

2007

An investigation into the transfer of HRM policies and practices of US and Japanese companies based in Vietnam

Anne Cox
University of Wollongong, avo@uow.edu.au

Follow this and additional works at: <https://ro.uow.edu.au/commpapers>



Part of the [Business Commons](#), and the [Social and Behavioral Sciences Commons](#)

Recommended Citation

Cox, Anne: An investigation into the transfer of HRM policies and practices of US and Japanese companies based in Vietnam 2007.
<https://ro.uow.edu.au/commpapers/2955>

An investigation into the transfer of HRM policies and practices of US and Japanese companies based in Vietnam

Abstract

This chapter aims to examine the interaction between "country-of-origin" and "country-of-operation" effects in determining human resource management (HRM) policies and practices in multinationals (MNCs) in the context of globalisation.

Disciplines

Business | Social and Behavioral Sciences

Publication Details

Vo, A. N. (2007). An investigation into the transfer of HRM policies and practices of US and Japanese companies based in Vietnam. In J. Burgess & J. Connell (Eds.), *Globalisation and Work in Asia* (pp. 197-223). Oxford, UK: Chandos Publishing.

Chapter 9

AN INVESTIGATION INTO THE TRANSFER OF HRM POLICIES AND PRACTICES OF US AND JAPANESE COMPANIES BASED IN VIETNAM

Anne N. Vo

This chapter aims to examine the interaction between ‘country-of-origin’ and ‘country-of-operation’ effects in determining human resource management (HRM) policies and practices in multinationals (MNCs) in the context of globalisation. As national institutional patterns can penetrate a firm’s internal operations, this study investigates the transmission and adaptation of the home country’s HRM policies and practices within the MNC subsidiaries in the developing host country. Based on an investigation of the reward systems and performance management practices of a sample of US and Japanese companies based in Vietnam, this chapter argues that while ‘low power’ environments pose little in the way of formal constraint mechanisms they can facilitate the penetration of novel HRM practices. Findings also suggested a complex and challenging situation exists for MNC operations, requiring a very high level of adaptation and flexibility on the part of the host country firm.

INTRODUCTION

Recent trends concerning regional integration, the removal of trade barriers, deregulation, the opening of previously closed national markets to international competition, the rise of Asian countries and the integration of Central and Eastern Europe and China into the world economy have inevitably provoked speculation in relation to a globalised world. 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 Ghoshal, 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).

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. 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. For example, even though developing economies have become increasingly internationalised and integrated into the global system, their firms are, like those in East Asia, in a weaker position in the 'global commodity chains' (Gereffi, 1996). 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, undertake limited product design work, and engage only in highly limited ways in process innovation (Wilkinson, Gamble, Humphrey, Morris & Anthony, 2001). The globalisation processes of uneven development, interdependence between equals and those who are less equal alongside interactions of conflicting and common interests, within which national state institutions are embedded, do not simply sustain a single and homogenous pattern of firm behaviours.

The relationship between national features and firm distinctiveness has been highlighted by the institutionalist school of thought. Institutionalists argue that firm activities bear the imprint of specific national institutional arrangements (Orrù, Biggart & Hamilton, 1997; 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 with regard to behaviour in their foreign operations (Ferner, 2000). This is because to varying degrees, the particular features of the home country become an ingrained part of an MNC corporate identity influencing 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, Beechler and Napier 1996).

Many authors have attempted to answer the research question: how far do national states influence the international transfer of MNCs' management practices? The literature on MNCs and the transfer of HRM practices across countries suffers from a lack of research on the application of these issues in developing countries. One key question is centred on the formation and implementation of HRM systems in subsidiaries within weak host countries. This chapter addresses the transfer of HRM practices in relation to how institutional differences (distance) operates to mediate the transfer of such practices. It aims to investigate the transmission and adaptation of the home country's HRM policies and practices at MNC's subsidiaries in a low power host country.

In exploring the question of the effect of nationality on multinationals' behaviour, the literature reviews an analysis of the transfer of HRM policies and practices between different national business systems. The empirical study is based on eight main case studies of US and Japanese MNCs operating in Vietnam in automotive and fast moving consumer goods (FMCG) industries. The chapter discusses two different yet related HR issues – the reward system and performance management practices of the sample firms. It argues that developing and transitional economies, such as Vietnam, may facilitate the penetration of novel forms of economic organisation. Then again, 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.

THE TRANSFER OF HRM POLICIES AND PRACTICES BETWEEN DIFFERENT NATIONAL BUSINESS SYSTEMS

Comparative institutionalism theory has been widely used to study the diffusion of organisational practices across countries. Operating in more than one country, MNCs confront a multitude of different and possibly conflicting institutional pressures (Ferner and Quintanilla, 1998; Westney, 1993). Since it is vital for MNCs to establish

and maintain organisational legality in all their host environments, they need to conform to the legal environment, particularly on labour issues as well as be responsive to the cultural environment. Furthermore, as argued by Birkinshaw and Hood (1998), subsidiaries possess their own capabilities and resources such as consumption market, resources, and efficiency, which are desirable to the parent company. MNCs therefore are under pressure to adopt local practices in the host countries (Kostova and Zaheer, 1999; Ghoshal and Barlett, 1988; Taylor et al., 1996). At the same time, an important source of competitive advantage for the MNC is the utilisation of organisational capabilities worldwide (Ghoshal and Barlett, 1988; Nohria and Ghoshal, 1997). Hereby lies the central question in the literature on MNCs: the extent to which their various foreign subsidiaries act and behave as local firms (local adaptation) versus the extent to which their practices resemble those of the parent firm (global integration). This is the core research question addressed in this chapter.

There is some evidence that the home country exerts a distinctive influence on the way labour is managed in MNCs. Ferner (1997, 2000) 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 becomes an ingrained part of each MNC's corporate identity and shapes its international orientation as the general philosophy or approach taken by the parent company in the design of the HRM systems used in its overseas subsidiaries. Thus, "ethnocentricity" and "polycentrism" have been seen as traits characteristic of multinationals of different national origins: thus Japanese and American companies tend to be more ethnocentric than their European counterparts, other things such as sector of operation being equal' (Ferner, 1994: 88; see also Barlett and Ghoshal, 1989; Johansson and Yip, 1994; Kopp, 1994; Dicken, 1998; Berggren, 1999).

Taylor et al. (1996) assert that business system differences, including cultural distance and institutional distance, are the most important constraints on the 'context generalisability' of HRM practices. Kostova and Zaheer (1999) argue that each subsidiary of the MNC is faced with the task of establishing and maintaining both external legitimacy in its host environment and internal legitimacy within the MNC. As suggested by institutional theorists, organisations may achieve legitimacy by

becoming 'isomorphic' with the institutional environment (DiMaggio and Powell, 1991). However, they do not necessarily adapt to the local environments, but, rather, manage their legitimacy through negotiation processes with their multiple environments (Kostova and Zaheer, 1999, Doz and Prahalad, 1984). Adaptation and hybridisation result from these processes. Hybridisation' refers to the mixing of two or more different practices. For example, if a Vietnamese subsidiary (a joint venture between a Japanese partner and a Vietnamese partner) has a salary policy which is based on that of the Japanese parent company (the *nenko* system) while their benefit policy is the same as that of the Vietnamese parent company their reward system would be considered a 'hybridisation'.

Almost all empirical studies that look at the cross-border transfer of HRM come to the conclusion that a certain amount of change is always necessary to successfully implement a HRM system that has been developed in the home business system. Ferner and his colleagues for instance have observed that in recent years, elements of Anglo-American business practices are being incorporated into the German business system. The authors term this process 'Anglo-Saxonisation', but argue that it occurs 'in the German manner' (Ferner and Quintanilla, 1998; Ferner and Varul, 2000).

The transfer of HRM/IR policies and practices between two economies needs to be seen as part of the global economy. Smith and Meiksins (1995) argue that 'countries can be slotted into [global] commodity chains relative to societal endowments, and have their comparative superiority and inferiority reinforced'. The 'dominance' (Elger and Smith, 1994) or inferiority of a business system strongly determines what and how the HRM system is transferred from one business system to another. From the home country perspective, Elger and Smith (1994) argue that the dominance, largely in economic terms, of a home system itself is one mechanism of diffusion. Dominant states are more able to exert or invite dissemination and adoption of their version of capitalism in other national systems. '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: 262). For example, the post-war era witnessed American economic and political dominance of the international political economy. This period saw a dissemination of American managerial and production

techniques in the world; while the 1980s witnessed the transitory dominance of Japanese companies and the 'Japanisation' of production and management systems in the US and other parts of the world.

From the host country perspective, the superiority/ inferiority of the host system determines its relative openness or receptiveness to dominant 'best practice' (Whitley, 1992). In a permissive/open host country environment which poses fewer constraints on firms, the introduction of country of origin practices is easier (Whitley, 1992). In contrast, MNCs may be prevented from transferring country-of-origin practices into a constraining/closed host country environment which is highly regulated and distinctive (Whitley, 1992). Moreover, the subsidiaries can utilise their resources (expertise about local environment and market, specialist knowledge, culture and so on) to block diffusion (Edwards, Ferner and Sisso, 1993).

The literature on MNCs and the transfer of HRM practices has concentrated overwhelmingly on the Triad of the European Union, America and Japan and the interactions amongst firms which are of those nationalities and located within these locations (Barlett and Ghoshal, 1989; Guest and Hoque, 1996; Tempel, 2001; Evans, Lank & Farquhar, 1989; Quintanilla, Ferner & Varul, 2001; Edwards, Chris and Collier, 1999; Schmitt and Sadowski, 2003 to name but a few). This reflects the heavy concentration of FDI amongst the Triad (Hirst and Thompson, 1999). Meanwhile, little is known about the same phenomenon in developing economies, which are located in weak and disadvantageous positions in the global commodity chains. There are a series of related analytical questions to be answered in this niche: What are the possible constraints and opportunities placed by a low power host country on the operation of MNCs coming from dominant economies? Are MNCs from dominant countries less likely to adopt local practices in weaker host countries and more likely to transfer their own practices? Or are many aspects of their progressive systems lost when firms work in permissive environments? What mechanisms do MNCs develop to cope and adapt to constraints and take advantage of opportunities? These are the research questions that this chapter attempts to answer.

RESEARCH METHODOLOGY

To highlight the power disparity between home and host systems, MNCs originating in America and Japan and operating in Vietnam were chosen as the object of research. In terms of HRM, American and Japanese MNCs are in dominant positions in the world economy. They also have very distinctive ways of managing their labour forces, rooted in differences in their institutional systems. For example, Whitley (1999) argued that America represents what he describes as an arm's length type of business environment whilst Japan symbolises a collaborative one. Each of these environments generates a characteristic type of firm, isolated hierarchy and cooperative hierarchy respectively (Whitley, 1999). Of 61 countries and territories investing in Vietnam, Japan and the US have been key investors. Regarding implemented capital, Japanese is the biggest investor in Vietnam. Meanwhile, even though the US ranks 11th in implemented capital, its presence in Vietnam has significant political and economic meaning. Some substantial investment projects are subsidiaries of U.S. companies funneled through third countries or offshore tax havens. As such, they are not credited to the U.S., thereby underestimating the 'real' value of overall U.S. investment in Vietnam.

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 low power host country. Vietnam has poor infrastructure, including physical structures and legal structure, a high degree of environmental volatility for the operations of both international and local firms, and is craving foreign capital to foster industrialisation. In 1986, the Vietnamese government introduced a comprehensive reform program, known as Doi Moi (reform), to liberalise and deregulate the economy from a hard-line socialist economic system to a more market oriented one. Although the results of the economic reforms were very encouraging, the fact remains that Vietnam is a very poor country. In 1998, 37 percent of the Vietnamese population was living below the poverty line (World Bank, 2002). In 2003, Vietnamese GNI per capita was USD 430. This is already a real achievement for the country, considering that in 1992, it had a per capita income of about USD 220. Meanwhile, 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). Vietnam is seeking different paths to transform its political, economic and social systems, and is willing to engage with and learn from other economies in this process. As a result Vietnam is in a less favourable power position to influence the operation of foreign companies.

The aims of this research were pursued through a case study research strategy. As such qualitative methods provided a sophisticated instrument to capture the often subtle, complex, and changing ways in which companies operate allowing for investigations into the behaviour of different actors (headquarters, subsidiary, government, union, etc.) under intertwined forces of influence at different levels (global, national, sectoral and work place level). Most importantly, it enabled investigation into 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 neither to successfully capture the complexity of the phenomenon nor to explain the differences in behaviour patterns of companies of different nationalities.

Interviews were conducted at nineteen economic organisations. Of those, eight foreign invested companies constituted the main research cases; three state-owned enterprises (SOEs) are directly linked with them, as they are the Vietnamese partners of some joint ventures; the rest are considered pilot case studies (see table 1). In order to capture the various industrial effects, if any, half of the main cases were selected from the automotive sector and the other half from the fast moving consumer goods (FMCG) industry. Organisational factors such as firm function, age, size and ownership type which impact on HRM practices and their potential transfer were also recorded. In total, 184 interviews were carried out, of which 121 interviews were with the main case organisations. The interviews in Vietnam were complemented by other interviews and questionnaires sent to the headquarters of the same companies.

Table 1. Main case studies

	Company	Branch of activity	License granted	Opening day	Capital (million USD)	Capital shares	Mode of entry	No. of employees
1	US Auto	Car assembling	1995	1997	102.70	US 75%, VN 25%.	Greenfield	331
2	JP Auto1	Car assembling	1995	1996	89.61	Japan 70%, Singapore 10%, VN 20%.	Greenfield	444
3	JP Auto2	Motorcycle assembling and limited producing	1996	1997	104.00	Japan 42%, Thailand 28%, VN 30%.	Greenfield	937
4	JP Auto3	Motorcycle assembling and limited producing	1998	1999	80.27	Japan 46%, Malaysia 24%, VN 30%.	Greenfield	342
5	US FMCG1	Shampoo, conditioner, bar soap, household products	1994	1995	83.00	In 1995: US 70%, VN 30%. Since 1998, US 93%, VN 7%	Greenfield	184
6	US FMCG2	Toothpaste, toothbrushes, bar soap, shower cream, softeners	1995	Jun-1996	40.00	In 1995, US 70%, VN 30%. Since 1999, US 100%	Brownfield	310
7	US FMCG3	Sanitary napkins, tampons, tissues, diapers (import – packaging only)	1995	1995	13.20	Originally Thailand 70%, VN 30%. In 1997, US 51%, Thailand 19%, VN 30%. In 1999, US 70%, VN 30%. Since 2000, US 100%	Brownfield	600
8	JP FMCG	Shampoo, conditioner, hair styling, skin care, and household products, sanitary napkin	1995	Jan-97	39.50	100% Japan	Greenfield	310

THE TRANSFER OF REWARD AND PERFORMANCE MANAGEMENT SYSTEMS OF US AND JAPANESE MNCs TO THEIR VIETNAMESE SUBSIDIARIES

Home and Host Country Effects

US and Japanese MNCs are renowned for their distinctive styles in setting reward systems and appraisal practices. On one hand, US firms have wide experience with various forms of gain-sharing, profit-sharing and group and individual incentives in the effort to link compensation and performance (Strauss, 1990). They emphasise openness and employee participation in the performance management (PM) process. The individual 'ought to' have an active role in the setting of goals and needs to have the right to challenge a supervisor who makes unreliable decisions about pay issues (Lawler, 1990: 232). On the other hand, the Japanese wage system is characterised by a seniority based wage structure (*nenko*) which regulates pay rises according to age and length of service in the organisation (Littler, 1982). Individual performance appraisal is conducted by the immediate supervisor. This is often done according to a subjective assessment of personality and behaviour (Abo, 1994; Kumazawa and Yamada, 1989). This study of US and Japanese MNCs' reward systems and PM practices offers a chance to compare different international approaches.

The Vietnamese business environment poses little formal constraint to the design and implementation of MNCs' remuneration and PM systems. Foreign invested companies are free to apply either their own reward system or the Vietnamese one (Circular number 11/LDTBXH-TT, Article 2a). However, employers are required to make some contribution to two publicly managed funds: social insurance and medical insurance. Employers are to contribute 15 percent of gross salary for social security (employees contribute 5 percent), and 2 percent for health insurance (employees contribute 1 percent).

However, companies have been faced with bifurcated labour market conditions. At the skilled end of the labour market, companies encounter the problem of insufficient labour with required qualifications and experience in some fields such as computing, marketing, human resource management and similar. In this context, job-hopping in a

bid for a higher salary has become popular. The labour market thus places pressure upon companies in designing their remuneration and PM practices to keep their employees, or at least the valuable ones. On the other hand, one of the biggest attractions of investing in Vietnam is the abundant and cheap low skilled labour force. Since 1990, the Vietnamese government has reduced the minimum salary level in foreign invested companies three times, from 50 USD to 30 USD per month in a bid to attract more foreign investment.

The Transfer of Reward Systems

Salary

Companies identify their strategies and positions in the industry salary market following HQs' general policy and/or direction. For example, US Auto's global compensation & benefit (C&B) philosophy was 'to provide a total compensation package that was fully competitive with other leading companies in each country in which the company operates' (Global C&B guidance). These include automotive companies and companies from a variety of industries in which US Auto competes for people. This global view was reflected in the C&B package that US Auto Vietnam offers - that is fully competitive with the largest and best managed companies in a variety of industries, and particularly those in the car industry.

Compared to the US firms, the strength of the Japanese MNCs did not lie in the attractiveness of their wages and benefits packages. The amounts paid by the Japanese-owned companies are often lower than wages paid by American firms in the same industry. The US firms occupy all market leader positions, whilst Japanese firms are usually market followers. US Auto's C&B package was higher than that of JP Auto1, JP Auto2 and JP Auto3, while US FMCG1, US FMCG2, and US FMCG3 were ahead of JP FMCG. Especially, for the higher paid categories of employees (top management and management) salaries paid by Japanese subsidiaries were significantly below that of the US firms. This may reflect the attitude of the Japanese subsidiaries in that they do not attempt to recruit the most highly qualified host country managerial and professional employees because they tend not to assign vital posts and responsibilities to them.

Allowances and benefits

While salary practices were centrally designed, various types of allowances and benefits were left open to the subsidiaries to decide on what was 'suitable to the Vietnamese situation', as stated by US Auto's C&B Specialist. Even though the value of these may vary significantly, companies appeared to offer very similar types of allowances and benefits, which also resembled those offered by their Vietnamese SOE partners to their employees. Benefits offered were in the form of uniforms, subsidised lunches, accident insurance, company's good purchase program, commuting for staff, cars for top executives, gifts on personal days, mobile phones, end-of-year celebrations, Company Family Day, sporting activities, annual health checks and similar.

Bonuses

As far as bonus practice is concerned, the Labour Code indicates that the employer is responsible for paying a fixed bonus to those employees who have worked for more than one year when the company reaches 'break even' point. The payment should be no lower than one month's salary and is paid to all permanent employees.

Seven out of eight companies studied provided a fixed bonus in compliance with the Labour Code to all of their permanent / regular employees. Some of them provided much more than the law requires by providing an extra one month salary (14th month salary) as a fixed bonus. Two of the companies, US Auto and US FMCG3 had not met the break even points, thus they were not tied to this regulation yet. However, US Auto still guarantees a 13th month salary fixed bonus, while US FMCG3 did not deliver any fixed bonus but claimed that their employees' average income surpassed the required 13th month payment. A fixed bonus was paid either at the year-end or before the Lunar New Year holiday (Tet holiday).

There is also evidence that some companies which were not part of this research project did not provide any form of bonus, simply paying 12 months of fixed salary after reaching their break-even points. This obviously violates the Labour Law, but its enforcement is questionable.

In many cases, allowances/ benefits and bonuses were used to adjust individual packages and most importantly, to minimise social, medical insurance costs and to avoid the high personal income tax. Taking advantage of the ambiguous regulations regarding C&B policies in foreign invested companies, many firms (including JP Auto3 and US Auto) developed a so-called '70/30 style' of C&B package, in which companies and individuals came to a verbal agreement that a company pays 70 percent of the agreed salary as 'fixed salary', the remaining 30 percent are paid in the form of non-salary payment (benefits, bonus). Applying this structure, companies only contribute to the social insurance and health insurance funds on the basis of 70 percent of what they actually pay to their employees and accordingly avoid or reduce the high personal income tax. The '70/30 style' C&B package gets the support of the higher income groups, namely professionals, managers and top managers, who aim at short-term benefits in terms of reduced income tax. This is because employees have to contribute 6 percent of their salary (of which 5 percent is for social security and 1 percent for health insurance) to state-controlled funds, but receive the same amount of money and the same kind of health services, regardless of their higher contribution. Therefore, social insurance and health insurance are seen as more for the benefit of the lower income group while the high-income group only reluctantly contributes to these government-controlled funds.

Nonetheless, a majority of big companies, especially the leading ones, did not utilise this payment structure. The C&B specialists interviewed explained that this practice is based on the assumption that the related authority (company trade union, local trade union, local Ministry of Labour, Invalid and Social Affairs) will turn a blind eye to this practice as long as the company does not violate the minimum payment level. However, in the event of being audited, the company must be able to verify their proportion of allowances/ benefits and bonuses. Moreover, a cut of social security payment leads to a smaller pension paid to employees in the future. Thus, the strategy is not for employees' long-term benefit, and can possibly cause labour relations problems for the company. In fact, the main reason for applying the 70/30 arrangement is to reduce income tax for higher paid managers.

In July 2002, the government adjusted the income tax system, which reduced the tax rate levied on the high-income group, and stated that, in future, the 70/30 regulations

would not be accepted. This situation forced companies to abandon the 70/30 arrangement to avoid legal problems.

Pay for performance

Performance related pay (PRP) which rewards individual performance was evident in all the studied firms. The relationship between individual PRP and performance related pay is explained in Table 2.

Table 2. The relationship between performance rating and performance related pay*

	Performance grade	Performance related pay
US Auto	A, B+, B, C	Each performance grade allocated a PRP index. An 'A' rate will get a higher index than a 'C' rate. For example, considering variable pay of a Production Technician: <ul style="list-style-type: none"> • Approximate monthly earning: 1,500,000 VND • If he is rated A: $1.50 \times 1,500,000 = 2,250,000$ VND (per annum) This means an additional 187,500 VND in their monthly pay
JP Auto1	S (special), A, B, C	<ul style="list-style-type: none"> • If rated S: extra 2 month salary • If rated B+, B-: extra 1.5 month salary • If rated C: no extra pay
JP Auto2	S (special), A, B+, B-, C	<ul style="list-style-type: none"> • If rated S: extra 2 month salary • If rated B+, B-: extra 1.5 month salary • If rated C: no extra pay
JP Auto4	A, B, C	Depending on the rating employees will receive PRP from 15% - 6% of their basic salary.
US FMCG1	1 (performing above expectations), 2 (performing according to expectations), 3 (performing below expectations)	<ul style="list-style-type: none"> • Employees rated 1 are in the highest salary band/curve (higher frequency of salary rises and large amounts) • Employees rated 2 are in the middle salary band/curve • Employees rated 3 are at the lowest salary curve and basically flat lining or going backwards if including inflation.
US FMCG2	Exceptional, meet expectation, below expectation	<ul style="list-style-type: none"> • Depending on their performance, employees will be sorted in 3 distribution curves, exactly as US FMCG1. • Applied for staff and upper level only
US FMCG3	Exceed expectation, meet expectation, does not meet expectation, not rated (for temporary workers)	<ul style="list-style-type: none"> • If rated 'exceed expectation': extra 2 month salary • If rated 'meet expectation': extra 1.5 month salary • If rated 'does not meet expectation': no extra pay
JP FMCG	No formal system exists	

* This applied to all permanent employees, if not otherwise mentioned

Seniority based wage system in the Japanese firms

The main difference between firms originating from the US and those from Japan, in relation to remuneration practices, lies in how they define the basic salary. The Japanese firms have the distinctive 'age-linked salary'. JP Auto1, and JP Auto2 claimed the use of the so-called 'life module' in defining the level of salary they pay to their employeesⁱⁱ. JP FMCG used the same principle but abandoned it a few years later. The Vietnamese life module was the result of research conducted in Vietnam by C&B specialists from the Japanese headquarters with the support of the Vietnamese staff at the subsidiaries. According to the life module, the salary of the employee is supposed to increase in pace with his/her promotion in firms (from team member to team leader to supervisor and so on) and his/her personal needs (from being single to being married, having children or buying a house).

Thus, in the form of age-linked payment, the seniority wage (*nenko*) system manifested itself in the remuneration system of big Japanese firms in Vietnam. However, the companies did not attempt to implement a fully-fledged Japanese style seniority based wage system. First of all, the HRM Manager of JP Auto1 and JP Auto2 claimed that greater weight was given to individual merit in determining wages and promotions, due to the much greater influence of the external labour market compared with Japan. Secondly, due to the limited number of qualified professionals in the Vietnamese labour market, in order to attract candidates for their vacancies, the starting salary paid by these Japanese subsidiaries was relatively higher than what would be expected by firms adhering strictly to the *nenko* principal (compared to their headquarters).

The life module salary is in line with the stable long-term employment philosophy of JP Auto1 and JP Auto2. However, it is interesting to look at the value of the *nenko* system from the perspective of the Vietnamese employees. Interviewed employees, especially the white-collar ones, did not find the implied promise of steadily rising wage rates throughout a long-term career with the same company sufficiently credible and /or desirable. Most of them considered it merely a technique used to calculate salary level. What they really looked at was the final salary paid to them at the present time rather than any long-term future benefits. One interviewed manager said:

'My parents had been working all their lives in this one big SOE. They believed that they would be looked after when they retired. They indeed were, until the day that the [centrally planned] system collapsed. After the currency reform and some inflation storms what they receive today is not enough to live on for half a month...This generation suffers from this 'unsecured' feeling, not knowing what might happen tomorrow...Promises and long-term plans are nice but we care more for the present.'

On the other hand, the *nenko* system loses its attractiveness, because its salary increase rates and promotions come relatively slowly. Vietnamese employees, especially ones with high skills or in managerial categories, consider that job hopping will, in all likelihood; provide them with a much higher salary and better benefits than staying with one organization would.

While highly centralised and complex remuneration systems were evident in most of the case studies, JP FMCG opted for localised policies regarding reward systems. Before 1999, JP FMCG employees enjoyed 'seniority benefit'. However, it was dropped when Japanese managers considered it 'unnecessary' in the Vietnamese context. The company's remuneration was then extremely simplified. JP FMCG's salary system was divided into two categories: white-collar employees and blue-collar employees. The wage of blue-collar employees was calculated based on their working days per month (35,000 VND/day). Conversely, the salaries of professionals and the upper levels of JP FMCG were negotiated on an individual basis with Japanese managers, most often with the Japanese General Director. He also personally decided on salary increases without any systematic salary structure being in place. However, the extremely simplified salary structure appeared to function fairly well in the context of a small subsidiary organisation.

The effect of both the global and local host environments on the design of the reward systems were evident. Compensation practices were highly centralised in terms of defined positions in the salary market, the permitted salary range and the compensation structure, which put a great deal of emphasis on individual performance. However, there were instances of centralised policies being translated into practices and procedures in a manner which was suitable to the local situations

and preferences, such as allowances and benefits, fixed bonus practices and the *nenko* system. The Vietnamese legislation regarding salary in foreign invested firms does however leave certain gaps that MNCs can take advantage of to minimise labour costs and reduce income tax –evident in the '70/30' reward style.

The Transfer of Performance Management Practices

PM practices in the US firms

PM systems in the US firms studied were marked by a high level of employee participation and by the openness of the process. Firstly, employees were required to engage in defining their performance targets. The companies shared their business objectives and targets with employees, and actively encouraged them to suggest strategies by which these targets could be achieved. Secondly, the evaluation of individual performance was open for discussion and if employees disagreed with the performance evaluation rated by their supervisors or colleagues, they could voice their concerns and ask for a re-evaluation. Immediate supervisors and HR Managers were responsible for organising interviews to 'check and balance', so as to minimise unfairness or bias. The final ratings were decided by both parties.

Advanced PM tools and techniques were widely applied in the US firms, illustrated by the use of the 360-degree feedback and forced distributions in all the case studies. The 360-degree feedback was applied solely for top management, which means that less than ten employees in each company were subject to this type of performance review. Forced distributions of performance were seen as a sharp tool in the US firms to not only evaluate individual performance but also to create competition to push up performance amongst employees. It is noted that, while the distribution of performance was a popular practise in the Japanese firms and Vietnamese SOEs studied, the 'forced' element was what made the US firms different and more aggressive in their attempts to link performance and the pay system.

Table 3. Forced distribution system applications in the sample companies

Company	Forced distributions and the direct influences on employees	
	White-collar employees	Blue-collar employees
US Companies		
US Auto	A (5-10%), B+, B, C. 'Looser' forced distributions are applied for blue-collar workers.	
US FMCG1	1 (15 - 20%), 2 (65-70%), 3 (15%).	
US FMCG2	Exceptional (15%), meet expectation, below expectation (5%)	Ratings are the same as white-collar group. However, forced distribution is not applied.
US FMCG3	Exceed expectation (4-5%), Meet expectation, Does not meet expectation (1-2%), Not rated (for temporary workers).	Ratings are the same as white-collar group. However, forced distribution is not applied.
Japanese companies		
JP Auto1	S (special), A, B, C. No forced distribution is imposed. However normally S and A occupy 5%-10%. A global forced distribution system is being considered.	
JP Auto2	S, A, B+, B-, C. No forced distribution is imposed by headquarters. However company distributes rankings as follows: normally S is accounted for about 3%, A 10% and B+ 20%.	
JP Auto3	A, B, C. No forced distribution is imposed, however, the number of A is normally around 5-10%.	
JP FMCG	Ratings are conducted but no forced distribution. There are four ratings: outstanding (91-100 marks/100), very good (81-90 marks), satisfaction (71-80 marks), need improvement (61-70 mark) and under satisfaction (under 61 marks).	

Mendonca and Kanungo (1990) believe that performance appraisal practices that involve with a confrontational mode of feedback during the appraisal discussion may not be effective in developing countries where 'face saving' is important. Nevertheless, it is argued that the problem of direct criticism is more a potential than real difficulty, and that cultural values are not overwhelming constraints to the implementation of PM, as long as expatriates and local managers are sensitive with the issue. Interviewed managers reported that they had good and thorough discussions with their Vietnamese employees, which also covered negative issues.

The 360-degree feedback included upward ratings which would be unfamiliar to the Vietnamese and might be considered incompatible in a hierarchical society. Meanwhile, the forced distribution system promoted competition amongst colleagues, and thus may damage their harmonious relations. Presumably, the transfer of these technologies into the Vietnamese subsidiaries could be faced with strong reactions and even refusal to participate from local employees. However, in practice, no particular constraint on the implementation of the 360-degree feedback and forced distributions was recorded. The smooth transfer of this HRM practice might have been the result of a newly liberated business system, at the macro-level and a cultivated 'American culture', at the micro-level. The break down of the centrally planned economy leading to the collapse of the communist model of an egalitarian ideal of income distribution makes the 'capitalist country's way of distributing principles, which are strongly based on individual performance more acceptable to Vietnamese employees, who have come to consider performance related payment as an important dimension of modern PM practices. At the company level, employees have a positive perception of American standards of 'fairness' and 'straightforwardness', which reflect a common perception concerning the way Americans conduct business in particular and of Westerners in general. This is generally seen as a refreshing and welcome working environment.

PM practices in the Japanese firms

The studied Japanese firms reported a system of top-down alignment. This means that white-collar employees were expected to take on additional duties, as occasionally demanded. In some companies, target setting was a one-way process, with little engagement of the subordinates (JP Auto3, JP FMCG)iii. Individual objectives were set, but not written down, which appeared to significantly damage the reviewing process. Performance appraisal was conducted on a strictly top-down basis and supervisors' decisions were considered final. PM processes in the studied Japanese companies involved neither upward evaluation nor face-to-face discussion.

Although top down appraisal practices, which heavily depend on Japanese managers' personal evaluation, were in line with some aspects of Vietnamese culture, such as respect for authority and hierarchical order, the Vietnamese employees in this study

were dissatisfied with the Japanese firms' PM practices. This may be explained by the fact that this practice was opposed to the Vietnamese customary practice – which has been predominant in SOEs for decades – of the 'democratic' sounding of opinions in performance appraisal, which means that opinions from a wide range of employees were gathered at 'Appraisal Committees' in order to achieve a 'democratic' evaluation of employees performances. Although these Appraisal Committees operated in a hierarchical order, the evaluation of individual performance was conducted openly in the presence of employees and their colleagues. This is to say that national cultural traits and their influences on firms' behaviours were indeterminate and complex. In this case, respect for authority and hierarchy were traditionally implemented in a fashion that stressed openness and 'democratic' participation in decision-making.

In brief, distinctive patterns of national PM were evident in this study. The US firms emphasised financial measurements, supported by non-financial ones, in performance appraisal. In addition, the PM process was facilitated by the use of advanced management tools and techniques. In contrast, PM in the Japanese firms was characterised by a more informal structure of regular performance review, which was conducted in a strictly top-down manner, suffering from bias and a lack of openness. Cultural influence was acknowledged in this research, such as difficulties involved in providing and receiving direct criticism although it is argued that this should not be seen as an overpowering obstacle as it can be overridden by a strong company culture.

CONCLUSION

The aim of this research study was to examine the transmission and adaptation of the host country's HRM policies and practices within MNC's subsidiaries in a developing host country, in this case Vietnam. Overall some important conclusions were reached.

Primarily this research confirms that the globalisation process does not simply sustain a single and homogenous pattern of firm behaviour and that greater economic efficiency in work systems within a country does not automatically lead to the dispersal of these practices to other countries. Even if it can be demonstrated that a

particular set of HRM practices contributes significantly to superior performance in home country operations, a MNC has to determine whether it wishes to transfer these practices. This research argues that MNCs may consider that the transfer of HRM policies and practices is not necessary for successful operation within a Vietnamese context. In the case of JP FMCG, they basically decided to stop the transfer of their home practices to the Vietnamese subsidiaries. Instead, there was a high degree of localisation of managerial practices (even though the same conclusion cannot be drawn for transferring production technology). The first few attempts to copy home practices (the *nenko* system) quickly disappeared in the Vietnamese environment. The argument is strengthened when some attempts to compare their practices with regard to other subsidiaries are made. Elsewhere, JP FMCG is described as a 'classic global company' where international operations are largely formulated and controlled by headquarters. Their global strategy seeks to build competitive advantage by treating the world as a single, largely undifferentiated market. Instead of home-grown methods, the company seeks to use fairly universalistic forms of 'common sense' management, experimenting, learning and copying pieces from other firms in a haphazard and eclectic manner. Thus, the low degree of transfer might be attributed to the perceived lack of necessity and assumptions concerning the importance of particular management practices.

It is argued that a developing country poses a minimal *formal mechanism of constraint* to the design and implementation of MNCs' remuneration and PM practices. The Vietnamese government has been conscious of the necessity to keep the base level of salary in foreign invested companies at a minimum level and to reduce personal income tax rates. In this context MNCs are allowed to design and/or implement suitable rewards and performance management systems. That said, companies are faced with an *informal mechanism of constraint* in the form of a default labour market and job-hopping practices. This encourages the implementation of attractive and effective reward systems. The combination of these factors might explain the transfer of well-developed and standardised reward and PM systems in the sample firms.

The home country effects were also evident in this study. For example, MNCs kept tight control of the reward systems in the Vietnamese subsidiaries. A well-defined

salary position, permitted salary ranges, and the practice of variable pay which strongly emphasises individual performance were exercised. There were also instances of adaptation to local situations as seen in fixed bonuses, allowances and benefits practices. These practices were very similar in the studied firms and resemble those found in Vietnamese SOEs. Gaps in legislation and weak law enforcement mechanisms have seen companies develop practical tactics to reduce labour costs, such as the '70/30' salary package.

The distinctiveness of the US and Japanese traditions of rewarding and appraising employees was also evident in their Vietnamese subsidiaries with some minor adaptations. In the US firms, the PM process was closely linked with financial measurements and individual performance. The companies also applied a wide range of advanced PM tools and techniques, including the use of 360-degree feedback and forced distributions of performance. Conversely, the Japanese *nenko* system was transferred to Vietnam in the form of an age-linked payment. Some adaptations of the *nenko* system were apparent, such as a greater weight being given to individual merit and a higher starting salary.

Finally, although it was not a focus of this research, this chapter acknowledges certain cultural influences with regard to the practices of PM. However, the successful implementation of the US 360-degree feedback and forced distribution system and the limitations of the Japanese top-down appraisal process illustrate the transience and indeterminacy of national cultural traits. In opposition to Hofstede (1980) and other culturalists who see some unchanging national differentiation with regard to culture, this chapter illustrates that cultural values can actually evolve in some situations. The transitional period in Vietnam, which witnessed the fall of the centrally planned system and its promises, is receptive to new and seemingly contrasting practices. It remains to be seen how these develop over time.

REFERENCES

- Abo, T. (ed.) (1994) *Hybrid factory the Japanese production system in the United States*, New York Oxford: Oxford University Press.
- Bartlett, C.A. and Ghoshal, S. (1989) *Managing across borders the transnational solution*, Great Britain: Mackays of Chatham PLC, Chatham, Kent.
- Berggren, C. (1999) 'Introduction: between globalisation and multidomestic variation', in Belanger, J., Berggren, C., Bjorkman, T. and Kohler, C. (eds.) *Being local worldwide: ABB and the challenge of global management*, New York: Cornell University Press.
- Birkinshaw, J. and Hood, N. (1998) 'Multinational subsidiary evolution: capability and charter change in foreign-owned subsidiary companies', *Academy of Management Review*, 1998, Vol.23, No.4, pp.773-795.
- Dicken, P. (1998) *Global shift [transforming the world economy]*, 3rd edition, London: Paul Chapman Publishing Ltd.
- DiMaggio, P.J. and Powell, W.W. (1991) 'The iron cage revisited: institutional isomorphism and collective rationality in organization fields', in Power, W.W. and DiMaggio, P.J. (ed.) *The new institutionalism in organizational analysis*, Chicago and London: The University of Chicago Press, p.41-63.
- Doz, Y.L. and Prahalad, C.K. (1984) 'Patterns of strategic control within multinational corporations', *Journal of International Business Studies*, Vol.15, No.2, pp.55-72.
- Edwards, P., Ferner, a. and Sisson, K. (1993) *People and the process of management in the multinational company: A review and some illustrations*, Warwick Papers in Industrial Relations, Coventry: IRRU.
- Edwards, T., Chris, R. and Coller, X. (1999) 'Structure, politics and the diffusion of employment practices in multinationals', *European Journal of Industrial Relations*, Vol.5, No.3, pp.286-306.
- Elger, T. and Smith, C. (1994) 'Global Japanization? Convergence and competition in the organisation of the labour process', in Elger, T. and Smith, C. (ed.) *Global Japanization? The transformation of the labour process*, London: Routledge.
- Evans, P., Lank, E. and Farquhar, A. (1989) 'Managing human resources in the international firm: Lessons from practice', in Evans, P, Doz, Y. and Laurent, A. (ed.) *Human resource management in international firms*, London: Macmillan

- Ferner, A. (1994) 'Multinational companies and human resource management: An overview of research issues', *Human Resource Management Journal*, Vol.4, No.3, pp.79-102.
- Ferner, A. (1997) 'Country of origin effects and HRM in multinational companies', *Human Resource Management Journal*, Vol.7, No.1, pp.19-37.
- Ferner, A. (2000), *The embeddedness of US multinational companies in the US business system: implications for HR/IR*, Occasional Paper No. 61, Leicester: De Montfort University Business School.
- Ferner, A. and Quintanilla, J. (1998) 'Multinationals, national identity, and the management of HRM: "Anglo-Saxonisation" and its limits', *International Journal of Human Resource Management*, Vol.9, No.4, pp.710-731.
- Ferner, A. and Varul, M. Z. (2000) "'Vanguard" subsidiaries and the diffusion of new practices: A case study of German multinationals', *British Journal of Industrial Relations*, Vol.38, No.1, pp.115-140.
- Gereffi, G. (1996) 'Commodity chains and regional divisions of labor in East Asia', *Journal of Asian Business*, Vol.12, pp.75-112.
- Ghoshal, S. and Bartlett, C. (1988) 'Creation, adoption, and diffusion of innovations by subsidiaries of multinational corporations', *Journal of International Business Studies*, Fall, pp.365-388.
- Guest, D. and Hoque, K. (1996) 'National ownership and HR practices in UK greenfield sites', *Human Resource Management Journal*, Vol.6, No.4, pp.50-74.
- Guillén, M. (2001) 'Is globalization civilizing, destructive or feeble? A critique of five key debates in the social science literature', *Annual Review of Sociology*, Vol.27, pp.235-260.
- Hall, P. and Soskice, D. (2001) *An introduction to varieties of capitalism*, in Hall, P. and Soskice, D. (ed.) *Varieties of capitalism: The institutional foundations of comparative advantage*, Oxford: Oxford University Press.
- Hirst, P. and Thompson, G. (1999) *Globalization in question*, 2nd edition, Polity Press.
- Hollingsworth, R.J. and Boyer, R. (1997) 'Coordination of economic actors and social systems of production', in Hollingsworth, R.J. and Boyer, R. (ed.) *Contemporary capitalism the embeddedness of institutions*, the USA: Cambridge University Press.
- Johansson, J. and Yip, G. (1994) 'Exploiting globalisation potential: US and Japanese strategies', *Strategic Management Journal*, Vol.15, No.4, pp.579-601.
- Kopp, R. (1994) 'International human resource policies and practices in Japanese, European, and United States multinationals', *Human Resource Management Journal*, vol.33, No.4, pp.581-599.
- Kostova, T. and Zaheer, S. (1999) 'Organisational legitimacy under conditions of complexity: the case of the multinational enterprise', *Academy of Management Review*, Vol.24, No.1, pp.64-81.
- Kumazawa, M. and Yamada, J. (1989) Jobs and skills under the lifelong nenko employment practice, in Wood, S. (ed.) *The transformation of work? Skill, flexibility and labour process*, London: Unwin Hyman.
- Lane, C. (1995) *Industry and society in Europe. Stability and change in Britain, Germany and France*, Edward Elgar.
- Lawler, E. (1990) *Strategic pay*, San Francisco: Jossey-Bass.
- Littler, C. (1982) *The development of the labour process in capitalist societies*, London: Heinemann.
- Mendonca, M. and Kanungo, R.N. (1990) 'Performance management in developing countries', in Jaeger, A.M. and Kanungo, R.N. (ed.) *Management in developing countries*, London: Routledge.
- Nohria, N. and Ghoshal, S. (1997) *The differentiated network. Organizing multinational corporations for value creation*, San Francisco: Jossey-Bass Publishers.
- Ohmae, K. (1990) *The borderless world*, London: HarperCollins.
- Orrù, M., Biggart, N.W. and Hamilton, G.G. (1997) 'Organisational isomorphism in East Asian', in Powell, W.W. and DiMaggio, P.J. (ed) *The new institutionalism in organizational analysis*, Chicago: University of Chicago Press.
- Porter, M. (1990) *The competitive advantage of nations*, London/Basingstoke: MacMillan.
- Quintanilla, J., Ferner, A. and Varul, M. (2001) 'Country-of-origin effects, host country effects and the management of HR in multinationals: German companies in Britain and Spain', *Journal of World Business*, Vol.36, No.1, pp.107-128.
- Schmitt, M. and Sadowski, D. (2003) 'A rationalistic cost-minimization approach to the international transfer of HRM/IR practices: Anglo-Saxon multinationals in

- the Federal Republic of Germany', *International Journal of Human Resource Management*, Vol.14, No.3, pp.409-430.
- Smith, C. and Meiksins, P. (1995) 'System, society and dominance effects in cross-national organisational analysis', *Work, Employment & Society*, Vol.9, No.2, pp.241-267.
- Strauss, G. (1990) 'Toward the study of human resources policy', in Chelius, J., and Dworkin, J. (ed.) *Reflections on the transformation of industrial relations*, Metuchen, NJ: IMLR Press.
- Taylor, S., Beechler, S. and Napier, N. (1996) 'Toward an integrative model of strategic international human resource management', *Academy of Management Review*, Vol.21, No.4, pp.959-985.
- Tempel, A. (2001) *The interaction of country-of-origin and host country effects on human resource management practices in German and British multinational companies*, Paper for conference on multinational companies and human resource management: between globalisation and national business system Conference, De Montfort University, Leicester.
- Westney, D.E. (1993) 'Institutionalization theory and the multinational corporation', in Ghoshal, S. and Westney, D.E. (ed.) *Organization theory and the multinational corporation*, Basinstoke/ Hampshire: St. Martin Press.
- Whitley, R. (1992) 'Societies, firms and markets: The social structuring of business systems', in Whitley, R. (ed.) *European business systems firms and markets in their national contexts*, SAGE publications.
- Whitley, R. (1999) *How and why are international firms different? The consequences of cross-border managerial coordination for firm characteristics and behaviour*, Presented to Sub theme 3 "Business System In Their International Context" of the 15th EGOS Colloquium held at the University of Warwick, 4th – 6th July 1999.
- Wilkinson, B., Gamble, J., Humphrey, J., Morris, J. and Anthony, D. (2001) 'The new international division of labour in Asian electronics: work organisation and human resources in Japan and Malaysia', *Journal of Management Studies*, Vol.38, No.5, July, pp.675-695.
- World Bank Organisation (2002) *World Fact Book 2002*, [Online], Available: <http://www.odci.gov/cia/publications/factbook/index.html> [12th January 2003].
- World Bank, Report No. 25050-VN, (2003) *Vietnam delivering on its promise development*, [Online], Available: [http://www-wds.worldbank.org/servlet/WDSCContentServer/WDSP/IB/2002/12/14/000094946_02120304010865/Rend](http://www-wds.worldbank.org/servlet/WDSCContentServer/WDSP/IB/2002/12/14/000094946_02120304010865/Rend ered/INDEX/multi0page.txt) [12th January 2003].
-
- 1
- On 29th August 1990, the Ministry of Labour, Invalids and Social Affairs (MOLISA) issued Decision number 365/LDTBXH-QD regulating that the minimum salary of employees in foreign invested companies is 50 USD/month.
 - On 5th May 1992, MOLISA issued Decision 242/LDTBXH-QD regulating two levels of minimum salary: 35 USD/month for Ha Noi and Ho Chi Minh City; and 30 USD/month for the rest of the Country.
 - On 1st April 1996, MOLISA issued Decision number 385/LDTBXH-QD regulating three levels of minimum salary:
 - 45 USD/month for enterprises located in Ha Noi, and Ho Chi Minh City.
 - 40 USD/month for enterprises located in Hai Phong, Vinh, Hue, Da Nang, Bien Hoa, Can Tho, Ha Long, Nha Trang, Vung Tau.
 - 35 USD/month for enterprises located in other provinces and cities, or enterprises which use a large amount of manual workers in agriculture, forestry and fishery.
 - 30 USD/month for enterprises located in under-developing and lack of infrastructure areas, and those which use a large amount of manual workers and are faced with financial difficulties, with the approval of MOLISA.
- ² This conclusion excludes JP Auto3 that refused to offer explanations of their salary structure. However, they do acknowledge the existence of a seniority factor in their salary structure.
- ³ Kaizen, improvement suggestions on the other hand is a bottom-up process.
- ⁴ Reference is withheld to maintain anonymity for the company.