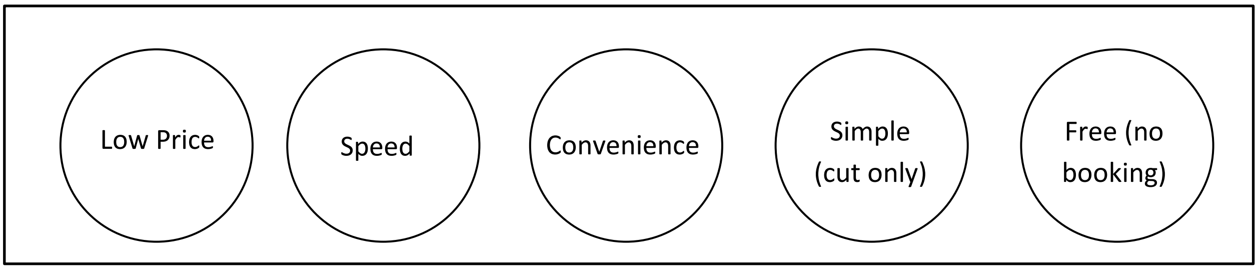
Source: QB Net

Exhibit 4: Basic Data of QB Net (Consolidated as of June 2014)

Capital	90,000,000 yen
Annual Sales	12,800,000,000 yen
Number of Employees	2,300
Number of people at the Head office	70

Source: QB Net

Exhibit 5: Basic Concepts



Source: QB Net

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Asia-Pacific
Economic Cooperation

Karasawa Seisakusho Ltd
China

Management Localisation and Innovation in Small and Medium Enterprises

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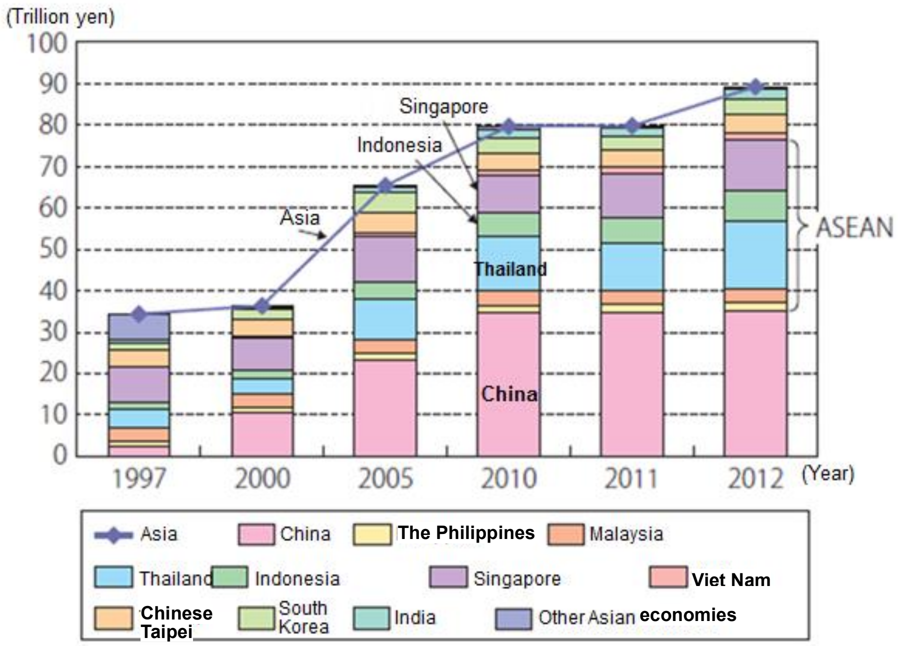
Executive Summary

In 2013, the foreign direct investment (FDI) of Japanese firms totaled US$136 billion, 10% up from the previous year.[1] Japanese companies' FDIs had grown rapidly since the 1985 Plaza Accord, with many firms shifting their production bases to neighbouring economies in search of cheap labour. Geographical proximity, cheap labour and world-leading market scale traditionally positioned China as the leading investment destination for Japanese firms, with half of new FDI by Japanese firms going to China in 2004. By 2012, new investment in China had slipped to 28.7%, while new investment in Association of Southeast Asian Nations (ASEAN) economies, particularly Indonesia; Thailand; and Viet Nam, had climbed to 32.7% (See Figure1). As of 2015, while China remained an important investment destination for Japanese firms, many were abandoning their exclusive focus on China to explore the emerging economies of Southeast Asia.

Figure 1: Sales of Japanese Local Subsidiaries in Asia



Source: Created from *Survey of overseas business activities* of METI

Not only large Japanese firms but also small and medium enterprises (SMEs) were taking on the challenge of FDI. In FY2011, some 18.9% of small and medium-sized manufacturers and 13.4% of all SMEs had subsidiaries overseas. In terms of investment destinations, SMEs followed the overall trend, with the ratio of SMEs investing in China peaking in 2003 and declining thereafter, and with more firms investing in Southeast Asia.[2]

The main goal of Japanese firms in their FDI was to manufacture their products cheaply in a developing economy and export them either to the West or back to Japan. In recent years, however, Japan's aging population and decreasing birthrate caused Japan's domestic markets to shrink, prompting companies to adopt the new strategy of having their production in developing economies and selling the products in local markets. Capturing these markets in turn required a change in direction. Manufacturing had to be geared to local income levels, demand, culture and social environment. More companies were also seeking to use local staff to manage the business from the perspective of product development consistent with local needs, as well as their human resource.

Front-running companies began working hard to establish global HR systems and localise management. However, the resource constraints facing SMEs made it difficult for them to adopt human resource practices of big companies such as, among others, providing parent company training to local staff, developing capable expatriates or introducing personnel evaluation systems.

This case study analyzes the experience of Karasawa Seisakusho, Ltd, an SME in Japan with a small home payroll of 39, which pursued bold management localisation to achieve both local innovation and strong business results.

Characteristics of Japanese Firms' Employment System and Human Resource Development

The employment system of Japanese firms, particularly large firms, was traditionally composed of four elements: lifelong employment, age-based promotion, the en masse hiring of new university graduates, and in-house education based on job rotation and on-the-job training. Because these elements were strongly complementary, despite the more diverse employment systems of companies since 1990, the same elements remained the bases of the employment system of Japanese firms even in recent times. In other words, while the practice of age-based promotion in Japan, wherein higher wages depended on staying long-term at the same company, served as an incentive for long-term service, companies also tended to slowly develop human resources specific to their needs through on-the-job training. SMEs in particular were strongly aware that because they did not have systematised human resource development (HRD) systems, on-the-job training was the most effective method.

On the other hand, because they did not want their employees changing jobs after investing in their training, companies placed less value on higher education for their employees such as sending them to graduate school. Employees who received only training particular to the company would be less inclined to change jobs and instead stay with the company. The know-how, information and skills necessary for particular jobs were not codified but were developed in the form of individual experience, passed on from superiors and senior staff to junior staff via direct communication in the course of on-the-job training. Companies preferred employees to work in sync with each other on the premise of a long-term employment relationship, so they kept job scope flexible and seldom provided clear job descriptions.

Japanese society has historically been strongly inclined toward homogeneity and uniformity, and made little use of cultural differences and diversity. Hall (1976) described Japanese culture as a typical "high context" culture.[3] In high context cultures, shared time and shared experience allow members of that culture to infer each other's wishes without expressly stating them. This characteristic has become an inherent part of Japanese corporate culture and has also impacted on management localisation.

Management Localisation Practices

While Japanese firms relied on a shared context specific to the company, globalisation of their operations required them to train and manage local employees who grew up in entirely different societies and cultures. Japanese companies and their local subsidiaries had major differences in their views on compensation, career advancement and job performance. In Japan, employees looked for good human relations in their jobs, but in China and many other APEC economies, the key issues were wages and welfare benefits.[4] In some cultures, it was taken for granted that a person would change jobs for even just a slightly better salary.

When Japanese firms ignored these differences and tried to direct and control local subsidiaries according to the rules and values inherent in their own companies, their actions tended to cause friction with local employees. For example, companies that valued employees helping each other out beyond their own job duties tended to perceive as unmotivated local employees who assumed that they would only work within the bounds of predetermined job descriptions. Lacking effective HR management, these companies lost more and more people. They also did not adequately develop the local staff to take over local management. This in turn limited career advancement options for local employees, who remained unmotivated because of what they perceived as a glass ceiling, thus creating a vicious cycle. In fact, many firms realised that they had issues to deal with in recruiting, training and retaining local staff.

In addition, Japanese firms were oftentimes hesitant to appoint foreigners to lead their local operations because they feared that these foreigners would not communicate with the parent company and share their management philosophy or would limit the parent company's influence over local management.[5] Thus, compared to Western companies, Japanese firms had been slow in localising management, with Japanese heading a high percentage of Japanese firms' local subsidiaries as company presidents. For example, survey results indicate that more than 80% of CEOs of Japanese subsidiaries in China were Japanese, whereas, more than 80% of CEOs in US firms were locals (See Table 1).

Table 1: CEOs of Japanese and US Subsidiaries in China

	Japanese subsidiaries			US subsidiaries		
	Joint ventures	Wholly-owned firms	Total	Joint ventures	Wholly-owned firms	Total
Home economy personnel ・Chinese	0%	2.3%	1.2%	6.2%	14.3%	9.6%
・Non	82.1%	88.4%	85.4%	4.2%	2.8%	3.6%
Local	17.9%	2.3%	9.8%	89.6%	74.3%	83.2%
Third economy personnel ・Chinese	0%	4.7%	2.4%	0%	5.7%	2.4%
・Non	0%	2.3%	1.2%	0%	2.9%	1.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Masayuki Furusawa. *The Theory of Global Human Resource Management: Human Resource Management Through Normative Integration and Systemic Integration*, 2008: 76.

Karasawa Seisakusho, Ltd

History of Karasawa Seisakusho in China

Karasawa Seisakusho, Ltd was a bicycle brake manufacturer located in Sōka City, Saitama Prefecture in Japan. The company which was headed by Eizo Karasawa as Chair and President, manufactured bicycle band brakes and servo-brakes, wheelchair hubs and hub brakes, welfare-related products and components, and agricultural equipment-related products.

The company was founded in 1920 as a bicycle wholesaler by the grandfather of the current president. In 1928 the company developed a bicycle band brake and in 1980 a servo-brake, taking out patents on both. Karasawa Seisakusho held roughly 50% of the Japanese bicycle brake market and had offshore plants in the cities of Taizhou and Tianjin in China (See Table 2).

Table 2: Karasawa Seisakusho Sales in Japan

	2014 (Jan-Sept)	2013	2012	2011
Total sales	397,497	518,229	504,401	492,100
Y-Y	76.7%	102.7%	102.5%	

(1,000 yen)

Karasawa Seisakusho Sales in China

	2013	2012	2011	2010
Taizhou	221,653	294,657	286,650	279,681
Tianjin	129,378	9,634		
Total sales	351,031	304,291	286,650	279,681
Y-Y	115.4%	106.2%	102.5%	

(1,000 yuan)

Karasawa Seisakusho first set up operations in China in 1993 in response to the changing distribution structure of the bicycle manufacturing industry. People had always bought bicycles from their local bicycle shop, but in the 1980s, large supermarkets and other mass retailers, as well as discount stores, began selling bicycles and absorbing local bicycle retailers. To meet the demand from these mass retailers for lower prices, bicycle manufacturers had to make their bicycles cheaper. Because they essentially entailed the assembly of small components, most bicycle manufacturing processes had to be done by hand. Compelled also by the rising yen, domestic manufacturers in Japan began shifting their production to China to take advantage of cheap labour costs. As of 2015, bicycles assembled in Japan account for only around 10% of total bicycle production.

Eizo Karasawa, Karasawa Seisakusho's second-generation President (now Chair), decided to sell the company's bicycle brakes and build the company's brand in China where there was a massive bicycle market. He observed that Japanese band brakes and servo-brakes were suited to China's climate which was similar to that of Japan. Likewise, China's still underdeveloped roads were similar to those of postwar Japan. All these could potentially work in the company's favor.

It was around this time that Karasawa Seisakusho discovered that a township and village enterprise in Taizhou was advertising its products as Karasawa Seisakusho's own original products. When Eizo Karasawa went to Taizhou to complain, the local enterprise suggested that they do business together instead. Confronted with this unexpected business opportunity, Karasawa Seisakusho established a joint venture called Taizhou Karasawa Brake Co., Ltd. The business did well under the leadership of its Chinese president, who also headed the partner township and village enterprise. After his retirement, however, accounting issues arose, and Karasawa Seisakusho decided to give a notice of dissolution of the joint venture.

In response to strong local government desire to retain the business, rather than dissolve the joint venture, Karasawa Seisakusho refashioned its local operation in 1998 into a wholly-owned enterprise and tried again. The business grew, and in 2002 Karasawa Seisakusho set up a new factory and a new company, the Karasawa Traffic Equipment (Taizhou) Co., Ltd. In 2011, another new plant was built in Tianjin. The company's main customers were initially bicycle manufacturers from Japan and Chinese Taipei and recently from China. Business grew steadily, with 2013 combined sales for the Taizhou and Tianjin plants topping 350 million yuan.

In 2000, China's swift economic growth saw standards of living and income rise, and residential areas expand, escalating commuting time. To deal with the environmental consequences of this development, motorcycle regulations were introduced in the major cities. China's electric bicycle (e-bike) market thus soared from the six million produced in China in 2005 to 35.05 million in 2012. Unlike Japan's pedal-assisted bicycles, China's e-bikes were battery-driven, non-assisted units.

Karasawa Seisakusho's patented servo-brake technology fitted well with China's unique e-bike market which accounted for around 90% of world e-bike sales in 2012. Adoption of Karasawa Traffic Equipment's servo-brake by a Shanghai manufacturer raised Karasawa Seisakusho's brand profile, and the local subsidiary's sales rose proportionately to the growth of China's e-bike market. As of 2015, the company enjoyed a share of over 40% of the Chinese e-bike brake market.

Management of Subsidiary Company in China

Karasawa Seisakusho received a request from a local senior executive from back in the joint venture days to take in his son and give him the opportunity to study in Japan. The son was Sun Zheyong, current President and CEO of Karasawa Traffic Equipment. From 1996 to 1998, Sun lived on the second floor of Karasawa Seisakusho's daycare center for children, spending two years studying Japanese at a language school while working part-time at a local factory. At his own request, Sun worked at Karasawa Seisakusho during his final year in Japan. The factory where he worked part-time was very impressed with how hard he worked. Sun also engaged actively with the local community, including participating with local residents in local festivals.

Having spent three years with Sun, second-generation president Eizo Karasawa found him to be of outstanding character and reliability. When Eizo Karasawa set up Karasawa Traffic Equipment as a wholly-owned enterprise, he asked Sun to manage the operation. At 26 years old, Sun found himself managing a local subsidiary. Eizo's original decision to set up in China was in itself a major gamble, and this was part of what motivated his audacious personnel choice. However, the main reason for his decision was his belief that based on what he had observed of Sun's personality and management sense over his three years' stay in Japan, Sun had the aptitude to head the local subsidiary. Since then, management of the local subsidiary was left entirely in Sun's hands. Karasawa

Seisakusho has never dispatched a staff member from Japan from the time the joint venture was established right through to the present.

Product development localisation has generated a hit product in the form of a lockable servo-brake. When Sun first approached Kazuyuki Karasawa who became Karasawa Seisakusho's president in 2008 about developing the product, Kazuyuki vehemently opposed the idea. "Who needs a lock on a servo-brake? It looks bad, and surely consumers would hate having to fiddle with a lock each time," he argued. But the lockable servo-brake which Sun developed despite Kazuyuki's opposition was a great hit in the Chinese market. One factor for its success was the frequency of e-bike thefts in China. Chinese and Japanese also had different ideas about design and ease of use. Discovering that Chinese consumers did not consider locking a brake as the nuisance that he would have found it to be, Kazuyuki recounted, "A product that I totally rejected turned out to be a local hit, so what do I know?" Karasawa Traffic Equipment later spearheaded the development of a servo-brake with a remote-controlled lock.

Karasawa Seisakusho's Corporate Culture and Human Resource Management

As with many other Japanese SMEs, Karasawa Seisakusho had no particular personnel training system and simply provided on-the-job training to employees. During his training, Sun essentially learned by himself. If there was something he did not understand about a technological issue, he quizzed an engineer; if it was a marketing issue, he grilled the marketing staff. Outside work, a part-time female employee and the technology advisor at the time took Sun to their hearts and looked after him as family. Second-generation president Eizo Karasawa also personally supported Sun's life in Japan, including watching over Sun's Japanese language studies.

Karasawa Seisakusho's corporate philosophy was essentially "3-way benefits (to customer, suppliers and the community)," bearing constantly in mind that the company owed its existence to its customers, cooperating companies, subcontractors and employees, and making a point of remembering to be grateful for that support. The company worked to ensure that employees understood its philosophy through their jobs and through daily communication. For example, in 1970, the company set up an in-house daycare center for its 30-40 part-time employees, a radical move at the time. In 1973, the company persuaded a pediatrician to set up a local clinic to attend to the children of its part-time workers.

The company traditionally provided welfare benefits considerably more generous than other companies of comparable size in the same industry. Sun continued that tradition in the comprehensive package of welfare benefits provided by Karasawa Traffic Equipment. Second-generation President Eizo Karasawa regularly emphasised to Sun his philosophy on other issues as well—for example, that a subsidiary's job was to make a profit and not worry about the parent company, and that companies could do what they did only because of government-provided infrastructure, so they should pay their taxes unstintingly.

Spending a year listening to the president of Karasawa Seisakusho, watching the way he worked and spent time with his employees enabled Sun to comprehend the company's culture and management philosophy at a very personal level. His experience at his part-time job and the deep relationship he developed with the local community also exposed him to the thinking and customs of a wide range of Japanese people. The growth of Karasawa Traffic Equipment was, in large part, due to Sun's ability to explain

Karasawa Seisakusho's corporate philosophy, his careful selection of suppliers suited to the company, and his insistence that the company should never run late on its payments to subcontractors (as dilatory payment happened in China). The foundation of these beliefs and practices had been Sun's experience in Japan as a member of Karasawa Seisakusho.

Lessons and Challenges

The employment system centered on lifelong employment and age-based promotion which characterizes Japanese firms' employment style is predominantly a feature of large companies. On the other hand, the employment periods and pay systems of SMEs have necessarily been more diverse to overcome the difficulty of securing top-class personnel. For example, average years of service in SMEs tend to be shorter than those in big companies. In many cases, the personnel are entrusted with key projects very early on in their careers, and the company president personally handles their training. As a result, SME employees tend to build up the necessary experience and skills relatively faster, compared to those in large companies with long-term in-house HRD from the time new graduates are hired up to the time they reach management level. As demonstrated by Karasawa Seisakusho's management localisation experience, this flexibility potentially places SMEs at an advantage compared to more rigidly structured large companies when it comes to management localisation in emerging economies.

Lesson 1: Localisation can lead to unexpected innovations

Karasawa Seisakusho's success in China was the result of comprehensive management and development localisation. In overseas markets with different languages, cultures and customs, consumer tastes and product use are often quite different than in Japan. Moreover, emerging economies experiencing rapid economic growth also witness dramatic changes in consumer needs. Sending out staff from the parent company to indirectly control the subsidiary makes it difficult to read local customer needs, reflect these rapidly in management business decisions, and ensure that sales approaches are consistent with local business practices. Hence, management needs to be localised, handing power to local employees who speak the local language and understand the local situation. Requiring subsidiaries to report in detail to the parent company and placing importance on prior reporting and consultation are characteristic of Japanese firms. However, rigorous supervision of local subsidiaries by the parent company gives the impression that the subsidiary cannot be trusted to handle company operations, thus lowering the motivation of local employees. Mechanisms that grant wide-ranging powers to local subsidiaries, boost local staff motivation, and open the way for new ideas to emerge are the means to propel sustained corporate growth.

Lesson 2: Developing company presidents from other economies

Proper localisation requires entrusting management to reliable local personnel. However, finding reliable personnel is a bugbear for many companies setting up operations offshore. While some large companies have systems in place for training local managers, the most effective form of leader development is for the president or senior executives at the parent company to provide direct guidance. This is an area where SMEs have considerable flexibility. The case of Karasawa Seisakusho indicates one option—the head of the company providing direct training in the form of one-on-one instruction to talented personnel who can head local operations, imbuing them with the company's philosophy and developing them into leaders.

To name a few similar cases, IBM for instance has future top management candidates serve as long-term personal assistants to the company president as a way of learning leadership. Iris Co., Ltd, which makes women's lingerie in Tokushima Prefecture, has been successful in its China business, thanks to the appointment of Chinese staff to all top positions in its local subsidiaries. Before setting up a local operation, the company president calls the Chinese top people who would be handling Iris' China business to his home and spends nine months training them in management and administration.

A key element in selecting local subsidiary leaders is their receptivity to the parent company's message as expressed in everyday operations. Companies need to utilise a range of channels to find personnel with this level of receptivity. According to second-generation President Eizo Karasawa, once you have decided to place your trust in some people, you need to give them your total confidence and leave everything in their hands; if that confidence turns out to be misplaced, it is the fault of the company leader for having poor judgment.

Lesson 3: Local employees are surprisingly diverse

Current president Kazuyuki Karasawa believes that in local human resource management, the most important thing is to leave matters to the local subsidiary. He notes that language and cultural differences can be major barriers to proper understanding between the Japanese at the parent company and the Chinese at the local subsidiary. When someone at the parent company in Japan goes out to China and talks about a local employee, Sun more often than not discovers that the person in question is not like that at all. China has a lot of different languages and in Taizhou, everyday conversation is in the local dialect. Only someone who understands the language spoken by the local employee can correctly assess that person.

In addition, in economies that have experienced rapid development, a generation gap has emerged among local employees. Even Karasawa Traffic Equipment President Sun says that he struggles to understand the younger generation. One reason is that the advances in communication tools leave a growing number of young people in China with poor face-to-face conversation skills. Add to these factors regional disparities (people from different regions in China often view each other as rivals), as well as China's complex ethnic composition (religion included), and it is easy to foresee human resource management in emerging economies presenting a level of complexity beyond the capacity of accepted wisdom. Outsiders struggle to deal with complicated local human resource management, and there is also the risk of biased evaluations spurring dissatisfaction among local employees.

Lesson 4: Requirements in handing over power

When handing over power, it must be made clear to the local subsidiary exactly how far those powers reach, as well as what obligations are entailed. Karasawa Seisakusho gave Karasawa Traffic Equipment the power to manage itself as the subsidiary saw fit, but required that: (1) the company produced dividends; (2) lining made by the parent company should be used for bicycles for the Japanese market; and (3) the Karasawa Seisakusho brand name was used. Karasawa Traffic Equipment did not need the approval of the parent company in its decisions, and, except in the case of really major investments, had a free hand on capital investment. Karasawa Traffic Equipment often simply reported back to the parent company afterwards. Most companies will want reports from their subsidiaries, but if it is not made clear exactly what needs to be reported and in what detail, problems are likely to arise with local subsidiaries mistakenly assuming that they have been granted complete discretionary powers.

Moreover, the more powers are granted, the greater is the risk of misconduct on the part of the local subsidiary; in particular, more than a few companies have suffered as a result of individuals or the entire subsidiary fiddling with the books. Karasawa Seisakusho dissolved its joint venture because of accounting fraud, but this was quickly spotted by President Eizo Karasawa, who said that from his experience over the years, he knew immediately if something was even slightly out with the figures. A key condition for parent companies in transferring powers, therefore, is to know where to look in order to spot straight away that something is amiss at the local subsidiary.

Future Challenges

Karasawa Seisakusho did not strategically train Sun from the outset to head its local subsidiary. The company was simply lucky that a particularly gifted young man happened to come its way. As of 2015, under Sun's leadership, the company's business is now on a solid trajectory. Whom to appoint in his stead once he leaves management, and whether to grant that successor the same powers as Sun currently enjoys however will be critical issues in terms of the company's sustained success in the Chinese market.

In addition, Chinese employees vastly outnumber employees at the parent company (484 at the Taizhou plant, 269 at the Tianjin plant), and the parent company's HR management experience is of little help. The current turnover rate is 26% at the Taizhou plant and 45.6% at the Tianjin plant, with human resources appearing to be very fluid. To reduce turnover, the company can introduce systematic HR management and offer employees not just compensation and welfare but also attractive career paths. It will also be vital to train managers other than Sun to whom the company will be able to transfer power.

SMEs can potentially use their flexible organisational structures and rapid top-down decision-making abilities to advance localisation in their offshore operations. However, it is unclear whether the HR management strategies that they have previously pursued will remain valid once local operations have grown. There is no guarantee that Japanese-style on-the-job training geared to serve individual companies will be accepted in all economies. As economic globalisation continues apace and competition among companies over human resources intensifies, carefully nurtured local employees may well hop across to a company offering better conditions, with human resources becoming even more fluid. Where SME HRD has traditionally emphasized on-the-job training, companies need to develop their HRD still further and introduce new elements, such as developing job processes in order to deal with more complex human resource movement and dynamics.

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Asia-Pacific
Economic Cooperation

Toyota Motor Philippines Corporation

Philippines

Making Business and HR Partnership Work

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The case was developed with the cooperation of Toyota Motor Philippines Corporation solely for educational purposes as a contribution to the project entitled "Strategic Human Resource Management for Successful Foreign Direct Investment in APEC," conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case.

Executive Summary

This case explores the factors that contributed to a successful foreign direct investment through a joint venture between Toyota Motor Company (TMC) in Japan and GT Capital Holdings, Inc., a family-owned Filipino-Chinese conglomerate in the Philippines. The joint venture was forged within a Philippine industrialisation policy framework that was heavily oriented toward import substitution and production for the domestic market. This policy fitted well with TMC's practice of setting up production facilities where the market was.

Toyota Motor Company and GT Capital succeeded in establishing Toyota Motor Philippines (TMP) Corporation where the best from both parent companies were effectively blended for outstanding business results. From the very start, they shared a lot of common ground in terms of similar business philosophy and values that put importance on both people processes and production systems. This dual focus facilitated the development of Human Resource Management (HRM) systems, policies, and practices that helped the company overcome major business challenges, including a labour strike in 2001, the consolidation of two plants into one location in 2004, a production increase with minimum overtime in 2010, and the earthquake and tsunami in Japan in 2011 that caused a disruption in car parts supply to the Philippines.

The case describes HR's role in helping TMP become the dominant auto industry leader in the Philippines since 1990 and consistently achieve outstanding business results that won for TMP the PMAP (People Management Association of the Philippines) Employer of the Year Award in 2011. The case also illustrates how successful partnership was achieved, not only between the foreign and local investing companies, but also between TMP's line management and the HR function. The former was facilitated by shared business philosophy and values; the latter was achieved by design. This meant elevating the position of HR Head to the same level as the heads of other business functions, offering a 1-year HR immersion programme for line managers for them to better understand and support the rationale for HR policies, recruiting line managers for the HR Department, and involving the HR Department in implementing business strategies, thereby achieving significant alignment of the HR systems, policies, and practices with the business strategies.

This case was written with the assistance and inputs of Ms Jhohana A. Mamonong, Vice President, Human Resources Department; Mr Ronaldo A. Bolaños, Assistant Vice President, HR Development, Human Resources Department; Ms Catherine Ann B. Benitez, Assistant Vice President, Human Resources Department; and Mr Ivan Anthony E. Claudio, Manager, Industrial Relations Section, Human Resources Department. Many of the case facts were extracted from TMP's report to the People Management Association of the Philippines when it won the Employer of the Year Award in 2011.

FDI in the Philippines

The Philippines generally adopted an industrialisation policy of import substitution that was heavily oriented toward the domestic market. It imposed protective tariffs and quantitative import restrictions that, in turn, failed to attract substantial export-oriented FDI. The high level of protection resulted in a highly costly and inefficient domestic manufacturing industry that was unable to compete in the export market. Nevertheless, multinationals invested in these industries and set up local production facilities to take advantage of the profit opportunities they offered.

Thus, FDI flows to the Philippines were largely concentrated in protected industries, namely, chemicals, processed food, transport including automotive manufacturing, equipment, machinery and appliances, textiles and garments, basic metal products, and petroleum and coal.[1]

In the 1980s onwards, the Philippines embarked on a trade liberalisation programme that attempted to give a strong preference to exports. However, the protectionist structure remained, and FDI flows continued to be inward-oriented, substituting for imports instead of complementing the Philippines' exports. The inconsistent trade policy of promoting import-substituting industries, alongside the Philippines' export incentives, therefore had not been effective in attracting export-oriented FDI.[2]

Santandertrade observed that the Philippines, as a destination for FDI, had the comparative advantages of having "English speaking and well-skilled manpower, a strong cultural proximity to the United States, and a geographical location in a dynamic area".[3] Yet, FDI in 2013 was only US $3.86 billion, a remarkably low figure compared to other economies in the region. World Bank data indicate that FDI net inflows as a percent of GDP were -0.3 in 1980, 1.2 in 1990, 2.8 in 2000, 0.5 in 2010, and 1.3 in 2013. The advantages that the Philippines had were regrettably offset by several factors: the Philippines was "evolving into a service society with low capital strength and minimal need for equipment; the government favoured subcontracting agreements between foreign companies and local enterprises rather than FDI; and corruption, instability, inadequate infrastructures and not enough juridical security discouraged investment".[4] It was within this policy framework that Toyota Motor Company Japan invested in automotive manufacturing and distribution in the Philippines.

The Foreign Investing Company: Toyota Motor Company (TMC)

Sakichi Toyoda, a Japanese inventor and industrialist, founded the Toyoda Automatic Loom Works, Ltd, in 1926 to manufacture quality spinning and weaving looms. Seeing the opportunity in the growing need for mobility for the masses, the Toyoda family shifted considerable engineering and financial resources from its original business to the business of making motor vehicles.[5]

Thus, in 1933, the company established its automobile department, led by Kiichiro Toyoda, the eldest son of Sakichi Toyoda. This department was spun off as Toyota Motor Co., Ltd in 1937 and is now known as Toyota Motor Corporation.[6]

With headquarters in Toyota, Aichi, Japan, Toyota Motor Corporation (TMC) produced vehicles under five brands, namely, the Toyota brand, Hino, Lexus, Ranz, and Scion. It also held a 51.2% stake in Daihatsu, 16.66% in Fuji Heavy Industries, 5.9% in Isuzu, and 0.27% in Tesla. It had as well joint-ventures with two companies in China (GAC Toyota and Sichuan FAW Toyota Motor), one in India (Toyota Kirloskar), one in the Czech Republic (TPCA), along with several "non-automotive" companies.[7]

Toyota had grown to become a large multinational corporation from where it started, and had expanded to different worldwide markets, with factories that manufactured or assembled vehicles for local markets in most parts of the world.

Toyota displaced General Motors and became the world's largest automobile maker in 2008. It held the title, “the most profitable automobile maker” (US$11 billion in 2006), along with increasing sales in, among other economies, the United States.[8]

As of 31 March 2014 the Toyota Motor Corporation had 338,875 employees worldwide and, as of January 2014, was the 14th largest company in the world by revenue. Toyota was the largest automobile manufacturer in 2012 (by production). In July of that year, the company reported the production of its 200-millionth vehicle. Toyota was the world's first automobile manufacturer to produce more than 10 million vehicles per year. It did so in 2012 according to *Organisation Internationale des Constructeurs d’Automobiles* (OICA), and in 2013 according to company data.[9]

As of July 2014, Toyota was the largest listed company in Japan by market capitalisation and by revenue. On a consolidated basis, TMC reported net revenues of 25.5 trillion yen, operating income of 2.40 trillion yen, and net income increase of 1.90 trillion yen for the fiscal year ending 31 March 2014.[10]

The *Toyota Way*

What might have made Toyota Motor Company the number one car company in the world was its renowned *Toyota Way.* The Toyota Way was the core belief system for all Toyota operations around the world, regardless of local culture and ownership structure. It underlay all thoughts and deeds of the global organisation. The Toyota Way was built on two pillars: Continuous Improvement and Respect for People.

Grounded on the PDCA cycle (Plan, Do, Check, Act), **Continuous Improvement** defined the constant pursuit to raise quality, lower costs, generate results faster and satisfy the customer more efficiently. **Respect for People** recognised that success, as shared by customers, employees, shareholders, dealers and suppliers, resulted from working together in the spirit of openness, fairness and trust.

As described by external observers of Toyota, the principles and supporting management practices of the Toyota Way were: [11]

1. Base your management decisions on a long-term philosophy, even at the expense of short-term goals.
2. Create continuous process flow to bring problems to the surface.
3. Use "pull" systems to avoid overproduction.
4. Level out the workload.
5. Build a culture of stopping to fix problems, to get quality right the first time.
6. Standardised tasks are the foundation for continuous improvement and employee empowerment.
7. Use visual control so no problems are hidden.

8. Use only reliable, thoroughly tested technology that serves your people and processes.
9. Grow leaders who thoroughly understand the work, live the philosophy, and teach these to others.
10. Develop exceptional people and teams who follow your company's philosophy.
11. Respect your extended network of partners and suppliers by challenging them and helping them improve.
12. Go and see for yourself to thoroughly understand the situation (*genchi genbutsu*).
13. Make decisions slowly by consensus, thoroughly considering all options; implement decisions rapidly.
14. Become a learning organisation through relentless reflection and continuous improvement (*kaizen*).

To complement its passion for continuous improvement in both process and product innovation, Toyota Motor Corporation was also actively involved in discovering new technologies and in undertaking corporate social responsibility activities. Clearly, the company did not exist for purely profit motives alone but embraced a larger cause of meaningful contribution and exemplary service to all its stakeholders as evident in its corporate social responsibility undertakings. This was apparent in some of TMC's initiatives in introducing new technologies, as well as in business-related advocacies in the areas of higher education, agricultural biotechnology, and environmental protection.

The Local Investing Company: GT Capital Holdings, Inc.[12]

GT Capital Holdings, Inc., is a major Philippine conglomerate with interests in market-leading businesses in banking, real estate development, power generation, automotive manufacturing and distribution, and life and non-life insurance. The conglomerate still is the primary vehicle for the holding and management of the diversified business interests of the Ty family in the Philippines. Its vision, mission, and values are presented below.

Vision, Mission and Values of GT Capital Holdings, Inc.

> *Vision*
> A world-class conglomerate, dominant in all the key sectors where it is invested, most sought after by global investors seeking opportunities for partnership in the Philippines, a major contributor to nation building.
>
> *Mission*
> GT Capital Holdings, Inc., a Philippine conglomerate with a strategic business portfolio, has a heritage of leadership in the vital sectors of financial services, insurance, property development, power generation and automotive sales and manufacturing, that are essential to national development.
>
> It has earned its stature of prominence in these key sectors by blending local ingenuity and resources with the technology and expertise of renowned global business partners.
>
> *Values*
> Anchored on our core values of integrity, competence, respect,

> entrepreneurial spirit and commitment to value creation, we fulfill our mission to ensure sustainable long-term profitability, increase shareholder value, create synergies, provide career opportunities, and contribute to nation building.

GT Capital Holdings, Inc. has committed itself to the principles and practice of corporate social responsibility with the firm belief that corporate growth and expansion must be complemented with sincere efforts to give back to the community. Thus, GT Capital and its component companies have been actively involved in various corporate social responsibility initiatives.

A press release on GT Capital's financials of 14 August 2014 indicated that its January to September 2014 consolidated net income reached Php6.3 billion from Php7.7 billion in the same period the previous year. The company's consolidated revenues for the first nine months of 2014 grew by 37% to Php104.9 billion from Php76.8 billion in 2013. GT Capital's revenue increase came mostly from higher vehicle sales of Toyota Motor Philippines Corporation (TMP), improved net fees of Global Business Power Corporation (GBPC), and the continued robust real estate sales of Federal Land, Inc. (Federal Land).

The Joint Venture Company: Toyota Motor Philippines Corporation (TMP)

Company Background

In 1988, TMC Japan felt that the time was right to expand to the Philippines. Investor confidence was slowly returning, two years after the "people power" revolution. In compliance with the local law that a company in the Philippines must be majority Filipino-owned, the then TMC President, Shoichiro Toyoda, the father of the current TMC President, Akio Toyoda, looked for a suitable business partner and found it in the person of established businessman George S. K. Ty of Metropolitan Bank and Trust Company.[13]

Dr David Go, TMP Senior Executive Vice President, recalled:

> TMC…was looking for a suitable, stable partner. They went around, talked to a few people and ultimately approached Chairman Ty. Both parties met on common ground. Chairman Ty is known as a trustworthy person. His philosophy in business is not just profit but also trust. And that fits into the Toyota philosophy: mutual trust, mutual understanding, and respect for people. Chairman Ty looked long term. Toyota is also a long term company. Chairman Ty's business enterprises are all very stable and Toyota is very stable.[14]

Thus, Toyota Motor Philippines Corporation (TMP) was incorporated on 03 August 1988 as a joint venture of GT Capital Holdings, Inc., (Philippines) with 51% ownership, and Toyota Motor Corporation and Mitsui & Company Limited (Japan) with 49% ownership. Dr George S. K. Ty was Chair of the Board and his son, Wilfred V. Ty, was Vice Chair. The TMP President had always been a Japanese executive from TMC Japan, the current one being Mr Michinobu Sugata.

TMP's Financial Statement (in US Dollars) for Fiscal Year ending 31 December 2010 was as follows:

	2010 (US$1=PhP45.11)
Total Assets	394,384,682
Total Operating Expenses	69,037,575
Net Sales	1, 297,651,696
Net Profit	68,953,514

As of September 2014, TMP had two branches and 28 dealers all over the Philippines. The total number of regular employees as of 23 September 2014 is presented below.

	Total	Officers	Staff
Head office (Santa Rosa)	1,447	80	1,367
Branches (GT Tower, Makati)	99	16	83
Offshore (Japan; Singapore and Thailand)*	6	2	4
Total No. of staff in HR	41	6	35
* - Inter-Company Transferee (ICT)			

	Execs	Managers	Supervisors	Staff	Average
**2010 Staff turnover rate	9.1%	0	3.17%	4.34%	4.1%

**(2010 Total no. of employees resigned/terminated)

(No. of employees at start of FY + No. of employees at end of FY) / □2

Indicated below are the positions occupied by Japanese and Filipino executives:

Japanese Incumbents	Filipino Incumbents
President	Senior EVP for General Administration
Finance	Treasury
Marketing	
Manufacturing	

Except for the position of Senior EVP for General Administration, all other EVP positions had Japanese incumbents. All SVP and FVP (Division Level) and VP (Department Level) positions had Filipino incumbents. The direction, however, was towards localisation of officers.

As of January 2015, TMP was the biggest automotive company in the Philippines. It had the widest vehicle line-up of 18 models and a sales distribution and service network composed of 43 outlets all over the Philippines as of February 2014. TMP was also the official distributor of the Lexus brand in the Philippines[15]

In terms of sales, TMP achieved the much-coveted Triple Crown award in the Philippines from 2002-2013 by being No. 1 in passenger car sales, No. 1 in commercial vehicle sales and No. 1 in total sales.[16]

TMP’s Growing Up Pains: HRM Issues and Challenges*

TMP began production operations in early 1989. Immediately, sales growth soared, requiring large-scale hiring of manpower. Fresh graduates from technical/vocational schools and universities were taken in, many of them as young as 18 years of age. In response to the clamour from employees who were all called Team Members, the Labour-Management Council (LMC), a practice in TMC Japan, was established in the same year to ensure that the Team Members welfare was properly taken care of.

By 1991, TMP had adopted 2-shift operations to meet continuously increasing customer demand. Because of its desire for a uniform corporate culture, TMP preferred internal promotion over mid-level hiring. Consequently, the first candidates were often those workers who showed the highest levels of technical capability. Senior factory managers focused on filling vacancies for leadership positions with Team Members who had the know-how to efficiently operate the plant and achieve quality standards. People-handling skills took a back seat. A number of people were put in leadership roles without sufficient experience or preparation. Even with post-promotion training, communication suffered and many concerns arose from superiors’ mishandling of their Team Members’ issues.

The situation progressively deteriorated. The LMC gradually lost the trust and confidence of Team Members and was perceived as unable to provide solutions to their problems. The concerns were mainly relationship-based, and few people in TMP had the ability and adequate training to handle delicate situations properly. It took some time before the inadequate leadership and people skills of many leaders were identified as the root cause of the discontent.

Team Members began to search for alternative mechanisms to address their problems. They formed a labour union called the Toyota Motor Philippines Corporation Workers Association (TMPCWA). In 2000, a minority number of TMPCWA members staged a sudden mass action that paralysed production operations. TMP made the difficult decision to terminate 227 TMPCWA members guilty of serious misconduct. In protest, TMPCWA went on strike from 28 March to 06 April 2001.

Even before the strike ended, HRD realised the need for a more grounded and realistic sensing mechanism to completely grasp the sentiments and morale in the workplace, and to understand the needs of Team Members—whether work-related or personal—in order to regain mutual trust between management and labour. Both labour and management were committed to rebuild the culture and bridge the gaps between them. Everyone realised that the strike offered lessons that must be remembered, and that this regrettable event must never happen again.

Rebuilding TMP Starting with the TMP Vision, Mission, and Values

Immediately after the labour strike ended, HRD took steps to understand the issues and problems that led to the unrest. It discovered that while everyone went through orientation and training on the Toyota Production System (TPS) or QC (quality control) tools to learn HOW to work, Team Members were not oriented on the WHY of work.

* This portion of the case onwards is extracted from TMP’s report to the People Management Association of the Philippines when it won the Employer of the Year Award in 2011.

HRD and management decided to redefine the framework on which to build a new foundation for TMP. A two-phased approach was developed:

Phase 1: Building a New Foundation
Develop TMP Vision and Mission Statements
Identify and develop core values

Phase 2: Living the Vision, Mission and Values
Create a new environment
Strengthen the individual
Strengthen the TEAM
STRENGTHEN THE ORGANISATION

Management rolled out a company-wide initiative to consult all Team Members, including those who had joined the strike, on what everyone wanted the company to be, where they wanted it to go, how they wanted it to get there, and what was really important to everybody. This resulted in the TMP Vision, Mission and Values, developed by consensus among Team Members and launched in February 2002, just months after the strike. The VMV became the foundation of the TMP rebuilding programme.

TMP's Vision, Mission, and Values

Vision
To be the No. 1 automotive company where great people work as a team to provide the best products and service to our customers.

This is a clear indication of what we want to achieve: industry leadership, product and service excellence, and total customer satisfaction. In this statement, it is evident that the Company acknowledges the crucial role that Team Members play in accomplishing our corporate goals.

Mission
Driven by the will to serve, we hereby commit ourselves:

To dominate our markets through dynamic selling and timely delivery of attractive products, with excellent customer service and continuous product improvement;

To produce vehicles and components of outstanding quality, using advanced technology, continuously improving methods and environment-friendly processes while maintaining safe working conditions;

To sustain Company profitability, stability, productivity, and growth by efficiently engaging in effective financial and resource management for the collective gain of the Toyota Family and the society we serve;

To sustain Team Members' morale and productivity by developing their full potential and total well-being, and by establishing mutual trust, mutual responsibility and harmony through open communication.

The focus on mutuality is central to our relationship with our Team Members. We are openly saying that the Company needs them just as they need the Company.

The Company will, therefore, take care of them so that they can in turn provide the means to achieve TMP's goals.

TMP Values

Work Values	Relational Values	Toyota Production System
Competence	Commitment	Cost efficiency
Discipline	God-centredness	Job rotation
5S	Integrity	Just-in-Time
*Genchi Genbutsu**	Loyalty	Standardised work
Kaizen	*Malasakit* (Compassion)	
Productivity	Respect for Others	
Professionalism	Teamwork	
Quality	Transparency	
Safety and health	Trust	
	Unity	

***Go and see for yourself to thoroughly understand the situation

It may be noted that the TMP values covered the three areas of work, people relations, and the production system. To TMP, these three areas were closely intertwined and must therefore be governed by a set of mutually reinforcing values from elements of the Japanese and Filipino cultures. The values provided a practical basis for new work relationships, especially between superiors and subordinates. The objectives of all HR programmes were realigned to comply with both the TMP-VMV and the Toyota Way.

Strategic Human Resource Management Systems, Policies, and Practices

Talent Management System

In the first quarter of 2007, HRD created the Talent Management Board (TMB) composed of TMP's most senior local officers (division heads), with the HRD manager and the HR Planning Section composing the secretariat.

TMP's overall talent strategy was to develop leaders from within and supplement internal growth with external talent acquisition as a mechanism for refreshing and renewing its leadership base. As a first step, TMB identified the company's High Potential Team Members (HIPOs) for leadership roles. These identified HIPOs were mapped to key positions, current and projected.

The HIPOs were subjected to a 360-degree evaluation, giving a more realistic view of their strengths and areas requiring development. The 360-degree evaluation was a multi-rater evaluation wherein superiors, subordinates, peers and customers were asked to provide ratings on the HIPOs' leadership potential through an internally developed questionnaire. The results of the 360-degree evaluation were used as inputs to the process of finalising the divisional succession plans.

Upon confirmation of the succession plans, a web-based competency assessment was administered to the candidates to identify development gaps, which served as basis for the preparation of customised development plans. Apart from their respective superiors, the candidates were also asked to do a self-assessment.

The customised development plans were formally implemented in the 3rd quarter of

2011. A career dialogue was conducted with each candidate to clearly assess and confirm the fit and workability of the development plan designed for him. A periodic evaluation was then built into the implementation process to ensure that performance goals were achieved and competency gaps were closed. TMP'S succession management system was intended not only to facilitate the movement of succession candidates to leadership roles but also to identify "at risk" positions that could have significant impact on the business.

Given TMP's talent strategy of developing leaders from within, a comprehensive and integrated training and development system had to be put in place to ensure that Team Members were provided the necessary training and development opportunities at specific points in their career progression

Training and Development

HRD developed a Total Education System designed to support the defined job functions at various levels in TMP. One track was called Level-Based Training for Shop Floor intended for the technical operations group of positions starting with the Line Team Member position (Level 1) all the way up to the level of First Vice President (Level 14). Another track was called Level-Based Training for Administration intended for the clerical or office positions starting with the general staff position and going all the way up to the First Vice President position as well. The curriculum was periodically reassessed and improved to reflect new skill development and function requirements for each level.

The Level-Based Training Curriculum for the Shop Floor had local, regional, and global content. It also had programme offerings on executive development for Level 13 (Vice President) and Level 14 (First Vice President). Exhibit 1 presents details of the Level-Based Training System for the Shop Floor.

The Level-Based Training Curriculum for Administration was similar to the Shop Floor, except that it had no regional content. Exhibit 2 presents details of the Level-Based Training System for Administration.

It is apparent from the descriptions that the programmes were a mix of local content offered locally, while others were designed and developed by TMC Japan or a regional office and offered at the local, regional or HQ location.

Some statistics on training expenditures in 2010 are presented below:

	Overall Average	Executives	Managers	Supervisors	Staff
Per capita expenses	Php10,159.83	Php161,823.72	Php21,731.18	Php10,727.27	Php51,110.50
Training hours per employee	10.7	97.7	36.6	20	41.3

TMP admitted that it was difficult to directly measure the return on its investments in training and developing people. The company did not yet have a KPI (Key Performance Indicator) for return on training investments. What the company learned through the years was that training programmes given to Team Members must address specific performance or behaviour gaps. This made it easier to sense if a training programme had positive impact on the workplace.

Job Rotation

In addition to training programmes, job rotation was also implemented at every level of the organisation for faster talent development.

- Inter-Company Transfer (ICT) programme
  TMP participated in TMC's overseas assignment programme called the Inter-Company Transferee or ICT programme launched in 1991. Aside from the pride of being able to represent TMP abroad, a Team Member gained an enriching experience through his exposure to different cultures, environments and people. To date, TMP has dispatched almost 100 Team Members, mostly to Japan and, recently to Singapore and Thailand where Toyota's Asia-Pacific regional operations were based. These ICTs specialised in production engineering, quality, production planning and control, purchasing, sales and product planning, parts promotions planning, customer service and human resources. TMP earned a reputation as a very good source of high potential talent as shown by the increasing number of Team Members being sent to other Toyota affiliates as specialists/experts.

- Rotation or transfer
  This involved the systematic lateral movement of a Team Member to other functions to achieve continuous motivation by exposing him to changing functions and environment. Rotation widened work and functional perspectives, and developed well-rounded generalist Team Members who were able to see the big picture well as they moved up the organisational ladder.

The Performance Appraisal System

From a purely factor-based performance evaluation for different job functions, TMP shifted to a competency-based appraisal scheme in 2004. As the appraisal system was recognised as an effective tool to shape organisational culture, a feedback mechanism was integrated with the system to achieve clear development actions and a comfortable level of transparency between superior and subordinate.

The basic idea behind the change was to transform the appraisal into both a development and behaviour modification tool. For this reason, the basic competencies that all Team Members were expected to possess were identified and linked to TMP core values.

In 2007, HRD introduced a new appraisal component in order to level up performance standards. Recognising the significance of achieving targets, *Hoshin Kanri* objectives and results were linked to the appraisal.

TMP's business planning process was called the *Hoshin Kanri* System. *Hoshin* meant "plan" while *Kanri* meant "to manage." Roughly translating to "management of goals with targets," *Hoshin Kanri* was the organisational communication process to plan, develop and manage company efforts and align its resources to address business needs as effectively and efficiently as possible through the systematic application of PDCA (Plan-Do-Check-Act) thinking.

The system was adopted from Toyota Motor Corporation, Japan and applied to all Toyota companies around the world. However, each affiliate customised the system to suit particular needs and local culture. Exhibit 3 presents a description of the *Hoshin Kanri* System as adapted and practiced at TMP.

The appraisal system was based on two fundamental aspects of performance: (1) Competency Performance which evaluated performance in relation to established competencies linked to TMP core values; and (2*) Hoshin* Performance which evaluated actual performance (i.e., the level of achievement of individual targets), results, and the process leading to such performance--workplace management. Moreover, the appraisal feedback, which was built into the process, provided a constructive forum to clarify needs and expectations of both superior and subordinate and discuss how performance could be improved or behaviour adjusted. It significantly improved communication, resulting in better cooperation, greater staff motivation and a more informed and productive workforce.

Compensation and Benefits

As the leading player in the automotive industry, TMP provided a very competitive salary and benefits package to its Team Members to cope with, and manage their lifestyles. In addition, the company provided bonuses and overtime pay above industry rates. Its total compensation and benefits package was determined through benchmarking. This tool allowed the company to compare its package with industry standards.

TMP provided a wide range of benefits to support all aspects of work and family life. The benefits structure consisted of: (1) base-level benefits applied to all workers; and (2) supplementary benefits chosen by the individual Team Member according to his or her needs.

TMP's benefits structure is illustrated below.

	Benefit Class		
Benefit level	Basic benefits	Security benefits	Prestige benefits
Base benefits			
▪ Standard level of entitlement to address the average Team Member's general needs	▪ Support fundamental needs ▪ Directly influence the Team Member's ability to work	▪ Provide protection against unforeseen contingencies ▪ Allow the Team Member to focus his/her attention on work instead of getting distracted by non-work issues	▪ Allow the Team Member to maintain a certain status in the community
Supplementary benefits			
▪ Additional level of entitlement to address a Team Member's specific need(s) ▪ Applies to all Team Member up to entitlement level ▪ Budget is provided, but actual cost of programme(s) may have			

to be partly borne by the Team Member depending on the option or extent of the choice			

Actual Base-level Benefits

Basic benefits	Security benefits	Prestige benefits
✓Meal subsidy	✓Rice subsidy	✓Vehicle Acquisition Programme (VAP)
✓Transportation allowance	✓Group life insurance	✓Bridal car
✓Overtime premiums	✓Retirement	
✓Uniforms	✓Medicine allowance	
✓Leaves	✓HMO coverage	
	✓Hospitalisation insurance	
	✓Various gratuities	
	✓Maternity benefit	

Cafeteria Benefits Programme

TMP recognised that beyond basic needs, the situation of each Team Member was different from that of the others and should be addressed differently. This concept was embodied in the TMP's Cafeteria Benefits programme.

This programme gave Team Members some control over their benefits by allowing them to select from a menu of options. Team Members received benefits in individually tailored combinations reflecting their particular needs or preference.

Basic benefits	Security benefits	Prestige benefits

▪ Additional rice subsidy
▪ Gift certificate
  ▪ Department store
  ▪ Bookstore
	▪ Life insurance
	▪ Pre-need insurance (i.e. Educational plan, pension, car, fire)
	▪ Critical illness insurance
	▪ Family accident insurance
	▪ HMO coverage
	▪ Educational assistance
	▪ Health and Fitness
	  ▪ Gym enrollment
	  ▪ Spa
	  ▪ Sports classes
	  ▪ Sports equipment
	  ▪ Derma treatment
	  ▪ Dental care
	  ▪ Medical/ Laboratory exams/ maternity – related hospitalisation expenses
	  ▪ Eye care
		▪ Personal computer and printer
		▪ Vacation/leisure trips
		▪ Driving lessons
		▪ E-pass transponder / GT tower transponder
		▪ Car maintenance
		▪ Car registration
		▪ Educational/ specialty books and magazine subscriptions

Safety and Health

TMP established and implemented a safety and health programme aligned with Toyota's global directive through Jiritsuka in Safety (KI-J Safety) and the requirement of the Occupational Safety and Health Standards of the Philippines. This programme was thoroughly communicated to all Team Members and business partners through safety briefings, trainings, conferences, and the Safety and Health Manual.

TMP Workplace Survey (TWS)

After the labour dispute in 2001, the TMP felt it needed to heighten its awareness of Team Members' feelings and sentiments. Accordingly, the Team Relations Section conceptualised and designed the TMP Workplace Survey (TWS) in 2002. The TWS aimed "to make TMP the best place to work." The assessment survey, administered every two years, captured Team Members' morale and assessed the condition of working relationships and the over-all human relations environment in TMP. The survey covered seven aspects:

1) Employee satisfaction
2) Group performance and dynamics
3) Sense of ownership
4) Relationship
5) VMV (Vision, Mission and Values)
6) Leadership
7) Quality of life

After each survey administration, Team Relations gave all Team Members feedback on the results to validate findings and discuss improvement points with those concerned. The feedback sessions provided HRD further opportunity to understand the real sentiments and concerns of Team Members.

Most important in the process was the requirement for all superiors and concerned groups to formulate and implement action plans based on the survey results and feedback of Team Members. Team Relations and superiors monitored and checked the progress and effectiveness of these action plans and made adjustments if necessary.

The TWS paved the way for the implementation of more effective HR programmes that improved working relationships, enhanced leadership and improved employee services. Through this initiative, Team Members felt TMP's sincere concern about their welfare and became aware that the company was doing its best to reach out to them.

The TMP Workplace survey indicated an initial result of 3.86 (Acceptable but still needs improvement) in 2002. The result progressively improved with a rating of 4.19 (Satisfactory) in 2009, but slightly dipped to 4.15 in 2010. The target was to get a rating of 4.75 or better which translated to "Best Place to Work."

HR Contribution to Business Results

TMP's overall HR philosophy, systems and practices contributed to the overall performance of the company. TMP's people management practices and programmes gave the company the solid footing it needed to focus on business results without distractions or interruption, as indicated below.

1. The labour strike in 2001
The role HR played in rebuilding after the labour strike in 2001 clearly demonstrated HR contribution to business results. Toyota's market share dropped significantly at that time, a situation that the No. 2 competitor was able to exploit. As the post-strike rebuilding programme progressed, Toyota's share recovered and began to grow.

2. Consolidation of the Bicutan and Santa Rosa plants in 2004
Another business decision that had strong people implications was the consolidation of the Bicutan and Santa Rosa plants at the end of 2004 to achieve greater efficiency and cost effectiveness in operations. The problems and negative sentiments caused by the physical dislocation of Bicutan plant's entire manpower complement to Santa Rosa were once again well addressed through HRD's change management and communication programmes.

3. Production increase with minimum overtime in 2010
The surprisingly strong market growth in 2010 set a difficult challenge to Manufacturing Division: how to raise production to take advantage of demand while keeping overtime at reasonable levels. Applying the Toyota Way, the Plan-Do-Check-Act cycle addressed problem after problem, bottleneck after bottleneck, until the takt time (average unit production time to meet customer demand) for the common line, the pulse rate of the plant, was reduced from the long-held constraint of 8.5 to 7.1 minutes. This directly translated to raising plant capacity from 25,000 units without overtime to 30,480 units. And this required the addition of only 16 people to the production team.

4. Earthquake and tsunami in Japan in 2011
Another example of TMP's strong people orientation that translated to positive business outcome was evident in the 2011 devastating earthquake and tsunami that hit Japan. This disaster resulted in parts supply shortage from May to June.

   During the supply crisis, affected companies in the automotive industry scaled down their production targets and adjusted work schedules in order to cope with the situation. Non-production days were charged to employees' leave credits or No-Work, No-Pay arrangement, or were partially subsidised by the company.

   What set TMP apart from other companies was that during these difficult times, its steadfast commitment to secure employment and sustain Team Members' morale was most evident. The key points of TMP's strategy were as follows:

   - Maintain Team Members' morale knowing that the crisis was temporary because the problem was one of supply, not demand
   - Share the information with all business partners
   - Ensure that production can respond quickly when normal supply returns
   - Strengthen partnership between labour and management through constant two-way communication and consultation

Toyota Motor Philippines Corporation was clearly an exemplar in the field of Human Resource Management in the Philippines. In recognition of this achievement, TMP was selected by the People Management Association of the Philippines (PMAP) as the

Employer of the Year (EOY) in 2011. The EOY Award was given annually by PMAP for outstanding management of the company's most important asset, its PEOPLE, as demonstrated by the company's Leadership, Human Resource Focus, Continuous Improvement, Business Results, and Corporate Social Responsibility consistent with the organisation's long-term objectives.

Summary

The Philippine industrialisation policy of import substitution that was heavily oriented towards production for the domestic market found a fit with TMC's intent in the late 80s to expand to new markets in the Far East. The complementation of the business and people philosophies, vision, and values of the joint venture companies, TMC and GT Capital Holdings, Inc., provided a solid foundation for a business partnership that has lasted for 26 years to date, and still going strong.

The legendary Toyota Way built on the twin pillars of Continuous Improvement and Respect for People, plus the TMP vision, mission and values, served as the foundation for the exemplary HRM systems, policies, and practices developed by Toyota Motor Philippines Corporation. These HR systems, policies and practices enabled TMP to successfully overcome daunting business challenges, including a labour strike in 2001, plant consolidation in 2004, production ramp-up with minimal overtime in 2010, and the Japanese earthquake and tsunami in Japan in 2011 that resulted in parts supply shortages in the Philippines.

Lessons from the Case

1. The nature of the FDI (wholly owned, joint venture, Greenfield, participation in existing company) has an impact on the HRM systems, policies and practices that will be developed and implemented in the local company. Wholly owned subsidiaries would have a greater likelihood to roll down such policies and practices from the mother company, with varying degrees of customisation. Joint ventures, particularly where there is synergy and complementation of the vision, mission, and values of the parties, would have the opportunity to build up together the business and its physical infrastructure alongside its social infrastructure consisting of its HRM systems policies, and practices.

2. The culture, including the belief systems, values, and management philosophies of the investing companies, has a great influence on the HRM systems, policies, and practices of the recipient company. The strong people and process orientation of the Japanese style of management is clearly evident in the Toyota Way that constitutes the core belief system of all Toyota operations worldwide.

3. The active participation of Team Members in the formulation of the Vision, Mission, and Values of the company ensured buy-in by everyone into what constituted the bedrock of the HRM systems, policies and practices. Conflicts, therefore, were generally resolved by going back to shared Vision, Mission, and Values.

4. There was clear alignment of HRM systems (performance management in particular), policies, and practices with the business planning and production systems through the Hoshin Kanri system. Individuals, teams, and units could therefore relate the

WHAT and the WHY of their tasks and KPIs to the broader and higher level company goals and objectives.

There was also significant alignment among the HRM policies and practices. For example, TMP's commitment to growing its leaders was supported by appropriate training at all levels, 360 degree-performance reviews that identified performance gaps and development areas, and motivational rewards and recognition schemes.

5. The amount of detail, effort, and attention devoted to communication is noteworthy. This could be attributed to the value of trust and respect for people. Such transparency ensured that potential problems and conflicts, whether work related or personal, were flagged and resolved early.

   Examples of communication tools developed and employed by TMP were the semi-annual General Assembly with the TMP President attended by all Team Members; the monthly birthday celebrants' luncheon with the President; monthly coordination meetings presided by the HRD manager and attended by all line managers, HR Team Relations and HRD staff; and weekly assemblies presided by the Team Relations manager and attended by Team Members on a voluntary basis. In these assemblies, anyone could raise any concern or issue that the individual wanted to be clarified.

6. The case also highlights the credibility of the HR department to both top and line management. They were consulted, listened to, and participated in key decisions affecting both people and the business. The case presents an excellent example of partnership between the HR function and the business line function.

   Are TMP's HRM systems, policies, and practices common to most multinationals? Are they readily transferable to other companies? At the broader level, the answer may be yes. But drilling down to the specifics, it may be difficult to replicate the vision, commitment, and dedication of the founding partners, Mr Shoichiro Toyoda and Dr George S. K. Ty who were not just into building and selling cars but were into economy building as well.

Exhibit 1: Level-Based Training System for the Shop Floor

TOYOTA

GENERAL ADMINISTRATION DIVISION
HUMAN RESOURCES DEPARTMENT

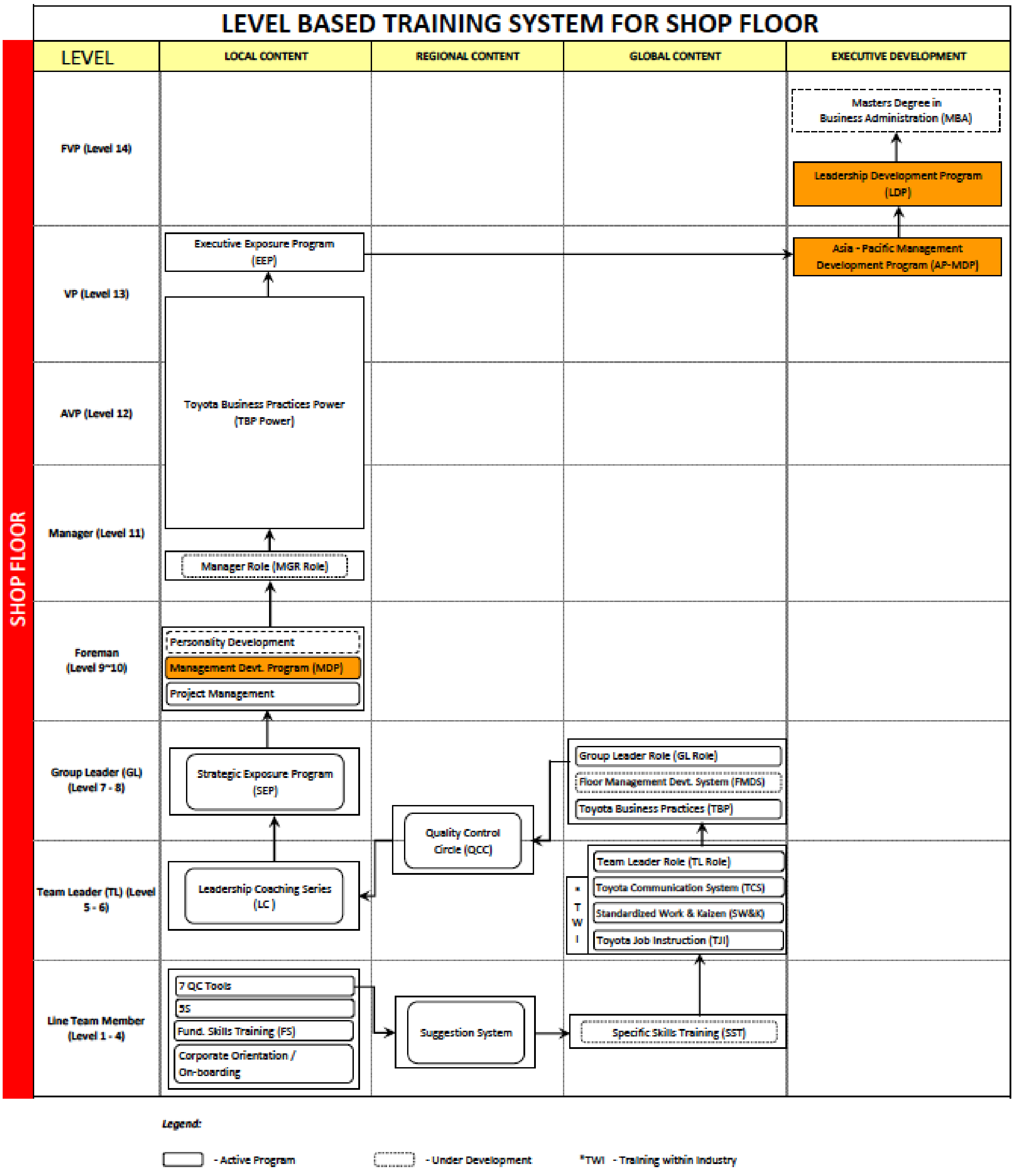

Exhibit 2: Level-Based Training System for Administration

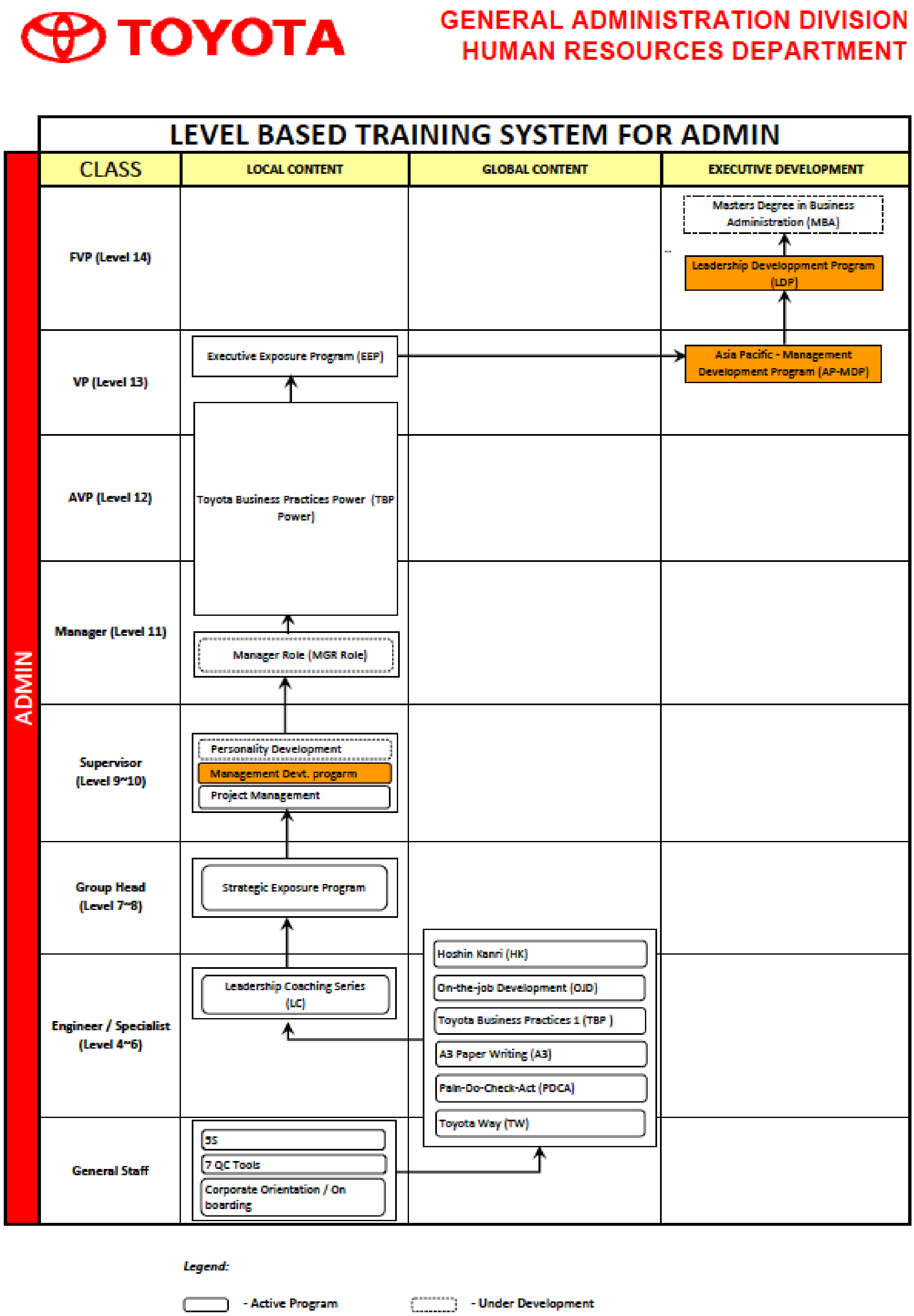

Exhibit 3: Hoshin Kanri System

TMP's business planning process was called the *Hoshin Kanri* System. *Hoshin* means "plan" while *Kanri* means "to manage." Roughly translating to "management of goals with targets," Hoshin Kanri was the organisational communication process to plan, develop and manage company efforts and align company resources to address business needs as effectively and efficiently as possible through the systematic application of PDCA thinking.

The system was adopted from the mother company, Toyota Motor Corporation, and is applied to all Toyota companies around the world. However, each affiliate customizes the system to suit particular needs and local culture. At TMP, the *Hoshin Kanri* system had the following features:

- Top-down and bottom-up approach in planning and setting of KPIs and targets, developed by consensus between superior and subordinate;
- Following the balanced scorecard concept, focus is given to three major items – customer, process, and competitiveness;
- Periodic Hoshin achievement monitoring at every level of the organisation;
- Linkage to the Performance Appraisal System; and
- Integration of the PDCA cycle.

The system was managed by the Corporate Planning Group. The TMP business planning cycle began in September when the President lay down the company *Hoshin*—the corporate direction and goals for the next five years, and specific milestones that he expected the company to achieve the following year. He met with the members of Top Management (First Vice Presidents-up, around a dozen people) to discuss his ideas.

In October, the function heads (Senior Vice Presidents & First Vice Presidents) cascaded the company *Hoshin* and prepared their divisional *Hoshin* by discussing goals and targets with their department managers—and if necessary with other function heads whose support was required or whose own plans might be affected. Once consensus was reached vertically and horizontally, the department managers began preparing their department *Hoshin,* discussed with the division heads, and then cascaded strategies and direction down to the section heads. Again, consensus between department and section heads was arrived at. Section heads in turn cascaded to their group leaders/group heads for group-level *Hoshin* preparation. Group leaders then discussed with team leaders in the case of line Team Members, or directly to staff level in the case of office Team Members.

All office Team Members prepared their individual *Hoshin* aligned with that of the group/section, and discussed these with their immediate superiors. Line Team Members on the other hand, followed their team leader's *Hoshin.* Given the nature of production work and the fact that line workers depended on their work station colleagues for output, they did not create individual *Hoshins*.

Hoshin Kanri's greatest strength was its ability to translate qualitative, executive level goals into quantitative, achievable actions performed by all Team Members, employing multiple communication paths. Moreover, the top-down direction setting and the bottom-up activity and target setting automatically created vertical alignment and team member buy-in, while the interdivisional and inter-departmental consultation resulted in horizontal cooperation.

Endnotes

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[3] Santandertrade.com, “Foreign Investment in the Philippines.”

[4] *Ibid.*

[5] *The Making of Fine Silver, Toyota Motor Philippines Corporation 25th Anniversary Book, 2013*.

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Outward FDI and Chinese Taipei Firms Domestic Employment China

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This empirical study is solely for educational purposes as a contribution to the project entitled "Strategic Human Resource Management for Successful Foreign Direct Investment in APEC," conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). This study is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the study. The authors acknowledge the constructive inputs of the participants in the APEC Chinese Taipei workshop. No part of this study however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

Abstract

Chinese Taipei industries have started outward foreign investment since 1959 to seek lower production cost and to penetrate the local market. The scale of Chinese Taipei's outward FDI continued to rise over time. According to the Investment Commission of the Ministry of Economic Affairs, the accumulated approved outward FDI (China excluded) amount from 1959 to 2013 was US$82.6 billion. The government has deregulated the investment to China since 1990, and the accumulated investment till 2013 reached US$133.7 billion, which implies that Chinese Taipei's outward FDI was highly concentrated in China. However, the government and the public were concerned that the increasing outward FDI might cause a "brain drain" or "industrial hollowing out." According to Sakura & Kondo (2014) and Gao *et al.* (2013), it was not always the case. Sakura & Kondo (2014) utilised Japanese data and found that outward FDI had a positive employment effect on the service sector as a whole. Gao *et al.* (2013) concluded that through two-way human mobility, the problem of "brain drain" had turned into "brain circulation" or "brain gain."

Therefore, the research adopted Chinese Taipei firm level data from 2008 to 2011 with the panel data model to examine the effects of outward FDI activities on domestic employment. The research findings showed that the scale of investment in China would significantly decrease the domestic employment in manufacturing in Chinese Taipei, but would increase the employment of domestic managers. However, the effect on R&D employee was not significant. Moreover, the effects on the service sector were also not significant.

Introduction

Chinese Taipei is a small economy without abundant resources and large market. In the process of economic growth, Chinese Taipei has inevitably relied highly on foreign trade. Before 1953, the agriculture, forestry, fishery and handicraft industries were Chinese Taipei's main growth engines. Between 1953 and 1958, the Chinese Taipei government started to promote light industry backed by an import substitution policy. Cheng (1983) stated that the import substitution policy was the main objective of industrial development in the 1950s; however, the government started to implement an export promotion policy to seek a larger market. Total trade volume increased by 80% between 1952 and 1962, which resulted in an average annual growth rate of 6.1%. Between 1962 and 1974, Chinese Taipei's total trade volume rose 22 times, recording an annual growth rate of 29.4%.

Due to the increase of factor costs such as labour cost and land cost, the fluctuation of exchange rate, the increase in environmental awareness and the penetration of local markets, some firms started to invest overseas directly or indirectly. According to the Investment Commission of the Ministry of Economic Affairs, Chinese Taipei firms started outward investment in 1959. Even though the statistics on approved outward investment (China excluded) dated back to 1952, the first approved case worth US$100,000 was recorded in 1959, after which outward investment increased at a steady pace.

In the 1990s, the outward investment increased drastically. Based on the data released by Investment Commission, MOEA, the biggest growth in approved outward investment was between 1997 and 2001, particularly in 2000 (1,391 cases) and 2001 (1,387 cases). Since then, although the number of approved cases decreased over time, the amount did not contract, indicating that the investment scale enlarged. Notably, the approved outward investment significantly declined in 2009 mainly because of the outbreak of the global financial crisis which caused the global economic recession. By the end of 2013, the accumulated approved outward investment was up to US$82.63 billion, with the service industry and manufacturing industry accounting for respective shares of 60.73% and 36.95% of the total.

In the service industry, the financial and insurance sectors had the highest ratio of 73.76%, followed by wholesale and retail trade (12.02%), information and communication (4.84%), and transportation and storage (4.76%). In the manufacturing industry, electronic parts and components manufacturing ranked first with 30.31%, followed by computers, electronic and optical products manufacturing (10.60%), basic metal manufacturing (10.05%), textiles industry (7.92%) and chemical material manufacturing (7.21%).

Owing to the complicated political affiliations, the Chinese Taipei government prohibited domestic firms from investing in China. However, with the rapid growth of intermediary trade, Chinese Taipei enterprises started to conduct intermediary trade with Chinese firms without permission for two main reasons. First, the domestic firms urged the government for deregulation. Second, the government realised that carrying out intermediary trade with China was helpful for the restructuring of the export market which was beneficial for economic development.

The Chinese Taipei government deregulated the investment to China in 1990. In the same year, MOEA promulgated “Bans on Indirect Commodity Export to China Lifted,” which was abolished in 1993, and “Bans on Indirect Investment and Technology Cooperation in the China Lifted,” which was also annulled in 1993 and replaced by “Regulations Governing the Approval of Investment or Technical Cooperation in China.”

By the end of 2013, the accumulated approved investment in China was up to US$133.7 billion, surpassing the accumulated approved outward investment. This implied that Chinese Taipei’s outward FDI was highly concentrated in China. In 2013 for instance, approved China investment was US$8.68 billion, accounting for 62.4% of the total outward investment for that year.

In terms of investment by industry, from 1991 to 2013, the manufacturing industry had the biggest application for investment in China, representing 79.71% of total investments. Among them, the share of electronic parts and components manufacturing was the highest (23.94%), followed by computers, electronic and optical products manufacturing (17.24%), electrical equipment manufacturing (9.18%), fabricated metal products manufacturing (5.66%), and machinery and equipment manufacturing (5.05%). The data show that electronic parts and components manufacturing, and computers, electronic, and optical products manufacturing were not only the key industries in Chinese Taipei, but also the main industries that engaged in outward investment.

At the same time, the unemployment rate in Chinese Taipei increased over time. According to the data released from the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, even though the unemployment rate jumped to 2% in 1982 and 1986, the annual unemployment rate was below 2% before 1995. Since then, the average unemployment rate rose steadily, reaching as much as 5.17% in 2002 and fell slightly after 2002 to around 4%. Due to the global financial crisis, the unemployment rate further escalated to 5.85% in 2009 and to 5.21% in 2010.

The increase in unemployment rate could be attributed to a number of reasons. In particular, Chinese Taipei’s economy was dramatically influenced by the global economic environment such that the recession caused by the financial crisis in certain years resulted in significant increase in the unemployment rate. Likewise, the rapid development of labour-intensive industries such as textile mills and apparel and clothing manufacturing in the 1960s and 1970s created a large number of job opportunities. However, since late 1980s, the government started to develop the capital-intensive or even knowledge-intensive industries which needed less labour input. More importantly, the gradual rise of unemployment rate might be correlated with outward investment or relocation of industries which not only caused employment to decline, but might have resulted in brain drain or industrial hollowing out.

Therefore, this study aimed to analyse the effect of outward investment on employment of Chinese Taipei Manufacturing and Service industry and whether outward investment could cause unemployment and generate different impacts on the managerial staff and R&D employees.

The contribution of this study to the literature is as follows. First, panel data was used covering year 2008 when the financial crisis burst out to year 2011 to conduct quantitative analyses considering the effect of outward investment in China and other economies on domestic employment. This can easily help distinguish the effect when the financial crisis took place. Second, the study focused not only on the investment behaviour of the Chinese Taipei manufacturing industry which was the key industry that conducted outward investment all the time, but also on the growing investment activities in the service sector. Moreover, the research classified the manufacturing and service sector firms into smaller sub-groups based on the use of technology and knowledge. Finally, in addition to the general employment, the study also discussed how the investment in China and other regions affected the firm’s decision on managerial employees and R&D staff.

Overview of Relevant Studies

Morgan & Katsikeas (1997) stated that based on different international trade theories, there were many kinds of reasons why a firm invested overseas. The first was the market imperfections theory which explained that a firm’s outward investment was to maximise their benefit when they could not reach it through trade (Hymer, 1970). The industrial organisation theory argued that when a firm engaged in foreign production, this brought different types of competitive advantages (Porter, 1985). The internalisation theory emphasised that through foreign direct investment, firms would expand their internal markets (Buckley, 1982, 1988; Buckley & Casson, 1976, 1985). Besides, the international production theory suggested that the propensity of a firm to initiate outward investment was to combine three advantages: location advantage, internalisation advantage and ownership advantage (Dunning, 1980; Fayerweather, 1982).

There was no doubt that firms invested overseas to seek market expansion, lower factors cost or transaction cost, and to improve connections with foreign firms. However, outward investment might influence domestic investment, production or even the job opportunities. In summary, the previous studies showed the positive and negative impacts of outward investment on domestic economy and employment.

It was argued that outward investment could help the firm to penetrate the foreign market or increase export, which further drove the demand for domestic employment. Chen & Ku (2005) examined the effect of FDI on Chinese Taipei's manufacturing industry employment. They found that overseas production led to a mixed effect. It increased the domestic employment of managerial and technical workers, while it might have negative relationship with unskilled workers. Hijzen *et al.* (2007) showed that FDI increased Japanese firm's output and employment, while there was no significant positive effect on productivity.

Yamashita and Fukao (2010) used a matched parent-affiliate panel dataset of Japanese multinational enterprises over the period 1991–2002 to examine the existence of "exporting job" hypothesis. They found that expansion of overseas operations might help maintain, instead of lower home employment.

Ayumu (2012) also examined the effects on domestic employment of Japanese firms, especially in the manufacturing, wholesale, and service sector that initiated foreign direct investment during 2003-2005. He concluded that FDI resulted in higher exports or sales than firms that did not engage in overseas investment, and further drove employment growth.

Sakura & Kondo (2014) used Japanese firm-level data covering the period 2000-2011 to discuss the impact of service sector firms' foreign direct investment (FDI) on domestic employment. They showed that FDI by service sector firms were positively correlated with domestic employment growth even though FDI seemed to cause a reduction in domestic employment in the information and communications technology industry.

On the other hand, there were some concerns that outward investment would replace domestic investment and production, which caused the reduction of employment. Moreover, the products made by overseas affiliate might be imported into the domestic market, and make it difficult for the domestic firms to survive. Lipsey (1995) concluded that owing to the relocation of labour-intensive parts of production to developing economies, the higher absolute foreign production was, the lower home employment was. Lipsey (1999) studied whether shift of production reduced MNCs' home employment. It showed that higher levels of production in developing economies might reduce home employment, which was mainly because American MNCs preferred to retain capital-intensive or knowledge-intensive industry rather than labour-intensive industry.

Agnese (2011) used dynamic panel estimation and data from 1980 to 2005 to analyse the employment and productivity effects of offshoring. The results suggested that service offshoring might bring a positive effect on employment, while materials offshoring had the opposite outcome. Liu *et al.* (2012) use panel data of 1,127 Chinese Taipei manufacturing firms from 2000 to 2010 to explore the effect of outward investment to different regions on domestic economy, employment and income distribution. The results showed that FDI to high labour cost economies would increase domestic employment and production, but employment would decrease if outward investment went to low wage economies.

Methodology, Variables and Data

In order to explore the effects of FDI on home total employment, employment of manager from Chinese Taipei and R&D personnel from Chinese Taipei, panel data analysis was considered and the time period was from 2008 to 2011. The basic models were as follows:

$$\text{Domestic}_{it} = \alpha_i + X_{it}\beta + u_{it} \quad (1)$$
$$\text{Manager}_{it} = \alpha_i + X_{it}\beta + u_{it} \quad (2)$$
$$\text{R\&D}_{it} = \alpha_i + X_{it}\beta + u_{it} \quad (3)$$

Equation (1) was used to estimate the coefficients of domestic employment determinants, and individual effects were taken into consideration to capture the characteristics of each firm. The dependent variable ($\mathbf{Domestic}_{it}$) represented the domestic absolute employment level of firm *i* in the time period *t*. α_i and indicated the individual specific effects; in this study, it included two dummy variables whether firm *i* belonged to the manufacturing industry (**manufacturing**) or the service sector (**service**). X_{it} was the vector of control variables that might affect domestic employment such as investment scale in China (**inv_China**), investment amount in other foreign regions excluding China (**inv_Other**), firm *i*'s revenue (**revenue**) and R&D input (**rd**). Besides, since the quality of R&D employees in FDI economies (**better_China, better_Other**) and facility of FDI regions to attract overseas talents (**talent_China, talent_Other**) were associated with domestic employment, these dummy variables were used as regressors. The dummy variables better_China and better_Other represented the answer that firm *i* considered R&D personnel were better in China or in other economies than in Chinese Taipei when the value was equal to 1.

Moreover, investment in other regions were classified into two categories: advanced economies with high skill level (**highskill**) and developing economies with lower factor cost but lacked cutting-edge technologies (**lowskill**). Highskill group included Australia; Canada; Hong Kong, China; Japan; New Zealand; Singapore; South Korea; United States; and West/North/Central Europe. Lowskill group consisted of Africa, Central/South America economies, East/South Asia economies, East/South Europe and Mexico. Finally, due to the data covering the period from 2008 to 2011, a dummy variable (**financial**) was added which was equal to 1 if it was year 2008 when the financial crisis took place and year 2009 when the financial crisis still had great influence on the global economy. Moreover, u_{it} stated the generic term of random disturbance

In equation (2) and (3), all the independent variables were the same, while the regressands $\mathbf{Manager}_{it}$ and $\mathbf{R\&D}_{it}$ represented the managers and R&D employees from Chinese Taipei who were hired overseas. To clearly evaluate the effect of explanatory variables on different industries, industry dummy variables were included, two for manufacturing industry (did1 and did2) and two for the service sector (did3 and did4).

Since 51.5% of the observations were electric and electronics firms and this industry was the main target of Chinese Taipei's economic development in the past 30 years, the manufacturing industry was divided into two groups. The first group was classified as the **traditional manufacturing** industry (did1) which included food, beverage and tobacco, textile and leather, petrochemical and plastic product, non-metal product, metal and metal product, mechanical equipment, transportation equipment, furniture manufacturing, paper making and publishing. The other group of manufacturing industry was **electric and electronics** (did2) which was considered as the reference group in this study.

Similarly, according to Noland *et al.* (2012), service industry could also be distinguished as traditional service and modern service based on the use of information technology and cross-border tradability. The **traditional service** (did3) was composed of wholesale and retail, transportation and storage, hotels and restaurants, real estate, and personal service, while the **modern service** (did4) consisted of ICT service, and financial & insurance.

The interaction terms, **trad. Manu*China, trad. Ser*China** and **mod. Ser*China,** were added which was equal to 1 if firm *i* belonged to traditional manufacturing, tradition service or modern service industry and had investment in China at the same time. The same rules applied to **trad. Manu*Other, trad. Ser*Other** and **mod. Ser*Other**, representing firm *i* belonging to different industry group and had invested in other regions.

To determine the most appropriate method for this model, the researchers used the Hausman test (1978) to differentiate between fixed effects model and random effects model. Hausman test considered as a null hypothesis that if the individual effects are random such that the estimators are consistent. Under null hypothesis, Random effects (RE) was preferred due to higher efficiency, while Fixed effects (FE) was consistent and preferred under alternative hypothesis. Based on the test results, the researchers used Fixed effects model for equation (1), (2) and (3).

The panel data set used in this study was the “Survey of Outward FDI Operating Conditions” from Investment Commission of MOEA. The survey was conducted by Chung-Hua Institution for Economic Research every year since 2007 to capture the status of Chinese Taipei firms that invested overseas. The survey was based on the firms which were approved to invest in China or other regions by Investment Commission of MOEA and have operated for over a year. The dataset contained data for about 1,058 observations from 2008 to 2011.

Empirical Results

Table 1 presents the summary statistics based on the whole sample. The total observation was taken from 1,058 firms (Please see Exhibit 1). Among them, 51.50% of observations were electric and electronics firms and the remaining were from traditional manufacturing (38.4%), traditional service (6.7%) and modern service (2.9%). Only 10.30% of the observations indicated that the quality of R&D employees in China was better than domestic employees, while 30.70% thought that the quality was better in other economies or almost three times higher than in China. Some 19.1% of the samples considered that it was easier for China to attract foreign talents, while 42.8% agreed that it was easier to appeal to overseas talents in other regions.

As for investment in other regions, 35.1% belonged to low skill economies which were characterised by low factor cost and less stringent environmental regulations. Another 64.1% of the investment regions were advanced economies, characterised by cutting-edge technologies, innovation and knowledge.

The empirical results are presented from Table 2 to Table 5 (See Exhibits 2 to 5). Table 2 shows the estimation results for the main question: Does total outward investment increase or decrease home employment? Table 3 presents the different effects on domestic employment of investment in China and investment in other economies. Table 4 states the effects of overseas investment on the employment of manager from Chinese Taipei and Table 5 shows the results of outward investment on the employment of R&D employee from Chinese Taipei.

There are three panels in each table. Panel (A) shows the estimates of the complete specification; panel (B) represents the outcomes when we neglect the impact of R&D investment, and panel (C) states the results when we exclude the dummy variable that financial crisis took place. From panel (A) in Table 2 and Table 3, the study finds that the total outward investment significantly decreases home employment and the effect is mainly from investment in China (see Table 3). This is in line with Liu *et al.* (2012) who concluded that outward investment to low wage economies would decrease employment. Moreover, Lipsey (1995, 2002) showed that higher levels of production in developing economies might reduce home employment. Even though the quality of R&D employee in China had a significant positive impact on home employment, the ease by which China could attract foreign talents had the opposite impact on domestic employment. This implies that if China were to offer better working conditions or environment, it might attract domestic labour to work in China.

Furthermore, a firm's R&D investment was significantly positively correlated with domestic employment. Once a firm had higher R&D investment, it was more possible for the firm to hire more workers. Besides, although investing in high-skill economies might decrease home employment, the effect was not significant. As for the industry dummy variables, the employment effect of traditional manufacturing, traditional service and modern service was not significant compared with electric and electronics industry.

However, even though the effect was slight, a traditional service firm with investment in China had significant and positive effect on home employment. This was mainly because the parent company might increase employees in managerial and market research areas. Sakura & Kondo (2014) showed that local demand-oriented FDI in the service industry would increase home employment because of the need in planning, administration, and market research function from headquarter. The coefficients from panel (B) and panel (C) were almost the same as panel (A). The only difference was that a firm's revenue had significant and positive relationship with home employment.

Table 4 presents the results about the effect of outward investment on manager hired from Chinese Taipei. From panel (A), we conclude that investment in China had a significant and positive correlation with the dependent variable. It implied that as the scale of investment in China expanded, the firms tended to hire more managers from Chinese Taipei because they believed that managers from Chinese Taipei were more capable of managing foreign affiliates.

There was a certain kind of business model or culture for service firms. Managers from Chinese Taipei could have better understanding of this specific culture and further integrate into administration. However, there was a significant and negative relationship between revenue and the employment of manager from Chinese Taipei.

As for the industry dummy variables, even though the results were not significant, traditional manufacturing industry was prone to hire manager from Chinese Taipei compared with the reference group. Moreover, traditional service firms that invested in China had a higher probability to take advantage of managerial ability of those from Chinese Taipei, which implied that in traditional service industry, they preferred to hire loyal employees to hold important positions. In panel (B), all the results were the same as panel (A) except that the effect for revenue was not significant and the influence of traditional service firms that invested in other areas became significant. Moreover, the coefficients in panel (C) were similar to those in panel (A).

According to the study report released by the Department of Commerce, Ministry of Economic Affairs (2013), C-store which belonged to Ruentex Group, Chinese Taipei, was set up in Shanghai in April 2001. It focused on the first-tier and second-tier cities in East China and South China. As of 2013, there were over 600 regular chain stores and franchises in China. Its internationalisation strategy could be divided into three stages. During the first stage, the general manager led 45 managers and employees to find the perfect locations and start the new business. In this stage, there were almost 250 C-stores and Ruentex Group was the only foreign group that made profits in the retailing business. In the second stage, since 2007, the new general manager increased employment of senior managers from Chinese Taipei to improve the service quality and product quality. They also enhanced the cooperation between the R&D department and the marketing department. In the third stage, in order to expand the market share, they recruited several experienced franchisees from Chinese Taipei to make good use of their successful experiences and know-how as a benchmark for Chinese franchisees.

Table 5 shows the outward investment effect on R&D employee hired from Chinese Taipei. All the results were almost the same in panel (A), (B) and (C). Among them, there was a significant and positive correlation between the variables **Highskill** and R&D from Chinese Taipei. It might be because Chinese Taipei R&D employees were of a high quality, with less salary, and the parent firm wanted to hire more domestic R&D to make use of technology spillover effect. However, there was a significant and negative correlation between **Financial** and R&D employee hired from Chinese Taipei. During 2008 and 2009 when the financial crisis happened, most of the firms suffered, further decreasing R&D investment and R&D personnel employment. As for the interaction term **trad. Ser*China**, it shows that traditional service firms that invested in China would be less likely to hire R&D from Chinese Taipei because they would rather keep the main R&D at the headquarters. They only needed good administration in foreign affiliates.

Therefore, we can conclude some major findings as follows:

(1) Even though there are mixed effects of outward investment on domestic employment in the literatures, our study shows that the total outward investment will decrease home employment based on Chinese Taipei's firm level data.

(2) Besides, the negative employment effect is mainly from investment in China which might be because the firms shift labour-intensive activities to China to utilise low wage labours. Instead, the employment effect from investment in other areas is positive but not significant.

(3) Outward FDI in China has a significant and positive effect on the employment of managers from Chinese Taipei, which means the firms who invest in China prefer to hire domestic managerial employees. However, the firms who invest in other areas are less likely to hire managers from Chinese Taipei.

(4) The firms who invest in China prefer domestic R&D employees, while the firms who invest in other areas are less likely to hire R&D employees from Chinese Taipei, but both effects are not significant.

Conclusion

According to Contessi & Weinberger (2009), developing economies usually actively attract FDI because they believe investment can bring advanced technology, capital and managerial expertise. However, developed economies have mixed concerns about FDI. Economies that export capital might lead to the decrease of domestic investment, while those that import capital fear foreign ownership of domestic firms. The same situation happens in Sweden. Blomström & Kokko (2000) stated that Swedish economy and Swedish multinational corporations would benefit from outward FDI before 1990s. However, as the degree of internationalisation intensified, they moved labour-intensive parts of production to low labour cost economies and knowledge-intensive operations to economies which supplied abundant skilled labours. Their findings show that a favorable business environment which includes a stable macroeconomic and political environment, government incentives and sufficient access to skilled labour are important for attracting FDI in industries with good job opportunities and also for retaining good job opportunities provided by the economy's own multinational corporations.

Kokko (2006) concluded that effects of FDI on developing home economies were similar as those in developed home economies, except technology-sourcing investments. Firms with outward FDI could benefit, but the different business environments could cause different effects on domestic economy. There was a small impact on production and exports, and there also existed a slightly negative effect on employment because of the relocation or outsourcing of labour intensive activities.

Industries in Chinese Taipei have started outward investment since 1959 in order to seek lower factor costs such as labour cost and land cost. Besides, they wanted to penetrate the local market to expand their market share. With the increase in outward investment, people started to be concerned whether outward investment would yield the substitution effect, or if FDI would substitute domestic production and even home employment.

From the research, it was found that investment in China would have a significant and negative impact on domestic employment. This was mainly because most of the respondents were manufacturing and labour-intensive firms. They invested in China for cheaper labour and large scale production. Once the firms increased their investments, they would use the local unskilled labour instead of the home employment. However, it was inevitable for the labour-intensive firms to relocate or move the production facilities to developing economies.

Kokko (2006) also showed that outward FDI had a mildly negative effect on employment because of a shift in production structure. Labour-intensive activities were outsourced to the developing economies which had lower wage levels. Even though the government could set some restrictions on a firm's investment in China, it was not beneficial for the firms to survive or grow. Therefore, the government could help the labour-intensive firms transform into capital-intensive or knowledge-intensive firms and take advantage of Chinese Taipei's R&D capability so that they could use the parent firm as the R&D and innovation base and create more skilled job opportunities. The government could also introduce some policies to help those suffering from outward investment, including providing vocational training programmes, adult education, and measures to encourage entrepreneurship such as financial support and expert consulting. Moreover, investment in China would increase the need to hire managers from Chinese Taipei. This shows that managers from Chinese Taipei had preponderance of managerial abilities. The Chinese Taipei government could offer more managerial training for talented people not only to satisfy the need of domestic firms, but also export them to foreign firms.

Exhibit Table: 1 Summary Statistics

	Mean	Std. Dev.	Min	Max
Log(inv_China)	9.999	2.519	2.833	22.564
Log(inv_Other)	9.053	2.682	0	21.556
Log(Domestic)	5.880	1.420	1.099	11.079
Manager	11.449	22.307	0	326
R&D	8.398	190.073	0	6163
Better_China	0.103	0.304	0	1
Better_Other	0.307	0.462	0	1
Talent_China	0.191	0.393	0	1
Talent_Other	0.428	0.495	0	1
Log(revenue)	15.283	1.631	7.239	20.656
Log(rd)	11.243	1.818	3.451	16.244
Lowskill	0.351	0.477	0	1
Highskill	0.641	0.480	0	1
Financial	0.538	0.499	0	1
Industry Dummies				
traditional manufacturing	0.384	0.487	0	1
electric & electronics	0.515	0.500	0	1
traditional service	0.067	0.250	0	1
modern service	0.029	0.169	0	1

Exhibit Table 2: Estimation Results of Total Outward Investment on Home Employment

	Employment(A)	Employment(B)	Employment(C)
Log(inv)	-0.036***	-0.034***	-0.041***
	(0.014)	(0.013)	(0.013)
Better_China	0.227**	0.210**	0.219**
	(0.097)	(0.089)	(0.097)
Better_Other	0.029	-0.021	0.033
	(0.083)	(0.078)	(0.083)
Talent_China	-0.165**	-0.171**	-0.160**
	(0.073)	(0.067)	(0.072)
Talent_Other	0.071	0.102	0.065
	(0.072)	(0.067)	(0.072)
Log(revenue)	0.135	0.258***	0.150*
	(0.093)	(0.078)	(0.090)
Log(rd)	0.137***	-	0.140***
	(0.035)		(0.035)
Financial	-0.040	-0.073	-
	(0.051)	(0.047)	
Highskill	-0.001	-0.032	0.002
	(0.142)	(0.133)	(0.142)
Industry Dummies (*ref.: electric & electronics*)			
traditional manufacturing	0.081	0.063	0.079
	(0.180)	(0.173)	(0.180)
traditional service	-0.057	-0.123	-0.052
	(0.204)	(0.182)	(0.203)
modern service	0.026	0.339	0.016
	(0.287)	(0.234)	(0.286)
trad. Manu * China	8.92e-09	-9.23e-09	8.37e-09
	(3.73e-08)	(3.42e-08)	(3.72e-08)
trad. Ser * China	6.41e-08***	5.88e-08***	6.34e-08***
	(2.02e-08)	(1.98e-08)	(2.02e-08)
mod. Ser * China	-1.28e-07	-2.76e-07	-1.58e-07
	(1.57e-06)	(1.38e-06)	(1.57e-06)
trad. Manu * Other	1.68e-09	1.26e-08	6.00e-10
	(4.00e-08)	(3.37e-08)	(4.00e-08)
trad. Ser * Other	2.39e-08	-6.31e-09***	2.47e-08
	(1.05e-07)	(2.22e-09)	(1.05e-07)
mod. Ser * Other	-4.16e-07	2.26e-07	-4.40e-07
	(1.05e-06)	(7.24e-07)	(1.05e-06)
observations	1,060	1,180	1.060

Exhibit Table 3: Estimation Results of Different Outward Investment on Home Employment

	Employment(A)	Employment(B)	Employment(C)
Log(inv_China)	-0.048*	-0.054**	-0.052**
	(0.025)	(0.023)	(0.024)
Log(inv_Other)	0.016	0.024	0.015
	(0.023)	(0.022)	(0.023)
Better_China	0.234**	0.213**	0.225**
	(0.098)	(0.089)	(0.097)
Better_Other	0.030	-0.019	0.033
	(0.084)	(0.078)	(0.084)
Talent_China	-0.162**	-0.165**	-0.156**
	(0.073)	(0.068)	(0.073)
Talent_Other	0.070	0.095	0.063
	(0.073)	(0.067)	(0.072)
Log(revenue)	0.137	0.271***	0.154*
	(0.093)	(0.079)	(0.091)
Log(rd)	0.137***	-	0.140***
	(0.035)		(0.035)
Financial	-0.044	-0.076	-
	(0.052)	(0.048)	
Highskill	-0.002	-0.028	0.001
	(0.142)	(0.133)	(0.142)
Industry Dummies			
(*ref.: electric & electronics*)			
traditional manufacturing	0.075	0.057	0.072
	(0.180)	(0.173)	(0.180)
traditional service	-0.043	-0.096	-0.036
	(0.204)	(0.184)	(0.204)
modern service	0.059	0.388	0.049
	(0.288)	(0.245)	(0.287)
trad. Manu * China	1.59e-08	-1.35e-09	1.58e-08
	(3.79e-08)	(3.47e-08)	(3.79e-08)
trad. Ser * China	6.50e-08***	5.99e-08***	6.42e-08***
	(2.03e-08)	(1.99e-08)	(2.03e-08)
mod. Ser * China	-1.52e-07	-2.78e-07	-1.85e-07
	(1.58e-06)	(1.38e-06)	(1.58e-06)
trad. Manu * Other	-9.17e-09	2.40e-09	-1.09e-08
	(4.06e-08)	(3.41e-08)	(4.05e-08)
trad. Ser * Other	-5.53e-09	-6.49e-09***	-6.29e-09
	(1.06e-07)	(2.23e-09)	(1.06e-07)
mod. Ser * Other	-4.73e-07	1.96e-07	-5.01e-07
	(1.05e-06)	(7.26e-07)	(1.05e-06)
observations	1,058	1,178	1.058

Exhibit Table 4: Estimation Results of FDI on Manager from Chinese Taipei

	Manager(A)	**Manager(B)**	**Manager(C)**
Log(inv_China)	1.576**	1.331*	1.485**
	(0.772)	(0.702)	(0.757)
Log(inv_Other)	-0.774	-0.794	-0.791
	(0.724)	(0.654)	(0.723)
Better_China	-1.482	-1.085	-1.686
	(3.059)	(2.718)	(3.038)
Better_Other	-0.403	-0.114	-0.319
	(2.619)	(2.374)	(2.614)
Talent_China	-0.532	-0.395	-0.398
	(2.289)	(2.059)	(2.277)
Talent_Other	-1.116	-0.783	-1.276
	(2.269)	(2.044)	(2.253)
Log(revenue)	-7.241**	-4.537	-6.852**
	(2.912)	(2.404)	(2.840)
Log(rd)	-0.309	-	-0.252
	(1.091)		(1.087)
Financial	-0.983	-0.378	-
	(1.613)	(1.451)	
Highskill	3.766	3.072	3.829
	(4.445)	(4.044)	(4.441)
Industry Dummies			
(*ref.: electric & electronics*)			
traditional manufacturing	2.443	0.138	2.387
	(5.646)	(5.271)	(5.642)
traditional service	-0.514	2.002	-0.362
	(6.391)	(5.591)	(6.382)
modern service	-3.476	-1.939	-3.697
	(9.002)	(7.454)	(8.988)
trad. Manu * China	-1.47e-06	-7.85e-07	-1.47e-06
	(1.18e-06)	(1.06e-06)	(1.18e-06)
trad. Ser * China	1.97e-06***	1.87e-06***	1.96e-06***
	(6.35e-07)	(6.04e-07)	(6.34e-07)
mod. Ser * China	1.07e-05	1.85e-05	9.99e-06
	(4.93e-05)	(4.20e-05)	(4.93e-05)
trad. Manu * Other	2.48e-06*	1.67e-06	2.44e-06*
	(1.27e-06)	(1.04e-06)	(1.27e-06)
trad. Ser * Other	-2.64e-06	-2.05e-07***	-2.65e-06
	(3.31e-06)	(6.79e-08)	(3.31e-06)
mod. Ser * Other	-2.47e-06	6.70e-06	-3.07e-06
	(3.28e-05)	(2.21e-05)	(3.28e-05)
observations	1,058	1,182	1,058

Exhibit Table 5: Estimation results of FDI on R&D from Chinese Taipei

	R&D(A)	R&D(B)	R&D(C)
Log(inv_China)	0.123	0.108	0.021
	(0.207)	(0.185)	(0.204)
Log(inv_Other)	-0.019	-0.015	-0.039
	(0.195)	(0.173)	(0.195)
Better_China	0.760	0.668	0.533
	(0.821)	(0.719)	(0.821)
Better_Other	1.069	0.955	1.163
	(0.704)	(0.628)	(0.706)
Talent_China	1.003	0.932*	1.151*
	(0.615)	(0.544)	(0.615)
Talent_Other	-0.214	-0.179	-0.392
	(0.610)	(0.540)	(0.609)
Log(revenue)	-0.594	-0.373	-0.161
	(0.782)	(0.636)	(0.767)
Log(rd)	0.106	-	0.170
	(0.293)		(0.294)
Financial	-1.094**	-0.960**	-
	(0.433)	(0.384)	
Highskill	2.491**	2.195**	2.561**
	(1.194)	(1.069)	(1.200)
Industry Dummies (*ref.: electric & electronics*)			
traditional manufacturing	-0.771	-0.588	-0.834
	(1.516)	(1.393)	(1.525)
traditional service	-0.021	-0.038	0.149
	(1.716)	(1.478)	(1.725)
modern service	-0.212	-0.079	-0.458
	(2.418)	(1.971)	(2.429)
trad. Manu * China	-9.73e-08	-1.38e-07	-9.93e-08
	(3.18e-07)	(2.79e-07)	(3.20e-07)
trad. Ser * China	-1.53e-06***	-1.53e-06***	-1.55e-06***
	(1.70e-07)	(1.60e-07)	(1.71e-07)
mod. Ser * China	-3.31e-07	-2.74e-06	-1.14e-06
	(1.32e-05)	(1.11e-05)	(1.33e-05)
trad. Manu * Other	-6.99e-08	-2.66e-08	-1.13e-07
	(3.41e-07)	(2.74e-07)	(3.42e-07)
trad. Ser * Other	-4.07e-08	1.70e-07	-5.94e-08
	(8.90e-07)	(1.80e-08)	(8.95e-07)
mod. Ser * Other	-2.63e-06	-4.48e-06	-3.29e-06
	(8.82e-06)	(5.83e-06)	(8.86e-06)
observations	1,058	1,182	1,058

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Asia-Pacific
Economic Cooperation

American Feed Company Ltd
Viet Nam

HRM Toward Successful Business Strategy

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Executive Summary

Human resource management (HRM) models focus on the relevance between human resource strategy and the overall business strategy. Functions such as attracting, training and developing, maintaining and creating motivation for work are directly related to production and sales requirements. In order to take full advantage of financial, technological and managerial resources, FDI enterprises in Viet Nam have to link their business strategy to Vietnamese culture and people. On one hand, this development strategy should pay attention to issues such as labour recruitment, employment, salaries, training and development, and building harmonious labour relationship. At the same time, it should also focus on Vietnamese psychological – social needs and culture.

High-level leaders and middle-level managers play a decisive role in the success of the development strategy. They should be strategic thinkers, flexible in actions, easily adapt to changes, regularly get in touch with employees, highly responsible for employees and have the ability to promote innovation in the company.

This case study provides an analysis and evaluation of the human resource management in American Feed Company Ltd (AFC) and how it contributed significantly to the success and growth of the company in Viet Nam, despite its foreign origin and ownership.

Socio-economic Situations and Prospects of Foreign Investment in Viet Nam

Over the last decades, Viet Nam benefited greatly from a period of steady economic development, with an average annual GDP growth rate of 7.6% prior to the global crisis, placing Viet Nam among the fastest growing economies in the world.These achievements could be largely attributed to the *DoiMoi* (or Renovation) economic reform process that started in 1986, and promoted a series of structural transformations towards a decentralised and market-oriented economy, and encouraging private sector development and foreign investment.

In January 2007, Viet Nam became the 150th member of the World Trade Organization (WTO) after several years of intensive negotiations. As of January 2015, Viet Nam was one of the biggest exporters of commercial agricultural products such as rice, coffee, fish and rubber. Traditional exports of labour-intensive goods such as garments and footwear continued to sustain rapid growth, while high-tech, high-value products in electronics and automobile parts expanded rapidly. The past years of sustained economic growth in Viet Nam also saw the emergence of a large middle class and remarkable progress in poverty reduction, with the poverty incidence falling from 58% in the early 1990s to 14.5% by 2008 according to official estimates.

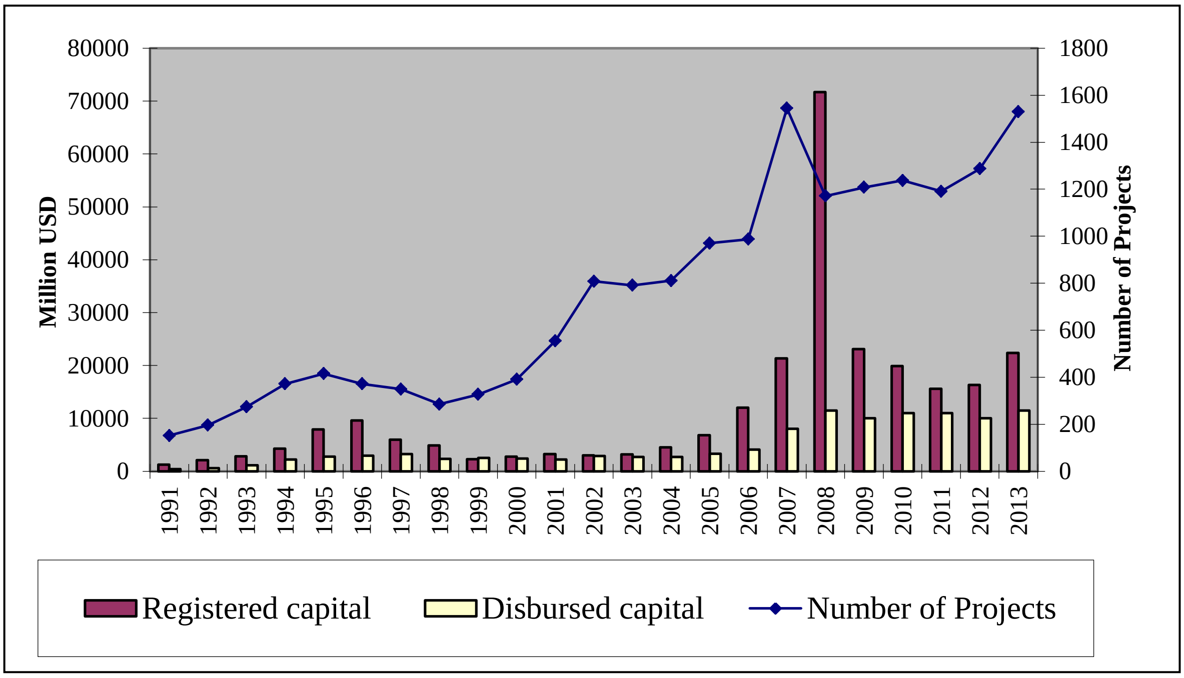
The renovation process in Viet Nam brought about social development challenges however. There were questions about the extent to which recent achievements in Viet Nam were translated into progress in well-being for all, and how structural transformation impacted on various forms of labour market. Some issues included the following:

- Improving human resource quality to facilitate labour restructuring and increasing labour productivity, thus generating more employment opportunities for improvement of income for workers

- Enhancing labour demand and supply matching
- Improving efficiency of the wage policy
- Improving labour productivity and competitiveness of the economy
- Enhancing the shift and restructuring of agricultural labour to non-agricultural (the process of industrialising and modernising the economy and promoting the shift of labour from agriculture to industry and services required refining the policies and programs to support migrant workers' access to living necessities so that they could stabilise their lives and work, and experience social integration at their destination)
- Expanding social insurance coverage in the context of rapid economic changes and aging population to strengthen social security for workers

Viet Nam became an attractive destination for FDI as it started the DoiMoi process in 1986 and stepped into the international economic integration process in the early 1990s. After becoming a WTO member in 2007, Viet Nam's FDI rose rapidly in both registered and disbursed capital (Figure 1). Economic policies in Viet Nam were adjusted to create more transparent and understandable conditions for enterprises to open goods and services market, as well as implement comprehensive innovation solutions across the economy in order to take advantage of opportunities and overcome challenges in the integration. This, in turn, encouraged foreign investors to do business in Viet Nam and to be more confident in raising investment capital and expanding the size of investment projects.

Figure 1: The number of projects, registered capital and disbursed capital, period 1991 – 2013



Source: The author, based on data from Ministry of Planning and Investment, 1991-2013.

FDI inflows to Viet Nam mainly concentrated on manufacturing and real estate. A major part of FDI capital came from Asian economies such that at the end of 2012, seven out of 10 biggest investors in Viet Nam were Asian economies. Total registered capital from these economies accounted for roughly 59% of total FDI inflows to Viet Nam.

Foreign investment brought about a vital capital resource for economic development during the integration period. From 2001 to 2006, prior to Viet Nam's membership in the WTO, FDI contributed 16% to the total social development capital.

From 2007 to 2014, together with a significant increase in disbursed capital, FDI's contribution to total social development capital rose to approximately 25%. Export turnover of this FDI sector in the latter period also rose sharply to about 47.8% (excluding crude oil) of the total export turnover of the whole economy. If export turnover of crude oil were to be included, this figure would have reached 58.2%. Moreover, the contribution of FDI sector to GDP during the same period also grew from 17.66% in 2007 to 18.09% in 2012.

Membership in the WTO opened a lot of opportunities for Viet Nam. The market for Viet Nam's commodities for export was expanded both for FDI and Vietnamese enterprises. The FDI inflow was important not only because of the huge additional capital that was raised beside domestic capital, but also because of the improvement in the productivity and competitiveness of the whole economy. This was manifested in the liberalisation of industries that used to be closed to foreign investment. These included service industries, especially those which were knowledge intensive — marketing, advertising, consulting, management, finance, insurance, information technology, e-commerce, supply, and distribution — and the fundamental elements of a knowledge economy that Viet Nam was pursuing.

Another positive impact on FDI enterprises was that the government had to facilitate publicity and transparency which created new opportunities for these enterprises. In the past two decades, Viet Nam grew from a backward agricultural economy to a newly industrial economy with a lower middle-income class.

The attraction and usage of FDI however also resulted in a number of consequences that affected Viet Nam's sustainable development goals. These included, among others, over-investment in real estate, weak connection between FDI and domestic enterprises, low technology transfer, negative impact of some projects on ecological environment, and lack of investment projects in remote areas.

Hence, despite significant achievements in the beginning phase of the industrialisation process, Viet Nam was coping with new issues. To achieve higher levels of income and technology, the early growth model which depended on quantity and commercial liberalisation should be replaced by a new growth model which would enable the creation of more domestic added value through human resource, productivity, and innovation improvement. While a number of FDI enterprises still followed the strategy of using cheap labour with low skills, they adopted human resource policies that were found to be inadequate and not transparent enough, resulting in many labour strikes and economic - cultural – psychological – social conflicts between managers and labourers. In this context, it is apparent that the strategy of FDI attraction and the strategy of human resource must be well connected.

American Feed Company Limited (AFC)

In 1995, the Archer Daniels Midland Company (ADM) took over a state-owned enterprise, the Northern Viet Nam animal feed factory and established the American Feed Company (AFC). The ADM was an American global food processing and commodities–trading corporation based in Chicago, Illinois. The company operated more than 270 plants and 420 crop procurement facilities worldwide. ADM utilised these facilities for the processing of cereal grains and oilseeds into products used in food, beverage, nutraceutical, industrial and animal feed markets worldwide.[1]

AFC was a limited company with 100% foreign invested capital.It became a member of Gold Coin Holdings in 2006.

Overview of Gold Coin Holdings

Established in Singapore in 1953, Gold Coin Holdings was a pioneer in animal nutrition and the manufacture of scientifically balanced animal feed within Asia. As of 2015, Gold Coin has remained one of the largest privately owned agri-businesses in the Region, employing 2,400 people throughout 22 production facilities, across 10 economies.

With a milling capacity of approximately 2.5 million tonnes per year, Gold Coin offered both the livestock and the aqua industries a wide range of products such as young animals and hatchery feed, premixes, concentrates and compound feed. Gold Coin also provided nutritional solutions and onsite technical support to customers to optimise farm production and performance, including feed management and disease control. Quality, safety and traceability of the products were of the utmost importance. Gold Coin production facilities were ISO 22000/HACCPcertified.

Gold coins have always symbolised good fortune, lasting value and superior quality. The gold coin analogy has been the company's guiding force over the years as it perfected its recipes and built a strong brand name and reputation as the market leader of premium quality feed. Gold Coin's strategy focused on achieving Profitable Growth and Attractive Returns to the shareholders, while managing the transition from a very Successful Past and adapting to the new Industry needs and Market Changes. Its goal was to be a reputable and well respected animal nutrition brand to its partners and employees, while evolving as one of the most efficient producers and provider of nutritional solutions in its chosen markets. Building partnerships with clients, suppliers and employees remained one of its key core values and drivers for further growth, in line with the slogan "GROW WITH GOLD COIN."

Gold Coin Values

Building Partnership
Efficiency/ ResultsDriven
Integrity
Multicultural Organisation.

Gold Coin employees represented 20 different economies from across the Americas, Asia, Australia and Europe. After a brief hiatus, Gold Coin was accelerating its business expansion and investing beyond its traditional markets.

In the last 60 years, Gold Coin has evolved into what can be seen today as one of the most successful feed milling operations in Asia. Confronted with keen competition and a constantly shifting business environment, Gold Coin's continued success will largely depend upon its ability to adapt and anticipate changes in the industry and marketplace dynamics.

Therefore, it is important that the company continues to channel its efforts toward the achievement of its goal of being "the most efficient producer of quality feeds in Asia." Growth will also remain at the center of its business strategy and there is no doubt that organisational development will be a key driver of successful expansion. Its people are its biggest asset and it has great interest to provide and support its employees' growth to excel in their chosen career. It delivers a range of exciting initiatives to drive its talent development both locally and regionally. It appreciates diversity by employing people from different background and nationalities, and work toward a common vision within the organisation.

The following Figure presents Gold Coin's growth in Asia.

AFC products/services

AFC provided commercial animal feed products to meet the demand for livestock production in the entire Viet Nam market.

The company had different product lines for three main categories: cattle, poultry and waterfowl, and aquaculture.

Its services consisted of two groups: the Business group and the Technical group. The Business group was in charge of expanding and developing markets, providing sales consultation to distributors, first-level dealers and retailers. The Technical group was responsible for after sale support, assisting customers as final users with technical issues such as, among others, diseases, breed selection/crossbreeding and livestock care.

Operation indicators

AFC was among the companies with high growth indicators in terms of production and business activities over the past five years. It was among the top 5 foreign invested companies which had the highest sales volume in Viet Nam. AFC was a prestige brand in the animal feed market, especially in North and in Central Viet Nam.

AFC was among the companies which fulfilled its tax obligations and contributions to the State budget over the years. It belonged to the list of 1,000 enterprises which paid the highest corporate income taxes in Viet Nam in 2013.

Total design capacity of AFC's plants in Viet Nam was approximately 500,000 tonnes/year. See Table 1 for a summary of AFC's production and business activities.

Table 1: Results of production and business activities:2010-2013

Indicators	2010	2011	2012	2013
The number of converted products(tonnes)	87,000	108,000	152,000	177,000
Revenue (millionUSD)	37.7	55.7	79.4	97.1
Profit after-tax (million USD)	1.1	2.3	2.4	3.7
Total assets (million USD)	9.3	10.8	14.5	24

Source: AFC, 2014

HRM Challenges and Solutions

Overcoming initial challenges to implement business strategy

When ADM Corporation (US) established AFC, it started to rebuild the factory in 1998. Previously, the Northern Viet Nam animal feed factory applied rudimentary processing technology which made use of separate machines in production. It utilised the centrally planned management with product quantity and categories assigned by the Ministry of Agriculture and Rural Development. Under this scheme, people were recruited and assigned to specific tasks in accordance with centrally planned principles. Recruitment was based on records and curriculum vitae submitted. Hired staff or workers were subsequently paid equally.

The toughest issue at that time was, on one hand, how to deal with labour matters to ensure the implementation of benefits and policies applicable to surplus labour (redundants) from the state-owned enterprise, and, on the other hand, to set up a labour force for maintaining factory operations in the first days of building and production in 1998. AFC decided to keep all 70 professional staff and workers who expressed their desire to work for the company. The former enterprise management staff, including the Chief Executive Officer, Managers and Deputy Managers who were regular members of the state's workforce moved to other state-owned enterprises or to offices within the Ministry of Agriculture and Rural Development. The company recruited only foreigners and highly skilled Vietnamese professionals for the management functions or positions.

This proved to be a wise decision as the former management team with their centrally planned management style was not appropriate for the new production technology of the US and the modern management style of the key people from foreign economies (Japan; Malaysia; Singapore; Sri Lanka; Thailand; the US; etc.). On the other hand, AFC could not also hire a big number of foreign workers because they demanded high wages. Thus, by keeping the local staff and workers, AFC was able to take advantage of cheap labour who knew how to operate an animal feed production system.

In addition, in the late 1990s and in early 21st century, a great number of FDI companies and other state-owned enterprises in Viet Nam such as Thailand's CP Group, France's "Con co," the US' Cargill, and Dabaco from BacNinh province started to expand their production to exploit Viet Nam’s big animal feed market.

Thus, it can be said that AFC adopted the proper investment strategy to penetrate the market while still keeping committed officers and workers.

HRM and native culture

For foreign managers, the most difficult adjustment that they had to make was to understand Vietnamese culture, custom and practices (e.g., where sentiment was more appreciated than reason, older persons were listened to and highly appreciated, “family” working style was preferred, an issue was often put under qualitative assessment with little quantitative evaluation, people wanted to have time for worshipping family ancestors and going to churches on the 1st and the 15th day of the lunar month and the Tet period, etc.). At the same time, they also had to know how these customs and practices might affect industrial production. These were manifested in such behaviours as disregarding work discipline, being late for work and leaving early, disregarding technology specifications, being fond of taking siesta, having little awareness of product quality, and having informal gathering during work hours, among others.

These local practices posed a big challenge for the new management team for a long time, given the management style of the US company wherein all positions had job descriptions, job requirements and working norms, and where evaluation of results was in accordance with specific evaluation indicators set up by direct supervisors.

The challenge of labour strikes

At that time, many labour strikes that happened in FDI enterprises were rooted in economic reasons and cultural – psychological – social conflicts between managers and labourers.

> In the period 1995-2006, some 1,250 strikes happened across Viet Nam, of which 66.8% occurred in foreign invested enterprises and 26.2% in private-owned enterprises. The number of strikes rose by roughly 7% annually. Almost all of them demanded for proper rights and benefits stated in Labour Code regulations. Culture was also a reason for the increase of conflicts. A number of foreign employers from Hong Kong, China; Japan; Korea; Malaysia; Singapore; Chinese Taipei; etc., had not understood Vietnamese culture, and even hurt human dignity and Vietnamese customs and practices.[2]

Up to 80% of the strikes that took place in Viet Nam before 2011, most of which happened in the FDI sector, were associated with wage, allowance and bonuses. One reason for the strikes was the workers’ limited knowledge and awareness of legal regulations and labour policies. Starting as farmers, a number of new workers accepted low wages with the hope that this would be raised in a short time. However, they found life in the factory difficult, but still felt the need for higher wages and better working conditions to fulfill their desire to travel, rest, and engage in cultural- spiritual activities. For instance, before and after the Lunar New Year, the relationship between labour supply and demand in the market changed sharply due to the fact that workers returned to the countryside to spend Tet holidays with their families and often came back to work late, oftentimes exceeding permitted vacation time regulated by enterprises.

Whereas, a number of FDI enterprises still followed the strategy of using cheap labour, the distribution of wage and bonus was not transparent enough. Hence, the relationship between workers and enterprises became "fragile." It was easier for workers to participate in strikes since they could always find work with other enterprises or go back to their localities and work in the informal economic sector. With the ease by which workers were incited and involved, strikes tended to spread from one industrial zone to another industrial zone, from one province to another province, from labour-intensive industries to high-tech industries.

AFC was not an exception. In 1999-2003, it faced similar management issues. To cope with these issues, the company's CEO initially tried to understand the needs of employees and focused on improving the staff's awareness of modern production and customer needs. Afterwards, the CEO regularly held meetings to exchange opinions, to "find out, commend, reward and replicate industrial working styles." Then, continuous training programmes in production management and organisation were conducted for target groups.

During the process, AFC applied a competitive wage strategy in which the minimum wage was 1.2 to 1.5 times higher than what was regulated by existing laws. Its average wage level was among the highest among FDI enterprises in the same industry. Most importantly, the company made all policies and regulations on wage and wage increase clear to its labourers. The company also explained explicitly that work assessment and wage adjustment should be in line with the achieved productivity increase. In particular, the company adjusted and supplemented benefits for workers, including meeting and seeing off workers to and from their localities during holidays, granting allowance for workers to send their children to kindergarten, providing housing allowance for migrant workers, improving working conditions, and organising labour union groups to share and support each other at work. These timely solutions helped the company maintain the necessary labour force and prevent strikes during its operating period.

The leaders of AFC at that time succeeded in harmoniously coordinating its modern management style and local culture, thereby preventing conflicts between the foreign managers and local workers. It adopted flexible management decisions starting with making adjustments to make the native lifestyle and work style adapt to production and business requirements of an FDI enterprise, and then moving towards compliance with the company's production disciplines and regulations. It also combined economic incentives and support for addressing social issues.

Developing a Human Resource (HR) Strategy to Cope with New Challenges

Recruiting and maintaining labour force for the development of the enterprise

In 2006, the American Feed Company Limited (AFC) became a member of Gold Coin Holdings. It faced the challenge of training and recruiting a Vietnamese middle-level management staff, including professional divisions and factory directors, to replace the foreign middle-level managers and to maintain a quality labour force to support its market development.

The global economic-financial crisis period of 2008-2009 acknowledged a great management lesson for AFC. Due to the impact of the crisis, a decrease in the demand for animal feed led to a surplus of workers at both managerial and non-managerial levels. By restructuring human resources and cutting costs, AFC cut off a big number of workers, including inefficient foreign middle-level managers and low skilled labourers. When the market demand picked up in the early 2010, the company was seriously lacking in personnel for key positions, from production director, sales officers, marketing officers to oven operating workers and others. This resulted in the reduction of sales revenue by as much as 15%. The company's market share declined and most importantly, a number of its significant customers left and bought products from its competitors.

In mid-2010, in the absence of a strong management staff trained on-site, AFC started adopting the strategy of attracting talented managers from state-owned enterprises and domestic companies. At that time, although employment services in Viet Nam was still limited in quality and network,[3] AFC maintained close relationship with training schools and employment companies, and made use of a number of recruitment channels. They undertook the following:

- Sourced talented managers through prestigious employment companies such as Work.com, Navigosor Manpower;

- Announced and directly recruited outstanding graduates from prestigious universities such as Hanoi University of Science and Technology, Hanoi University of Agriculture; and vocational training graduates from Hanoi University of Industry, Hanoi Industrial Vocational College, etc.

- Recruited local workers and provided them with on-site training. The Recruitment committee included both personnel and professional officers in-charge of technical, sales, equipment operations, etc. The committee conducted a series of interviews to find the most qualified candidates in terms of professional background and company culture. They hired production shift leaders, direct managers or technical divisions then organised trainings in coordination with outsourced teachers.

- Signed charter contracts for managing transport, carriage, security, and industrial hygiene.

The company complemented these recruitment practices with an offer of competitive wage, bonus and benefit package. The average wage was higher than what was provided by its competitors. Salary range for middle-level managers was from US$ 1,000 to US$3,000[4] while year-end bonus was equivalent to around 3-4 months salary. Other benefits included vacation leaves, welfare programmes, free lunch, travelling to work by company cars in case the workers lived far from the workplace, and providing key personnel personal cars.

By evaluating and using employees based on their efficiency, behaviour, and level of impact on the overall results, together with a reasonable wage and incentive scheme, the company could utilise and maintain quality and committed labour force.

Accordingly, while other FDI enterprises faced the problem of employee resignations and job transfers[5], AFC enjoyed a small labour turnover of less than 3% per year, despite the relatively big number of new employees each year; in one particular year, it recruited 30 professional officers and technical workers. Its migrant worker rate was always more than 50%.

As shown in Table 2 and Table 3, the company maintained an appropriately structured and high quality workforce in terms of qualifications, educational background, mix of local and migrant workers, workers under labour contracts and outsourced workers to ensure its development strategy.

Table 2: Number of workers and labour structure

No.	Content	2010		2011		2012		2013	
		Quantity	Prop. (%)	Quantity	Prop. (%)	Quantity	Prop. (%)	Quantity	Prop. (%)
I	***Total***	109		165		187		210	
II	***Labour structure by function***								
1	High-level managers (CEO, Deputy CEOs)	1	0.9	1	0.6	1	0.5	1	0.5
2	Middle-level managers (Directors, Heads of Division, etc.)	8	7.3	8	4.8	8	4.3	8	3.8
3	Professional – technical officers (indirect workers)	33	30.3	73	44.2	93	49.7	114	54.3
4	Workers having labour contracts	67	61.5	83	50.3	85	45.5	87	41.4
5	Direct workers being outsourced			36		36		44	
III	***Labour structure by skill and technical qualification***								
1	Higher or advanced studies/technical qualifications	4	3.7	4	2.4	4	2.1	4	2
2	University graduates	30	27.5	41	24.8	51	27.3	62	30
3	College graduates	15	13.8	18	10.9	26	13.9	29	14
4	Secondary technical graduates	16	14.7	19	11.5	21	11.2	28	13
5	Technical workers	44	40.4	83	50.3	85	45.5	87	41

Source: AFC, 2014

Table 3: Labour structure by seniority and place of residence in 2013 and 2014

No.	Content	2013		2014	
		Quantity	Proportion (%)	Quantity	Proportion (%)
I	***The number of workers and labour structure by seniority***				
1	Less than 5 years	136	64	158	64
2	From 5 to 10 years	41	19	52	21
3	From 10 to 15 years	21	10	21	9
4	More than 15 years	13	6	16	6
II	***The number of workers and labour structure by place of residence***				
1	Local workers	85	40	99	40
2	Migrant workers	125	60	148	60

Source: AFC, 2014

Building harmonious labour relationship and company culture to support development strategy and operation quality

Building fair and harmonious labour relationship was always a big challenge for FDI enterprises in Viet Nam. In general, numerous strikes occurred in Viet Nam with increasing complications, especially in the FDI sector where most strikes took place. Before 2011, some strikes centered on demand for workers' legal rights (rights dispute).

Other spontaneous strikes did not undergo conciliation procedures and compulsory arbitration. Strikes were not governed by grassroots labour unions;

Strikes happened with Asian investors many more times compared to European and North American investors (Chinese Taipei enterprises accounted for 36.3% of total number of strikes in the FDI sector, followed by Korean enterprises at 28%, and Japanese enterprises at 14%). They happened more frequently in labour-intensive and low-tech industries (garment, footwear, seafood processing). It was observed that provinces which experienced high industry growth rate, high labour demand and presence of many migrant workers bore the brunt of labour strikes. It was also interesting to note that strikes occurred considerably in the months of February and March (before and after Lunar New Year).[6]

Although AFC ensured that workers' rights were protected, there were requests, from workers for further benefits which put more pressure on the management. These included accommodation for workers, telephone allowance, travelling allowance and allowance for improving half-shift meals for workers, improvement in the working conditions by reducing dust and noise, equipping workers with means of labour protection, and addressing conflicts between workers and foreign managers who did not appreciate Vietnamese culture.

In order to prevent labour dispute that might lead to strike from happening, the AFC Management board shared the same viewpoint that "building harmonious labour relationship is a key factor for ensuring a high quality labour force and increasing competitive capacity." In this regard, AFC properly carried out regulations set up by Gold Coin Holdings and Viet Nam's labour legislations, especially agreed commitments signed with labourers. It did not fire workers without rational reasons.

The company signed labour contracts and provided fully paid social insurance for workers; increased salary annually as committed (the average salary growth rate was about 14% per year in 2007-2010, and roughly 16% in 2011-2014). It did not encourage working more shifts or overtime work that exceeded regulated overtime working hours except for force majeure. According to Viet Nam's legislation, overtime working hours could not exceed 300 hours a year. Aside from fully paid overtime working hours as regulated, AFC added some other allowances and welfare benefits such as danger and hazards allowance, responsibility allowance, diligence allowance, travel allowance, housing allowance, and vacation benefits, and improved half-shift meals for workers. The company set up various bonus schemes as incentives for workers such as innovation bonus, sales bonus, raw materials saving bonus, and in-time task fulfillment bonus. Loyal workers, who had been working for AFC for 10, 15, 20 years and over, were awarded the highest reward of up to US$ 2,500.

The company facilitated the operation of a trade union to represent workers interest to management. It also periodically organised dialogues and meetings for sharing viewpoints among the company's leaders, trade union officers and its workers.

Promoting sustainable production process

Together with building harmonious labour relationship, AFC gradually consolidated Gold Coin's "quality" culture and applied this flexibly in Viet Nam. To implement Gold Coin Holdings' leadership culture that focused on explicit responsibilities as expressed in the motto, "Doing business that respect and protect sustainable environmental development," AFC developed a widespread sales distribution system and cooperated with this system in implementing the supply chain (i.e., purchase –produce –process – supply – livestock raising - support services), and adopted sustainable and environmental development processes and practices. This was facilitated by company personnel, including engineers involved in livestock raising who subscribed to technologies supportive of environment protection.

Maintaining good relations with local governments

The AFC maintained good relationship with local governments and had a great number of significant social activities including contributing to building houses for the poor, participating in building infrastructure, sponsoring scholarships, giving rewards to outstanding pupils, supporting poor pupils to overcome difficulties, contributing to maintenance of security and safety in the locality, prioritising employment of local workers in Hai Duong province, and contributing to socio-cultural activities of the province.

As a whole, AFC's good image in the market and locality created favourable conditions for its expansion and development in accordance with its business strategy.

Localising high-level and middle-level managers

Prior to 2010, the company met difficulties in organising sales and implementing competitive strategy to expand market share. Decisions made at the highest management level still went through further analysis by decision makers down the line; hence, many opportunities were missed. Implementation of stipulated decisions was not coordinated and supervised by functional divisions. General and administrative expenses were increasing, especially the salary of key foreign personnel. In this context, restructuring became essential.

In 2011, Gold Coin Holdings decided to replace foreigners in the positions of CEO and middle-level managers in AFC with Vietnamese. This was a tough decision for Gold Coin Holdings. Consequently, a Vietnamese Deputy CEO was appointed to the post of CEO. The CEO had been working for the company for years, and had the ability and experience to identify and solve problems in a flexible manner. He was also well educated, experienced in different management positions, and was trained by the company.

The new CEO made a number of significant decisions and changes:

1. All positions in the company were reviewed such that all positions and functions would meet the requirements of company development, adding necessary tasks, adjusting regulations so that they were relevant and not overlapping, regulating responsibilities and authorities of the heads of divisions, and making use of information technology in their management functions.

   The CEO prioritized the reorganisation of sales personnel, assigning the most capable workers to supervise sales in provinces that were divided into regions, including the North and the Central regions. Animal feed product lines for poultry and waterfowl were sped up. Customer services division was split into two constituent units: business services and technical services. The business services unit was responsible for the market expansion and development, providing sales consultation to distributors, 1st level dealers and retailers. The technical services unit was in charge of after sales support, assisting customers as final users with technical issues such as livestock diseases, breed selection/crossbreeding, livestock care and others.

2. Training requirements were defined and a number of officers were sent to the Golden Coin Holdings' classes in Singapore for training, including those working in key positions previously held by foreigners such as HR manager, Marketing manager, Production manager, and Chief Accountant. After the course, the CEO guided them in aligning their functions to company goals, and assessing the training results through their achievements.

3. The company's recruitment board was consolidated. Previously, the board was composed of human resources officers and technical officers only. Under the reorganised board, the heads of divisions requiring new personnel and outsourced teachers conducting the training for the new personnel were added.

4. The HR manager was required to establish policies and benefits that would ensure the best working environment for workers. The Human Resources division coordinated with the trade union to develop company culture, support all workers in improving their knowledge, skills and responsibilities, and develop their affinity and loyalty to the company as their second home. Also, attention was paid to health care programmes, occupational safety and health, working hours and rest hours, work-life balance, and family members' welfare.

Having mastered Vietnamese culture and people, decisions made by the Vietnamese CEO were often decisive, quick and relevant to real life. The CEO assembled a management staff who understood strategic management ideas, and implemented them as planned or recommended alternatives. Since the workers had the chance to participate in the decision making process, they worked more responsibly, more creatively and more efficiently.

Accordingly, AFC's sales revenue and labour productivity grew faster at an average of 15% a year for the period 2011-2014. This significant growth was instrumental in making AFC one of the top 5 competitive enterprises for animal feed in Viet Nam (See Table 4).

Table 4: Labour Productivity and Income

Indicators	2010	2011	2012	2013
Number of workers	109	165	187	210
Productivity (tonnes/cap.)	798	655	813	843
Direct workers' average income (USD/capita)	171	214	246	283

Source: AFC, 2014

Developing required skills

Viet Nam's training system for human resources was not linked well to the market demand in quantity, structure and quality. According to feedbacks of many enterprises, undergraduate students could not meet their requirements. In 2012, according to results of a survey conducted by the World Bank on the relevance of university graduates' skills to recruiters' requirements in seven East Asian economies, including Viet Nam,[7] work behaviour skill was considered to be in short supply. This was especially true with soft skills including creative thinking, information technology, leadership, and problem solving. As stated in the Viet Nam Development Report 2014,[8] "most employers said that recruitment is hard as candidates do not have appropriate skills (shortage of skills) or due to a shortage of available candidates in a number of industries and occupations (shortage of skilled employees)."

In the same manner, a survey conducted by the Institute of Labour Science and Social Affairs (ILSSA)-Manpower in 2013 showed similar circumstances,[9] with nearly 30% of FDI enterprises facing difficulties in recruiting direct workers and office staff. Foremost among the qualities found lacking among potential workers/office staff was awareness of quality and punctuality/reliability as reported by approximately 30% in the group of direct workers and factory foremen. This was followed by ability to adapt to changes, ability to work in teams, ability to learn and apply new technologies, and lack of fundamental computer skills.

In this context, almost all FDI enterprises in Viet Nam preferred to choose employees who had good work behaviour and average-level skills. This suggested that foreign investors continued to pursue the business strategy of capitalising on the cheap and low skilled workforce in Viet Nam,[10] except for AFC which did it differently by choosing to upgrade technology and promote training.

In 2013, AFC built its third production plant in Viet Nam, investing more than US$14 million and raising its total production capacity from 200,000 tonnes to 500,000 tonnes a year. Plant 1 in Hai Duong province had a capacity of roughly 100,000 tonnes, Plant 2 in Dong Nai province 100,000 tonnes and the new Plant in Hai Duong 300,000 tonnes.

Employing Switzerland's modern technology and equipment including production lines, (Xilong – Grind – Dry up – Blend (in accordance with dependency ratios) – Pack into single-serve – Preserve – Bring to sales), the third Plant started operations in April 2014.

To meet the strictly technical and technological requirements, the AFC held continuous on-site training courses and sent professionals for further studies in universities in Viet Nam and overseas. Support for training, tuition fees, and favourable conditions for studying was provided by AFC to company staff who made arrangements to study to improve their technical qualifications. Beside providing training in technical and equipment operating skills, AFC concentrated on educating the staff on occupational health and safety, awareness of quality, awareness of work discipline, ability to work in teams, creative ability, ability to adapt to changes, and other soft skills that could improve overall work efficiency.

Moreover, AFC had special policies to keep and absorb talents. Apart from applying a high salary policy to keep capable managers, it provided employees incentive packages including salary, bonus, and comprehensive welfare, based on proper evaluation of employees' performance. It adopted Gold Coin Holdings' performance indicators, using 360-degree evaluation method from various channels (direct leaders, subordinates, customers, relevant divisions, etc.) in an open, transparent and democratic manner, thus making the results highly acceptable to the workers.

The company's physical and non-physical incentive system met most of the workers' expectations, and also helped the company to achieve its long-term development goals. It also served to attract and keep the best employees and maximise their contribution to company growth.The presence of highly qualified key personnel who had university education from prestigious schools in Viet Nam and overseas, and were highly skilled and trained became the driving force in AFC's development process. This group made up 27.3% of the total number of workers in 2011 and rose to 35% in 2014.

Lessons Learned from HRM Analysis

The transition process from the development approach based on the business strategy of Gold Coin Holdings to the development approach based on human resource strategy of AFC provides a number of important lessons as follows:

First, HRM development process in FDI enterprises cannot be separated from the economic – cultural – social environment where the enterprises are operating.

Second, HRM solutions should be implemented comprehensively with different priorities, depending on the stage of development of the enterprise. In the beginning period when a company starts its operation, emphasis should be on personnel stabilisation, recruitment, evaluation and employment. In the following periods, parallel to traditional solutions, policies associated with human resources are needed to create career paths for long-term development, including provision of training and development for employees, building harmonious labour relationship, developing company culture and facilitating work–life balance.

Third, solutions should take into account risk possibilities and preventive measures, restrictions and measures to overcome risks and deal with issues and problems. AFC's failure during the crisis period included changing the personnel complement without provisions for replacement. In addition, the lack of supervision in the recruitment process prior to 2011 created gaps in human resource that had to be overcome over time.

Fourth, product quality, brand and prestige of Gold Coin Holdings were the most vital components of company culture that helped gain loyal customers and increased demand for AFC's products.

Fifth, the consolidation and development of a loyal and high quality human resource made AFC one of the leaders in the animal feeds market. Its development strategy primarily focused on people. The major components of its human resource strategy addressed fundamental issues, including equal treatment, work assignment and position based on merit and actual capability; careful recruitment and training of employees; and provision of favourable conditions to help them develop in an innovative work environment which paid attention to company culture and an appreciation of work–life balance.

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[1] en.wikipedia.org/wiki/Archer_Daniels_Midland

[2] Nguyen Ba Ngoc (Chief author) – Nguyen DuyPhuc – Tran Phuong, *Labour relations and Business environments in Viet Nam*, Labour and Social Affairs Publishing House, Hanoi, 2008, p.133 and 141, 142.

[3] Nguyen Ba Ngoc, *Employment service in business development in Viet Nam*, Hanoi Publishing House, Hanoi 2009, p.166-173.

[4] In 2010, the average wage ofworkers in FDI enterprises was approximately USD 150.

[5] Labour turnover rate grew up to 20-30%. Specially, FDI enterprises lacked workers during holidays, at the beginning and at the end of Lunar New Year.
[6] Nguyen Ba Ngoc (Chief author) – Nguyen DuyPhuc – Tran Phuong, *Labour relations and Business environments in Viet Nam*, Labour and Social Affairs Publishing House, Hanoi 2008, p.133-134.
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NVK
Australia

A Mini Case

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The case was developed solely for educational purposes as a contribution to the project entitled "Strategic Human Resource Management System for Successful Foreign Direct Investment in APEC," conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). All names in the case have been disguised. The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

The Company*

NVK had been in operation for over a quarter of a century in Asia. As of 2015, it was one of the APEC region's largest manufacturers of refrigerators, laundry equipment and wine coolers.

A young local manager, Mr Wong, was appointed managing director of NVK in 1984. When he took over, NVK had a workforce of 450 employees, total assets of US$200,000, sales revenues of US$ 150,000, and a net loss of US$180,000. Under Mr Wong's leadership, NVK reported a workforce of 25,000 employees, total assets of US$1.2 billion, sales revenues of US$7.9 billion, and a profit of US$85 million by 2003.

NVK developed a set of horizontal business alliances in areas such as electroplating to make microwaves, air conditioners and freezers. It diversified into white goods and telecommunications products, with more than 120 subsidiaries across the world, 20 design centres, and over 35,000 global employees. Moving onto the international stage, it opened production lines in Indonesia in 1997, and in Malaysia and the Philippines in 1999. Its Australian marketing operations began in 2003.

NVK's Business Vision

> **"**Creating resources and worldwide prestige" – embraces innovation, a strong customer focus, "fashion and personalisation," with conscious concern for its environmental impact. Its strengths lie in its technological capabilities, corporate culture, global integration, spirit of innovation and an effective management control system.

Initially in a joint venture in Australia with a local distributor, NVK's global expansion strategy involved a 3-stage plan:

> *Get In* – exporting products to new markets
> *Stay In* – differentiation of products through marketing and product quality
> *Leadership* – market domination

NVK's HRM Vision and Goals

NVK had a set of specific HRM goals, which gave strong priority to excellence.

Vision:

> Promotion is based upon excellence, not appearance. During our HR development, we insist on innovation of notion, innovation of system. We keep creating a kind of environment that is fair, just and straightforward, and build up a set of mechanisms to develop personnel potentialities. Therefore, while we [present] our enterprise's objectives, we can offer each individual a developing space to realise his own value.

This vision was broken down into four major points:

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*The names of company and individuals have been changed for privacy and commercial reasons.

1. "Each individual is a talent, and promotion is based upon excellence, not appearance". This is an ambitious goal but it is not clear how precisely it is implemented.
2. "Who is incumbent, who shall be inspected." This implies that no one is able to escape scrutiny with respect to their performance.
3. "Usually the more deeply [the] dolphin dives, [the] more highly it jumps." This is a reference to expecting a high level of motivation from employees.
4. Using an "Elimination Quota." This is aimed at laying-off the percentage of poorly performing staff on a regular basis.

The Elimination Quota was based upon the so-called 3E cards, which daily recorded the job quantity, product defects, use of materials, condition of equipment, safety, work attitudes and discipline of workers. They were collected by managers, and the workers' wages were calculated accordingly, and then posted on bulletin boards. This approach strongly reflected Scientific Management (Taylorist) principles of work process analysis focused on efficiency and productivity. Employees were subsequently divided into the "good, the bad, and the trial" workers. The latter were subject to future dismissal if their performance was deemed below the expected levels.

While some of the expressions of these goals were rhetorical (or merely corporate jargon), they appeared to actively guide the development of HRM systems and processes, albeit in the unitarist traditions of Japanese or US companies–"fair, effective and efficient recruitment processes, training programmes, performance appraisal, payment mechanisms, and promotion systems, which match the objectives of NVK's global branding strategy."

HRM Challenges in NVK's Australian Operations

The adoption of these approaches in its Australian operations was demonstrably ineffective due to Australian work traditions and industrial relations systems. Its workers believed that they were overworked, and that the Elimination Quota system in particular was inequitable, even illegal, under local disciplinary and unfair dismissal legislation (Fair Work Act 2009, 2014). In a similar vein, while NVK's Australian HRM strategy was based on a rigorous performance management system, there was also considerable opposition to the symbolism of some of its performance and career management practices, in particular its "6S footprints," "smiling face" charts, and "race-track" career development framework.

The first practice required below-average performers to stand on a set of "footprints" on the factory floor daily and explain their reasons for under-performance. "Smiling face" charts performed similar functions, originally with red (excellent), green (average) and yellow (below average) variations. Given the mixed messages implied for western employees, NVK Australia switched to "tigers" (positive performance) and "rabbits" (under-performance) in its Australian and United States operations. While this worked to a degree in the US, it was less than successful in Australia, for both cultural and industrial relations reasons. It was variously considered offensive, overly simplistic, or even discriminatory under Australian equal employment opportunity laws. The "racetrack" model of career development, based on backing winners and eliminating losers, was similarly unpopular. Only a few of these practices were acceptable in the Australian work culture and its strong pluralist industrial relations history, thus hindering NVK's capacity to attract, motivate and retain high-performing Australian employees.

Following these unexpected reactions from workers which threatened the company's productivity and profitability, NVK senior managers consulted with the relevant union and employees, and replaced the offensive language and symbols with a more acceptable rewards and recognition system.

Lessons from the Case

Foreign companies investing in Australia need to understand unfamiliar local work traditions and industrial relations systems, and to adapt their HRM strategies and practices accordingly in order to attract and retain an effective and productive workforce. In particular, Australian notions of equity, fair and transparent work processes, conformity with "fair work" legislation, consultation and negotiation with relevant unions, are essential components of any HRM system.

Performance management techniques and reward programmes directly related to work performance need to be developed in consultation with employees and their unions. Both the processes and the outcomes of these HRM systems are of equal importance.

LL Enterprises
USA

A Mini Case

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Company Overview*

Formerly a government-owned organisation in Asia, LL Enterprises was initially very active in the development of optical character recognition systems. In 1990, it launched its first PC and became a producer of branded computer products in its own right. In 1994, LL Enterprises became a private company specialising in the design and manufacture of laptop computers, and was listed on the Hong Kong Stock Exchange. It also signed intellectual property agreements with several large American IT companies. Soon it became one of the top PC vendors in APEC. In 2005, LL acquired the personal computing division of a US multinational corporation and developed research centres throughout Asia. Its executive headquarters moved to Carolina (USA) in 2006 in order to maximise its foreign direct investment.

LL Enterprises Vision: "proactively building a talent pipeline, leadership development, building a strong employer brand."

Its business model was described as "built on innovation, operational efficiency and customer satisfaction, as well as a focus on investment in emerging markets." It also embraced high performance work culture principles, including effective global teamwork and collaboration, customer responsiveness, rapid decision-making, accountability for outcomes, and measuring what was important.

LL's corporate culture was founded on four key principles:

1) A strong corporate culture and a shared vision
2) Dual employee attitudes –Treat customers with care, and frugality
3) Managers should lead the troops
4) No one should abuse their position, take a second job, or discuss their salary with anybody in the company.

HRM Goals and Processes

HRM goals

> LL is dedicated to building the world's most innovative personal computers. We are creating a culture where people achieve their highest potential and deliver extraordinary results. No matter how large we grow, we will pursue innovative, creative people; relationships that are respectful; leaders who inspire, and meaningful work.

HRM values

LL focused on "creating space to develop employees, upgrading their value, and improving their working and living quality…consequently employees subordinate their individual pursuit to LL's long-term development."

It renamed its personnel department as a Human Resource Department as early as 1998. The HRM function was taken seriously, it had very professional staff, and was responsible for a plethora of integrated HRM processes. However, the terminologies used to describe its employees, i.e., "candles burnt until the end" or "rechargeable

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* All names have been disguised.

storage batteries" were more reflective of scientific management than modern western-style HRM.

This was because the use of these terms suggested to the US workers that they were regarded as (expendable) units of production rather than as human beings. In addition, it was considered counter-productive to the company's intention to design an innovative and creative IT culture similar to that of its competitors.

HRM strategy

Reflecting its business strategy, LL's HRM strategy was based on two key components, *defend* and *lure*. While the business applications focused on the internal and external environments, outcomes of the HRM strategy included talent attraction, development, mentoring and retention (*defend*), and more innovative employee recruitment techniques such as targeting university graduates and the extensive use of social media (LinkedIn, Facebook), and search companies *(lure*).

HRM Priorities and Practices

Talent management

LL's key corporate priority was talent management, encompassing an international Global Rotation Plan which encouraged managers to work overseas to gain international experience in order to be able to lead at a global level. According to LL's Human Resources Director, "We have very focused development programmes in which our top talents take up short and medium term assignments in other economies."

The programme was not aimed at parent economy managers (PENs) in principle, but was generally involved in sending PENs to the US for leadership development. The company also conducted an associated Rapid Leadership programme for Hi-Potentials in APEC (RLPHA) which combined talent mapping with individual development plans, coaching and mentoring schemes. It also established its own corporate university; conducted staged programmes which integrated induction, general technical, professional and managerial training; and presented a specific Female Leadership Development programme.

LL was especially innovative with respect to its performance management and rewards systems, and its retirement benefits.

The company's performance management process was well-structured, based on target-setting, employee guidance to reach these targets, regular performance reviews and associated bonuses.

The rewards system incorporated salary, bonuses and welfare incentives. Its unique bonus programme linked incentives to exceptional performance and was intended to reinforce employee commitment. Employees also had access to profit-sharing opportunities. Welfare benefits included healthcare for all employees and their families (including same-sex partners), generous holiday leave and provisions for individual employees' needs.

LL's retirement policy reflected similar Western programmes with a defined contribution plan, consisting of both the company and employees' supplements, related to years of service and the company's performance. The company also developed sophisticated corporate social responsibility (CSR) programmes, data privacy, employee complaint processes, and environmental and health programmes, together with associated internal committees (audit, compensation, strategy and governance committees).

HRM challenges

A multinational company (MNC), LL Enterprises has actively adopted western-style HRM strategies and practices in both its APEC and American operations. At the same time, the company attempted to retain some of its indigenous values and collectivist techniques, despite being headquartered in the US. This approach inevitably resulted in contradictions which potentially threatened the strength and sustainability of its corporate culture in its US subsidiary. Thus, while its innovative talent management, rewards systems and retirement benefits were attractive for US employees as they exceeded those offered by many of its competitors, the company retained a military-style disciplinary clock in clock out attendance system, and required employees who were late for meetings to stand behind their chairs for a minute or so.

Also, despite some of its admirable HRM programmes, the company, to some degree, damaged its social contract with its employees in January 2009 by retrenching 8% of its workforce and reducing executive rewards by 20-30% in the face of the global financial crisis. Given that similar actions by other US companies during the 1990s significantly damaged their corporate reputations for decades, LL Enterprises' attractive image in an intensely competitive industry might well have been harmed as well.

Finally, in pursuit of a high performance culture, LL initially replaced the US subsidiary's rewards policy of higher salaries and lower bonuses with lower salaries and higher bonuses. In the face of employee complaints however, it was forced to revert to the earlier policy.

Learning from the Case

The key learning from this case is that MNCs such as LL Enterprises which choose to combine Asian and Western HRM strategies and practices need to ensure that their approaches are congruent rather than contradictory. Thus, employee-centred HRM systems and participative leadership styles, while appropriate to the US work culture, are threatened by "control and command" management techniques. In the latter respect, terminology is an important issue – describing employees as "candles" or "storage batteries" is unacceptable in a Western context, and is counterproductive.

Company responses to the global financial crisis with respect to the retention or retrenchment of employees during difficult financial periods demonstrate that the former approach leads to significantly greater employee commitment and return on business investment. Similarly, mergers and acquisitions require careful analysis of the HRM systems previously utilised and those proposed by the (new) dominant partner, in order to assure their acceptance and protect their global investments.

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