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Global staffing in developing countries: a case of American and Japanese multinational companies in Vietnam

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Abstract

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ABSTRACT

This paper addresses three research areas of global staffing: to determine the influences of the home country on multinational companies (MNCs)' global staffing strategies at their overseas subsidiaries; how institutional and cultural distance affects the 'context generalisability' of global staffing policies; and how MNCs localize their human resources within their subsidiaries. It uses qualitative research method and looks at the cases of US and Japanese MNCs operating in Vietnam, focusing on automotive and fast moving consumer goods (FMCG) industries. This paper identifies both home and host countries as significant moderating factors on MNCs' global staffing policies. However, important adaptations of global policies exist which seek to fit into the Vietnamese environment. The implementation of polycentric policies, although much desired by the host country, is impeded by a defected educational system and low quality labour force. The paper suggests that while a developing host country poses little formal constraint mechanisms on the implementation of global staffing practices, informal constraint mechanisms present a complex and challenging situation for MNC operations and requires from them a very high level of flexibility when implementing transferred managerial practices

INTRODUCTION

Since the 1980s, world economic development has seen greater trade liberalization, economic integration, and regionalization (Hirst & Thompson 1999). This has led to a renewal of the debate on the identity of firms and the convergence/ divergence of their behaviour patterns. Despite the strength of the globalisation phenomenon which supports the theory of a 'borderless world', stateless firms (Ohmae 1990) and the homogeneity of firms' structure and behaviour (Bartlett and Goshal 1989), many authors argue that the nation state continues to be a key element in the understanding of MNCs' management practices across borders (Porter 1990; Whitley 1992; Lane 1995; Ferner et al. 2001).

Globalisation is not a homogeneous process. Instead, it increases inequality across countries, especially between developed and developing countries (Guillén 2001). It emphasises the dependency of 'peripheral' developing countries on investment from 'centre' economies (Gray 1998). In this context, the features of capitalist development are not simply expressed in a uniform fashion across borders. They are in many respects refracted in a distinctive fashion within specific national states. Japanese transplants in Malaysia for instance produce mature goods which compete in world markets mainly on price, engage in relatively low value activities, particularly mass assembly, do limited product design work, and engage only in highly limited ways in process innovation (Wilkinson et al. 2001). The globalisation processes of uneven development, interdependence between equals and unequals, and interaction of conflicting and common interests, within which national state institutions are embedded, do not simply sustain a single and homogenous pattern of firm behaviours.

Furthermore, national institutional patterns penetrate powerfully into firm internal operations. Institutionalists argue that firm activities bear the imprint of specific national institutional arrangements (Orrù et al. 1991; Hollingsworth and Boyer 1997; Lane 1995; Whitley 1999), as they 'gravitate towards the mode of coordination for which there is institutional support' (Hall and Soskice 2001: 9). Firms are also likely to reflect their national origins in their behaviour in their foreign operations (Ferner 2000). This is so because to varying degrees, the particular features of the home country become an ingrained part of MNCs corporate identity and influence their international orientation as the general approach. Furthermore, in some cases, the particular configuration of the home system can give MNCs an advantage when competing outside their home countries (Taylor et al. 1996).

The question is how far national states can influence the international transfer of MNCs' management practices. Overall, it is argued that the balance between cross-national 'isomorphism' and differentiation is affected by institutional distance (Kostova 1999) between home and host national business systems. From a home country perspective, Smith and Meiksins (1995) argue that the 'dominance effect', largely in economic terms, of a home system strongly determines what and how MNCs' management is transferred from one country to another. 'Firms from strongly integrated and successful economies may carry over national character to subsidiaries when locating abroad, and transfer home country practices rather than adopt the practices encountered in the host country' (Smith and Meiksins 1995). From the host country perspective, fewer attempts are made to relocate either host country or subsidiaries explicitly within the global framework. While there is a huge amount of knowledge from the perspective of the home country- the 'giving' end of the transfer, little is known about the 'receiving' end, that of the less developed countries, which are located in weak and disadvantageous positions in the 'global commodity chains' (Gereffi 1996). Much research exists concerning the patterns of MNCs' HR diffusions and resistance in developed countries (Barlett and Ghoshal 1989; Tempel 2001; Ferner et al.

2001; Schmitt and Sadowski 2003 to name but a few) but far less is known about the same phenomenon in developing economies.

In view of these problems, this paper addresses the transfer of HR practices in relation to how institutional differences (distance) operate in the context of dominance/ weakness. In particular, it examines the global staffing strategies of US and Japanese MNCs operating in Vietnam. Global staffing is chosen as the area of investigation as this is one HR area that bears strong imprints of home country (eg. Tung 1981; Kopp 1994) and potentially contains tension and conflict of interests between the MNCs and host countries, especially developing ones. MNCs of some origins such as Japan have a strong tendency to apply ethnocentric staffing policy much to the dismay of a developing country that wishes to promote localisation and transfer of management technologies. Furthermore, the shortage of capable expatriate managers who are willing to accept global assignments is a growing problem for MNCs, and frequently constrains their implementation of global strategies (Scullion 1994; Gupta & Govindarajan 2002). While there is a heavy focus on staffing issues related to expatriate managers, there is insufficient research on alternative staffing modes, such as utilizing host country nationals to satisfy international subsidiary staffing needs (Gong 2002).

This paper aims to discover: 1) the extent to which MNCs are influenced by their home country experience regarding global staffing policies and practices; 2) the impacts that institutional and cultural distance have on the development and implementation of polycentric policies; and 3) the mechanisms MNCs develop to localize their executive staff in their subsidiaries in developing countries. Given the economic gap between developed and developing countries, and the differences between their business systems, research into developing host countries should broaden our knowledge of the interaction between the different business systems. Further benefits should accrue from understanding how differences in national institutional contexts influence global staffing policies, in particular, and the transfer of HRM in general.

The rest of the paper is structured as follows. The literature review discusses how the design and implementation of MNCs' global staffing strategies are affected by different factors, including the home and host business systems. This is followed by the research methodology. The empirical study presented in this paper consists of two subsections: the executive nationality polices of the headquarters, and career development for host country nationals at subsidiaries. Finally, some brief conclusions close the paper.

LITERATURE REVIEW

A consideration of MNCs' view of the necessary control systems for international operations led Perlmutter (1969) to propose three distinct global staffing approaches: ethnocentric, where all key positions in subsidiaries are filled by parent country nationals (PCNs); polycentric, where subsidiaries are predominantly managed by host country nationals (HCNs); and geocentric, where the subsidiaries are staffed with people best suited, regardless of nationality. Heenan and Perlmutter (1979) add a fourth category: "regiocentric," where MNCs divide their operations into geographical regions and staff are selected and transferred within these regions. MNCs can increase their ability to "think global, act local" (Dowling et al. 1999) through a global strategy with the flexibility to shift resources among units (Bonache & Fernandez 1997) and utilizing a mix of PCNs, HCNs and third-country nationals (TCNs) (Schuler et al. 1993).

Edström and Galbraith (1977) argue that three motives exist for companies to send out expatriates. The first is to fill positions, in order to transfer technical knowledge to developing countries where qualified local nationals are not available. The second is management development, to give managers international experience, conducted even if qualified HCNs are available. The third is organization development, where the final goal is not individual development, but coordination and control of the subsidiaries. However, employing PCNs has several disadvantages. First, expatriate managers and their families are often slow to adapt to the new environment (Thomas & Lazarova 2006). Second, expatriate failure may be costly (Hendry 1994; Hamill 1989), although Harzing (1995) argues that almost no empirical evidence of high expatriate failure rates exists. Third, an ethnocentric staffing policy limits the promotion opportunities of HCNs, which may lead to reduced productivity and increased turnover amongst HCNs (Dowling et al. 1999).

Conversely, employing HCNs has certain advantages. First, language and cultural barriers are eliminated, which avoids adjustment problems of expatriate managers and their families (Tung 1982; Kobrin 1988). Second, employing HCNs is less expensive, even if a premium is paid to attract high quality applicants (Kobrin 1988; Banai 1992). Third, a polycentric policy lends continuity to the management of the foreign subsidiary (Dowling et al. 1999). Finally, having an "insider" running the business can confer real business advantages, particularly in Asian countries where relationships are so important for business success (Kramar et al. 1997).

These key reasons explain why MNCs employ PCNs or HCNs in their foreign subsidiaries, but what factors influence global staffing policies in MNCs' foreign subsidiaries? First, strong evidence shows that the home country (or country of origin) exerts a distinctive influence on how labour is managed in MNCs. Ferner (1997) argues that the parent company is embedded in an institutional environment located in the home country. To varying degrees, the particular features of the home country become an ingrained part of each MNC's corporate identity and shape its international approach. Regarding global executive staffing, the empirical research reveals major differences between US, Japanese, and European firms (Tung 1981; Kopp 1994). In particular, originating from an 'arm's length' business system (Whitley 1999), in which social relationships tend to be regulated by formal rules and procedures, US MNCs rely on an 'impersonal bureaucratic' type of control (Harzing 2001) and prefer to employ HCNs. Harzing (1999) comments that US MNCs have a low level of expatriate presence, while Kobrin (1988) suggests that US MNCs' employment of PCNs is so reduced that they risk major control problems if managers identify with local units rather than with the global corporate. Conversely, Japanese MNCs are known for their "personal" control approach, characterized by the heavy use of PCNs (Barlett and Yoshihara 1988; Kopp 1994; Harzing 2001). The intensive expatriates use is linked to the specific HRM practices used in Japanese firms, which are not culturally transferable, such as consensus decision making and control through socialization (Beechler & Yang 1994; McMillan 1996). The headquarters' reluctance to allow HCNs a greater role in a subsidiary, or to advance into regional or corporate level management, creates a "bamboo-ceiling" for the career development of non-Japanese executives in Japanese subsidiaries (Oddou et al. 1995).

As far as career development is concerned, US MNCs tend to promote and transfer managers rapidly. Rosenbaum (1984) argues that 'early selection' is a pattern within US firms, in which future promotion prospects are strongly influenced by the selection conducted at an early stage. Those who are identified as high potentials have a high probability of later promotions, and are moved upwards in the organisation through career fast tracks. Such rapid movement reflects the US education system's ideology of encouraging and respecting individual talent, but also the pressure of short-termism that US firms constantly bear. Martin and Beaumont (1999) observe that the fast-track policy is applied in Scottish firms, while Ferner et al. (2004) record the globally coordinated process of identifying and developing high potentials in the UK. In contrast, "late selection" dominates large Japanese firms' promotion procedures (Sato 1997). Japanese employees are recruited into specific occupational tracks in accordance with their educational credentials, where they subsequently proceed, step by step, along a relatively fixed path (Dore 1987). Koike (1991, cited in Sato 1997) depicts such a model in large Japanese firms, where promotion to key senior posts depends on selection at quite a late stage in the course of a career — about 15 years after joining the firm.

The host country also emerges as a significant moderating factor on MNCs' global staffing policies. The lack of qualified local nationals, particularly in developing countries, is cited as a major reason for staffing overseas subsidiaries with expatriate PCNs (McGoldrick 1997). A country's low level of educational attainment also constrains the operation of MNCs (Gong 2003). Despite this, many host governments require subsidiaries staffed with HCNs (Dowling et al. 1999). Kostova and Zaheer (1999) argue that each MNC subsidiary must establish and maintain both external legitimacy in its host environment and internal legitimacy within the MNC. Institutional theorists suggest that organizations can achieve legitimacy by becoming "isomorphic" with the institutional environment (DiMaggio and Powell 1991). Forces for compliance with local practices can stem from legal regulations imposed by the host government, labour unions, HCNs, and so on (Rosenzweig & Singh 1991). Conformity adds legitimacy to a subsidiary, enabling the subsidiary to gain support from, and secure its long-run survival in, the host environment (Meyer & Rowan 1977).

Taylor et al. (1996) assert that business system differences, including cultural distance and institutional distance, are the most important constraints on "context generalizability" of HRM practices. Cultural distance raises several issues about the willingness of PCNs to accept assignments (Harvey et al. 2001). Furthermore, other studies also point out the relevance of allowing for the role of industry in the analysis of MNCs' global staffing strategies (for example, Harzing 1999). Finally, many studies refer to the influence of the MNCs' organizational characteristics on their global staffing policies, such as the mode of entry of MNCs (Hamill 1989), the age of the subsidiary (Boyacigiller 1990), and the stage in the internationalization process (Adler & Ghadar 1990; Welch 1994).

Despite important steps forward in research on global staffing in MNCs, inadequacies remain. While the MNC staffing literature focusses heavily on staffing issues related to expatriate PCNs (Bjorkman & Stahl 2006; Collings & Scullion 2006), alternative staffing modes are needed, such as HCNs and TCNs (Gong 2002). Also, our understanding of how MNCs localize their human resources within their subsidiaries is incomplete; therefore more research is needed on the attainment, development and retention of HCNs, particularly research from the perspective of the host country (Scullion 2001). The literature on MNCs and global staffing is scant regarding MNCs in developing countries (Zhang et al. 2006).

METHODOLOGY

The research aims are pursued using a case study research strategy. The need to examine in detail the employment practices of the companies and their relationship with broader global company strategies, and the importance of contextualising company practices mean that the case study is the most appropriate strategy (Yin 1994; Kelly 1999). A qualitative method also provides a sophisticated instrument to capture the often subtle, complex, and changing ways in which companies operate. It allows investigations into the behaviour of different actors (headquarters, subsidiary, government, etc.) under intertwined forces of influence at different levels (global, national, sectoral and work place level). Most importantly, it is able to investigate how policies actually operate in practice once they are transferred to the Vietnamese subsidiary. Although a quantitative method is very useful for achieving a broad overview of patterns, it is unable to successfully capture the complexity of the phenomenon and to explain the differences in behaviour patterns of companies of different nationalities. Furthermore, qualitative studies should prove particularly useful in this case, because hitherto, most studies in this field have been quantitative based (Collings and Scullion 2006). Solid empirical findings reinforce existing quantitative research and shed new light on current debates.

Interviews were conducted at eight US and Japanese subsidiaries, operating in two industries: the automotive (representing global industries) and fast-moving consumer goods (FMCG) industry (representing multi-domestic industries). They are coded as follows:

- in the automotive industry: US Auto, JP Auto1, JP Auto2, and JP Auto3
- in the FMCG industry: US FMCG1, US FMCG2, US FMCG3, and JP FMCG.

The fieldwork was done at three time intervals during a five-year period. The first fieldwork was conducted from mid October 2001 to February 2002, the second from November 2002 to December 2002 and the third from October 2006 to January 2007 — a total of more than nine months. Multiple in-depth interviews were held with key informants to compile information on HRM/IR policies and practices in general, and global staffing strategies in particular, with two groups of interviewees: inside the enterprises (workplace level) and outside the enterprises (macro level). Inside the enterprises, to investigate global staffing strategies and local managers'development, the interviews covered the following key themes:

- Company profile, structure and business visions
- The interdependence of subsidiary and headquarters (HQ)

- Expatriates (number and roles of expatriates, any planned changes in the future)
- Recruitment and selection of local staff
- Problems encountered in obtaining skilled people
- Training & development for local staff
- Centralisation/ Decentralisation level
- Substantial HRM issues (eg. In what ways does US or Japanese influence manifest itself? How far does HQ set a framework for subsidiary? Are policies 'permissive' or obligatory? How far are HQ's policies modified when they are put into practice in Vietnam? What are the constraints and opportunities placed by the Vietnamese context on the company's operation? What mechanisms the company develop to cope/adapt with these constraints?)
- Trade Unions roles in the localisation of HR, if any.

The demographic details of interviewed managers reveal significant differences and can be roughly described as follows. Expatriates in US MNCs are of different nationalities, and in their late 30s – late 40s, experienced and being rotated to several countries in Asian region. Japanese expatriates are of Japanese nationalities, in their late 40s- late 50s. To some of them, Vietnam is their first international assignments. Vietnamese managers are young, the majority of them is in their mid 30s. Some are in their late 20s and early 30s. they belong to the new generation after the Vietnam War, who are well educated and speak fluent English or Japanese or both.

Outside the enterprises, interviews were conducted with government officials at national and local level who are in charge of administering relevant laws and regulations and managing the activities of MNCs. Interviewing personnel outside the enterprise context was considered vital, given that one of the aims of the research is to capture the interaction between MNCs and the Vietnamese business system. Interviewing government officials provides valuable knowledge of the local environment which MNCs operate in (the advantages and constraints Vietnam environments pose to MNC operations, current hot issues regarding MNC operations, and whether they are permanent or temporary issues, etc.) and reveals the hidden way in which MNCs come to terms with legal constraints in the environment by doing informal deals with local government.

In total, 103 interviews were carried out. The results of interviews were strengthened by document analysis and non-participant observation. The result of the interviews in Vietnam is enhanced by interviews held with or alternatively questionnaires sent to the headquarters of the studied companies. The combination of data-gathering methods (that is, triangulation) is vital in the case study method for cross-checking data, and thus ensuring reliability (Kelly 1999; Yin 2003).

EMPIRICAL FINDINGS

The empirical findings are presented in three main sub-sections: Vietnam as a host country, the MNCs' executive nationality polices, and career development for HCNs at subsidiaries.

VIETNAM AS A HOST COUNTRY

The specific reason for choosing Vietnam as a host country example is that Vietnam is an emerging, developing and transitional economy, which offers a context for research as a developing country which possesses a low power towards the operation of MNCs. For the purpose of this discussion, three characteristics of the Vietnamese business system namely the country's weak economic position, its dependence on foreign investment and the incoherent, transforming and weak nature of its sub-systems, need to be emphasised.

In 1986, the Vietnamese government introduced a comprehensive reform programme, known as *Doi Moi*, to liberalize the economy from a socialist, centrally planned economic system to a more market-oriented one. The results of the economic reforms were encouraging. In 2007, the growth accelerated to an 8.48 percent, which marked the seven consecutive year of increase (GSO, 2008). However, the fact remains that Vietnam is a very poor country. In 2007, Vietnam's GNI per capita (gross national income divided by mid-year population) was $US690, merely not quite half of the average level of East Asia and Pacific of USD 2,180 (World Bank, 2008), thus classified by the World Bank as a low-income economy (World Bank 2007).

Meanwhile, foreign direct investment (FDI) constitutes an essential part of the industrialisation and development of the Vietnamese economy. It is the biggest source of capital inflow to the economy, except for long-term borrowings (World Bank 2003). Realising the importance of FDI, Vietnam has been highly conscious of the need to keep Foreign Investment Law attractive to hold foreign investors' interest, to compete for FDI with neighbour countries. In terms of practical operations, Foreign Investment Law offers great freedom for companies. Under the Decree No. 28, article 63, issued in February 1991 to clarify Foreign Investment Law, the Vietnamese government pledges not to interfere in the operation of the FDI projects, provided they do not breach the investment license stipulations.

The transformation of the country to a market economy is a learning and experimental process. Institutional change in Vietnam is what Djelic and Quack (2002:10) call a 'stalactite' model of change, in which national configuration is eroded and reshaped progressively through time. The sub-systems (the state, the financial system, the system of education and training, the network of business associations, and the system of HRM/IR) are constantly under pressure due to changes and innovations. Some sub-systems are inherently very weak. Education and training system, for example, has long suffered from the lack of resources, low quality of teachers, ill designed textbooks and low prestige placed on vocational training (xxx). Even though mass education level is high, Vietnam still suffers from a significant scarcity of highly skilled labour. It is estimated that 96 percent of the Vietnamese population is literate and 80 percent graduate primary school. However, the skilled labour force accounts for only 8 percent of the total labour force (MOLISA, 2002: 7). Management education is not a focus of study at colleges and universities. MNCs therefore face a dilemma in the Vietnamese labour market. The skills shortage, and the limitations of the education and training system demand a high level of company investment on training and development for local staff. Simultaneously, fierce competition for talented managers means poaching and job-hopping to accelerate salary ar rife. This combination might discourage firms' investment in their local staff.

EXECUTIVE NATIONALITY STRATEGY

MNCs' executive nationality strategy determines the nature of management development policies and practices at the subsidiary level, and sets the limits/framework within which management development of Vietnamese managerial staff occurs. The global staffing strategy establishes the possible career path of local managers — and the extent of a companies' investment in the training and development budget, and the nature of the courses/training they offer to their local managerial staff.

Two main stages are identified in the role, and importance, of expatriates in the Vietnamese subsidiaries: the initial phase and the operation phase. In the automotive industry, the initial phase of design and launch uses expatriates intensively in both US and Japanese companies. Expatriates (of different nationalities in the US companies, and Japanese in the Japanese firms) occupy almost all the top and middle management-level posts, except for the deputy general director position (as required by Vietnamese law, representing Vietnamese partnership). It is also not unusual for expatriates to work at the shop-floor level as technicians and line leaders.

In the operation phase, when the plant and related facilities are up and running at an expected efficiencies, the trends in using expatriates to exert direct control in the automotive industry in the US firms and Japanese firms diverge. The number of expatriates in US firms consistently decreases. After four years of operation, US Auto claims that the number of expatriates reduced to a constant of two: general director (or country leader) and finance director. US Auto clearly utilizes minimal control by expatriates and has a strong trend of localizing their management (see Organizational chart 1).

In contrast, Japanese companies show a continuous trend of using expatriates to monopolize key posts. In 2007, JP Auto1 has nine expatriates, and "no plan or intention to reduce the number of expatriates in the near future." Similarly, in JP Auto2, the number of expatriate managers keeps increasing as their production spreads. In 1997, there were seven expatriates, which increased to 12 in 1998, 13 in 1999, and 14 since 2001. The same pattern emerges for JP Auto3, which now has 12 expatriates. Japanese personnel are spread out over all key positions in the company at all levels, with a special emphasis on manufacturing (see Organizational chart 2).

In the FMCG industry, the intensive use of expatriates was evident in the initial phase, regardless of whether they were "greenfield" or "brownfield" companies. However, when their operations gradually stabilized, a convergent trend emerged, in reducing control by localizing management staff in both US and Japanese firms. US companies follow the trend to promote self-reliance in their global staffing strategies. US FMCG1 has two expatriates (general director and sales manager), US FMCG2 maintains three expatriates (general director, finance manager and marketing manager), and US FMCG3 maintains only one expatriate (general managing director or country leader) (see Organizational chart 3).

In the FMCG industry, JP FMCG currently employs four expatriates (general director, deputy general director who also is the finance director, factory director and sales director). PCNs are concentrated in top-level positions, leaving departmental and line managers' positions for HCNs, revealing a more localized strategy compared to the automotive firms. The difference between the practices of expatriate staffing amongst companies originating from the same country in two different industries is related to how the production process in the FMCG industry requires a lower level of integration with the global firms, and a lower level of technology, which is easier to transfer to the local staff (see Organizational chart 4).

Yearning for industrialization and modernization, the Vietnamese government encourages MNCs reducing expatriates, consequently investing in the development of local management staff, and the transfer of "soft technology." Foreign investment firms wishing to use expatriates must justify their need in the joint venture projects, and these must be approved by the Ministry of Planning and Investment (Article 6, Government Decision Number 58/CP). In practice, companies do not consider this regulation as a constraint on their global staffing strategy, because increasing production volume and expansion of production activities in the establishment period could justify an increase in the number of expatriates (as in Japanese automotive companies).

In brief, the general picture is that in the automotive industry, US firms tend to localize their managerial staff, while the Japanese firms tend to hold a firm grip on key positions. The FMCG industry has a more relaxed attitude. A high-expatriate strategy, as in Japanese ethnocentric global staffing, creates a ceiling that Vietnamese managerial employees cannot exceed, while the US's geocentric strategy is the core reason behind their more intensive effort to grow and nurture local managerial talent, as discussed in the following sections.

Legend (for all organizational charts)

▼ post occupied by a Vietnamese

Δ post occupied by an expatriate

⇦ post was previously occupied by an expatriate, but now by a Vietnamese

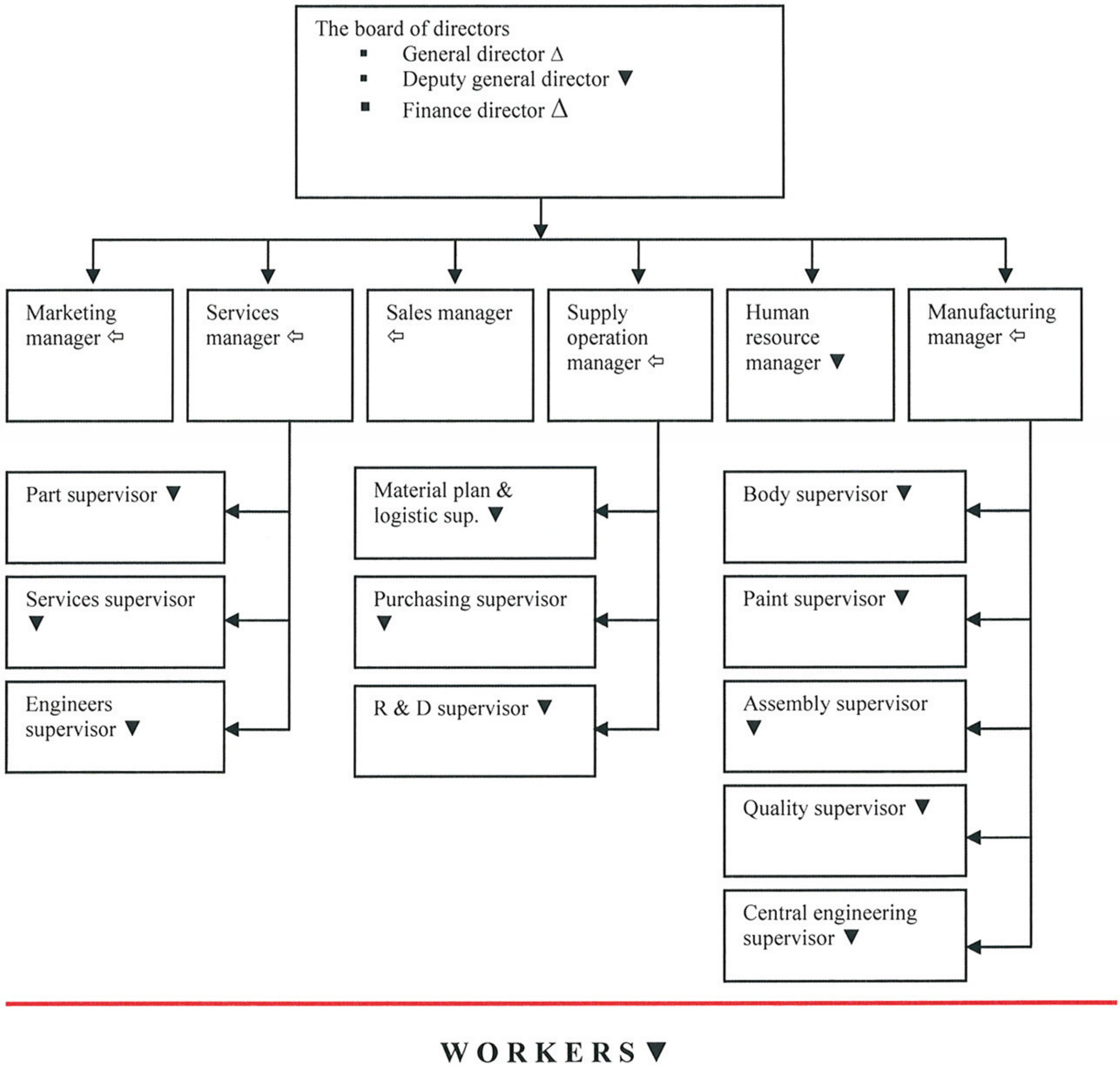
◘ post occupied either by an expatriate or a Vietnamese, depending on specific company

In organizational charts 1 and 2, workplace sections' names are samples only. Companies that produce different products have different production lines and workplace sections.

Organisational chart 1

Minimal control by expatriates in the US automotive company

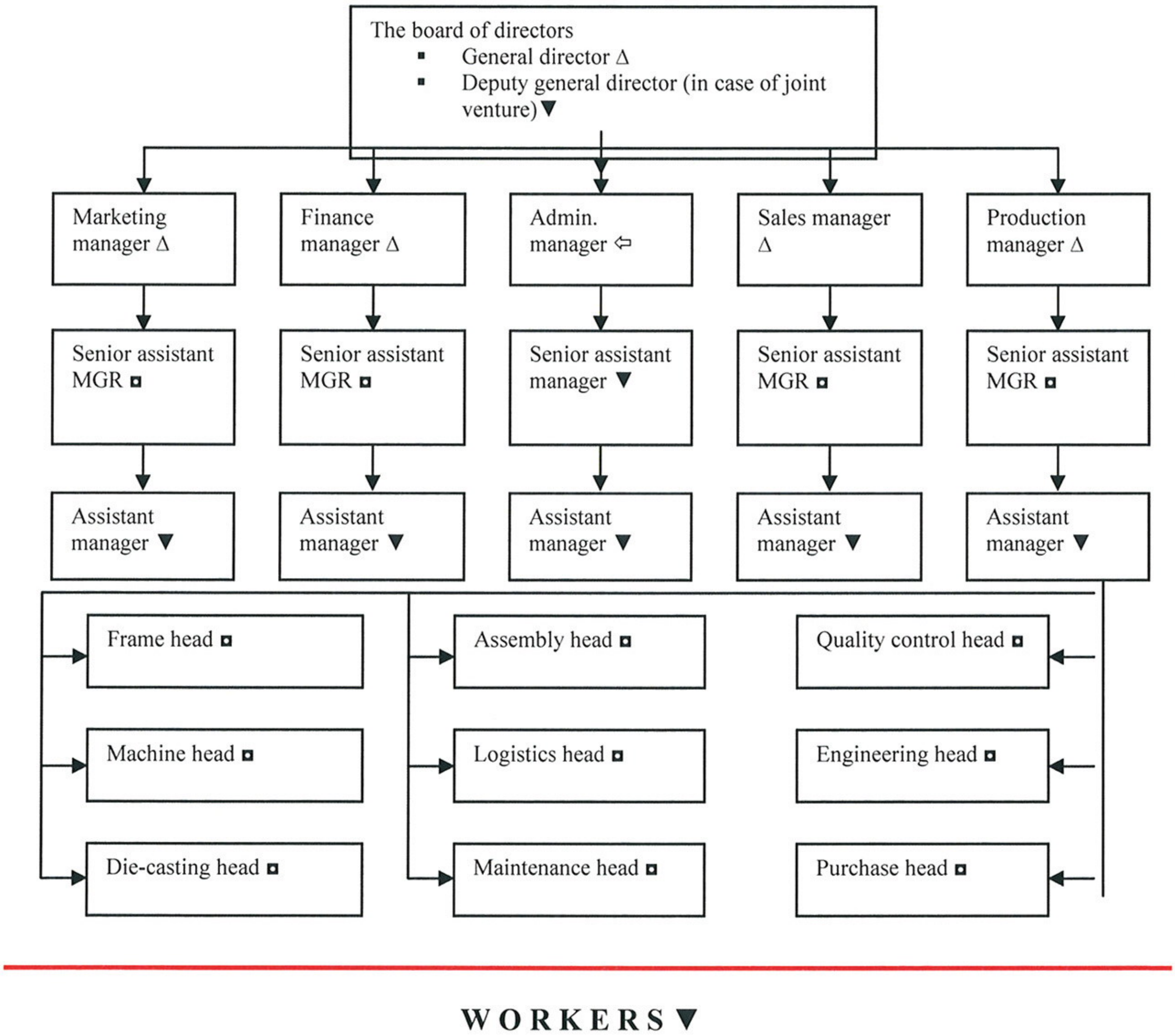
Only two expatriates (not necessarily of American nationality), who are in charge of the overall and financial activities of the company. A strong trend of localizing management exists.



Organizational chart 2

<u>Maximal control by expatriates in Japanese automotive companies</u>

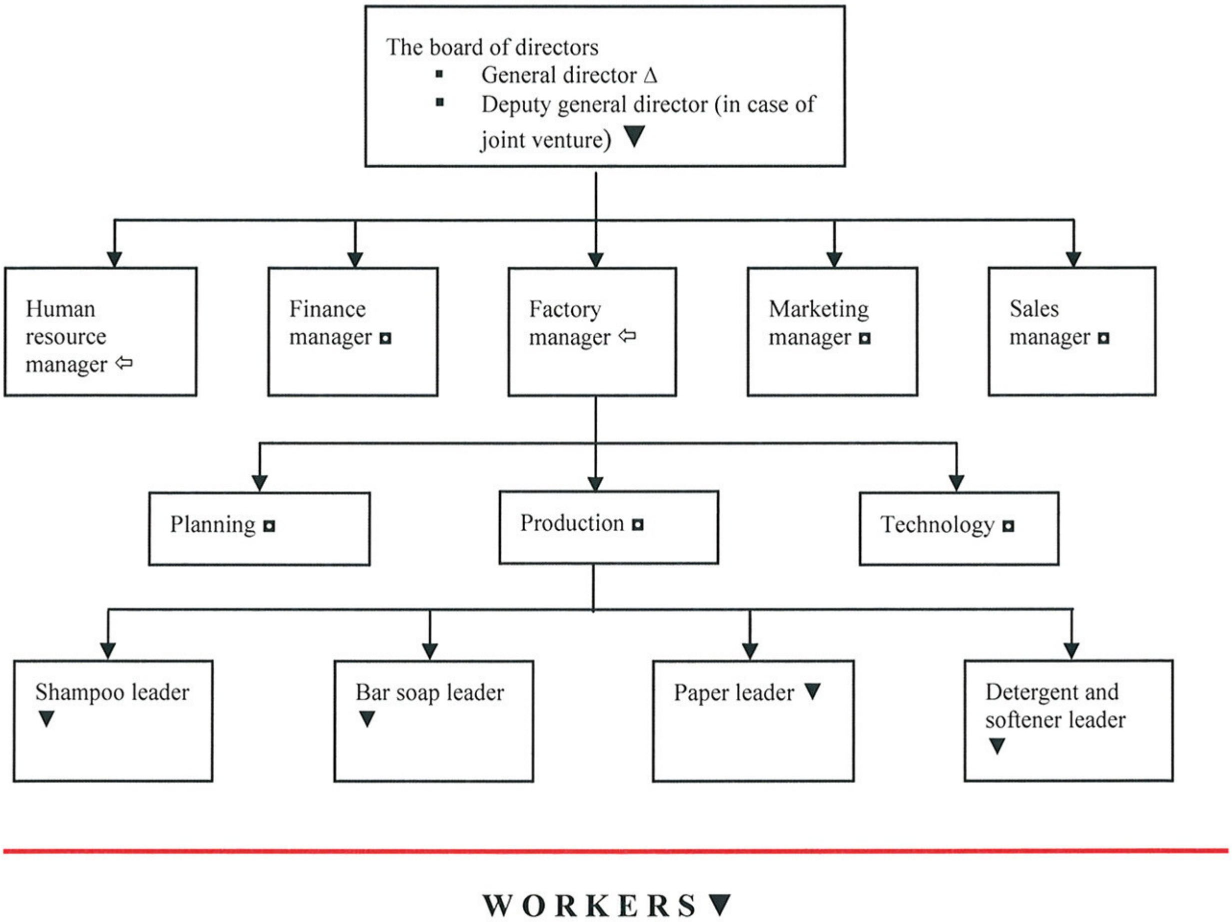
A strong monopolization of key posts by Japanese expatriates.



Organizational chart 3

<u>Reducing control by expatriates in the US FMCG companies</u>

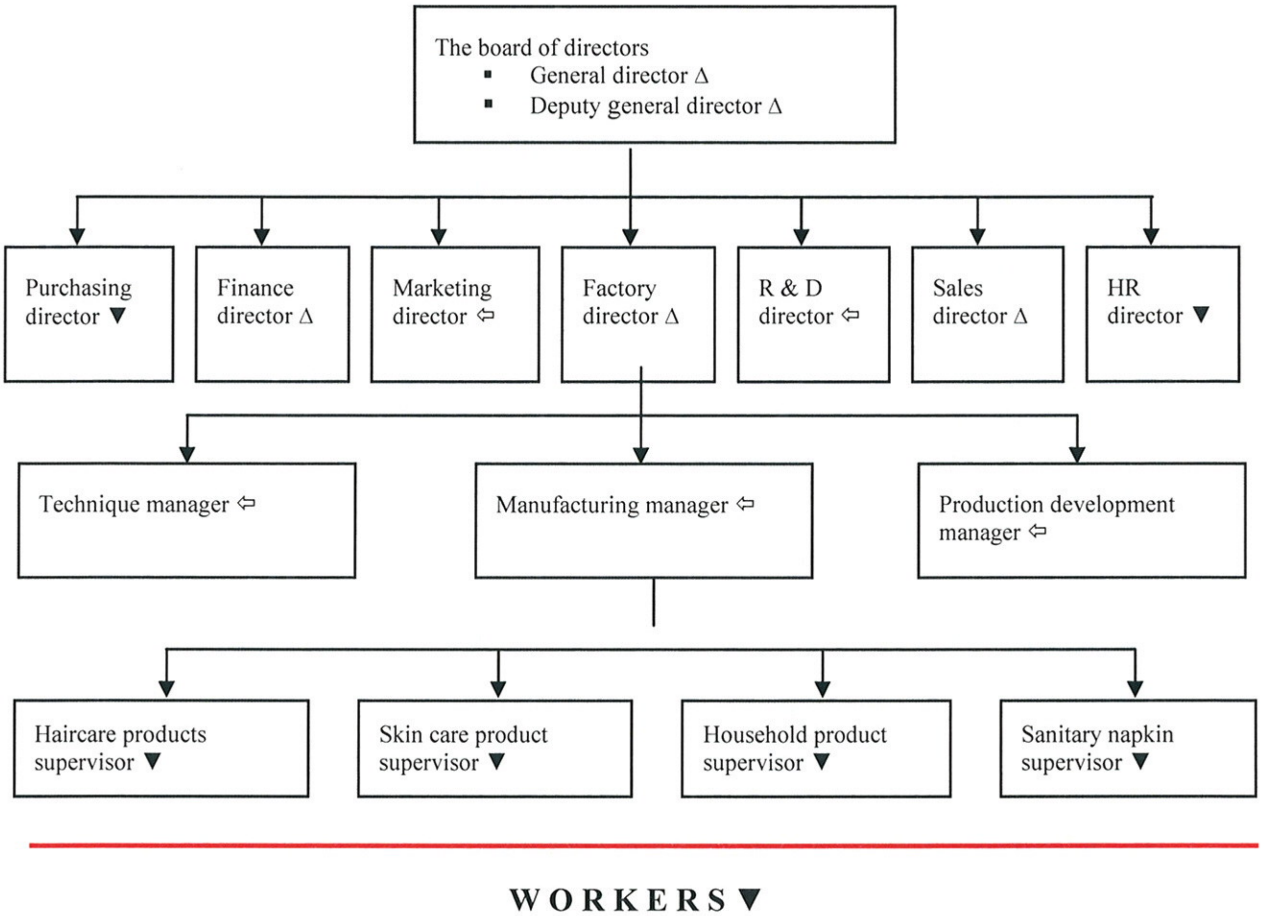
A limited number of expatriates, who are in charge of the overall, production and sales activities of the company. A strong trend of localizing management.



Organizational chart 4

<u>Reducing control by expatriates in Japanese FMCG company</u>

Only three Japanese expatriates, in charge of the overall, production, financial and sales activities of the company (the deputy general director is also the finance director). A strong trend of localizing management.



4.2 *CAREER MANAGEMENT FOR HOST COUNTRY NATIONALS*

The analysis and comparisons of career path (promotion pattern) of HCNs in the studied US and Japanese firms are conducted by analyzing the career trees of the cohorts who simultaneously entered US Auto and JP Auto2 Vietnam. Concrete case studies reveal the issues at a deeper and more detailed level, and should highlight the dynamics and practices of management development policies. US Auto and JP Auto2 were chosen to represent the US and Japanese models respectively, because of a combination of the following reasons:

(1) Amongst eight studied firms, US Auto and JP Auto2 are comparable, because they were in the same industry and went into operation in roughly the same year.
(2) Their operations were unaffected by any significant organizational changes since their establishment, unlike US FMCG1, US FMCG2 and US FMCG3 who underwent several changes in capital share between Vietnamese and foreign partners, leading to certain organizational and human resource shocks.
(3) US Auto and JP Auto2 provide the more complete sets of information and data regarding this issue compared to other companies.

The year 1997 was chosen as the analysis milestone because it was both US Auto's and JP Auto2's establishment. In that year they recruited a very large number of white-collar employees when establishing and expanding production. This choice also allowed the longest span possible — from 1997 to 2007 — to investigate this issue.

This section uses some of Takeuchi's (1995 cited in Sato, 1997: 107-111)[1] terminologies:

- simultaneous promotion: a large proportion of a cohort is promoted at the same time
- divergent promotion: variations exist in the time of promotion, but a large proportion of the cohort is promoted
- selection promotion: a small proportion of a cohort is promoted, normally to higher levels, but the time of promotion is roughly the same
- discrimination promotion: a small proportion of a cohort is promoted to higher levels, and variations exist in the time of promotion.

4.2.1 The American pattern of "early selection" and "fast track" — the case of US Auto

The notion of "top universities," as understood in Japan and the US, has no congruent meaning in Vietnam. A Vietnamese university focusses on one branch, or several closely related branches, of study, thus, the "top university" does not really exist amongst universities of different branches of study. However, a distinction exists between state-run universities and private universities. The latter attract only students who failed the entrance examination to state-run universities. Graduates of state-run universities are normally considered better quality, more diligent and hard working, and are therefore favoured by companies. Moreover, elite entry based on educational qualification is limited, due to companies' low degree of trust in the educational system. Therefore, entry is much less elitist, with rare exceptions for those who earn their degrees overseas — preferably from the US or other Western country.

[1] A secondary source is used because the original study is written in Japanese.

At US Auto, the white-collar employee intake in 1997 included people from very diverse backgrounds. The majority (around 75 percent) comprised graduates with technical qualifications, and/or language qualifications (English), and little or no work experience. The remainder (25 percent) came from other companies — state-owned and foreign invested firms, and most had no management background.

Partly due to the need for immediate personnel for rapid growth during the establishment period, US Auto identified and labeled "high potential" (hipos) at entry, identified by the results of formal tests and interviews conducted by expatriate managers. Interviewers rated interviewees' strengths and weaknesses on ten criteria: education, experience, past performance, English, teamwork, communication, motivation, resourcefulness, interest in position, and knowledge. Interviewers were required to recommend an optimal starting position for a career and recommend the highest possible level they thought that the interviewee could achieve in their career within the company. The hipo status in US Auto at that time was thus assumed and granted based on defined processes used to quickly assess the managerial capabilities of the recruited, and had to be continually confirmed. As it goes into a stable operation period, US Auto can now afford a slower identification and development of hipos. Now, the early career period is when US Auto can evaluate a new recruit's performance and reconfirm their interview evaluation. However, the principle remains the same. Executives confirm that a person's future promotion prospects are strongly influenced by selection at an early stage. They look for a combination of exceptional performance and leadership traits in potential hipos. These persons are put into the '"fast track" of career training and development, while others progress at a much slower pace.

As the outcome of these interviews, new recruits were immediately allocated to different levels in the new organisations. Divergent promotion at a very early stage showed clearly: out of 53 new recruits, three were allocated to the lowest level for white-collar employees: GSR1 (receptionist, clerk, system support, and so on); 36 to GSR2 (associate, assistant, engineer, and so on); 13 to GSR3 (supervisor, team leader, departmental managers, and so on); and one to LL6 (the deputy general director was put directly into LL6. He did not go through the selection process, but was transferred to the joint venture as the representative of the Vietnamese partner). Hipos were defined as those who were recruited and immediately put in GSR3 and LL6 positions — they were assessed and believed to be capable of bypassing two levels (GSR1, GSR2) at the start of their career with US Auto.

Those who were not fast tracked were promoted to the same level at different times, according to their performance, making promotion a process of continuous selection. Of the 36 persons promoted to GSR2, eight climbed to GSR3 within two years; eight persons took three years, and another two took four years. After five years, some have not been promoted — these were seen as "fixed" in their positions, considered out of the tournament. Top positions were mostly for those identified as hipos at the beginning of the tournament.

The assessments of an employee's performance and their future career in US Auto were conducted by different levels of the country, regional and global personal development committees (PDCs). At the country level, the PDC was in charge of classifying employees into four different groups of potentials. The first was for those able to advance two levels within five years; the second for those who could advance one level within five years; the third for those who might or might not get promoted at all within five years; and the fourth for those whose chance of being promoted within five years was under 50 percent. People in the third and the fourth group were defined as having specialist potential, rather than managerial/leadership tracks. At this stage, employees were divided into: (A) those who will not reach management level posts; (B) those who will reach section manager level, but rise no further; and (C) those destined for divisional management and top management posts. The PDCs were also in charge of developing hipos and putting them into optimal positions for their careers.

Hipos advance in the company hierarchy by fast-track management development programs, involving a planned set of experiences designed to accelerate the development of hipos to make their talents quickly available to the organization. US Auto's fast-track programs employs a composite of developmental tactics, including educational experiences, executive mentoring and coaching, specific skills training, and accelerated rotation through job assignments. To illustrate, the manufacturing manager was amongst the hipos group recruited in March 1996 and formally started working for US Auto in 1997. His educational background, working experience and performance in recruitment interviews guaranteed him "hipo" status. He received intensive training from his first day in the organization: three months training in a wide range of subjects such as accounting, marketing, production management, and so on; three months training in Vietnam with an Australian university which supplies training for the company; six months working with expatriates in Vietnam, then touring many subsidiaries in the world, including Asian, European, African US Auto transplants; "shadowing opportunities" with top managers overseas; training in recruiting techniques, HRM, and so on, to complete the comprehensive program for top managers. He was rotated to several posts in US Auto before being promoted to manufacturing manager, in charge of all production and quality activities.

Thompson et al. (1985) note that fast-track programs may have several different objectives, including: (a) developing future executives for mid- and upper-level jobs; (b) giving companies a competitive advantage in attracting and recruiting the best students from the best schools; and (c) helping to retain executive talent in the firm. These results offer empirical support for Thompson et al.'s rationale for using fast-track programs; however, two major dimensions of fast-track program effectiveness in Vietnam are identified - the retention of participants and countering high turnover rate.

In the boom period (1997-1999), the company recruited many staff and pushed them through quickly in order to build up a human frame for the organization. Now in a stable operation period, US Auto nevertheless claims that the fast-track program and relatively fast upward mobility are critical to counter job hopping and an unacceptable turnover rate which would have been the case in a more stable environment. More than 26 percent of those who joined US Auto in 1997 left the company, amongst the lower or middle management level. The company cited some of these cases as regrettable turnover, due to better career prospect elsewhere or that staff grew impatient after three years at the same level. In contrast, amongst those who reached GSR3 or higher, only four left the company. This illustrates how rapid promotion can protect against employee loss to other companies. One interviewee for this study remarked:

> The market for top performers is extremely limited. A hipo in one company may well be a hipo in another. One of our hipos left us for another US firm several months ago. We offered her a pay rise to keep her. She used that offer to gain an even better package at the new employer. She left. It is rather difficult to fill this kind of position. So we take extra preventative

> methods. We hire more persons and prepare them for the top-tiered staff. We have a desperate need to retain these, thus we move them through the system as fast as possible to provide them with the motivation to stay.

Not only are hipos privileged to advance far, but they also do it quickly. Figure 1, below, does not reveal how far hipos can jump, because it only discloses the career path of those who joined the company around 1997. The career paths of those joining US Auto later are not shown. US Auto has witnessed several more career leaps. A person may advance two levels within three years, and management mobility in US Auto is much more impressive than is revealed in the figure. For example, Figure 2 shows that it might take a hipo (who is also a top performer) up to five years to get to LL6 level. His career movement was indeed much more robust, because he was rotated through different departments in US Auto and transferred to the Thai subsidiary for two years. During this time, his ranking remained at the same GSR3 level with or without a higher salary compared to his former post's salary. The "horizontal mobility" in this case was a preparation step for future "vertical mobility." Hipos, middle management and upper levels in US Auto move in an upward spiral pattern, rather than a simple step-up one.

The studied US firms also show a marked trend towards an increasing integration and development of Vietnamese top managers at the regional level, as observed in US Auto and US FMCG1. The headquarters of these two companies encourage long-term career development globally, which allows distinguished individuals to attain a higher level in the corporation's hierarchical structure. In US Auto, managers are sent to work short-term in regional subsidiaries to expose them to different environments and experiences. At the time of study, US FMCG Auto Co1 has five persons working in positions such as project manager, financial manager, and brand manager at the Asia Pacific level. The company has also seven "qualified regional trainers," which significantly marked the better quality level of management staffs that US FMCG1 achieved. Similar practice does not exist in any of the studied Japanese firms.

It is also interesting to see how US firms combine their high-tech recruitment and selection methods in identifying hipos with the traditional Vietnamese webs of personal relations to get the best candidates in the market. US Auto uses hipos/top performers to hunt hipos/top performers. Hunting for hipos was the task of the HRM department and managers themselves equally. Their tactic was to "steal" experienced managers from other companies who had already proved their abilities as top performers, especially in the same industry. This approach brought several managers from joint ventures in the same industry to US Auto. Similarly, internal headhunting agents are popular in US FMCG firms.

Note:

Figure 1 and Figure 2 should be read as follows. The number of years after joining the firm at which promotion to the relevant level occurred is shown on top of the relevant box. The number of individuals promoted to each level is shown inside the boxes. For example, the rank of GSR3 is reached after 0 years by 13 staff, two years by eight staff, after three years by a further nine staff, after four years by another two staff. The remaining staff, after all the promotions, is shown in the oval box. The upper half of the figure expresses the movement of those who remain in the company, while the lower half expresses the movement of those who left the firm (thus, it partly reveals the extent of turnover rate and at what level turnover rate occured).

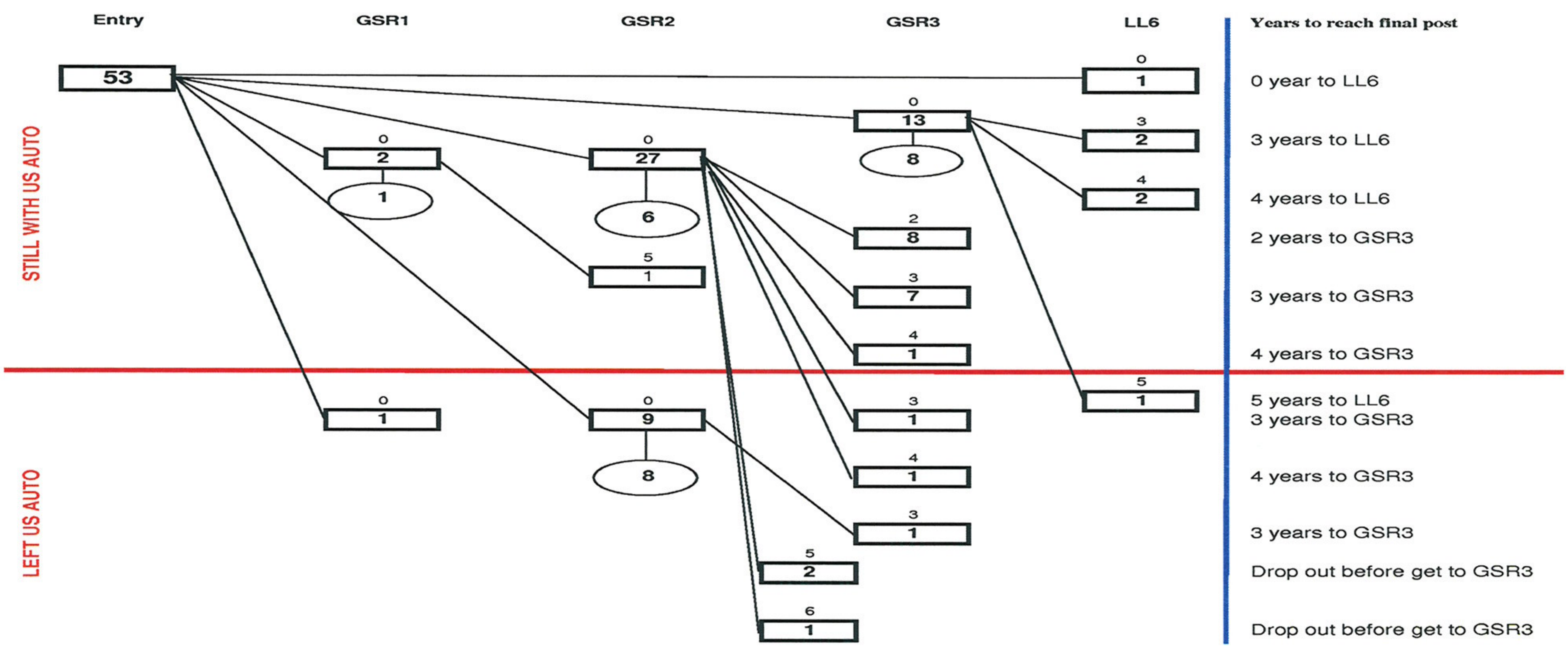


Figure 1 **Career tree of the cohorts who started working in 1997 in US Auto**

4.2.2 The Japanese pattern of "late selection" — the case of JP Auto2

Operating in the same environment, JP Auto2 faced the same problem as US Auto: elite entry based on educational qualification or top universities was not relevant in Vietnam. The profile of JP Auto2's 82 recruits in 1997 resembled those recruited in US Auto in the same year (see Figure 2). Most were recent graduates from universities with a technical and language background. Some had previous work experience elsewhere. However, despite also being in the setting-up period, identification of talents was not only based on a defined recruitment process, but also on "wait and see" tactics, with the latter playing the primary role. The newly recruited were allocated to certain areas and taught the company's "fundamental course" and "philosophy." No formal title was granted during this period. After the first six to 12 months, these persons were allocated to positions and levels which were most relevant to their abilities, based on the performance assessments which were judged by their direct Japanese supervisors.

After this time, simultaneous promotion occurred: of those who joined the company together (cohort fellows), several fell behind, but the rest were promoted at roughly the same pace. Out of 82 recruits, JP Auto2 promoted 53 persons to assistant managers simultaneously, which also allowed them to skip foreman level. This might not be considered unusual in US Auto, but it was the only time when skipped promotions levels occurred in JP Auto2, because the company needed building up a human framework during the setting-up period. The fast tracking has never occurred since.

Divergent promotion was evident at the staff to assistant manager level. Variations are evident in the time in which promotion occurred (from one to three years), but a large proportion of the cohort were promoted. The degree of divergence was not large, and upward mobility was still possible for those who missed out on first selection. There was still a possibility for those who had been lagging behind to recover their position. Tournament mobility began at the assistant manager level. Selection and discrimination promotion started at senior assistant manager level. Only a small proportion of the cohort was promoted to this level — either at roughly the same time (1 to 1.5 years) or at different times (one to four years). However, the opportunity to reach manager level only existed for those who had reached assistant manager posts within one year after entry. In other words, those not in the first group to reach assistant manager level were effectively excluded from the competition for promotion to higher posts. This practice guaranteed that only top performers who were also hipos could reach the highest possible level for Vietnamese managers.

Similar to US Automotive Co1, JP Auto2 identified the "human resource cycle" for each employee, in which people were classified into three-year, five-year and fifteen-year cycles for hipos, average and below average personnel. The number of years in the cycle indicates how long a person needed to master one level and be able to move up to the next. The tournament to the top positions was exclusively for those identified in the three-year cycle.

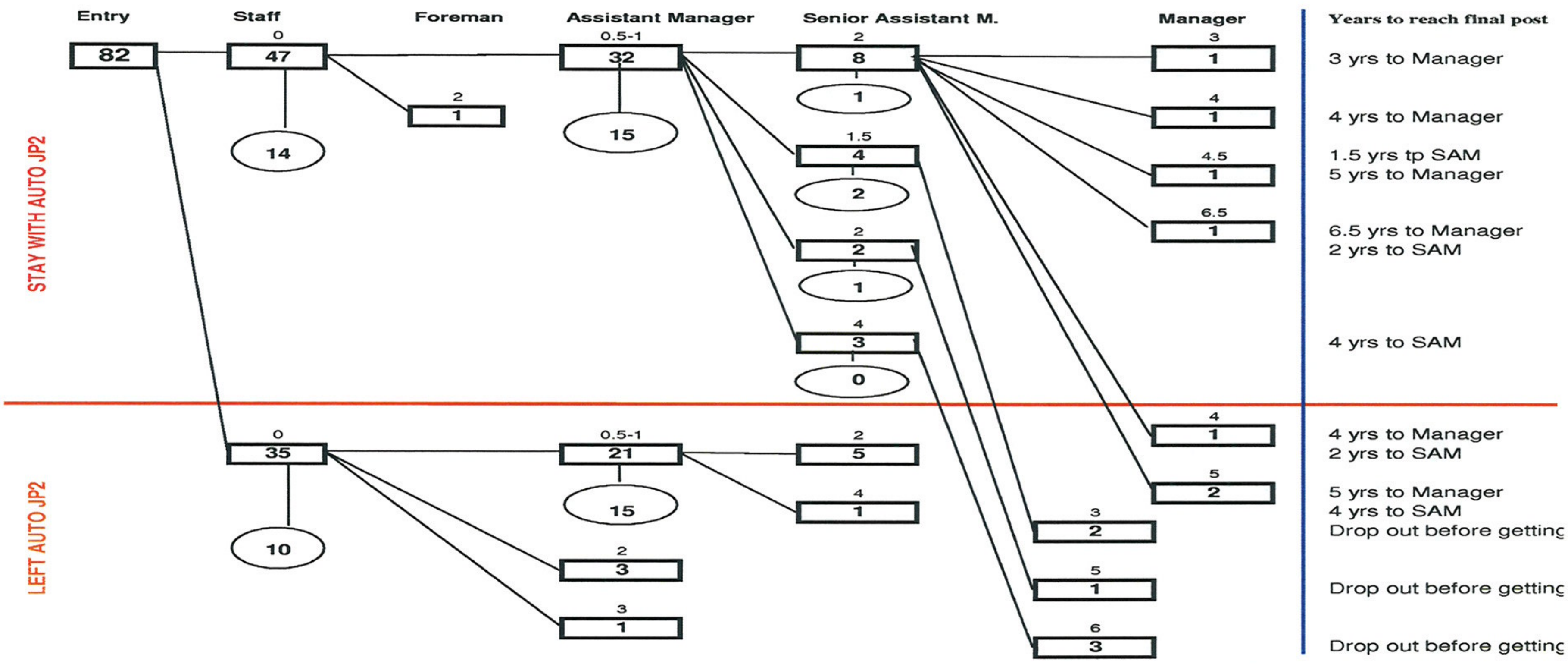


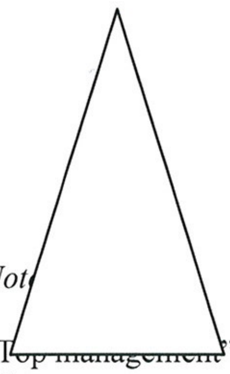
Figure 2 Career tree of the cohort who started working in 1997 in JP Auto2

The above account in Figure 2 demonstrates the promotion pattern of JP Auto2, proceeding from simultaneous promotion, through divergent promotion, to selection and discrimination promotion. This illustrates the mechanism of "late selection" and bears an undeniable resemblance to the management development models depicted by Pucik (1984), Sato (1997), and so on. Comparing the career tree of the 1997 cohort in JP Auto2 with those suggested by these authors, the most significant difference is the much shorter periods of simultaneous promotion and of divergent promotion, and the tendency towards earlier selection and discrimination promotion. Simultaneous promotion occurred in JP Auto2 after one year of entry, compared to five years in Japan. Similarly divergent promotion patterns happened in JP Auto2 after three years, compared to eight to 12 years in Japan. Thus promotion for employees in their twenties is popular; it is also unexceptional to see section managers in their early thirties in Vietnam- both are said to be extremely rare in Japan (Sato, 1997). However, a "wait and see" tactic and simultaneous promotion prevents a move towards a system of "early selection." The rationale behind this adaptation and transformation is the need to compete for and retain skills, complemented by the great expansion JP Auto2 experienced in recent years. An interviewee there commented:

> We are on a fast-growth track with the produced quantity of one year doubling the previous year. Our major task is to attract and develop enough managerial talents to enable us to support the growth rates we are experiencing.

In contrast to US Auto's "fast track," JP Auto2's managers advance through a single ladder system. There is neither skip-level promotion nor horizontal promotion, which is considered as part of preparation for an upward career path. Moreover, their career advance is limited by an artificial ceiling within the organization imposed by the Japanese managers' positioning at top and key posts. It is so because an ethnocentric approach in global staffing strategy constrains JP Auto2 from developing their local management staff. Top positions (senior manager and upper levels) in JP Auto2 are all occupied by Japanese expatriates, as shown in Figure 3. Vietnamese top managers also do not have the chance to further their careers at the regional/global level.

Figure 3 JP Auto2's organizational hierarchy for white-collars in 2007



General Director	: 1	Japanese
Directors	: 4	
Senior Manager	: 13	
Manager	: 5	Vietnamese
Senior Assistant MGR	: 12	
Assistant Manager	: 16	
Foreman	: 3	
Staff	: 17	

Note: "Top management" includes a Vietnamese vice general director, representing the Vietnamese partner in the joint venture, as regulated by the Foreign Investment Law.

Like US Auto, JP Auto2 is willing to place "outsiders" directly in managerial posts. In this sense, the traditional internal promotion to managerial posts and the unpopularity of mid-career transfer are broken under the pressure of a limited and unstable managerial labour market. In JP Auto2's "mixing blood" strategy, "new blood" is pumped into the organization as a counter-strategy to job-hopping and job hunting, as well as to inject new ideas into the firm.

It is normal to see a manager under 30 years and a top manager in their mid-30s in the studied firms. This is a refreshing phenomenon in Vietnam, only affecting the generations born in or after the 1970s. As put by a now-retired interviewed managing director:

> The economic reform has created many opportunities for the young and talented. I only got to my position and my salary at my 50s. The new generation can earn the same salary level after two or three years after leaving university. They can get to my position and give orders to much older employees in their 30s. All of this was not seen in my time.

Aspects of employment that were once widely accepted and desirable (for example, lifetime employment and slow advancement through ladders of hierarchical structure) are now greatly diminished by the market mechanism, even though their popularity remains in large SOEs. As suggested in the introduction, long-term or even lifetime employment, great respect for hierarchical order, and high dependence on the internal labour market in Vietnamese organizations are factors which might be expected to create a strong platform for the transfer of Japanese career management practices. This presumably is a facilitating factor for the transfer of Japanese MNCs' career management practices, and a hindrance to the same process in the US MNCs. However, in practice, a "brain drain" process from Japanese firms to US ones proves that the Japanese model is not as accepted and competitive as the US one in contemporary Vietnamese society. "Context generalizability" of Japanese career management is greatly decreased in a transforming host country, and thus more flexibility and adaptation in transferring career management is demanded.

In the FMCG industry, "early selection" in the US firms and "late selection" in Japanese firms are also evident. For example, a high turnover rate in managerial groups was not exceptional in US Auto or in the automotive industry, and US FMCG1 experienced the same situation. At times, US FMCG1 faced a turnover rate of 20 percent, due to delays in promoting hipos and top performers. They had to revise their policy. The current HRM manager commented:

> The average time for top performers to stay at the same level is two years. They still have to meet the job requirements, but we shorten the time. If we let them stay more than two years, we risk the possibility that they will leave immediately. Those who show excellent performance, we can promote him/her to the next level after six months.

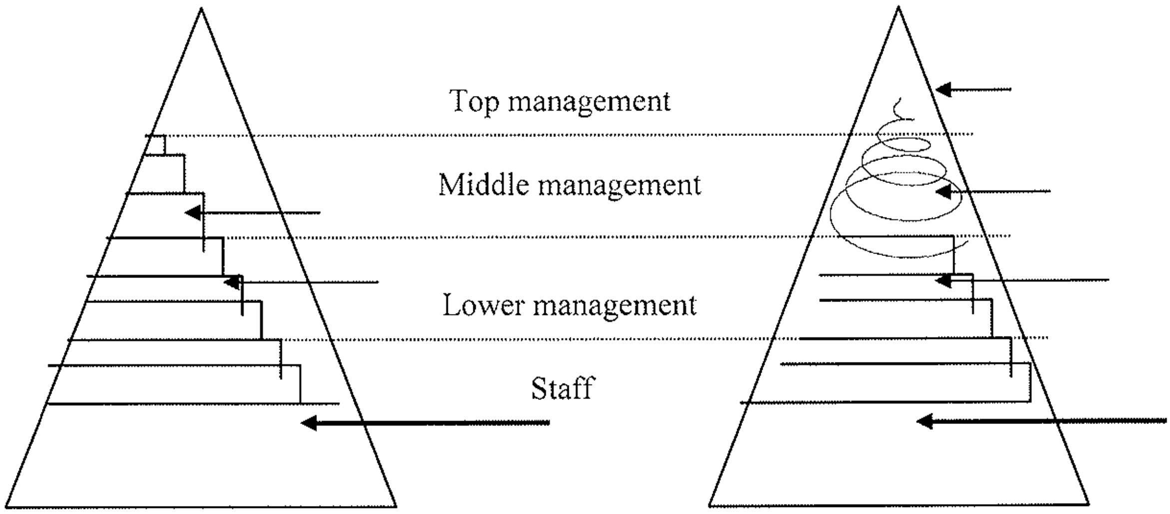
Meanwhile, JP FMCG confirmed that, except for the setting-up period, "...managers tend to be promoted gradually without jumps" (interview with HR manager of JP FMCG).

5 CONCLUSIONS

This section returns to the main themes outlined in the introduction, which are the extent to which MNCs are influenced by their home country experience regarding global staffing policies and practices; the impacts institutional and cultural distance have on the development and implementation of polycentric policies; and the mechanisms MNCs develop to localize their executive staff in their subsidiaries in developing countries.

The distinctiveness of the US and Japanese models of global staffing are unmistakable in Vietnam; however, they are considerably refracted by the Vietnamese lens. An intensive use of expatriate managers is evident in the studied Japanese firms, while US ones adopt a strong localization strategy. Regarding career management for local managers, "early selection" in the studied US firms and "late selection" in Japanese firms prevail. However, other important adaptations to the emergent Vietnamese managerial labour market exist, such as less elitist recruitment, using Vietnamese webs of personal relationships for identifying and poaching hipos, shortening the time of "late selection" to cope with the possibility of a high turnover rate in the Japanese firms, and injections of mid-career transfer. US firms offer local managerial staff the chance to advance as far as they can in the organization (including the regional and global level) and equip them with a wide range of knowledge accordingly, while the Japanese firms limit their local management to one to two levels down from the top. The US and Japanese model is depicted in the following figure.

Figure 4 The US and Japanese global staffing models in the Vietnam subsidiaries



Overall, US firms adapt more successfully to the Vietnamese environment than the Japanese firms, revealed in two critical facts: a much lower turnover rate in this group of employees (the leaving rate for the 1997 cohort in JP Auto2 was 50 percent — nearly twice that of US Auto, at 26 percent) and a flow of talents from Japanese firms to the US firms. The reasons are twofold: the stability of the Japanese model of late promotion, albeit with some adaptations, is not compatible with the volatility and instability of the Vietnamese labour market in general, and the labour market for skilled labour in particular. Also, the transfer of the US model, for the opposite reasons, is particularly suitable, even though on the surface some of its practices seem adverse to social values. Constraints on the development and promotion of HCNs are posed by the presence of large number of Japanese managers. This limitation of the Japanese model, which causes disappointment and frustration for local managers, is in line with the findings in other Japanese MNC subsidiaries elsewhere, such as White and Trevor (1983), Broad (1994) and Legewie (2002).

The findings of this paper also indicate some critical aspects of how the institutional distance between home and host country influences the global staffing policies, in particular and the transfer of HRM in general. First, as Vietnam is in transition, certain important societal values and structures might be losing their attractiveness and adequacy (such as lifetime employment and respect for hierarchical order), and the system is now more open to the penetration of seemingly highly contrasting practices. This is illustrated by the successful application of US career management practices, where robust promotions and skip-level jumps in the organizational structure are popular. Second, a developing host country does not mean a smoother HRM transfer with fewer constraints. Because the formal mechanism of constraint can be weak, legal regulations that appear to impose constraints can sometimes be avoided or minimized by MNCs, due to ineffective law enforcement. This argument can be exemplified by Japanese MNCs that found their way around legislation to continuously raise expatriate numbers. The informal mechanism of constraint, which is the result of weaknesses of the business system as a whole and its sub-systems, poses challenges to MNC operations. While limitations of the education and training system within developing host countries mean that MNCs must intensify their training efforts to upgrade the quality of HCNs, the unstable institutional environment, weak associations amongst employers' groups, and fragmented bargaining practices do little to limit employers and employee opportunism, and poaching and job-hopping practices. This complex situation requires that MNCs possess a very high level of flexibility, and in some cases they must compromise when forming and implementing transferred managerial practices.

Different national contexts provide frameworks which allow MNCs greater or lesser flexibility for external management policies (Ferner and Hyman, 1992). MNCs wishing to introduce their home grown management practices are likely to find this easiest in their subsidiaries in host countries which are 'open' to novel forms of economic organisation and have a relative weakness in their established business system. In contrast, the scope for introduction of new practices will be less in subsidiaries based in countries with 'closed' business systems which are highly cohesive, integrated and have generated a distinctive business system (Whitley, 1992). This thesis furthers and elaborates this argument. It argues that developing and transitional economies, such as Vietnam, are 'low power' host countries to the operation of MNCs. Such environments on the one hand facilitate the penetration of novel forms of economic organisation. On the other hand, they suggest a complex situation for MNC operations and require from them a very high level of flexibility, and in some cases compromise when forming and implementing transferred managerial practices.

Finally, this research was conducted within a definite time scale and is subject to some limitations in research methodology and scope. Firstly, it concentrates only on the subsidiaries of two nationalities, and on two industries. In general, it witnesses an attempt by companies to transfer and maintain relatively constructive IR/HRM policies and practices. However, if the research had investigated more labour-intensive industries (textiles, footwear, etc.) and/or companies of different nationalities, especially those of Taiwan, Korea and Hong Kong, which are notorious for their cost reduction strategies, it might have gained a different impression. However, it is considered impossible to operationalise this research simultaneously in more industries and more countries of origin, due to the time constraints, access constraints, and most importantly, the fact that the research choice is limited to those industries in which investors of different nationalities are both present. In fact, the choice of industries turned out to be surprisingly limited. Secondly, the sample companies of this research are all very young. The oldest studied joint venture went into operation in 1995. Therefore, life span of the companies covered in this research is relatively short. This however reflects the reality that Vietnamese economy is still in its early period of implementing its open door policy. Lastly, adopting a qualitative method, this research does not rely on a large sample as with a survey approach. Qualitative method is proven a sharp tool to solve the research questions; nevertheless, broad generalisation to a large number of MNC subsidiaries implies certain risks.

In relation to the previous limitations a number of suggestions for future research are proposed. Firstly, the need for expanding studies focusing on the differences and similarities of MNC subsidiaries of different nationalities is recognised. It could be useful to produce similar studies with MNCs of different home countries, some of them with similar labour environment to Vietnam, such as newly emerging MNCs of China and NICs (eg. Taiwan, Hong Kong, Korea), and just the opposite, some of them with a restrained, well-developed domestic environment. America and Japan possess very particular features but are not the subject of generalisations to other home countries. Secondly, research can be expanded to other host countries. A comparison between Vietnam and other developing and transitional economies (e.g. Bangladesh, Laos, Cambodia) is desirable to reconfirm the generalisation of the argument on the impacts that institutional disntnace has on the development of staffing policies and career development of local managers. Lastly, future research should examine IR/HRM policies and practices of firms operating in different industries, especially labour-intensive ones, to enhance or adjust the research findings on limited industrial effects in the Vietnamese context.

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