



**Asia-Pacific
Economic Cooperation**

**Establishing Best Practices on Human
Capital Development to Enhance
Productivity, Quality, Competitiveness
and Innovation among SMEs in Korea,
Malaysia, The Philippines and
Chinese Taipei**

**Human Resource Development Working Group
Capacity Building Network**

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Report Highlights

This report on “Establishing Best Practices on Human Capital Development to Enhance Productivity, Quality, Competitiveness and Innovation among SMEs is a compilation of experiences on human resource practices from four APEC member economies namely, Korea, Malaysia, The Philippines and Chinese Taipei.

1.0 Objectives of the report

- Developing a framework to improve productivity, quality, competitiveness and innovation among the industries especially the small and medium enterprise (SMEs)
- Identify best practices on human capital development to improve innovation capabilities of SMEs.
- Developing and promptly the use of appropriate systems and standards to boost productivity among SMEs.

2.0 Overview of the report

This report comprises two main parts, the first part will examine concepts and proposed framework on some of the best practices on human resource and talent management being adopted by the industries. The second part is a compilation of best practices on human capital development observed by each economy and supported by case studies to showcase how some of these practices are being adopted by the selected SMEs in the economies concerned.

The traditional approach to human capital development focuses on apprenticeship on a mentor-mentee relationship without any structured training. The advantage of this approach is its cost effectiveness and learning is through experiences and hands-on sessions. The down side of this system is that there is normally no succession planning and issues pertaining to attraction and retention of skills arises. Among the challenges are aging labour force, low female participation rate as well as the reluctance of the young labour force to be employed in these organisations which are deemed to be 3D (dirty, dusty, dangerous).

However, with globalisation together with the financial crisis experienced world-wide in the late 1990's, the scenario has changed. The focus is now towards investing in human capital to nurture and retain a pool of highly skilled talent-based workforce, who are able to rapidly adapt and respond creatively to economic changes. This is especially so, with the advent of both X and Y generations joining the labour market. Their core values and beliefs include self-reliance, ability to multitask, are goal and achievement oriented, entrepreneurial, tenacity, and are users of gadgets and technology. This young labour force is willing to take risks, appreciates speed, thrives through networking and believes in collaborating and cooperating.

HRM practices is claimed to establish the tone and conditions of employer-employee relationship. In turn, this relationship can encourage or discourage employees to become more innovative and productive. Most studies on HRM practices suggest that high commitment practices by their very nature enhance employee commitment.

At the organisational level, it can be concluded that while HRM practices varies from organisations to organisations and there is no one system that best meets the needs of all organisations. It is vital for organisations regardless of size to implement some level and extent of HRM practices. HRM practices comprise a system that attracts, develops, motivates and retains employees to ensure the implementation and the survival of the organisation and its members.

Human capital development should not only be within the organisation, but must also align towards market orientation. The change in trend on consumers behavior such as offline purchasing in the retail sector has set a pace for human capital development to be aligned with latest technologies that will provide speed, convenience, timeliness and cost savings.

3.0 Human Capital Development Frameworks

Among the human capital development frameworks identified in the reports from the four economies include:-

- 3.1 **A National Integrated Human Capital and Talent Development** framework which emphasises on life-long learning from early childhood, preschool, basic education, tertiary education to professional working life and retiree/second career.
- 3.2 A framework on **Human Capital Development Pillars**: core values and pillars. Core values drive the success of organisations and set them apart from competitors, while the pillars such as care for people, career growth, fair and reasonable practices, competitive remuneration packages, flexible working environment, two-way communication and emphasis on growing people will drive employees towards achieving higher productivity.
- 3.3 A model **Linking High Performance Work System (HPWS) with Firm's Performance** was developed to evaluate the co-relationship between firm performance which is the principal dependent and four broad human resource sub-systems of human resource flow, rewards systems, employee influence, and work structure. Firm performance and HPWS strategy are the principal dependent variables in the model. It was found that there exists a positive and strong correlation.
- 3.4 Components of **Talent Management Framework** generally include components of another talent management framework include company vision, mission and core values; business plan to achieve medium long-term goals;

workforce plan to help meet the business plan; talent acquisition for key positions both internally and externally; retention strategies, exist plan and organisational health. The talent management is the combination of human resource activities that involve selecting the right people, developing their potential, driving their enthusiasm, building their commitments and also providing support during transition periods.

- 3.5 The **Human Resource Index (HRI)** measures and monitors the competency of the workforce and leadership capabilities and its impact on organisational performance. The HRI comprises HR system index and the human capital index. They are further divided into four categories namely recruiting excellence index, HRD index, performance and compensation index and HR competence index. On the other hand, the human capital index is classified into two categories namely human capital index and leadership corporate culture index.
- 3.6 **Work-Life Balance Framework** is about reconciling work and family life has been an issue of growing importance over the past decade. Employees are now not solely looking to get more income but also for better quality of life through work-life balance. Work-life balance is about employees having a measure of control over when, where and how they work while at the same time, helping company to gain a competitive edge in an ever-changing environment. Work-life balance ranks as one of the most important workplace attributes, second only to compensation, and workers who feel they have a better work-life balance tend to work 21% harder than employees who feel over-worked.

4.0 Experience from Korea

Human resource management practices in Korea are similar to those adopted by Western firms. Korean firms restructure themselves to reduce labour cost by employing flexible utilisation of human resources. Some of the initiatives which the government can offer to expand the human resource development programme (HRD) for SMEs including developing e-blended learning that can be offered by all training institutions for the development of SMEs. Many studies on human resource management have shown positive correlation between productivity; recruitment; education and training; compensation and organisation. Hence, an Index to assess firms HRM performance comprehensively had been developed.

The Human Resource Index (HRI) consist of HR system index and workforce competency index. The HR system index comprises recruitment excellence index (REI); human resource development index (HRDI); performance and compensation index (PCI) and human resource competence index (HRCI). Whereas, the workforce competence index (WCI) consist of human capital index (HCI); and leadership and corporate culture index (LCI). There was a wide gap in HRI between SMEs and the larger firms. Among the economic sectors, the financial sector accounted for the highest HRI score. A one score improvement in HRI can lead to significant sales increase.

Field oriented HRD management programme should be emphasised by activating structural on-the-job training (S-OJT) to boost the productivity of SMEs directly. Current challenges of the SMEs are their reluctance to invest in HRD programme worrying about losing valuable human resource after investing in them. This occurs as employees who have been up-skilled will have better job mobility thus leading to higher turnover for the organisation. There is also an issue of the inability of SMEs to match wage rates offered by larger firms. Under this situation, SMEs have to settle with lower level of human resource and limited qualified technical workers.

5.0 Experience from Malaysia

Malaysia has a holistic and structured approach to SME development at the highest level. The National SME Development Council (NSDC) brings together related ministries implementing SMEs programmed to decide on the direction for SME development for the economy. One of the key initiatives of the NSDC is the SME Masterplan (2012-2020) aligning the goals of SME development with the aspiration to become a high income nation. The Masterplan sets the stage for a comprehensive approach to provide a supportive and conducive eco-system to enhance the overall contribution of SMEs to the economy. One of the factors identified in the Masterplan is human capital development that will influence the performance of SME.

A continuous learning model emphasising on life-long learning is being implemented. This approach will nurture and develop Malaysians across their entire life cycle, from early childhood education, basic education, tertiary education and all the way to their adult working lives. One of the most important feature of Malaysia's human capital development is the establishment of the Human Resources Development fund (HRDF) with the aim of developing Quality Human Capital and World class Workforce to achieve a high income economy based on knowledge and innovation. SMEs registered under the HRDF can also utilise their levy to attend human resource related programmes offered under the SME Training and Partnership (SMETAP) scheme.

Some of the initiatives which can be carried out by SMEs include emulating some of the best human resource practice adopted by award winning companies such as using a holistic approach incorporating the eight pillars of human resource development encompassing care for people, career growth, fair and reasonable practices, competitive remuneration packages, flexible working environment, two-way communication and emphasis on growing people.

Among the challenges faced by SMEs are that they are more concerned about their survival rather than giving emphasis to training and skills development of their employees. The fear of losing employees once they have acquired the necessary knowledge and skills leading to high labour turnover is another area of concern. It is also observed that many SMEs are not aware of the many HRD programmes and incentives offered by the government.

6.0 Experience from The Philippines

In The Philippines, one of the main focus is the National Competitiveness Council's education and human resource development working group. This group aims to develop Filipinos into being globally competent by integrating the industry and education sector where matching of skills and knowledge are aligned towards establishing capacity to provide products and services that will cater to both domestic and international markets. One of the skills development programmes being implemented is the technical-vocational education and training system. It is one of the key measures to equipped workers with employable and productive skills needed in the industry and economy. It is designed as competency-based, accessible, and flexible to be responsive to industries requirements.

Programmes undertaken to help the SMEs include the implementation of the long-term Micro, Small and Medium Enterprise Development (MSMED) Plan 2011-2016 which focuses on four areas of helping the SMEs. The four areas are creating an enabling business environment; providing access to finance; providing access to both domestic and international markets; and enhancing the productivity and efficiency of the SMEs.

The talent management framework provides a guide for SMEs to emulate. This framework includes defining the company's vision, mission and core values before developing the business plan. The business plan is supported by a workforce plan comprising both talent acquisition and talent placement. However some form of retention strategies such as having competitive compensation programme should be given focus to retain the talent pool. Having good organisational health is vital as it serves as a barometer to gauge employees moral and satisfaction.

The main challenge faced by SMEs is the lack of structured training programmes for their employees. In many instances, employees were hesitant to attend learning sessions for fear that their productive time which equates to earnings (piece-rated) will be affected. It is also difficult to measure an enterprise's success in implementing human capital development initiatives. There is a need to innovate human resource programmes to fit the new generation of the workforce through reassessing the needs of these employees.

7.0 Experience from Chinese Taipei

In Chinese Taipei, success in human resource is a measure of how efficient firms utilise High Performance Work System (HPWS). HPWS is characterised by four sub-systems such as HR flow; reward systems; employee influence; and work structure which will have a positive impact towards firm performance. To ensure a continuous flow of highly skilled employees, a Framework on People Plan was developed. The framework includes four steps, a five year people plan; followed by building the talent pool; implementing the process and finally ensuring the system is in place.

Talent management and succession planning are also a critical in human resource management. It includes identifying critical jobs; developing talent pool; conducting performance and competence assessment; setting-up an integrated development plan for individuals in order to have a comprehensive succession plan. To be more competitive in the compensation package, a Total Returns for Work Compensation plan has been

proposed and should be implemented. Total returns are a summation of relational returns plus total compensation. Relational returns are concerned with developing hygiene factors to attract and retain employees. Total compensation looks at the monetary and benefits-in-kind that attract employees to continue their employment.

The government is encouraging companies to move to a performance-based system which will be a win-win situation for all. However many employees are skeptical of this system as they are afraid that the performance level set are not realistic. They also fear that, this system is not to motivate employees but to cut down the labour cost. They are also worried about the transparency of the appraisal process. These are some of the challenges and problems faced in many SMEs as reflected in the case quoted.

8.0 Recommended Human Resource Development Initiatives

The four economy reports provide insights into initiatives on human resource management with particular emphasises on human resource development at the national, SMEs, and organisational levels. Frameworks, best practices, issues and challenges are highlighted. To address the various challenges faced by SMEs, the following needs to be initiated:

8.1 Creating awareness among SMEs towards HRD programmes

At the national level, many human resource development programmes have been organised by various governments to help SMEs to achieve a higher level of competency. While these HRD programmes are made available to SMEs, many of them are still not aware of such facilities and the take-up rate is not encouraging. It is therefore imperative that more awareness campaigns be carried out to ensure that SMEs leverage on these programmes, incentives, grants, and funds offered by their respective government.

8.2 Mentor-Mentee partnership programmes

The mentor-mentee partnership programme between SMEs and large organisations as practiced in Malaysia under the SME Training Partnership Programme (SMETAP) should be emulated by other economies. Under this programme, HR practices in large organisations serves as benchmarks for SMEs. SMEs will be able to adapt and adopt some of these best practices implemented by established firms.

8.3 Talent management among SMEs

A platform for the development of leadership and functional capabilities cutting across all levels, business and individual exists to realise its strategy of building a pipeline of leaders with capabilities is a common practice among large organisations. Similarly, SMEs should adopt some measure of talent management to ensure a continuous flow of skills and talents. An important feature in talent management is the design of a work plan which includes talent acquisition and talent placement. There is also a need to develop a competence-based curriculum to develop talent.

8.4 Assessing the effectiveness of HRD on firm level performance

The reluctance of SMEs particularly the smaller ones to invest in HRD could be attributed to the lack of quantifiable results for their HRD efforts. A simplified measurement system

to assess the impact of human resource development such as the Human Resource Index developed in Korea could be implemented by SMEs as it is found that, HRI and total sales are positively correlated.

8.5 Online learning at the workplace

In this era of ICT and technology, human capital efforts can be made available easily at the workplace through online and e-learning programmes. SMEs who cannot afford to spare their manpower for external training can opt for training to be done at the workplace at their convenience. SMEs should embark on time and cost effective e-learning programmes to continuously enhance the skills and knowledge of their employees. As an added initiative to encourage employees to participate in these programmes, a skills-based reward system could be implemented.

8.6 Human capital development plan at the organisation level

SMEs should be encouraged to carry out training needs analysis to gauge knowledge and skills gaps. A human capital development plan which includes key elements of on-the-job-training, job rotation, multi-skilling and team building to enhance knowledge and capabilities of their employees should be emplaced. It is also vital for SMEs to match the values of the young generation to their training needs and aspirations so as to ensure greater retention rate. Work/life balance initiatives are becoming an important feature at the workplace and should be taken into consideration in developing HR plans.

9.0 Conclusion

Many studies in HRM analyses the relationship between human resource practices and firm's performance. The biggest impact of the HR strategy on financial performance will not be direct and immediate. Improvements will more likely occur incrementally, indirectly and over time, realised through the investment effects on intermediate outcomes like productivity, quality and customer satisfaction. HR professionals should continue to integrate its people policies and practices in support of the corporate strategy. The sharing of human resource practices and systems by award winning companies will go a long way in guiding SMEs towards developing and implementing better human resources processes.

At the organisational level, it can be concluded that while HRD practices varies from organisations to organisations and there is no one system that best meets the needs of all organisations. It is vital for organisations regardless of size to implement some level and extent of HRD. It would comprise a system that attracts, develops, motivates and retains employees to ensure the survival of the organisation and its members. HRD practices establish the tone and conditions of employer-employee relationship. In turn, this relationship can encourage or discourage employees to become more innovative and productive.



**Asia-Pacific
Economic Cooperation**

**Establishing Best Practices on Human Capital Development to
Enhance Productivity, Quality, Competitiveness and Innovation
among SMEs**

Case Experience of Korea

**Professor Sangho Kim and Jisue Kim
Korea**

1.0 Introduction

The Korean government was able to hasten the catch-up process by directing limited resources into a small number of strategically selected industries and absorbing advanced technologies from developed economies. During the process, the government supported large firms to overcome lacking resources of the economy, and small and medium enterprises (SMEs) were mostly left out from development and impede the economy. Currently, the government focuses on SMEs to correct huge imbalance between SMEs and large firms because SMEs play a critical role in resolving high unemployment, income disparity, and overall instability of the economy, which are main concerns in Korea.

The Korean economy faces serious challenges from rising imbalances between export sector and domestic sector, manufacturing sector and service sector, and large firms and SMEs, along with income disparity. Increasing gap in productivity between SMEs and large firms becomes a central issue of the economy because it is one of main causes for all other imbalances. Specifically, SMEs comprise 99% of all businesses and employ 73% of the workforce but only able to generate around 43.5% of output and 19% of exports in Korea. SMEs are earning much lesser profits than large firms, causing insufficient investments in SMEs relative to large firms. This leads to lower productivity and wage rate for SMEs in comparison to large firms, and SMEs face difficulty in recruiting competent employees to compete in the market which further deteriorates the profits and productivity of SMEs.

SMEs have to develop their full potential to enable the Korean economy to shift into a knowledge-based economy like other developed economies, which have competitive knowledge intensive industries and information-based services sector. To achieve this, SMEs must be able to adopt and adapt new systems to enhance their competitive edge by identifying best practices in human capital development, because human resource development (HRD) provides a knowledge pool for the firms which is becoming critical in a knowledge based economy.

However, SMEs face dilemma in HRD, which require more and better human resources to compete in the market and they do not have enough resources to employ them. Developing human capital is necessity for SMEs to grow and obtain technological edge to overcome disadvantage in size. Considering the importance of SMEs in the national economy, we need to understand and support the difficulties and circumstances of HRD for SMEs. The need to develop human capital development and expand its scope to areas that affect performance and competitiveness is very pertinent. Adopting best practices on enhancing human capital will provide the link to better planning and management of human capital resources resulting in higher productivity, improved quality of products and services, enhanced competitiveness and new and innovative processes in the business operations.

This paper investigates human resource management (HRM) systems and issues that affect productivity, competitiveness and innovation for SMEs in Korea. It identifies best practices on improving productivity and innovation capabilities of SMEs to enhance

efficiency, and develop and promote the use of appropriate systems and standards to achieve competitiveness among the SMEs. The paper also analyses government policies to promote human capital development of SMEs in Korea.

The rest of the paper is organised as follows. Section 2 provides an overview of the Korean economy focusing on policy issues and the background of SMEs in Korean. Section 3 provides new trends of human resource management, current practice of human resource management by Korean SMEs, and evaluation of HRM, along with policy issues in HRM for Korean SMEs. Section 4 presents two cases studies of Korean SMEs that was chosen to showcase SMEs best practices in HRM.

2.0 Overview of the Korean economy

2.1 Current Issues of the Korean economy

Korea is one of the most diversified and technologically advanced economies in the world, as its gross domestic product (GDP) grew on average 7.9% from 1971 until 1996. A strong manufacturing sector has catapulted Korea into a major exporter accounting for 32% of GDP, whereas services sector accounted for 57% of GDP.

After the Asian financial crisis in 1997-98, the Korean economy slowed down converging on a much lower growth rate: GDP in Korea grew annually by 4.8% from 1999 to 2013. Research institutes estimated and predicted a permanent drop in the long-term growth potential of the Korean economy based on rapid decrease in factor accumulation. For example, Korea Development Institute (KDI) forecasted potential GDP in Korea would decline to 3.6% in 2011-2020, 2.7% in 2021-2030, and 1.9% in 2031-2040 (Table 2.1).

Table 2.1 Growth Rate of Potential GDP of the Korean Economy

1981-90	1991-00	2001-10	2011-20	2021-30	2031-40	2041-50	2051-60
8.6%	6.4%	4.5%	3.6%	2.7%	1.9%	1.4%	1.0%

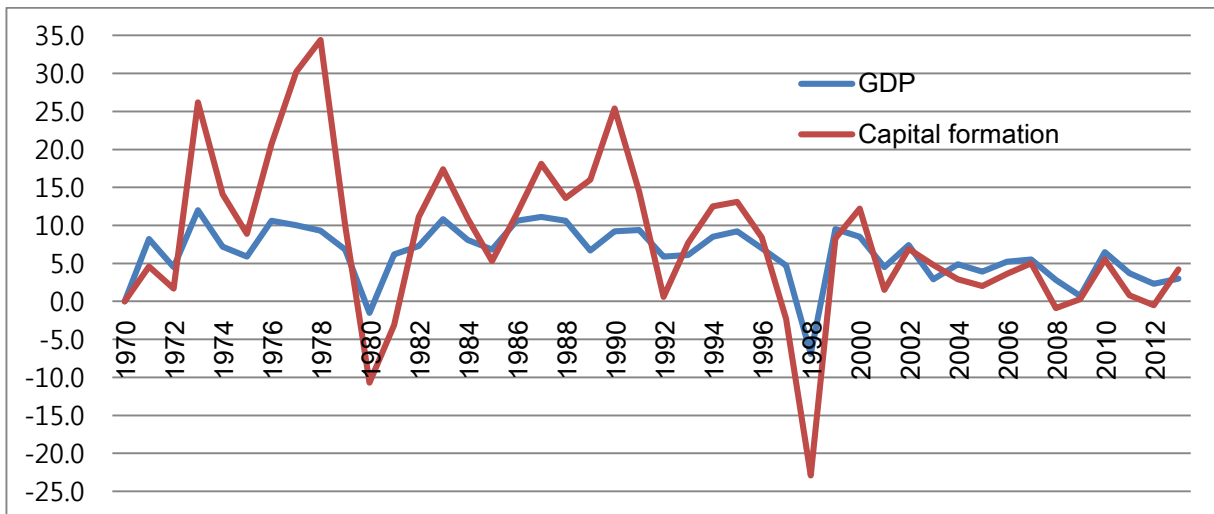
Source: KDI (2012).

The decline of potential GDP is associated with decreased factor accumulation resulting from aging and shrinking population that weaken the labour force of the economy along with decreasing investment that reduces capital accumulation. Aging is one of the biggest economic issues in Korea which experiences the fastest aging among the OECD economies: It became aged society in 2000 and is predicted to enter ultra-aged society in 2026.¹ Work force itself is expected to decrease after 2017. Economic vitality dampens greatly with aging which decreases demand, lower investment and productivity, and causes pension problem and mounting welfare cost. The Korean government is working hard to curb the trend but fertility rate continues to decrease.

Investment has always been strong during the high growth period of the Korean economy since 1960s, but started to decrease after two major economic crises. Investment used to lead business cycles in the past but now lagging after the Asian financial crisis and the rate of capital formation has always been lower than the GDP growth rate after 2002 (Figure 2.1). The decrease in investment is related with sluggish domestic demand of the private sector that owed a staggering 711 trillion Korean Won as debt in September 2014. The private sector greatly leveraged to buy financial and real assets that have failed to raise enough profits to pay out the debt which becomes a heavy burden to the economy by restraining domestic demand. When we compare ratio of domestic market per GDP, Korea's domestic market ratio constantly decreased and is about 70% while OECD economies have consistently maintained about 80%.

Figure 2.1 Growth Rates of Real GDP and Capital Formation in Korea (1970-2013)

¹ An economy is called aged society when percent ratio of people over 65 years old is greater than 7%, when and ultra-aged society when it exceeds 20%.



Source: KOSIS (Korean Statistical Information Service).

The Korean economy tries to move away from an investment-driven path toward a productivity-driven path of economic growth to offset decreased factor input accumulation to sustain economic growth. Thus, the Korean government focuses on enhancing technical progress to sustain economic growth and attain the status of a fully industrialised economy. The government identifies and emphasises the importance of total factor productivity (TFP) determinants such as research and development, education and training, institution and economic structuring. Despite the government efforts, competitiveness of the Korean economy is disappointingly low relative to its economic size in many areas.

According to 2014 results of Global Competitiveness Index (GCI), Korea's GCI ranked 26. However, evaluation of public and private institutions ranked 82, efficiency of labour market ranked 86, and goods market efficiency ranked 33 reflecting inefficiency due to regulations.

Table 2.2 Global Competitiveness Index (2014)

Category	Rank	Rank in detail
Institutions	82	Irregular payments and bribes 52, Favouritism in decisions of government officials 82, Wastefulness of government spending 68, Burden of government regulation 96, Efficiency of legal framework in challenging regulations 113, Transparency of government policymaking 133
Infrastructure	14	Quality of roads 18, Quality of railroad/port/air transport infrastructure 10/27/31
Macroeconomic environment	7	Government budget balance 14, Inflation 1, General government debt 55, economy credit rating 22
Health and primary education	27	Infant mortality 16, Life expectancy 15, Quality of primary education 44
Higher education and training	23	Secondary/Tertiary education enrolment 48/2, Quality of education system 73, Extent of staff training 53
Goods market efficiency	33	Extent of market dominance 120, No. of procedures to start a business 32, No. of days to start a business 18, Prevalence of foreign ownership 99
Labour market efficiency	86	Cooperation in labour-employer relations 132, Flexibility of wage determination 58, Hiring and firing practices 106, Pay and productivity 36, Women in labour force 91
Financial market development	80	Availability/Affordability of financial services 100/90, Soundness of banks 122, Regulation of securities exchanges 89
Technological readiness	25	Availability of latest technologies 30, FDI and technology transfer 73, Individuals using internet 15
Market size	11	Domestic market size index 12, Foreign market size index 6

Source: World Economic Forum (2014), pp. 234-235.

The Korean economy currently faces serious challenges from rising imbalances between export sector and domestic sector, manufacturing sector and services sector, and large firms and SMEs, along with income disparity. In particular, increasing gap in profitability, productivity, and wage rate between SMEs and large firms becomes a central issue of the economy because it is one of main causes behind all other imbalances (Table 2.3). Operating profit of large firms was 1.26 times greater than that of SMEs, causing inefficient investment in SMEs relatively to large firms. This leads to lower productivity and wage rate by SMEs, which face difficulty in recruiting competent employees to compete in the market which further affected their profits and productivity.

Table 2.3 Gap between SMEs and Large Firms in Korea (Large firms/SMEs) in 2012

Operating profit-sales ratio	Labour productivity	Wage rate	Capital-labour ratio
1.26	2.88	1.61	3.32

Notes: Numbers are ratio of large firms over SMEs. Source: Choi (2014)

The Korean economy tried to restructure itself to bring back economic vitality that catapulted itself to developed economy by addressing its incompetence. Among others,

the Korean government needs to restructure inefficient public sector and institutions that are ranked 82 in GCI ranking which is one of the areas with lowest GCI ranking (Table 2.2). Labour market is another area which requires reform to be par with its overall economic status to boost the productivity of the economy. Putting the right institutions should also be extended to the financial market which has been considered very inefficient, derailing the whole economy as we painfully observed during the Asian financial crisis.

The Korean economy should also address growing imbalances between export and domestic sectors, manufacturing and services sectors, and SMEs and large firms. The economy has to develop towards knowledge-based economy like other developed economies which have competitive knowledge intensive industries and information-based services sector.

2.2 Background of SMEs in the Korean Economy

1) Productivity Trend of SMEs in Korea

Table 2.4 shows the share of SMEs in terms of number of firms, number of employees, output, and added value were 99.0%, 73.5%, 45.3%, and 47.9%, respectively in 2009. The share of SMEs remained almost consistent during 2009-2012 period. SMEs accounted for 73.4% of total employment and were the largest employer. Output and value added of SMEs accounted for 43.5% and 45.2% respectively of the total manufacturing sector even though they employed 73.4% of the total employment.

Table 2.4 Share of SMEs in Korean Manufacturing Sector (2009-2012)

		2009	2010	2011	2012
No. of Firms	Total SMEs	57,996	62,376	63,047	63,907
	Large Firms	57,396 (99) 600	61,756 (99) 620	62,413 (99) 634	63,229 (98.9) 678
No. of Employees	Total SMEs	2,452,880	2,636,177	2,694,782	2,753,684
	Large Firms	1,803,604 (73.5) 649,276	1,956,409 (74.2) 679,768	1,986,772 (73.7) 708,010	2,020,990 (73.4) 732,694
Output	Total SMEs	1,122,987	1,326,114	1,491,351	1,507,834
	Large Firms	508,159 (45.3) 614,827	595,225 (44.9) 730,888	661,157 (44.3) 830,194	653,342 (43.5) 851,492
Added Value	Total SMEs	374,501	435,344	480,203	480,713
	Large Firms	179,554 (47.9) 194,946	196,024 (45) 239,320	215,630 (44.9) 264,574	217,295 (45.2) 263,418

Notes: Percent shares in parentheses. Output and value added are in billion Korean Wons.

Sources: KOSIS.

Table 2.5 shows labour productivity in Korean manufacturing by firm size and industry in 2012. Labour productivity was different across firm size and industry, and the productivity

of SMEs with 10-19 employees averaged about 18% of those large firms with more than 1000 employees.

Table 2.5 Per Capita Value Added in Korean Manufacturing Sector by Firm Size (2012)

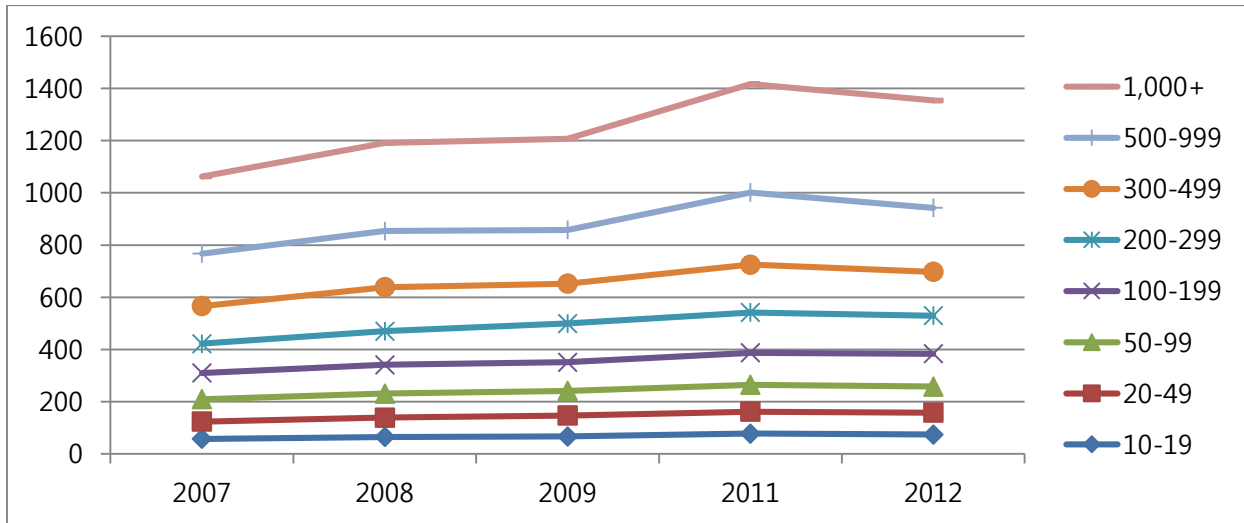
Industry	Firm size in number of employees								
	Total	10 ~19	20 ~49	50 ~99	100 ~199	200 ~299	300 ~499	500 ~999	1,000+
Total manufacturing	174.6	74.1	83.4	100.3	125.8	145.4	168.6	244.9	411.7
Food	127.3	71.0	75.1	95.1	108.4	171.5	234.6	184.1	289.5
Beverage	395.2	71.8	136.0	189.5	314.2	307.0	830.0	1008.6	620.2
Tobacco	975.6	n/a ⁺	n/a	107.8	248.1	n/a	1200.8	n/a	1072.1
Textile	72.6	63.5	68.5	74.7	88.8	56.2	169.1	45.6	52.1
Clothing	104.0	44.3	68.0	94.3	193.6	189.2	330.1	273.2	n/a
Leather & footwear	93.1	48.7	66.9	182.3	142.6	161.6	66.0	n/a	n/a
Wood	81.3	71.2	79.5	102.7	108.1	101.6	7.8	163.8	n/a
Paper	136.0	64.8	82.5	98.8	195.6	195.7	205.7	326.6	586.0
Printing	70.8	63.9	67.8	76.0	88.8	94.9	n/a	n/a	n/a
Oil	1878.1	84.5	150.9	397.2	618.1	777.2	n/a	n/a	2590.3
Chemical	355.7	109.6	127.9	160.0	286.8	388.3	307.4	856.2	513.1
Medicinal	270.9	92.5	141.6	207.7	276.3	268.5	391.9	558.5	n/a
Rubber & plastic	101.6	66.1	74.1	87.6	101.9	116.1	125.2	106.1	242.6
Non-metal	171.0	123.6	117.2	109.7	131.2	152.0	212.4	247.0	568.2
Basic metal	215.3	94.4	109.7	137.9	152.8	173.0	176.6	392.8	398.9
Fabricated metal	113.4	73.6	81.3	95.6	106.1	131.9	127.3	157.7	867.4
Computer, electro., IT	284.6	70.0	77.1	99.3	100.3	95.5	117.1	147.4	442.6
Medical & precision	100.4	74.6	89.3	92.7	131.0	108.0	140.6	96.0	189.7
Electric	118.3	71.9	75.3	92.0	122.1	109.8	154.7	187.0	297.7
Other machinery	112.7	82.5	92.0	106.8	116.1	124.8	140.3	175.7	283.8
Automobile & trailer	178.2	66.3	74.4	84.0	112.2	140.1	124.0	129.6	325.8
Other transportation	141.9	73.6	68.6	61.3	55.9	66.8	96.6	205.1	220.8
Furniture	82.8	58.2	65.1	89.0	160.7	67.3	117.9	88.4	153.9
Other manufacturing	76.0	67.0	70.3	75.7	105.4	97.8	171.7	n/a	n/a

Notes: ⁺denotes non available. Numbers are value added in million Korean Wons. Sources: KOSIS.

Figure 2.2 shows labour productivity depends on firm size. The productivity of SMEs grew slower than those large firms during 2007-2012 period which gradually increased the gap

in productivity between SMEs and larger firms.

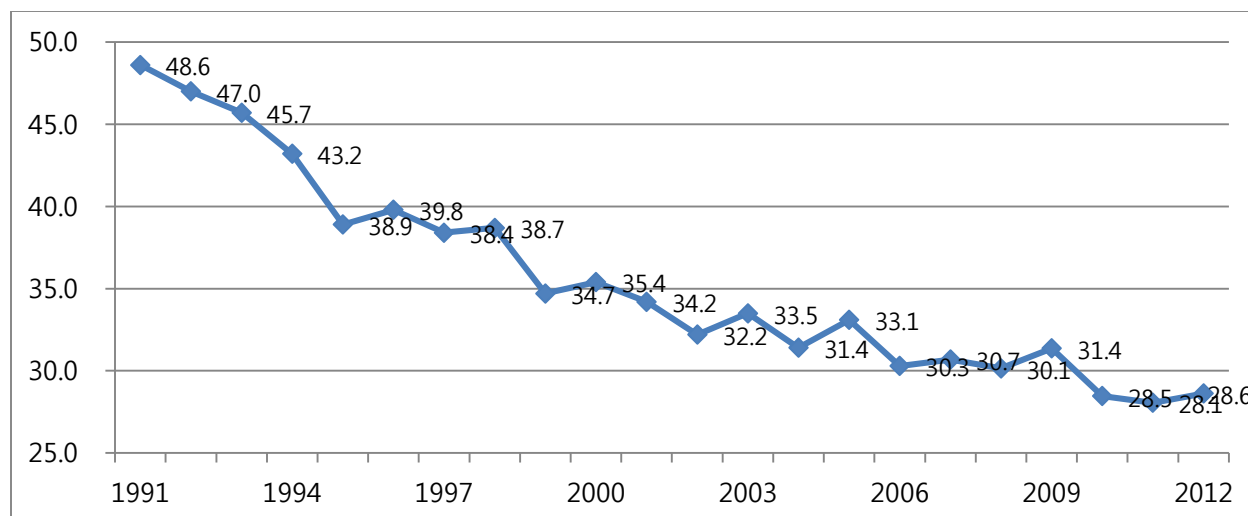
Figure 2.2 Labour Productivity by Firm Size in Korea (2007- 2012)



Notes: Year 2010 was omitted due to lack of data of more than 1000 employees.
Source: KOSIS

The ratio of labour productivity of SME to large firms declined by about 20% from 1991 to 2012, and the drop in the relative productivity of SMEs was steady during the period even though it was stabilised after 2005 (Figure 2.3). The continuous decline in SME productivity was due to both low capital-labour ratio and lower total factor productivity growth of SMEs relative to large firms. Labour productivity is the summation of the capital-labour ratio plus total factor productivity. Low capital-labour ratio of SMEs was associated with both low and sluggish investment caused by offshoring of parts and components by large firms to take advantage of low price from emerging economies. On the other hand, low total factor productivity growth of SMEs was due low R&D investment.

Figure 2.3 Ratio of Labour Productivity of SMEs to Large Firms in Manufacturing Sector



Source: KOSIS.

2) Innovative Capacity of SMEs in Korea

Table 2.6 shows various statistics for R&D investments by firm size for 2004-2011 period. Total R&D investments include R&D investment borne internally by firms themselves along with the investment borne externally by governments and other institutions. Total R&D investments by SMEs have rapidly increased from USD 435.3 billion in 2004 to USD1,267 billion to 2011. This shows that Korean SMEs were operating in an economic environment where competitiveness was necessary to compete with foreign firms due to the opening of the domestic market and globalisation.

Ratio of R&D investment in GDP for SMEs has also increased almost twice during the same period, even though the ratio between SMEs to large firms was still less than one third throughout the years. Ratio of total sales to R&D investments for SMEs increased from 0.89% in 2004 to 1.32% in 2011 which was about a half of that from large firms in 2011. Ratio of R&D investment borne internally was much smaller for SMEs with 85-87% compared to large firms with 95-96%, implying about 15% of total R&D investments by SMEs was supported and borne by government and other institutions. R&D investment by R&D workers for SMEs was slightly more than one-third of large firms, suggesting R&D resources was still much smaller for SMEs. Total number of R&D workers in SMEs increased by more than double from 50,000 people in 2004 to 117,000 people in 2011, and ratio of R&D workers to total employment was much higher in SMEs by about 50-80% than that of larger firms. This shows that more SMEs had been established and operating in high technology industries these days.

Table 2.6 R&D Investment of SMEs and Large Firms in Korea

	2004	2005	2006	2007	2008	2009	2010	2011
<u>Total R&D investment (100 million USD)</u>								

SMEs	4,353	4,698	6,387	8,194	9,559	10,319	10,412	12,666
Large firms	20,010	21,948	24,752	26,816	27,530	29,190	34,719	39,461
Ratio ⁺	21.8	21.4	25.8	30.6	34.7	35.4	30.0	32.1
<u>Ratio of R&D investment to GDP</u>								
SMEs	0.42	0.43	0.54	0.65	0.73	0.79	0.74	0.85
Large firms	1.93	2	2.11	2.11	2.11	2.22	2.46	2.66
Ratio	21.8	21.5	25.6	30.8	34.6	35.6	30.1	32.0
<u>Ratio of total sales to R&D investment</u>								
SMEs	0.89	1.12	1.26	1.37	1.26	1.24	1.31	1.32
Large firms	2.48	2.45	2.56	2.51	2.13	2.37	2.53	2.73
Ratio	35.9	45.7	49.2	54.6	59.2	52.3	51.8	48.4
<u>Ratio of R&D investment borne internally (%)</u>								
SMEs	86.6	85.1	84.2	85.4	87.4	85.4	85.8	87.1
Large firms	95.7	96.1	96.4	95.8	96	95.9	95.8	96.3
Ratio	90.5	88.6	87.3	89.1	91.0	89.1	89.6	90.4
<u>R&D investment per R&D workers (1,000 USD)</u>								
SMEs	86.5	81.7	92.6	105.1	110.1	106.1	103.3	108.3
Large firms	238.3	226.8	235.9	249.1	249.8	258.3	276.9	295.3
Ratio	36.3	36.0	39.3	42.2	44.1	41.1	37.3	36.7
<u>R&D workers (1,000 people)</u>								
SMEs	50	58	69	78	87	97	101	117
Large firms	84	97	105	108	110	113	125	134
Ratio	59.5	59.8	65.7	72.2	79.1	85.8	80.8	87.3
<u>Ratio of R&D workers to total employment</u>								
SMEs	14.0	14.37	14.38	15.01	14.90	15.14	14.68	14.57
Large firms	7.66	8.41	8.99	8.92	9.09	9.14	9.99	10.20
Ratio	182.8	170.9	160.0	168.3	163.9	165.6	146.9	142.8

Notes: ⁺are percent ratios between SMEs to large firms.

Source: All data are from Korea Institute of Science & Technology Evaluation and Planning, except the ratio of R&D investment to total sales taken from SMBA.

With increased R&D investment by SMEs, innovations are more intense than before. According to data at the Korea Intellectual Property Office (KIPO), number of patents registered by SMEs increased by more than double from 17,968 in 2004 to 35,485 in 2009, whereas those by larger firms decreased from 62,932 in 2004 to 44,698 in 2009 (Table 2.7). Furthermore, efficiency of R&D investment was much greater in SMEs which registered 3.44 patents per one million USD of R&D investment while large firms registered 1.53 patents with the same amount of R&D investment.

Table 2.7 Number of Patents by Firm Size in Korea (2004-2009)

	2004	2005	2006	2007	2008	2009
--	------	------	------	------	------	------

<u>Total number of patents</u>						
SMEs	17968	22163	25027	29592	32560	35485
Large firms	62932	72454	67816	59837	53211	44698
<u>Number of patents per R&D investment of one million USD</u>						
SMEs	4.13	4.72	3.92	3.61	3.41	3.44
Large firms	3.15	3.3	2.74	2.23	1.93	1.53

Source: Korea Intellectual Property Office (2012)

Table 2.8 shows technology developed by SMEs was more towards catching-up frontier technologies both domestically and internationally. Specifically, only 4.2% and 13.5% of new products developed by SMEs was totally new products created and partially new in the world respectively. Only 1.9% and 8.4% of improved products introduced by SMEs were totally new products and partially new in the world respectively. Hence a large portion of innovations by SMEs was devoted to catching-up rather than moving-ahead.

Table 2.8 Innovative Degree of Developed Technology by SMEs

	World first	Exist in some developed economies	Korea first	Exist in world-wide	Total
Developing new product	4.2	13.5	8.9	13.6	40.2
Improving existing product	1.9	8.4	7.9	25.6	43.8
Developing new process	0.5	1.5	1.4	2.8	6.1
Improving existing process	0.3	1.3	1.3	7	9.9
Total	6.9	24.6	19.5	48.9	100

Source: "2011 Technology Statistics for SMEs," the small Small and and medium Medium business adminis Business Administration (2011).

The above R&D statistics show SMEs had rapidly increased their investments in R&D even though there was still a huge gap in total R&D resources between SMEs and large firms especially at the individual firm level. Besides the recent innovations were derived mainly from SMEs rather than large firms implying the importance of SMEs as innovators for the Korean economy. This trend will continue but SMEs in Korea should shift away from traditional labour intensive production model to technology-based innovation model in order to compete internationally.

3) Globalisation of SMEs in Korea

Exports by SMEs

Korean SMEs wanted to export their products to sustain their growth by exploiting scale economies and other benefits resulting from exports. However, the share of SMEs in exports and the number of exporting SMEs had declined after the world economic crisis in 2007. Table 2.9 shows annual exports by SMEs and its share in total exports from 2000-2012. Exports by SMEs were USD103 billion in 2012, accounting for 18.8% of total exports in Korea. The exports grew by 4.1% per annum between 2000-2012, which was much slower than exports by large firms which grew 10.6% per annum. Ratio of SME exports in total exports to other OECD economies ranged from 23.4-68.5%. For European Union, SMEs with less than 250 employees accounted for 31.2% of total EU exports in 2005 (KIET, 2014).

Table 2.9 Exports by SMEs and Their Share in Total Exports (2000-2012)

2000	2005	2008	2009	2010	2012	Growth rates	
						09~12	00~12
63.5 (36.9)	92.1 (32.4)	130.5 (30.9)	76.8 (21.1)	98.6 (21.1)	102.9 (18.8)	10.1 -	4.1 -

Notes: Numbers are billion USD. Percent share of exports by SMEs in total exports are in parentheses.

Source: Small and medium business administration (2002-2013).

Table 2.10 shows SME exports were concentrated in five industries such as machinery, electric and electronics, chemical products, textiles, and iron and metal products. The five industries accounted for 85% of the total SME exports, suggesting that SMEs exported heavy and chemical industries more than before. On the other hand, exports were relatively small in traditional SMEs industries such as plastic and rubber products, textiles, and household products. Exporting markets for SMEs were concentrated in Asia with export concentration rate of 3.1.² The second highest was Europe with 0.7; followed by 0.6 in USA; 0.4 in Middle East; and Central and South America (KIET, 2014).

Table 2.10 Exports by SMEs and Their Share in Total Exports by Industry (2012)

² Export concentration rate is calculated as (exports to Asia by SMEs/total SME exports)/ (total exports to Asia /total exports).

	Exports by SMEs			Total exports
	Amount	Ratio	Growth rate	
Agricultural and fishery products	3,876	53.7	-2.96	7,214
Mineral products	2,313	3.7	0.75	62,700
Chemical products	14,508	22.2	0.06	65,289
Plastic and rubber products	6,284	43.0	-1.11	14,621
Textile products	11,098	71.2	0.46	15,595
Household products	1,584	45.8	-29.65	3,462
Iron and metal products	10,417	22.0	-1.09	47,420
Machinery	29,064	17.6	1.49	165,103
Electric and electronic products	22,293	13.5	0.76	164,615
Other products	1,214	65.6	6.51	1,851
Total	102,651	18.7	0.44	547,870

Notes: Products are classified according to MTI standard. Growth rates are one year from 2011. Numbers are million USD.

Source: Small and medium business administration (2013).

Entering the foreign markets for SMEs was challenging as exporting firms were larger, more competitive and more capital-intensive than non-exporting domestic firms. Thus, only 19.9% SMEs were engaged with exports in the manufacturing sector, and only 2.6% of SMEs export in the whole economy. Table 2.11 shows 41.7% of the exporting SMEs exported less than USD50,000, and 83.2% exports less than USD one million in 2012 suggesting a small scale of foreign business by Korean SMEs.

Table 2.11 Number and Ratio of Exporting SMEs by Export Amount (2012)

Amount of Export	Number of SME exporters	Ratio	Cumulative ratio
Less than 50,000 USD	35,843	41.7	41.7
50,000~100,000	8,865	10.3	52.1
100,000~500,000	19,726	23.0	75.0
500,000~1 million	6,973	8.1	83.2
1 million~5 million	10,467	12.2	95.4
5 million~10 million	2,041	2.4	97.7
10 million~50 million	1,758	2.0	99.8
50 million~100 million	149	0.2	99.9
100 million~500 million	42	0.05	100.0
500 million~1 billion	2	0.002	100.0
Total	85,866	100.0	-

Source: Jang and Kim (2013).

About one-fourth of SME exporters responded that they have competitive advantage against foreign competitors. Even though those who answered to have competitiveness in price, quality and design against foreign firms increased during the 2011-2013 period the SMEs answered so still remain only 24.8-27.4% of total SME exporters. This shows that Korean SMEs were not as competitive as they wanted to be thus limiting them in the foreign markets.

Table 2.12 International Competitiveness of Korean SMEs

	<u>Price competitiveness</u>			<u>Quality competitiveness</u>			<u>Design competitiveness</u>		
	disadv	equi	adv	disadv	equi	adv	disadv	equi	adv
2011	48.5	27.6	24.0	44.1	37.8	18.2	40.6	48.7	10.6
2012	53.2	23.4	23.3	41.0	37.2	21.8	37.1	49.1	13.7
2013	51.8	23.3	24.9	33.9	38.7	27.4	33.0	48.9	18.2

Notes: Disadv, equi, and adv denote disadvantage, equivalent, and advantage in export competitiveness, respectively.

Source: Jang and Kim (2013).

Foreign Direct Investments by SMEs

Many Korean SMEs are investing out of the economy through foreign direct investment (FDI) for varying reasons. According to a survey reported in Table 2.13, they pursued FDI to overcome domestic market limitation (52%), reduce production cost (20.1%), and construct foreign network (13.2%). There was a small number of innovative SMEs investing in foreign economies to learn and obtain innovative information (0.8%), even though most of SMEs were exploiting either low production cost or expanded market of foreign economies through FDI.

Table 2.13 Reasons for Foreign Direct Investment by Korean SMEs

Reasons	Ratio
Reduce production cost	20.1
Overcome limit in domestic demand	52.0
Procure raw materials	7.1
Learn and obtain innovative information	0.8
Construct foreign network	13.2
React to competing firms	2.5
Enhance global perception	4.3
Total	100.0

Notes: Based on a question with multiple answers.

Source: World Class 300 Policy Demand Survey, KIET (2010).

FDI by SMEs decreased sharply after the world economic crisis in 2007 but slowly recovered subsequently. Even though the reported number of FDI was much larger for SMEs relative to large firms, the amount per FDI was much smaller for SMEs (Table 2.14).

Table 2.14 Foreign Direct Investment by Korean SMEs

		2000	2005	2008	2009	2010	2012	2013	Growth rate		
										09~13	00~13
Large firms	No of FDI	692	1,177	1,792	1,584	1,748	1,794	1,777	2.9	7.5	
	Amount	2,832	4,265	17,400	17,053	20,663	21,107	18,964	2.7	15.8	
	Amount per investment	4.09	3.62	9.71	10.77	11.82	11.77	10.67	-0.2	7.7	
SMEs	No of FDI	2,230	3,891	5,482	4,120	4,259	3,983	4,323	1.2	5.2	
	Amount	2,255	2,284	5,557	3,051	3,312	3,365	4,596	10.8	5.6	
	Amount per investment	1.01	0.59	1.01	0.74	0.78	0.84	1.06	9.5	0.4	

Notes: Number of FDI is based on reported numbers. Amounts are in million USD.

Source: Export and Import Bank of Korea.

Table 2.15 shows China is the most popular destination for FDI by Korean SMEs, accounting for 20.1% and 22.5% of total FDI investment in amount and number, respectively. After China; the USA; Viet Nam; Panama; Hong Kong; and Indonesia were the popular choice. SMEs FDIs in China; Viet Nam; Indonesia; and Panama were mainly to exploit low production cost of host economies while in China; Hong Kong; and the USA were to access to the large domestic market of those host economies. SMEs' FDI to China is becoming more market-oriented these days with rapid increase in wage as compared with the past when most of Chinese FDIs were cost oriented.

Table 2.15 Foreign Direct Investment by Korean SMEs by Host Economy (2013)

	China	USA	Viet Nam	Panama	Hong Kong	Indonesia
Amounts of FDI	677	477	337	328	216	193
Ratio (%)	20.1	14.2	10.0	9.7	6.4	5.7
No of FDI	896	574	524	41	169	226
Ratio (%)	22.5	14.4	13.2	1.0	4.2	5.7

Notes: Amounts are in million USD.

Source: Export and Import Bank of Korea.

Globalisation of Korean SMEs is low relative to other developed economies both in exports and FDI for exports, only a small portion of total SMEs were engaged with international trade and their amount of exports were very small. SMEs need to enhance their exports to grow over the small domestic market, but they do not possess enough

competitiveness in price, quality and design. To overcome increasing production cost, Korean SMEs carry out FDIs in less developed economies offering cheap labour cost such as China; Viet Nam; and Indonesia. Recently, growing number of SMEs execute FDIs to gain easy access to large foreign markets and to gain new technologies in the developed economies. However, large portion of FDI by SMEs was still towards labour intensive light manufacturing industries.

Government Support for Exports and Foreign Direct Investments by SMEs

The Korean government supports the globalisation of SMEs in various ways from financial support to technical assistance and foreign marketing. Figure 2.4 summarises government support for SME exports in Korea. The Korean government conducts various programmes to support SMEs that lacks marketing capacity and competent manpower to sell their products in the foreign markets even though they produce competitive quality products. The programmes include overseas exhibition participation, nurturing foreign trade personnel, and domestic firms export support, which is to promote international marketing of SMEs. These programmes can be legitimately maintained by the government under WTO system that forbids direct financial subsidy to exporters.

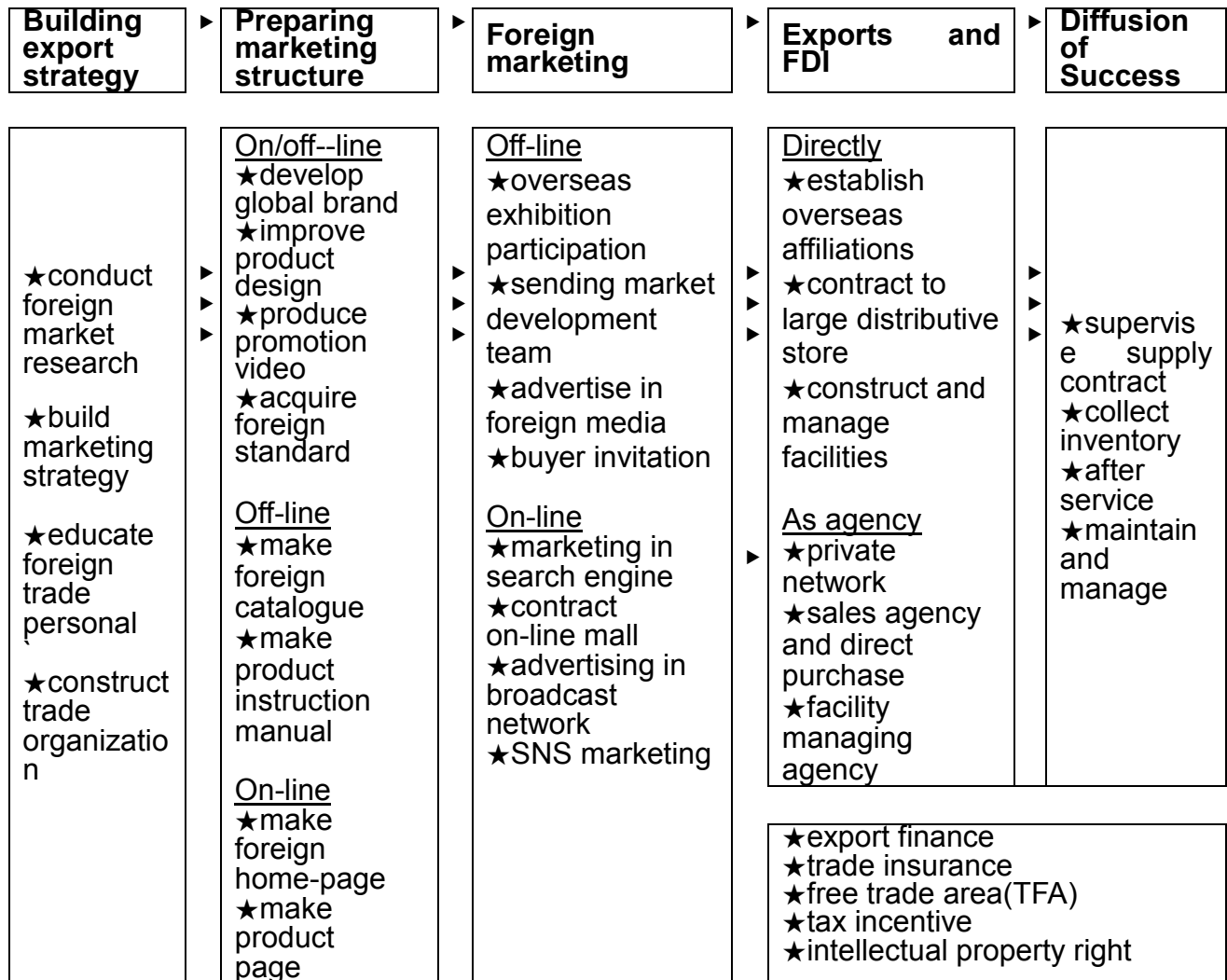
The export capacity enhancement programme is the largest government programme that supports SME exports comprising various activities including foreign trade education, design promotion, market research, buyer introduction, foreign exhibition participation depending on the export competence of SMEs. These export activities are packaged to help expanding SMEs export capacity. The application of programme was extended to SMEs exporting less than USD100 million to firms exporting less than USD 2,000 in 2011.

The programme of sending export promotion team is to encourage SMEs to venture into overseas market by supporting SMEs' participation in market development team and foreign exhibition. This programme provides opportunity to meet foreign buyers directly and producing visible outcome in the shortest period. The programme of foreign exhibition participation subsidises 50% of the total cost in renting booth, installing equipment, transporting exhibiting products, and operating cost when SMEs run a communal booth in the foreign product exhibition. SMEs participating consortiums are subsidised 70% of common expenses through three phases consisting of first phase of preparation like market research, second phase of going abroad, and third phase of follow-up management like buyer invitation.

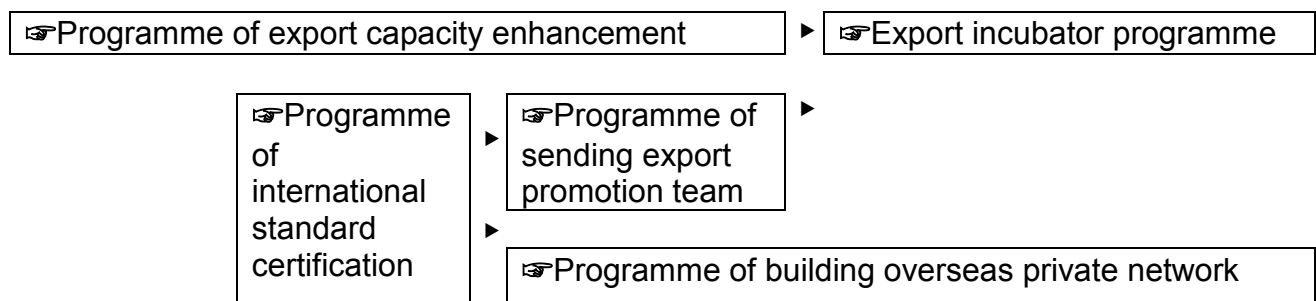
The programme of export incubation is to reduce the initial burden of SMEs when they established affiliated firms and branches in a foreign economy. This programme helps SMEs to reside in the foreign economy, improve marketing skill to carry out marketing by themselves, and help export expansion and overseas market advance by providing incubating services. The government managed 17 incubating centers in 11 economies in 2009.

Figure 2.4 Summary Diagram of Export Support for SME in Korea

Export process support by phase



Supporting programmes for each phase



Source: Lim et al. (2013), p. 163.

3.0 Human Resource Management by Korean Firms

3.1 New Trends in Human Resource Management by Korean Firms

In the past, human resource management (HRM) in Korea emphasised on providing job security and seniority-based incentives to derive loyalty from employees. This traditional HRM system has been practiced when Korean firms grew rapidly since the 1960s. During the period, the firms have always faced shortages in labour supply to meet their growing business. With the deepening of globalisation, the firms were concerned more with efficiency to compete internationally. Since the early 1990s, however, HRM practices in Korea have started to adopt practices of Western firms. This trend of westernisation in HRM practices became apparent and rapid after the Asian financial crisis in 1997 when the firms faced enormous pressure to restructure themselves to reduce labour costs by employing flexible utilisation of human resources. Under the new regime of flexible labour market which is defined by strong job mobility and short-term hiring, the traditional practices based on the job security could not be sustained.

Yu, Park and Kim (2001) reported the change in HRM practice from their study based on the panel of 744 firms in 1998 and 712 firms in 2000 chosen, among the firms listed in the Korean Stock Exchange. According to a study summarised in Table 3.1, Korean firms adopted many of new HRM practices including compensation, development and evaluation, employee involvement, and organisation design between the years.

Table 3.1 Adoption Rate (%) of HR Practices between 1998 and 2000

	HRM Practice	1998	2000
Compensation	Merit pay	35.0	45.2
	Profit sharing	25.9	40.7
	Team incentive	23.7	25.8
Development and Evaluation	Career development	23.0	23.7
	Specialist career path	21.0	20.0
	MBO	35.0	49.0
	Subordinate appraisal	15.0	18.3
Employee Involvement	Employee survey	26.1	32.2
	Employee suggestion	74.8	77.7
	Quality Circle	58.3	58.8
	Problem solving teams	58.5	59.6
	Joint committee	40.5	33.8
	Self-directed work team	28.5	29.8
Organisation	Team-based Organisation	54.2	80.1

Source: Yu, Park and Kim (2001), p. 4.

Table 3.1 shows wage system witnessing apparent reform. Many Korean firms changed their compensation system to link payment to performance by adopting merit payment, profit sharing and team incentives after the Asian financial crisis in the late 1990s. Job and performance based compensation system replaced traditional seniority-based one and became more popular. Employers wanted to link wages to productivity to enhance competitiveness and considered the change as one of central issues of restructuring

business practices after the crisis. This coincided with increased flexibility in the labour market that was introduced to adjust employment according to unexpected decline in demand and output during the crisis. Aging labour force was another reason compelling employers to adopt the new compensation system. With the change, more firms abandoned traditional wage system based on seniority with fixed base salary and predetermined annual increase to reward seniority.

As performance-based compensation expanded, firms need to evaluate job performance to implement the new payment system efficiently. They should also provide employees career development and career path that were not important under seniority-based compensation and promotion system. The evaluation became necessity under the new wage system, and more firms started to practice management-by-objective (MBO) and subordinate appraisal (or upward appraisal). However, no significant change in ratio of firms adopting career development and career path programme under the new wage system was observed. Considering HRD is to provide employees with the necessary skills for both current and future job demands, lack of any significant changes in career development and specialist career path are areas that need to be addressed in Korea. Thus, the practices should emphasis more to enhance the welfare of employees who felt their job securities deteriorated under the new system.

Korean firms were enthusiastic about running various employee involvement programmes since 1990s as a way to involve employees and enhance productivity. According to a survey in 1996, more than 90% of firms adopted employee suggestion and quality circles and more than 70% of firms operated employee survey, problem solving teams, labour-management joint committee (Yu, Park and Kim, 2001, p. 5). This trend continued until the financial crisis in 1997 when many firms stopped practising the employee involvement practices. Economic difficulties and restructuring made firms dropped the programmes that were not directly linked to productivity. However, some of the programmes are utilised more actively in 2000 compared to 1998 as the number of firms adopting the programmes of employee survey and employee suggestions increased significantly.

Finally, most noticeable change in Korean HRM practices is related with organisational reform. Firm structure in Korea is organised to enhance hierarchical ordering to promote the flow of command from ranks and files to secure and share firm's vision and objectives. This is to mobilise the strength of all employees to take care of business one at a time. However, this system of collectivism conflicts with performance-based compensation system because all employees share firm's business results together, making it hard to evaluate individual contribution. Also, the system has intrinsic bureaucratic costs as commanding line elongated from top to bottom. For this reasons, Korean firms tried to introduce team-based management system by reducing grade system and decision making procedure, empowering the teams consisting of a certain number of employees organised to meet task at hand to execute business activities. Under the team-based organisation, administrative work and decision procedures are reduced and team members share and deal with common tasks and goals. The team-based organisation became a norm for Korean firms as firms implementing the practice increased rapidly

from 54.2% in 1998 to 80.1% in 2000.

In summary, Korean firms have increasingly adopted performance-related HR practices such as annual salary, profit-sharing, MBO and team-based organisational design whereas there was little or no changes in HR practices related to employee development and involvement. The IMF financial bailout constituted an important momentum resulting in paradigm shift of HRM in Korean firms and this paradigm shift explains rapid changes in various human resource practices. However, changes in HRM models are neither unilateral nor direct because of the dynamics and constraints contained in the HRM system itself.

3.2 Current Practice of Human Resource Management by Korean SMEs

Human Resource Development (HRD) which creates knowledge pool for the corporate firms becomes more important in current knowledge-based economy than before. Firms tend to avoid investing in HRD worrying about losing valuable human resources after investing in them, as individual employees can change workplace easily to maximise their income and welfare under the flexible labour market in this information technology era. On the other hand, individual workers generally lack time, information and resources required to develop their own skills. Hence, the overall level of human resources existing in the economy is likely to be decided at the much lower level than the optimum.

Specifically, SMEs is in a dilemma regarding HRD as they require more and better human resources to compete in the market as well as lacking other resources which they cannot afford. Developing human capital is necessity for SMEs to grow and obtain technological edge to overcome disadvantage in size. Considering the importance of SMEs in the national economy, we need to understand and support the difficulties and circumstances of human resources development for SMEs.

Human resources investment by SMEs is very low in Korea relative to large firms. Table 3.2 shows that SMEs on average spent 15,000 and 14,600 for annual education and training cost per employee in 2008 and 2009 respectively whereas large firms spent 42,300 and 35,760 Korean Won. Thus the expenditures on HRD by SMEs was about 35.3% and 40.8% of those large firms. The gap in spending was much more if we consider overall average between SMEs and large firms with more than 500 employees: Large firms with more than 500 employees spent 63,400 and 49,700 Korean Won in 2008 and 2009 respectively which was 4.2 and 3.4 times more than SMEs investment.

Table 3.2 Monthly Costs for Education and Training per Employee across Firm Size

Year	Firm size (number of workers)
-------------	--------------------------------------

	10~29	30~99	100~299	300~499	500~	Total
2008	13.9 (0.4)	10.4 (0.3)	20.6 (0.6)	22.8 (0.6)	63.4 (1.2)	40.7 (1.0)
2009	13.0 (0.4)	12.1 (0.4)	18.7 (0.5)	23.6 (0.6)	49.7 (1.0)	34.0 (0.8)

Notes: Percent shares in total labour costs are in parentheses. Costs are in 1000 Korean Won.
Source: Business Job Training Survey 2008 and 2009, Ministry of Labour (2009-10).

Table 3.3 shows education and training hours generally increase as firm size increases firms with 5~9 employees trained 31.2 hours whereas those with more than 300 employees trained 41.9 hours during 2009-2010. Decline in training hours supplied by firms with 100-299 employees implied that government's support for HRD decreased when firm size increased over 100 which might be a selection criterion for subsidising firms.³

Table 3.3 Annual Education and Training Hours per Employee across Firm Size

year	Firm size (number of workers)				
	5~9	10~29	30~99	100~299	300~
2006-7	24.8	33.7	35.7	29.5	32.8
2007-8	30.2	35.9	40.4	35.1	40.5
2008-9	30.3	33.2	40.2	34.1	42.6
2009-10	31.2	33.2	38.2	33.3	41.9

Notes: Years represent one-year period from July to August.
Source: Population Survey of Economic Activity (2007-2010), Ministry of Labour (2007-10).

Relative deficiency of human resource management is apparent when firms emphasis on education and training programme, along with human resource development. Table 3.4 shows the ratio of firms having official education and training programme for HRD, budget to implement the programme, HRD specialised department, and HRD specialised personnel across firm size in 2008. The number of large firms having education and training programme and budget to implement was more than four times those of SMEs. Statistics on HRD department was worse as only 7.8% of SMEs established the HRD specialised department and only 10.2 % possessed personnel to manage HRD issues. On the contrary, about three quarters of large firms run the educational programme and actually support it with actual budget and about 60% of them had the HRD department and personnel.

Table 3.4 Education and Training Program, and HRD Infrastructure across Firm Size
Ratio of having

³ It is often argued that the threshold deters SMEs grow to becoming large SMEs fearing about losing all the government support concentrated on SMEs through adverse selection.

	Education & training programme	Education & training budget	HRD Specialised Department	HRD Specialised Personnel
SMEs	17.9	15.4	7.8	10.2
Large firms	74.7	72.5	58.3	65.5
Total	19.2	16.8	9	11.5

Notes: SMEs are firms with less than 300 employees.

Source: Jang (2010)

Due to lack of resources and organised programme, SMEs cannot train their employees adequately to compete with large firms. According to labour statistics for 2008, SMEs on average provided 31.3 hours for education and training per worker, whereas large firms provided 78.8 hours. Less than half of the total hours were internally provided by SMEs, while about two thirds were internally provided by large firms (Table 3.5).

Table 3.5 Training Hours per Employee across Firm Size

	Training hours per employee		
	Total hours	Internally provided	Outsourced
SMEs	31.3	12.5	18.8
Large firms	78.8	52.8	26.0
Total	63.2	39.6	23.6

Source: Firm's Job Training Survey 2008, Ministry of Labour (2009).

Table 3.6 presents the number and ratio of firms providing various human resource training by firm size. Paid training leave was implemented in 7.9% of surveyed firms, relocation training was provided in 2.5% of the firms while self-development training was supported by 19.5% of the firms in 2008. There exist huge gaps in firms providing the three trainings between SMEs and large firms. The gap was most noticeable between small firms with less than 100 employees and large firms with over 1000 employees especially in the area of relocation training.

Table 3.6 Number and Ratio of Firms Providing Various Training

Firm size	Paid training leave		Relocation training		Self-development training	
10-29	4,308	(5.4)	1,221	(1.5)	12,770	(15.9)
30-99	2,617	(11.0)	972	(4.1)	5,816	(24.5)
100-299	1,353	(21.3)	382	(6.0)	2,150	(33.8)
300-499	264	(29.5)	89	(9.9)	431	(48.2)
500-999	209	(30.6)	80	(11.7)	413	(60.5)
1000	157	(35.0)	66	(14.6)	288	(63.9)
Total	8,909	(7.9)	2810	(2.5)	21867	(19.5)

Source: Firm's Job Training Survey 2008, Ministry of Labour (2009).

Despite lacking in job training for SMEs, they knew the positive effects of job training very well. Table 3.7 shows that 65.9, 63.3, 51.6, 56.4% and 56% of surveyed firms reported

that they recorded improvement in job competence, motivation and morale, employee turnover, firm's productivity and firm's reputation by more than 30%, respectively. It should be noted that the effect on employee turnover also improved even though its improvement was the lowest. We generally think job training leads to increased turnover by providing competence of trained employees which cause SMEs to worry about losing employees after investing in HRD but the survey showed employees increased their job satisfaction and incentive after training and majority decided not to leave for other jobs.

Table 3.7 Effects of Job Education and Training across Firm Size

	Firm size	Improved more than 30%			Improved less than 30%
		Total	More than 60%	30~60%	
Job competence	Total	65.9	20.9	45	34.1
	SMEs	65.8	20.8	45	34.2
	Large firms	67.7	22.8	44.9	32.3
Motivation and morale	Total	63.3	21.9	41.4	36.7
	SMEs	62.9	21.6	41.3	37.1
	Large firms	69.5	27	42.5	30.5
Employee turnover	Total	51.6	18.7	32.9	48.4
	SMEs	51.4	18.5	32.9	48.5
	Large firms	53.7	22.1	31.6	46.2
Firms' productivity	Total	56.4	18.1	38.3	43.6
	SMEs	56.1	17.9	38.2	43.8
	Large firms	60.2	20.5	39.7	39.8
Firm's reputation	Total	56	18.7	37.3	43.9
	SMEs	55.6	18.3	37.3	44.4
	Large firms	63.9	25.8	38.1	36.1

Source: Firm's Job Training Survey 2008, Ministry of Labour (2009).

Table 3.7 also shows SMEs simply cannot afford to train their employees who were already burdened with enough workloads even though they understand the positive impact of job training. Actually, 26.7% of firms responded workloads of employees as a reason why they did not train their workers according to the same survey mentioned above. Another 12% of the firms indicated training cost as another difficulty in implementing training programme.⁴ Facing such difficulty, SMEs have to hire new recruits possessing enough job skills but they cannot compete with large firms in the labour market to do so.

From the lack of investment in human resources, SMEs in Korea are under a vicious circle in which disadvantage in the financial and output markets leads to difficulty in the labour market, resulting in low market power. They were hindered by inadequate human capital,

⁴ However, 57.6 and 41.6% of the firms reported their employees already possess the skill required to finish jobs or the jobs do not need difficult skills to warranty training, suggesting many Korean SMEs are labour intensively.

and cannot recruit and develop as efficiently as large firms due to their lower market manpower skill. Even though HRD is prerequisite to stop this vicious circle, SMEs were more towards market power and technology development relative to human resources. We can consider several reasons for this. First, SMEs like to prioritise their scarce resources in business activities towards production and short-run profits because investments in human resources not only take long to make impact on performance but also subjected to uncertainty. Second, SMEs were mostly involved in labour intensive industries that do not require sophisticated technologies. Thus, they can manage with manpower supplied by the labour market. Third, SMEs do not have facility and equipment to implement educational programmes individually along with lacking support from the government.

3.3 Evaluating human resource management of Korean firms

Researchers consider skill as a proxy for human capital to investigate the impact of human capital on firms' productivity. Skill can be acquired either by learning-by-doing or education and training. The former is often represented by years at the job and the latter is denoted by various indices of educational efforts. Education and training facilitate individual learning by teaching employees with new technologies adopted at workplaces and integrating haphazardly acquired skill in scientific and systematic way (Black and Lynch, 1996; Barron et al., 1997).

Many studies in HRM analyse the relationship between human resource practice and firm's performance. For example, Ichniowski et al. (1997) reported positive impact on productivity of the practices such as effective recruiting regulation, providing incentives system, educational training for workers, and cooperative employer and employee relation. Pfeffer (1994) suggested firm's productivity can be improved owing to increase in job security, conscious hiring, empowerment of decision-making, compensation linked to organisational performance, and training. These studies show HRM has many aspects encompassing recruitment, education and training, compensation, and organisation. Therefore, it is meaningful to construct an index that represents firm's HRM practices comprehensively to evaluate current status of human capital, HRD, and overall HRM practices.

In this regard, drawing on Kim (2007), we will describe Human Resource Index (HRI) developed by the Korea Research Institute for Vocational Education and Training (KRIVET), and analyse current HRM level of Korean firms based on the index. The KRIVET surveyed 500 Korean firms and more than 10,000 employees biennially to construct a panel data of Human Capital Corporate Panel (HCCP) consisting of a set of variables related with HRM. These comprised information about firms including general management, HR department including HRM, HRD, human capital, and R&D from firms, and information about employees such as current job status and other personal information, participation in vocational education and training, working environment, corporate culture, job satisfaction, and organisational absorption (KRIVET, 2011). Based on the panel data, Kim (2007) developed Table 3.8 below to estimate current status of human capital, HRM and HRD practices of Korean firms.

Human Resource Index (HRI) consists of HR system index and workforce competency index. The HR system index is further classified into four categories of recruiting excellence index, HRD index, performance and compensation index and HR competence index, while the workforce competency index is classified into two categories of human capital index, and leadership and corporate culture index. Based on the survey, each indicator for HRI can be calculated to evaluate each firm's HRM and human capital.

Table 3.8 Construction of Human Resource Index

	Area	Category	Indicator	score	
Human resource index	(60)	Recruiting Excellence Index (REI) (10)	Hiring cost per employee	2	
			Development of hiring questionnaire	2	
			Hiring stages	2	
			Ratio of open recruitment	2	
			Recruitment management	2	
		HRD Index (HRDI) (10)	Education and training cost (ETC) per employee	5	
			Ratio of ETC	3	
			Quality and achievement of education and training	5	
			Education and training hours	3	
			Developing core personnel	3	
		Performance and Compensation Index (PCI) (15)	Using E&T as merit rating	1	
			Effectiveness of evaluation system	3	
			Variety of evaluation grades	2	
			Ratio of employees promoted	2	
			Developmental status of annual pay system	1	
	HR System Index (HRSI) (60)	HR Competence Index (HRCI) (15)	Ratio of performance-linked payment	2	
			Difference in compensation	2	
			Ratio of welfare cost in total compensation	1	
			Welfare cost per employee	2	
			Independence of HR function	2	
		Workforce Competence Index (WCI) (40)	Human Capital Index (HCI) (25)	Education level of HR personnel	1
				HR function years of HR personnel	1
				Specialisation of HR personnel	2
				Role of HR department	2
				Intra-firm communication of HR department	1
		Link with strategy	2		
		Development level of e-HR	2		
		System improvement of HR function	1		
		Existence of ESI survey	1		
		Average level of education	3		
		Average years of service	2		
		Average experience	1		
		Competence of core personnel	4		
		Skill level of managerial employees	4 (2*)		
		Skill level and multi-capacity of production employees	2*		
		Utilisation of knowledge creation and sharing system	4		

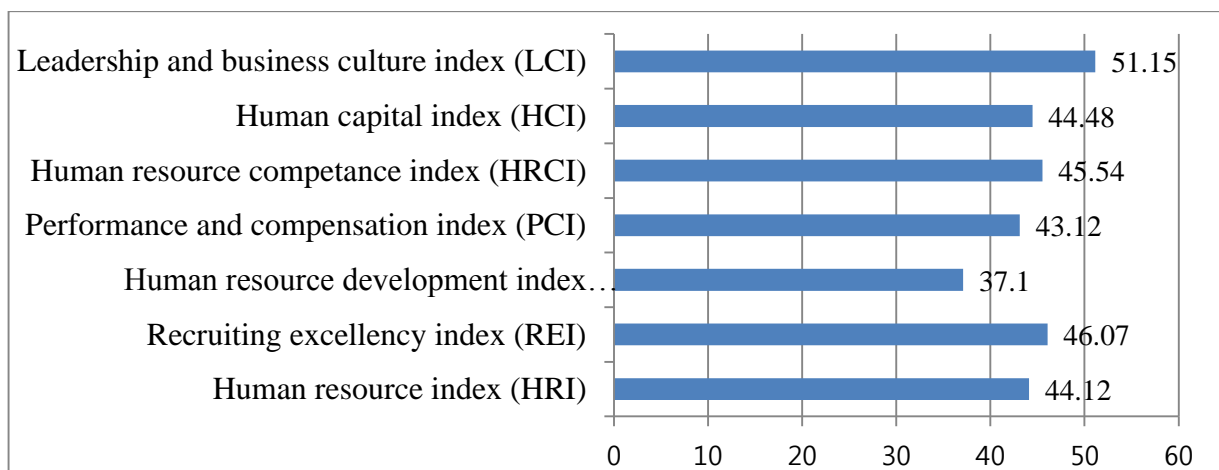
		Degree of employee compensation	5
		Ratio of employee turnover	2
		Capacity of managerial staff	1
		Managers interest and support for HRD	3
		Motivation for employees	1
	Leadership and Corporate Culture Index (LCI) (15)	Absorption of employees	2
		Satisfaction of employees	1
		Job security of employees	1
		Team work capacity	2
		Performance inducing corporate culture	1
		Soundness of employee-employer relationship	1
		Activeness of intra-firm communication	1
		Nature of job departure	1

Notes: *applies only to manufacturing sector. In measuring score for each indicator, categorical questions with 5 point Likert scale are given to answers as scores, and qualitative answers are scored separately. For continuous variables such as ETC, each firms score is calculated against 100 point given to the maximum value of surveyed firms.

Source: Kim (2007), p. 26.

Based on HCCP, Kim (2007) estimated the human resource index for Korean firms. Figure 3.1 shows HRIs for Korean firms were generally lower than 50. The weakest area is human resource development area with HRDI of 37, suggesting Korean firms' interest in HRD were not strong. On the other hand, LCI index was the highest, suggesting capacity of managers, employees' satisfaction, and motivation and job absorption were much higher than firm's human capital index.

Figure 3.1 Human Resource Index for Korean Firms



Source: Kim (2007), p. 5.

Table 3.9 presents estimated HRI index for Korean firms across firm sizes and sectors. There is a clear positive correlation between firm size and HRI score, implying that large firms not only have increasing demand for HRM to support a large number of employees but financial and organisational resources to provide it.

A gap between large firms and small firms in HRI was most prominent in the manufacturing sector with about 13.1, followed by the financial sector with 11.5 and the non-financial services sector with 3.7. The gap between sectors was likely to represent different firm size which was more apparent in the manufacturing sector compare with the other sectors.

Table 3.9 Human Resource Index in Korea across firm size and sector

	Manufacturing sector	Financial sector	Other services sector
Small firms	41.34 (6.29)	45.46 (5.56)	46.09 (6.74)
Medium-sized firms	44.29 (6.28)	52.59 (4.92)	48.15 (9.06)
Large firms	54.42 (7.51)	56.94 (5.42)	49.75 (11.59)
Total	44.81 (7.91)	53.11 (6.50)	47.51 (8.70)

Notes: Standard deviations in parentheses.

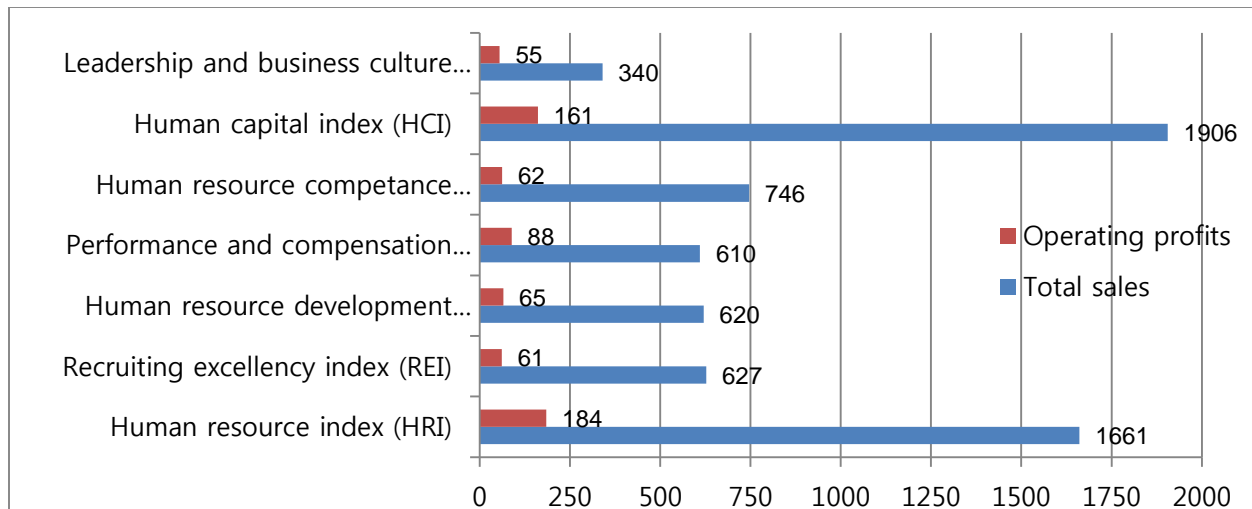
Source: Kim (2007), p. 5.

Among HRSI categories, Performance and Compensation Index (PCI) shows the most difference between the top and bottom 10% sample firms with 47 points suggesting that lowest scored firms do not utilise any systematic HRM practices in compensation. Human Resource Development Index (HRDI) is almost the same difference with PCI between the top and bottom 10% sample firms with 46 points. Again these gap between the highest-scored firms and lowest-scored firms showed the huge gap in HRM practices between large and SMEs. On the other hand, the gap was much smaller in Human Capital Index (HCI) (Figure 3.1)

Based on regression analysis of total sales on HRI indices along with other control variables, Kim (2007) estimated the impact of one point increase in HR indices towards total sales and operating profits. Figure 3.2 shows the indices estimated at the average values of regression variables.

One point increased in HRI increased total sales by 15,610,000 Korean Won. For individual HRSI category, one point increase in REI, HRDI, PCI and HRCI increased sales by 5,270,000, 5,200,000, 5,100,000 and 7,460,000 Korean Won, respectively. For individual WCI category, one point increase in HCI and LCI increased sales by 19,060,000 and 3,400,000 Korean Won respectively. On the other hand, one point increase in HRI increased operating profits by 1,840,000 Korean Won. For individual HRSI category, one point increase in REI, HRDI, PCI and HRCI increased the profits by 610,000, 650,000, 880,000 and 620,000 Korean Won respectively. For individual WCI category, one point increase in HCI and LCI increased the profits by 1,610,000 and 550,000 Korean Won respectively.

Figure 3.2 Impact of One Point Increase in HRI on Total Sales and Operating Profit



Notes: Numbers are in 10,000 Korean Won.
 Source: Kim (2007), pp. 15 and 18.

Meanwhile, firms have to spend 165,000 Korean Won on education and training per employee to increase one point in HRDI while the increase in HRDI increases total sales and profits by 5,200,000 and 650,000 Korean Won respectively. The profits were almost four times the costs suggesting great return for HRM investment. Furthermore, one percent increase in HRI leads to 0.62% increase in wage rate on average, suggesting that HRM benefits employees as well.

3.4 Policy Issues of Human Resource Management of Korean SMEs

Human resource management can be a major obstacle for SMEs to sustain their growth by enhancing recruiting capacity, labour productivity and competitiveness. Most chief executive officers of SMEs were well aware of the necessity of HRM for firm's growth in the future rather than present. This view was equally shared with all employees irrespective of positions. SMEs with market leading strategy consider HRM as more significant relative to the firms with following strategy (Table 3.10). This implies SMEs need to invest more in HRM to grow and sustain their growth in the future, especially if they want to be market leaders.

Table 3.10 Necessity of Human Resource Management across SME Characteristics

	Firms Characteristics			Technological classification			
	Total	Innovative firms	Venture firms	Other firms	High-tech	Mid-tech	Low-tech
No. of firms	2059	754	344	961	194	1225	640
Need HRM	76.2	91.1	71.2	66.2	95.4	801.	62.8
Do not need	23.8	8.9	28.8	33.8	4.6	19.9	37.2

Source: KOSBI (2007), recited from Jang (2011).

Despite its importance, SMEs cannot implement HR education and training due to output loss and deficient education programme. Generally, SMEs do not have enough workers to educate them without worrying about losing production, and adequate personnel to

plan and execute HR development programme. To address the problem of lacking HRD for SMEs, one possible approach is to build a HRD system that can accommodate all SMEs' demand for HRD. With the system, SMEs can satisfy their HRD demand that the firms cannot afford individually. Hence SMEs share the ownership of the system by forming an association of SME.

1) Developing HRD System for SMEs

To activate the system for HR education and training for SMEs, the government should provide tax incentives to universities and other educational institutions that develop HR educational programmes and textbooks. The Korean government currently supports developing HR programme through the employment insurance fund and this should be expanded to promote the HRD system. The government can help construct a short-run training, e-learning, blended learning courses that can be utilised generally by all institutions for SMEs' HRD. Also, the government can help to build the HRD system by providing financial support for the association of owners to purchase HRD equipment and facility.

The associations can be delegated to administer a certification and licensing procedure for related jobs. For this, the certification business of job qualification should be transferred from the government to the association. Also, institutions which SMEs can outsource their career development programmes (CDP) should be expanded. On the other hand, the association should invest in hiring HRD specialised personnel to manage HRD programme and education efficiently.

To relieve SMEs for losing working hours by sending their employees to HRD, job rotation usually utilised for child care leave should be expanded to support HRD leave. Job rotation can both spare a burden for employers and enhancing job security for employees with HRD. Further, employees can find another job easily with HRD skill once they quit or lost their existing jobs. Thus job rotation can be a win-win strategy for employees and employers. This will also help strengthen the flexibility of the labour market which will enhance efficiency of the overall economy.

Finally, field-oriented HRD management should be emphasised by activating structured on-the-job-training (S-OJT) to boost the productivity of SMEs directly. S-OJT programme models should be distributed along with S-OJT specialised personnel. The government can certify S-OJT firms to promote S-OJT related HRD.

2) Competence-based HRM for SMEs

Recently, business environments change rapidly with severe competition due to revolution in information technology and destruction of entry barriers, and firms cannot sustain performance for a long period of time without fundamental competence. Hence firms are interested in competence-based HRM where firms can cope with any challenge in the market efficiently. Competence-based HRM provides firms with flexibility and adaptability relative to traditional job-based HRM that is fair and efficient under stable market environment. The former emphasises the competence of employees that enable

them to take any function and learn new task fast in flexible organisation whereas the latter stresses the capacity of employees to perform certain fixed jobs and use it as recruiting, compensation and promotion consistently. Competence-based HRM is utilised in HRD area because the capacity model is effective in linking capacity to strategy, providing focus on education and training, and evaluating impact of education and training.

To pursue competence-based HRM, firms should develop standards or indicators to evaluate the competence of employees. Most firms are known to utilise similar indicators despite them emphasising different basic competence. Table 3.11 shows 20 competence popularly used by US firms.

Table 3.11 Twenty Most Popular Competencies

Achievement orientation	Concern for quality	Initiative
Interpersonal understanding	Customer-service orientation	Influence and impact
Organizational awareness	Networking	Directiveness
Teamwork and cooperation	Developing others	Team leadership
Technical expertise	Information seeking	Analytical thinking
Conceptual thinking	Self-control	Self-confidence
Business orientation	Flexibility	

Source: Zingheim (1996).

In Korea, firms started to understand the importance of developing the competence of employees with the diffusion of performance-linked compensation. Recently firms are emphasising specific capacity that leads to performance and turn to capacity-based HRM as a solution. In this regard, many Korean firms especially SMEs still do not have good model tools useful in recruitment. More of Korean firms utilise interview as a screening tool to find right employees, instead of concentrating on educational background, grade points and written tests. Standards utilised in recruitment are often called the image of qualified employee which is too abstract to be used in screening tools. Now, firms should define the images into more specific capacity to find the right employees. For example, a Korean company developed a competence model to new employees as summarised in Table 3.12.

Table 3.12 A Company's Screening Standard and Competence

Hard skill	Soft skill (Competence)
Education	Proactive
Experiences	Value-driven
Major	Flexible
Certificates	Customer focus
Age	Conductive
Foreign language	Team player
Career	Creativity
	Technical know-how
	Do-it
	Strategic thinking
	Leadership
	Communication

Source: Park (2002), p.40.

The firm utilises 12 competence standards specified as soft-skill in Table 3.13 in the second round of recruiting process, after cutting off applicants based on traditional hard skill online. However, the company uses different competence standards depending on job characteristics as specified below. The firm also developed a set of sample questions used for interview to standardise competence evaluation. For this, the company utilises behaviour-based and assumption-based questioning technique.

Table 3.13 Competence Standards by Job Groups

	General management	Sales management	Computing/accounting
First competence	Creativity	Proactive	Technical knowledge
Second competence	Team layer	Customer focus	Creativity
Third competence	Customer focus	Do-it	Customer focus

Source: Park (2002), p.41.

Many Korean firms change job structure to align with competence-based structure from traditional hierarchical one by reducing job positions. This fits better with competence-based HRM because it is unreasonable to classify competence into many groups. It should be emphasised that firms should derive consensus among employees to reengineering their job structure successfully. This will help to have a model matching firm characteristics.

Finally, the same standards developed for recruiting new employees should also be utilised in assessing job performance under competence-based HRM. However, evaluating indicators change according to ranks and files. Many Korean firms have already adopted competence-based HRM but many SMEs have yet to apply the model which fits better with today business environment. Thus, the government can provide case studies to guide them to build their own model.

3) Government Support for Human Resource Development of SMEs

Considering the lack of HRD and its external economies, the Korean government implements various programmes to enhance job training for firm employees, especially for SMEs, and Table 3.14 outlines the programmes. The introduction of employee insurance system in 1995 changed HRD for employees in a way to subsidise training cost if employers pay the insurance premium. Before the change, the government established and managed public job training institutions and firms are obliged to train their employees by law. The need for basic training reduced significantly with increase in overall education level after the 1980s while the need for advanced training increased with deepening industrialisation. Thus, government oriented job training was replaced to provide demand-based voluntary training through the employment insurance fund. The new system is extended and every firm is subjected to the new programme under the insurance in 1999, steadily expanding HRD budget and performance thereafter. For example, the total budget for HRD increased from 656.5 billion Korean Won in 2008 to 717.1 billion Won in 2011 (Table 3.14).

As the Job Competence Development Act was implemented in 2005, the labour department established the first basic plan for life-time job competence development in which equity in job training opportunity is emphasised to address HRD imbalance between SMEs and large firms and also between the regular workers and the unemployed or part timers. Special attention was given to address the problem of low participation and training cost by SMEs with less than 100 employees. This was instrumental in support programmes benefitting HRD of SMEs to be more relative to larger firms (Lee, 2011).

Table 3.14 Government Support for Job Training by Labour Department, Korea

Target	Policy	Budget			
		2008	2009	2010	2011
Employer	Employee training program ⁺	3,869	3,911	4,106	4,247
	Paid-leave training program	114			
	Paid-leave training & workers replacement	n/a ^{\$}	52	49	
SMEs specialisation	SME training consortium program	737	790	737	889
	Organising SME-learning program	86	87	82	82
	Core job competence development program	161	379	163	147
Employee	Registration fee support program	561	528	535	365
	Competence development voucher program	148	52	173	361
	SME contract workers short-run job competence development (JUMP)	n/a	150	144	43
	Loan for tuition and training cost	889	992	943	1,037
	Total	6,565	6,941	6,932	7,171

Notes: *Employee training programme was integrated into paid-leave programme after 2009, and the paid-leave programme was integrated into the same program for SME specialisation after 2011. \$n/a denotes not-available. All numbers are in 100 million Korean Won.

Source: Outline of Government Budget Management (2008-2011), Ministry of Labour (2008-11).

After the new Act, the number of employees who received job competence development training and actual expenditure for the training increased continuously. A total of 746.8 billion Korean Won was spent on 4,979,000 employees for the training of certain programmes (Table 3.15). Hence job training in HRD expanded enormously in terms of the number of participated employees and actual budget cost.

Table 3.15 Number of Employees Received Job Development Programme and Actual Expenditure of the Programme

	2004	2005	2006	2007	2008	2009
<u>Employee training</u>						
Employee training	1968 (198.2)	2351 (236.5)	2752 (296.9)	3000 (340.9)	3654 (382.6)	4504 (432.9)
Paid-leave training	6 (8.0)	5 (7.9)	6 (10.4)	7 (13.8)	9 (15.1)	13 (15.3)
Registration fee support	39 (5.9)	71 (11.7)	156 (28.9)	269 (52.8)	288 (53.5)	281 (56.0)
Competence development voucher	n/a	n/a	n/a	n/a	29 (7.4)	81 (20.7)
Sub-total	2034 (310.0)	2456 (382.3)	2961 (485.2)	3323 (686.0)	4032 (640.6)	4979 (746.8)
<u>SME core job competence development</u>						
Loan for tuition	31 (74.8)	29 (76.5)	28 (81.6)	25 (79.9)	26 (87.8)	29 (99.1)
Lending facility and equipment	(6.3)	(9.8)	(8.0)	(7.6)	(8.4)	(9.8)
SME training consortium	n/a (16.8)	n/a (39.9)	n/a (45.0)	n/a (74.4)	n/a (70.2)	n/a (78.3)
Sub-total	n/a	n/a	19 (14.4)	22 (16.6)	26 (15.6)	71 (34.7)

Notes: Actual expenditure are in parentheses. Numbers are 1000 person and billion Korean Wons. Source: Current State of Job Competence Development, Ministry of Labour (2009, 2010).

Table 3.16 shows participation rates of job training by firm size to see if the new regime has changed the imbalance in HRD between SMEs and large firms. There still exists a significant positive relation between firm size and participation rates despite government emphasis and efforts. Financial support was given to employees who subscribed to the employment insurance under the new law. Thus, the gap in participation rate increased because SMEs have more employees who are covered by the insurance.

Table 3.16 Participation Rate (%) of Job Education and Training by Firm Size

Firm size	2006	2007	2008	2009	2010
1~4	9.2	7.5	7.3	9.5	10.7
5~9	14.0	10.8	13.6	16.0	16.5
10~29	25.5	22.6	24.9	29.2	28.9
30~99	37.0	34.3	37.3	39.8	41.0
100~299	41.3	39.2	40.8	46.5	48.8
300~	57.6	52.5	54.0	58.3	58.3
Total	28.0	24.9	26.8	30.8	31.2

Source: Population Survey of Economic Activity (2007-2010), Ministry of Labour (2007-10).

SMEs in Korea have to deal with shortage in human resources even though unemployment rate of the economy is quite high. SMEs cannot match wage rates offered by large firms, and settle with low level of human resources. Small firms doing business in so called three-Ds (dirty, difficult and dangerous) have trouble in finding new workers and have to rely on foreign workers while small firms in venture business cannot get enough quality technical workers.

To compensate this low level of human capital, the firms need to develop human resources with HRD investment. On HRD, the firms made strides in training more employees for longer hours with the introduction of the new support system. It should be noted that efforts both by the firms and government were not enough to fill the gap in human resources between SMEs and large firms. Now public support for HRD of SMEs should be tailor-made as each firm has its own different need for HRD. It should also be noted that HRD support system in Korea has moved away from massive and simple support from the government-oriented policy of providing enough workers with basic training to the sophisticated policy to deal with diverse needs for human resources by firms.

Public policy in HRD is very active encompassing many policies because HRD brings external economies that can overcome diminishing returns of physical investment and sluggish growth. HRD support for SMEs will continue in the future because SMEs accounted for large employment of the economy. Hence, SMEs should understand the supports they have in HRD and utilise them properly.

4.0 Case Studies of Human Resource Management by Korean SMEs

4.1 Case Study A: Human Resource Management of Midas IT

MIDAS Information Technology Co., Ltd. (Midas IT) which is located in Pangyo, Gyeonggi Province in Korea was founded in 2000. Midas IT began as a software development team within Posco Engineering and Construction (Posco E&C), which was in charge of developing and commercialising simulation software that analyses structures. As the team succeeded in tailoring foreign software for domestic environment, it decided to separate from Posco E&C and established a venture business named Midas IT with seven employees in 2000.

Since the foundation in 2000 sales grew about 20% a year for seven consecutive years. Midas IT also became one of the first companies in Korea to develop and export CAE software for engineering in 2002. Midas IT went to overseas market by opening its first abroad corporate office in Beijing, China in 2002. Subsequently, Midas IT expanded its overseas business by establishing its corporate office in Seattle in 2002, Tokyo in 2008, Mumbai in 2008, and London in 2013. Currently, Midas IT exports engineering software to 110 economies and employing 358 employees. Midas IT's domestic and overseas sales amounted to 41 billion Won and 16 billion Won, respectively in 2013.



Midas IT consists of three business division namely, software business, structural engineering consulting and web based services. The software business develops and distributes engineering software that simulates structures and mechanism before the main planning and designing process. Its engineering software is used for mechanical, architectural, civil and geotechnical engineering. Especially for taller buildings and complicated structures its software tests various variables and optimises structural design and construction costs. The engineering consulting services provide structural system planning, analysis and design of high-rise and large scale buildings and safety evaluation and designs for bridges and civil structures. Its safety evaluation includes wind induced vibration and seismic resistant structural analysis. As web based solutions and systems development, Midas IT provides various services such as developing and maintaining websites and developing various management solutions.

Since 2000s, more than 90% of domestic housing, harbour and bridge have utilised Midas IT's S/W. Midas IT took first place in domestic market share (90%) in Engineering and Construction CAE software field in 2004. Its market share reached 99% in architecture, 90% in civil engineering and 80% in ground. Midas IT took first place in global market share with 15%, and had 50% of the top engineering companies in the world as its customers in 2007. Midas IT's software was used to simulate the world's tallest building 'Burj Dubai (height 950m, 160 stories)' in UAE, 'Guangzhou Twin Tower' (height 432m, 107 stories) in China, Beijing National Stadium, the main stadium for 2008 Beijing Olympics, Sutong Bridge in China, the world's longest cable stayed bridge (total length 8,206m) among many others.

MIDAS IT was selected as our research subject as its outstanding results were achieved by its Human Resource Management System. Midas IT systemized its HR programs since 2003 as the number of employees increased over 50. Midas IT has introduced grand employee benefit package and systemised its employee recruitment, training, assessment and reward processes as it emphasises Human Resources as one of the most significant aspects in its management philosophy and principles. Midas IT's HR policies and its generous employee benefits package have been the subject for a number of case studies.

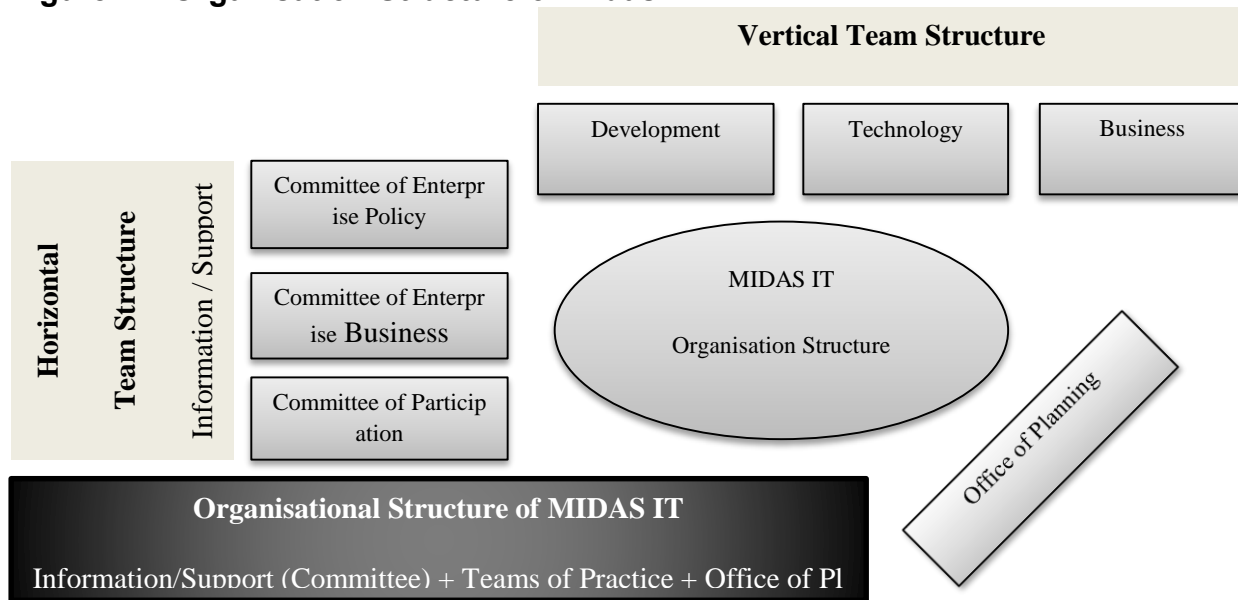
One of the most important values of Midas IT is happiness of its employees and their families. Thus, Midas IT provides high salaries comparable to that of large firms and generous benefit package as well as ideal working environment and guarantee of long-term employment.

1) Organisation Structure and Task Planning

Midas IT structured its organisation to streamline its decision making process. For prompt decision-making, the company has three stages of decision making process such as employee, team/part manager and part leader/president (Figure 4.1). Midas IT offers opportunity to competent employees regardless of age and working years. Its organisation consists of teams, committees, and a strategic planning department.

Teams are the task force and there are research and development team, technical support team and business development team. Besides, the company offers employees to lead projects regardless of their position which reflects talent oriented philosophy of HR. The average age of team leaders who are responsible for management is around 35 and junior employees are also able to be a leader of the team with senior members, according to their competence. This will be further discussed in the appraisal section.

Figure 4.1 Organisation Structure of Midas IT



Committees help the whole organisation to share the resources and information of the company. Committees work on common issues of different teams and encourage employees to take part in management process. There are six committees. Strategic planning department works closely with CEO and function as the link that connects teams and committees.

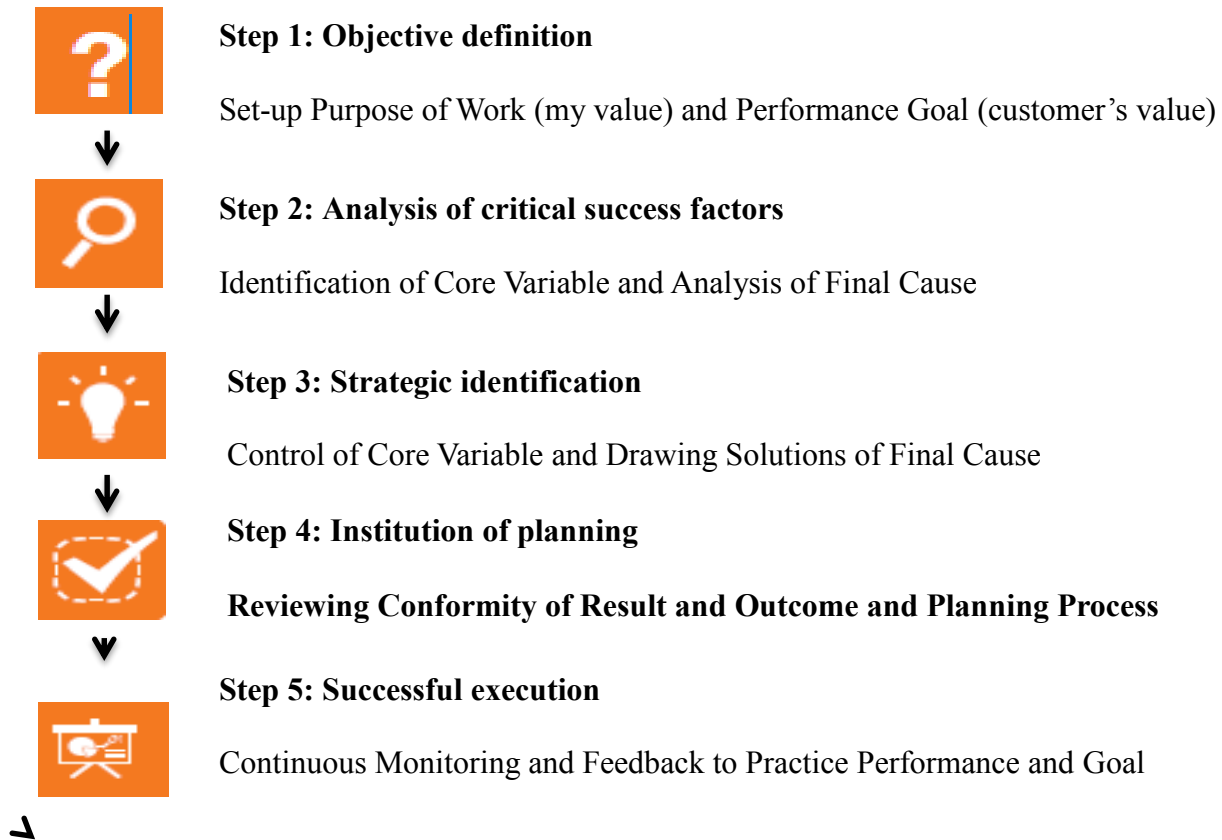
Table 4.1 Function of Committees of Midas IT

Corporate management committee	Final decision makings regarding overall management issues
Human resources committee	Sets HR policies and makes HR related decisions
Information technology committee	Develops and manages IT system of the company
Software planning and development committee	Develops strategy and marketing plans for MIDAS software and educates employees of the company's marketing strategy to foster next generation leader for the company
Engineering quality committee	Sets and executes policies and steps to assure engineering quality
Sharing committee	Practices the core value of the company, sharing, by organising volunteer and charity activities

Midas IT's HRM emphasises each employee to function as a leader, understand the purpose of each project, and not just follow instructions without knowing the big picture. For that purpose, Midas IT has developed workflow from planning to execution and

monitoring for each project. Team members do not just follow their leaders but they can also take initiative in their work and develop competence by adopting the workflow. Strategic thinking and ability to achieve goals have improved by applying 'MIDAS Process' to all work processes including reporting and execution. 'MIDAS Process' is a five-step process reflecting '2W 1H' (Why, What and How) in order to correctly comprehend the purpose of the work and induce precise results.

Figure 4.2 Workflow of Midas IT (OASIS)



2) Recruitment Management

Midas IT does not limit the number of employees to hire when they begin their recruiting process. Recruitment process of Midas IT summarised in Table 4.2 takes longer than other companies through observation. At least three months are spent for multiple interviews. Recruitment criteria consist of 50% enthusiasm, 30% strategic thinking, 10% relationship skills (sociability), 5% personal values and 5% knowledge. To apply for recruitment applicants have to write essays. For the essay, applicants have to write their understanding of reason and background for success and growth of Midas IT. Applicants also have to state their purpose in life and what they have done to pursue the purpose as well as how they want to live their lives in the future. As can be seen in recruitment criteria, possibility of growth is considered more important than current skills of applicants. Interviews also look at enthusiasm and sociability of employees.

Table 4.2 Recruitment Process of Midas IT

Recruitment process	Details
Application	Online application with essay
First interview	Interviewer: team/part leaders of relevant teams Criteria: enthusiasm, strategic thinking, and professional skill and knowledge
Second interview	Interviewer: executives of relevant teams Criteria: enthusiasm, sociability, personal values
Third interview	Interviewer: CEO Criteria: potential in the future, improvement possibility
Acceptance	Final acceptance

Although the recruitment process takes longer than other companies, the rate of interview renouncing by the applicants was less than 2%. Low renouncing rate is due to interactive recruitment process. After posting recruitment notice on-line, HR personnel gives real-time answers on-line to questions posted regarding recruitment process to encourage applicants and find the right match for the company. Not only HR personnel but also executives and leaders of each department participate in screening essays to find the right applicant for each position for the interview process.

3) Human Resource Development and Management

Table 4.3 presents various programmes Midas IT offers for employee education. HR education differs depending on new employees, all employees, and leaders as detailed in the table.

Table 4.3 Education Provided by Midas IT

Participants	Details
New employees	<ul style="list-style-type: none"> ★Education for new employees is held for a month with a goal to increase responsibilities as a member of society. ★Programmes include ▶‘sharing my story’, with which employees share their life stories with colleagues, ▶‘hello! my juniors’ with which new employees can learn the real meaning and value of works by third or fourth-year senior employees, and ▶‘CEO meeting’ in order to strengthen pride and reliability on the company.
All employees	<ul style="list-style-type: none"> ★Semi-annual workshops are held to develop daily execution/practice guideline of issues such as employee motivation, business process innovation and management innovation. ★After a topic is selected, the team leader holds face-to-face meeting with each team member to discuss presentation materials.

	<p>Every employee has to prepare and make a presentation at the workshop.</p> <ul style="list-style-type: none"> ★Executives advise and coach on the topic and give strategic coaching on the team members' presentations. ★Professional skill development classes are offered for engineers and technical experts.
Leaders	<ul style="list-style-type: none"> ★Education programme for leaders at each grade are held such as strategic leading workshops and special lectures for coaching and leading team members.

Table 4.4 compares promotion system of Midas IT with a large firm in the same industry. Every employee in Midas IT is promoted to next grade in every four years with certainty. Generally, companies in Korea limit percentage of employees who can be promoted to next grade to induce competition and to increase productivity. However, Midas IT does the opposite and promotes everyone without exception or postponement. To promote motivation and competition, the company offers early promotion every two years which means an employee can be promoted in fast track without waiting for four years to be promoted. Early promotion will be described in detail in following paragraph. Midas IT also ensures lifetime employment for employees to be fully responsible and competent to increase employment stability. Moreover, there is no regular retirement age, which means that employees are able to work if they have enthusiasm and ability, despite the legal retirement age in Korea.

Early promotion opportunities are provided every two years so that competent employees do not have to wait for four years to be promoted. Early promotion system functions as motivation for employees to work harder. When an employee is promoted to a higher grade through early promotion, they are provided with leading opportunities in more important projects as well as more compensation that comes with higher grades. Appropriate special bonuses, development training, and compensation and benefits are provided as an employee advances to a higher grade. Through early promotion, there are employees who are in higher position with higher salary compared to their age and working years in other companies.

Table 4.4 Employee Promotion of Midas IT and Other Firm

An employee generally begins his career at 28 years old at Midas IT with a Bachelor at a four year university and Masters degree, together with completion of military service.

<Applicant A – large firm in comparable industry>

- ★Entrance to a large firm (28) → Promotion to assistant team manager (32)→ Promotion to team manager (36) → Promotion to deputy team/part leader (40)→ Promotion to team/part leader (44)
- ★In case of general promotion process, employees are promoted to leading position (deputy team/part leader or team/part leader) in their forties.
- ★Considering general organisational culture of large firms, only small percentage of employees become executives after being promoted to team/part leader.

<Applicant B- Midas IT>

★Entrance to Midas IT (28) → Promotion to assistant team manager (29) (special promotion)→ Promotion to team manager (31) (early promotion)→ Promotion to deputy team/part leader (33) (early promotion)→ Promotion to team/part leader (35) (early promotion)

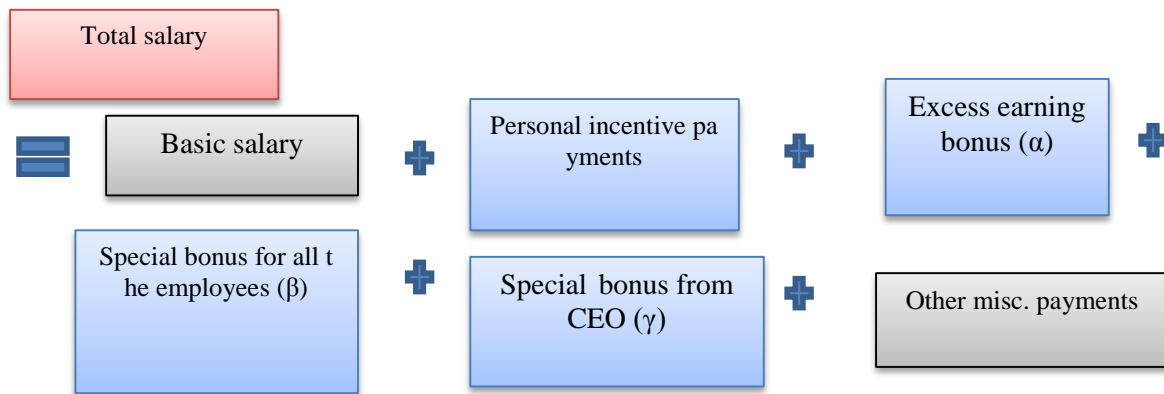
Source: Baek (2013), p. 85.

To illustrate, if an employee is hired at age of 28, According to Table 4.4, 'Applicant B' is able to obtain a number of opportunities of acquiring diverse knowledge and experiences for development and growth. By the age of 35, he can become a leader and receive higher salary than 'Applicant A' who joined a large company with comparable background. There is also a special HR development policy in Midas IT, 'MIDAS Technical Expert System' for employees who want to stay as engineers and technicians. Generally in companies, all the executives are managerial executives. They do not work as engineers but only looks after company's management. If employee is promoted to an executive, even engineers have to change their roles to managerial executive instead of keep working on engineering or technology. However in Midas IT an engineer can choose to become a managerial or technical executive. If employees aspire to grow into technical executives, they can keep developing their own specialised professional techniques without set retirement age. After going through qualification and competence assessment they can be chosen as technical expert. They will be offered with responsibility and authority of technical tasks and projects. Professional engineer/technical master develops core technologies of the company and strengthens technical abilities of the company.

4) Evaluation and Compensation for Employees

A compensation system, soundly according to ability, has been conducted to develop human resource of Midas IT and compensation is attained usually as salary and promotion. Firstly in case of salary, the average salary for a recent university graduate is over 40 million Won per year, which is one of the highest and also comparable to large companies in the same business category in Korea. With 'business performance-linked bonus' and 'personal performance-linked bonus' in addition to basic salary, employees who produced outstanding results and outcomes received much more compensation compared to those with similar work experiences in large companies of comparable business. Figure 4.3 shows the salary structure, provided by the company.

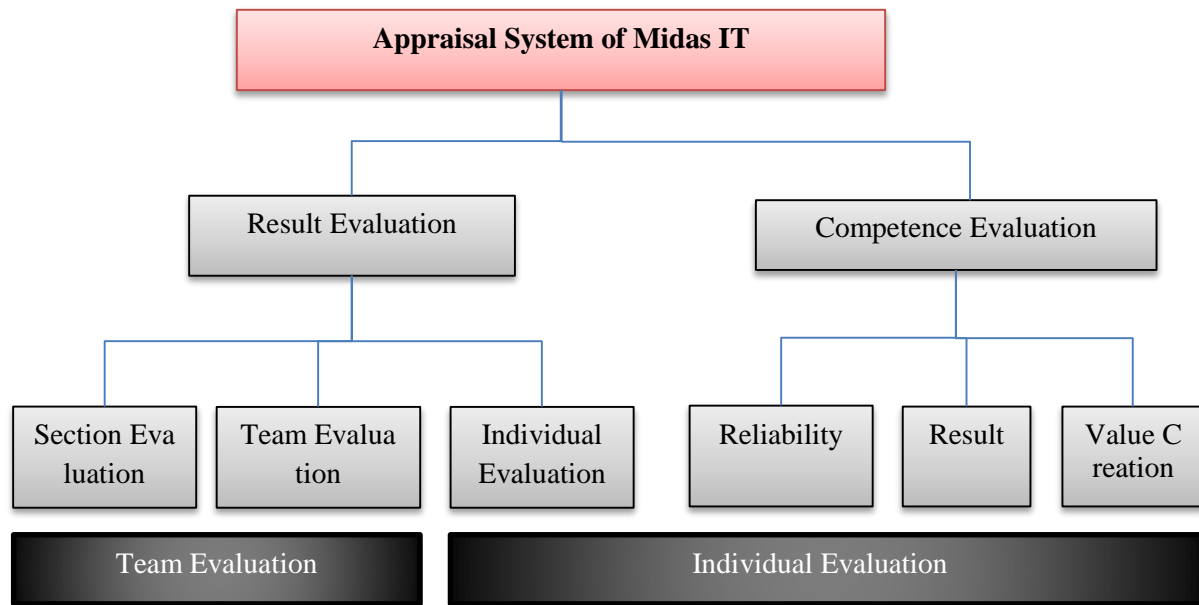
Figure 4.3 Salary Structure of Midas IT



The principle of compensation in Midas IT is to give maximum motivation for better performance and 'no punishment'. They do not leave out employees for promotion according to their no punishment policy but offers more bonuses payments to outstanding performers. Midas IT aims to motivate and develop employee's abilities through assessment. Every semi-annual assessment starts from zero each time providing constant opportunities for employees to re-challenge and guideline for growth are available through appraisal. To provide guideline, the CEO also holds meetings and counselling with employees during lunch break and after dinner to communicate, motivate, mentor and give strategic coaching.

Evaluation is divided into individual and team evaluation and the criteria consist of clarity, fairness, leadership and improvement. To outstanding teams with great performance and outcome, bonus according to team profit is paid to the team members to motivate teamwork and promote competition among teams. Through competence evaluation, outstanding employees for early promotion are selected. Appraisal is not relative to other employees (nor graded on curve) and only based on individual outcome and ability. There is no limitation on number of employees who can be selected for early promotion. Outstanding employees are also provided with 'Business performance-related bonus' at maximum 60% of annual salary and 'Individual Special Performance-Related Bonus' are also offered at times to foster core employees.

Figure 4.4 Appraisal System of Midas IT



To maintain human resource, Midas IT considers all the employees and their families' Happiness is the most important, among its three core values. Table 4.5 summarises benefit package provided to every employee.

Table 4.5 Benefit Package Used to Maintain Human Resource

Meal support	Breakfast, lunch and dinner provided at quality in-house cafeteria cooked by former chef of hotel at low price
Secret chef	Provides a half-cooked hotel-quality cuisine with its recipe to be enjoyed at home per month. Employees pay 40% and 60% is supported by Midas IT and price paid is fully donated for charity
365 happy point'	365 points are provided semi-annually and can be used freely for self-development (1point = 1000 Won)
Child education support	School expenses (the whole tuition fee of high school and university), for two kids at maximum, and 100,000 Won kindergarten tuition for a child per month
Hair-cut	Free haircut every Tuesday at in-house hair salon
Lounge and in-house gym	Lounge for relaxation with espresso machine and in-house gym
Health and medical support	Complete annual medical examination for employees and his/her spouse Influenza vaccination for all the employees Medical and physical examination for new employees
Marathon Support	New employees are provided gym cloth and marathon shoes. Support registration fee along with all other costs for participating in marathon twice a year.

	Support registration fee along with all other costs for participating in Boston Marathon.
Housing support	Employees who need financial supports and who are employed over one year can apply for housing loan provided by the company
Study abroad support	Employees who passed qualification examination of technical experts training system. Study abroad or technical training in overseas offices of Midas IT
Vacation	Paid vacation, vacation per inquiry, vacation abroad for outstanding employees(travel abroad expenses provided Staying at company's resort at a discounted price
Work system	Five work day/ free dress code for creativity
Legally required benefits	Four insurances (national pension, medical insurance, employment insurance, industrial accident insurance) Retirement insurance
Others	Condolences payment for funerals Condolences payment for accidents/natural disasters outside of work Flowers for wedding/child's birth, Presents for promotion Pay 100,000 Won for New Year and Thanksgiving holiday Pay 100,000 Won and flowers for birthday and wedding anniversaries Pay 200,000 Won and send flowers for 10 th wedding anniversary

In addition, Midas IT established welfare fund for its employees named 'Happiness Fund' with contribution of KRW 700 million. The company is in the process of transferring treasury stocks to the fund and it plans to have its employees as the largest shareholder by 2017.

5) Impact of Human-Oriented Resource Management on Performance

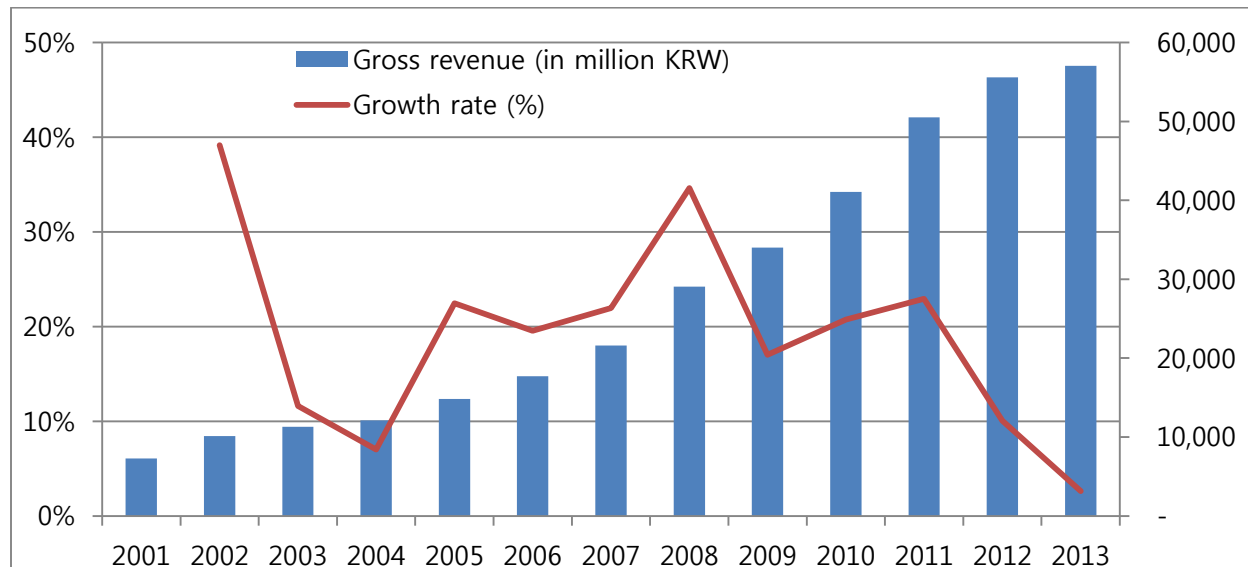
In Midas IT, every employee is subjected to automatic promotion to next grade without exception or postponement after fulfilment of service period per grade. In addition, Midas IT offers early promotion according to appraisal results regardless of seniority which is to provide opportunities to lead major projects and bigger salaries to even young employees with relatively short career. There is no set retirement age and extensive benefit package is provided to every employee regardless of appraisal results. Midas IT began systemising its HR management since 2002 when the number of its employees began to increase beyond 50.

Due to their HR management, Midas IT was able to attract many applicants for recruitment. Midas IT attracted 4,000 applicants in 2011, 6,800 in 2012. In 2013, more than 10,000 applicants applied for recruitment with 50:1 competition rate, the rate comparable to large firms.

Midas IT was also able to retain competent employees after employment with its HR management such as promotion system and benefit package offering. Other IT software development SMEs experienced higher employee turnover as IT software industry average employee turnover was over 20%, relatively higher than other industries. Midas IT's employee turnover rate was around 10%. This rate included its e-business turnover rate which was relatively new business. Its engineering business employee turnover rate was around 5% and its SW development business rate was around 1% (The Herald Economy, June 28, 2012).

With good HRM practices, Midas IT's performance was not affected by global economic crisis through 2009 to 2011 but instead showed steady growth in revenue and other financial indicators. The gross revenue has increased by 37 times to 55.6 billion Won (11.8 billion Won gross profit) in 2012 after its foundation in 2001 with profit rate over 20%. Figure 4.5 shows gross revenue and its growth rate which far exceed other firms in Korea.

Figure 4.5 Yearly Trend of Gross Revenue and its Growth Rate of Midas IT



Source: Dart Analysis, Retrieval and Transfer System (DART), Financial Supervisory Service, Korea.

4.2 Case Study B: Human Resource Management of A-Jin Industrial Co., Ltd.

A-Jin Industrial Co. Ltd. (A-JIN INDUSTRIAL CO., LTD) is located in Gyeongsan-si, Gyeongbuk-do, Korea, and was founded in 1978. A-Jin is a company specialises in auto parts and has supplied automobile parts to Hyundai and Kia Automobiles for 35 years. The company faced difficulty of entering into workout in November, 1998 during the Asian financial crisis. However, five years later in December 2003, termination of workout was ordered and the company was merged by Woosin Industry Co. Ltd. In the following year 2004, the company turned into black and has improved productivity through cooperation with employees, reduced production cost, maintained product quality and increased its revenue.

A-Jin's business consists of manufacturing, processing and sales of reinforced panel for automotive body, various automotive parts, and industrial machinery parts. It also manufactures high pressure gas containers, jigs, fabricated metal products, and electronic products parts.

A-Jin established its first overseas factory in Shanghai, China in 2006, then Yangshan, China in 2007, and Alabama, USA in 2008. The company was chosen as the best partner company at business contractor appraisal by Hyundai Motor Group, Hyundai Mobis and Kia Motors which are its major customers. A-Jin received 'Export Award' by achieving 100 million exports in December 2012. The company recorded 102 billion Won gross revenue and 7.1 billion Won operating profit in 2013.

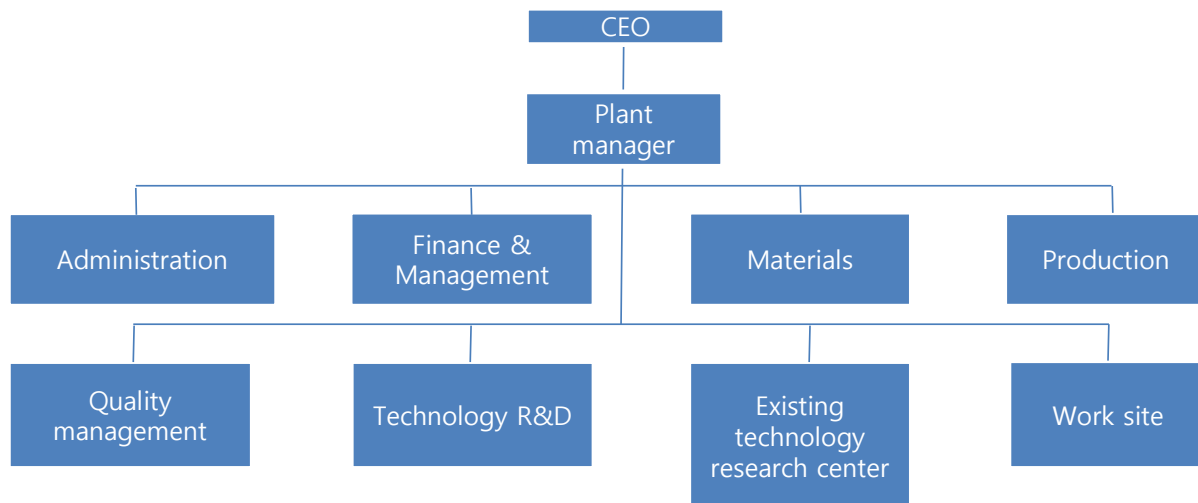
Core value of A-Jin is competency, creation, customer-orientation, confidence and challenge. A-Jin's HR management principles are to maintain trust with labour union by employment stability and invest in employee training to enhance productivity.



1) Organisation Structure

Under management of CEO and a plant manager, there are six departments namely, administration, finance and management, materials, production, quality management, technology R&D, and existing technology research center. Under materials department there are raw materials, purchase, and overseas backup team. Under production department, there are production, sales, production technology, and processing technology team. Under quality management department, there are quality review, and quality assurance team. Under technology management department there are design, metallic mold, technology sales, and technology development team.

Figure 4.6 Organisation Structure of A-Jin



2) Recruitment Management

A-Jin has cooperated with universities and high schools to secure recruitment of talented graduates at early stage and to develop its employees with various programmes. First, A-Jin has been offering 'Students overseas on-site training programmes; The company has entered into agreement with 10 universities including local universities nearby such as Yeungnam Univ., Daegu Univ., and Kaemyung Univ., and has been offering training programme for selected students and employed all of them after the programme. The programme consists of one month on-site training in A-Jin and six months overseas on-site training in its USA factory. The company has employed 93 employees by December 2013 through this programme.

Second, A-Jin industry offers 'Meister and specialised high school graduates development programme. The programme is run with high schools specialised in vocational education and teach industry-specific skills to students. A-Jin entered into an agreement with Kaemyung College and opened A-Jin-metallic mold design major to provide study-employment programme for Meister or Specialised high school graduates. In the first year during the two year curriculum, students take classes and begin working in A-Jin. In the second year, students visit A-Jin USA and receive on-site training such as new car development, automated digital production process utilisation and automotive body quality review for four months and work in A-Jin USA for the rest of the second year.

A-Jin provides 75% of the tuition for this programme. Moreover, it provides opportunity for outstanding employees to transfer to a four-year university and transfer to administrative position from production position. Seventy employees have been employed through this program as of December 2013.

In addition to these programmes, A-Jin provides various programmes cooperating with local universities and specialised high schools. Its programmes are listed in detail in the following table.

Table 4.6 A-Jin's Cooperation with Local Universities and Number of Employment

Programme	Universities	Agreement Started	No. employed (2008~2010)	
On-the-job training	Daegu University Die mold specialist group	Aug. 2008	11	
Talent management cooperation	Youngnam University	May 2008	22	•Joint Laboratory Programme
Joint programme for talent management and industrial development	6th Korean Polytech University	Nov. 2009	3	•Training classes
Cooperation	Sang Myung Univ.	Feb. 2010	4	
On-site education agreement	Youngnam, Daegu, Gyemyung, Daega, Kyungil, and Haneu uinv.	Nov. 2010	61	Overseas on-site job training and placement

The purpose of these programmes is to secure employees from early stage and provide long-term development plans for its employees. These programmes cost over one billion Won annually and A-Jin plans to expand the programmes because it is considered as an effective way that SME can secure high quality human resources and also help local universities/specialised high school to raise their employment rate. A-Jin was awarded as 'Best organisation for specialised high school global on-site training Minister Award' by the Ministry of Education and Science Technology in February, 2012.

3) Human Resource Development, Education and Training

A-Jin offers various educational training programmes. There are in-house classes required for promotion, on-the-job training programme, group studies and expenses supports for classes of personal interests. Three months on-the-job training is provided to new employees. Evaluation involving on-the-job training shows highest satisfaction level. On-the-job training offers practical assistances to each employee's skill development

A-Jin also offers 'in-house professional instructor development' programme. To provide

in-house education/training classes, A-Jin gives opportunities to its employees to become professional in-house instructor. All related education expenses are supported by the company. Through this process, some employees went study abroad to acquire relevant human resources development certification or to learn more techniques. A-Jin also requires its employees to fill out their own self-development plan every year to encourage employees to plans for their future. Employees are supported with all the related fees for classes of any subject from external institutes after they submit application form with their grade, external institution, and classes.

Another distinct characteristic of A-Jin is their study groups. There are seven study groups studying different subjects such as enhancement of the skills, management-labour relations studies and others. The company provides related expenses to the study groups as they submit their written plans including expenses usage plan, expected results, and purpose of their study. One of the groups studying new labour management relations cultures and productivity improvement won a gold medal in national competition in 2009 with their study results.

At the beginning of year, the company sets annual education planning, education/training hours, and budget. Employees in A-Jin have to fulfill certain education requirements for promotion. Following are the company policy for annual education requirements for A-Jin’s employees.

- Team and individual has to submit annual education plan
- General education: employees in administrative position are required to acquire certain education credits per grade. Education is provided per grade and courses are described in detail in Table 4.7
- Employees in administrative position are required to attend a class from external institution such as Korea Productivity Center and Korea Standard Association (attendance or correspondence education) every year
- All employees are required to take a class from in-house education, external institution and correspondence courses.
- Annual mandatory education credit per grade to qualify for promotion: senior specialist 9, assistant manager 9, manager 8, senior manager 7, and department manager 7 credits.

Table 4.7 In-House Education Courses Required per Grade for Promotion in A-Jin

Grade	Courses	Detail	Hours	Credits
All employees	ITQ(Information technology qualification) courses	Excel and power point basics		N/A
Senior specialist	Productivity development	Develop communication skills/Understand tasks/Environment	10	3

		management		
	Business memo and writing	Logic development for business writing/Study documentation cases/Business writing practices	11	3
	TPS productivity development	Study effective production management systems	16	4
Assistant manager	Problem solving skills development	Learn various problem solving skills based on logical and creative thinking	8	2
	Project management	Learn and practice effective project management processes and skills	12	3
	Six-sigma development	Study six-sigma management cases and adoption simulation	16	4
Manager	Mid-level manager development	Learn responsibilities of mid-level manager, current economic/business trend and practice logical thinking and strategic decision making	8	2
	Dispute solving	Learn Pondy model of organization dispute theory/Dispute management case studies and system development	8	2
	Strategic objective management	MBO, objective management processes, execution, and appraisal	10	2
	Crisis management	Crisis management and roles of managers	10	3
	Leadership	Teamwork, motivation, and empowerment	8	3
Senior manager	Competence development	Creative management cases, how to build optimal team and performance management	8	2
	Advanced-level manager development	SWOT analysis case studies, communication skills and assessment method of team members	8	2
	Coaching skills	Effective coaching skills for managers, providing motivation, empowerment and assessment and work process sharing	8	2
Officers	Financial planning management	Financial budgeting, financial risk management, business decision making, and long-term financial plans.	8	N/A

For in-house education, class evaluation survey such as effectiveness of classes and satisfaction level takes place, and education task team in the company reflects evaluation results for future in-house classes.

In 2012, 390 employees were subjected to education and training and they were provided with about 35 hours education/training per employee. Education/training expenses were 370 million Won in 2012 which was 0.3% of the company's gross revenue and 950 thousand Won per employee.

Table 4.8 Education and Training Status of A-Jin in Recent Years

Year	No. of participants	No. of education courses held	Education expenses (in million Won)	Education hr. per employee	Education expenses /Gross revenue	Gross revenue (in billion Won)
2009	268	811	270	38	0.3%	890
2010	287	1,289	370	120	0.3%	1,600
2011	390	850	220	31	0.2%	2,000
2012	390	1,000	370	35	0.3%	2,200

A-Jin's investment in employees' education and its education programmes were awarded with 'Company with excellent HR development' certificate by Human Resources Development Services of Korea and Ministry of Employment and Labour in September 2010 through competition with about 500 other SMEs and large firms.

4) Compensation and Promotion

A-Jin's annual salary is decided as follows: Annual salary= bonus 700% + incentive (based on performance). A-Jin's employees are all subjected to promotion after fulfilling service period per each grade and there are opportunities of special promotion for outstanding employees. However, within same grade, employees are divided into level A, B and C and salary differs according to the level within a grade. Level A employees can receive the base salary per grade, level B deducts 500 thousand Won, and level C deducts one million Won from base salary per grade. If employees satisfy both education and foreign language aptitude level requirements per grade, they are classified as level A, if they satisfy either, level B, and if they satisfy none, they are classified as level C.

In addition to providing legally required benefits, A-Jin provides additional benefit package as described in Table 4.9

Table 4.9 Employee Benefits Package in A-Jin

Tuition support for children	Tuition support for middle school, high school, and college/university	Employees
Annual long-term employment award	On 1 June of each year trophies and golden key are provided	Long-term employees (on their 10th, 15th, 20th year of employment)
Holiday presents	On New Year and Thanksgiving, 10 kinds of presents (fruit, fish, other products) are provided	Employees
Labour day presents	May of each year employees can choose from among toolbox set, crystals, or glassware	Employees
Team building meal budget by department	Twice per year expenses for team dinner are provided	Employees

Moreover, in addition to the above benefit packages, A-Jin provides overseas exhibition and work-sites visiting programme. Whereas limited number of employees is provided with opportunities for overseas workshops and trips to other companies, all the employees have been offered with the opportunity in A-Jin. This programme is popular among its employees, as there are a number of enjoyable programmes as well for trips to overseas exhibition, and inspection of overseas industrial facilities and global automobile companies. Overseas visiting trips are listed in detail in Table 4.10.

Table 4.10 Overseas Trips and Visits Provided by A-Jin

Programme	Provided through	Location	Times (No. participants)	Participants
Excellent culture between labour and management benchmarking company	2004-2013	Japan (Toyota and others)	22times (106 participants)	Employees
Labour and management workshop	2004-2013	China, Viet Nam, Thailand, Hong Kong, Macao and others	10 times (30 participant)	Employees
Foreign industrial inspection	2004-2013	China, Thailand	17 times (191 participants)	Employees and spouses
Foreign industrial inspection	2009-2013	Shanghai, China, Las Vegas, the USA	Twice (80 participants), Twice (20 participants)	Employees

Japanese technology workshop for new employees	2009-2013	Japan (Toyota and other)	4 times (100 participants)	Employees
Other excursions	N/A	N/A	57times (527 participants)	N/A

A-Jin's main policy regarding employment is to guarantee stability. In the process of its M&A, none of the employees were neither laid off nor terminated in 2003 although many companies went through workout had to lay off their employees during the Asian financial crisis in the late 1990. During M&A with Dae woo Electronic Materials Co. in 2009 and KCO in 2011, none of the employees was terminated. During the global financial crisis that began in 2009 A-Jin recorded 40% decrease in orders from its customers. However, the company declared that it would not dismiss any employees or go through any salary reduction. In return, the company's labour union cancelled the collective salary and benefits negotiation and improved productivity by more than 10% by reducing production cost and other various activities. A-Jin's cooperation with its labour union and its endeavor to stable its employment was awarded as listed in Table 4.11.

Table 4.11 Awards Received by A-Jin on Labour Relations and Employment Culture

Date	Details
May 2012	'Open-minded leader award' (Ministry of Employment and Labour)
March 2011	Chosen as 2011 'Labour and management partnership supporting project' (Ministry of Employment and Labour)
June 2009	Certified as a 'Company with excellent labour and management cooperation' (Ministry of Employment and Labour)
July 2009	Selected as 'Most wanted company to work for' (Industrial Development Foundation)
September 2005	Chosen as 2005 'Labour and management partnership supporting project' (Ministry of Employment and Labour)

5) Impact of Best Human Resource Management on Performance

When A-Jin's CEO changed after the end of workout in 2004, A-Jin's human resource management was systemised. The company's major HR policies can be summarised as employment stability, recruitment and education cooperation with universities and high school since 2008 together with extensive in-house training/education classes.

High employee satisfaction has been attained based on stable employment even through the company experienced multiple M&As and financial crises. Average employee turnover rate was 1.5% from 2007 to 2010 while number of employees increased over

20% annually.

A-Jin's extensive investment in employee education and training and its consistent employment stability have improved its productivity. A-Jin's improvement in productivity was awarded by Ministry of Knowledge Economy during 'National Productivity Competition' in September 2010 and 'Best Productivity Enhancement and Innovation Activities Award' in September 2009.

Effectiveness of A-Jin's major HR policies such as stable employment and extensive education/training is also noticeable in its financial performances. Since the termination of workout in 2004, A-Jin has recorded positive operating profits and net profits every year even during the global financial crisis of 2008-2010. At the end of 2013, the company's gross revenue increased by 287% in six years since 2004. The company's gross revenue increased every year since 2004 except for 2010, 2012, and 2013.

Acronyms for Korea

No	Acronyms	Description
1.	HRD	Human Resource Development
2.	GCI	Global Competitiveness Index
3.	HRI	Human Resource Index
4.	HCCP	Human Capital Corporate Panel
5.	KRIVET	Korea Research Institute for Vocational, Education and Training
6.	PCI	Performance Compensation Index
7.	HCI	Human Capital Index
8.	HRCI	Human Resource Competency Index
9.	REI	Recruitment Excellency Index

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**Asia-Pacific
Economic Cooperation**

**Establishing Best Practices on Human Capital Development to
Enhance Productivity, Quality, Competitiveness and Innovation
Among SMEs**

Case Experience of Malaysia

**Mr. Yeap Chin Chong
Malaysia**

1.0 Preface

This research project HRD01-13: Establishing Best Practices on Human Capital Development to Enhance Productivity, Quality, Competitiveness and Innovation among SMEs is an APEC funded project involving four Asian economies namely, Chinese Taipei; Korea; Malaysia; and The Philippines. The project encompasses human resource management systems and issues that affect productivity, quality, competitiveness and innovation among Small and Medium Enterprises (SMEs).

The objectives of the research are as follows:

- Developing a framework to improve productivity, quality, competitiveness and innovation of SMEs human capital;
- Identifying best practices on improving productivity and innovation capabilities of SMEs to enhance efficiency through human resource development;
- Developing and promoting the use of appropriate human resource systems and standards to boost productivity among SMEs

The Research process conducted from 1st September to 15th November 2014 comprised three parts: planning and literature review; desk research and data collection as well as in-depth interviews with selected SMEs for case studies development. This research report focused on: an overview of Malaysia's economic performance where Malaysia's productivity and competitiveness are highlighted and emphasis is made on comparison among selected Asia Pacific economies' labour market and employment using data from various issues of the World Competitiveness Report; a summary of National Human Resource Strategies and Initiatives are also presented, drawing upon national plans.

Human Resource practices of award winning Malaysian companies are presented to provide some frameworks, models and organisational initiatives for others to learn and adapt wherever applicable. SME's performance, obtained from the Annual SME Report is analysed and Human Resource Development schemes designed specifically for SMEs are identified. SMEs often feel that it is costly to train employees as developmental training tend to be looked upon as a threat to employee retention. Such reluctance may also be largely due to the need to offer better pay packages given that training enhances job mobility. Case studies are also featured to highlight human resource development practices, issues and challenges faced by a manufacturing concern and a service-oriented SME.

At the national level, the reluctance of Malaysian firms in human development led the government to intervene to promote skills development where the Human Resource Development Fund (HRDF), a levy grant system was introduced in 1993 with the purpose

of providing financial assistance to defray part of the training costs undertaken by employers. A holistic and structured approach to SME development to assist Malaysian SMEs is adopted.

At the highest level, the National SME Development Council (NSDC), chaired by the honourable Prime Minister, brings together related Ministries implementing SME development programmes to decide on the direction for SME development for the economy. One of the key initiatives of the NSDC is the SME Masterplan (2012-2020) aligning the goals of SME development with the aspirations to become a high income nation. The Masterplan sets the stage for a comprehensive approach to provide a supportive and conducive ecosystem to enhance the overall contribution of SMEs to the economy.

At the organisational level, it can be concluded that while HRM practices varies from organisations to organisations and there is no one system that best meets the needs of all organisations. It is vital for organisations regardless of size to implement some level and extent of HRM practices. HRM practices comprise a system that attracts, develops, motivates and retains employees to ensure the implementation and the survival of the organisation and its members.

HRM practices is claimed to establish the tone and conditions of employer-employee relationship (Rousseau & Greller, 1994). In turn, this relationship can encourage or discourage employees to become more innovative and productive. Most studies on HRM practices suggest that high commitment practices by their very nature enhance employee commitment.

Thus this research paper explores the practices of award winning organisations and features their practices graphically in the areas of establishing a Strategic HR Model, core values of human and knowledge capital management, supporting employees through HR pillars, learning and development focus, People Agenda incorporating work/life balance as well as targeted talent interventions.

Changes or trends that emerge today such as globalisation, nature of work, competition and technology require HRM practices to be more strategically focused. A modern HRM emphasises on their total contribution in an organisation, concern for overall effectiveness, expectation of innovative and creative behavior as well as employee right attitudes and values in the workplace.

It is further found that strategic and focused human capital practices and greater training hours are linked to higher performance (Gowen & Talion, 2003; Huang, 2001). Human capital practices bring about a myriad of benefits; among which are enhanced productivity and competitiveness, increased innovation efforts (new products, services or processes), employee commitment, better employee retention which contribute to overall development and expansion of the organisation.

2.0 Overview of Malaysia's Economic Performance

Malaysia's economy had been growing steadily in the last few years, emerging strongly from the global financial crisis to register Gross Domestic Product (GDP) growth of 7.4% in 2010, moderated to 5.1% and 5.6% in 2011 and 2012 respectively. Malaysia's GDP grew by 4.7% in 2013, mainly from improvements in private investments, net exports as well as increases in private consumption and government expenditure. The economy's favourable economic conditions are reflected in employment growth, which increased by 2.3% to 13 million, low inflation and unemployment.

Malaysia's GDP continued to grow at an impressive 6.4% during the second quarter of 2014, the highest pace in six quarters, supported by strong export growth and robust private domestic demand. In the first quarter of the year, the economy expanded 6.2%. The strong performance lifted Malaysia's GDP to 6.3% compared with 5.5% in the corresponding period last year. Malaysia is on track to achieve its high-income target of USD15,000 (RM47,414) by 2020 if not sooner, as a result of the policies under the National Transformation Programme. The Gross National Income per capita had risen steadily from USD7,059 (RM22,313) in 2009 to USD10,060 (RM31,799) in 2013 representing a 42.5% growth during the period.

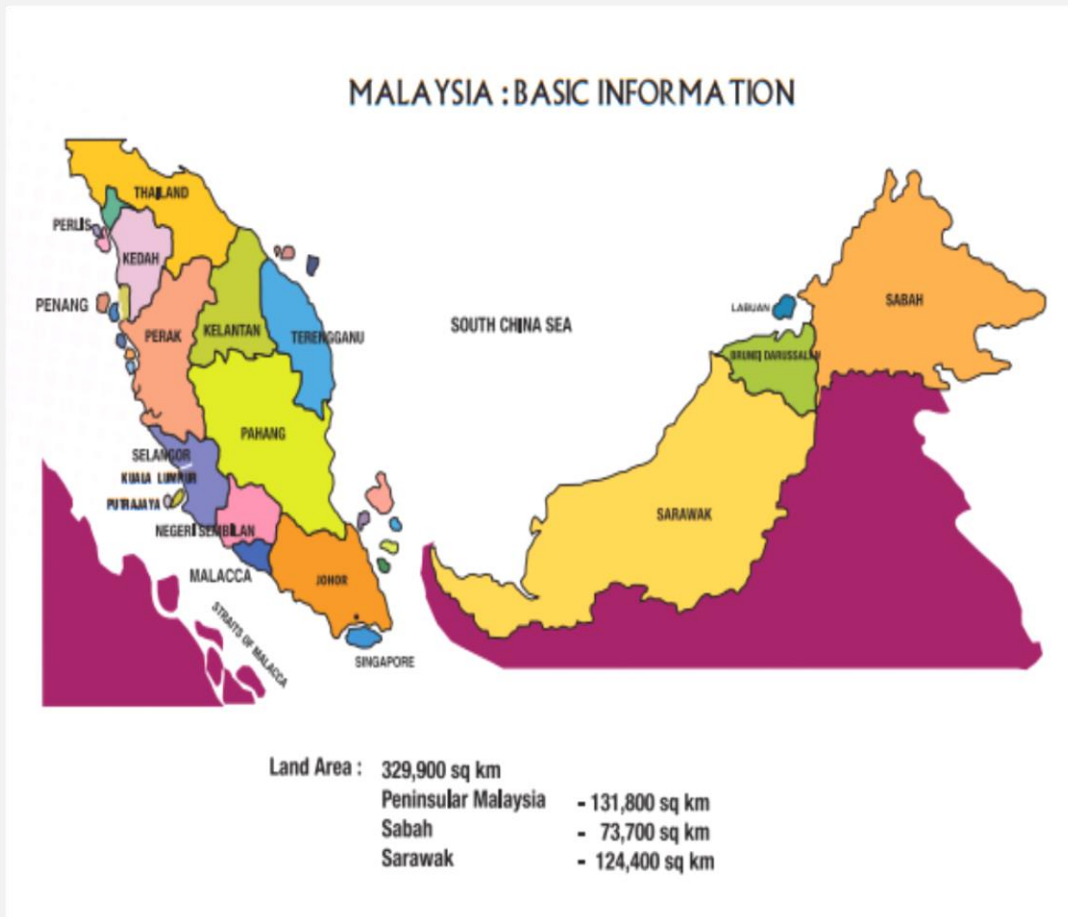
Since the launch of the Economic Transformation Programme (ETP) in 2010, areas under the National Key Results Area (NKRA) have generated a total of 1.3 million additional employment opportunities, and targets to create 3.3 million new jobs by 2020. Malaysia is also on track to reduce its deficit from 6.6% in 2009 to 3.9% in 2013, and to 3% by 2015. Based on StarBiz's poll of economists (Table 2.1), the average forecast for Malaysia's GDP growth for 2014 had been revised up to 5.8%, with three economists projecting growth to reach as much as 6.0%.

Table 2.1: GDP Forecast 2014

Research House	2014 Forecast (%)	
	Old	New
Nomura Global Research	5.4	6.0
CIMB Investment Bank	5.5	6.0
Hong Leong Investment Bank Research	5.7	6.0
Credit Suisse	5.3	5.9
BIMB Securities	5.2	5.8
RHB Research Institute	5.4	5.8
Affin Investment Bank	5.5	5.8
Bank of America Merrill Lynch	5.3	5.7
AmResearch	5.3	5.7
RAM Rating	5.1	5.6
M&A Securities	5.0	5.5
Alliance Investment Bank	5.5	5.5
Average	5.4	5.8

Source : StarBiz, 19 August 2014

Box 2.1: Malaysia – Basic Information, Economic and Demographic Indicators



A. Malaysia : Basic Information

Capital City	: Kuala Lumpur
Population 2012 ('000)	: 29.3 million
Population Growth Rate (%)	: 1.3%
Life Expectancy at Birth	: Male - 72.3 years Female - 77.2 years
Age Structure	: 0-5 years – 3.0 million 6-14 years – 4.8 million 15-59 years – 19.1 million 60 years and above – 2.4 million

The economic indicators for the period 2011-2013 are shown in Tables 2.2 and 2.3. Malaysia has a “young” population of 19.1 million or 65.2% of total population age between 15 and 59 years. The literacy rate of age 15 years and above stood at around 94.0%. The labour force was 13.2 million with low unemployment rate of around 3% and high literacy rate augurs well for Malaysia’s development and aspiration towards achieving a high income nation by 2020.

Table 2.2: Economic Indicators (2011-2013)

	2011	2012 ^P	2013 ^f
GDP: Real Growth Rate (%)	5.10	5.60	5.0–6.0
GNP: Per Capita (USD)	9,693	9,974	10,760 ¹
GDP Composition by Sector (% of growth)			
Agriculture, forestry and fishing	5.90	0.80	4.00
Mining and quarrying	-5.70	1.40	5.00
Manufacturing	4.70	4.80	4.90
Construction	4.60	18.50	15.90
Services (including government services)	7.00	6.40	5.50
Inflation Rate [CPI] (%)			
	3.20	1.60	2.0–3.0
Federal Government Finance (USD billion)			
Revenue	60.6	67.4 ^R	68.0 ^B
Expenditure	74.9	81.8 ^R	81.4 ^B
Employment by Sector (% of share)			
	2011	2012	2013 ^f
Agriculture, forestry and fishing	11.50	12.60	10.80
Mining and quarrying	0.60	0.60	0.30
Manufacturing	18.10	17.50	29.40
Construction	9.20	9.10	6.20
Services	60.60	60.10	53.30
Unemployment rate (%)			
	3.10	3.00	3.10
Labour Force (million persons)			
	12.7	13.1	13.2
Notes : ^f Forecast ^B Budget estimate ^P Preliminary ^R Revised estimate ¹ Based on average USD exchange rate for the period of January-February 2013 Data has been revised Source : Ministry of Finance (MOF), Bank Negara Malaysia, Economic Planning Unit			

Table 2.3: Demographic Indicators

Population By Age Group (2011-2012)				
Age Group	2011 (Number in Millions)		2012 (Number in Millions)	
	Number	Percentage	Number	Percentage
0-4	2.50	8.60	2.50	8.50
5-9	2.60	9.00	2.60	8.80
10-14	2.70	9.20	2.70	9.10
15-19	2.80	9.70	2.80	9.50
20-24	2.90	10.10	2.90	10.00
25-29	2.90	9.80	2.90	9.80
30-34	2.30	7.90	2.40	8.20
35-39	2.00	6.80	2.00	6.80
40-44	1.80	6.30	1.80	6.30
45-49	1.60	5.70	1.70	5.70
50-54	1.40	4.90	1.50	5.00
55-59	1.10	3.90	1.20	4.00
60-64	0.90	3.00	0.90	3.00

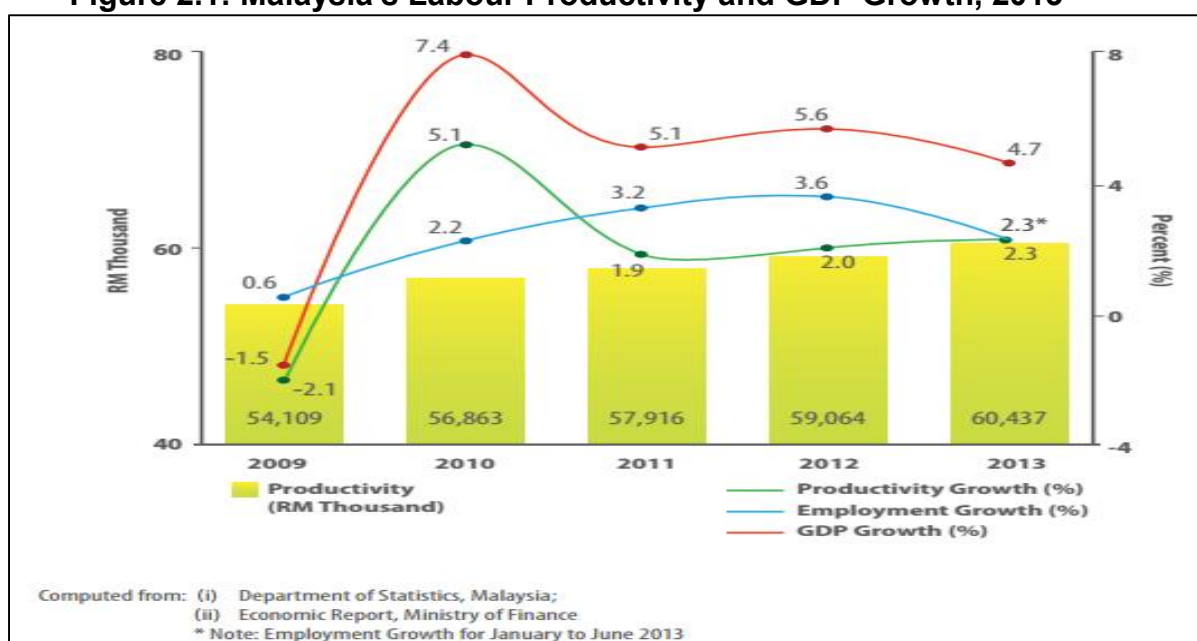
2.1 Productivity and Economic Growth

In 2013, Malaysia's GDP grew by 4.7%, driven by labour productivity which increased by 2.3% and raised productivity per person employed to RM60,437. As reported in the Productivity Report 2013/2014 released by the Malaysia Productivity Corporation in June 2014, the strengthening economic conditions was reflected in its growth in employment which increased by 2.3% or 294,000 jobs to 13.0 million in 2013. As a result, the labor force participation rate increased to 66.2%. Much of this increase was due to a higher

participation of women in the workforce at 50.7% in 2013 compared to 49.5% the year before.

Improvements in labour quality in terms of knowledge, skills and more competitive mindsets had also improved labour efficiency especially in high-technology, information intensive industries such as telecommunications, computer services and advertising. As labour productivity growth of 2.3% in 2013 was short of the 4.6% targeted in the Tenth Malaysia Plan, Malaysia needs to address challenges like enhancing growth enablers for sustainable economic development. Education, human capital development and innovation are two ways of addressing this short fall as we need long-term measures to achieve a higher level of productivity and competitiveness.

Figure 2.1: Malaysia’s Labour Productivity and GDP Growth, 2013



Source: Productivity Report 2013-2015, Malaysia Productivity Corporation

Over the period of three 5-year Malaysia Plans from the 7th Plan (1996-2000) to the 9th Plan (2006-2010), Malaysia achieved good progress in leveraging new technologies, skills and best practices to increase the contribution of Total Factor Productivity (TFP) to the national GDP. TFP’s contribution to GDP rose from 24.8% in the 7 Plan period to 34.7% in the 9 Plan period and is targeted to achieve 38.5% by 2015.

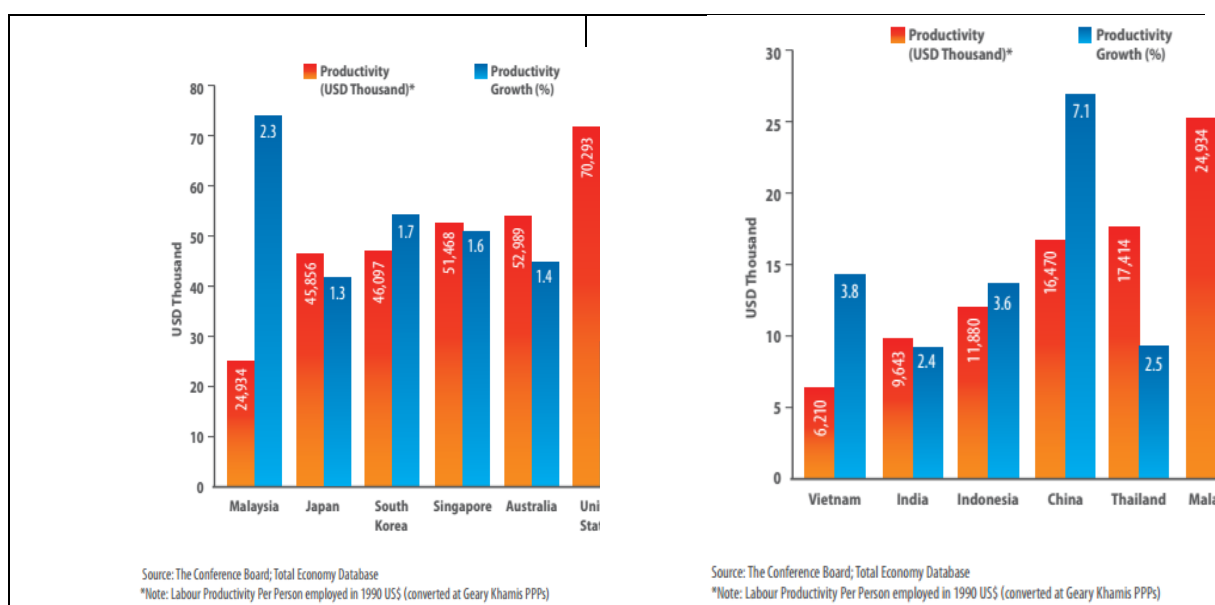
In the first three years of the 10 Malaysia Plan (2011-2015), contribution of labour to GDP stood at 22.2% and the ratio of contribution between labour quantity and labour quality remained unchanged at 89:11. This indicates that the contribution of labour input to economic growth is still based on quantity rather than quality. There is a need to further strengthen policies to enhance the quality of Malaysian workforce.

2.2 International Productivity Comparison

Malaysia's labour productivity growth of 2.3% in 2013 exceeded that of advanced economies such as Japan (1.3%); Korea (1.7%); Singapore (1.6%); Australia (1.4%); and United States (0.9%). However, in terms of productivity level, Malaysia's productivity level of USD24,934 per employee far exceeded other developing economies such as China; India; and Thailand. Productivity levels in Japan; Korea; Singapore; and Australia were between 1.8-2.1 times higher than Malaysia while the productivity level in the United States was about three times higher. This shows that Malaysia has potential to further enhance productivity.

While Malaysia has come a long way in productivity enhancement, it can go even further by raising the quality of its human capital. A high quality workforce will enhance labour productivity, employability and overall economic growth. Human capital is the core of Malaysia's strategy to achieve its objective of becoming a high income economy. To achieve this, the economy needs to create more modern jobs which require different skills sets and extensive investments in education and training. Amongst others, this requires extensive on-the-job training in firm-specific skills, career advancements opportunities, and high monetary rewards.

Figure 2.2: Labour Productivity Malaysia and Selected Benchmark Economies



Source : Productivity Report 2014-2015, Malaysia Productivity Corporation

2.3 Malaysia's Competitiveness Performance

In the past three years, Malaysia had been achieving commendable results in global competitiveness. In June this year, A.T. Kearney, based in Washington DC released the FDI index 2014 highlighting that Malaysia's had improved to 15 position from 25 previously. This performance signifies investors confidence in Malaysia's capacity to improve competitiveness and move up the value chain into high technology and skill-intensive segments. In the recently announced 'Doing Business Report 2014-15' by the

World Bank, Malaysia's resilience is once again demonstrated as it improved to 18 among 189 economies from 20 previously. Malaysia is also ranked the easiest economy to do business among emerging economies in East Asia and is second in ASEAN.

This ranking is consistent with Malaysia's performance being ranked by other international organisations such as the Institute for Management Development (IMD) and the World Economic Forum (WEF), both of which recorded Malaysia's improved competitiveness. The "Global Competitiveness Report 2014-2015" released by the WEF in September, affirmed this upward trend in competitiveness and Malaysia ranked 20 among 144 Economies from 24 previously. This makes Malaysia among the top 20 most competitive economies globally for the first time since the current Global Competitiveness Index (GCI) methodology was introduced in 2006.

With an increase in GDP per capita to USD10,548 in 2013, Malaysia is on track to achieve its aspiration to become a high-income knowledge-based economy by the end of the decade. This is also recognised by the WEF as Malaysia was upgraded from the transition to innovation stage of development from the efficiency stage of development since 2012. The WEF further asserts that in a region plagued by corruption and red tape, Malaysia stands out as one of the very few economies that have been relatively successful in tackling these two issues as part of the economic and government transformation programmes. Malaysia ranks an impressive 4 for the burden of government regulation and a satisfactory 26 in the ethics and corruption component of the index.

Malaysia also advanced three positions to be ranked among the top 12 economies out of 60 economies assessed in the IMD's World Competitiveness Yearbook 2014 from 15 in 2013. Among the four factors assessed in the report, Malaysia achieved top ten positions in two factors namely, Business Efficiency, ranked 5 and Economic Performance, ranked 9. Malaysia maintained 1 position in the category of economies with GDP per capita of less than USD20,000 and achieved 4 position in the category of 29 economies with population greater than 20 million. It is indeed encouraging that at 12 position in the WCY2014, Malaysia is the only developing economy that is placed among developed economies such as USA, Switzerland, Singapore, Hong Kong, Sweden, Germany and Canada.

In Malaysia's drive to achieve developed nation status by 2020, the efforts undertaken by the government has resulted in Malaysia narrowing the gap with some of the best practices worldwide. In the area of human capital, related human resource indicators such as compensation levels, labour relations, employee training, availability of skills and employment are also available across 60 economies in the report. An assessment of Malaysia's performance in related human resources indicators vis-à-vis other Asian economies are shown. (Tables 2.4 and 2.5).

2.3.1 Related Human Resources Indicators among Selected Asian Economies in the World Competitiveness Yearbook (WCY 2014)

Human resources related indicators comprise 23 indicators for labour market and seven in the employment category. Top performing economies are also presented to provide benchmarks and to identify the gaps. Malaysia fares well in the areas of labour relations achieving top 10 positions in five out of six indicators in this category. Good labour relations is recorded, ranked 8; worker motivation is high (3); low industrial disputes in the economy (6) while apprenticeship and employee training ranked 4; are among the best in the region.

Table 2.4 Labour Market Indicators: Costs and Labour Relations, World Competitiveness Yearbook 2014






WORLD COMPETITIVENESS YEARBOOK 2014 (WCY 2014)											
Labour Market (SELECTED ASIAN ECONOMIES)											
Indicators	Economy	Malaysia	Singapore	Japan	Korea Rep	Taiwan	Philippines	Indonesia	China	India	Top Performer
LABOUR MARKET		3	11	30	36	22	4	1	2	12	Indonesia
COSTS											
1. Compensation Levels		15 (4.76)	38 (18.46)	42 (20.74)	37 (16.96)	30 (8.14)	3 (0.94)	2 (0.93)	10 (3.49)	1 (0.79)	India (0.79)
2. Unit labour costs for total economy %		31 (3.90)	38 (5.30)	-	13 (1.80)	7 (0.35)	-	-	-	1 (-5.19)	India (-5.19)
3. Remuneration in services professions (\$) Department Head		11 (31,200)	38 (77,600)	57 (102,100)	40 (52,300)	29 (44,400)	2 (18,800)	1 (13,000)	16 (18,200)	3 (16,100)	Indonesia (13,000)
4. Remuneration of management (\$) Human Resources Director		13 (100,400)	44 (239,316)	51 (257,744)	30 (157,993)	22 (133,963)	18 (125,413)	5 (69,538)	15 (123,505)	6 (72,104)	Kazakhstan (44,612)
5. Remuneration spread		28 (13.57)	36 (16.51)	21 (12.27)	27 (13.50)	38 (17.51)	57 (46.09)	51 (35.05)	15 (10.88)	56 (40.70)	Iceland (3.11)
LABOUR RELATIONS											
6. Working hours		18 (1,986)	15 (2,037)	17 (2,012)	3 (2,308)	10 (2,116)	6 (2,246)	11 (2,112)	21 (1,973)	5 (2,258)	Mexico (2,375)
7. Labour relations		8 (7.68)	6 (7.87)	2 (8.35)	57 (3.91)	20 (6.83)	28 (6.53)	37 (6.12)	43 (5.83)	42 (5.97)	Switzerland (8.47)
8. Worker motivation		3 (7.68)	14 (6.63)	6 (7.56)	49 (4.57)	11 (6.89)	23 (6.30)	21 (6.42)	31 (5.78)	44 (5.11)	Switzerland (7.94)
9. Industrial disputes		6 (0.02)	1 (0.00)	9 (0.11)	34 (12.55)	-	12 (0.14)	22 (2.60)	-	36 (13.24)	Czech Rep./ Singapore (0.00)
10. Apprenticeship		4 (7.12)	15 (5.25)	5 (6.91)	40 (4.17)	16 (5.17)	29 (4.55)	7 (6.11)	25 (4.64)	32 (4.51)	Germany (8.53)
11. Employee training		4 (7.71)	17 (6.30)	3 (7.78)	22 (6.00)	18 (6.21)	31 (5.78)	36 (5.64)	19 (6.10)	46 (5.08)	Switzerland (7.94)





In the category of availability of skills, skilled labour with international experience is available in Malaysia, ranked 6 and brain drain is well managed, ranked 10. Areas that need to be focused are percentage of labour force to the population is low, ranked 47; part time employment is also low, ranked 45; and female labour force ranked 53 is another area of concern.

The employment situation in the economy is among the best in the region registering low

unemployment rate of only 3.1% (ranked 4) while long-term unemployment is only 0.2%, ranked 5 (Table 2.5). More labour market related data is also available in Appendix 1.

Table 2.5: Labour Market Indicators; Availability of Skills and Employment, World Competitiveness Yearbook 2014

WORLD COMPETITIVENESS YEARBOOK 2014 (WCY2014)										
Labour Market (SELECTED ASIAN ECONOMIES)										
Economy	Malaysia	Singapore	Japan	Korea Rep	Taiwan	Philippines	Indonesia	China	India	Top Performer
Indicators										
LABOR MARKET	3	11	30	36	22	4	1	2	12	Indonesia
AVAILABILITY OF SKILLS										
12. Labour force (millions)	26 (13.43)	44 (3.44)	7 (65.77)	15 (25.87)	28 (11.45)	10 (40.81)	4 (118.19)	1 (788.94)	2 (486.79)	China (788.94)
13. Labor Force (% of population)	47 (44.92)	4 (63.78)	22 (51.68)	23 (51.52)	36 (48.96)	54 (42.39)	42 (47.20)	6 (58.27)	57 (38.79)	Qatar (77.00)
14. Labour force growth (%)	11 (2.37)	10 (2.44)	40 (0.34)	18 (1.46)	27 (0.92)	29 (0.88)	43 (0.12)	37 (0.40)	35 (0.51)	Qatar (14.55)
15. Part - Time Employment (%)	45 (4.60)	36 (9.60)	10 (20.51)	34 (10.20)	52 (2.99)	2 (37.02)	3 (30.95)	-	-	Netherlands (37.78)
16. Female Labor Force (%)	53 (36.03)	34 (44.68)	43 (42.63)	45 (41.75)	39 (44.06)	49 (39.15)	52 (37.92)	-	55 (25.30)	Latvia (50.29)
17. Foreign labour force (%)	11 (13.96)	4 (37.73)	33 (1.04)	29 (2.54)	24 (4.17)	42 (0.05)	41 (0.06)	-	-	Qatar (93.69)
18. Skilled labour	6 (6.95)	36 (5.46)	29 (5.78)	32 (5.74)	23 (5.95)	5 (7.37)	14 (6.44)	45 (5.02)	31 (5.75)	Ireland (8.09)
19. Finance Skills	15 (7.40)	18 (7.17)	31 (6.53)	38 (6.17)	29 (6.61)	28 (6.69)	34 (6.48)	48 (5.42)	20 (7.00)	Switzerland (8.33)
20. Attracting and Retaining Talents	13 (7.46)	14 (7.44)	7 (7.67)	12 (7.48)	31 (6.67)	35 (6.51)	35 (6.51)	31 (6.67)	29 (6.86)	Switzerland (8.38)
21. Brain Drain	10 (6.51)	19 (5.70)	32 (4.76)	46 (3.74)	50 (3.41)	44 (3.82)	25 (5.26)	45 (3.79)	22 (5.54)	Norway (8.09)
22. Foreign high-skilled people	12 (7.24)	3 (8.17)	48 (3.93)	43 (4.34)	45 (4.27)	31 (4.87)	23 (5.60)	18 (6.08)	39 (4.41)	Switzerland (8.87)
23. International experience	4 (7.23)	10 (6.69)	59 (3.24)	48 (4.69)	39 (5.13)	23 (5.64)	13 (6.26)	57 (3.59)	33 (5.29)	Switzerland (7.92)

WORLD COMPETITIVENESS YEARBOOK 2014 (WCY 2014)										
Labour Market (SELECTED ASIAN ECONOMIES)										
Economy										Top Performer
Indicators										
EMPLOYMENT	12	5	8	7	21	27	25	1	9	China
1. Employment (millions)	25 (13.02)	43 (3.49)	7 (63.11)	15 (25.07)	28 (10.97)	11 (37.92)	4 (110.80)	1 (769.77)	2 (464.88)	China (769.77)
2. Employment (%) population	39 (43.54)	3 (64.71)	20 (49.59)	16 (49.91)	27 (46.92)	51 (39.39)	37 (44.25)	6 (56.57)	54 (37.04)	Qatar (76.80)
3. Employment Growth (%)	13 (2.31)	4 (4.06)	36 (0.66)	19 (1.56)	28 (0.99)	31 (0.78)	45 (-0.00)	39 (0.36)	38 (0.51)	Qatar (14.77)
4. Employment in the public sector (%)	16 (10.73)	5 (4.10)	1 (3.52)	3 (3.85)	13 (9.46)	9 (8.18)	22 (16.40)	11 (9.00)	2 (3.80)	Japan (3.52)
5. Unemployment Rate (%)	4 (3.10)	3 (1.90)	9 (4.00)	4 (3.10)	11 (4.18)	33 (7.10)	27 (6.25)	10 (4.05)	14 (4.50)	Qatar (0.27)
6. Long-term unemployment (%)	5 (0.20)	9 (0.60)	18 (1.61)	1 (0.01)	10 (0.65)	2 (0.05)	-	-	6 (0.30)	Korea (0.01)
7. Youth Unemployment (%)	11 (9.50)	7 (8.81)	4 (6.88)	10 (9.30)	20 (13.17)	28 (16.20)	36 (19.60)	-	27 (16.00)	Qatar (1.14)

3.0 National Human Resource Strategies and Initiatives

Human capital lies at the core of innovation and a productive high income economy which Malaysia aspires to become by 2020. To ensure that this aspiration is achieved, it is imperative for the economy to invest in human capital to ensure a pool of highly skilled talent base who is able to rapidly respond creatively to economic changes is developed and retained. The talent base and workforce of high-income nations include a number of key characteristics specifically around higher education qualifications to promote knowledge generation and innovation, high level skills in both technical and professional fields, and high levels of productivity.

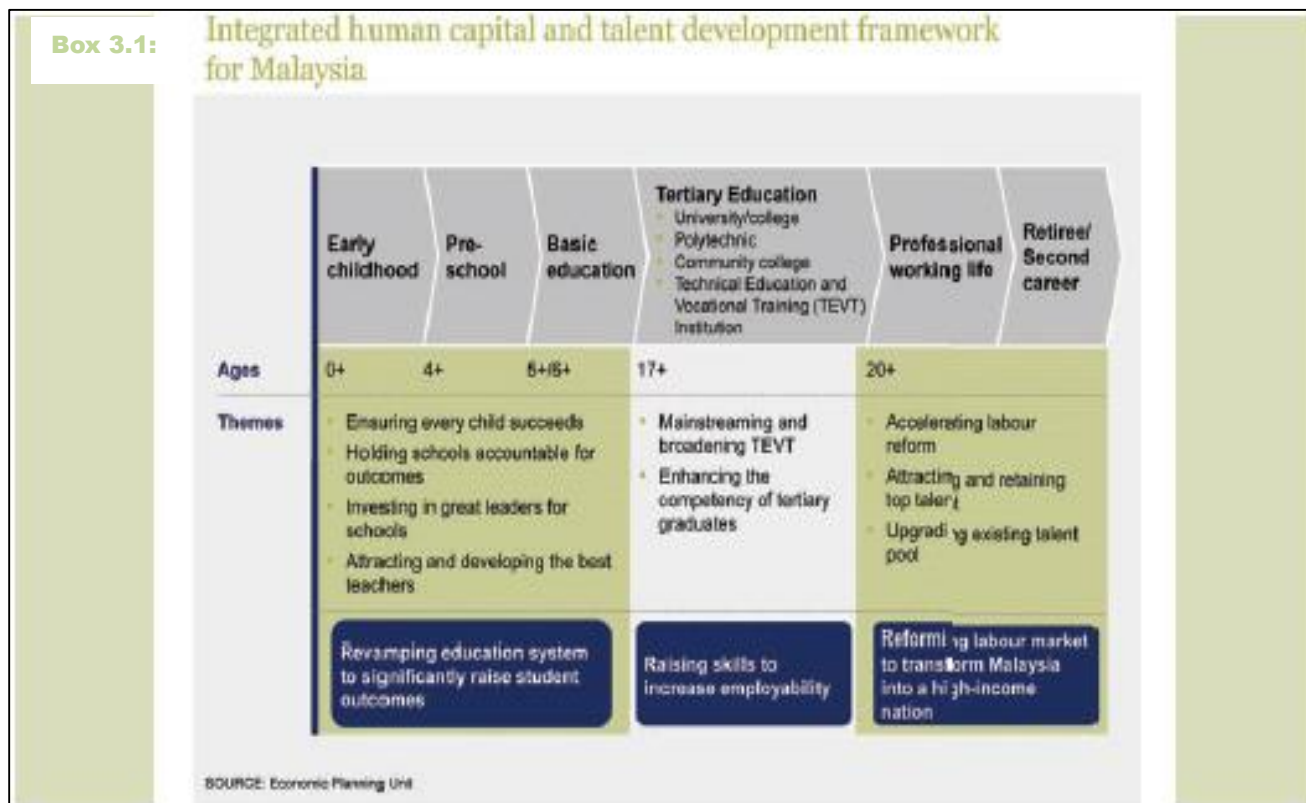
Drawing on the 2014 “Human Development Report, Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience,” which was launched on 24th July 2014, Malaysia’s performance is compared to other Asia Pacific economies. This report is the latest in the series of global Human Development Reports published by UNDP since 1990 to provide analysis of major development issues, trends and policies on human development. Malaysia achieved a human development index at 0.773 and was ranked 62 out of 187 economies. The score attained was higher than the global average of 0.702, putting Malaysia in the high human development group. Malaysia’s performance in the Human Development Report and among Asia Pacific economies are as shown in the following table:

Table 3.1: Malaysia among Asia Pacific economies in the Human Development Report 2014

Malaysia among Asia Pacific Countries in the Human Development Report 2014				
Country	HDR 2014		HDR 2013	
	Rank	HDI Value	Rank	HDI Value
Australia	1	0.933	1	0.938
New Zealand	2	0.910	2	0.919
Singapore	3	0.901	6	0.895
Hong Kong	4	0.891	5	0.906
Republic of Korea	5	0.891	4	0.909
Japan	6	0.890	3	0.912
Brunei	7	0.852	7	0.855
Malaysia	8	0.773	8	0.769
Sri Lanka	9	0.750	9	0.715
Thailand	10	0.722	11	0.690
China	11	0.719	10	0.699
Mongolia	12	0.698	12	0.675
Indonesia	13	0.683	14	0.629
Philippines	14	0.660	13	0.654
Vietnam	15	0.638	15	0.617
India	16	0.586	16	0.554
Cambodia	17	0.584	17	0.543
Bangladesh	18	0.558	18	0.515
Nepal	19	0.540	21	0.463
Pakistan	20	0.537	19	0.515
Myanmar	21	0.524	20	0.498

Source : Human Development Report, 2014, UNDP

Talent shortages are getting more acute in the intensifying global competition where the best global talent is drawn across borders to the most attractive global opportunities. For Malaysia, the development of a first world talent base requires nothing less than a comprehensive, all-inclusive national effort from both public and private sectors as well as civil society to lift the quality of the nation’s human capital. The development of human capital in Malaysia requires the collaboration of multiple ministries and the private sector to address all population segments. It requires a holistic set of measures that support the development needs of every Malaysian at every stage of their lives as shown in Box 3.1: “Integrated human capital and talent development framework for Malaysia.”



During the Tenth Plan period (2011 - 2015), the Government will adopt an integrated human capital and talent development framework, as illustrated in *Chart 5-2*. This approach will nurture and develop Malaysians across their entire life-cycle, from early childhood education, basic education, tertiary education and all the way to their adult working lives, specifically by:

- Revamping the education system to significantly raise student outcomes;
- Raising the skills of Malaysians to increase employability; and
- Reforming the labour market to transform Malaysia into a high-income nation.

Source: Tenth Malaysia Plan 2011 – 2015

Achieving a high-income nation requires among other critical factors, an efficient labour

market that is able to attract, developed and retain the best talent. Shortages of the required types of skills and talent will hamper the transformation to a knowledge and innovation-based high-income economy. Efforts to reform the labour market are necessary to ensure efficient matching of demand with supply, and to improve the retention of top talent and to enhance the attractiveness of Malaysia to local and foreign talent as well as the Malaysian diaspora.

The diversity of the Malaysian workforce remains an asset for the economy. Malaysians have strong cultural capabilities and are highly adaptable. The economy's open and connected society has enabled the Malaysian talent pool to develop strong global and regional links, facilitated by their multi-lingual capabilities. The government is committed to undertake a reform of the labour market, with special emphasis on improving job mobility and up-skilling the current workforce. This reform of the labour market will be critical to provide a platform for the nation's ongoing growth efforts. The focus of reform will be on three key areas:

- Making the labour market more flexible;
- Upgrading the skills and capabilities of Malaysia's existing workforce; and
- Enhancing Malaysia's ability to attract and retain top talent.

3.1 Meeting the Needs of Industry through Vocational Education

Currently in Malaysia, only 28% of the total workforce is employed in the higher skilled jobs bracket reflecting the low level of educational attainment among a large segment of the workforce. There is an urgent need to upgrade and reskill the existing workforce to move the economy up the value chain. The Ministry of Education will ensure that the education system features a number of different pathways to cater to a broad spectrum of interests and abilities.

Developing the vocational pathway is a key priority in Malaysia and the government is investing additional resources in the Vocational Transformation Plan to ensure that it can deliver the aspirations. The government aims to achieve a target of 33% of the workforce being employed in the higher skilled jobs bracket by 2015 and up to 50% by 2020. This will require involvement of the private sector.

The Vocational Transformation Plan developed will strengthen the training of skilled graduates and address the mismatch with industry needs. The Plan comprises two components, Basic Vocational Education and Vocational College. The Ministry of Education piloted an alternative vocational track for lower secondary students and this programme allows students to achieve a basic vocational certification (Level 2 of the Malaysian Skills Certificate) at the earlier age of 15 years compared to 17 years previously in 2012. The earlier age is in line with global systems such as in Austria and Germany.

The Ministry is also transforming Secondary Vocational Schools to Vocational Colleges.

These colleges will offer a revamped curriculum and diploma level accreditation namely, the Vocational Diploma of Malaysia. The new diploma curriculum comprises 70% practical skills training and 30% general academic education. The programme also includes a seven month long practicum placement and various industries players were consulted to ensure alignment with industry standards and practices as well as to narrow the mismatch with industry skills needs.

3.2 Human Resources Development Fund (www.hrdf.com.my)

Upgrading the skills and capabilities of the existing workforce through Cost Sharing

In fulfilling the nation's aspiration to attain the status of developed economy by 2020, the Human Resources Development Fund (HRDF) was established in 1993 with the aim of developing quality human capital and world-class workforce to achieve a high income economy based on knowledge and innovation. Its vision is to be the driving force in training and development of the workforce while its mission is to enhance workforce knowledge, skills and capabilities through effective management of its fund. The objective of the HRDF is to encourage employers covered under the Pembangunan Sumber Manusia Berhad (PSMB) Act, 2001 to retrain and upgrade the skills of their employees, apprentices and trainees in line with their business needs and the development strategy of the economy.

Employers registered and/or incorporated in Malaysia who have registered with PSMB and pay the HRD levy immediately upon registration are eligible to apply for training grants (financial assistance) to defray all or a major portion of the "allowable costs" of training their employees. The HRD levy is the mandatory levy payment imposed by the Government on specified groups of employers for the purpose of employee training and skills upgrading. Under the law, certain categories of employers are liable to pay a HRD levy for each working employee at the rate of 1.0% of the monthly wages of the employee. The HRDF is not a subsidy scheme for the retraining and skills upgrading of workers by employers. As the HRDF provide financial assistance to defray all or a major portion of the "allowable costs", all retraining and skills up-grading programmes undertaken by employers should be seen as cost-sharing efforts. Training must be in the areas of direct benefit to their business operations.

The HRDF provides a pool of funds where employers contribute levies for retraining and skills upgrading of their employees. During the plan period an allocation of RM50million will be provided to continue the matching grants for training and skills-upgrading for employees in SMEs. In addition, RM50 million will be allocated to fund apprenticeships involving more than 8,000 students. The allocation will be used for the allowances and course fees of apprentices in vocational training. Cost sharing for training will be intensified through extending the coverage of the Human Resource Development Fund (HRDF) from 44 to 70 subsectors.

3.3 Talent Corporation Malaysia (www.talentcorp.com.my)

The Malaysian government has initiated an Economic Transformation Programme (ETP) to move Malaysia from an upper middle income economy to a high income economy by the end of the decade. Talent is a key enabler for Malaysia to successfully drive this economic transformation. As Malaysia focuses more on knowledge intensive and innovation led activities, it becomes increasingly important that key economic sectors driving the economy's development are supported by a dynamic, highly skilled, and diverse workforce. Toward this end, Talent Corporation Malaysia Berhad (TalentCorp) was established in January 2011 to drive initiatives towards catalysing talent for the ETP.

To meet the demand of industries involved in the economic transformation, TalentCorp drive initiatives focus around three talent supply segments:

- **Optimising Malaysian Talents in Malaysia**
To ensure our domestic talent is optimised in line with the changing needs of Malaysia's economic growth, TalentCorp works with key partners in both the private and public sectors to attract, nurture, and retain our home-grown talent. A key focus is the enhancement of the school-to-work transition particularly with respect to graduates from local universities who are the most significant talent supply for a large number of industries. Another key focus is to attract and retain women talent in the workforce, given that the pipelines of talent emerging from the universities are mainly women.
- **Connecting Malaysians Abroad**
Our efforts to attract and facilitate the return of Malaysians abroad focus on raising awareness of professional opportunities in Malaysia and providing platforms for leading employers to engage with both students and professionals. In parallels with the outreach programmes, TalentCorp also works with leading employers to facilitate the return of Malaysian professionals from abroad through the Returning Expert Programme as well as to establish platforms for global Malaysians to contribute from abroad.
- **Facilitating Foreign Talent**
TalentCorp collaborates with the Malaysian Immigration Department to facilitate top expatriate talents in Malaysia to work and live in Malaysia on a longer-term basis through the Residence Pass Talent so that they can continue to contribute their expertise, particularly in areas of critical skill gaps that cannot be fully addressed by Malaysian talent.

4.0 Human Resource Best Practices

As human resource management is dealing with people there is no one framework or

model that can meet the needs of all companies. The diversity of HR practices can be analysed by studying the practices of successful organisations and these successful practices can then serve as best practices for other organisations to adapt to suit their respective environment and culture.

In a survey conducted by the Malaysia Productivity Corporation among 57 Small and Medium Enterprises who had participated in the Quality Management Excellence Award in 2010, the findings on the People Element revealed training is a key element to employees development to ensure that employees are able and competent to carry out their activities and responsibilities. It was found that:

- Training is given for new and even experienced employees;
- All companies including SMEs and large companies allocated an amount of training budget ranging from 0.7% to 5.0% of payroll. Allocation usually depends on the current economic condition and necessity of the company;
- Large companies set targets on KPIs for employee training in the form of both percentage of employees involved in training and training hours per employee;
- Several companies had registered with the Human Resource Development Fund (HRDF) and pay levy for their employees.

All the companies in the survey have HR plans and provide various types of training to enhance employees level of competencies. Experience, skills and talent are analysed through Training Needs Analysis. Usually, there is a balanced mixture of internal and external training. The training can be classified into management and technical and also refresher training provided due to changes in procedures as follows:

- Induction training for new employees;
- Operational or technical training through on-the-job training by seniors/supervisors or partners and depending on the job functions;
- Quality management training such as ISO series, environment, safety and health;
- Invited guest speakers/experts on various topics;
- Soft skills and management development such as supervisory and management skills, leadership and communication; and
- Team-building, creativity and innovation and other motivational training.

In terms of training facilities, the larger companies have their own training centres while the smaller companies will utilise their meeting rooms for briefings and internal training. The effectiveness of training is normally obtained from supervisory feedback through observation when performing duties and the ability to better meet KPIs set. All the companies surveyed have some degree of collective activities for their employees.

Among such activities include:

- Sporting activities, family camp and company trips;

- Health and environment awareness programmes;
- Excellence and loyalty awards as well as family success celebrations;
- Employee engagement or satisfaction surveys; and
- Company newsletters for internal communication.

Many SMEs often feel that it is costly to train employees as developmental training tend to be looked upon as a threat to employee retention. Such reluctance may also be largely due to the need to offer better pay packages given that training enhances job mobility. It is encouraging that SME who have been exposed to the importance of human capital development are beginning to adopt people oriented programmes to enhance their productivity and quality.

4.1 TOP 10's BEST COMPANIES IN MALAYSIA TO WORK FOR

Issue 9/2013-<http://top10malaysia.com/home/index.php/news-and-events>

Malaysia is home to numerous companies both foreign and domestic, providing exceptional working conditions which include above average compensation packages, excellent career development and super training and as a result, are much sought after by employees. In the issue 9/2013, **Top 10 of Malaysia shares the results of its recent survey on the top 10 companies operating in Malaysia that are admired for their working environment and culture** - where employees desire to work for. These 10 companies were chosen from a list of 20 top companies in Malaysia that was published for this survey and the results of which are presented here in random order:

4.1.1 Top Ten: Natural Gas Producer

The company started operations in Malaysia in 1891. It is a pioneer and a leader in the petroleum industry and the largest natural gas producer in Malaysia. For years, it has been consistently recognised as one of the best companies to work for in Malaysia. The company has a workforce of more than 6,000 **provides competitive salary for new graduates and recognises and rewards employees through performance-related pay and bonuses including flexible working arrangements (subject to business requirements). Their benefits typically include a competitive national employee provident fund plan and healthcare coverage. The company regularly conducts surveys such as Online People Survey amongst their employees to find out if there are any issues that need to be addressed or improved.** In recent times, the company significantly strengthened the compensation package for technical professionals and graduates. The company reviews its compensation packages periodically to ensure they remain competitive and attractive in the market place.

4.1.2 Top Ten: Semiconductor Assembly and Test Site

The largest semiconductor company, established its first offshore assembly plant in Penang in 1972, comprises three campuses and employs more than 8,000 people. The company's base in Penang is key to one of the largest assembly and test sites. It is also a design and development center where employees engineer cutting-edge technology. It offers a wide range of pay and benefit programmes. **Its reward packages include health and wellness benefits, retirement benefits, paid time off, career development, and more. In addition to these, they also have outstanding perks for employees such**

as state-of-the-art fitness centers, sports courts and fields, indoor recreation amenities, cafes with free fruit and drinks, coffee bars, hot beverage machines, convenience store, ATMs, Health for Life Centers, nutritionists, employee discount programmes, motor and group insurance, hobby and social clubs, and organised leisure activities.

4.1.3 Top Ten: Transport and Logistics

This company was the first international air express company to set up operations in Malaysia in 1973. Today, it is a market leader, providing comprehensive transportation and logistics including international express, overland transport and air freight. The company has 500 full time staff. **Besides offering an above average remuneration package, the company also provides a wide range of benefit programmes and services. Its performance oriented culture has attractive incentives that reward individual as well as group and team performances. It provides comprehensive training and development upon entry with an Employee Induction Programme and supports continuous development of all staff through investment in training, social programmes and working environment. This includes training opportunities in various expert and operational knowledge, leadership, soft skills and management techniques on www.mylearningworld.net, the online learning portal. They have also implemented motiv8, a performance management system which ensures that the employees potential is recognised early.**

4.1.4 Top Ten: Petroleum Industry

The only Malaysian company which is ranked among Fortune 500's largest corporations in the world was founded in 1974 and has its presence in 31 economies with a work force of more than 40,000. It is considered one of the best managed companies in Malaysia. **Employees are provided ample opportunities to showcase their talents and skills. Their total reward package is competitive with the other industry players. The company is known to provide for the well-being of employees and their families, in the form of comprehensive health care coverage including maternity benefits, life insurance, staff care services and recreational programmes.**

4.1.5 Top Ten: Food Manufacturer

Beginning in Malaysia in 1912 as the Anglo-Swiss Condensed Milk Company in Penang, its first factory in Petaling Jaya was set up in 1962. At present, the company manufactures its products in seven factories and operates from its head office in Mutiara Damansara. The Company was listed on the KLSE now known as Bursa Malaysia Berhad on 13 December, 1989 and has more than 5,000 employees in Malaysia, manufacturing and marketing more than 300 products. The company has **introduced several programmes that can help its employees achieve proper work and lifestyle balance. Such programmes include flexible benefit plans which offer staff the flexibility of choice when it comes to life insurance as well as health and wellness packages that extend to the employee's spouses and children. The company also has a Performance Management System, Learning and Development Programmes and opportunities for foreign assignments.**

4.1.6 Top Ten: Mobile Telecommunications Provider

Founded in 1995, Malaysia's largest mobile telecommunications provider provides 95% 2G coverage and 81% 3G coverage. It has the largest high-speed network in the economy. With over 3,000 employees spread in the Asia-Pacific region, it is a much sought-after company to work for and is known for its **innovative and fast-paced working atmosphere. The company has received several accolades for its employee programmes. It was awarded the Gold Award in the innovation category at the Malaysia Human Resource Award 2010 in recognition of its innovation in nurturing employee talent at its Academy. The company also came up with the Management Associate Programme (M-MAP) in order to develop and groom Malaysian graduates who have high potential in taking up senior leadership roles. The "My Wellness, My Choice" initiative is a long-term programme aimed at propagating a healthier workforce.**

4.1.7 Top Ten: IT Solutions

Established in June 1961, the company is one of the largest and leading IT companies in the world. It has assumed a major role in providing IT solutions to the Malaysian business world. Besides offering competitive benefits as well as an **industry-leading practice of performance-based bonuses for all employees, the company allows employees to organise their working hours according to business requirements.** Its women workforce outnumber their male counterparts at 57% and provides a **90 day maternity leave for all its female employees. A large number of employees are under the mobility programme where they can either work from home, or at customer facilities. They also have an arrangement for part-time work such as a two-or-three day week as opposed to a five-day week.** The company has been awarded and recognised as the Most Popular Graduate Employer for the ICT sector for three years in a row. The company won the Malaysia HR Awards 2011 organised by Malaysian Institute of Human Resource Management in partnership with JobStreet.com.

4.1.8 Top Ten: PC and Notebook Supplier

The company, which opened its state-of-the-art assembly plant in Penang in 1995, is a one-stop PC and notebook supplier. At the heart of its Asia Pacific operations is the Asia Pacific Customer Center (APCC) in Penang. **The company has invested in its people and has developed a series of special programmes that facilitate young team members as they pursue a career that fulfills their ambitions and potential. From one-on-one meetings with mentors to regular 360-degree feedback and routine check-ins with a long-term career plan, their team members have ample opportunity to become the leaders they are meant to be.** It was awarded the top rank as an "IT Employer of Choice" by Malaysian graduates worldwide for 2011–2012 and also received an Employer of Choice Award in 2011 by the Malaysian Institute of Human Resource Management (MIHRM).

4.1.9 Top Ten: Investment Banking

One of the largest investment banks in South-East Asia and the second largest financial services group in Malaysia, with operations in 13 economies and over 40,000 staff regionally, the company offers a regional work experience. The company's compensation programmes revolve around **ensuring rewarding and recognising employees**

through competitive rewards package that is well balanced between fixed and variable compensation elements. The company's "Choice in My Benefit" is a flexible benefit scheme which allows employees to tailor benefits provided by the company to suit their personal needs. The employees can vary their benefits ranging from healthcare to insurance. Management views this flexi-plan as a step forward to attract the right talents and to retain its current employees. The Group won the "Graduate Employers Award – Banking & Financial Services Sector" presented by the Malaysia's 100 Leading Graduate Employers 2009 publication. The bank was named "Malaysia's Most Caring Employer" by the Malaysian Ministry of Human Resource in 2011.

4.1.10 Top Ten: Property Developer

A public listed company, employing 1,200 is a market leader in the development of landed properties of high-rise condominiums as well as commercial centres. The company was judged as the Overall Best Employer in Malaysia 2011 by Hewitt. Some of their staff benefits include interest-free study loans, free lunch boxes for all employees on normal working days (annual cost is RM60,000), three paternity leave days and 60 maternity leave days, staff discount on the purchase of a residential unit for every two years of service. They also provide a merit-based performance appraisal system which rewards high productivity. It provides outpatient medical treatment and check-up reimbursement for employees and their family members, including parents, spouses and children, and over a hundred types of in-house and external trainings. The company also has an Employees Prolonged Illness Scheme whereby the company will continue to give full monthly basic salary for the first two months of medical leave and half pay for the following two months.

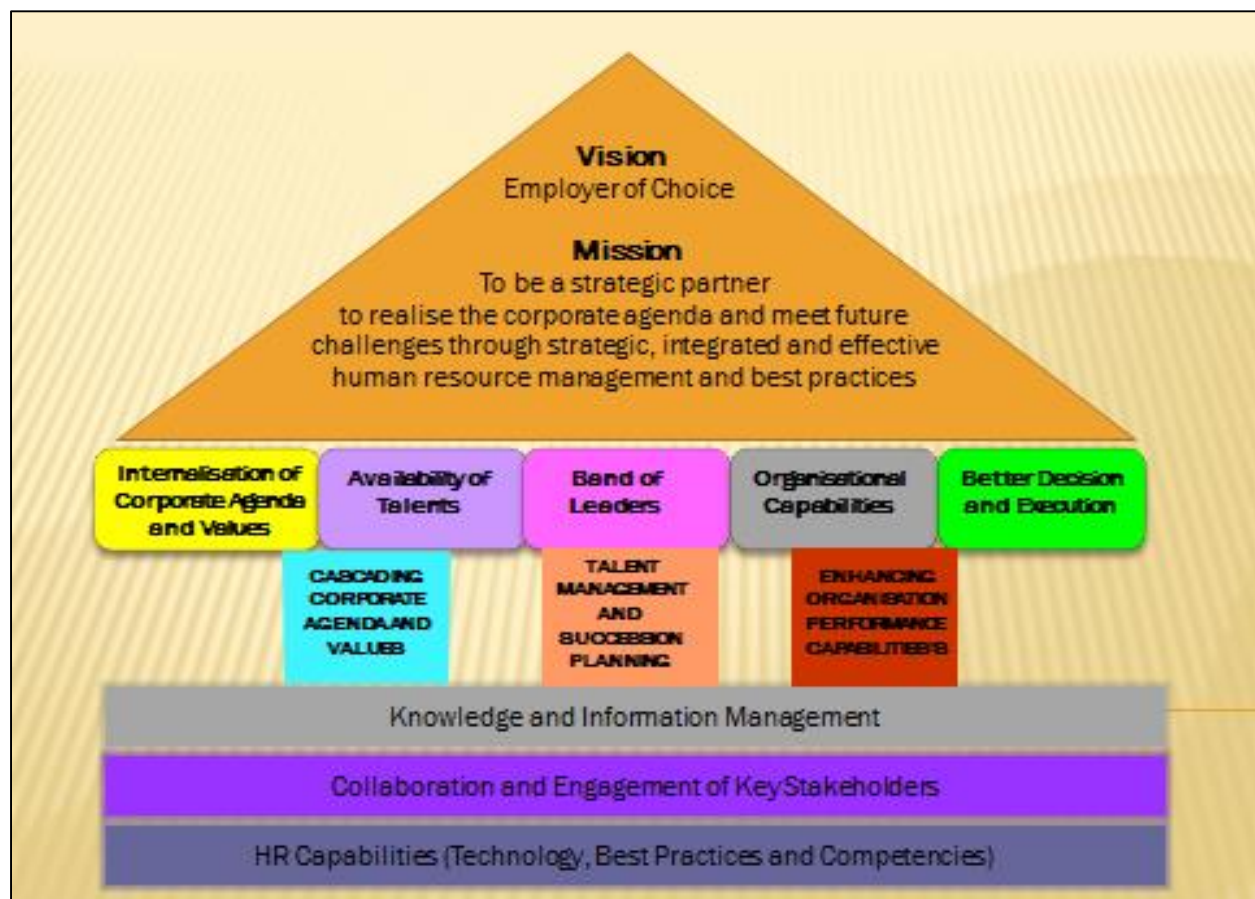
4.2 Good Human Resource Practices at the Work place

The key factor for organisations to be competitive and successful is the human capital. Systematically trained employees are more innovative and make better planning, execute processes more efficiently and generate superior results. As such, the emphasis on innovation in human resource management should be geared towards encouraging Malaysian companies to develop creative and innovative human resources strategies by adapting and implementing human resource best practices that will improve business performance. Many human resource awards are being organised by both the Government and associations to recognise good practices at the workplace. Award winning companies serve as good benchmarks in various areas for human resource management, development and planning for others to adapt and adopt.

In this context, the Malaysia Productivity Corporation had published a case book on Human Resource Best Practices documenting innovative human practices of Human Resource Excellence Award Recipients. Selected framework and models of award winning companies had been abstracted from this case book and will serve as reference points or benchmark for human resources practitioners.

4.2.1 Aligning Human Resource Structure and Strategic Priorities

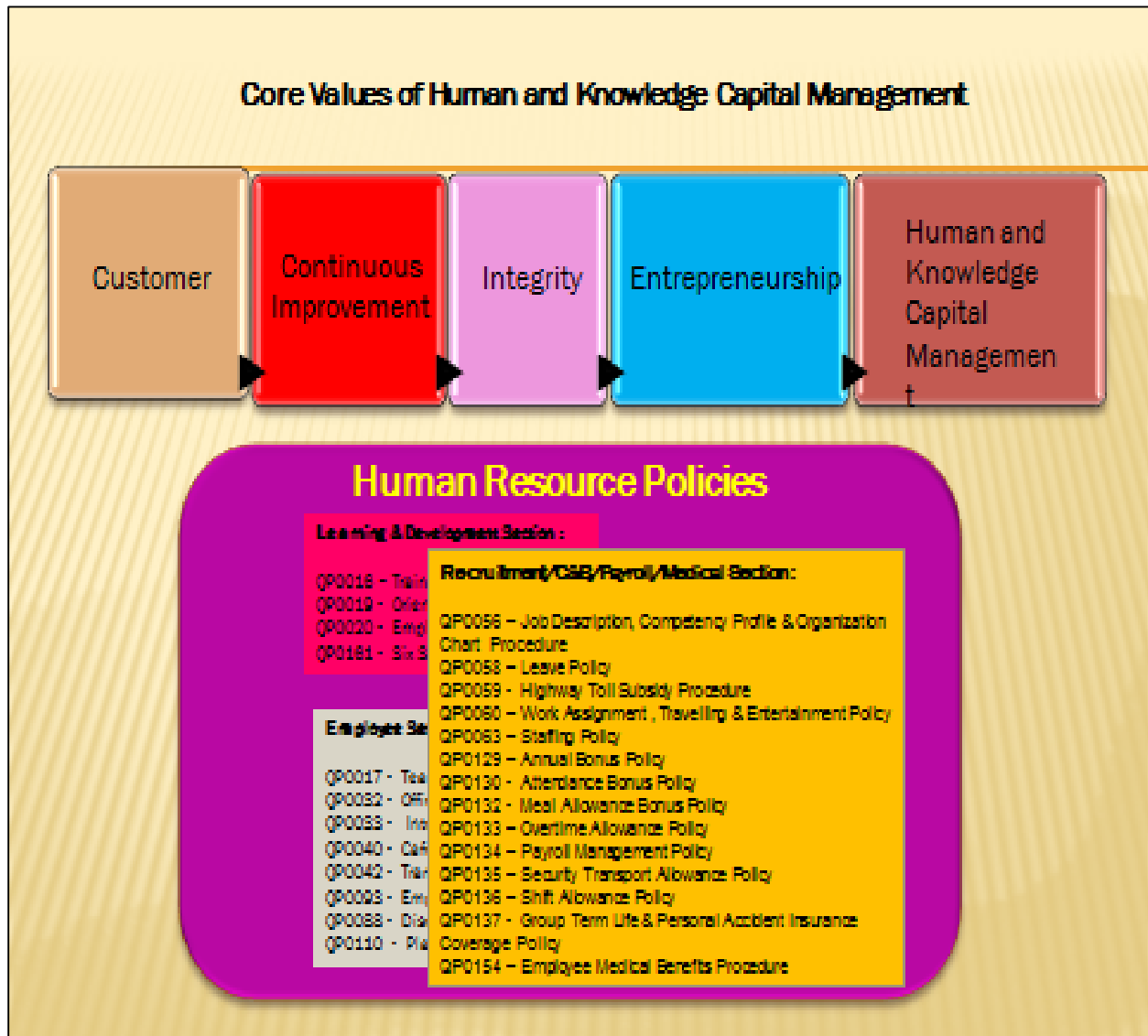
The HR structure enables its HR professionals to create strong partnerships with line managers and build in accountability at the respective levels for implementing effective people practices while providing cost effective traditional HR services. The HR function is made up of the following disciplines: HR relationship management which oversees the day to day non-operational HR needs and accountability for executing business or functions; HR service delivery to drive provision of HR technical knowledge to both HR relationship management and the employees; and HR operations to provide services such as payroll processing, employee data management, recruitment support and other processes. It is important for organisations to align the human resource structure and processes to the vision and mission as reflected in the Strategic HR Model adopted by a Malaysian Financial Institution.



4.2.2 Aligning Business Strategy to People

Core values drive the success of organisations and set them apart from competitors. It is of utmost importance that there exists strategic alignment between business strategy and how people are managed. Progressive Malaysian organisations, which undertake a genuine effort to adopt practices that align business strategy to people has recognised

the strategic importance of the HR Department, evolving from a focus on employee welfare to one that emphasises both human development and optimal productivity. The core values of human and knowledge capital management is stated in the mission statement which is to create values for customers, employees and stakeholders. Human resource policies pertaining to learning and development, employee services and recruitment had been developed.

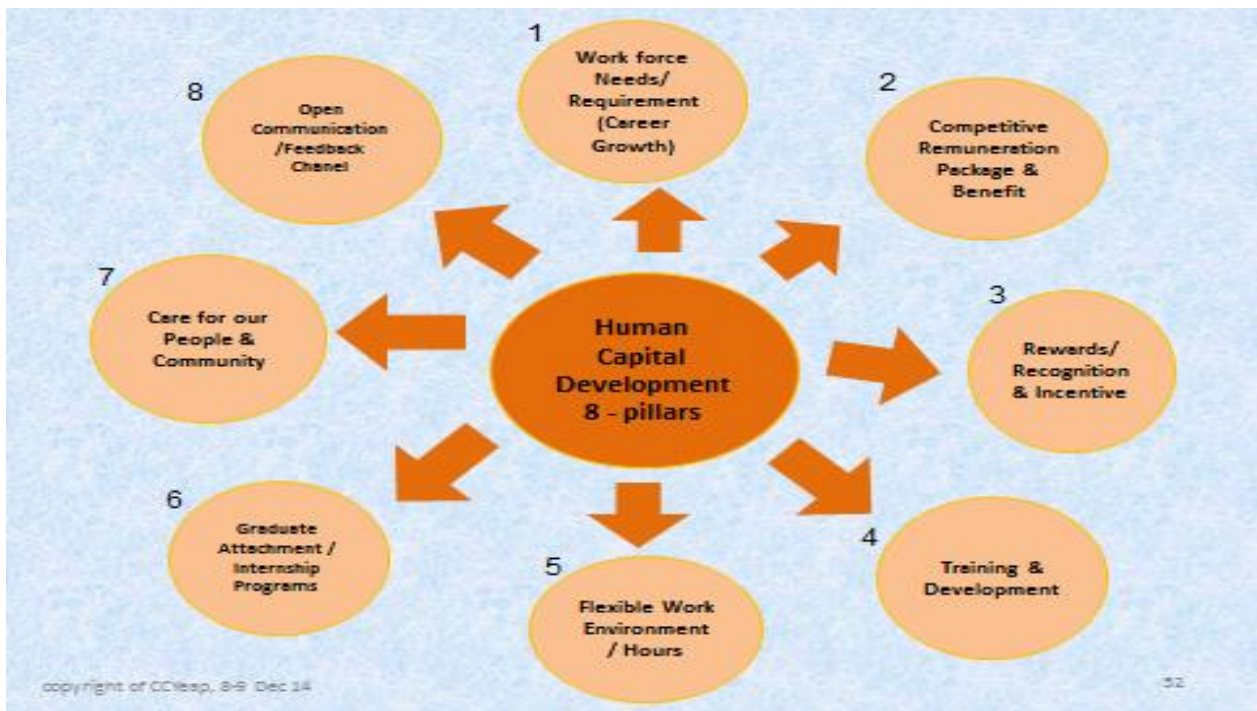


Strategic Intent	Leading the way in Asia, Africa and the Middle East
Brand Promise	The Right Partner – Leading by Example
Values	<ul style="list-style-type: none"> <li style="width: 33%;">• Responsive <li style="width: 33%;">• Trustworthy <li style="width: 33%;">• Creative <li style="width: 33%;">• International <li style="width: 33%;">• Courageous

Strategic Priorities	Deliver superior financial performance	Continuously improve the way we work	Massively multiply our leadership capabilities
	Strengthen our right partnership with regulators and communities	Reinforce the brand	

4.2.3 Eight Pillars of Human Capital Development

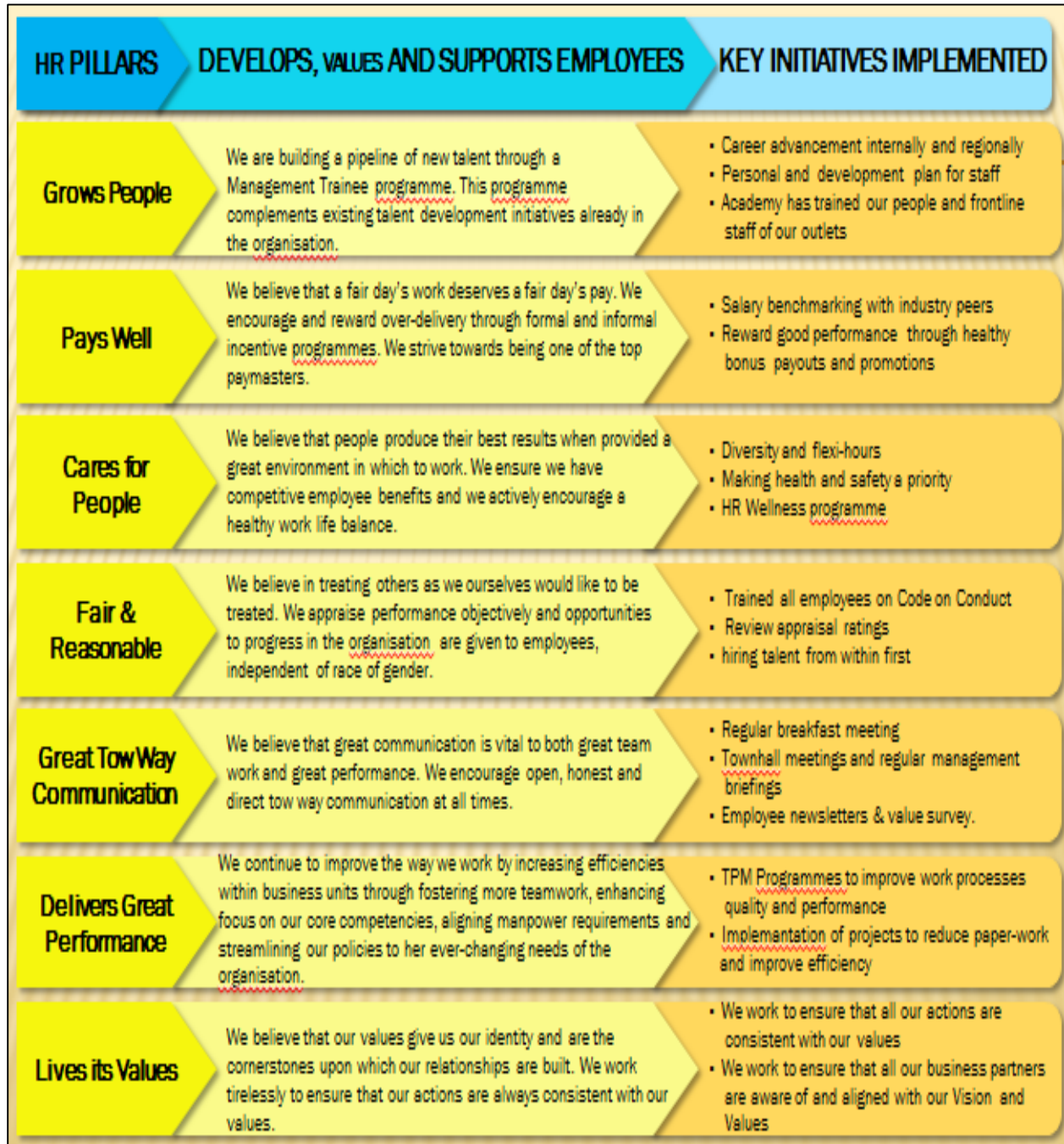
A framework for human capital development: core values and pillars. Core values drive the success of organisation and set them apart of competitors. It is their utmost work force needs/requirement (career growth), competitive remuneration package and benefit, rewards/recognition and incentive, Training and development, flexible work environment/hours, graduate attachment/internship programmes, care for our people and community, open communication/feedback channel.



4.2.4 Supporting Employees through HR Pillars

This people oriented human resource inclination of the company provides a holistic approach to both the development of its employees and organisation performance. The emphasis is growing people by providing career advancement as well as personal development, benchmarking salary and rewarding good performance, taking care of employees welfare, ensuring two-way communication to enhance teamwork, continuously improving performance and living by its values had contributed to the

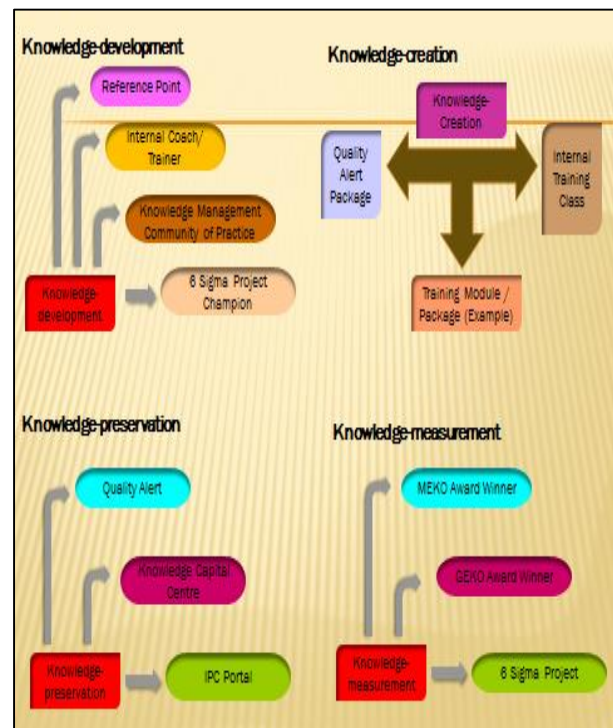
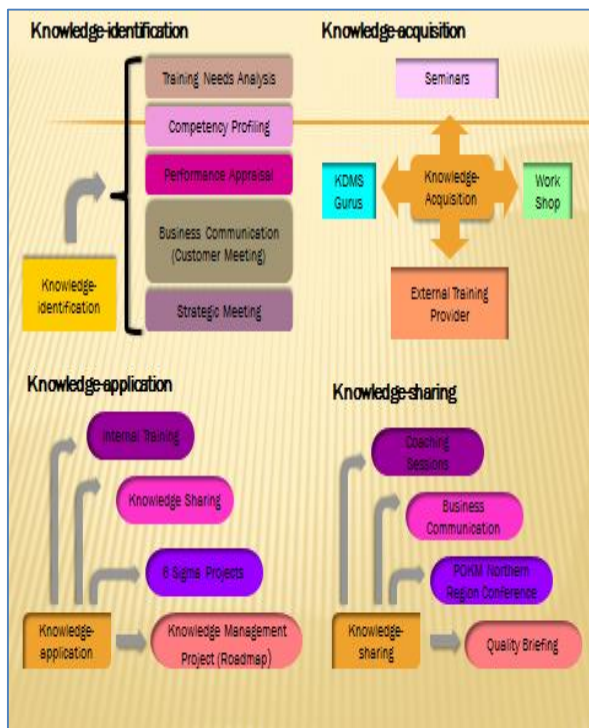
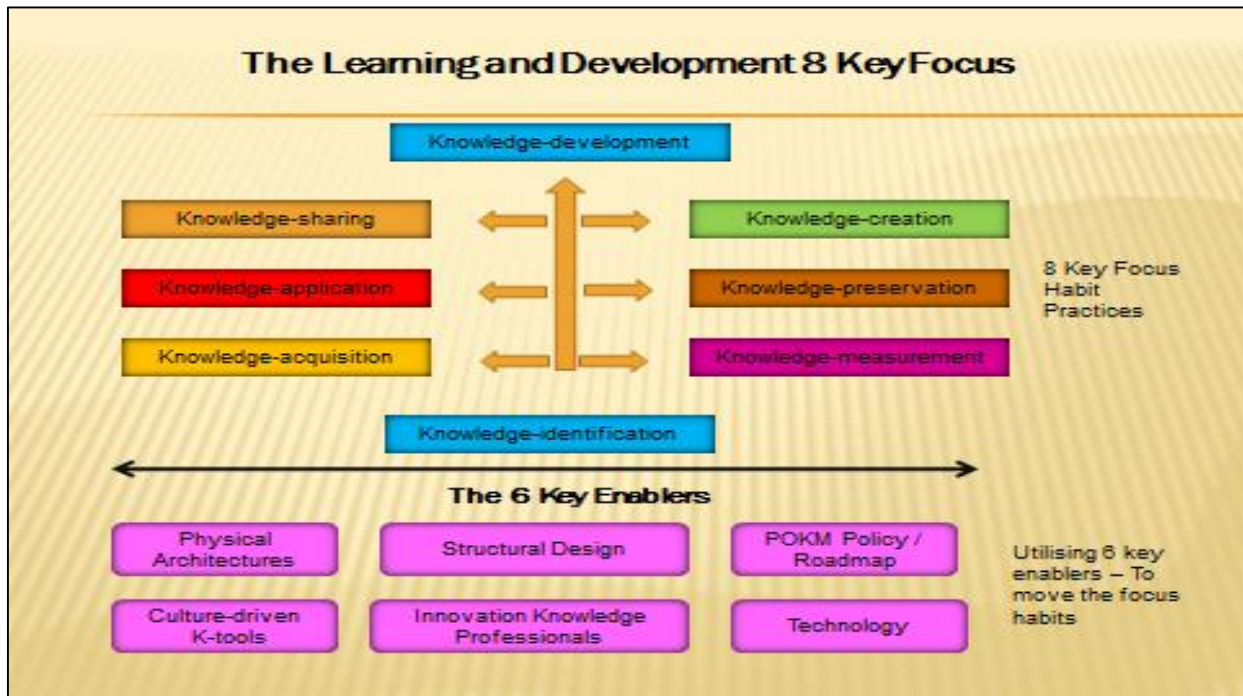
company receiving numerous awards and accolades.



Source: Best Practice in the Work Place 04_bestpractice.pdf

4.2.5 Learning and Development Focus: Knowledge Management

The practice of knowledge management assists the organisation to significantly enhance the impact of the organisation functions and key corporate projects/objectives by transforming human capital to be more self-driven, proactive, collaborative and innovative; migrating from people-directed management philosophy to the practice of self-driven knowledge management.



4.2.6 HR Initiatives: People Agenda

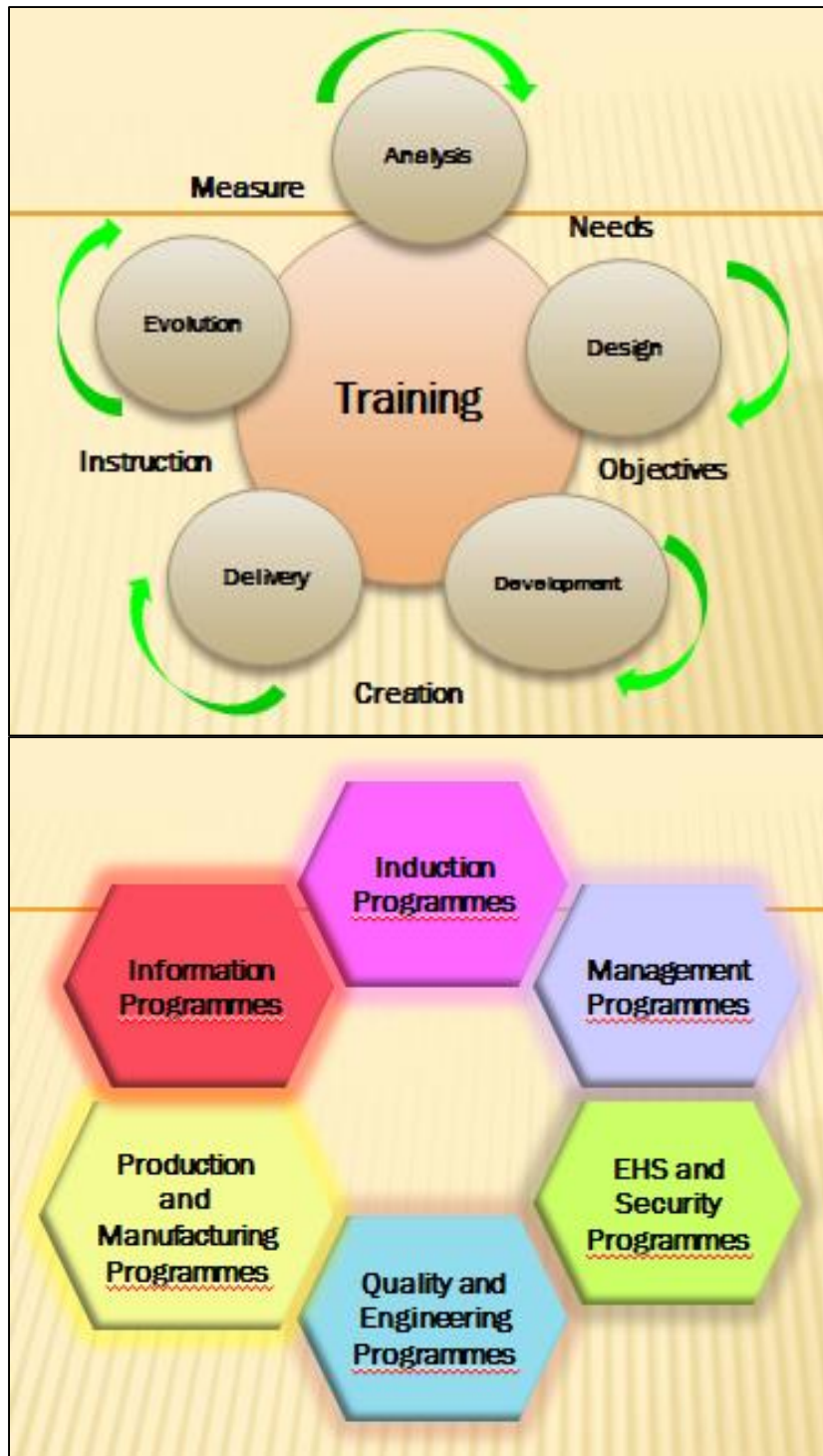
The HR initiatives and solutions which were roll-out are very much aligned with the overall strategic priorities to drive business results. The company leverages on systems and technologies to improve the way HR performs its functions, keeping it simple, scalable and sustainable. Supported by its single HR technology platform, a high level of 'self-service' is made available for employees where almost 70% of the HR processes are automated and directly initiated. A snapshot of HR best practices and achievements which encapsulates the People Agenda in alignment with the Strategic Priorities is set out as follows:

Strategic Priorities	Continuously Improve The Way We Work	Massively Multiply our Leadership Capabilities	Strengthen Our Right Partnership With Regulators and Communities	Reinforce the Brand
2008 People Agenda	"Peoplesoft" e-EA form P3 systems Learning Portal Learning Culture	Build Robust Internal Pipelines	Financial Literacy Programme	"Go Places"
	Resourcing Transformation Job Watch Q12 Web Survey	Raw Talent Proposition	Essay Challenge University Guest Speakers	Values Refreshed

4.2.7 Human Resource Development Policy

"Achieves Business Goals via enhancing organisational effectiveness and efficiency, and ameliorate organisational climate with the facilitation of the learning process of employees" is the training and development policy of this HR excellence award winner. The core of the training programme is the learning process that each employee is expected to follow through. Its training and development objectives are to ensure:

- quality training and education being accessible to all employees;
- provide and support employees with the resources and skills necessary to interface more effectively at the workplace;
- promote organisational change which encompasses a value-based culture to integrate people, process, structure and systems; and
- develop individual employee and team to achieve business goals.



4.2.8 Targeted Talent Interventions

A common platform for the development of leadership and functional capabilities cutting across all levels, business and individual exists to realise its strategy of building a pipeline of leaders with capabilities. Senior management's commitment to talent programmes is crucial and leadership involvement needs to be at every stage from talent identification, development, to engagement. A suite of core development programmes and interventions was developed to ensure acceleration of the learning and build relevant leadership capabilities for the future.

Approach		Entry	Transitioning	Deepening			
Thematic Talent: High Potentials	Tools / Processes	New To SCB	Making a Transition to a More complex Role	Developing....			
				.. a specific capability		..people	
General Population Talent Pools	ILDP	Fast Start	Leading through Crucial Conversations	Great Manager Programme	Online Development Resources	Specific Functional Capabilities	Customised Development
Talents: Core Contributors	Learning Roadmap		Rethinking Leadership				
Programmatic	Role Profile	Right Start	Leading for Performance	Professional Development			
	Skills Certification		Leadership Essentials				

4.2.9 Work-Life Balance (www.mpc.gov.my/agilentworklifebalance.pdf)

Reconciling work and family life has been an issue of growing importance over the past decade. Employees are now not solely looking to get more income but also for better quality of life through work-life balance. Work-life balance is about employees having a measure of control over when, where and how they work while at the same time, helping company to gain a competitive edge in an ever-changing environment. As the world became more competitive, employers start to build-up a supportive and healthy work environment culture which will enable their employees to have a balance between work and personal responsibilities in order to be more productive and happy. On the other hand, a poor work-life balance can result in unhealthy level of stress and unhappiness

and ultimately, increase the employee turnover rate. A recent HR Grand Winner who also won 12 sub-categories including excellence in work-place wellbeing from the Human Resource Excellence Award 2013, had successfully implemented work-life balance comprising eight core initiatives which has proven that the operating and productivity costs, absenteeism and insurance claims had reduced while employees punctuality commitment and performance are growing every year.

“Today, work-life balance ranks as one of the most important workplace attributes – second only to compensation, and workers who feel they have a better work-life balance tend to work 21% harder than employees who feel over-worked.” Industry week, April 18, 2012



Conclusion

The biggest impact of the HR strategy on financial performance will not be direct and immediate. Improvements will more likely occur incrementally and indirectly and over time, realised through the investment effects on intermediate outcomes like productivity, quality and customer satisfaction. HR professionals should continue to integrate its people policies and practices in support of the corporate strategy. The sharing of human resource practices and systems by award winning companies will go a long way in guiding SMEs towards developing and implementing better human resources processes.

5.0 Small and Medium Enterprises (SME) in Malaysia

Malaysia has a holistic and structured approach to SME development. At the highest level, the National SME Development Council (NSDC), chaired by the honourable Prime Minister brings together related Ministries implementing SME development programmes to decide on the direction for SME development for the economy. One of the key initiatives of the NSDC is the SME Masterplan (2012-2020) aligning the goals of SME development with the aspirations to become a high income nation. The Masterplan sets the stage for a comprehensive approach to provide a supportive and conducive ecosystem to enhance the overall contribution of SMEs to the economy. A key element for the success of the Masterplan is enhancing the execution of the Plan through a reliable monitoring and evaluation system to assess progress and achievements.

Box 5.1: SME Development

“SME development in the economy has evolved through the years and this is evident from the changing role of SMEs from merely an enabler supporting the growth of multinational companies and large firms operating in Malaysia to becoming the nation’s future engine of growth. SME development is also important in the context of inclusive and balanced growth as 75% of the nation’s business establishments are micro enterprises involving the bottom 40% of the income group. SMEs continued to record an encouraging performance with real GDP growth of 6% amidst a difficult external environment, thus raising further the contribution of SMEs to the economy to 32.7% of GDP in 2012. The SME growth trend which supersedes the overall GDP growth of the economy is a testimony that Malaysian SMEs are indeed more resilient, agile and capable of adapting to changes in the market place as compared to their larger counterparts.

The reality is that business environment will continue to evolve and the only thing that is constant is change. The operating environment has become increasingly challenging, brought upon not only by the ongoing globalisation leading to a more liberalised market place but also due to several development on the policy front. Globalisation has changed the rule of the game to the point where incremental changes are no longer sufficient for SMEs to be ahead of the curve. Instead, SMEs need to make significant changes in the way of doing business. Policy reforms such as the introduction of Minimum Wages, Competition Act and Minimum Retirement Age are also under way as the nation prepares itself for a more competitive environment to achieve a high income nation. The policy reforms would necessitate SMEs to make appropriate adjustments in their business operations in order to unleash their full potential for greater possibilities. The focus is on adopting technology and innovation as well as enhancing productivity through process improvements and greater mechanisation.”

Abstract of Message from the Prime Minister, Dato’ Sri Mohd. Najib Tun Haji Razak, Chairman of National SME Development Council in the SME Annual Report 2012/2013.

Registering 99.2% of all businesses in Malaysia and contributing 56.4% of total

employment in the economy, SMEs constitute an important component of the Malaysian economy and have the potential to be a powerful engine of growth and innovation. SME development is also important in the context of inclusive and balanced growth as 75% of the nation's business establishments are micro enterprises, involving the bottom 40% of the income group.

SMEs continued to record encouraging performance with real GDP growth of 6% amidst a difficult external environment, thus raising further the contribution of SMEs to the economy to 32.7% of GDP in 2012 from 31.4% in 2008. This was mainly attributed to policy initiatives introduced by the government including better coordination among the ministries and agencies with the establishment of the National SME Development Council (NSDC). The SME growth trend which supersedes the overall GDP growth of the economy is a testimony that Malaysian SMEs are indeed more resilient, agile and capable of adapting to changes in the market place as compared to their larger counterparts.

SMEs in Malaysia are mainly concentrated in the services sector at 90% followed by manufacturing 5.9%, agriculture 1% and mining & quarrying 0.1%. The contribution of SMEs to overall GDP by key economic activity is shown in following table.

Contribution of SMEs to Overall GDP by Key Economic Activity (%)

Year	2005	2006	2007	2008	2009	2010	2011 ^e	2012 ^p
	% share to GDP							
Agriculture	3.4	3.5	3.4	3.3	3.4	3.4	3.4	3.3
Mining & Quarrying	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Construction	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9
Manufacturing	8.1	8.1	8.2	7.8	7.4	7.7	7.9	7.9
Services	17.0	17.2	18.2	19.1	19.9	19.8	20.1	20.2
Plus: import duties	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.4
Share of SME GDP to Overall GDP	29.4	29.6	30.7	31.2	31.7	32.0	32.5	32.7

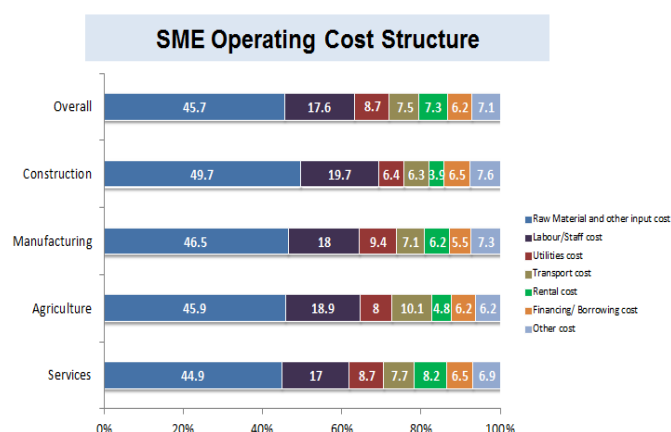
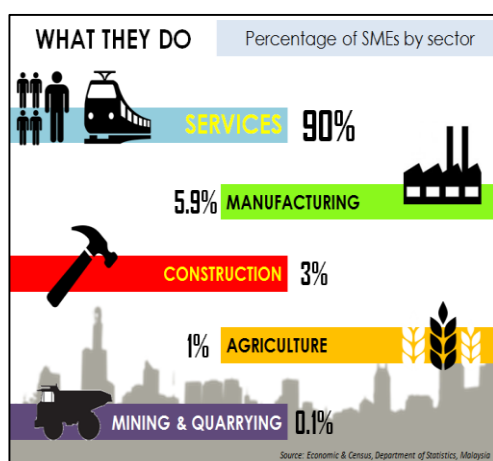
e : estimate p : preliminary

Source: Department of Statistics, Malaysia

The operating environment has become increasingly challenging, brought upon by the ongoing globalisation leading to a more liberalised market place and also due to several

development on the policy front. Policy reforms in Malaysia such as the introduction of Minimum Wages, Competition Act and Minimum Retirement Age are also under way as the nation prepares itself for a more competitive environment to achieve a high income nation.

The policy reforms would necessitate SMEs to make appropriate adjustments in their business operations in order to unleash their full potential for greater possibilities. The focus is on adopting technology and innovation as well as enhancing productivity through process improvements and greater mechanisation. SMEs thus need to make significant changes in the way of doing business as they cannot rely mainly on cost but needs to leverage more on people and systems. The percentage of SMEs by sector and the operating cost structure of SMEs are as follows:



Source: SME Annual Report, 2012-1013

At the (NSDC) meeting held in July 2013, the Council endorsed a new definition for SMEs in Malaysia. The threshold for the qualifying criteria to be defined as SMEs will be revised upwards for SMEs in all sectors of the economy. The new SME definition came into effect on 1 January 2014 (Table 4.1). Based on the feedback from stakeholders as well as assessment from global trends, it was decided that sales turnover and employment remain appropriate as the criteria to define SMEs. Nevertheless, there was a need to raise the threshold of the criteria, namely, sales turnover doubled to not exceeding RM50 million for the manufacturing sector, and RM20 million for the services and other sectors. Number of employees increased to not exceeding 200 workers for the manufacturing sector and 75 workers for the services and other sectors.

The other enhancements were that the definition now covers all sectors of the economy and the categorisation was simplified to facilitate compilation of statistics. The definition also reinforces the importance of formal businesses outlined under the SME Master plan as SMEs are defined as business entities registered with the Companies Commission of Malaysia or equivalent bodies as professional bodies. Under the new definition, subsidiaries of large firms or public-listed companies will no longer enjoy the SME status

given that these companies can have access to support from their parents company in terms of access to financing, technology and markets. Table 4.1 shows the new SME definitions.

Table 4.1: New SME Definition Based on Size

Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 or employees of less than 5	Sales turnover from RM300,000 to less than RM15mil or employees from 5 to less than 75	Sales turnover from RM15mil to not exceeding RM50mil or employees from 75 to not exceeding 200
Services and other sectors	Sales turnover of less than RM300,000 or employees of less than 5	Sales turnover from RM300,000 to less than RM3mil or employees from 5 to less than 30	Sales turnover from RM3 mil to not exceeding RM20mil or employees from 30 to not exceeding 75

Source: SME Annual Report, 2012-2013

The government is committed to unlocking the growth and innovation potential of SMEs to become domestic, regional and global champions. Towards this end, the following initiatives will be introduced reducing the regulatory costs borne by SMEs; building capacity and capabilities of SMEs; supporting the creation of an entrepreneurial culture; strengthening support systems for SMEs; and enhancing access to financing for SMEs.

5.1 Survey on Performance of SMEs

The **SME Corporation Malaysia (SME Corp. Malaysia)** has been conducting surveys on SMEs since 2008 as part of its surveillance work to monitor the performance of SMEs and identify emerging issues as well as validate information regarding policy. Among the key areas covered are business performance; business prospects; investment and cost structure; business licensing; business financing; business efficiency and productivity; human capital development internationalisation of products and services and outlook for SMEs. The survey contains both quantitative and qualitative questions and covers SMEs across all sectors and regions. The 2012 survey covered 2,424 respondents.

On the key issue of **human capital development**, the survey showed that generally respondents did not give much emphasis on human capital development. About 49% did not identify the training needs of employees to upgrade their skills and competencies and as high as 63% of the respondents did not institute any career development plans for their employees. More than a quarter of the respondents, 26% were still dependent on foreign workers particularly among the medium-sized firms.

Meanwhile, the survey findings also revealed that respondents were not aware of the availability of human resource advisory and consultancy services provided by the **National Human Resource Centre (NHRC)**. Only 5% of respondents sought advisory services at NHRC and 7% visited the official website or portal. Nevertheless, for those

who sought advisory services at NHRC, majority of them (93%) were satisfied with the services provided and most of them (91%) indicated that the portal is sufficient and helpful.

On the respondents views regarding **new policies**, about 45% of the respondents agreed with the implementation of the Minimum Wage Policy as a means to protect workers' welfare while 45% of the respondents were unsure about the Unemployment Insurance Scheme. There was mixed views among respondents with regards to the extension of the retirement age of workers in the private sector to 60 years. On the awareness of the Competition Act 2010, it is observed that majority of the respondents (81%) are not aware. Respondents who are aware highlighted that the part on the prohibition on price fixing to avoid controlling the market price by particular firms was most beneficial.

In terms of **operational cost** of respondents, survey findings revealed that the two major costs that have a large impact on SMEs' business operation are purchase of raw materials and other inputs at about 46% of the total operational costs and labour cost which constituted another 18%. In order to increase efficiency, productivity and move up the value chain, respondents indicated that they undertook a variety of measures such as product or service improvement, process improvement and increase in usage of machinery and equipment.

5.2 HRD initiatives for SMEs

Inadequately educated and skilled workforce is considered as one of the major constraints to growth and productivity gains in Malaysia. The business community especially SMEs, face difficulty in recruiting and retaining skilled workers in the technical, supervisory and managerial levels. This situation is further compounded when entrepreneurs themselves lack certain knowledge and skills to sustain and develop their businesses to the next level. To address this situation, allocations had been provided to continue developing the skills and expertise of entrepreneurs as well as their employees in line with changing market trends.

The SME development programmes are being implemented by various Ministries and government agencies based on six focus areas under the SME Masterplan. Human capital development of SMEs is one of the focus areas as inadequately educated and skilled workforce is considered as one of the major constraints to growth and productivity gains in Malaysia. A total of RM139.9 million has been allocated to continue developing the skills and expertise of entrepreneurs as well as employees in line with changing market trends. Among the key programmes to develop human capital in 2013 include:

The Ministry of Human Resources (MOHR) through the Skills Development Department is designed to provide training to school dropouts/workers to support the workforce demand of SMEs. The National Dual Training System targets to train and produce 3,200 certified trainees. The Training cum Production/Teaching Factory & Smart Partnership Programme by the MOHR through the Jabatan Tenaga Manusia (JTM) will enhance the creation of new industrial partnerships and smart collaborations between training

institutes and SMEs by producing small batches of products. The Trainers Development Programme/Master Trainers by MOHR and Human Resource Development Berhad aims at producing 600 certified experts to conduct various type of training to develop SMEs.

The Ministry of International Trade and Industry (MITI) through the Malaysian External Trade Development Corporation (MATRADE) will implement the Exporters Training Programme to disseminate potential SME exporters with the necessary knowledge and skills. MITI together with SME Corporation Malaysia will continue to enhance SMEs' knowledge in production, sales and marketing as well as Halal-related matters for the food and beverage industry, through the sharing of Nestle's best practices under the SME Mentoring Programme. The SME Training Partners Programme (SMETAP) is given an allocation to continue providing up-skilling programmes to SMEs registered under the Human Resources Development Fund (HRDF).

SMEs registered under the HRDF can also utilise their levy to attend human resource related programmes offered under the SMETAP scheme. Apart from the SMETAP scheme, other schemes covered under the HRDF include the following:

- Skim Bantuan Latihan (SBL) scheme
- SBL-Khas Scheme
- Purchase of Training Equipment and Setting Up of Training Room Scheme
- Information Technology and Computer Aided Training Scheme
- Industrial Training Scheme (ITS)
- Recognition Prior Learning (RPL)
- Future Workers Training (FWT)
- Computer-Based Training
- SME Training Partners (SMETAP)
- SME Training Needs Analysis (SMETNA)
- SME "On-The-Job" (SMEOJT)

To assist the industry further, Government Special Fund can also be utilised:

- Apprenticeship Scheme
- Housewives Enhancement and Reactive Talent (HEARTS)
- Business Owners Peer Sharing of HR Practices
- Evaluation on Effectiveness of Training (EET)
- Master Trainer

Details of the above schemes and funds available to SMEs are available on the HRDF website at www.hrdf.com.my. Programmes and policies that help reduce trade barriers and enhance the know-how of SMEs are continuously implemented. Allocations for programmes that will help SMEs to have better access to markets particularly those with related operations in the export sector had been made and is expected to reach out to more than 45,000 SMEs. Among the programmes are the Market Development Grant, Industrial Linkages Programmes, SME-Brand Development Programme and the Promotion & Marketing Programme.

New Programmes for SMEs: Innovation and Productivity Vouchers

SME Corp is currently targeting as many SMEs as possible to benefit from the recently launch innovation vouchers (*The Star Online, 17 December 2013 and 2 January 2014-<http://www.thestar.com.com.my/Business-News>*). The innovation voucher was formulated as part of the incentive under the 1-InnoCERT Programme to promote innovation and technology adoption among local SMEs in order to create new products and solutions or to improve operational efficiency as well as productivity.

The 1-InnoCERT core function is to identify, certify and recognise innovative SMEs through the certification process. The Productivity Vouchers which also scheduled to be launched this year, aimed at providing financial assistance for micro-enterprises to enhance productivity, depending on the business performance. Companies with a sales turnover of or less than RM300,000 or employ less than five people are eligible to apply for the productivity vouchers.

6.0 Case Studies on Human Capital Development Practices

Two case studies of Malaysian SMEs which showcase different human resource emphasis, practices, issues and challenges are highlighted. The first case study is a

manufacturing concern, a semiconductor manufacturer. Despite Malaysia's emphasis on developing the services sector, manufacturing, especially high value added industries remain the cornerstone for Malaysia's development. The second case study focuses on the challenges faced by small companies in Malaysia. G&G is a small company providing security services and the human resource practices and challenges are common in most small companies in Malaysia.

6.1 Case Study on Human Resources Development and Management

Company Profile

The history of Era (M) Sdn. Bhd. is a cornerstone of the semiconductor manufacturing industry in Malaysia. The headquarter and production facility are located in Kulim Hi-Tech Park, Kedah and the main product is to design and manufacture high quality silicon through world-class manufacturing excellence. Most production capacities ramped rapidly and shipped worldwide. The HR function is divided into four functions as shown:

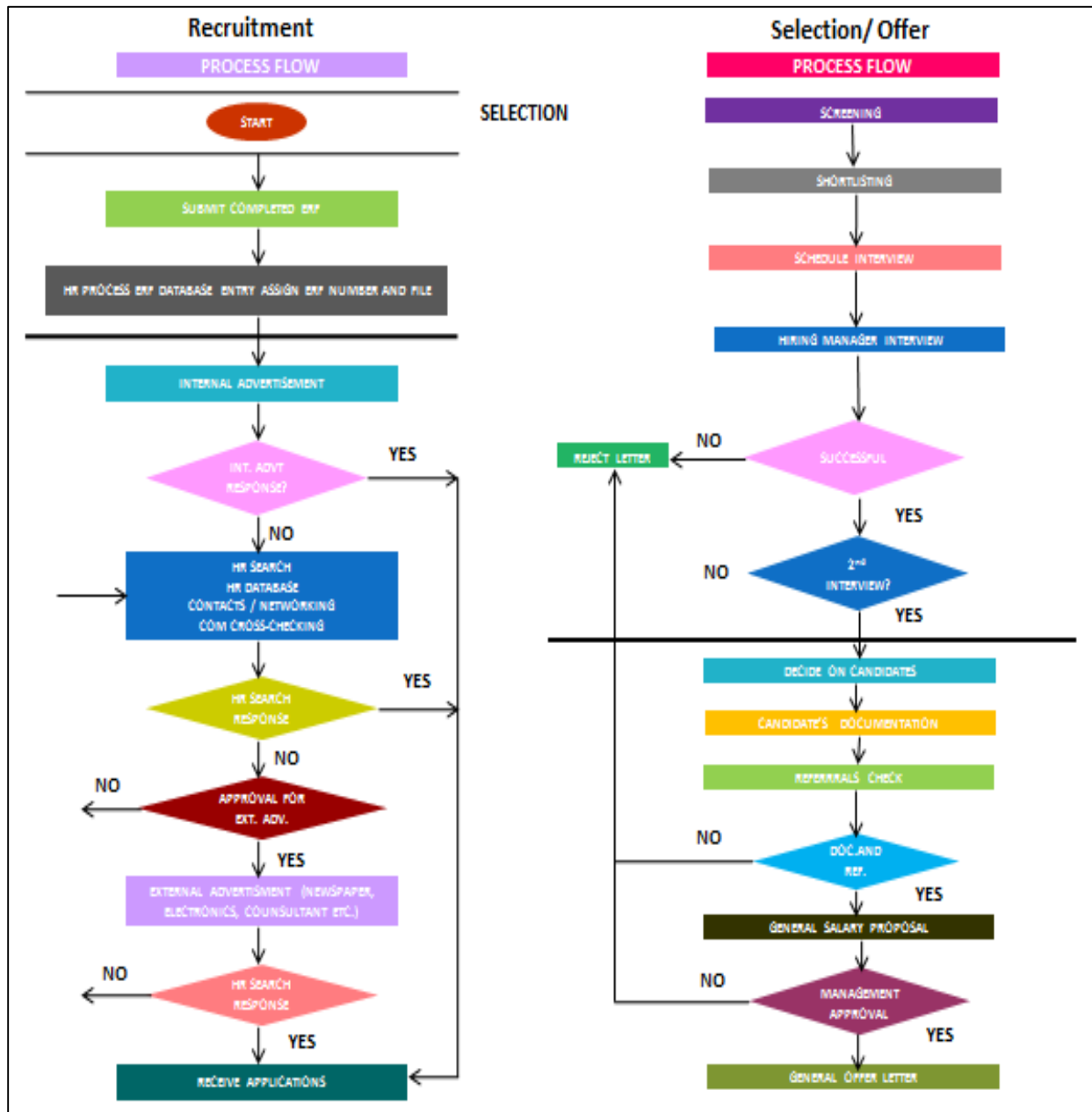


Human Resource Planning and Recruitment

Recruitment processes are basically guided with policies which cover most aspects in the hiring process starting with internal hiring until external candidate. During the start-up, the company is the only company with wafer fabrication in Malaysia. It is impossible to find Malaysian with similar expertise to join the company. Hence, the approach taken is to recruit expatriate with direct experience who are able to work and transfer knowledge and technology immediately. As such, hiring activities are extensively done globally due to the difficulty of finding local experience candidates in Malaysia. Beside the expatriate employees, some of the Malaysians working abroad and involved in wafer fabrication

industries are “mapped” out. A few agreements were signed with Executive Search Overseas from United States, Korea, Chinese Taipei, Singapore, China and India. The hiring process developed by the company is as shown:

The Hiring Process



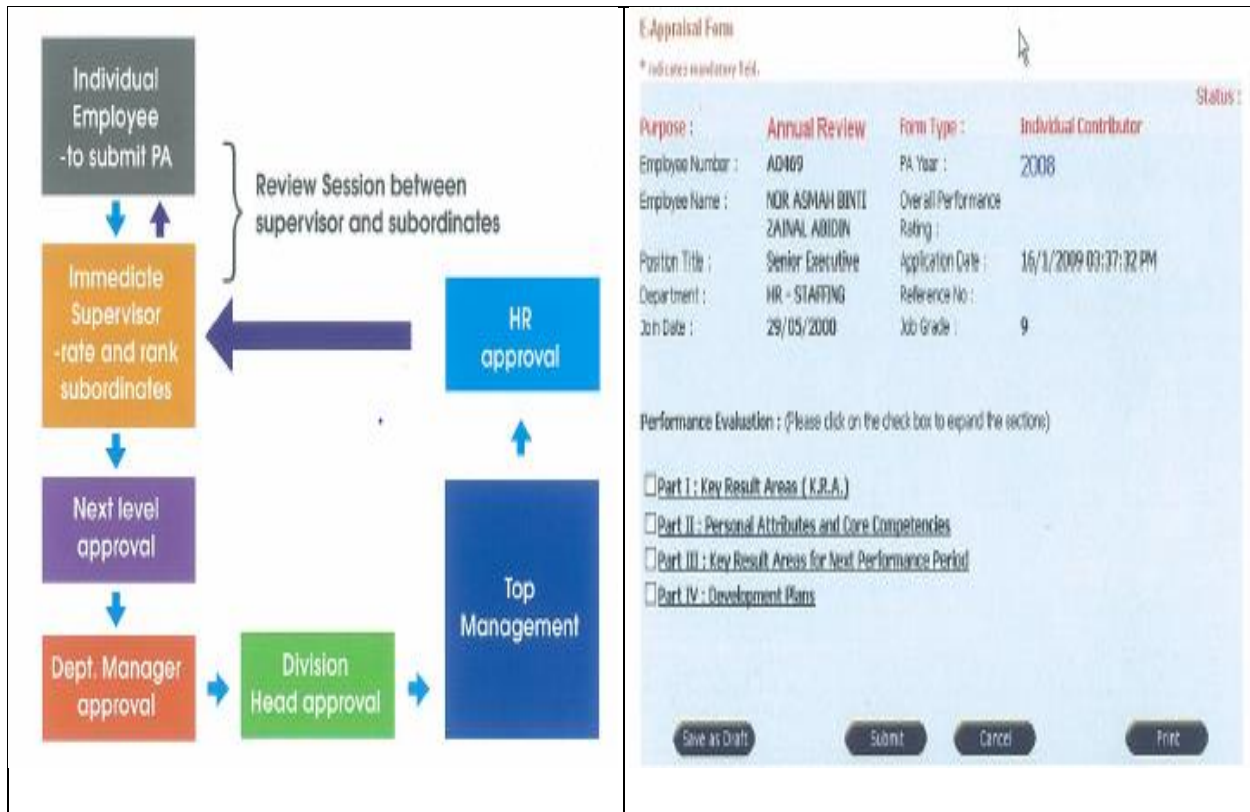
Performance and Reward Management

Every organisation has a performance management system that is expected to achieve a number of important objectives in relation to human resource management. Some of the objectives are motivation, skills development / enhancement, building a performance

culture (Reward those who performed), eliminate / corrective action for non-performance and business strategies partner.

Performance Appraisal

Era designed its own performance appraisal process as shown below:



The e-Appraisal system is the medium used to maintain a centralised system and to track employees' performance and competency. This system was implemented in 2008 to evaluate 2007 performance. This system minimises human errors and simplifies the approval process. e-Appraisal forms consist of four different categories:

- Key Result Area (KRA)
- Personal Attributes and Core Competencies
- Key Result Areas for Next Performance Period
- Development Plans

Rate and rank session are conducted to obtain other managers / head of department's opinion on an employee performance contribution. This is also a good 360-degree performance evaluation.

Learning and Development

Learning and Development emphasised on maximising the learning opportunities of individual in organisations through various mechanisms, autonomy and responsibility.

1. **Core Training for new hire (zero-six months programme):** Constantly offers a series of training modules on a monthly basis to support new hires' needs.
2. **Education Assistance Programme:** Provide financial support for employees to pursue higher education.
3. **Technical Engineering Forum:** The emphasis of this forum is to present technical accomplishments within Era that are aligned with the corporate KRAs.
4. **Technical Publication:** A way to share research and development work.
5. **Toastmaster Club:** An established club to help employees to speak, listen and communicate better in a friendly and comfortable environment.

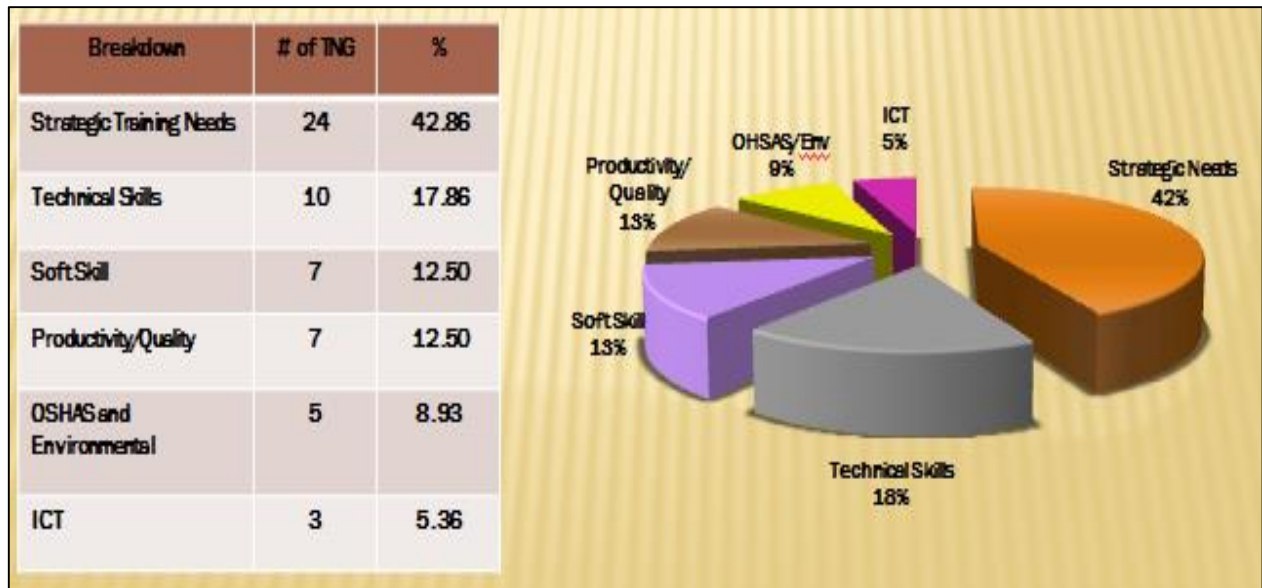
In order to ensure the effectiveness of the learning practices, decentralisation, delegation and shared responsibility are emphasised.

1. Training Needs Analysis – based on Competencies Model, IDP and head of department feedback.
2. Building Feedback and reinforcement mechanisms.
 - Core Training Pre-Post Test to evaluate participants' development upon training completion.
 - Core Training Evaluation feedback form to evaluate the effectiveness of training and instructor skills.
 - External Training Pre-Post Evaluation effectiveness to evaluate participants' development upon completion of training.

On-going skills enhancement for better career growth and development are strongly supported by offering:

- Detailed training plan for employee (staff engineer) and below:
 - Each individual will be given a set of training plan for him or her to complete. This plan basically prepares him with the necessary knowledge and skills to perform the job.
 - Soft skills training are also provided to ensure that employees are not only technically competent but also equipped with necessary people skill knowledge.
 - Success attained: skillful workforce in technical and management area.
- Overseas training (e.g.: IMEC at Belgium)
 - High technology training for local employees.
 - Good human capital development for Malaysian engineers.
- Education Assistance Programme
 - Fund to assist employees to further their studies.
 - Good development plan and opportunities for employees.

Industrial Relations / People Management



The function of Industrial Relations is to provide a quality work-life balance for the employees by implementing various programmes and activities on a quarterly and annually basis. Planned and structure employees activities are being executed under the umbrella Sports and Recreational Committee (SSR). The activities being implemented are:

- Futsal Tournament,
- Treasure Hunt,
- Bowling Tournament,
- Family Day,
- Karaoke Contest, and
- Other recreational activities that are popular among the employees.

Apart from promoting the quality work-life balance, the department also planned and implemented various employee wellness programmes such as: Employees Health Screening Programme on blood pressure, diabetes, cholesterol and osteoporosis and quarterly health talk such as stress management, breast cancer and migraine. The objective is to promote and create awareness to the employees on the importance of living a healthy lifestyle.

Recognising their contributions to the organization motivate the employees, the department also implemented a Reward and Recognition Programme for the long serving employees who have served the company for five and ten years. Employee relation also serves as a communication medium between the employees and the management through various channels of communication such as the quarterly employee communication meetings, the CEO-Employee tea talks and conducting the semi-annual employee satisfaction surveys.

Conclusion

The company believes that to continuously improve, the company needs to be aware of current development. The company is actively participating in the Kulim Hi Tech Tenant Association (KITA) with the objective to improve the skill of HR community and for the development of the people talents among KITA member companies. It is important for this sharing to take place so that HR practices can be further leveraged to bring the HR fraternity to greater heights.

6.2 Case Study on Human Resource Development to Overcome Challenges

G & G SECURITY SYSTEMS SDN BHD

Security Systems Specialists

Grace & Glory

*..designed by professionals,
backed with unsurpassed service*

Panic Button System

Access Control

CCTV Systems

Car Park Control

Burglar Alarm

Our Services

Management Office, Network Computer, Control Computer, Application, Plus Station

Car Park Barriers & Lift Access Systems

Seri Selayang
 Seri Perdana
 Affina Bay
 Horizon Tower
 Miami Green
 Sri Taibond Pinang Project

Products & Solutions

Grace & Glory has the ability to install and integrate systems for different applications ranging from homes to 5 star hotels. Over the years, we have developed expertise in designing state-of-the-art systems that are both cost effective and user friendly for clientele such as:

- Homes
- Offices
- Retail Outlets
- Schools
- Condominiums
- SMI factories
- Hotels
- MNC factories

Straits Quay
 Hotel Equatorial
 ASE
 Panang Chinese Girls High School
 PARKROYAL

6.2.1 Background

- G&G Security Systems Sdn Bhd was established in 1997 as Grace & Glory Enterprise with the vision to be the leading security systems specialists in the region.
- Its strength is the ability to provide unsurpassed service to clients with their experienced and committed technical staff.
- It ensures that clients are always introduced to the latest products in the market in this fast technologically evolving industry. It has grown from strength to strength through referrals from satisfied clients.



Vision

- To be the leading total security systems provider in the Northern Region of Malaysia.

Mission

- We endeavour to keep improving our range of services and products by keeping abreast with the latest technology and innovations through testing and experimenting with new products and to provide back-up service that is second to none.

6.2.3 Principal Activities

Design, development, integration, supply and support of reliable software and hardware solutions for security systems applications that include CCTV systems, Internet Surveillance, Burglar Alarm Systems, Access Control, Car Park Systems and Networking Infrastructure as shown below:

Our Services



CCTV Systems

- Quality CCD Cameras
- PC based DVR's
- Stand-alone DVR's
- IP / Megapixel CCTV's



Burglar Alarm Systems

- Hardwired
- Wireless
- Home Automation



Door Access Systems

- Card Access, Biometrics
- Time Attendance Management



Panic Button Systems

- State of the art wireless system
- Instant SMS alert 20 numbers



Car Park Barriers

- Boom Gate Systems
- Proximity access

Our Services



CCTV Systems

- Quality CCD Cameras
- PC based DVR's
- Stand-alone DVR's



E & O Hotel



ASE



St. George's Heritage Project



PSC Penang Swimming Club



Hotel Equatorial



KES

Intruder Alarm Systems



- Hardwired
- Wireless
- Home Automation



The Shirelands Buildings



Class A Industrial (M) SB



Artis Homes - LINKED houses



Eastin Hotel Penang



Cardinal Health

Door Access Systems



- Card Access, Biometrics
- Time Attendance Management



Clarion Malaysia



Prangin Mall Car Park



K-TOOL



Mitsui-Soko



Curney Beach Resort



Miami Green



ACM

6.2.4 Human Resource Practices

Being a small company providing security systems services which is labour intensive and requiring technical expertise, it is imperative for the company to be able to retain its technical staff especially the installers. When it started in 1997, it had a team of only eight covering only Penang Island. At that time, there was not much of human resource efforts except for the basic elements of pay for work. The company currently runs its operations with eight teams of four; each team comprising one supervisor and three technical staff and since 2010, G&G had developed four basic Human Resource pillars of:

- recruitment and retention;
- pay and benefits;
- performance systems; and
- training.

These pillars were prioritised to support the commitment to ensure employees welfare and at the same time to provide unsurpassed service quality to customers. This will ultimately impact positively on the company.



Recruitment and Retention

Turnover among technical staff is high as there is tendency of technical employees being “pinched” by larger organisations and technical employees once having learned the trade, leave to start their own one-man business providing installing services. In a war of talent, it is important to consider that employees have certain expectations. At G&G, it emphasised on a culture of caring and sharing, a spirit of camaraderie among team members. However the key to success in the business is to ensure a continuous flow of qualified technicians and the company had embarked on a collaborative stance in sourcing for skilled employees. One of the new business strategies adopted is outsourcing and partnering with other similar operators.

Key initiatives to attract and retain employees were initiated since 2012:

- Partnership with Skills Development Centres and Vocational/Community Colleges in the region to ensure a steady supply of technical expertise;
- Participated in the apprenticeship programme, specifically to recruit school leavers;
- Work/life balance initiative
- Introduced pay for performance

Pay for Performance

With the emphasis on service quality, the employees have to be imbued with core values such as professionalism, punctuality and commitment. To ensure these traits are being internalised, the company had implemented a performance based pay system which is linked to the development of key performance indicators at three levels; namely, Organisation, Team and Individual. The performance bonuses are paid on a quarterly basis to teams and individuals upon achievement of the KPIs set. Once a year, merit pay increment and annual bonus are also given out and the quantum is again dependent on performance of both the individual and company.

These performance payouts are given as incentives to motivate employees towards achieving higher quality standards and paid on top and above of the fixed salary. Among the tangible results from the performance related pay system implemented by the company is lower employee turnover which had been a bane to small companies like them. Striving to achieve the incentive payments, the service quality had also improved with lower customer complaints and higher on-time delivery. On profit bonus which is linked to company’s profitability, the company is pleased that on the first year of implementation, the company was able to give out performance bonus ranging from one month to one and a half month base salary as compared to a half month previously.

Organisation: Creating a Bigger Pie for Sharing

Profit Targets: % increase

- Threshold Profit
- Bonus linked to Profitability



Encouraging Team Work: We are as strong as the weakest link

Team Based Performance:

- Revenue generated per team (% increase)
- Waste Reduction (0-4%)
- On time Delivery (80%)
- Customer Complaints (less than 3 per month)



Individual Creativity and Professionalism the Key to Our Success

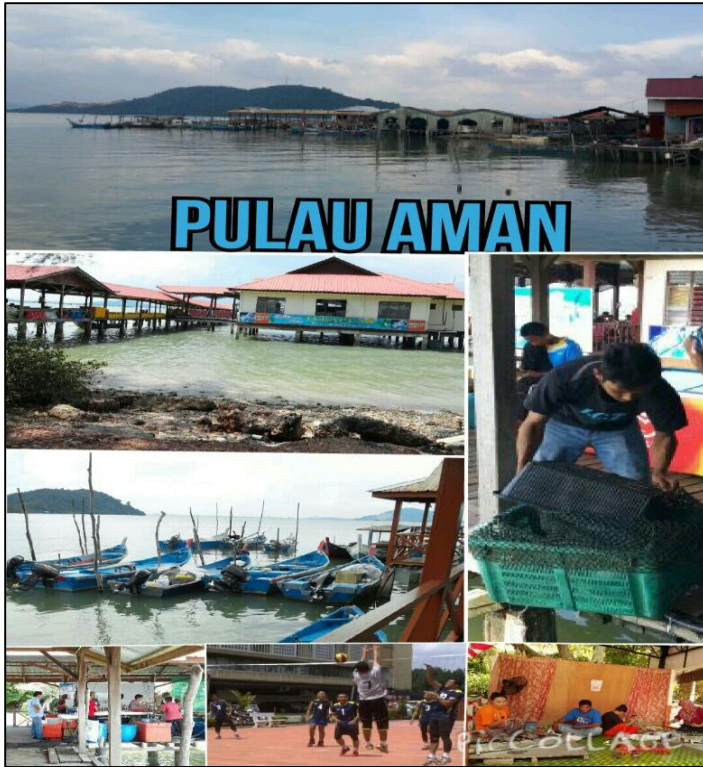
Your Contribution Counts:

- Absenteeism (0%)
- Punctuality (90%)
- Ideas generated (4 suggestions per year)

People Development and Welfare

The HRD Plan was first developed in 2010 based on its passion to provide unsurpassed service to the customers and to be able to compete effectively. It experienced a rise in business turnover, increase in productivity and having more professional and skilled project teams. As a SME, it may not have the same capacity to compete with the large companies but it still need to continue contributing to the business. It must continue training its employees, guide and coach them as much as it can so that they will keep progressing.

As a direct result of its people development focus; it had organised various quality and environment related training programmes for its people. These training implemented various productivity and cost savings initiatives which had positively impacted on its bottom line. It was able to share the bigger pie with its employees in terms of higher performance payouts and bonuses as well as family outings to forge greater teamwork.

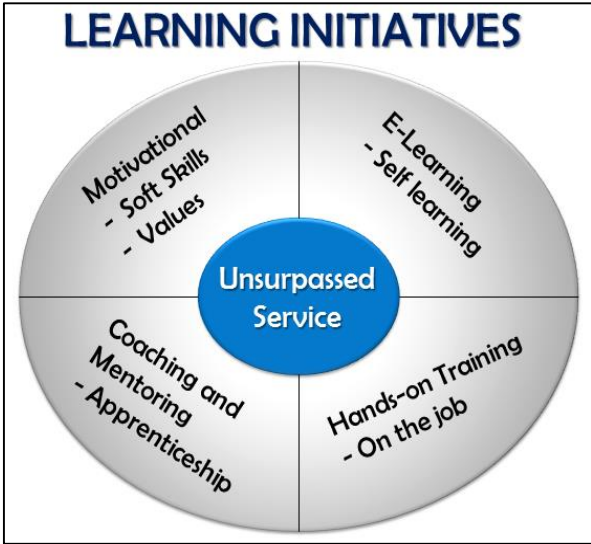


Our employees having a great time at our annual family outing at Pulau Aman. Activities to foster teamwork and enhance individual's competitiveness are being organised. Most importantly, there is a general pride to be together and enjoying each other's company and renewed zeal to contribute.



6.2.5 Types of Training Programmes Organised

To provide unsurpassed service which is the hallmark of our company, it needs to continuously ensure that its employees possess the requisite technical skills to install the security systems efficiently. In addition, they must possess the soft skills to be able to communicate with clients effectively. The learning initiatives and training programmes organised are to meet these objectives as shown:



As we have to keep our operations lean, it is always a challenge to send employees to attend external programmes. The company worked around the time factor and counselled its employees to make full use of their time.

It started the online learning programmes where employees can learn at their own pace and time. Formal training programmes whenever organised will be held in the evenings after 6pm and on Saturdays to fully utilise the time. As an added incentive for attendance, over time payments and time off are arranged. Mostly, it emphasised on hands-on training with focus on coaching, mentoring and on-the-job learning. Since end of 2012, it initiated the productivity and quality initiatives by inviting the practitioners and external trainers to train its employees on implementing cost savings and continuous improvement programmes such as the 5S and suggestion schemes. These external programmes are well received by the employees and initiatives to implement them had been increasingly successful which had contributed to cost savings efforts and had positive effect on the bottom line as every cent saved is a cent earned.

Productivity and Cost Savings through 5S implementation

G&G initiated process improvements such as the 5S (Seiri-Sorting, Seiton-Straightening, Seiso-Systematic Cleaning, Seiketsu-Standardising, Shitsuke-Sustaining) to ensure competitiveness through reduction in wastages in 2013. The 5S system was implemented to eliminate things occupying work space that are not in use; arrange the items and materials for easy access and operational efficiency; ensure everything is cleaned and functioning; develop 5S as a way of work life and to ensure the system is sustainable and continuously improved. The store room was quickly organised using the 5S system and the result is that each project team can now collect materials and tools much quicker and can set off to install systems quicker. Before implementation, at least 45 minutes preparation time was necessary while after the 5S intervention, only 15 minutes per team is required. This amounts to a saving of 240 minutes per day (30minutes x 8 teams). This also led to freeing up space of 120sq ft, a savings of almost RM1000/- a month (120sq feet x RM80/- per sq ft) which is converted into a small meeting and recreation room.



The extra space created is an achievement for the employees as they see their efforts in implementing the 5S in G&G being rewarded. Every time a meeting/recreation is held in this space, there is a sense of pride and achievement. It is in the process of installing a coffee machine to enhance the ambience and also to serve as a reward for their creativity and hard work.

Ideas Generation through the Suggestion Scheme

To enhance business performance, G&G had embarked on productivity enhancement through innovation and creativity. Innovation and creativity in the workplace need not be absolutely new or cutting edge. Innovation may be as simple as adapting and adopting ideas from others and to continuously improve on our services and processes. By end of 2013, the company embarked on the Suggestion Scheme and Innovative and Creative Circles for ideas generation to improve performance. Using the Learn, Innovate and Transform Model, in the first stage of learning, external speakers and practitioners were identified to give briefings and hands-on training to employees and the results so far, the “Innovate” stage had been encouraging as the number of suggestions received had increased three-fold from a mere 12 suggestions in the first quarter of 2014 to 38 suggestions by end of June 2014. Of the total suggestions received, the company managed to implement about 20% so far and is continuously monitoring the viability of implementing others.

Challenges Faced

Among the main challenges faced in the area of human resources for the company is the high turnover of technical employees especially the installers. There is a tendency for these categories of employees to leave after learning the trade to either join larger organisations or to start freelance and provide similar services. It is indeed a challenge to attract and retain skilled employees to join small businesses as they find it difficult to compete in terms of giving higher remunerations and benefits and cost is indeed a major constraint. The advantage however is that as smaller organisations, it operates as a family and being small, are more flexible and agile. Employees who enjoy this kind of environment which are free from the rigid rules and regulations of larger organisations tend to stay on.

The company also have to continuously “think out of the box” to ensure that the business is not jeopardised due to inadequate supply of technical personnel. In adopting an outsourcing and partnering strategy, the main concern is to maintain the level of service quality promised to the clients. There is a need to include outsource partners in any training programme to train them as well. However, this will incur additional costs which the company can ill afford.

While the minimum wage is also a challenge, where new employees who had no experience and had to be trained before they can carry out their tasks well, a minimum wage paid to them will be perceived as unfair to the experienced employees. Hence the company have to resort to setting up an apprenticeship scheme using school leavers as well as practical students from vocational colleges. It is hoped that these trainees would be exposed into business and will be recruited as new employees in the near future.

Conclusion

It cannot be ascertained that the tangible results of the company's performance is directly attributed to efforts in enhancing the skills and knowledge of the employees, it acknowledges that positive changes such as improved processes and systems had been happening since the efforts began in 2011. Among the improvements recorded include increase in sales volume and revenue, reduction in wastages, lower employee absenteeism and turnover and enhanced customer satisfaction as reflected in lower customer complaints and increased on-time delivery.

DOING BUSINESS 2015: LABOR MARKET REGULATION DATA OF SELECTED ECONOMIES

		Australia	Japan (Tokyo)	Korea, Rep.	Malaysia	New Zealand	The Philippines	Singapore	Chinese Taipei	Thailand	United States (New York)
Difficulty of hiring	Fixed-term contracts prohibited for permanent tasks?	No	No	No	No	No	No	No	Yes	Yes	No
	Maximum length of a single fixed-term contract (months)	No limit (Part 3 of the General Retail Industry Award 2010 in this year's example)	36	24 months	No limit	No limit	No limit	No limit	Generally 6 to 12 months, but no limit for a "specified work" contract if the prior approval of the competent authority has been obtained - Art. 6, Enforcement Rules of the Labor Standards Act.	No limit	No limit
	Maximum length of fixed-term contracts, including renewals (months)	No limit	No limit	24	No limit	No limit	No limit	No limit	12	No limit	No limit
	Minimum wage for a full-time worker (US\$/month)	2397.02	1785.35	815.65	293.01	1980.93	304.93	0.00	649.31	251.34	1379.37
	Ratio of minimum wage to value added per worker	0.29	0.29	0.28	0.23	0.39	0.69	0.00	0.26	0.41	0.21
Rigidity of hours	Standard workday	7.6 hours (38 standard weekly hours/typical 5 day workweek) as per Section 62, Division 3 of the Fair Work Act 2009.	8 hours	8 hours	8 hours	The law is silent - it usually amounts to 8 hours a day	8 hours	8 hours (For employees earning less than S\$1600/month, the normal workday in the absence of any agreement is 8 or 9 hrs., depending on the situation. Overtime is payable beyond these hours.)	Approximately 8 hours/day - Art. 30, Labour Standards Act	8 hours - Sec. 23, Labour Protection Act, 1998	8 hours
	50-hour workweek allowed for 2 months a year in case of a seasonal increase in production?	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Maximum working days per week	7.0	6.0	6.0	6.0	7.0	6.0	6.0	6.0	6.0	6.0
	Premium for night work (% of hourly pay)	88%	25%	50%	0%	0%	10%	0%	0%	0%	0%
	Premium for work on weekly rest day (% of hourly pay)	100%	35%	50%	0%	0%	30%	100%	100%	0%	0%
	Major restrictions on night work?	No	No	Yes	No	No	No	No	No	No	No
	Major restrictions on weekly holiday work?	No	No	No	No	No	No	No	No	No	No
	Paid annual leave for a worker with 1 year of tenure (in working days)	20.0	10.0	15.0	8.0	20.0	5.0	7.0	7.0	6.0	0.0
	Paid annual leave for a worker with 5 years of tenure (in working days)	20.0	16.0	17.0	16.0	20.0	5.0	11.0	14.0	6.0	0.0
	Paid annual leave for a worker with 10 years of tenure (in working days)	20.0	20.0	19.0	16.0	20.0	5.0	14.0	15.0	6.0	0.0
Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days)	20.0	15.3	17.0	13.3	20.0	5.0	10.7	12.0	6.0	0.0	

Source: World Bank Doing Business database.
<http://www.worldbank.org/>

		Australia	Japan (Tokyo)	Korea, Rep.	Malaysia	New Zealand	The Philippines	Singapore	Chinese Taipei	Thailand	United States (New York)
Difficulty of redundancy	Maximum length of probationary period (months)	6.0	n.a.	3.0	3.0	3.0	6.0	6.0	n.a.	4.0	3.0
	Dismissal due to redundancy allowed by law?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Third-party notification if 1 worker is dismissed?	No	No	Yes	No	No	Yes	No	Yes	No	No
	Third-party approval if 1 worker is dismissed?	No	No	No	No	No	No	No	No	No	No
	Third-party notification if 9 workers are dismissed?	No	No	Yes	Yes	No	Yes	No	Yes	No	No
	Third-party approval if 9 workers are dismissed?	No	No	No	No	No	No	No	No	No	No
	Retraining or reassignment obligation before redundancy?	Yes	Yes	No	No	Yes	No	No	Yes	No	No
	Priority rules for redundancies?	No	No	No	No	No	Yes	No	No	No	No
	Priority rules for reemployment?	No	No	Yes	No	No	No	No	Yes	No	No
Redundancy cost (weeks of salary)	Notice period for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)	1.0	4.3	4.3	4.0	0.0	4.3	1.0	2.9	4.3	0.0
	Notice period for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)	4.0	4.3	4.3	8.0	0.0	4.3	4.0	4.3	4.3	0.0
	Notice period for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)	4.0	4.3	4.3	8.0	0.0	4.3	4.0	4.3	4.3	0.0
	Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	3.0	4.3	4.3	6.7	0.0	4.3	3.0	3.8	4.3	0.0
	Severance pay for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)	4.0	0.0	4.3	1.7	0.0	4.3	0.0	2.2	15.0	0.0
	Severance pay for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)	10.0	0.0	21.7	16.7	0.0	21.7	0.0	10.8	30.0	0.0
	Severance pay for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)	12.0	0.0	43.3	33.3	0.0	43.3	0.0	43.3	50.0	0.0
	Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	8.7	0.0	23.1	17.2	0.0	23.1	0.0	18.8	31.7	0.0
Research questions	Unemployment protection scheme?	Yes	Yes	Yes	No	No	No	No	Yes	Yes	Yes
	Health insurance for permanent employees?	No	Yes	Yes	No	No	Yes	No	Yes	No	No
	Courts or court sections specializing in labor	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	No

Source: World Bank Doing Business database.

<http://www.worldbank.org/>

Acronyms for Malaysia

NO	ACRONYMS	DESCRIPTION
1.	ETP	Economic Transformation Programme
2.	HRDF	Human Resource Development Fund
3.	NSDC	National SME Development Council
4.	NHRC	National Human Resource Council
5.	SMETAP	Small Medium Enterprise Training Partner
6.	HEARTS	Housewives Enhancement and Reactive Talent
7.	JTM	Manpower Development of Malaysia

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**Asia-Pacific
Economic Cooperation**

**Establishing Best Practices on Human Capital Development to
Enhance Productivity, Quality, Competitiveness and Innovation
Among SMEs**

Case Experience of The Philippines

**Ms. Monina C. Macavinta
The Philippines**

Abstract

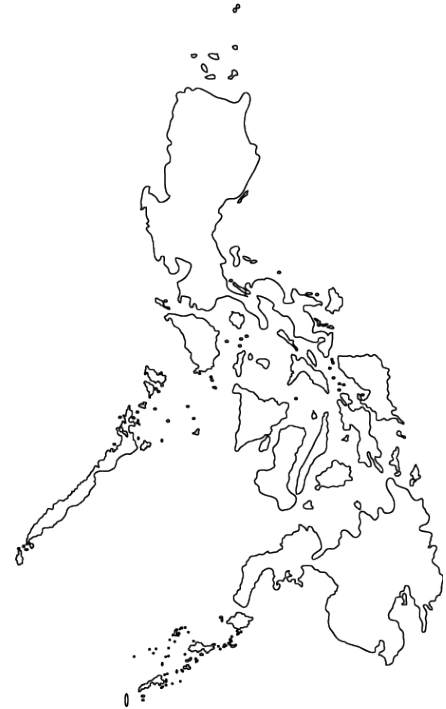
The objectives of this research project HRD01-13 includes developing a framework to improve productivity, quality, competitiveness and innovation of SMEs human capital; identifying best practices on improving productivity and innovation capabilities of SMEs to enhance efficiency through human resource development; developing and promoting the use of appropriate human resource systems and standards to boost productivity among SMEs.

Small and medium enterprises or SMEs are companies whose headcount or turnover falls below certain limits. Though they are small in figures of employment and asset size, they significantly contribute to an economy's growth. The increase in total number of SMEs in an economy, increases job creation, and income per capita. Thus, as people gain more income or more money to spend, they will increase their consumption. This in turn will open up new market opportunities that will trigger creation of more SMEs. SMEs growth, in contrast with MNCs, directly benefits the economy as most of them are domestic firms.

Economic growth, in the principles of Economics, is all about making smart choices to cope with scarcity. Given that SMEs have limited resources, they are most experienced when it comes to allocating these resources properly thus, resulting to a higher profit, substantial contribution to an economy's employment rate and economic growth. But economic growth goes beyond the monetary and quantifiable profits as seen in accumulated assets. Productivity is also a measure of how one maximises his available resources - how much he produces for every unit of capital or labour that he puts in. And this is where the efficiency of using human capital defines a SMEs' competitive advantage.

This study will provide an overview of the economy, productivity, and SMEs efforts in enhancing productivity, quality, and innovation through human capital development in the Philippine setting.

1



The Philippines

1.1 Geography and People

The Philippines is an archipelago that lies in South-East Asia consisting of 7,107 islands with a total land area of 300,000 sq kilometres (115, 831 sq mi). An ASEAN member whose geographical location led to it becoming a cultural crossroads for the Malays, Hindus, Arabs, Chinese, Spaniards, and Americans which resulted in The Philippines having over 150 languages and about 100 ethnic groups scattered throughout the economy. As of January 2014, The Philippines population is 97.35 million which represents 1.37% of the world's total population. In short, one person in every 74 people in the world is a resident of The Philippines. To date, the economy's population increased to more than 100 million.

With 41.230 million out of the total 64.070 million household population aged 15 years and over (excluding data for the province of Leyte which was hit by typhoon Haiyan), labour force participation rate (LFPR) is at 64.4%, based on the preliminary results of July 2014 Labour Force Survey.

- Out of the 41.230 million in the labour force, 38.451 million persons are employed. 54% or 20.772 million are in the services sector, 30.1% or 11.575 million are in the agriculture sector and 15.9% or 6.104 million are in the industry sector.
 - 58.4% (22.444 million) employed persons have wages and salaries. 28% (10.750 million) are self-employed without any paid employee. 10.4%

(4.005 million) are unpaid family workers and the remaining 3.3% (1.253 million) are employers in own family operated farm or business.

- The remaining 2.778 million are unemployed persons in which 42.9% are either undergraduate or graduate of high school.

With this data, unemployment rate of 6.7% was lower than the 7% recorded in April 2014. At the end of April 2014, labour force profile comprised 61.7% males. In terms of age group, 49.8% are between 15 to 24 years old while 30.5% are within the 25 to 34 years old age group. By educational attainment, 22.4% of the unemployed are college graduates, 14.5% are college undergraduates and 32.7% are high school graduates.

This data does not include the overseas Filipino workers whose number is about 1.8 million persons. Majority are part of land-based jobs; 59% (863,152) in the Middle East and 32% (476, 422) are in Asia.

1.2 Economic Performance

The Philippines' economy recorded continued gross domestic product (GDP) growth in 2013 as well as the second quarter of 2014 with 7.2% and 6.4%, respectively; well-above the 4.7% average from 2008 to 2012. Despite natural disasters in 2013, an earthquake with 7.2 magnitude struck the central Philippines in October and Super Typhoon Haiyan in November that left nearly 8,000 people dead or missing, destroyed infrastructure and livelihoods in some parts of the Visayas, private consumption grew by 5.6%.

The second quarter of 2014 GDP growth was mainly contributed by remittances and rise of the industrial sector particularly the manufacturing and private construction of offices and residential spaces brought about by the booming number of BPO workers. In Asian Development Bank's (ADB) 2014 outlook, as shown in Table 1.1 below, GDP growth is forecast at 6.4% in 2014 and 6.7% in 2015.

Table 1.1: GDP Forecast 2014 - 2015

Selected Economic Indicators (%) - Philippines	2014	2015
GDP growth	6.4	6.7
Inflation	4.3	4.0
Current account balance (share of GDP)	3.4	3.2

Source: Asian Development Outlook (ADO) 2014; ADB estimates.

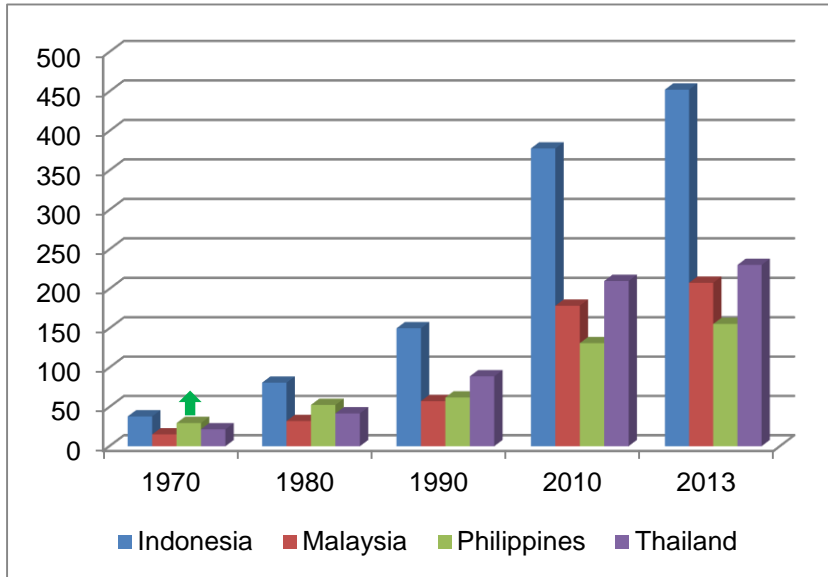
2 Philippines in the ASEAN

Though it posted a 7.2% GDP growth rate in 2013, The Philippines lag on certain macroeconomic indicators as compared to other ASEAN members. In the past decades since 1970, The Philippines' ranking in terms of GDP is far ahead from the two other neighbour economies (Malaysia and Thailand). The Philippines' GDP was almost USD30billion (Figure 2.1) which was twice that of Malaysia until its decline in 1990 where Thailand surpassed the economy's GDP, then Malaysia from 2010 up to present.



**Figure 2.1:
Gross Domestic Products in Selected Asian Economies
(GDP constant 2005 USD Billions)**

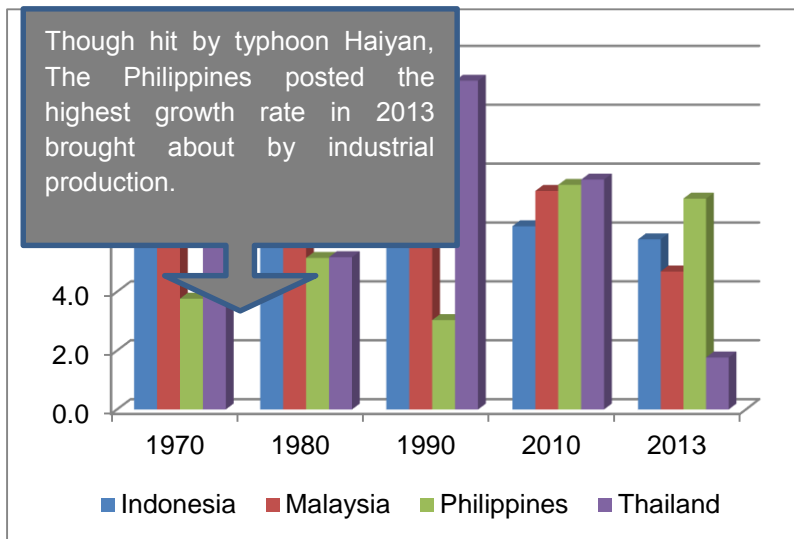
From 1970-1980, The Philippines' ranking in terms of GDP is far ahead from the two other neighbour economies (Malaysia and Thailand). Not until in 1990, that the figures did not turn to The Philippines favour. While our neighbor economies continue to progress, The Philippines' figures declined. Fortunately, it has significantly increased and continues to improve after a decade starting 2010.



Source: World Indicators Online

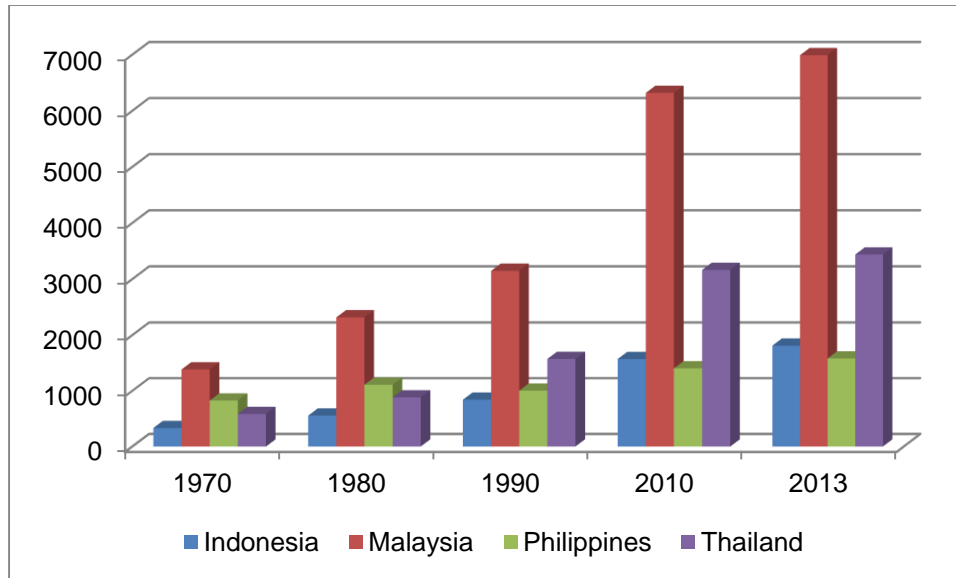
Economies	1970	1980	1990	2010	2013
Indonesia (IN)	37.9	80.8	150	377.8	452.3
Malaysia (ML)	15	32	57.3	178.6	207.7
The Philippines (PH)	29.5	52.5	62	131.1	155.5
Thailand (TH)	21.5	41.7	88.9	210	230.3

Figure 2.2: GDP Growth Rate (Annual %)



	1970	1980	1990	2010	2013
IN	8.2	8.7	9.0	6.2	5.8
ML	6.0	7.4	9.0	7.4	4.7
PH	3.8	5.1	3.0	7.6	7.2
TH	11.4	5.2	11.2	7.8	1.8

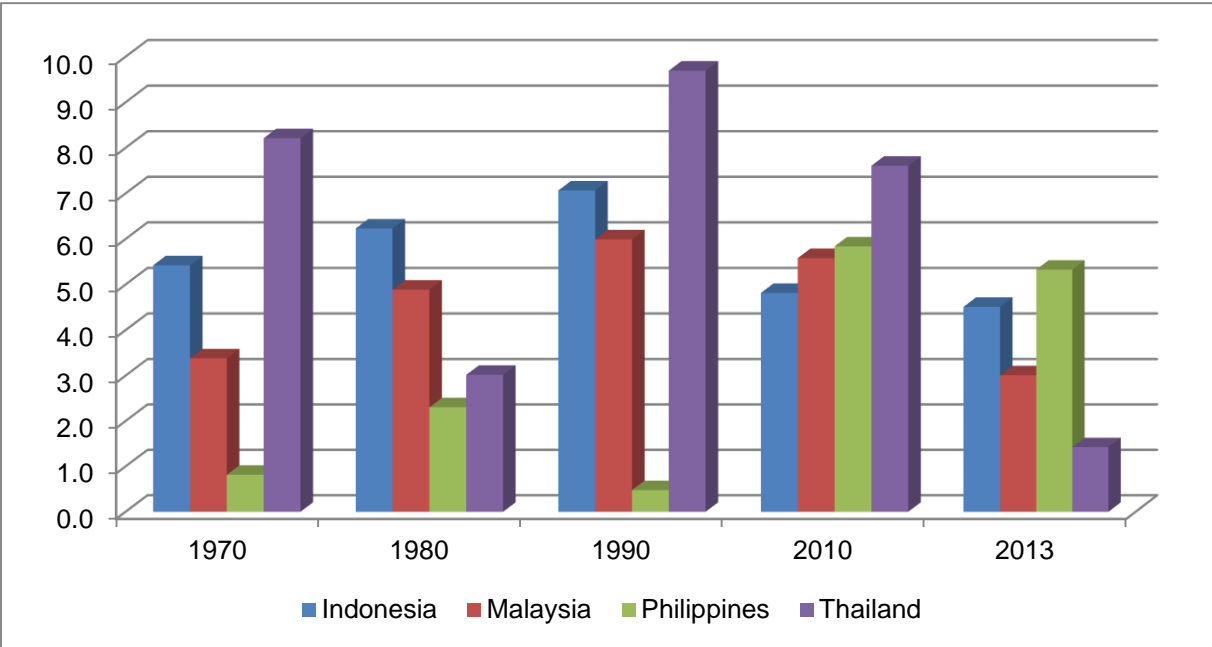
Figure 2.3: GDP per capita in Selected Asian Economies (GDP constant 2005 USD)



Economies	1970	1980	1990	2010	2013
Indonesia	333	556	840	1570	1810
Malaysia	1383	2318	3147	6319	6990
The Philippines	826	1109	1002	1403	1581
Thailand	584	882	1572	3164	3438

In terms of GDP per capita (Figure 2.3), The Philippines' is in sixth place among the other nine ASEAN members. This means that though previous and current leaders put efforts into increasing GDP growth rate (Figure 2.4) in each year of their political term, the economy still faces long-term challenges that have to be addressed to help improve employment opportunities and lessen poverty given the high population.

Figure 2.4: GDP per capita Growth (Annual %)



Economy	1970	1980	1990	2010	2013
IN	5.4	6.2	7.1	4.8	4.5
ML	3.4	4.9	6.0	5.6	3.0
PH	0.8	2.3	0.5	5.8	5.3
TH	8.2	3.0	9.7	7.6	1.4

3

Competitiveness in the ASEAN



Competitiveness as defined by the World Economic Forum is “the set of institutions, policies and factors that determine the level of productivity of an economy. And that the level of productivity sets the level of prosperity that can be earned by an economy.”

Based on the four-year data provided below (Table 3.1) by World Economic Forum’s (WEF) on Global Competitiveness Index, The Philippines had improved its ranking from seven out of eight ASEAN members that participated in the survey in 2011 to six since 2012.

Table 3.1: WEF Global Competitiveness Index (The Philippines vs ASEAN)

Countries	2014	Rank*	2013	Rank*	2012	Rank*	2011	Rank*
Singapore	2	1	2	1	2	1	2	1
Malaysia	20	2	24	2	25	2	21	2
Brunei								
Darussalam	n/a		26	3	28	3	28	3
Thailand	31	3	37	4	38	4	39	4
Indonesia	34	4	38	5	50	5	46	5
Vietnam	68	6	70	7	75	7	65	6
Philippines	52	5	59	6	65	6	75	7
Cambodia	95	7	88	8	85	8	97	8

Note: Other ASEAN Countries not included in the survey: Laos & Myanmar

**Rank among ASEAN member countries*

Source: World Economic Forum

Global Competitiveness Index is composed of institutions, policies, and factors that determine the level of a economy’s productivity, conditions of its public institutions and technical conditions. This index assumed an important role in creating a favourable business environment in the economy. It considers the strengths and weaknesses of an economy and provides insight as to priority for the facilitation of political reforms implementation.

Below is an illustration of the economy’s performance in Global Competitiveness Report as of September 2014 (Figure 3.1)










Figure 3.1: The Philippines Performance in the Global Competitiveness Report 2014-2015 (GCR 2014-2015)

Key Indicators, 2013		
Population (millions)	97.5	
GDP (USD billions)	272	
GDP per capita (USD)	2,790	
GDP (PPP) as share (%) of world trade	0.53	
Global Competitiveness Index		
	Rank	Score
GCI 2014-2015 (out of 144)	52	4.4
Basic Requirements (44.2%)		
Institutions	67	3.9
Infrastructure	91	3.5
Macroeconomic environment	26	5.8
Health and Primary Education	92	5.4
Efficiency Enhancers (46.9%)		
Higher Education and Training	64	4.4
Goods Market Efficiency	70	4.3
Labour Market Efficiency	91	4
Financial Market Development	49	4.4
Technological readiness	69	3.8
Market Size	35	4.7
Innovation and Sophistication (9.0%)		
Business Sophistication	46	4.3
Innovation	52	3.5

In the latest Global Competitiveness Report 2014-2015 released by the Swiss-based World Economic Forum, The Philippines advances seven notches 52 among 144 economies. The Philippines had been steadily advancing up the competitiveness ladder from 75 position registered in the 2011-2012 report. Among the pillars that had contributed to enhancing The Philippines competitiveness performance includes the macroeconomic environment and market size; ranking 26 and 35 respectively. Areas of improvement for The Philippines are Infrastructure, ranked 91; Labour Market Efficiency, ranked 91; and Health and Primary Education, ranked 92.

In the labour market related indicators of Higher Education & Training and Labour Market Efficiency, The Philippines fared well in Extent of Staff Training (27) as well as Pay and Productivity (27). The performance of The Philippines in comparison to other ASEAN members in labour market related indicators is shown in Table 3.2

Table 3.2: Labour Market Related Indicators in the Global Competitiveness Report 2014-2015: The Philippines and ASEAN

Indicators (N=144)									
Higher Education & Training	64	2	46	59	61	96	110	135	123
Availability of research and training services	49 (4.4)	12 (5.5)	13 (5.4)	69 (4.2)	50 (4.4)	118 (3.3)	83 (3.9)	135 (2.9)	104 (3.6)
Extent of Staff Training	27 (4.6)	7 (5.3)	4 (5.3)	37 (4.4)	24 (4.7)	85 (3.9)	45 (4.3)	138 (2.9)	82 (3.9)
Labour Market Efficiency	91	2	19	66	110	49	34	72	29
Flexibility of Wage Determination	86 (4.8)	7 (6.0)	33 (5.5)	116 (4.3)	114 (4.4)	60 (5.1)	22 (5.7)	36 (5.5)	92 (4.8)
Hiring and Firing Practices	104 (3.4)	3 (5.4)	9 (4.9)	23 (4.4)	32 (4.3)	65 (3.9)	46 (4.1)	51 (4.1)	13 (4.8)
Redundancy Costs	124 (27.4)	6 (3.0)	111 (23.9)	133 (36.0)	139 (57.8)	112 (24.6)	136 (47.2)	94 (20.2)	92 (19.4)
Pay and Productivity	27 (4.5)	4 (5.2)	2 (5.4)	50 (4.2)	36 (4.5)	23 (4.6)	8 (5.0)	79 (3.9)	39 (4.3)
Economy's capacity to retain talent	60 (3.5)	8 (5.2)	9 (5.1)	33 (4.1)	32 (4.2)	84 (3.2)	34 (4.1)	114 (1.7)	51 (3.7)
Economy's capacity to attract talent	82 (3.3)	2 (6.0)	12 (5.0)	36 (3.9)	25 (4.3)	74 (3.4)	73 (3.4)	113 (2.7)	56 (3.6)
Women in Labour Force	106 (0.65)	76 (0.79)	119 (0.59)	67 (0.83)	112 (0.62)	23 (0.92)	5 (0.99)	19 (0.93)	18 (0.93)

Legend

The Philippines



Thailand



Laos PDR

Singapore



Indonesia



Myanmar

Malaysia

Viet Nam



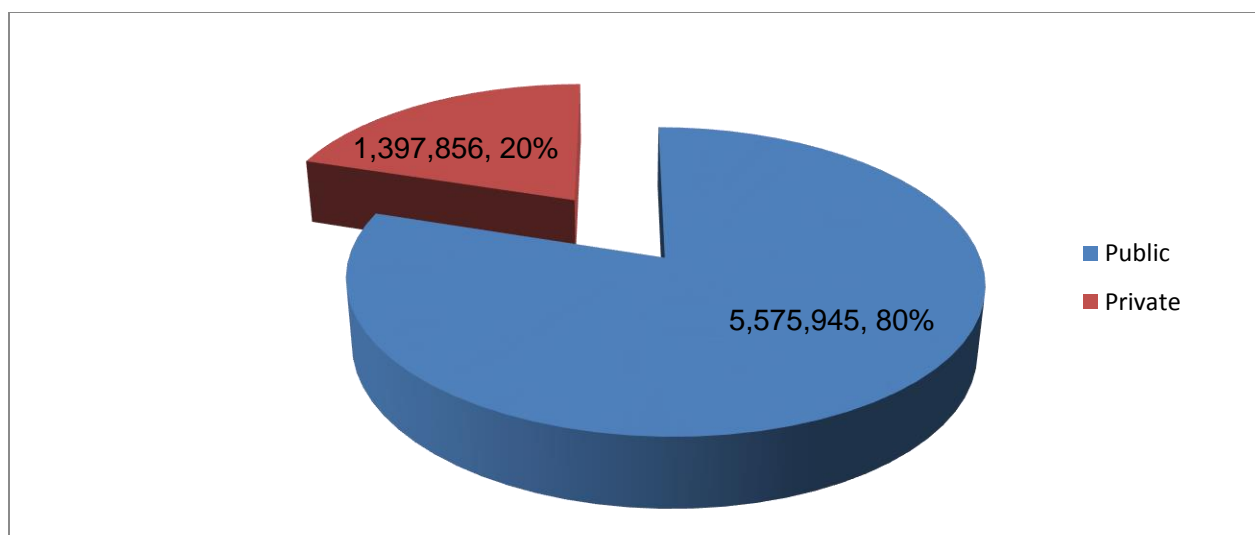
Cambodia

The Philippines: Higher Education and Training

Higher Education and Training which ranked 64 focuses on quantity and quality of higher education as well as the availability of on-the-job training, importance of vocational and continuous on-the-job training for a constant upgrading of workers' skills.

Education

Figure 3.2: Quantity of Enrolled Students in Secondary Education (SY 2011-2012)



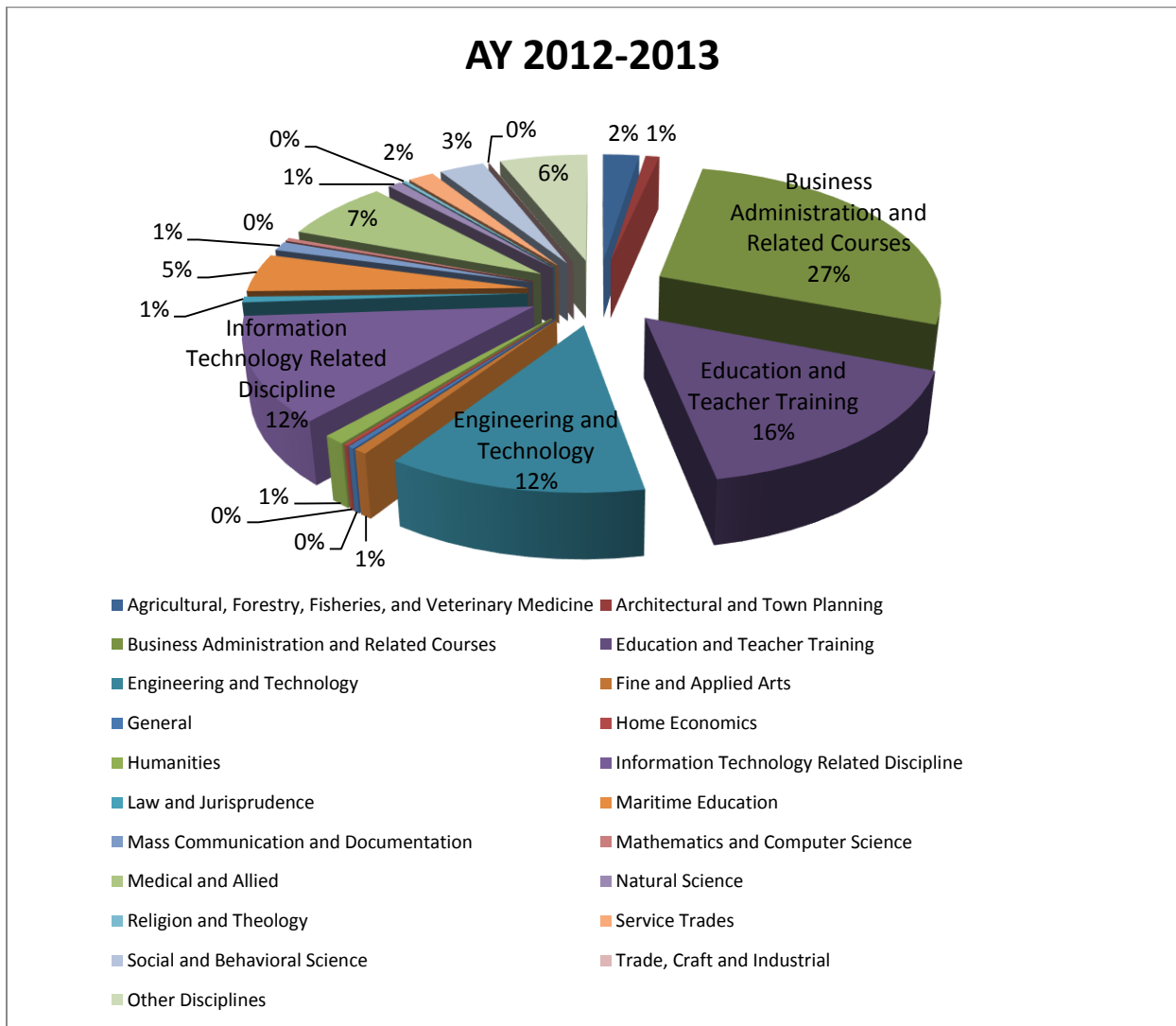
School Year	Secondary		
	Total	Public	Private
2011-12	6,973,801	5,575,945	1,397,856

Source: <http://www.nscb.gov.ph>

There are 6.9 million students enrolled in secondary education, 80% was in public schools while 20% was enrolled in private (Figure 3.2).

For Tertiary education (Figure 3.3), there are more than three million students enrolled in over 21 discipline of studies as of Annual Year 2012-2013 (Jan 2014 data set). This included enrolment in pre-baccalaureate, baccalaureate, post-baccalaureate, master's and doctorate programmes. Top three courses were Business Administration (27%), Education and Teacher Training (16%), Engineering and Technology as well as IT related discipline, both at 12% course participation rate.

Figure 3.3: Quantity of Enrolled Students in Tertiary Education (AY 2012-2012)



Extent of Staff Training highlights the perceptions of businessmen in terms of the extent to which the companies in an economy invest on training and employee development.

In a scale of 1 to 7, 1.0 measuring no investment on this area at all while 7 measures to a great extent. 4.6 rating in this area mean that the economy’s investment on its human capital development was nearing the ranking of developed economies (4.7) but above the average from the rest of the world (4.0 rating)

This rating is an indication of the economy’s continuous effort to enhance the vocational and on-the-job training of its workforce through public institutions such as Technical Education and Skills Development Authority (TESDA) in partnership with the Department of Labour and Employment (DOLE).

The Philippines: Labour Market Efficiency at Ranked 91

Labour Market Efficiency points out that flexibility of the labour market and its efficiency are critical to ensure that workers are utilised effectively in the economy. Incentives must be provided to get their best effort in their jobs. Strong incentive scheme and meritocracy efforts at the workplace as well as gender equality are indicators of an efficient labour market. Though this area is considered as an area for improvement, its high score on Pay and Productivity denotes.

Though it is considered as one of the areas for improvement, its high score on Pay and Productivity (rank 27, 4.5 rating) is explained by the support of a focused public institution, namely, the National Wages and Productivity Commission (NWPC), where its mission is to ensure a decent standard of living for the workers and their families through contributing to an enterprise as a competitive and productive worker.

This institution believes that when pay and productivity are combined, it will improve production of quality products and services. It will also translate to making a company not just a profitable one but also a competitive enterprise.

4

Human Resource Development in The Philippines

National Development Plans

From the time of independence from its colonisation in 1946, The Philippines formulated various National Development Plans geared towards economic growth. During the Marcos' regime from 1960 to 1986, the government focused on poverty alleviation through private sector development. Only after this, that



the non-government organisations and the public sector were given attention. But due to the economy's GDP decline since 1990, Presidents Fidel V. Ramos (1992 - 1998) and Joseph E. Estrada (1998 - 2002) continued to focus on building infrastructure and cultivating the rich natural resource, land as means to lessen poverty.

Partnership between public and private sectors has been blurred until President Gloria Macapagal-Arroyo's tenure (2004-2010). It was during her time that this partnership was strengthened through a set of detailed targets to enhance the economy's competitiveness. The past public-private partnerships were majority based on capitalising the expertise of the private sector for public sector's consumption like the privatisation efforts during the Aquino administration, which were sequestered by the Marcos regime, the Build-Operate-Transfer (BOT) programmes under Ramos' presidency (i.e. Metro Rail Transit) to name a few. But during this time, both public and private groups were developing initiatives on their own that sometimes duplicate. There is no unifying framework to centralise efforts towards increasing the economy's competitiveness.

AIM Policy Center released a report on The Philippines' ranking on human resource competitiveness in 2006. As its best asset, Filipino human resource was not given much attention in terms of their abilities to become productive and compete globally, the economy's report card was red. This document led to the creation of an organisation in-charge to promote and develop national competitiveness. Through the Presidential Executive Order (E.O.) No. 571 the **Public-Private Sector Task Force on the Philippine Competitiveness** was established. As Aquino government takes on, Mr. President issued an Executive Order No. 44 amending the previous E.O. and renaming the said organisation as **National Competitiveness Council**.

National Competitiveness Council

This sector aims to uphold the competitiveness of Filipinos and instil a culture of excellence by maximising the collaboration between public and private sector as an instrument in reducing poverty and promoting inclusive growth. This is possible through the implementation of private sectors' initiatives that support public policies.

The council consists of five Cabinet Secretaries from the Departments of Trade and Industry (DTI), Finance (DOF), Energy (DOE), Tourism (DOT), Education (DepEd) and the Director General of the National Economic Development Authority (NEDA). It also included five representatives from the business sector. At present, this is being chaired by Secretary Cesar Purisima representing the public sector while the private sector is being represented by Mr. Guillermo Luz as the co-chair.

From the time it was organised in 2006 up to present, the priority areas intended to jumpstart competitiveness development are through the technical working groups that NCC had created evolving six priority areas. Each working group is tasked to focus on areas that will address the areas affecting the economy's competitiveness

Table 4.1: NCC's Priority Areas and Working Groups

Priority Areas	Working Group
1. Competitiveness human resources	a. Agri-Trade Logistics
2. Efficient public and private sector management	b. Anti-Corruption
3. Efficient access to finance	c. Budget Transparency
4. Improved transaction cost and flows	d. Business Permits and Licensing System
5. Provision of seamless infrastructure network	e. Education and Human Resources Development
6. Energy cost competitiveness and self-sufficiency	f. ICT Governance
	g. Infrastructure
	h. Judicial System
	i. National Quality Infrastructure
	j. National Single Window
	k. Performance Governance System
	l. Power and Energy
	m. Services

The different Working Groups with members from both public and private sectors takes care of each area's initiative. Membership includes those from government agencies and offices that are involved in the priority projects. Foreign and local chambers of commerce and various industry associations are also members of the Working Groups.

Collectively, the council aims to achieve the following by 2016:

- Higher FDI (new investments of 3-4% of GDP), from **USD1.7 billion** in 2010
- Double export growth to **USD120 billion** by 2016 with new products and services to account for **30%** of exports
- GDP Growth of 7-8% per year
- Job Growth/Lower Unemployment

- Lower Poverty Incidence: **26.5%** in 2009 to **16.6%** by 2015
- Growing C socioeconomic class (currently 8.6%); shrinking DE class (currently 91%)

As an update on the Council's targets, below is The Philippines' accomplishment for 2012-2013 based on the Philippine Development Plan 2011-2016 Mid-term Update released by the National Economic Development Authority (NEDA).

Table 4.2: Philippine Development Plan 2011-2016 Targets and 2012-2013, Actual Accomplishment

Indicators	Target	2012-2013 Accomplishment
Real gross domestic product (GDP) annual growth rate	7-8%	7.2% (2013) 6.8% (2012)
Investment-to-GDP ratio	22%	21.1% (2013) 20.3% (2012)
Unemployment rate	6.8-7.2%	7.1% (2013)* 7.0% (2012)
Poverty incidence based on population	16.6%	25.2% (2012)

**Average from January, July, April and October 2013 Labour Force Survey (LFS) rounds. The October 2013 round excludes Leyte because of loss of data due to typhoon Yolanda. The rates shown however are still comparable.*

PDP: 2011-2016 Mid-term Update Targets

In general, the economy is targeted to track a higher growth during the period of 2014 to 2016.

GDP Growth

GDP is targeted to grow by 6.5% to 7.5% in 2014, 7% to 8% in 2015, and 8.5% in 2016. Among the three sectors namely industry, services, and agriculture. Industry is projected to grow fastest with construction and manufacturing as the leads. The services sector (real estate, renting, business activities, information technology, and business process management) is expected to remain strong until 2016.

Employment

Unemployment rate is projected to decrease from 7% in 2012 to between 6.5 to 6.7% by 2016. Additional 740,000 employed persons brought about a 1.7% to 1.9% labour force growth per year. Underemployment is another issue in which the target is to reduce the 20% current rate to 17% by 2016.

Poverty incidence

The target is to decrease the poverty incidence from 18% to 20% by 2016 which will fall

short the 16% target set in the Millennium Development Goal. The new target was set in consideration of the slow response to economic growth way back on 2006 and also due to the large scale destruction caused by natural and man-made disasters. In The Philippines, a simple connotation of being poor is income. If the family's income fall below the poverty threshold, then he usually identifies himself as poor not taking into consideration the issue of quality of life (health and nutrition, education, living standards, water and sanitation facilities, electricity, quality of housing, etc.)

In order for these targets to be attained, investments in the industry and services sectors need to increase which will automatically bring higher demand for labour. Investments are projected to increase by 36% between 2012 to 2016. It should also be a national effort to improve business climate (easier means of doing business), increase productivity (worker-friendly environment), and improve innovative capacity (support to local R&D).

Focus on NCC's Education and Human Resource Development Working Group

The Education and Human Resource Development Working Group of the NCC comprises representatives from both public and private sectors. In the public sector, it is represented by the Departments of Labour & Employment (DOLE), Education (DepEd). It also includes members from other government agencies such as Commission on Filipinos Overseas, Philippine Regulatory Commission (PRC), National Wages & Productivity Commission (NWPC), Commission on Higher Education (CHED), Technical Education and Skills Development Authority (TESDA) and Philippine Trade Training Center (PTTC) . The Export Development Council, Chambers of Commerce (Philippines as PCCI and America) is also included as members of this working group. In addition, representatives from IT (BPAP), electronics (SEIPI), automotive manufacturing and human resource development are also part of this team.

This group aims to develop Filipinos into being globally competent by integrating the industry and education sector where matching of skills and knowledge are aligned towards establishing our capacity to provide products or services that will cater to both domestic and international markets.

1. At present, there are six on-going projects for this group namely:
2. Labour-Market Intelligence (DOLE, PCCI)
3. K to 12 Implementation (DepEd, TESDA, PBED)
4. Industry-Academy Linkage (CHED, BPAP, SEIPI, TESDA)
5. Technical-Vocational (TESDA, PCA, TIPI, CCAP)
6. Reintegration of Filipino Overseas into Philippine Society (Commission on Filipinos Overseas (Sec. Imelda Nicolas and Amb. Narcisa Escaler)
7. Benchmarking and compliance to International Accords/Mutual Recognition Agreements (MRAs) - (PRC)

Labour-Market Intelligence (DOLE, PCCI)

The **Labour-Market Intelligence** is an annual report which gives information on what are

the in-demand jobs and what are basic requirements, technical and behavioural skills needed in the job. Top three jobs from the last survey in 2012 were salespersons (due to the expansion of one of the biggest mall owners in the economy – SM), waiters/bartenders in hotels/restaurants (due to the growth of the economy’s tourism to 13.3% compared to the 7.1% in 2011), clerks/admin secretaries (hiring increased from 5,000 during Q1 2012 to more than 11,000 by end of Q4 2012. They provide vital support services in an industry’s day-to-day operation).

K to 12 Implementation (DepEd, TESDA, PBED)

The transition from a 10 to a 12-year education programme through the implementation of **K-12 Programme** started SY 2012-2013 affecting students, who are incoming Grade 1 and Grade 7, formerly, year 1 high school/secondary education students. The first batch of high school students under this programme are expected to graduate by 2018. This was implemented to align our education standards with the rest of the world and allow our graduates or students to be recognised abroad. This programme also aims to prepare the students for employment. The new set-up will allow acquiring national certifications that will help Filipinos have better employment opportunities or be entrepreneurs.

Industry-Academe Linkage (CHED, BPAP, SEIPI, TESDA)

The **Industry-Academe linkage project** aims to have dedicated curriculum for the following sectors: mining, tourism, electronics, IT-BPO, and construction. The development of curriculum that will be adapted in the tertiary level is an on-going activity in partnership with BPAP, SEIPI, and the construction industry.

Technical-Vocational (TESDA, PCA, TIPI, CCAP)

Technical – Vocational projects aims to continue its expansion of the ladderised form of education that allows learners to progress between technical – vocational and college or vice-versa. TESDA assessed a total of 968,535 individuals and certified a total of 830,458 individuals or 85% success rate (article Hot Skills for Hot Jobs) in 2012. One of the skills development programmes being implemented in The Philippines is the *Technical-Vocational Education and Training (TVET) System*. TVET is one of the key measures to equip workers with employable and productive skills needed in the industry and economy. It is designed as competency-based, accessible, and flexible to be responsive to an industry’s requirements. This is delivered in partnership with public and private institutions through the following modes: school-based, centre-based, enterprise-based, and community-based technology training programmes.

The training programmes under this system can be classified into three types:

Classification	Details
----------------	---------

Pre-employment	For workers without skills conducted by formal institutions
Retooling or retraining programme	For displaced workers with new skills to enable them to shift to new jobs within the enterprise or other occupations
Upgrading programme	To enhance skills of a worker in an enterprise or occupation

This programme has also been introduced in some public high schools as part of their curriculum. It aims to give high school students with relevant education that will enable them to pursue entrepreneurship or employment opportunities in the formal or informal sectors after they have completed their secondary education (and has reached the legal age).

Reintegration of Filipino Overseas into the Philippine Society (Commission on Filipinos Overseas (Sec. Imelda Nicolas and Amb. Narcisa Escaler)

Reintegration of Filipino Overseas into the Philippine Society aims to assist our overseas Filipino workers as they return and start anew in their native land. Last July 2014, DOLE announced a comprehensive reintegration assistance and services for overseas Filipino workers who voluntarily signed up for repatriation or who were mandated to go home due to crises. The **Assist WELL** Programme aims to eliminate uncertainty of the unknown, especially to those who have been away from home for so long. Assistance on welfare (c/o Overseas Worker’s Welfare Association), employment (c/o DOLE), legal (Philippine Overseas Employment Agency or POEA), and livelihood (c/o DOLE) needs of returning Filipinos will be provided in this programme by each responsible government sector.

Benchmarking and compliance to International Accords/Mutual Recognition Agreements (MRAs) - (PRC)

The economy’s compliance to **International Accords/Mutual Recognition Agreements** is expected to simplify the Board Licensure Examinations specifically on teachers. APEC Registry, benchmarking with the Bologna Accord and the Compliance to the Washington Accord are some of its on-going initiatives. The Philippines, specifically MAPUA (one of the top universities in The Philippines) are expecting to be granted the accreditation by Washington Accord in 2015.

5

Small, Medium Enterprises in the Philippines



SMEs in The Philippines

As defined by the National Statistics Office, an SME is any business activity or enterprise, engaged in industry, agri-business and/or services, regardless of ownership: single proprietorship, partnership, cooperative, or corporation, whose value of total assets fall under the categories stated in **Table 5.1**.

Table 5.1: SME Definition in The Philippines

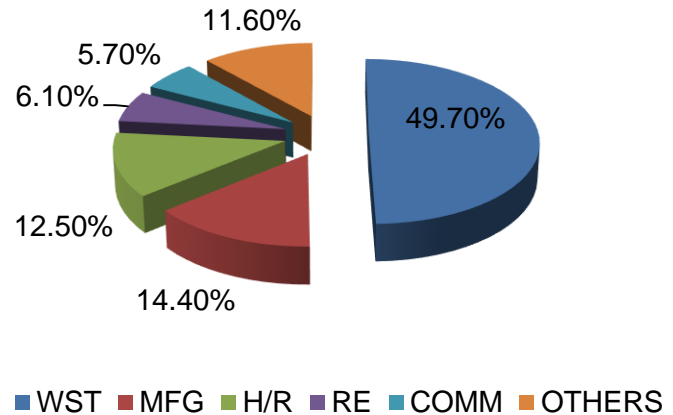
Enterprise	By Number of Employees	By Asset Size*
Micro	1 to 9 employees	Up to P3,000,000
Small	10 to 99 employees	P 3,000,001 to P 15,000,000
Medium	100 to 199 employees	P 15,000,001 to P 100,000,000

**Inclusive of funds arising from loans but exclusive of the land where the particular business' office, plant and equipment are situated.*

Micro, small and medium enterprises (MSMEs) in The Philippines has developed over time. It accounts for 35% of GDP and 61% in employment. They represent 99.6% of total firms in the economy or 944,897 establishments while the remaining 0.4% (4,011) is large enterprises. A total of 89.8% or 844,764, of the MSMEs were micro enterprises while small and medium were enterprises was at 10% (92,027) and 0.4% (4,095), respectively in 2012.

Figure 5.1: MSMEs distribution per industry

Figure 5.1 illustrates that 49.70% of MSMEs are in wholesale trading and repair services (WST), 14.40% in manufacturing (MFG), 12.50% in hotel/restaurants (H/R), 6.10% in real estate or renting (RE), 5.70% in community, social, and personal service activities (COMM) and the remaining 11.60%, a mix of businesses focusing on health/social work, financial intermediation, agriculture, construction, electricity, gas, etc. (OTHERS).



With these figures and their contributions to the Philippine economy, addressing the current challenges on research and development, access to technology, financing, and know-how on business operations (marketing, accounting, human resources development) will help spur economic growth and improve standards of living. The SME Development Plan 2004 – 2010 was crafted to integrate all related efforts undertaken by government, private sector, and development partner institutions. This initiative was able to achieve the following:

- Increased value added of the sector from 32% to 35.7%
- Generated 6.5 million direct and indirect jobs;
- Provided Php 367.39 billion in loans to support more than 6.3 million requests from MSMEs
- Generated Php 20.12 billion worth of domestic MSME sales and USD1.8 billion of total MSME exports
- Provided capacity to enhance the level of local and international competitiveness for 115, 604 MSMEs

Following through, the government through the Department of Trade and Industry drafted the MSME Plan 2011 – 2016. This Plan aims to promote, support, strengthen, and encourage the growth and development of MSMEs in all productive sectors of the economy. This plan was drafted with national, regional, and provincial stakeholders through consultations, validations, workshops participated by representatives from the national government agencies, academe, LGUs, private sector, and civil society. This Plan has four outcome portfolios:

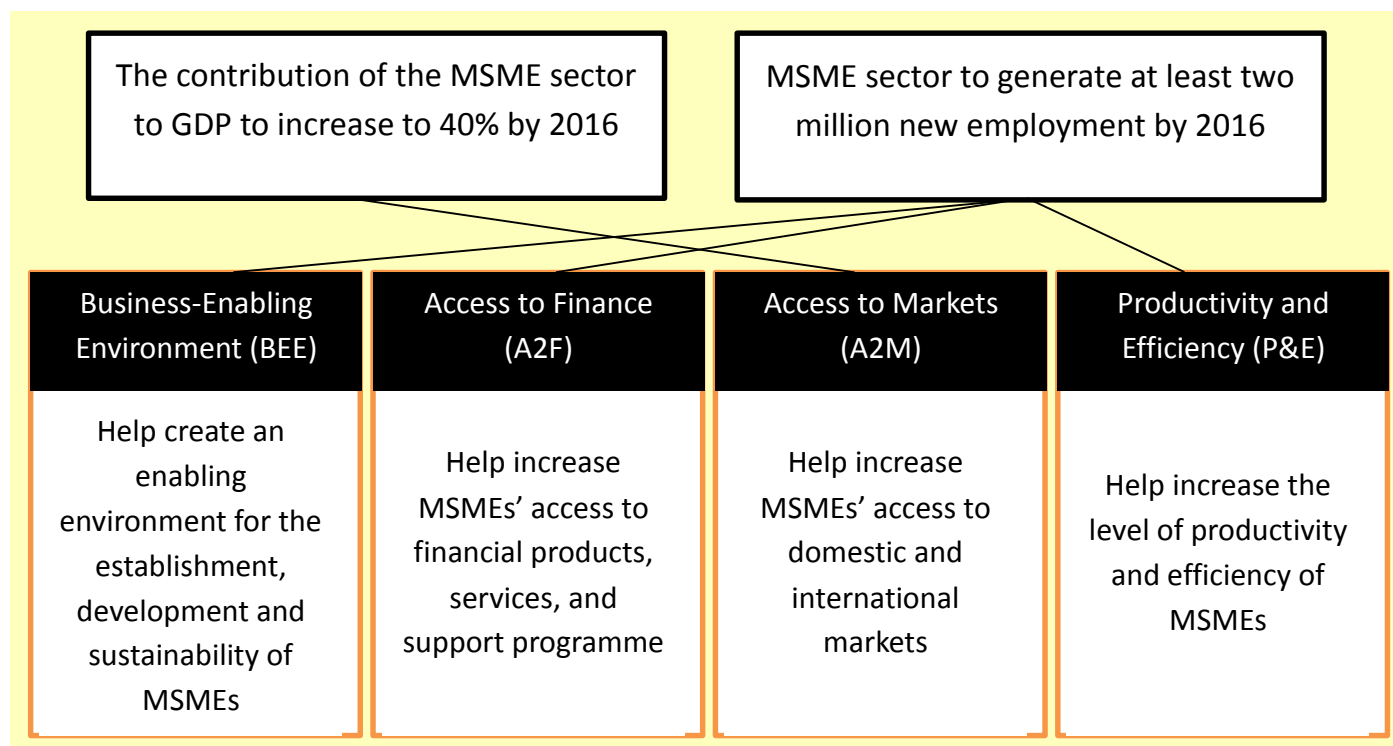
Table 5.2 MSMED Plan 2011-2016 Outcome Portfolio and Indicators

Outcome Portfolio	Indicators
<ul style="list-style-type: none"> • Business Environment (BE) 	<ul style="list-style-type: none"> • Cost of doing business (taxes, permits, fees, etc.) is affordable • The institutional support structures for the development of start-up and existing MSMEs
<ul style="list-style-type: none"> • Access to Finance (A2F) 	<ul style="list-style-type: none"> • The cost obtaining MSME loans is reasonable and affordable • The requirements needed to obtain loans are reasonable and manageable
<ul style="list-style-type: none"> • Access to Market (A2M) 	<ul style="list-style-type: none"> • MSMEs have maintained and penetrated new markets locally and globally • MSMEs are using information technology and intellectual property system to develop a sustainable market share and gain competitive advantage
<ul style="list-style-type: none"> • Productivity and Efficiency (P&E) 	<ul style="list-style-type: none"> • MSME workforce is highly motivated and is equipped with necessary skills and attitude • MSMEs are compliant with international quality standards

Source: Micro, Small, and Medium Enterprise Development Plan for 2011-2016

Implementing measures on these four areas targets a 40% contribution of the sector to total value added and employment generation by two million in 2016. A 35.7% value added rate at present poses a positive projection in the attainment of the 40% target. All these efforts will be regularly monitored, validated, and updated by the MSMED Council. Figure 5.2 shows further illustration of the Plan and its targets.

Figure 5.2: MSMED Plan 2011 to 2016 Results Framework



Source: 1Usec. Maglaya MSME Development Plan 2011-2016 Midterm Update - 16 August 2014 version2

As of August 2014, Under Secretary Maglaya reported an update on this Plan.

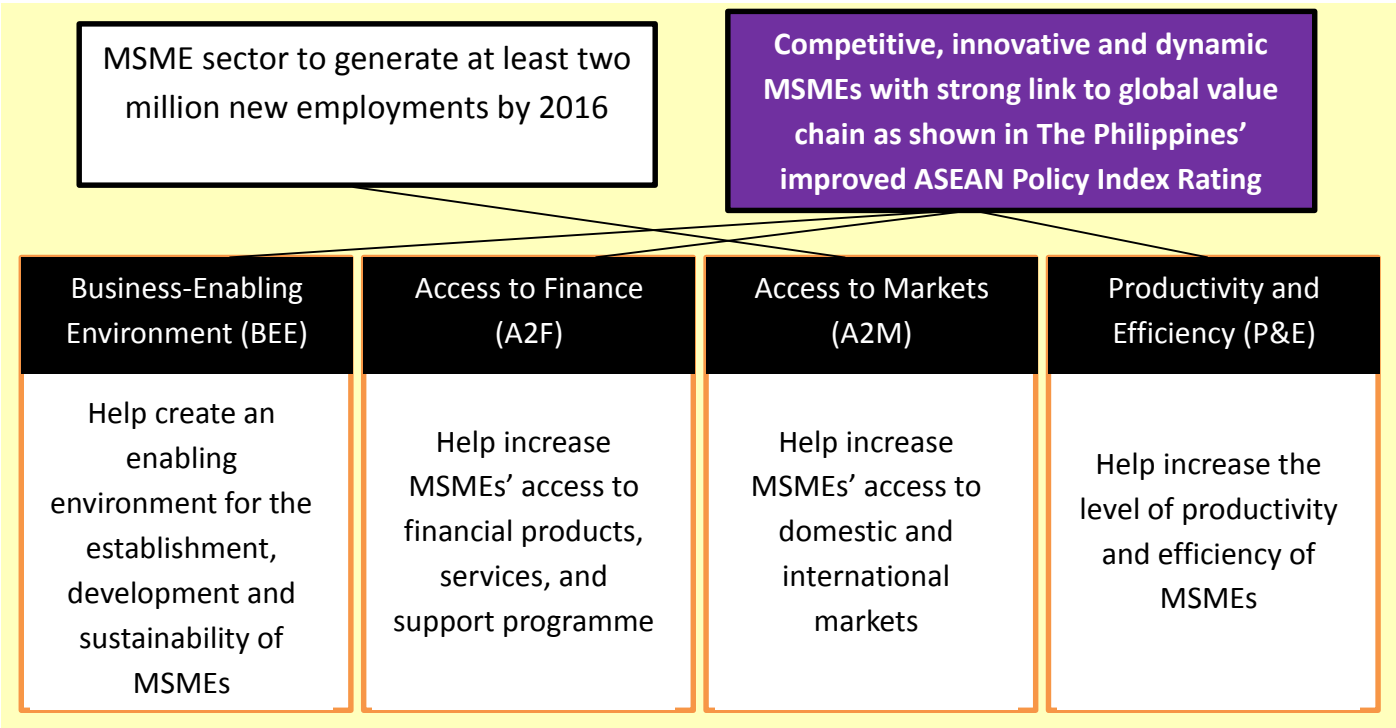
Table 5.3 MSMED Plan 2011-2016 Targets and Updates

Goal	Update as of June 2013
MSME sector to generate at least two million new employment by 2016	<ul style="list-style-type: none"> • 1,555,544 new employment generated from 2011 to June 2013 (78% attainment rate).
<u>Business-Enabling Environment (BEE)</u> Help create an enabling environment for the establishment, development, and sustainability of MSMEs	<ul style="list-style-type: none"> • 926 LGUs have streamlined their business registration process by June 2013 from just 82 in 2010. • This is expected to increase further due to the passing of Republic Act 10644 or 'Go Negosyo Act'
<u>Access to Finance (A2F)</u> Help increase MSMEs' access to financial products, services, and support programme	<ul style="list-style-type: none"> • Php 257 billion worth of loans released for MSMEs by Government Financial Institutions (GFIs) and Government Owned and Controlled Corporations (GOCCs) from

	2011 to June 2013; from Php 100 billion in 2010.
<u>Access to Markets (A2M)</u> Help increase MSMEs access to domestic and international markets	<ul style="list-style-type: none"> • USD 1.34 billion in exports and Php 431 billion in domestic sales from market promotion activities by lead agencies • DTI focused on a lesser but bigger marketing events (trade expos) since 2011
<u>Productivity and Efficiency (P&E)</u> Help increase the level of productivity and efficiency of MSMEs	<ul style="list-style-type: none"> • 52,586 participants in MSME training programmes conducted by lead agencies (PTTC, University of The Philippines Institute for Small Scale Industries [UP-ISSI]) and DTI's Bureau of Small and Medium Enterprise Development [BSMED]

The MSMED Plan will continue to strive for the generation of at least two million new employment by 2016. Furthermore, it will execute strategies that will prepare the MSMEs to become competitive, innovative and dynamic with strong forward and backward linkages.

Figure 5.3: MSMED Plan 2011 to 2016 Update Results Framework



In the remaining two year, government initiatives categorised under four outcome areas are shown out below to support achievement of the new results framework's goals.

Table 5.4 MSMED Plan 2014-2016 Programs, Projects, and Activities

Outcome Portfolio	Programs, Projects, and Activities
<p><u>Business-Enabling Environment (BEE)</u></p> <p>Help create an enabling environment for the establishment, development, and sustainability of MSMEs</p>	<ul style="list-style-type: none"> • National Competitiveness Council – to spearhead initiatives to improve the economy's competitiveness ranking in the world (i.e. Ease of Doing Business in The Philippines) • Nationwide implementation of the Business Permit and Licensing System • Streamlining of requirements for Food and Drug Administration
<p><u>Access to Finance (A2F)</u></p> <p>Help increase MSMEs' access to financial products, services, and support programme</p>	<ul style="list-style-type: none"> • Access of Small Entrepreneurs to Sound Lending Opportunities (ASENSO) Programme • People's Credit and Finance Corporation's Micro Finance Programme • Risk-based Lending Programme • Enterprise Rehabilitation Financing Programme
<p><u>Access to Markets (A2M)</u></p> <p>Help increase MSMEs access to domestic and international markets</p>	<ul style="list-style-type: none"> • Trade Fairs/Trade Missions (i.e. One Town One Product, Sikat Pinoy) • Doing Business in Free Trade Areas Programme • Export Coaching Programmes • Product Design Development Programme • Market matching services
<p><u>Productivity and Efficiency (P&E)</u></p> <p>Help increase the level of productivity and efficiency of MSMEs</p>	<ul style="list-style-type: none"> • Small Enterprise Technology Upgrading Programme (Set-Up) • UPISSI Training Programmes • RA 6971 (Productivity Incentives Act) • Productivity Toolbox • Two-tiered Wage Programme

Enhancing Productivity, Quality, and Innovation among SMEs

In any business, a well defined management of people, process, and technology is needed for its success. People as represented by an enterprise's workforce, process as embodied by methods, rules of engagement, etc. and technology as signified by automated and simplified processes.

In this framework, both process and technology are capable of standardisation. It may contain exact science, be it in figures or step by step procedure. The component that we cannot master or perfect is people. People may be trained and influenced and that's when desired output brought about by appropriate behaviours are learned and realised.

6 Best Practices on Talent Management

Talent management is defined by Hudson as “the combined human resource activities that involve: selecting the right people, developing their potential, driving their enthusiasm, building their commitment, and also supporting them through periods of change.” An enterprise’s workforce may be efficient or competitive when there is a smooth integration of productivity, quality, and innovation in its people, process, and technology.

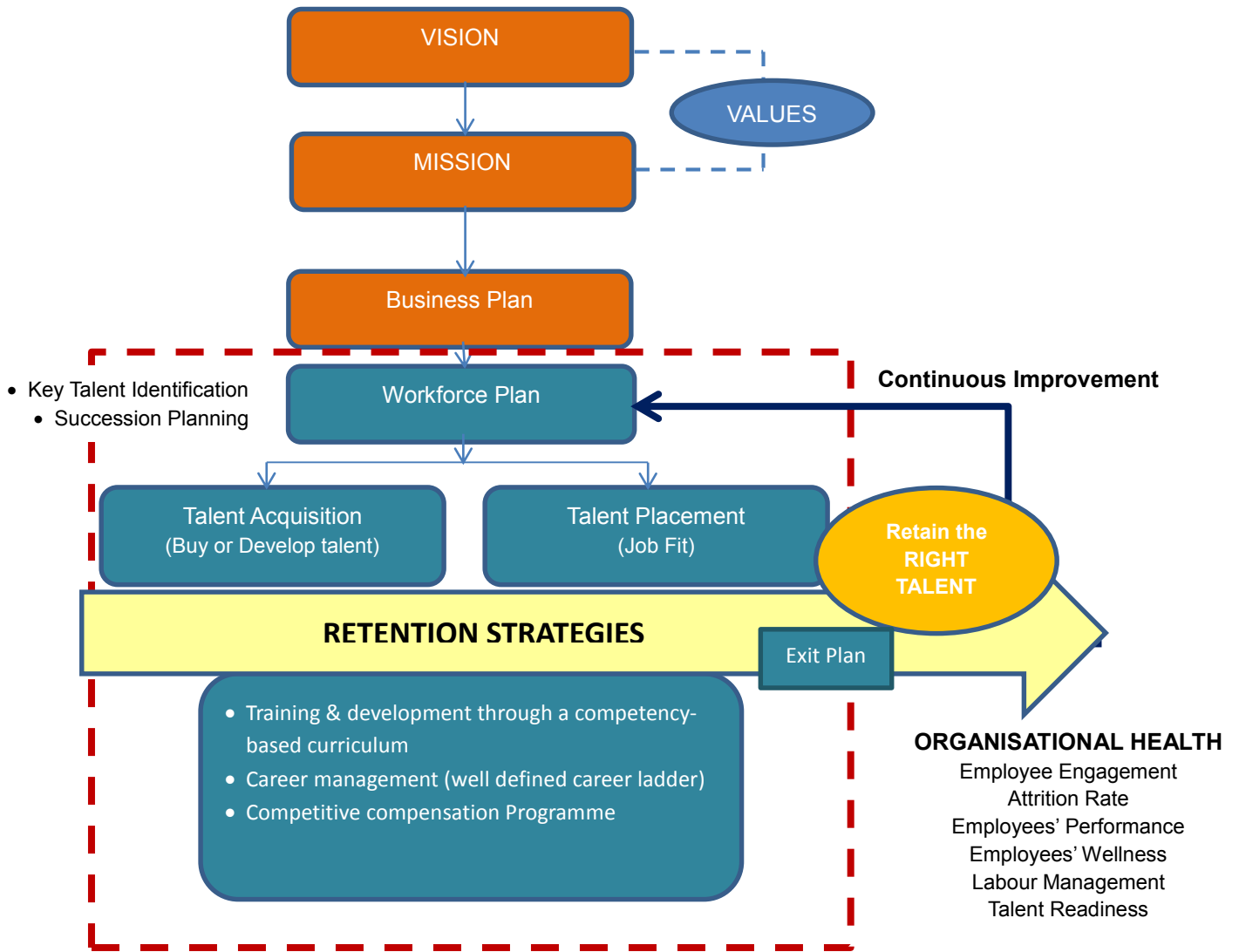


Figure 6.1 presents a Talent Management Framework of a large enterprise that may be used by the SMEs as guide in ensuring the interaction of its processes and systems to enable achievement of its business plans.

Item	Definition	Example
Company Vision	<ul style="list-style-type: none"> Picture of the future; long-term aspiration 	<ul style="list-style-type: none"> Cebu Pacific brings people together through safe, affordable, reliable, and fun-filled air travel
Company Mission	<ul style="list-style-type: none"> Reason for the company's existence/purpose for being 	<ul style="list-style-type: none"> Cebu Pacific: The most successful low-cost carrier in the world
Company Core Values	<ul style="list-style-type: none"> Acceptable corporate business norms/ethical standards 	<ul style="list-style-type: none"> Integrity/Service Mindset/Excellence/Concern for others
Business Plan	<ul style="list-style-type: none"> Company's objectives to achieve its medium to long-term goals 	<ul style="list-style-type: none"> Company X aims to achieve a double digit net income from current 8% by 2016 through business expansion by establishing three more branches
Workforce Plan	<ul style="list-style-type: none"> Manpower planning to help meet business plan <p>-Existing inventory of talent pool if any per function</p> <p>-Are there ready successors and excess talents who can be utilised to help in the start-up operations of the new sites or branches</p> <p>-Are there existing succession plans and what process is used</p> <p>-What areas do we need to buy talent from outside and where do we source these talents?</p> <p>-How do we accelerate readiness of identified key successors for the homegrown</p>	<ul style="list-style-type: none"> Current Manpower profile in terms of gender/age/tenure/profile of identified key talents <p>-address critical areas with shallow bench badly needed by the company for the expansion.</p> <p>Example: If we anticipate more Chinese and Japanese customers, we may need to hire people who can speak the language or with local experience in the said economies where expansion will happen</p> <p>-hire a language teacher to start training key people to understand the basic language</p> <p>-strengthen the company's adaptability to change by embracing change management at all levels including its importance</p>

	talents	<p>-create a learning organisation by making continuous education as a way of life at all levels. Minimum training hours per person can be established as part of the KRA</p> <p>-If there is strong threat of piracy as more competitors are envisioned to set up and have presence in the company's existing territories retention strategies should be strengthened</p>
Talent Acquisition	<ul style="list-style-type: none"> Sourcing of talents for key positions can be done both internally and externally 	<ul style="list-style-type: none"> Establish a guide on when to develop homegrown versus when to buy talent
Assignment	<ul style="list-style-type: none"> Proper matching of the job requirements versus the employees' skills /personality and personal interest 	<ul style="list-style-type: none"> As indicated in the book "Good to Great" it is emphasised, that each employee should ride in the right bus(there should be fit between the job and the person assigned in a particular job)
Retention Strategies	<ul style="list-style-type: none"> Key talent retention should be given focus as cost of replacement is expensive not to mention the time needed for the learning curve 	<ul style="list-style-type: none"> Overall compensation provided versus competition should be competitive Golden hand cuff like providing long-term loans, special training with a required holding period Continuous development/coaching /mentorship
Exit plan	<ul style="list-style-type: none"> Early retirement program for the poor performers / tenured employees performing unskilled jobs and those who have reached their maximum level of competence (Peter Principle) 	<ul style="list-style-type: none"> Special limited offer for target employees this is two pronged– opportunity for the company to have a cheaper and more efficient replacement and at the same time, a good option for targeted tenured employees to pursue other interest like go into business/find a less stressful job
Organisational Health	<ul style="list-style-type: none"> Serves as the company's health barometer including assessment on overall level of the employees' morale and job satisfaction. 	<ul style="list-style-type: none"> Key indicators include: employee turnover rate, key talent turnover rate, and employee engagement survey results among others

Figure 6.1: Talent Management Framework in a Large Enterprise



Two important programmes that will ensure enhanced employee productivity among SMEs:

- I. Regular monitoring of the Organisational Health Indices
- II. Regular review of succession plans

I. Organisational Health Index (OHI)

Is a summary of specific key indices on how are the enterprise's best assets (people) being managed. It is the company's thermometer that may trigger decision-makers on issues that need to be addressed and prioritised.

Components of OHI:

1. Employee Engagement



Favourable score
=
High Job satisfaction and morale

Favourable rating at 4.00 based on a 5-point Likert Scale

- Company A = 4.07
- Company B = 4.01
- Company C = 4.00
- Company D = 3.88
- Company E = 3.38

Employee engagement refers to the level of commitment and involvement of employees toward their organisation and its values. Its results determine the level of engagement of employees in an enterprise. It also identifies factors that directly influence employees' level of engagement. More importantly, the results help the human resource team to develop programmes that will increase the level of engagement. Sample factors of engagement are:

- Leadership and management - effectiveness of direction, decisions, communication, change management, and role-modeling by members of the management team
- Nature of work – examines clarity of roles and responsibilities
- Organisation pride – extent to which employees can identify with, and be proud of their organisation
- Values - understanding and adherence to organisation's values on a day-to-day basis
- Teamwork - amount of cooperation and camaraderie that exists within a work group

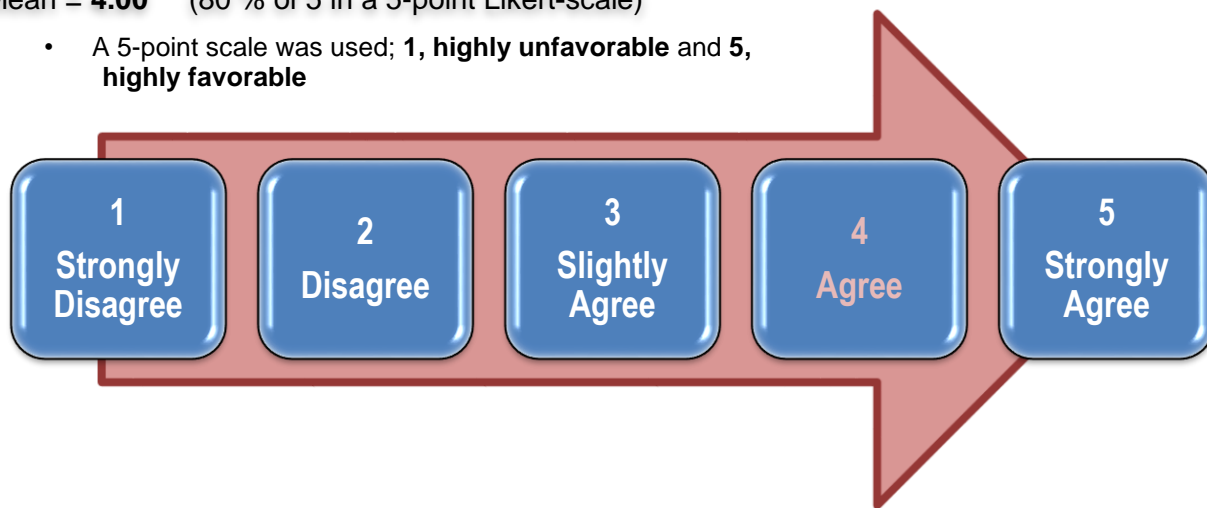
Sample questions and results:

Result per question

SURVEY ITEMS		MEAN
1.	My company's values are aligned with my own personal values.	3.52
2.	I feel comfortable raising ethical issues in this company.	3.47
3.	My company promotes diversity in the workplace.	3.39

Mean = **4.00** (80 % of 5 in a 5-point Likert-scale)

- A 5-point scale was used; 1, **highly unfavorable** and 5, **highly favorable**



Result per employee cluster

FACTOR	GROUPS WITH SIGNIFICANT DIFFERENCE	MEANS PER GROUP			
		Rank and File	Supervisors	Manager	TOTAL
Employee Engagement	R&F<Supervisor, Manager*	4.03	4.32	4.39	4.07
PREDICTORS OF ENGAGEMENT					
Nature of Work		4.23	4.30	4.41	4.24
Teamwork		3.95	4.09	4.17	3.97
Organization Pride		3.95	4.16	4.07	3.96
Customer Focus		4.09	4.33	4.09	4.11

LEGEND:

*Significant at 0.05 level

Significantly low mean score

- Engagement efforts must be focused on rank and file
- Across ranks, no significant difference for the factors predicting engagement

Overall result of engagement:

Employee Engagement Mean Score = 4.07

PREDICTORS OF ENGAGEMENT	MEAN	BETA VALUE
Factors to Leverage on:		
Nature of Work	4.24	0.21
Customer Focus	4.11	0.15
Factors to Improve on:		
Teamwork	3.97	0.09
Organization Pride	3.96	0.37

How to read this table:

BETA VALUE RANGE:

Strong predictor (.70 and above)

Moderate predictor (.31-.69)

Weak predictor (0.10 – 0.30)

MEAN SCORE:

High Mean Score (4.00 and above)

Low Mean Score (below 4.00)

— Cut-off Score 4.00.

Factors above the red line were rated favorably by respondents.

Factors below the red line were rated unfavorably.

This data shows an assessment of the areas that the enterprise can capitalise on. It also gives an opportunity for the enterprise to validate the 'factors to improve on' through cascading the results and getting feedback from the employees.

Sample interventions applied:

Predictors of Engagement	Current Initiatives
Teamwork	<ul style="list-style-type: none"> • Teambuilding activities • Company sportsfest • Participation in company initiated activities (Bowling, Badminton, etc.) • Flag ceremony core value presentation

2. Attrition Rate



Lower rate

=

Happier employees

Lower attrition rate in 2013

2012 rate: 9%

2013 rate: 7%

Attrition rate pertains to the number of voluntary or involuntary resignations in a given period. There are two types of attrition:

- Voluntary - Employee-initiated or non-performance related i.e. career advancement (local and overseas employment), personal (health, family, studies, etc.)
- Involuntary - management-initiated (i.e. termination, redundancy, end of contract)

Formula: No. of resigned employees / average headcount x 100

Sample data:

Site	Voluntary	Involuntary	Total	Ave. HC	2013 Attrition
Site A	12		12	130	9%
Site B	13	1	14	128	23%
Site C	7		7	60	5%
Site D	6	1	7	137	6%
Site E	3		3	123	1%
Total No. of Resignees	41	2	43	578	
Attrition Rate	7.09%	0.35%			7.44%

Attrition rate in each site must be gathered to determine the area where retention efforts should be focused on. For organisational health index, only the attrition rate on voluntary resignation is considered. If possible to look into the reasons for voluntary resignation, it will also be a helpful data to support existing programmes or develop programmes that will resolve issues on resignations.

3. Employees' Performance

PERFORMANCE



- EXCELLENT
- GOOD
- AVERAGE
- POOR

Upward trend

=

Increasing productivity

Senior Personnel and Non-Senior Personnel were generally rated as 'Above Average' performers since 2010

Employee performance includes activities that ensure the company goals are met in an effective manner. Performance management in this context focuses on the performance of the employee to meet the expected deliverables on his end at the most efficient manner. A performance appraisal exercise is regularly conducted to assess not only the business related achievements of the employee but also the behavioural component required of his job. For SMEs it may be as simple as measuring the target output vs actual output or expected deliverables vs actual results.

4. Employees' Wellness



Lower Sick Leave Utilisation

=

Healthier employees

- An average of 35% sick leave utilisation for 2012 and 2013

Employees' wellness refers to programmes designed to support healthy lifestyle in the workplace. It aims to bring improved health outcomes. Programmes that will keep the mind, heart, body, and soul healthy;

- Mind – learning sessions on stress management, financial management, parenting, etc.
- Heart – quarterly birthday celebrations, awards and recognition programmes (perfect attendance, loyalty awards), interest clubs (badminton club, glee club, dance club, etc.)
- Body – fun run, sports fest, immunisation offerings, etc.
- Soul – retreat and recollection, outreach programmes

Sample sick leave utilisation data:

Year	Available Sick Leave (Days)	Used Sick Leave (Days)	% of Utilisation
2012	60,000	24,000	40%
2013	60,000	18,000	30%

5. Labour Management



*Lower labour cases filed
=
Healthier work environment*

- Metrics of good labour management relationship can be measured in terms of labour cases filed against management.
- Only two labour cases filed against the company as of 2014

Labour management is the principle of dealing with labour unrest which is normally the result of organised strike actions that disrupt normal business operations. This usually happens when employees feel that they are not taken care of or there is unfair labour practice. Strong communication programmes such as weekly or monthly meetings that include business updates, learning session on current events, and providing an avenue to hear out, acknowledge their concerns will avoid such threats.

6. Talent Readiness



Sample: *Higher counts of 'ready now' talents
=
Stronger leadership and management*

Sample: For Site A, 16% of the leadership team are KEY talents

Talent readiness refers to percentage of identified talents ready to succeed key or critical functions

	Readiness of Successors				
For the Position (List Incumbent Name)	Ready Now (1-2 years)	Ready 2-3 years	Ready 4-5 years beyond	No 'Ready Now' / No Available Talent/Successor	Contingency Plan
Position Title - Name of Incumbent	1				
Position Title -Name of Incumbent		1			
Position Title -Name of Incumbent		1			• Concurrent function of Employee A while sourcing externally for 3 months and fast tracking devt of yellow candidate
Total	1	2			

Succession Planning

Succession planning process is identifying future potential leaders or successor to fill the key positions. It is essential as its output prepares the business for growth, challenges, and other opportunities. It also ensures availability of competent and experienced employees. It also espouses career management as a shared responsibility of the management team and the concerned employees.

Sample process:

1. Identify the key positions in your organisation based on set criteria
2. Identify the key talents, profile them using the Nine Box Matrix and create development plans
3. Identify the successors for the key positions

Sample guide and output:

Key Position may be considered as such when it meets any of the two criteria:

IMPACT TO THE BUSINESS

Critical to the development and execution of the short and long-term plans and strategies

HARD TO FIND

Nature of work is relatively difficult and costly to replace; limited pool of homegrown talents available for this job and is scarce in the market

Key Talent Identification is based on the Nine Box Matrix (Figure 6.2) where performance and potential are both taken into consideration. Nine Box Matrix was developed for GE in the late 1960s and 1970s. It is used to assess potential of individuals in its business and prioritise investment and overall strategy. Key talents are those who fall under boxes 6, 8, and 9. As a general principle in key talent retention, we develop those who are the drivers of our business' performance.

Succession Readiness Chart is a tool to help the management team identify its pipeline in the key positions that were identified. It serves as an easy reference to management team members to prioritise development plans for those next in line. Figure 6.3 shows the sample chart and Figure 6.4 the development plan template. Development plan template should contain the names of those identified as successors.

Figure 6.2: Nine Box Matrix

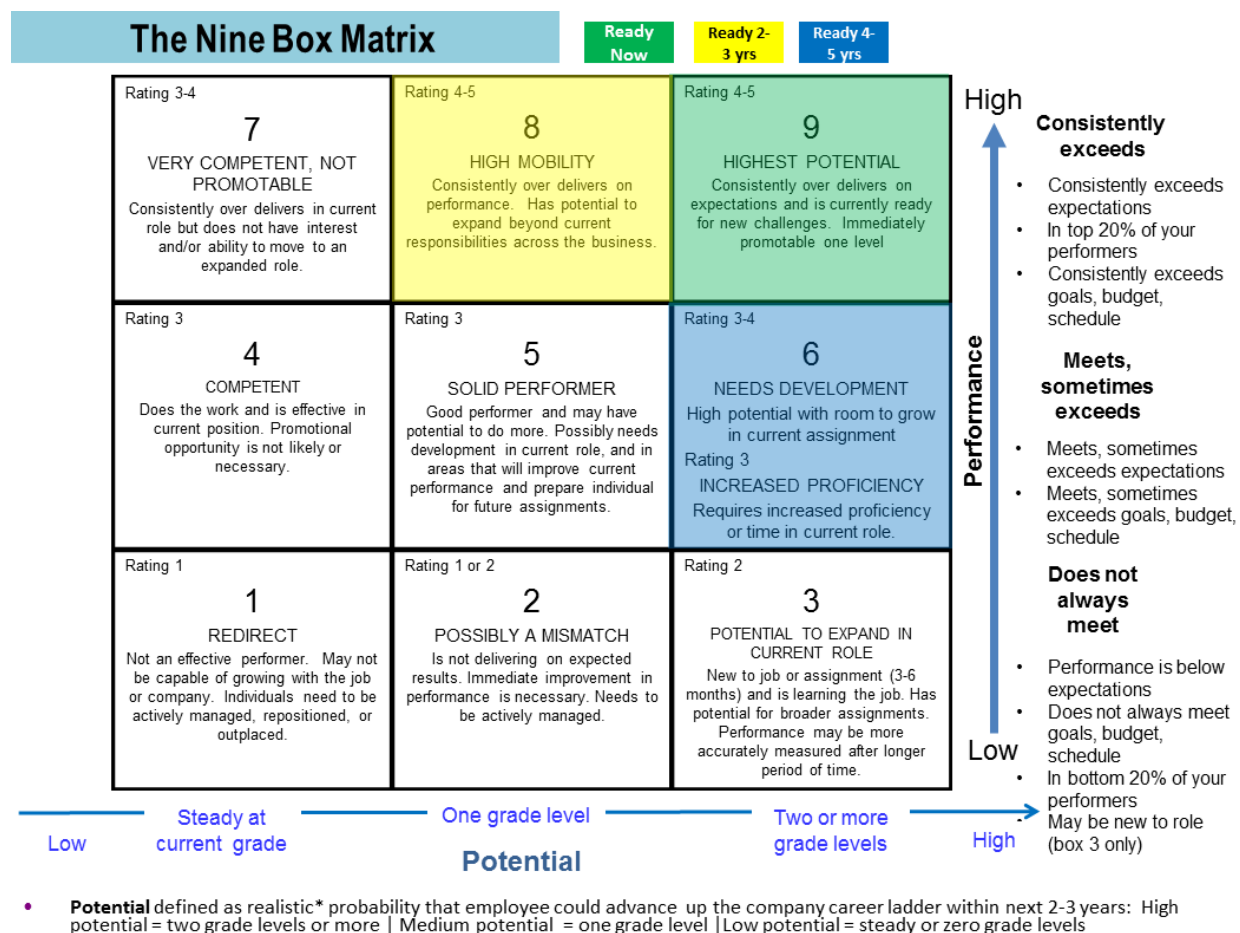


Figure 6.3: Succession Readiness Chart Sample

For the Position (List title and incumbent name)	Ready Now	Ready 1-2 years	Ready 3-4 years	Talents (5 years beyond)	Immediate Plan if no READY NOW
Finance manager <i>Manager A</i>	Hire Outside	Employee B	Employee C	Employee D	Team to temporarily report to Manager C

Figure 6.4: Development Plan Template

Names and Current Title	Potential Position s/ Roles	Strengths	Gaps	Development Areas	Potential Developmental Assignments (specific action plan and timeline)
Employee B	Finance Manager	Strong background in financial standards	Ability to communicate clearly	Communication skills	Attend communication skills training (Q1 2015); assign communication-related projects (Q2 2015)



Case Experience

Case Experience 1: Tino Tailor

Whoever thought that a small enterprise can produce and promote a unique and elegant craftsmanship? A family owned business on bespoke tailored suits of Mr. Tristan and Ms. Eilene Ramirez, a happily married couple who capitalised on the craft of their “Father”, Napoleon Arienza (Eilene’s father). This Filipino tailor trained in Europe is well known in town as the master tailor of their boutique – Tino.

Way back in 1998, tailoring suits and *barongs* for some of the economy’s finest men traces to what we now recognised as an elegant craft has been the bread and butter of Napoleon Arienza. In his mind, what was important for him back then was to earn money to provide food on their table and be able to send his three children (Glenn, Giovanni, and Eilene) to school. It was a hand-to-mouth job until his daughter, Eilene who grew up and closely looked at her father’s working on the fabrics took risks to realise her dream for his father, namely, to be a known and respected individual in his own craft.

Right after obtaining a degree on human resource management, Eilene tried the corporate setting but not as an HR personnel but as a sales person. She joined various industries such as a pharmaceutical company and financial institutions that focused on stocks management but after two years, she stopped and told herself that she can do and she can have more than this. She knows in her heart that she can do more for her family and most especially, for her father. This is when she started setting up a business.

Naparienza Clothes Manufacturing

Through the joint efforts of Tristan and Eilene, who were at that time still in a boyfriend-girlfriend stage, they started the clothes manufacturing. With 30 cutters, sewers, and tailors they accepted bulk orders from establishments, offices and supply them with dress shirts and uniforms. During that time, only Eilene’s father was doing the suits and *barongs*. Of course, like any other start-up business, theirs was not an exception to birth pains. They did suffer usual concerns of SMEs such as high expenditures on labour and materials while coping with the long payment terms from their suppliers for their delivered goods. As they have a business to run coupled with a number of people to manage, the lack of appropriate systems to address business and people concerns resulted in company losses. This moved the Tristan-Eilene tandem to stop and reassess what happened, what is left of them, and where do they want to go next.

Birth of Tino



Eilene wanted something sustainable that will be continued even after their lifetime and clothes manufacturing of corporate uniforms is not how she envisioned the future will be like. She wanted a global brand with a world-class product. Having this in mind, they slowed down with the clothes manufacturing business and the people then were piece rate. They also left the factory due to low volume of orders that the couple had for the workshop. During these times, the couple began thinking of how to redirect their business to realise what Eilene had in mind. For sure, they would still want to go into business but this time, they will be more strategic and focused, learning from their past experience as what they have told themselves.

Examining their core competencies which focused on craftsmanship, high level of quality, and sense of urgency, they started crafting the basics of their new business namely, its vision, mission, and values.

Company Vision

To become a leader on sartorial clothing in The Philippines by creating a product with distinguishing qualities of a well-made piece, with continuing commitment to better understand and interpret personal requirements and expectations of our clients, which involve everyday lifestyle, aesthetics, and sense of style.

Company Mission

Help individuals understand the art of fine dressing, with quality, and tradition as the centre.

Core Values

Authenticity. Transparency. Flexibility. Relationships. Respect



Tino, a Spanish word which means “sureness of touch” or “the ability to hit the target” is exactly what bespoke tailoring means. It is a higher level of custom tailoring. A bespoke suit is carefully made, hand crafted, basted fitting forms, and hand stitched finishing. Only the master tailor himself would take the measurements, do the fittings, draft the pattern, and cut the fabric. An important component in bespoke tailoring is the involvement of the client in choosing the fabric, the materials, the suit’s features and the fit. Its high level of customisation and engagement of the client all throughout the process can make any man who wears it feel the artistry behind its details. Stylish, dignifying and yet comfortable, that is the executive edge of Tino’s craft.

Inside Tino

Currently renting a boutique space in the central business district of Makati and a factory at Las Pinas City. Tino has five people in the store: two frontline, three in the workshop area. While there are 12 other people left in the factory as line leader/production assistant, tailor, seamstress, presser/utility, and purchaser. There are also four outsourced personnel focusing on public relations, accounting, and human resources numbering a total of 21 people. As it now focuses on tailoring, majority of the employees are male, married, and about 30 years old. Average tenure of their employees is two years. Turnover, fortunately, is not one of their concerns. They said those who resigned immediately usually do not have the skills or the patience to learn the job since bespoke tailoring applies a different technique.





Eilene, one of the proprietors and the Master Tailor, Nap Arienza discusses details of the suit of one of their clients – Mikael Daez (one of the many showbiz personalities in The Philippines)

Human Resources at Tino

Tino being a small enterprise does not need full-time human resource personnel especially when basic human resource functions and roles are immersed in the production line leaders. Apart from the passion for quality and excellence in the Master Tailor's craft, it is the production line that is considered essential to Tino's business. Like any other small businesses, Eilene and Tristan both being graduates of human resource related course, maximised their connections. They consult their friends in case concerns arise. Learning from their past experience, Eilene and Tristan, looked at further organising their company through establishing systems and processes in core areas such as human resource. The four areas of recruitment, training, employee relations, and compensation and benefits had the answers to their concerns.

In the **recruitment** area, where there is no formal schooling yet for tailoring, educational background was not much a highlighted requirement. More than this is the skill; its application and their experience are what matters. Most of the hires are referral of their existing employees. A newly hired employee is given six months probationary period to learn the ins and outs of the job. Some of the hires have zero knowledge on tailoring, so when they are accepted and given a chance, they start as a trainee with a function of an assistant. This enterprise uses a Buddy System, a procedure in which two people, the "buddies", operate together as a single unit so that they are able to monitor and help each other.

Through a **buddy system**, the senior tailor trains the newbie from pants making to suit making. The senior tailor carries the responsibility of teaching the newbie and ensuring that they learn each day. Normally, on the third month of the newbie, his performance is assessed. Based on senior tailor's evaluation, if the newbie can perform the basics in tailoring, he is given the probationary employment status and he completes it until his sixth month.

Training and Development



In a small enterprise such as this, seldom will you find a firm that has a structured training programme for its people. For Tino, they provide hands-on training for skills related function such as tailoring, cutting, etc. and learning sessions for behavioural related aspects. They believe that honing their employees' technical and behavioural facets are the essential key to sustaining their enterprise's operational excellence.

For newly hired employees, part of their first day activities is the New Hires' Orientation where the company history, mission, vision and values are discussed together with the standard operating procedures and guidelines. A company tour to both the store and the workshop area are also given to them as part of their orientation. According to the owners, the objective of this one-day activity is to welcome the new hires and engage them as they get to know more about the company, its foundation and its purpose.

On a quarterly basis, they request a resource speaker, who is usually one of the couple's friends, to conduct a two hour learning session or workshop to their employees. Topics being discussed include good housekeeping or 5S, cost of quality, and even financial wellness.

When they started this initiative a few months ago, resistance was the common reaction of everyone. In their minds, they do not need any of these training much more when it took up their time when they are supposed to be working and producing output. Majority of the workers are piece rated and time is very important to them. Devoting it to training will not help them put food on the table for their families.

Due to the owners' persistence, they gradually introduced this idea to their employees. Starting with a two-hour learning session on a topic that interest their attention such as **financial wellness**. This short module gives the employees concepts and tools to gain

freedom from stress brought about by unbalanced financial.

This type of session was pushed by the owners together with the factory's production manager to help employees reduce and manage their financial position. Though the employees here are piece rated, they are paid higher than other workers in the industry as they are doing a unique craft which is bespoke tailoring. As observed by the management team, particularly the production manager, their employees tend to overspend and sometimes, experience distress due to lack of funds when unforeseen financial needs occur (i.e. hospitalisation of family members, calamity, etc.). How does he know? The production manager serves as the employees' bridge to the owners in case those under him would like to request for cash advance to finance unforeseen needs as stated earlier.

In cases like this, the employee tends to have low quality output as validated in an interview with the production manager. It was established that even their highest wage earner gets to produce low quality output when faced with financial stress. People lack focus on the job and tends not to be conscious on the details required of their output. Before this session was conducted, cash advances taken in a month average five employees with Php 5,000. But after conducting two sessions to their employees, the module gathered positive feedback from its attendees. They find it simple, practical, and very useful for them. Right now, the employees are still working towards reducing or managing their financial burden. As for management's side, the request for cash advances has gradually decreased both in number of request and amount being requested averaging at two employees and Php 1,500 per month.

As the enterprise focuses on giving high quality product to their clients as one of their core competencies, everyone in the company must understand the simple principles in creating and maintaining quality in the products that they deliver. This basic idea led the management team to introduce the concept of 5S and cost of quality to all employees. Another two-hour learning session on **5S programme** was promoted and conducted. Prior to the actual session, their HR consultant took actual shots at the store and at the factory particularly on areas that need application of the 5S principle. Then, the actual shots were presented to the employees during the session and then emphasised on what the programme is about and its benefits such as *keeping the workplace clean and a nice environment to work. Thus it increases productivity, saves time, reduces cost, and provides safety. It eliminates the waste of motion when looking for materials or information.*

Again, this learning session gained positive feedback from the employees. To further reinforce practice of 5S, reminders through signages were posted at appropriate areas in the factory like tailoring section, cutting section, and even in comfort rooms. They also implemented a 5-minute 5S time before they start and end a working day. As part of their future plan, the owners would like to come up with a checklist that they can use for random audits to further instil the practice of 5S in their employees' day to day activities.

The third learning session that they did was on **cost of quality**. As this has a wide coverage, their consultant provided the enterprise with an overview on the cost of NOT creating a quality product or service such as cost of rework or reprocessing using their

business as an example. This aims to reinforce their quest for a culture of operational excellence through instilling quality mindset. Using the practical concepts and concrete examples laid out during the learning session, the line leaders with the production manager's guidance discuss this on a daily basis through what they call '*Kumpol Kalidad*' or 'Group Huddle for Quality'. In this daily 10-minute meeting prior to the start of their working day, the group discusses on the quality related highlights and weaknesses of the previous day. Name of employees who are part of the highlights are also given recognition at this point.

Employee Relations, Labour Relations and Discipline

To ensure that employees are on the same page when it comes to policies, rules, and regulations of the company, the enterprise developed a handbook that is given to each employee. This serves as their guide into how the company deals with possible issues on standards, discipline, and behaviour at work. To date, common accounts of disciplinary actions are all attendance related (tardiness) which were warranted by verbal warning from the owners.

The employee relations function aims to engage employees through positive work programmes. For a small Filipino enterprise such as this, they find simple celebrations meaningful. Examples of this are quarterly birthday celebrations, summer team bonding, and Christmas party. In this manner, they are able to promote work-life balance as well as ensuring that the employees feel their importance to the enterprise.

This function also serves as the 'voice' of the employees. A town hall meeting which they call '*Kamustahan*' is also conducted on a quarterly basis to discuss business updates and employee concerns if there are any. Whenever there are new regulations or changes in existing procedures they are also discussed here (i.e. transition from manual pay-out distribution to ATM-based payout).

Compensation and Benefits



In terms of compensation and benefits, they comply with DOLE's requirements to pay the employees rightfully for what they have worked for. They offer higher labour rate to their employees as compared to what other local tailoring shops can offer. In the meantime, they ensure that they adhere to sharing the cost on paying government mandated benefits. As additional company benefit, they provide personal accident insurance to their employees. As part of their future plan, they intend to provide Health Card as well to their key people.

The enterprise uses a basic principle in terms of performance management which is **pay for performance**. Performance is defined through the number of items that has been made. It must have passed the quality standards of the enterprise before it is considered for inclusion in the salary. Payment or salary is based on the complexity of the item you did like for example; the labour cost for making pants is different from making a suit. In making a suit, one can earn as much as Php 2,500 while Php 1,200 for making a pants. Thus, the more complex the work is, the higher the pay that you can get and the more productive and competent you are in your work, the greater chances that you can get higher wages during pay out.

In case there is an expansion in the near future, establishing a more structured performance management system such as KRA may be necessary. This will serve as the enterprise's basis in coming up with financially related retention and motivation programmes such as level upgrade or promotion.

Innovation

Innovation has been the key for this relatively new enterprise supported with a vast experience in doing business. Learning from past experiences, the owners of the enterprise thought and acted differently this time. From a clothes manufacturing factory

that caters to the usual and generic needs of corporate offices back then to offering a craft that entails personalisation as seen in highly customised, elegant suit; they are truly innovating the concept of fine dressing as a state of art.

Information technology is also part of the enterprise's future plan as they progress in the business. They intend to come up with an automated system that will integrate essential business processes to make things easier for all like owners, employees, and clients. An example of this is the link of purchase orders with factory's work plan whereby when a client places an order, it will automatically be reflected in the factory's work plan. The system then can determine the work or item that needs prioritisation. They believe that once this is realised, resources will be utilised efficiently and people in the enterprise can optimise their productivity.

Challenges Experienced and Interventions used

Looking at the employee profile of the enterprise, gradually establishing the structure on human resources development was a challenge. Resistance to change, not recognising the purpose and importance of levelling up were some of those issues that the enterprise have to deal with. Whenever any learning session begins, most of them were hesitant as their productive time which equates to earnings will be taken up by this activity. To them, this gives no value- add and as the activity is compulsory, it may warrant a written explanation in case of non-attendance and they did attend the session. The owners provided snack while the sessions were on-going. By the third time, surprisingly, this simple gesture of hospitality, seemed to be well-appreciated by the attendees leading them to look forward to learning more sessions such as this.

In terms of establishing the quality mindset, there were cases when owners really had to explain one-by-one basis why the cost of the damaged fabric has to be charged to the employee who has committed the error (case of wrong cutting of pattern in a fabric). As expected, the concerned employee denied the mistake and decided not to report to work the following day. The management team just allowed him to take the leave he thought he needed. After another day, the employee did report to work again with admittance to his fault as validated during his conversation with his production manager.

It may be too early to measure this enterprise's success factor for the human capital development initiatives that they have implemented in pursuit of ensuring quality, productivity and innovation. However, the main factor is their desire and actions to engage their people in every activity. Through clear communication to their people together with their commitment to authenticity and transparency of business goals, they are giving their employees a feel that they are part of and that they can grow with the enterprise.

Case Experience 2: A Ceramic Company

Disclaimer: Due to confidentiality reasons on the nature of their business, name of enterprise and actual photos are not allowed for release.



A local ceramics manufacturing company that produces goods for export to the USA. An organisation that employs more than 120 has established programmes on personal and professional effectiveness as well as productivity and quality initiatives to enhance and maximise the capabilities of its human workforce.

A family of five started a hobby on designing ceramic mugs during weekends in May 1990.

As the parents were working in a corporation and the other three teens at that time were busy schooling, they hardly had time to get together during weekdays. One weekend, the father who was a salesman by profession but paint artist by heart, started pulling out his painting materials from the store room. When the eldest child saw this, he asked his father what were the materials for? The daughter got a response: “I’ve been using this coffee mug for quite some time and I really find it dull. Would you like to help me make it look interesting and more beautiful?” and the daughter said, “Sure!”

A few months after that, they found themselves designing ceramic mugs every weekend as a form of family bonding. They saw a business opportunity in it when one of their relatives saw their creative mugs in the kitchen cabinet and loved them so much that he paid for each one at Php 50, and so their journey began. From what was just a family hobby has now turned into a family business. The first employees of the business were

the family members themselves. They would sell it to their friends and relatives and later on, had the opportunity to introduce it to the local market. This became the enterprise's gateway to success. From small orders for its local buyers, the enterprise became an exporter of decorative ceramics to many economies especially the USA. With the help of Taiwanese investors, the company began to gain more orders from other economies. More orders meant more jobs for the community. What started with 10 employees now grew to more than a hundred; 30 regular employees and about 80 casual employees sharing one vision:

“To showcase the Filipino talent in ceramic-making and generate more jobs for the community.”

Enterprise's Organisation Chart

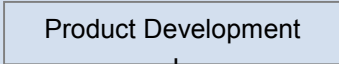
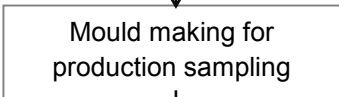
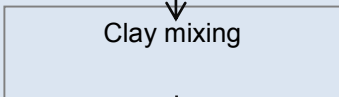
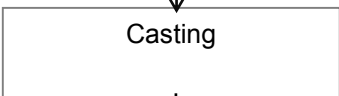
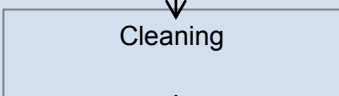


- Majority of the production department employees are 'casuals' or project-based. As the business relies on orders per customer, their load of work is seasonal. Normally, a project-based employee's stint is five months. After that, they would have to wait for another project before they can be called back.
- In case of vacancies, high performing project-based employees are first considered for call back or absorption.
- Though a medium-sized firm, the enterprise has dedicated personnel for human resource and given that the level of authority is similar to the finance manager, programmes for people development are easier to deploy.

Inside the Shop

To better understand how an employee's productivity, efficiency and quality consciousness is essential in this kind of business, below is a process flow for ceramics manufacturing:

Process Flow for Ceramics Manufacturing:

Process	Details
Start 	<ul style="list-style-type: none"> • Customer specifies requirement (type of ceramics, design, and quantity)
	<ul style="list-style-type: none"> • Based on customer's specifications, a mould is created and forwarded to the next process • A production sample run will be done and once output was approved by the customer, mould will be replicated for actual production run • Ex. Requirement is 300 items = mould to be created is at least 10 (considering an allowable limit of 35 pouring per mould)
	<ul style="list-style-type: none"> • Involves a scientific process of mixing the clay, water, and its chemicals. • If clay mix is not done with proper component appropriation, it may cause product reject or defect
	<ul style="list-style-type: none"> • Pouring of clay mix in the crafted moulds
	<ul style="list-style-type: none"> • Casted clays will be removed from the mould for cleaning

↓

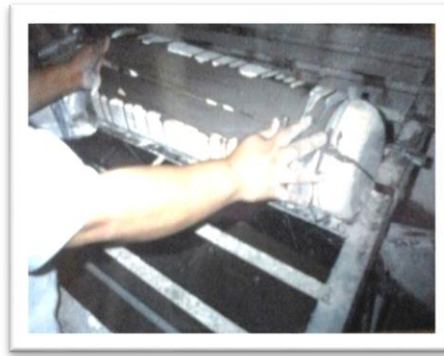
	<ul style="list-style-type: none"> This process is done to ensure that the item is free from dirt which may pose product defect upon application of paint or design 	
<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Decorating</div> <p style="text-align: center;">↓</p>	<ul style="list-style-type: none"> Actual painting of the ceramics – hand crafted designing 	
<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Firing</div> <p style="text-align: center;">↓</p>	<ul style="list-style-type: none"> Decorated ceramics are placed in a large oven for firing – necessary to keep and maintain the design and prolong the item’s life span and durability 	
<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Quality Control</div> <p style="text-align: center;">↓</p>	<ul style="list-style-type: none"> In-charge of ensuring that products lined up for delivery meets the quality standards of the customer 	
End	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Packaging and Delivery</div>	<ul style="list-style-type: none"> In-charge of safely packaging the items to ensure that it will not be damaged or broken during delivery Ensures the timeliness of delivery and customer’s receipt of delivered items

Sample photos of some procedures in ceramics manufacturing in The Philippines:

1. CLAY MIXING



2. MOULDING



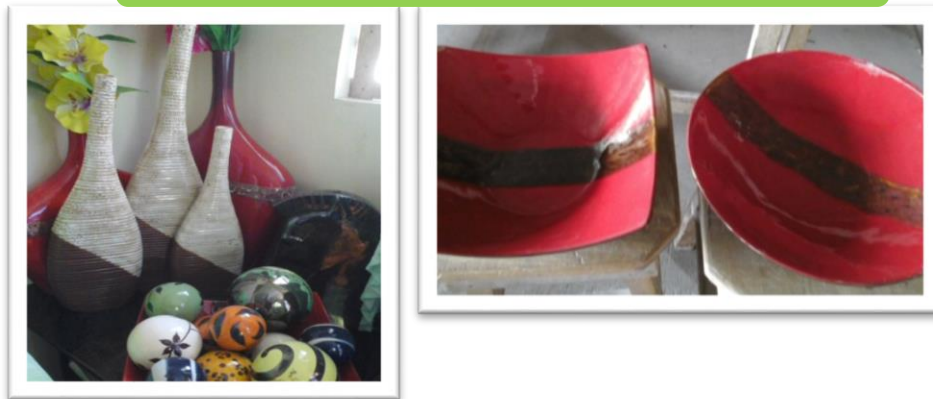
3. FOR CLEANING



4. DECORATING



5. SAMPLE OUTPUT/PRODUCTS



Quality and Productivity Tools

The enterprise has a strong culture of being conscious on quality as this is the bread and butter of their business. Output without quality will make them lose competitiveness in their industry. The productivity of their people (being able to deliver on time) and the quality of their finished products are their bragging rights.

Looking at the tools that they are using, these are simple concepts; very easy to implement and follow that is why the enterprise is able to sustain these initiatives and continue to deliver with quality.

- Good Housekeeping or 5S – an orientation for this is usually conducted during a new hire's first day. This is then reinforced in the line as practice of 5S is done 5 minutes before starting work and before ending work. Spot checking is always done by the HR manager, guided by a checklist, the HR manager (auditor) moves around the workshop area and accomplishes the check sheet. In the event that there are findings, it is reported after the audit. The department head discusses this as part of the weekly meeting agenda. By year end, the department that is able to maintain good standing during audits is awarded as the CLEANEST AREA. This award comes with a group prize which is free lunch for a day and cash gift that is divided among its members.
- Kaizen – a suggestion system that is also reinforced through individual competition. If an employee has a kaizen entry, the evaluation team (consists of office personnel) conducts test run on the suggestion and monitors of results/improvements. If suggestion is able to gain positive results, it will be

considered and awarded with points. By year end, accumulated points may be exchanged for home appliances.

- Quality feedback is an exercise that is part of their weekly agenda. Both good and bad quality feedback are discussed during the meeting. Management believes that this initiative encourages the team to work as one.

Given the above process flow and initiatives on quality, it is essential that each station executes their tasks effectively as every error that is encountered means cost to the company, a sure deduction on the revenue which has direct effect on the employees. This information is clearly specified by the plant manager to all department heads during their monthly meetings which are then cascaded to all their staff during weekly meetings. As a result, each and everyone in the enterprise ensured that everything run smoothly and its sense of responsibility will be further strengthened.

As most of the employees are tenured, the enterprise had built a strong culture of belonging and everyone cares for each other and treats each other like family. This culture is reinforced by human resource programmes that highlight an environment that drives employees to work and be at their best; a place where work is synonymous to fulfilling a purpose, doing and contributing something valuable as the people that they work with makes them feel trusted, appreciated, and essential to the team. Below are sample programmes of the enterprise for their employees and sometime for employees' families as well:

HR Programmes

Recruitment

- Source of applicants are from job ads posted in barangay halls, gates or doors of current employees, referral of current employees
- Hiring is normally for two areas: office-based or production-based
- For office-based, recruitment process starts with an aptitude exam. If applicant qualifies the exam, he is then interviewed by the HR manager, then endorsed for medical if he qualifies the interview (2-year course graduate is the minimum educational requirement). Same process is applied for production-based applicants except for the examination
- A practical exam is given to production-based applicants (related experience is more important than the educational background)

Training and Development

It is a benefit that is given only to the department heads but also cascaded to their down line during their weekly meeting. They tapped external sources for these programmes:

- First Aid Training by Red Cross
- Disaster Preparedness by Local Government Unit
- People Handling skills
- Good Housekeeping (5S)

- Kaizen Awareness
- Performance Management: Key Results Area

Employee Relations

The bonding and camaraderie of its employees are further strengthened by the activities which they attend annually:

- Summer outing – regular employees enjoy the privilege of free venue entrance and food for the whole day. The casual or project-based employees pay the entrance fee.
- Company Sportsfest – privilege given to regular employees. Events such as Basketball, Volleyball, Tug-O-War, team relay are organised. As its perks, company subsidises the event uniform and footwear.
- Christmas party – an annual event with team games competition, group presentations, exchange gifts and raffle. Raffle prizes often come from their suppliers.
- Monthly birthday celebration where each regular employee is given a free lunch worth Php 50 per head.

Compensation and Benefits

- Regular employees are paid twice a month on every 15 and 30.
- The enterprise provides government-mandated benefits and facilitates its services to the employees (i.e. loans, claims, etc.)
- The enterprise also offers 10 vacation leave which are all cashable at the end of the year and 12 day sick leave.
- Health card with semi-private room for hospitalisation is also provided to their employees for rank and file. As additional benefit, supervisors are entitled to enrol two of their dependents as well.

Challenges Experienced and Interventions Applied

In its 24 years of existence, the enterprise was not an exemption to the ups and downs of the industry. There came a time when they had to cut down costs on some human resource programmes because the expense they incurred when the materials were imported from other economies have been affected by the change in currency rate. Thus the products that were exported had a higher manufacturing cost but lower value in the market when sold. Again, through their “communication tree” this was understood by all. Though there were budget constraints, due to the camaraderie that the group had established, they still continued some of the programs but expense was shared by the employees themselves.

Taking into account the years of their existence in the industry, it can be assessed that efforts towards human capital development for this enterprise has been established. A

well defined table of organisation supported each key area in the workforce plan. Perhaps, the challenge now lies on how to innovate these human resource programmes to fit the new generation of its workforce. Reassessing the needs of the employees or conducting an in-house company climate survey will give the enterprise a baseline data whether change or programme improvements are necessary or not.

Acronyms for The Philippines

No	Acronyms	Description
1.	NWPC	National Wage and Productivity Council
2.	TVET	Technical-Vocational Education and Training System
3.	MSME	Micro Small and Medium Enterprise
4.	MSMED	Micro, Small and Medium Enterprise Development Council
5.	OHI	Organisational Health Index

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**Asia-Pacific
Economic Cooperation**

**Establishing Best Practices on Human Capital Development to
Enhance Productivity, Quality, Competitiveness and Innovation
Among SMEs**

Case Experience of Chinese Taipei

**Dr. Minston Chao
Chinese Taipei**

1.0. Background and Introduction

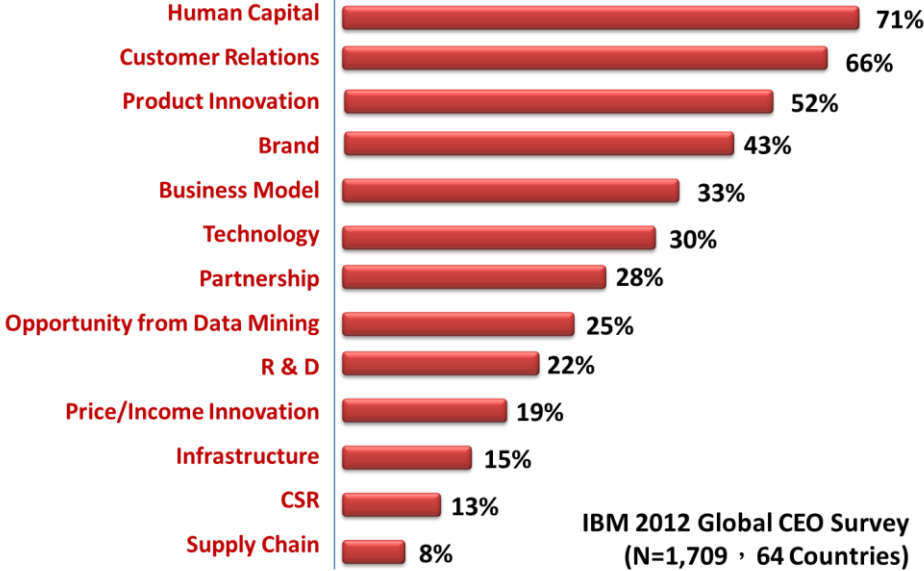
After several years of rapid and almost unhampered growth, the global economic landscape is changing. The increasingly competitive global economy pushes firms to exploit all their available resources as a means of achieving competitive advantage. Rising consumer products and energy prices, a major international financial crisis, and the related slowdown in the world's leading economies are confronting policymakers with new economic management challenges. Managing a business through the downside of an economic cycle is challenging for multinational organisations. They must effectively manage the labour cost of a global workforce during periods of intense profit pressure and divergent inflation rates.

One resource recently recognised as providing a source of competitive advantage is the human resource of the firm and this recognition has resulted in an expansion of the field of Strategic Human Resource Management (SHRM). Considerable research has observed relationships between HR practices and various operationalisation of firm performance (Backer & Gerhard, 1996; Youndt, Snell, Dean & Lepak, 1996; Rogers & Wright, 1998).

IBM studied 64 economies covering 1,709 multinational organisations CEO in 2012, found that human capital is the top issue to increase competitive advantage (Figure 1.1). Attracting, motivating and retaining top talents in an increasingly competitive global marketplace are an on-going struggle. Multinational firms face varying challenges around

the world. In some economies, tightening labour markets are exacerbating on-going cost pressures and causing companies to take a total reward approach. In addition, firms are increasingly shifting to more centralised compensation and benefits structures. This helps ensure that key employees and executives around the world share the same incentives. At the same time, CEO pay remains under the microscope. Companies are responding by deemphasising stock options while stressing actual share ownership. They are also taking a “portfolio” approach that mixes various performance-based incentives into a compelling and balanced total pay package. Increasingly, companies are adapting similar models further down the organisation chart in an effort to motivate and align workers at all levels.

Figure 1.1: IBM Global CEO Survey



In the changing environment, management focused mainly on how to control costs without affecting talent and productivity. Which one remain important concerns? The stakes have changed because there is a real concern for talent, which is now being highly sought in an uncertain economic landscape. Winning the talent acquisition requires innovative, aggressive strategies for attracting and retaining high performing individuals.

These strategies are getting more difficult to implement in today's economic climate. The primary reason why some companies struggle to attract and retain critical skill and outstanding employees is because they have adopted a long-term talent management strategy that allows them to stay in front of the competition.

Companies need to recognise the dynamics of the marketplace to better serve their talent needs. For example, salary effectiveness, delayed retirement for baby boomers, increasing immigration rates, untapped workforces in inner cities and outsourcing to other locals are all potential solutions to talent shortages. Companies need to figure out how to leverage them as executing a talent management strategy is the key to success and the point is those companies need to create a work environment where individual thrives. Organisations need to develop programmes that overcome weaknesses into strengths.

The key to understanding what drives engagement and what keeps people on board is simple. Listen to employees. Solicit feedback in a variety of ways including surveys, focus groups and blogs and let that dialogue shape recruiting, career development and other programmes to drive successful attraction and retention strategies. In short, it is important to understand what these companies have done to address their needs for talent. They have analysed their labour markets, gained an understanding of what attracts and motivates talent, and focused their efforts on targeted programmes to fit their needs.

2.0. Chinese Taipei's Economic Performance and Labour Cost

Chinese Taipei's economy over the past 50 years has benefited from a well educated and highly motivated workforce especially in the areas of engineering, science, technology, and high value-added manufacturing. Chinese Taipei's economy achieved considerably high growth rates in 1960's to 1980's under import substitution industrialisation strategy, expansion of export oriented labour intensive light industries strategy, and import substituting heavy industries strategy. The success of the strategy was reflected in the changing composition of production with the share of industrial products increased while that of agricultural products decreased. Exports grew at an annual average rate of 17.7% and GDP growth rate average 9.3 when, the nation moved from agriculture-based to a production-based economy. However the increasingly competitive global economy spurs firms to exploit all their available resources as a means to achieving competitive advantage.

In the early 1990's, service-based economy became the leader in Chinese Taipei's industrial structure as manufacturing industries comparative advantages for several reasons, were steadily slipping away. From 1987 to 1997, the industrial output as a share of GDP decreased from 47.1% to 34.9%, while manufacturing industries' fell from 38.9% to 27.7%. During this period, the government found that the only avenue open was for industries to shift to a higher technological level with capital and technology intensity replacing the outdated labour intensity of the past. Hence the government launched the Ten Newly Industries Programme to help the economy toward a hi-tech orientation.

To develop Chinese Taipei as a knowledge-based economy and recognising that the rise

in globalisation means that cost saving in production can no longer support continuous economic development by the 21 century, the government implemented a series of programmes. Some of the programmes include “the Challenge National Development Plan” “the New Ten Projects” and “Plan to Develop Knowledge-based Economy” that will add values to high-tech and traditional industries as well as encouraging innovation and fostering new ventures as the means to maintain its global competitiveness.

2.1. Economic Performance for 2013

Since 1979, the World Economic Forum’s (WEF) annual **Global Competitiveness Reports** have examined the many factors that enabled national economies to achieve sustained economic growth and long-term prosperity. Today’s global economic volatility can be mitigated by having a competitiveness supporting economic environment that help national economies to cushion against such shocks in order to ensure a sustainable economic performance in the future. A nation’s level of competitiveness reflects the extent to which it is able to provide rising prosperity to its citizens. Their goal over the years has been to provide benchmarking tools for business leaders and policymakers to identify obstacles to improve competitiveness, stimulating discussion on strategies to overcome them. For the past several years, the World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI), a highly comprehensive index for measuring national competitiveness which covers the microeconomic and macroeconomic foundations of national competitiveness.

WEF defined ***competitiveness as “the set of institutions, policies, and factors that determine the level of productivity of an economy.”*** The level of productivity in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. The productivity level also determines the rates of return obtained by investments in an economy. As the rate of return is the fundamental driver of the growth rate of the economy, a more competitive economy is one that is likely to grow faster over the medium to long run.

The concept of competitiveness thus involves static and dynamic components although the productivity of an economy clearly determines its ability to sustain a high level of income, it is also one of the central determinants of the returns to investment which is one of the key factors explaining an economy growth potential. The competitive performance of Asia-Pacific economies continues to encompass the entire gamut from highly competitive to the most competitive economy. Nine Asia-Pacific economies are among the top 30, led by ***Singapore*** (2); followed by ***Japan*** (6); ***Hong Kong*** (7); ***Chinese Taipei*** (14); ***New Zealand*** (17); ***Malaysia*** (20); ***Australia*** (22); ***Korea*** (26); ***China*** (28); and ***Thailand*** (31).

Chinese Taipei, at 14 place, dropped two notches from last year, draws its greatest competitive strengths from its education sector and related business innovation. With regard to education, Chinese Taipei has high enrolment rates at all levels and the educational system obtained good marks for quality. In addition, companies provide a

high level of continuing on-the-job training ensuring that the workforce can adapt to the rapidly changing economy. Related to innovation, Chinese Taipei has a large pool of scientists and engineers and it benefits from high company spending on R&D and strong collaboration between research institutes and the business sector in innovation. All these initiatives place Chinese Taipei number one worldwide in terms of the patenting per capita of new inventions.

Some key economic of Chinese Taipei for 2013:

- Total population (millions), 2013.....23.4
- GDP (USD billions), 2013.....489.2
- GDP per capital (USD), 2013.....20,930
- GDP as share (%) of world total, 2013.....1.07
- Average unemployment rate, 2013.....4.18%.
- The consumer price index (CPI) of 2013 was 102.93, improved 0.33% over the previous year.

Chinese Taipei's energy efficiency continued to improve with the natural resource energy consumption elasticity ratio down from 0.71% in 2012 to 0.70% in 2013, demonstrating the slowing growth rate of domestic energy consumption

Table 2.1: Global Competitiveness Index-Chinese Taipei, WEF, 2014-1015

	Rank (out of 144)	Score (1-7)
GCI 2014-2015	14	5.3
GCI 2013-2014 (out of 148)	12	5.3
GCI 2012-2013 (out of 144)	13	5.3
GCI 2011-2012 (out of 142)	13	5.3
Basic requirements (20%)	14	5.7
Institutions	27	4.8
Infrastructure	11	5.8
Macroeconomic stability	23	5.8
Health and primary education	13	6.5
Efficiency enhancers (50%)	16	5.1
Higher education and training	12	5.6
Goods market efficiency	11	5.2
Labour market efficiency	32	4.6
Financial market sophistication	18	4.9
Technological readiness	30	5.2

Market size	17	5.2
Innovation and sophistication factors (30%)	13	5.1
Business sophistication	17	5.1
Innovation	10	5.1

Source: The Global Competitiveness Report 2014-2015, World Economic Forum

From a list of 15 factors, respondents were asked to select the five most problematic for doing business in Chinese Taipei and to rank them between 1 (most problematic) to 5. The top three in Chinese Taipei are policy instability, inefficient government bureaucracy, and insufficient capacity to innovate. The detail is shown as follow:

1.	Policy instability.....	20.4
2.	Inefficient government bureaucracy.....	19.1
3.	Insufficient capacity to innovate.....	15.6
4.	Restrictive labour regulations.....	12.8
5.	Tax regulations.....	6.4
6.	Tax rates.....	5.5
7.	Foreign currency regulations.....	4.3
8.	Inflation.....	4.3
9.	Inadequately educated workforce.....	2.7
10.	Government instability.....	2.5
11.	Access to financing.....	1.8
12.	Inadequate supply of infrastructure.....	1.5
13.	Corruption.....	1.4
14.	Poor work ethic in national labour force.....	1.3
15.	Crime and theft.....	0.2
16.	Poor public health.....	0.0

2.2. Labour cost competitiveness in Chinese Taipei

Higher productivity and lower unit labour cost are essential for increasing firm's competitiveness. During the last five years, productivity in all industries in Chinese Taipei improved gradually, corresponding with a decline in unit labour cost which justified for a wage increase. Table 2.2 shows the labour cost of selected industries of Chinese Taipei against selected economies in 2013.

Table 2.2: Hourly Compensation Costs in Selected Manufacturing Industries-2013

U.S. dollar basis

	Paper	Textiles	Chemicals	Machinery	Motor
Brazil	13.82	7.60	19.23	14.58	18.78
France	37.46	30.73	52.03	42.19	45.77
Germany	41.12	33.82	57.59	49.11	58.82
Italy	33.08	30.13	42.20	36.70	37.26
Korea	18.08	13.41	24.25	18.24	25.74
Mexico	5.34	3.87	9.91	6.59	7.80
Chinese Taipei	7.43	7.29	12.09	10.25	9.98
United Kingdom	31.47	24.83	36.38	33.23	38.28
United States	36.99	24.17	39.48	38.15	45.34

Source: U.S. Bureau of Labour Statistics, 2014

Table 2.3: Hourly Compensation Costs for Production Workers in Major Manufacturing Economies

U.S dollar basis

No	Economies	Hourly Pay
1	The Philippines	2.01
2	Mexico	6.48
3	Poland	8.83
4	Hungary	9.17
5	Chinese Taipei	9.34
6	Estonia	10.39
7	Brazil	11.65
8	Slovakia	11.77
9	Portugal	12.91
10	Israel	12.98
11	Czech Republic	13.13
12	Argentina	15.91
13	Korea	18.91
14	Israel	21.42
15	Greece	21.78
16	Singapore	22.60
17	New Zealand	23.38
18	Spain	28.44
19	United Kingdom	30.77
20	United States	35.53
21	Japan	35.71

22	Italy	36.17
23	Canada	36.56
24	Ireland	39.83
25	France	42.12
26	Netherlands	42.26
27	Austria	43.16
28	Finland	44.14
29	Australia	46.29
30	Germany	47.38
31	Sweden	49.12
32	Denmark	51.67
33	Belgium	54.77
34	Switzerland	60.40
35	Norway	64.15

Source: U.S. Bureau of Labour Statistics, 2014

Some societies attributed job losses or gains to differences in compensation as observed in the shift in operations to low labour cost producing economies such as China; Mexico; and other economies. Table 2.3 reveals that the hourly wage for Philippines manufacturing worker was 5.65% of those paid in the USA (USD35.53). As a precaution, the value of what is produced also needs to be considered when comparing labour cost. Data from U.S. Department of Labour, Bureau of Labour Statistic shown that labour productivity in China was about 10% of USA workers while Mexican worker productivity was 25% of U.S workers.

Labour cost has increased in Chinese Taipei due to government labour policy. These include pension, social insurance and labour standards while productivity had also increased. In a highly competitive environment, many businesses moved out of Chinese Taipei to China and other region. The main reason is labour cost. The same situation is felt in the USA as labour cost in China was only 10% of those in Chinese Taipei.

3.0. Union and Labour-Management Relations in Chinese Taipei

3.1. Impact of Government Policy on Firm People Management Strategy

- Labour Pension Act (Executed in July 2005)
 - Change the pension system from Defined Benefit Plans to Defined Contribution Plans. Under Labour Pension Act, enterprise is forced to commit to deposit a fixed amount for pension.

- Labour Standards Act
 - Wage shall be negotiated by employer and employee.
 - Implemented a basic wage (minimum wage) system: employee's monthly salary could not be lower than NT\$20,008 (USD666.93) which is equal to USD2.78 per hour.

- Collective Agreement Law
 - Collective agreements are usually fixed for a period of one to three years and are binding on both parties.
 - Some companies, particularly those state-owned, heavy industries, and transportation companies are based on collective agreement where yearly negotiations are made for annual increments and bonus quantum but it is rarely executed.

3.2. Labour-Management Relations in Chinese Taipei

In Chinese Taipei, labour management is based on the main relative laws such as Labour

Standards Act, Labour Pension Act, Labour Union Law, Collective Agreement Law, The Settlement of Labour Disputes Law, and Convocation Rules of the Labour Management Conference. Regarding the regulations, workers within the jurisdiction of a labour union who have attained full 16 years of age, shall have the right and obligation to join and become a member of the labour union for industry or craft in which they are engaged.

As a trade union, it is to conclude, revise, or abolish a collective agreement as one of the essential functions. If there is any dispute between employer and employee, both parties could follow the procedure that was enacted in the Settlement of Labour Disputes Law. Moreover, a business entity shall hold meetings to coordinate worker employer relationships and promote worker-employer cooperation and increase work efficiency.

- Trade union

In the private sector in Chinese Taipei, the trade unions does not have bargaining power but existing workers can always rely on the state through the function of regulation instead of the unions through the mechanism of collective bargain. For the past five years, the organisation rate of industrial unions declined continuously maintaining at 49 - 50%.

- Labour Management Conference

To enhance the effectiveness of this mechanism, the government linked this mechanism to oversee investment, IPO approval and working hour arrangements. It means any company wanting to invest overseas or join the financial open market, but failed to follow this mechanism regulation, the authority will reject the application. In addition, regarding the regulation of Labour Standards Act, if an employer wants to postpone the regular working hours to other workdays, it shall be with the prior consent of their trade union. However, if no trade union exist in a business entity, the agreement of a labour-management conference should be sought.

- Labour Representative on Board

According to the regulation, in the state-owned enterprises, any trade union can select its member to be a member of the Board. The number of the labour representatives should be no less than 20% of the total position allocated for the government sector. With employees represented in the Board, it provides a platform to express their ideas to improve the employee benefits.

- Collective Agreement

Collective bargaining is still not so prevalent in the private sector. However, in the state owned enterprise, trade unions are more dynamic and collective bargaining is popular. Labour conditions are usually the core issue in any bargaining event.

- Labour Dispute and its Settlement

As to the labour disputes, labour contract disputes are the most common. For settlement, there are different kinds of procedure such as mediation, arbitration, or appeal to court to resolve the disputes.

- Gain Sharing or Employers Share Option (ESOP)

Gains sharing, profit sharing or ESOP is common in Hi-tech industries. It is one of the

important factors for Hi-tech industries to attract talents to work for them. It is also an essential tool for firms to support their improvement programme.

3.3 Employment and Labour Force Indicators

Chinese Taipei had been ranked 13 position out of 60 economies in the IMD World Competitiveness Yearbook, 2014 for overall competitiveness, a decline of two positions from 11 in 2013. The employment and labour force indicators are selected from the World Competitiveness Yearbook to show Chinese Taipei's competitiveness in the areas of employment, labour cost, and labour market as follows:

- **Employment Indicators**

EMPLOYMENT	WCY 2014		WCY 2013	
		Rank		Rank
Employment				
Total Employment in Millions	10.11	27	10.29	28
Percentage of Population (%)	44.20	30	44.84	34
Employment Growth				
Estimates: percentage change (%)	1.70	35	1.81	36
Employment in the Public Sector				
Percentage of Total Employment (%)	9.67	13	9.24	11
Unemployment Rate				
Percentage of Labour Force	3.96	11	4.18	12
Long-Term Unemployment				
Percentage of Labour Force	0.71	9	0.53	10
Youth Unemployment				
Percentage of Youth Labour Force (Under 25)	10.31	15	10.65	19
Employment By Sector				
Agriculture (Percentage of Total Employment)	5.9	49	5.5	49

Industry (Percentage of Total Employment)	36.4		36.6	
Services (Percentage of Total Employment)	57.7		57.9	
Labour Regulations				
Labour Legislation (hiring/firing practices, minimum wages etc.) do not hinder business activities	5.77	18	5.94	9
Unemployment Legislation				
Unemployment legislation provides an incentive to look for work	5.54	17	4.97	22
Immigration Laws				
Immigration laws do not prevent your company from employing foreign labour	5.62	35	4.68	43
Working Hours				
Average number of working hours per year	2,256	5	2,256	5
Labour Relations				
Labour relations are generally productive	7.10	18	7.42	9
Worker Motivation				
Worker motivation in companies is high	7.04	13	7.38	5
Industrial Disputes				
Working days lost per 1,000 inhabitants per year (Average 2003-2005)	0.00	1	-	-
Employee Training				
Employee training is a high priority in companies	6.49	17	6.77	13

- **Indicators on Labour Cost Competitiveness**

LABOUR COST COMPETITIVENESS	WCY 2014		WCY 2013	
		Rank		Rank
Labour Productivity (PPP)				
GDP (PPP) per person employed per hour (USD)	26.73	24	27.75	26

Labour Productivity (PPP) Growth				
Percentage change of GDP (PPP) per person employed per hour (%)	6.12	13	3.82	17
Compensation Levels				
Estimates : Total hourly compensation for manufacturing workers (wages + supplementary benefits) USD	6.30	23	6.43	24
Unit Labour Costs in Manufacturing				
Percentage change (%)	-2.37	7	-5.37	2
Remuneration in Services Professions				
Gross annual income including supplements such as bonuses, in USD				
● Bank Credit Officer	22,900		22,900	
● Department head	62,000		62,000	
● Primary school teacher	22,000	29	22,000	30
● Personal assistant	11,900		11,900	
● Call center agent	12,400		12,400	
Remuneration of Management				
Total base salary plus bonuses and long-term incentives, USD				
● CEO	221,385		204,029	
● Engineer	60,103	16	57,518	13
● Director Manufacturing	116,215		111,431	
● Human Resources Director	99,423		99,033	

LABOUR FORCE INDICATORS	WCY 2014		WCY 2013	
		Rank		Rank
Labour Force				
Employed and registered unemployed millions	10.52	27	10.71	28
Labour Force				

Percentage of Population	45.99	36	46.66	37
Labour Force Growth				
Percentage change	1.46	23	1.82	20
Part-Time Employment				
Percentage of total employment	0.97	45	2.99	42
Female Labour Force				
Percentage of total labour force	42.45	35	42.91	35
Foreign Labour Force				
Percentage of total labour force	3.15	26	3.22	24
Skilled Labour				
Skilled labour is readily available	6.29	12	6.77	1
Finance Skills				
Finance skills are readily available	6.41	27	6.71	16

● **Labour Market Indicators : Availability of Skills**

LABOUR MARKET : AVAILABILITY OF SKILLS	WCY 2014		WCY 2013	
		Rank		Rank
Attracting and Retaining Talents				
Attracting and retaining talents is priority in companies	7.48	18	7.03	24
Brain Drain				
Brain drain (well educated and skilled people) does not hinder competitiveness in your economy	5.39	27	4.59	34
Foreign High Skilled People				
Foreign high skilled people are attracted to your economy's business environment	5.00	29	4.90	26
International Experience				
International experience of senior managers is generally significant	5.48	27	5.68	21
Competent Senior Managers				
Competent senior managers are readily available	5.57	29	6.06	18

Among the employment and labour market areas where Chinese Taipei is strong (in the top quartile of the ranking of 60 economies) and had contributed to Chinese Taipei's world competitiveness includes, employment in the public sector, unemployment rate, long term unemployment, labour regulations, working hours, labour relations, worker motivation, industrial disputes, unit labour costs in manufacturing, and availability of skilled labour.

4.0. Human Capital

4.1. Talent Management Framework

To most people, capital means buildings, products, materials, a bank account, shares of company stock, assembly lines, or plants. These are all forms of capital because they are assets that yield income and other useful outputs over long periods of time.

However such tangible forms of capital are not the only type of capital. Schooling, a skill training course, expenditures on medical care, and lectures on the virtues of punctuality and honesty are also capital. That is because they raise earnings, improve health, or add to a person's good habits over much of his lifetime. Hence, economists regard expenditures on training, education, medical care, and so on as investments in human capital. They are called human capital because people cannot be separated from their knowledge, skills, health, or values in the way they can be separated from their financial and physical assets.

Education, training, and health are the most important investments in human capital. Many studies have shown that high school and college education greatly raise a person's income, even after netting out direct and indirect costs of schooling, and even after taking into consideration the fact that people with more education tend to have higher IQs and better-educated with richer parents. Strong correlation was found from more than a hundred economies with different cultures and economic systems. The earnings of more educated people are well above average although the gains are generally larger in less developed economies.

The outstanding economic records of Japan, Chinese Taipei, and other Asian economies in recent decades dramatically illustrate the importance of human capital to growth. Lacking natural resources, they import almost all their resources and facing discrimination against their exports by the West, these so-called Asian tigers grew rapidly by relying on a well-trained, educated, hardworking, and conscientious labour force who make

excellent use of modern technologies. China, for example, is progressing rapidly by relying mainly on its abundant, hardworking, and ambitious population.

In an organisation, human capital means employees having skills, experiences, behaviours, values, training that can perform their jobs well. The company relies on talents for future development. The general framework of People Plan includes four steps. The first one is five years people plan, followed by talent pool, implementation process and system go live. Details of it is shown in figure 4.1.

Figure 4.1: Framework of People Plan

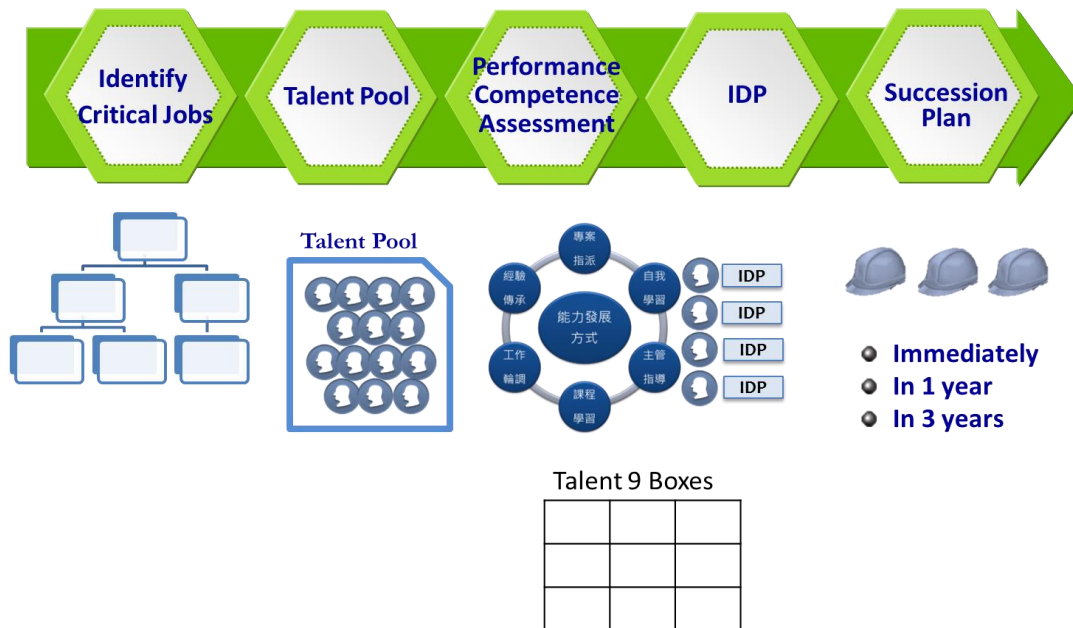


Talent management and succession plan is a critical HRM practice in the changing economic environment. It includes, identify critical jobs, develop talent pool, conduct performance and competence assessment, set up IDP for individuals to have succession plan. The whole process provides a roadmap for managers and HR people to deliver talent management that can enhance organisational competitive advantage. The structure is shown in figure 4.2.

Figure 4.2: Talent Management and Succession Plan Process



Talent Management & Succession



4.2 Performance Management and Development Mechanism

Performance management means evaluating an employee's current and past performance relative to the person's performance standards. Evaluation involves:

- (1) setting work standards;
- (2) assessing the employee's actual performance relative to these standards;
- (3) providing feedback to the employee with the aim of motivating that person to eliminate deficiencies or to continue to perform well.

Why does an organisation evaluate employees' performance? There are four reasons:

- (1) appraisals provide information upon which you make promotion and salary decisions;
- (2) provide an opportunity for manager and staff to review his/her work related behaviour, knowledge, and skills;
- (3) appraisal is part of the firm's career planning process;
- (4) appraisal help managers better manage and improve the firm's performance.

Evaluating performance is both a difficult and an essential supervisory skill. The manager, not HR, usually does the actual appraising. Manager must be familiar with basic appraisal techniques, understand and avoid problems on know how to conduct appraisals fairly. HR executives serve a policy making and advisory role. They provide advice and assistance regarding the appraisal tool to use but leaves final decisions on procedures to operating division heads.

The performance management process contains three steps:

- (1) define the job and set up evaluation criteria;
- (2) manager appraisal performance;
- (3) provide evaluation feedback.

Defining the job means making sure that you and your subordinate agree on his/her duties and job standards. Appraising performance means comparing your subordinate's actual performance to the standards that have been set; this usually involves some type of rating form. After performance appraisal, manager should provide feedback to subordinates. The company makes plans for further development required. Sometimes appraisal fails because subordinates do not know ahead of time exactly what you expect in terms of good performance. Others fail because of problems with the forms or procedures used to actually appraisal the performance. Other problems, like arguing and poor communication, undermine the interview-feedback session. To avoid the potential problems, managers have to set up performance criteria for subordinates to follow. The performance standards shall add values to operation performance rather than daily activities. They must be focused on task process.

Managers have to set up specific measurable goals with each employee and then periodically discuss the latter's progress toward these goals. Managers should set key performance indicators (KPIs) with subordinates and providing feedback periodically. However, the term KPI generally refers to a comprehensive, organisation wide goal setting and appraisal programme consisting of six steps.

1. Set the organisation's goals

Based on the company's mission, values, vision, and short-term, long-term strategic objectives, management team establishes a company wide plan for next year and set company goals.

2. Set department goals

Department heads take these company goals and with their supervisors, jointly set goals for their departments.

3. Discuss department goals

Department heads discuss the company's goals and his department goals with all subordinates. Managers ask employees to set their individual goals. They may and may not have key performance indicators. But not each of them have KPIs. Some have KPIs and performance indicators (PIs).

4. Define expected results

Department heads and their subordinates set individual performance targets for further review.

5. Performance review

Line managers compare each employee's actual and expected performance.

6. Provide feedback

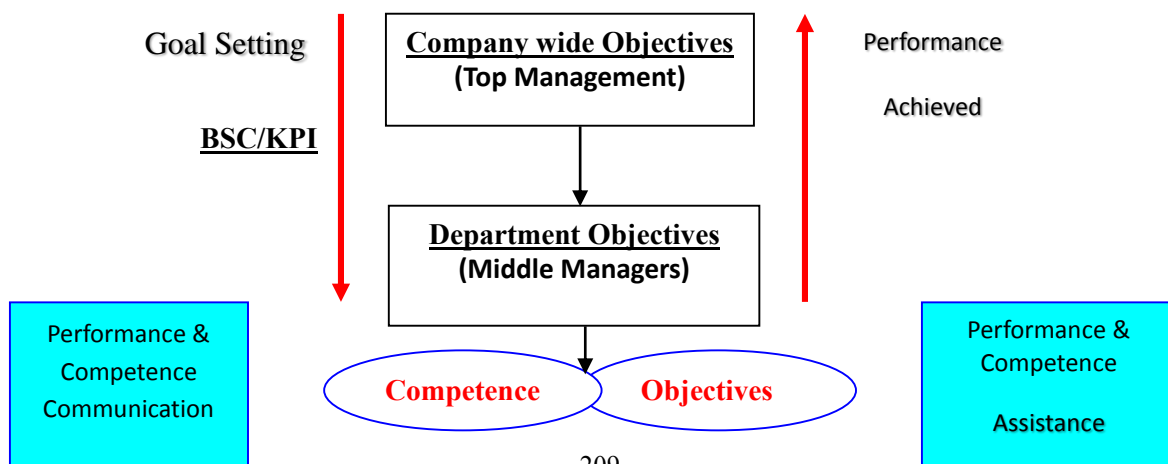
Managers review subordinates' actual performance based on his daily co-work. They should provide actual results and comments to employees. Only then, they can improve them in the near future.

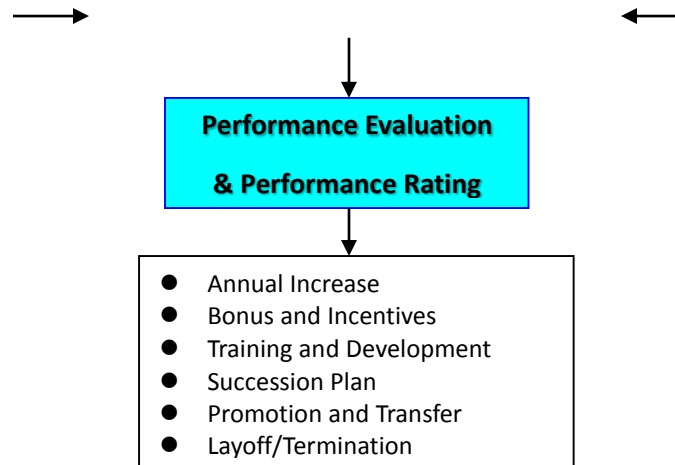
Setting up KPIs and PIs has to follow "SMART" rule. Be specific, measurable, acceptable, realistic, and timely. An example is increasing number of key accounts in 2015 by 10% compared to the 2014 financial year.

HR strategy is defined as the degree to which the firm utilises High Performance Work Systems (HPWS). The strategic human resource literature (Bamberger & Meshoulam, 2001) has generally identified two major HR strategic types:

- High performance work systems characterised by employee empowerment, selective employment policies, extensive training and development, pay-for-performance, and;
- Control-based work systems characterised by high levels of standardisation and centralised decision making, seniority-based pay, specific and limited job assignments, evaluation based on behaviours rather than outcomes, and limited training.

Figure 4.3: Framework of Performance Measurement and Management



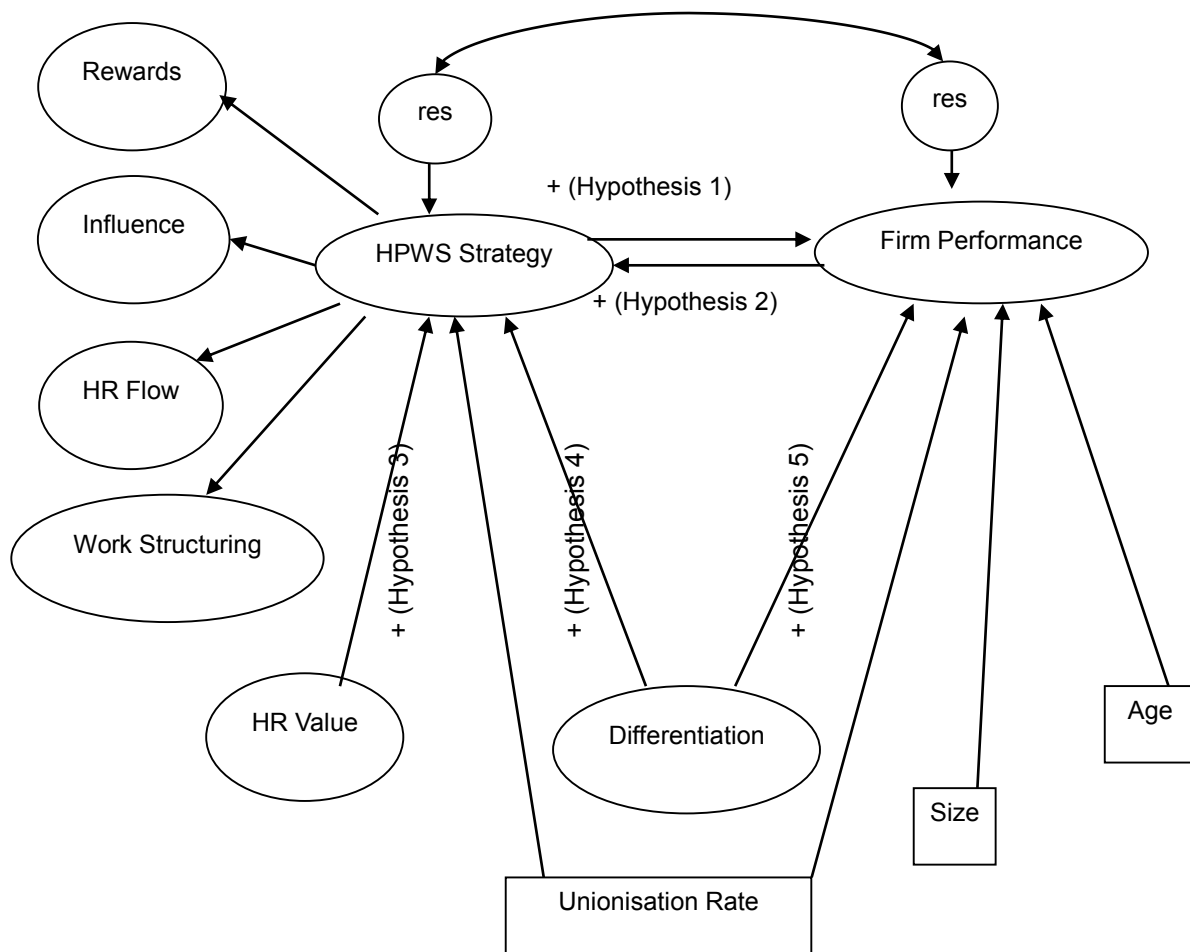


There are variants on these themes but these typically involve some hybridisation of the high performance and control-based systems. This study analyses the impact of HR systems on firm performance. An important view in recent years has been the resource-based view of HR strategy which holds that crucial knowledge and abilities reside within the employees of the firm and that HR systems that promote the acquisition and utilisation of such knowledge will enhance organisational effectiveness. This is especially in a highly competitive, dynamic and turbulent environment which most organisations face in a period of globalisation and rapid technological change.

With Chinese Taipei's high level of economic development, workers, particularly younger ones, are more individualistic and less deferential to superiors and cultural inhibitors to the effective implementation of HPWS are less prevalent. Although control-based work systems may remain dominant in many SMEs, newer and larger companies competing more extensively in global market and involved in high-technology industries being promoted by the government are more prone to view HPWSs positively (Huang 2001).

A model of the HR Strategy / Firm Performance Relationship was developed to evaluate the relationship between HR strategy and firm performance using data from domestic and Chinese operating firms in Chinese Taipei. The structural model is summarised in Figure 4.4. Firm performance and HPWS strategy are the principal dependent variables in the model; the circles marked "res" associated with each indicates the residual term. HR strategy is reflected in four broad HR sub-systems of HR Flow, Reward Systems, Employee Influence, and Work Structure. Following convention, the ovals represent latent variables while the rectangles represent observed variables. The expected signs of the relationships are noted along with references to hypotheses as appropriate.

Figure 4.4: Model of HR Strategy on Firm Performance



The hypothesis are:

1. HPWS strategy will positively impact firm performance.
2. Firm performance will positively impact HPWS strategy.
3. Perceived HR value will positively impact HPWS strategy.

4. Differentiation will positively impact HPWS strategy.
5. Differentiation will positively impact firm performance.

The findings establish that HPWSs contribute to organisational effectiveness in Chinese Taipei as the effect is strong and positive. Hence, the study provides support to the mounting evidence that HPWSs can work well in advanced East Asian economies.

4.3. Reward and incentives framework and guideline

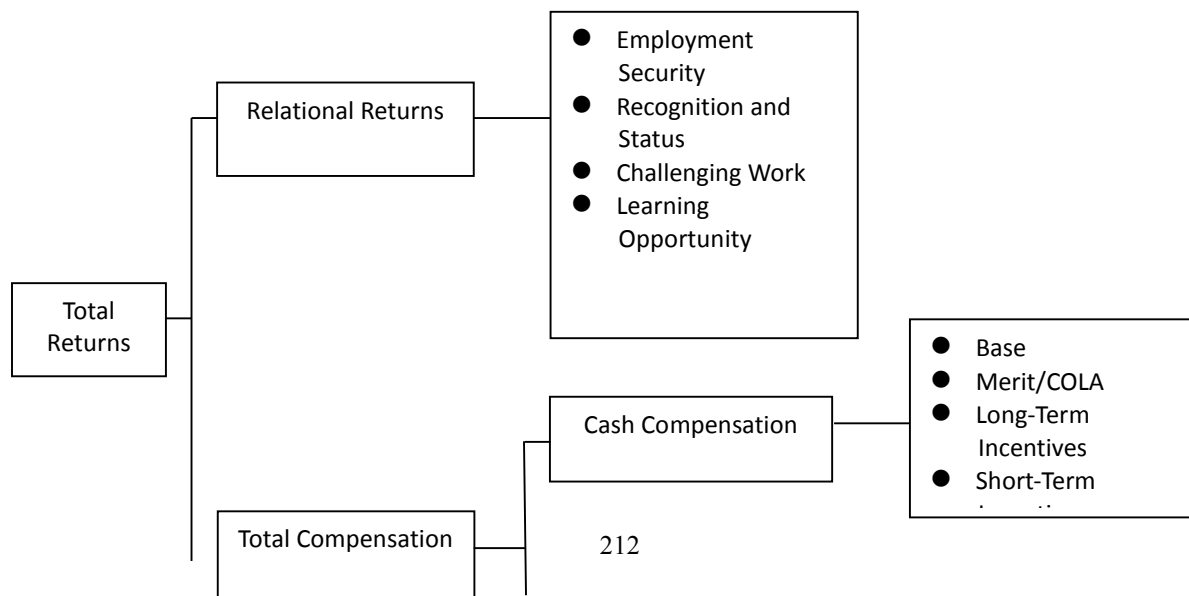
For survival and excellence, company must be more competitive in their compensation practices to attract and maintain qualified people. Well designed pay policies, forms and levels create a happy and harmonious working climate that can help attract employees to the organisation and retain those that the organisation wants to keep. Within an organisation, compensation can take many forms and depend on the amount of time or effort spent on an activity, the performance achieved or other indicators. Organisations use compensation to motivate people to:

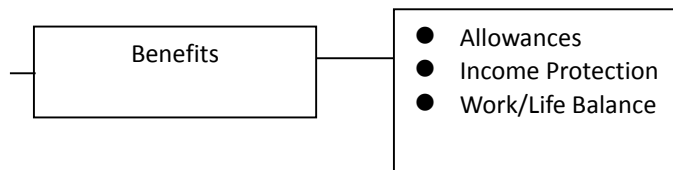
- (1) join the organisation;
- (2) stay with the organisation; and
- (3) to perform at high levels.

Lazier (1998) classified the payment to two different kinds: payment by input and payment by output. He argued that paying on the basis of output has advantages. First, output-based pay induces the good workers to stay and the bad workers to leave the firm. Second, output-based pay motivates workers to put forth effort instead of merely showing up to work. Mahoney (1989) pointed out that there are three basic determinants to be included in a wage formula: job, performance, and person (including individual's skill, knowledge, and so on).

Compensation has been defined in many ways. Milkovich & Newman (2013) defined it "as all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship." (see Figure 4.5).

Figure 4.5: Total Returns for Work



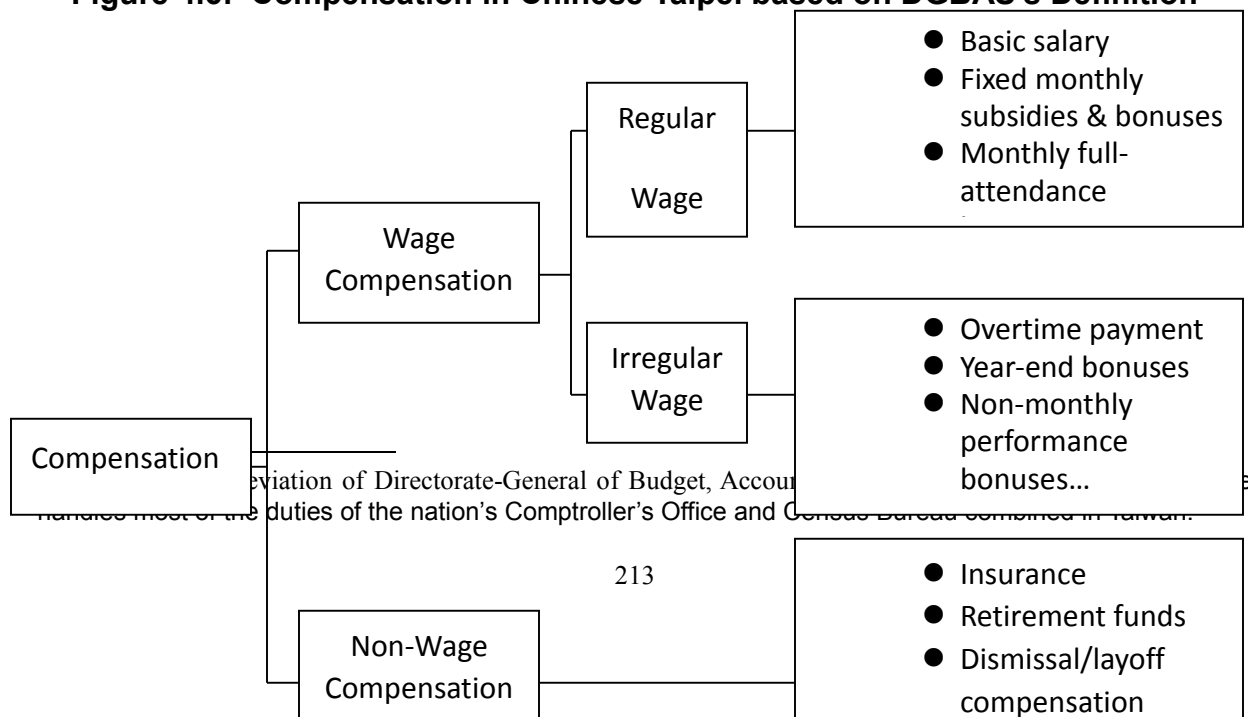


Source: G. T. Milkovich & J. M. Newman (2013) Compensation

Bergmann, Scarpello & Hills (1998) provided a specific definition of compensation. They defined compensation as: Compensation = Salary + Employee Benefits + Non-recurring Financial Rewards + Non-pecuniary Rewards. Chu (2001) expanded Mahoney's model and demonstrated a four-factor model for Chinese Taipei's compensation theory. In his theoretical model, there are four key elements involved namely, job-based factor (focus on internal equity, compensation is reflected to a certain job's comparable worth), performance-based factor (focus on motivation, compensation is linked to performance), skill-based factor (focus on motivation, compensation is referred to individual's KASO), and hygiene-based factor (focus on external equity, compensation is adjusted by cost of living or labour market level). In practice, the component of wage/compensation system is various. However, there are two formulas used to describe the system in Chinese Taipei: DGBAS and Tower Watson.

According to DGBAS⁵, there are two components in the compensation model which are wage and non-wage. The wage system should comprise regular wage and irregular wage components. Regular wage includes basic salary, fixed monthly subsidies and bonuses, and monthly full-attendance bonuses; irregular wage includes overtime payment, year-end bonuses, and non-monthly performance bonuses. Non-wage compensation includes the following benefits paid by the employers: insurance (including labour insurance, national health insurance, group insurance, and occupational accident insurance), retirement fund allocations, retirement funds, dismissal/layoff compensations, employee benefits and other subsidies as shown in Figure 4.6.

Figure 4.6: Compensation in Chinese Taipei based on DGBAS's Definition



Source: Framed by author

Based on DGBAS's definition and its survey, the compensation formulation is as follows: Compensation = RW (regular wage) + IW (irregular wage). Table 4.1 shows the proportion of regular and irregular wage to average monthly earnings by industry in Chinese Taipei.

Table 4.1: Proportion of Regular and Irregular Wage To Average Monthly Earnings By Industry In Chinese Taipei

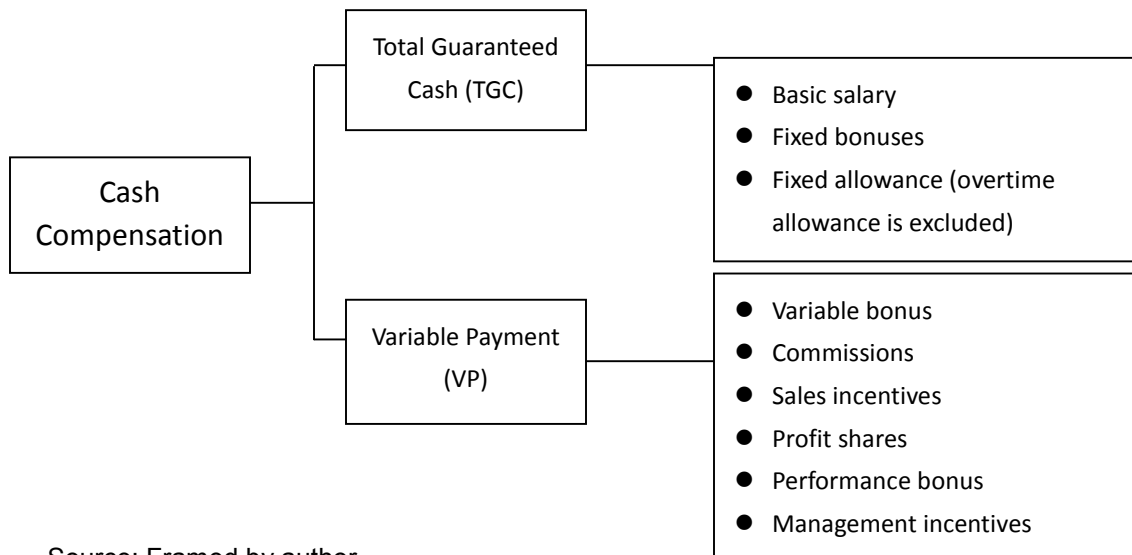
Industry	Unit: %									
	2009		2010		2011		2012		2013	
	RW	IW	RW	IW	RW	IW	RW	IW	RW	IW
Total	81	17	84	16	88	12	85	15	86	14
Industrial Sector	82	18	84	16	87	13	86	14	85	15
Mining & Quarrying	83	17	84	16	81	19	83	17	86	14
Manufacturing	85	15	86	14	88	12	89	11	87	13
Electricity, Gas & Water	81	19	83	17	80	20	78	22	78	22
Construction	70	30	69	31	68	32	67	33	66	34
Service Sector	91	9	92	8	92	8	92	8	90	10
Trade	86	14	87	13	87	13	86	14	83	17
Accommodation & Eating- Drinking Places	92	8	90	10	88	12	89	11	87	13
Transportation, Storage & Communication	80	20	80	20	78	22	77	23	75	25
Finance & Insurance	75	25	76	24	72	28	73	27	70	30
Real Estate & Rental & leasing	87	13	88	12	86	14	85	15	84	16
Professional, Scientific, Technical Services	85	15	89	11	87	13	86	14	83	17

Health Care Service	83	17	84	16	80	20	78	22	77	23
Cultural, Sporting & Recreational Services	88	12	92	8	86	14	85	15	85	15
Other Services	90	10	90	10	91	9	90	10	88	12

Source: Calculated by author with DGBAS, Earnings and Productivity Statistics data.

Referring to human resource consulting firm, Tower Watson’s definition, there are two components included in compensation model which are total guaranteed cash and variable payment. The total guaranteed cash comprise basic salary, any fixed bonuses, and any fixed allowances, such as car and shift allowance but not included overtime allowance. The variable payment includes variable bonus, commissions, sales incentives, profit shares, performance bonuses, and management incentives (Figure 4.7).

Figure 4.7: Compensation in Chinese Taipei based on Tower Watson’s Definition



Source: Framed by author.

Compensation management includes decisions on pay grade, pay level, salary range, annual salary adjustment, promotion salary adjustments, performance-based incentives and linking other human resource practices. There are many different kinds of managerial practices in different organisations. However, compensation management in Chinese Taipei has general characteristics of:

- (1) salary curve is different among different position. For example, the salary curve of a clerical position is flatter than a top management position;
- (2) nearly 90 % of the sample implemented pay grades measures, the job grade was divided into around 10 grades;

- (3) salary range of clerical level position is within 20%-25%. However, top management level is increasing to 60%-120%;
- (4) nearly half of large-scale enterprise adopt an approach which refer to market level strategy for setting salary range;
- (5) annual salary review and increments refer to public sector salary adjustment, market wage, and firm performance. If there is no profit in a certain year, then there will be no salary review (Chu, 2001).

In addition, almost all organisations both in the private sector and the public sector adopted a mixed model (including job-based, skill-based, seniority-based, and performance-based payment) for managing their wage system. However, organisations in the private sector are putting heavier proportion on performance-based payment than the public sectors.

Pay for performance programmes are compensation plans that pay employees on the basis of some performance measure. This performance measures might include individual productivity, team or work group productivity, department productivity, or the overall organisation's profits for a given period (Robbins & Decenzo, 2002). There are many different determinants which firms use to make decisions on compensation. However, compensation experts agree that traditional formulas of paying employees on seniority or merit-pay basis fails to properly balance organisational profitability and employee professional goals.

To produce a win-win scenario, many companies introduce wage restructuring for improving the wage system to link with the firm goals and much closely to focus on performance. Wage restructuring does not mean an across the board wage cut. It means linking workers' pay more closely with their performance, and making it less dependent on seniority in the job. The government adjusted the pension system from defined benefit plan to define contribution plan for controlling and managing the firms cost while performance-based is prevailing for all industries.

Pay for performance programmes are gaining popularity in Chinese Taipei's organisations. The survey of Tower Watson found more than two-thirds of surveyed companies in consumer products, high-tech, financial services, and pharmaceutical industries paid a performance- related bonus to employees. Variable bonus was most notable in the chemical industry, where 90% of surveyed companies paid bonus. It is increasingly popular for companies to adopt a performance-based variable programme in Chinese Taipei.

The growing popularity of performance-based compensation can be explained in terms of both motivation and cost control. From a motivation perspective, making some or a worker's entire pay conditional on performance measures focuses his or her attention and effort on that measure, then reinforces the continuation of that effort with rewards. However, if the employee or team or organisation's performance declines, so too does the reward. This has led to enhanced performance and higher productivity. Thus, there is

an incentive to keep efforts and motivation strong. Some of the motivation factors are reflected in the enhanced morale in terms of reduction in absenteeism, lower medical bills and less staff turnover.

On the cost saving side, performance-based bonuses and other incentive rewards avoid the fixed expense of permanent-and often annual salary increases. The bonuses typically do not accrue to base salary which means that the amount is not compounded in future years. It is also found that many performance-based incentives are based on cost reduction in terms of savings and reduction of wastages. As an example, if the department's utilities bills are reduced from USD10,000 per month to USD8,000 per month then the savings of USD2,000 will be shared based on agreed savings formula or if in the production floor, there are reduction of wastages in terms of raw materials, then the amount of reduction in wastages will also be shared between management and employees.

Performance measure and management is essential for implementing performance - based compensation system effectively and efficiently. If there are no evidence to show what the performance is and how it can contribute to salary, then it will not work to motivate employees. Generally, firms in Chinese Taipei have a system for implementing their performance measurement and management that align with salary.

When a firm carries out performance appraisal, there are several procedures to follow:

- (1) Objectives and communication: the main issue of performance appraisal is to link employee productivity to organisational goal. In order to implement performance well, setting firm goal and target to each department, unit, and individual is the first thing to decide. When the goal is set, it should be followed by communicating with key partners such as managers and employees to make sure the goal are clear enough to them;
- (2) Identify the competence and its level: according to firms core business and job analysis to develop the core competence and individual competence and its level for employee, make sure that employee is clear about competence in terms of knowledge, skill, ability, attitude, and behaviour requirement;
- (3) Decide the time period of performance review and develop improvement action plans for weak employees;
- (4) Decide on appraisal ratings, including rating group, rating ration, performance indicator such as KPI and competence ration in a performance appraisal proportion distribution;
- (5) Link performance result to compensation.

In Chinese Taipei, most of the companies review performance once or twice a year while some review on a quarterly basis. To carry out the performance review, some enterprises review procedures using IT systems. Self-assessment of employee and direct supervisor review is the first step, before the final approval. Managements will organise a cross

department/unit joint committee to review the results. If there is no joint committee for review, the result from the supervisor of the department or unit will be submitted to the right person for final approval.

The review result in general, is divided into 5 levels: excellent, outstanding, good, fair, and need to improve. In some case, there are only 3 levels for performance rating: outstanding, success, and poor. The rating ratio in 5 levels model maybe 10%, 20%, 40%, 20%, 10%; in 3 level maybe 15%, 70%, 15%. The final result of the performance review is link to:

Compensation adjustment such as base salary increased (including annual or monthly increment), bonus such as profit share (including cash bonus and stock bonus), year-end bonus, few companies in hi-tech had bonus based on performance which is two or three times more than the annual compensation.

Table 4.2 shows sample of salary increase which is align to performance.

Table 4.2: Salary Increase Align with Performance

Compa-Ratio \ Rating	≤75%	Q1	Q2	Q3	Q4	≥125%
Excellent	12%	11%	10%	9%	8%	7%
Outstanding	10%	9%	8%	7%	6%	5%
Good	8%	7%	6%	5%	4%	3%
Fair	4%	3%	2%	1%	0%	0%
Need to Improve	0%	0%	0%	0%	0%	0%

Note: 1. Q1: 75%-87.5% Q2: 87.5%-100% Q3: 100%-112.5% Q4: 112.5%-125%

2. Note: Data for illustration only

Table 4.3 shows sample of bonus weightage to performance.

Table 4.3: Year-end Bonus Align with Performance

Rating	Bonus Weight	Year-end Bonus (Month)
Excellent	2	8
Outstanding	1.5	6
Good	1	4
Fair	0.5	2
Need to Improve	0	0

Note: Data for illustration only

Table 4.4 shows sample of profit sharing stock bonus which is align with performance

Table 4.4: Profit Sharing–Stock Bonus Align with Performance

Grade \ Seniority	≤1yr	1-3yr	3-5yr	5-9	≥10yr
9	160	320	480	640	800
8	130	260	390	520	650
7	110	220	330	440	550
6	90	180	270	360	450
5	70	140	210	280	350
4	50	100	150	200	250
3	0	60	90	120	150
2	0	40	60	80	100
1	0	20	30	40	50

Excellent	Outstanding	Good	Fair	Need to Improve
*1.3	*1.1	*1	*0.9	*0.7

Note: Data for illustration only

5.0 The Case of OEM Company

To understand Chinese Taipei's small and medium companies' talent management practices, a general survey was conducted to focus on how enterprises implemented their performance-based compensation scheme and striving for their excellence when facing global challenges and enhancing competitiveness. These target enterprises comprise 23 traditional OEM companies. Among these companies, 22% have strong linkages of compensation to performance, 38% have a normal linkage, and 40% are beginning to move to performance-based system smoothly but are facing strong resistance from the trade union, employees or incompetence managers.

Regarding the performance management system, all the surveyed companies have a rule for doing the performance measurement and management. Many companies involved in this study need to select the essential factors for performance review, namely, the KPI but in different term. They will discuss and set it in the beginning of the year, then review it quarterly. Most of the performance indicators were tangible, e.g. sales volumes, financial income, cost, productivity, turnover, complaints, delay in deliver and other countable objectives. We interviewed HR managers, line managers, and some employees. It was challenge by managers and employees. Where is the competence or behavior? What we want is performance indicators align with competence. Around 42% of the surveyed companies used indicators and competence as measurement to determine employees' performance. The others are relied either on indicators or competence only.

No matter how many rating levels they have, the result of performance is linked to salary increment, performance bonus or year-end bonus, profit share and human resource practice such as promotion, training, or replacement. For example, some companies, when the employee was rated in an outstanding level as a fast tracker, will be promoted to upper position in one or two years compared to those employees who were rated as success level which took three to 4 years.

Most of the surveyed companies do not have trade unions. Only 12% have in-house trade unions, and none had collective agreements. Labour management conferences were being used in 20% of the companies and through the conferences, both parties (employees and employers) got a chance to communicate with each other to focus on labour relations, working conditions, and productivity issues.

From the participants, one OEM company agreed to share its experience. The organisation is a 42-year-old private and family company located in central Chinese Taipei. Its core business is sports shoes OEM manufacturing. There were 4,320

employees and 18 departments in its operation site. Due to the customers' strong requests, the company encountered a lot of challenges leading the management team to study the necessity and possibility of reengineering the operational process, organisational structure and to strengthen human capital in order to overcome the severe challenges. Union representatives asked management team to communicate with them and got their agreements when the company made any decision on working conditions change, salary increase, and annual bonus.

Given the reality and difficulties mentioned above, to speed up the organisational change, the CEO decided to start up the reengineering project. The project scope included company wide KPI, department KPI, individual KPI, core competence, short term incentives, annual bonus scheme, salary increase mechanism and succession plan.

Reengineering Process

Although the company has had its business strategies in the past years, it is obvious that those strategies failed in terms of increasing or maintaining the company's competitive advantages in the shoes manufacturing industry. Second, based on the strategy shown in Figure 5.1 and 5.2, management team developed firm level KPI as an infrastructure to implement departmental and individual KPI. Third, human resource professionals proposed performance-based compensation programme to enrich the company's human capital and increase its competitive advantages. There were a lot of communications with union to overcome resistances

Figure 5.1: Case Company Business Strategy

Business Strategy



Figure 5.2: Strategic Supply Chain

Develop Strategic Supply Chain



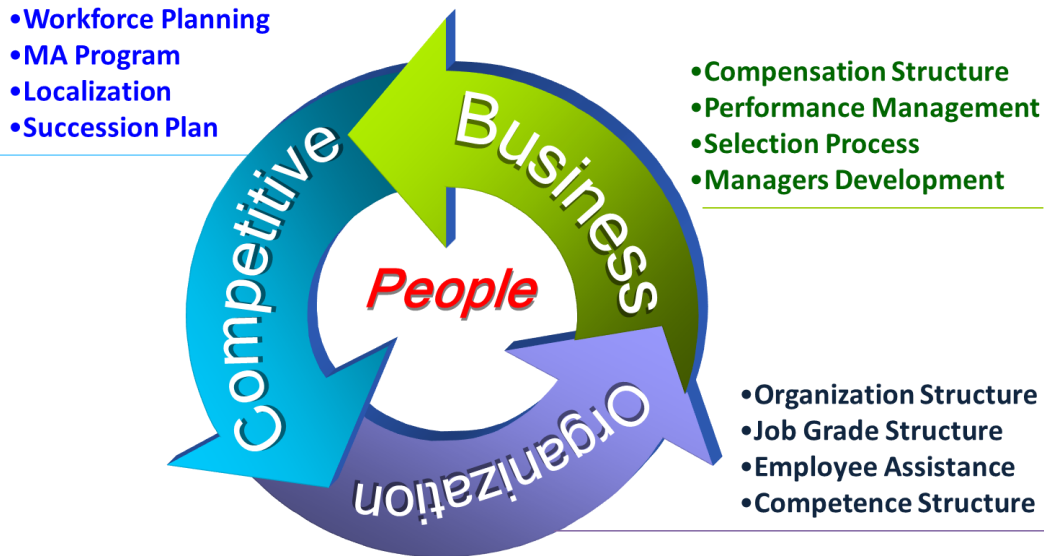
Align Business Strategy with HRM Practices

In the changing and uncertainty environment, it is necessary to review current business strategy. CEO and management team redefined business strategy after diagnosing internal and external issues. We have labeled rapid growth from traditional operation to agile operation. As opposed to the product/market strategy, the core competence of a firm is a bundle of skills and technologies that represent the sum of learning across individual organisational units (Wright, McMahan, McCormick & Sherman, 1998). A core competence provides a competitive advantage through being competitively unique and making a contribution to customer value or cost (Prahalad & Hamel, 1990). The company developed company wide core competence and innovation as infrastructure to implement human resource practices and increase competitive advantage.

Figure 5.3: Strategic HRM



Strategic Human Resource Management



5.1 Impact of Performance-based Remuneration System

Employee's performance rating is determined by personal goals and individual competencies. At year end, managers set KPI with employees based on company wide and departmental KPI for the next year. At the same time, managers explained that the job competencies level on employee's annual performance rating is determined by 80% KPI achievement and 20% competence level. The company intends to build a culture where both results and behaviours are important in an organisation. In other words, employees are expected to achieve their annual business goals but also to demonstrate their behaviours, attitudes, skills as required based upon their job and rank. Managers review employees' annual performance based on the competence model and provide the feedback or gap to enable them to improve.

The company used balanced scorecard as a tool to manage its strategy and firm level performance. They set up company wide KPI in four aspects such as finance, customer, process, and organisational learning. Those KPI are as follow:

- Revenue increased 10% compared to last year
- Cost reduction 12% compared to last year
- Customer satisfaction rate 90%
- No lost time occupational injury accident happened
- 20 reengineering cases reported
- Key talents ready rate 40%

From the company wide KPI, they were cascaded to department and individual as their annual KPI. In this issue, union did not have any comment. They understood KPI system is a key driver to increase a firm's competitiveness. But they asked if the company has an excellent result in KPI at year end, employees must have equal return in bonus, salary increase, benefits, and other working conditions getting improved.

Sound people management skill in organisation is a key to success. It is the core responsibility for line managers not just the human resources professionals. Barney (1991) argued that sustained competitive advantage derives from the resources and capabilities a firm controls that are valuable, rare, imperfectly imitable, and not substitutable. Those resources and capabilities can be viewed as bundles of tangible and intangible assets including a firm's managerial skills, its organisational process and routines, and the information and knowledge it controls. A firm's human resource including all the knowledge, experience, skills, and commitment of employees and their relationships with each other and with those outside the firm can provide a source of competitive advantage (Barney & Wright, 1998; Boxal, 1998; Snell, Youndt, & Wright, 1996).

Human capital refers to knowledge that is embodied in people (Coff, 2002). Human capital is critical to maintain competitive advantage as organisational capabilities are created by transforming human capital into group or firm level knowledge (Nonaka, 1994). Though firm's human capital can be gained from "make-or-buy" strategy (Miles & snow, 1984), in general, firms often make and buy their human capital (Lepak & Snell, 1999).

The company adapted performance-based compensation system to drive organisation and individual performance. Highly differentiated bonus and salary increase system were implemented. As introduced in the main part, top performers received double bonus over normal performers. Low performers did not have any bonus. Regarding annual salary increase, a matrix of compa-ratio and performance rating were used in determining individual's increase rate. (Table 5.1)

Table 5.1: Salary Adjustment Matrix Map

Compa-Ratio \ Rating	≤75%	Q1	Q2	Q3	Q4	≥125%
Excellent	12%	11%	10%	9%	8%	7%
Outstanding	10%	9%	8%	7%	6%	5%
Good	8%	7%	6%	5%	4%	3%
Fair	4%	3%	2%	1%	0%	0%
Needs Improvement	0%	0%	0%	0%	0%	0%

Compa-ratio = individual's actual salary/his job grade's mid-point salary

Till Q3 2014, the company's sales grew by 13.2%. Company wide KPI achievement rate

was around 96.2%. Management believes they can achieve the challenging objectives. In 2013, the result exceeded the set objectives.

This case illustrates how performance-based compensation can help an organisation to enhance and improve its business performance by implementing business reengineering process in a dynamic environment. With human capital embedded in individual employee, the company can reengineer business model, business process, and initiate other managerial issues as its final success relies on “people” such as management skills and employees’ commitment. One managerial implication of this study is that HR function should provide performance-based compensation as a tool for managers to drive competitiveness.

Finally, organisation culture implies the importance of share understanding between the organisation and employees. Integrating organisational culture with reengineering process is vital so that the company’s competitive advantage can be built in a unique “social complexity” way. The organisational effectiveness depends largely on managers and employees. It is important for organisations to realize that organisational effectiveness is a multilevel construct. Individual characteristics (skills and abilities), organisational characteristics (organisational culture and value) all have critical impacts on organisational effectiveness.

As Pfeffer (1995) stated, competitive success is achieved through people, and the skills of those people are critical. He also argued that organisation, its employees, and how they work are the critical success factors in the new economic world. In general, performance-based compensation is definitely the keys to foster a firm’s competitive advantages. The model is popularly being used as the foundation of human resources management systems. Understanding the value of performance development and performance-based compensation model to various HRM systems will help firms to judge how best to apply them in the organisation.

5.2 Application of Talent Management-Succession Plan

Customers strongly asked the company launch succession plan for managerial positions and some identify jobs that will be linked with business orders. Top management team encounter high pressure of this issue. HR set up assessment center to take full responsibility for this project. It includes the follow actions (Figure 5.4).

1. **Identify critical jobs:** Managerial, technical, core and rare workforce are the top four critical jobs to implement a succession plan.
2. **Set up performance and competence criteria.** Performance indicators and competence decide individual annual performance. Setting up KPIs and competence criteria for employees are fundamental.
3. **360° Assessment.** Based on KPIs and competence criteria, line managers, peers, customers, subordinates will conduct assessment to identify capability gap.
4. **Develop IDP.** Training programme, mentor guidance, project assignment and cross functions and rotation are factors to consider in establishing IDP.

Figure 5.4: Succession Plan Process

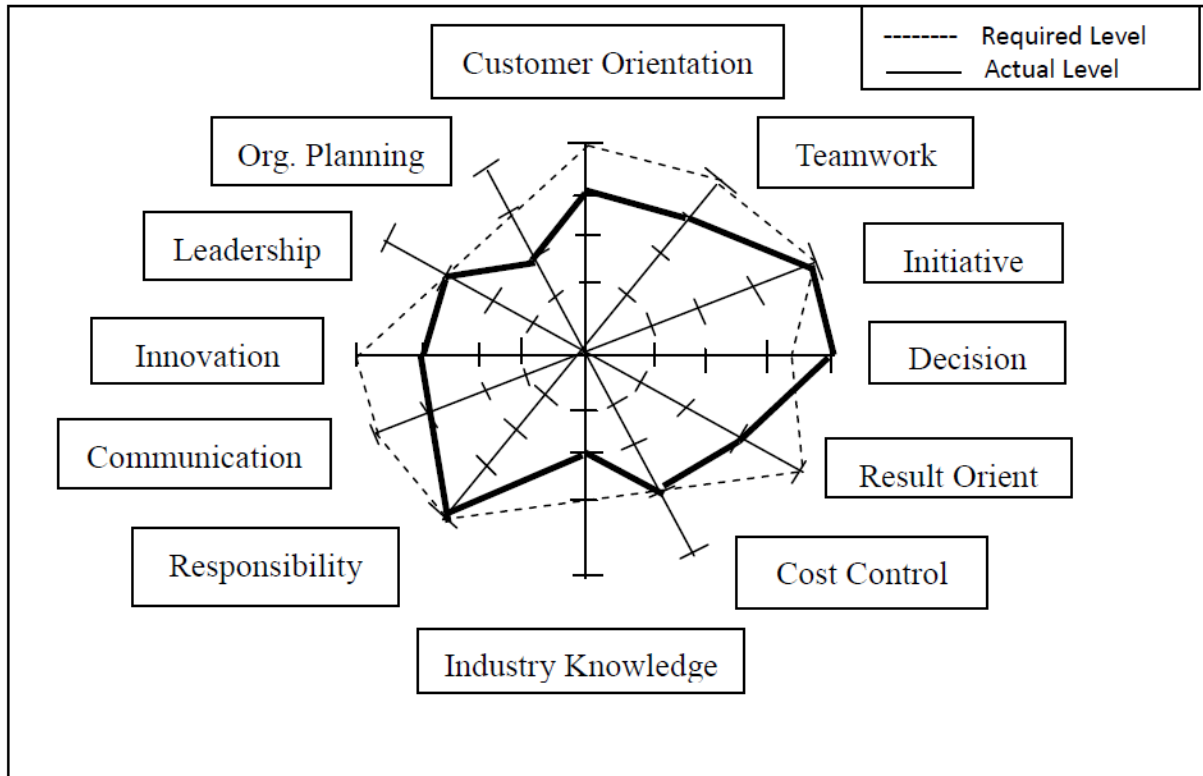
Succession Plan



After three years of implementation and revisions, managers and employees are familiar with performance management system and performance-based compensation, short-term and long-term reward mechanism. Successors' competence gap is being drawn yearly. (Figure 5.5)

The internal transfer, promotion, relocation, termination, succession plan and other placement practices use the competence model to identify candidates' competence level. Line managers and HR manager join together to decide the placement decision. The competence gap graph is helpful in clarifying the complexity inherent in each of these competencies. Furthermore, it helped management to diagnose individual's strength and weakness to increase the likelihood of people-job and people-organisation fitness.

Figure 5.5: Successor's Competence Gap



Human Capital and Person-Job / Person-Organisation Fit

Sound people management skill in organisation is a key to success. It is the core responsibility for line managers not just the human resource professionals. Barney (1991) argued that sustained competitive advantage derives from the resources and capabilities a firm controls that are valuable, rare, imperfectly imitable, and not substitutable. Those resources and capabilities can be viewed as bundles of tangible and intangible assets including a firm's management skills, its organisational process and routines, and the information and knowledge it controls. A firm's human resources including all of the knowledge, experience, skills, and commitment of a firm's employees and their relationships with each other and with those outside the firm can provide a source of competitive advantage (Barney & Wright, 1998; Boxal, 1998; Snell, Youndt, & Wright, 1996).

Human capital is critical to maintain competitive advantage as organisational capabilities are created by transforming human capital into group or firm level knowledge (Nonaka, 1994). Firm's human capital can be gained from "make-or-buy" strategy (Miles & snow, 1984). In general, firms often make and buy their human capital (Lepak & Snell, 1999). After discussing with consulting group and within high level management team, the company decides to increase its human capital through implementing the competence-based HR practices-selection, interview, placement, performance management, training and development.

Person-Job fit is concerned with finding a match between the skills, knowledge, and

abilities needed to perform the relatively static technical aspects of a job and individuals who have these abilities (Werbel & Johnson, 2001). Person-organisation fit is conducted at the organisation level of analysis. It concerns the value congruence between the worker and the organisational culture which is concerned with socialisation processes (Chatman, 1989). Ideally, the two types of fit are important. Organisations should make efforts to address the types of fit given their impacts on employee motivation and organisational effectiveness. Organisations would like to examine the person-job/person-organisation fit to evaluate their effectiveness. The company implements competence-based HR practices to increase person-job-organisation fit that can achieve organisational effectiveness.

The Impact

After three years' implementation, the company's sales grew up 20%, 11% turnover for unfit staff, employee satisfaction increased 23%, customer retention rate increased to 88%. The specific role of competence-based HR practices in business reengineering process is explored. It also helps to strengthen person-job, person-organisation fit in dynamic organisation.

This case illustrates how competence-based HR practices can help an organisation to enhance/improve its business performance by implementing with business reengineering process in a dynamic environment. As human capital is embedded in individual employee, the company can reengineer business model, business process, and initiate other managerial issues as its final success relies on "people" such as management skills and employees' commitment. One managerial implication of this study is that HR function should provide competence-based HR practices as a tool for managers and subordinates to use. Standardising the competence-based selection, interview, placement, performance management, training and development seem attractive. For example, all employees know what is expected from their performance, understand how they are currently performing, and receive consistent training and development.

Finally, organisation culture implies the importance of a share understanding between the organisation and employees. It seems that integrating organisational culture with reengineering process is vital so that the company's competitive advantage can be built in a unique "social complexity" way. The organisational effectiveness depends largely on managers and employees. It is important for organisations to realize that organisational effectiveness is a multilevel construct. That is, individual characteristics (skills and abilities), organisational characteristics (organisational culture and value) all have critical impacts on organisational effectiveness. Thus, certain degree of fit on the individual, job and organisational level would be important to achieve organisational effectiveness.

As Prefer (1995) stated competitive success is achieved through people, then the skills of those people are critical. He also argued that organisation, its employees, and how they work are the critical success factors in the new economic world. In general,

competencies are definitely the keys to foster a firm's competitive advantages. The competence model is popularly being used as the foundation of human resources management systems. Understanding the value of a competence model to various HRM systems will help firms to judge how best to apply them in an organisation. However, Bonger, Thomas & McGee (1999) link competence to competitive advantage in different product markets and argue the need for a dynamic model for competence. They point out that both individual and organisational learning processes must be managed in order to keep existing competences distinctive and to allow for the formation of new competences.

6.0. Conclusion: Issues and Challenges

It is clear that an inappropriately designed compensation scheme can be counter productive. Moreover, any company can move from paying equally to pay equitably. If not,

they will not get loyal workers and there will be no alignment between workers and business results. However, in practice it had been proven that the variable component in the company's pay system has motivated the staff to perform and makes them aware of the company's business performance. The design of a good performance-based compensation is fruitful and essential for companies to enhance competitiveness.

Chinese Taipei is now encouraging companies to move to the performance-based system to help enterprises and employees to achieve a win-win situation and to enable both the employers and employees to move together for success. However, companies should understand that the performance-based system is not to exploit employees but to foster employees as the human capital for the company. Although the move towards a performance-based system is a hot issue for all companies in Chinese Taipei to seek an opportunity to achieve a more flexible salary regime, there are several implementation problems that need to be addressed:

1. Many employees, especially in the service sector, are not in favour of the performance-based system as they are afraid that the performance level ascertained by the companies are not realistic and will not be achievable even if they perform well. There is also a belief that the system will add on to their workload without additional compensation.
2. The objective of most firms to implement the performance-based compensation system is not to motivate employee but to cut down the labour cost. With this objective, the design of the system is biased towards employers and thus when the system is implemented it will lead to higher staff turnover.
3. Performance appraisal system and the skill to conduct this system is essential for implementing the performance-based compensation system. However, many enterprises fail to deliver a good appraisal or review procedure which can appraise employees with transparency and equity. The performance factors developed for appraisal is often not measurable and employees are wary about it.
4. If there is an in-house trade union, they will challenge and resist this system. If firm fails to discuss and negotiate the system with trade union and gain their acceptance, then the system will not be implemented.
5. Performance-based system is a challenge and requires commitment from both parties. Performance-based is task-oriented rather than people-oriented. When company employs performance-based system, there is a fear that employees will only focus on performance and not on commitment or quality and this will in turn affect the overall development of company.

Acronyms for Chinese Taipei

NO	Acronyms	Description
1.	SHRM	Strategic Human Resource Management
2.	WEF	World Economic Forum
3.	BLS	Bureau of Labour Statistics
4.	ESOP	Employees Share Option
5.	IMD	Institute of Management Development
6.	PPP	Purchasing Power Parity
7.	HPWS	High Performance Work System
8.	DGBAS	Directorate- General of Budget, Accounting and Statistics
9.	OEM	Own Equipment Manufacture
10.	KPI	Key Performance Indicators
11.	IDP	Individual Development Plan

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