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### **Abstract**

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# **AN INVESTIGATION INTO THE REWARD SYSTEMS AND PERFORMANCE MANAGEMENT OF US AND JAPANESE COMPANIES IN VIETNAM**

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This paper 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 into a firm's internal operations, this study investigates the transmission and adaptation of the home country's HRM traits at the MNC subsidiaries in the developing host country. Based on an investigation of the reward systems and performance management of US and Japanese companies in Vietnam, this paper argues that while 'low power' environments pose little in the way of formal constraint mechanisms they can facilitate the penetration of novel HRM practices. They also suggest a complex and challenging situation for MNC operations, requiring a very high level of adaptation and flexibility on the part of the host country firm.

## **INTRODUCTION**

The recent trends of regional integration, 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 about 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 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).

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. 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 et al., 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 institutionalism school of thought. 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).

Many authors have attempted to answer the research question: 'how far national states can influence the international transfer of MNCs' management practices?'. Abundant in quantity, rich in quality, it is noticed that the literature on MNCs and the transfer of HRM across countries still suffer a lack of research in developing countries, which are in disadvantageous positions in the global commodity chains. One key analytical question of the formation and implementation of the HRM system in subsidiaries in weak host countries therefore is open for further research. In view of these problems, this chapter addresses the transfer of practices in relation to how institutional differences (distance) operate in the context of dominance/ weakness. It aims to investigate the transmission and adaptation of the home country's HRM traits 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 of this chapter 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 in the studied firms. It argues that developing and transitional economies, such as Vietnam, 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.

### **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 to labour issues as well as 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).

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 become an ingrained part of each MNC corporate identity and shape its international orientation as the general philosophy or approach taken by the parent company in the design of the HRM systems to be 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, etc.).

Taylor et al. (1996) assert that business system differences, including cultural distance and institutional distance, are the most important constraints on ‘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 are the result of these processes. 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 developed in the home business system. Ferner and his colleagues for instance have observed that in recent years elements of Anglo-American business practice are 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' in production and management systems in the US and other part 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). The subsidiaries can utilise their resources (expertise about local environment and market, specialist knowledge, culture, etc.) to block diffusion (Edwards et al., 1993).

The literature on MNCs and the transfer of HRM practices has concentrated overwhelmingly on the Triad 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 et al., 1989; Ferner et al., 2001, Edwards et al., 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/adapt with the constraints and take advantage of the 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 are chosen as the object of research. In terms of HRM, American and Japanese MNCs are in dominant positions in 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 11<sup>th</sup> in implemented capital, its presence in Vietnam has significant political and economic meanings. Some

substantial investment projects are subsidiaries of U.S. companies funnelled through third countries or offshore tax havens. As such, they are credited not to the U.S., underestimating the 'real' value of overall U.S. investment in Vietnam.

The specific reason for choosing Vietnam as host country 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 were living below the poverty line (World Bank, 2002). In 2003, Vietnamese GNI per capita is 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. Vietnam thus presumably is in a less favourable power position to influence the operation of foreign companies, especially those of great power.

The aims of the research are pursued through a case study research strategy. A qualitative method 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, union, 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.

There are also 'Vietnam-specific factors' that supported the use of a case study approach. Firstly, although drawing upon established theories and empirical analyses of a large amount of studies in other host countries, this research is largely exploratory, with little, if any, prior data or analysis on the topic in Vietnam. In the absence of any comprehensive study of the HRM in Vietnam, this research is not able to refer to prior theoretical or empirical work in the literature. The research, therefore, counts on its qualitative approach. Secondly, as Vietnam is regarded as closed society, which means that gaining permission to survey a general population of firms is not practicable, relying on a multiple case study method comprising a limited number of companies must be considered a more realistic strategy.

Interviews were conducted at nineteen economic organisations. Of that, eight foreign invested companies are the main cases of this research; three state-owned enterprises (SOEs) are directly linked with them, as they are the Vietnamese partners of some joint ventures; the rest are considered as pilot case studies (see table 1). In order to capture industrial effects, if any, half of main cases operate in the automotive sector and the

other half in FMCG industry. Organisational factors such as firm function, age, size and ownership type, etc. which impact HRM practices and their transfer are also recorded. In total, 184 interviews were carried out, of which 121 interviews were with the main cases. The result of the interviews in Vietnam is enhanced by interviews held with or alternatively questionnaires sent to the headquarters of the studied 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 INTERNATIONAL TRANSFER OF THE REWARD SYSTEM AND PERFORMANCE MANAGEMENT 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 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). A 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 constraints 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). The management of social insurance therefore is shifted from companies to the local and, ultimately, the national social security systems.

However, companies have been facing with a default labour market. At the skilled end of the labour market, companies encounter the problem of lacking qualified and skilled candidates in some fields such as computing, marketing, human resource management, etc. In this context, job-hopping in a bid for a higher salary has become popular. The labour market thus places upon companies certain pressures 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 for more capital injects<sup>1</sup>.

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- On 29<sup>th</sup> 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 5<sup>th</sup> 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 1<sup>st</sup> April 1996, MOLISA issued Decision number 385/LDTBXH-QD regulating three levels of minimum salary:

## **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 C&B philosophy is 'to provide a total compensation package that is 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 reflects 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 does 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 at their best market challengers, otherwise market followers. US Auto C&B package is higher than that of JP Auto1, JP Auto2 and JP Auto3, while US FMCG1, US FMCG2, and US FMCG3 are ahead of JP FMCG. Especially, for higher paid categories of employees (top management and management) salaries paid by Japanese subsidiaries are significantly below that of the US firms. This may reflect the attitudes of the Japanese subsidiaries 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.

The relatively low salaries paid by Japanese affiliates are not mitigated by unusually generous benefits or bonus. The portion of the total compensation package that takes the form of benefits is somewhat similar in form and in value in the studied Japanese subsidiaries to those of American subsidiaries. Japanese firms do not offer more attractive bonuses. The Japanese on balance, do not provide as competitive a C&B package as do their US counterparts.

### **Allowances and benefits**

While salary practices are centrally designed, various types of allowances and benefits are left open to the subsidiaries to decide on what is 'suitable to the Vietnamese situation', as put by US Auto's C&B Specialist. Even though the value of these may vary significantly, companies appear to offer very similar types of allowances and benefits, which also resemble those offered by their Vietnamese SOE partners to their employees. Benefits offered are in the form of uniform, subsidised lunch, accident insurance, company's good purchase program, commuting for staff, car for top executives, gifts on personal days, mobile phone, end-of-year celebration, company's Family Day, sporting activities, annual health check, etc.

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- 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.

## 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 salary and is paid to all permanent employees.

Seven out of eight studied companies provide a fixed bonus in compliance with the Labour Code to all of their permanent / regular employees. Some of them provide 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 have not met the break even points, thus they are not tied with this regulation, yet. However, US Auto still guarantees 13th month salary fixed bonus, while US FMCG3 do not deliver any fixed bonus but claim that their employees' average income well surpasses the required 13th month payment. A fixed bonus is paid either at the year-end or before Lunar New Year holiday (Tet holiday).

There is evidence that some companies which are not objects of this research do not provide any form of bonus and simply pay 12 months of fixed salary after reaching their break-even points. This obviously violates the Labour Law, but it does exist in practice.

**Table 2** Fixed bonus practices

Company	Fixed bonus practices
US Auto	13th month salary
JP Auto1	13th month and 14th month salary
JP Auto2	13th month and 14th month salary
JP Auto4	13th month salary
US FMCG1	13th and 14th month salary
US FMCG2	13th month salary
US FMCG3	Not applied yet
JP FMCG	13th month salary

In many cases, allowances/ benefits and bonuses are 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 come to a verbal agreement that a company pays 70 percent of the agreed salary as 'fixed salary', the remaining 30 percent is 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. It 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 they receive the same amount of money and the same kind of health services, regardless 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 hesitantly contribute to these government-controlled funds.

However, a majority of big companies, especially the leading ones do not utilise this payment structure. Interviewed C&B specialists explain that this practice is based on the assumption that the related authority (company trade union, local trade union, local authority, etc.) 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 the 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 style is to reduce or avoid high income tax for top management and management.

Until 2001, US Auto had remained an optional 'mutual agreement' with a selected group of highly paid top management and management, in which the employees accepted the 70/30 style so that both parties could benefit from a lower income tax and social security and health insurance reduction, on condition that company agreed to pay a certain extra money to cover the potential loss of pension. However, 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 US Auto into a total abandonment of the 70/30 style to avoid legal problems (also the benefits of the 70/30 style have been reduced under the new income tax system).

### Pay for performance

Performance related pay (PRP) which rewards individual performance is evident in all the studied firms. The relationship between individual PRP and performance related pay is explained in details in Table 3.

**Table 3      The relationship between performance rating and performance related pay- applied for all permanent employees, if not otherwise mentioned**

	Performance grade	Performance related pay
US Auto	A, B+, B, C	Each performance grade will be allocated a PRP index. An 'A' rate will get a higher index to a 'C' rate. For example, considering variable pay of a Production Technician: <ul style="list-style-type: none"> <li>• Approximate monthly earning: 1,500,000 VND</li> <li>• If he is rated A: <math>1.50 \times 1,500,000 = 2,250,000</math> VND (per annum)</li> </ul> This means an additional 187,500 VND in their monthly pay
JP Auto1	S (special), A, B, C	<ul style="list-style-type: none"> <li>• If rated S: extra 2 month salary</li> </ul>

	Performance grade	Performance related pay
		<ul style="list-style-type: none"> <li>• If rated B+, B-: extra 1.5 month salary</li> <li>• If rated C: no extra pay</li> </ul>
JP Auto2	S (special), A, B+, B-, C	<ul style="list-style-type: none"> <li>• If rated S: extra 2 month salary</li> <li>• If rated B+, B-: extra 1.5 month salary</li> <li>• If rated C: no extra pay</li> </ul>
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"> <li>• Employees rated 1 are in the highest salary band/curve (higher frequency of salary rises and large amounts)</li> <li>• Employees rated 2 are in the middle salary band/curve</li> <li>• Employees rated 3 are at the lowest salary curve and basically flat lining or going backwards if including inflation.</li> </ul>
US FMCG2	Exceptional, meet expectation, below expectation	<ul style="list-style-type: none"> <li>• Depending on their performance, employees will be sorted in 3 distribution curves, exactly as US FMCG1.</li> <li>• Applied for staff and upper level only</li> </ul>
US FMCG3	Exceed expectation, meet expectation, does not meet expectation, not rated (for temporary workers)	<ul style="list-style-type: none"> <li>• If rated 'exceed expectation': extra 2 month salary</li> <li>• If rated 'meet expectation': extra 1.5 month salary</li> <li>• If rated 'does not meet expectation': no extra pay</li> </ul>
JP FMCG	No formal system exists	

### 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 on how they define the basic salary. The Japanese firms have the distinctive 'age-linked salary'. JP Auto1, and JP Auto2 claim of the use of the so-called 'life module' in defining the level of salary they pay to their employees<sup>2</sup>. JP FMCG used the same principle but abandoned it a few years later. The Vietnamese life module is the result of the research conducted in Vietnam by C&B specialists from the Japanese headquarters with the support of the Vietnamese staff at the subsidiaries. The life module estimates the cost of living of an average employee from the age of 18 to 60. The salary of the employee is supposed to increase in pace with his/her promotion in the firms (from team member to team leader to supervisor, etc.) and his/her personal needs (from being single to being married, having children, paying for children's tuition fees, buying a house in the early or mid-40s, etc.). The age-linked salary rises more sharply in the younger ages and then is held constant after the age of 50 till retirement.

<sup>2</sup> 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.

Thus, in the form of age-linked payment, the seniority wage (*nenko*) system does manifest itself in the remuneration system of big Japanese firms in Vietnam. However, the companies do not attempt to implement a fully-fledged Japanese style seniority based wage system. First of all, HRM Manager of JP Auto1 and JP Auto2 claim that greater weight is 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 and upper levels in the Vietnamese labour market, in order to attract candidates for their vacancies, the starting salary paid by these Japanese subsidiaries is relatively higher than what would be expected by firms adhering strictly to the *nenko* principal (compared to their headquarters).

The life module salary ensures the provision of living costs for employees and encourages them to remain loyal to a particular firm. It 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 white-collar ones, do 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 consider it merely as a technique to calculate salary level. What they really look at is the final salary paid to them at the present rather than any long-term benefits. One interviewed manager mentions the welfare system of state owned enterprises under the centrally planned economy and how this system fails; in this transitional period of the economy and the rapid changes of the society, employees find it hard to trust any long-term promise. The interviewee says:

*'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.

While highly centralised and complex remuneration systems are evident in most of the case studies, JP FMCG opts 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 is extremely simplified. JP FMCG's salary system is divided into two categories: white-collar employees and blue-collar employees. Wage of blue-collar employees is calculated based on their working days per month (35,000 VND/day). On the other hand, the only reference used to establish the starting salary and the increasing rate for white-collar employees is the market average level. The salaries of professionals and upper levels of JP FMCG are negotiated on an individual basis with Japanese managers, most often with the Japanese General Director. He also personally decides salary increase without any systematic salary structure. However, the

extremely simplified salary structure, at the time being, functions fairly well. In practice, JP FMCG's salary system for white-collar employee works in the context of a small-sized subsidiary. Japanese managers are confident that they can keep pace with the fluctuations in the salary market of this group, probably by their informal network, and hold a firm grip on a limited number of white-collar employees.

In brief, this section discusses in detail the reward systems of the studied firms. The effects of both global and local host environments on the design of the reward systems are evident. Compensation practices are highly centralised in terms of the defined position in the salary market, the permitted salary range and the compensation structure, which puts a great deal of emphasis on individual performance. However, there are instances of centralised policies being translated into practices and procedures in a manner which is suitable to the local situations and preferences, such as allowances, benefits, fixed bonus practices and the adapted *nenko* system. The Vietnamese legislation regarding salary in foreign invested firms leaves 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 studied US firms are marked by a high level of employee participation in the process and the openness of the process. Firstly, employees are required to engage in defining their targets. The company share their business objectives and targets with employees, and actively encourage them to suggest strategies by which these targets can be achieved. Secondly, evaluation of individual performance is open for discussion and if employees disagree with the performance evaluation rated by their supervisors or colleagues, they can voice their concerns and ask for a re-evaluation. Immediate supervisors and HR Managers are responsible for organising interviews to 'check and balance' to minimise unfairness or bias. The final ratings are decided by both parties.

Advanced PM tools and techniques are widely applied in the US firms, illustrating by the use of the 360-degree feedback and forced distributions in all the case studies. The 360-degree feedback is applied solely for top management, which means about less than ten employees in each company are subject to this type of performance review. Forced distributions of performance is 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 distributions of performance is a popular practise in the studied Japanese firms and Vietnamese SOEs, the 'forced' element is what make the US firms different and more aggressive in their attempt to link performance and the pay system.

**Table 4** Forced distribution system applications in the studied companies

Company	Forced distributions and the direct influences on employees	
	White-collar employees	Blue-collar employees



<b>US Companies</b>		
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.
<b>Japanese companies</b>		
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 mark).	

Mendonca and Kanungo (1990) believe that performance appraisal practices with a more 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 a real difficulty, and that cultural values are not overwhelming constraints to the implementation of PM, as long as expatriates and local managers are sensitive enough with the issue. Interviewed managers report that they have good and through discussions with Vietnamese employees, which also cover negative issues.

The 360-degree feedback includes upward rating which is unfamiliar and might be considered as incompatible in a hierarchical society. Meanwhile the forced distributions system promotes competition amongst colleagues, and thus can damage their harmonious relations. Presumably, the transfer of these technologies into the Vietnamese subsidiaries could be faced with strong reactions and even refusal from the local employees. However, in practice, no particular constraint on the implementation of the 360-degree feedback and forced distributions is recorded, except the high cost of education involved in the 360-degree feedback process, especially as the raters are expected to be chosen from multi-sources which might include external ones. The smooth transfer might be a result of a newly liberated business system, at the macro-

level and a cultivated 'American culture' in the studied firms, at the micro-level. The break down of the centrally planned economy leading to the collapse of communist model of an egalitarian model of income distribution makes 'capitalist countries' ways of distributing principles, which are strongly based on individual performance more acceptable to the society in general and employees in particular. Vietnamese employees 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 reflects a common perception about the way American conduct business in particular and of Westerners in general. This is seen as a refreshing and welcome working environment.

The successful application of the 360-degree feedback and forced distribution system shows that cultural values are not overwhelming constraints on the implementation of PM and can be diminished in a changing society and overridden by strong company's values.

### **PM practices in the Japanese firms**

The studied Japanese firms report a system of top-down alignment. White-collar employees are expected to take 'fringe tasks' when they arise. In some companies, target setting is a one-way process, with little engagement of the subordinates (JP Auto3, JP FMCG)<sup>3</sup>. Individual objectives are set but not written down, which significantly damage the reviewing process. Vietnamese employees differ in their opinions about this practice. Some express their objections, some willingly accept it. Expatriates and Vietnamese top managers provide comments, which later is crosschecked with lower level employees as accurate, and many of their employees are happy to have their objectives set for them. Explanations could be a passive attitude rooted in the Vietnamese educational style, respect for hierarchical order, and/or confrontation avoidant attitude.

Performance appraisal is conducted strictly top-down and supervisors' decisions are considered as final. PM process in the studied Japanese companies involves with neither upward evaluation (all companies) nor face-to-face discussion (JP Auto1, JP Auto3, JP FMCG). Interviewed managers of JP Auto3 and JP FMCG reports that Japanese bosses have the final say in their subordinates' ranking, and it is not unusual that they use this right to upgrade or downgrade the ranking significantly, based on their personal view of the employees. This practice in fact has significantly reduced Vietnamese managers' trust in the meaningfulness of the PM process they themselves conduct, as can be seen in JP Auto3 and JP FMCG. Many of them consider the process as a documentary requirement and/or a judgmental tool rather than a developmental tool. The halo effect (Cooper, 1981) which means the tendency to let one rating dimension influence all rating dimensions, is evident. JP Auto3's salary specialist says:

*'They [Japanese managers] have a rather fixed perception about each of their employees... One of my colleagues played game once in his computer in the working time, our boss caught him in action. After that, nothing could change his idea about him [my colleague], even though for sure he has not been the only one who plays game in working hours. There was a rather uncomfortable atmosphere after that between his boss and him... The guy felt it and he*

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<sup>3</sup> Kaizen, improvement suggestions on the other hand is a bottom-up process.

*probably thought it meant the end of his career in this company. He left two months ago, roughly four months after the incident.'*

Although top down appraisal practice which heavily depends on Japanese managers' personal evaluation in the Japanese firms is in line with some aspects of Vietnamese culture such as respect for authority and hierarchical orders, Vietnamese employees in general are dissatisfied with the Japanese PM practices. This may be explained by the fact that this practice is opposed to the Vietnamese customary practice – which has been predominant in SOEs for decades - of 'democratic' sounding of opinions in performance appraisal, which means that opinions from a wide range of employees are gathered at 'Appraisal Committees' in order to achieve a 'democratic' evaluation of an employee's performance. Although these Appraisal Committees operate in a hierarchical order, in which the decision of the committee at the lower level needs approval of the immediate higher-level committee, evaluation of individual performance is conducted in the open with the presence of the employees and their colleagues. This is to say that national cultural traits and their influences on firms' behaviours are indeterminate and complex. In this case, respect for authority and hierarchy are traditionally implemented in a fashion that stresses openness and 'democratic' participation in decision-making.

In brief, distinctive patterns of national PM patterns are evident. The US firms emphasise financial measurements, supported by non-financial ones, in performance appraisal. The PM process is facilitated by the use of advanced management tools and techniques. On the other hand, PM in the studied Japanese firms is characterised by a more informal form of regular performance review, which is conducted strictly top-down and suffers from bias and lack of openness. Cultural influence is acknowledged, such as difficulties involved in providing and receiving direct criticism. However, it is argued that cultural values should not be seen as overpowering obstacles. They can in fact be overridden by a strong company culture.

## **CONCLUSIONS**

The aim of this research is to examine the transmission and adaptation of the host country's HRM traits at MNC's subsidiaries in a developing host country. The research has come to some important conclusions.

The research confirms that 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 best practices to other countries. Most literature on the transfer of MNC's HRM policies and practices adopts an assumption that superior HRM practices is a significant actual or potential source of competitive advantage for foreign invested firms over indigenous firms (E.g. Taylor et al., 1996). 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 at all. This research argues that MNCs may consider that the transfer of HRM policies and practices itself is not necessary for their successful operation in Vietnam. Empirically, the research points out that JP FMCG basically decided to stop the transfer of their home practices to the Vietnamese subsidiaries. Instead, there is a very high degree of localisation of managerial practices (even though the same conclusion cannot be drawn for transferring production technology). A few first attempts to copy home practices

(the *nenko* system) have quickly dissolved in the Vietnamese environment. JP FMCG cases provide accurate examples of companies, operating in global and multi-domestic industry, which have a low desire to transfer their home country practices to Vietnam. The argument is strengthened when some attempts to compare their practices in other subsidiaries are made. Elsewhere, in a well-known piece of research, JP FMCG is claimed to be a 'classic global company', where international operations are largely formulated and controlled by headquarters and global strategy seeks to build competitive advantage by treating the world as a single, largely undifferentiated market<sup>4</sup>. 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 about the importance of particular management practices.

Even if there is general recognition that a particular package of organisational practices consistently contributes to superior corporate performance, there still remains the difficulty of actually putting the transplanted system into practice. 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 government has been conscious of the necessity to keep the floor level of salary in foreign invested companies at a minimum level, reduce personal income tax, and grant MNCs great freedom to design and/or implement suitable rewards and performance management systems. This context eases the transfer of the reward system, if companies so wish. On the other hand, companies are faced with the *inform 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 systems and PM systems in the studied firms.

Home country effects are evident. Headquarters tend to tightly control 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 are exercised. There are instances of adaptation to local situation as seen in fixed bonus, allowances and benefits practices. These practices are very similar in the studied firms and resemble those in Vietnamese SOEs. Gaps in legislation and a weak law enforcement mechanism have seen companies develop practical tactics to reduce labour costs, such as the '70/30' salary package.

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

Finally, although it is not a focus of this research, the paper acknowledges certain cultural influences on the practices of PM. However, the successful implementation of the US 360-degree feedback and forced distribution system and limitation of the

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<sup>4</sup> Reference is withheld to maintain anonymity for the company.

Japanese top-down appraisal process which lacks openness and employee participation illustrates the transience and indeterminacy of national cultural traits. Against Hofstede (1980) and other culturalists who see some unchanging national differentiation on culture, this paper illustrates that cultural values can actually evolve. The transitional period in Vietnam, which witnesses the fall of the centrally planned system and its promises, is receptive to new and seemingly contrasting practices. As argued by Gamble (2001), cultural traits such as attitudes to hierarchy are often complex and ambiguous, provoking different responses in different situations.

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