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enterprises in all four countries is training to provide reward to employees. In small enterprises in all four countries, the other top three practices (in addition to training to improve technical job abilities) are proven work experience in a similar job as a hiring criteria, and benefits as an important part of the total pay package.

- All or almost all practices in the training subfunction were perceived as effective across all employment size categories in all four countries, except for small enterprises in South Korea. The next is appraisal, with the only exceptions being in South Korean small enterprises, and large enterprises in Indonesia and the Philippines, where it is only in the training subfunction where all or almost all practices are seen as effective. For South Korea, it is the hiring and pay subfunctions where all or almost practices are seen as effective in small enterprises.
- None of the subfunctions were found to have all or almost all listed practices as correlating with organizational performance across all employment size categories for any of the four countries. The most number of countries where all or almost all listed practices in a subfunction correlated with organizational performance in the same employment size category is three out of the four countries: appraisal practices for small and medium enterprises (except South Korea), and training practices for medium-sized enterprises (except the Philippines).

Thick descriptions of existing practices are only the beginning of building a body of knowledge about a particular organizational phenomena. Because of the dearth of empirical data on different countries, this is an especially difficult undertaking for international management. Hopefully, this can be provided by the massive amount of information that the best practices consortium has been collecting. And similar to the data-gathering phase, making sense of the observed differences and similarities across the different countries will be done through a collaborative effort of researchers with an understanding of the legal, political, economic and cultural contexts of these countries, which influence the practice and effectiveness of HRM in the organizations operating within these countries.

Appendix.-

Measures of Perceived Competitiveness of Environment and Status of the HR Department

Perceived Competitiveness of Environment:

- Items:*
1. Marketplace competition has increased dramatically.
 2. Conditions in our business environment are rapidly changing.
 3. Government regulations are rapidly changing.
 4. The technology in our product/services is complex.
 5. Abundant supply of skilled people in the labor market (reverse-scored).

Scale: 5-point, with "1" - Very False, and "5" - Very True

Status of the HR Department:

- Items:*
1. It is viewed as an important department in the company.
 2. It works closely with the senior management group on the key strategic issues facing the company.

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STRATEGIES FOR HRM OF SMEs IN INDONESIA

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STRATEGIES FOR HRM OF SMEs IN INDONESIA

ABSTRACT

In developing strategies for human resource management in SMEs, one must look at the characteristics of SMEs. SMEs are managed by their owners and are mostly family businesses, and therefore their success depends primarily on the entrepreneurial and management capabilities of the owners. In Indonesia, the population consists of many ethnic groups like indigenous Indonesians (*pribumi*), Chinese, Arabs, Indians and others, each with their own tradition, historical background and attitudes. *Pribumis* again are subdivided into many subethnic groupings. However, the most successful ethnic group in business is the Chinese.

Being small is often identical with personal weaknesses of the owners like weak mentality as lack of motivation for achievement, and not only because of lack of government support facilities, but often also because of the incapability of exploiting opportunities. The paper looks into the background of different attitudes among various ethnic groups in Indonesia as to their entrepreneurial capabilities, and offer suggestions for the development of SMEs. There are at least three groups which needs special attention, the firm owners, the workers, and government officials in charge of SMEs development. There are also at least four important areas in which the skills of SME owners should be enhanced: management, financial management, marketing and technological skills. In addition, credits to SMEs must also be made available, since generally they have little access to formal financial markets because of lack of collateral means.



INTRODUCTION

In developing strategies for human resource management (HRM) for small and medium-scale enterprises (SMEs), one must in the first place look at the specific characteristics of SMEs. SMEs are managed by their owners and are mostly family businesses, and therefore the success of SMEs depends primarily on the entrepreneurial and management capabilities of the owners. The Indonesian Central Statistics Agency divides the scales in manufacturing industries into four categories: large, medium, small-scale and household enterprises¹. In looking at HRM of SMEs, there are three critical problems to be addressed at:

1. the owner of SMEs,
2. the cultural background of various ethnic groups in Indonesia and their respective attitude toward entrepreneurship,
3. government policies toward the development of SMEs and the quality and dedication of government officials involved in promoting the development of SMEs.

In Indonesia, the population consists of many ethnic groups like indigenous Indonesians (*pribumis*), Chinese, Arabs, Indians and others, each with their own tradition, historical background, identities and attitudes. *Pribumi* Indonesians are again subdivided into many subethnic groupings. However, the most successful entrepreneurs are Indonesians of Chinese descent. Ethnical background has a great impact on the general performance of doing business, some groups are more successful than others among ethnical lines. Being small is often identical with personal weaknesses of the owners like weak mentality as lack of motivation for achievement, and not only because of lack of support measures, but often also because of the incapability of exploiting opportunities.

The paper looks into the background of different attitudes among the various ethnic groups in Indonesia as to their entrepreneurial capabilities, and offer suggestions for the development of SMEs, in particular to those owned by *pribumi* Indonesians. What kind of support and training are needed, to the firm owners and to the workers. Though born attitudes and cultural background are difficult to change, education and training can bring to a certain degree some changes in attitudes. Another general weakness is in the supervising and control of workers and products. Special attention should also be given to HRD enhancement of government officials in charge with the support and development of SMEs.

The paper will be organised in the following sections: SMEs in Indonesia, weaknesses in HRM, government policy and assistance, education and training, conclusion and policy recommendations. The government policy of establishing foster father partnership scheme by

¹ Large scale enterprises are defined as those having at least 100 employees, while medium scale as those having between 20 and 99 employees, small scale between 5 and 19, and household industries as having less than 5 employees.



establishing linkages between large and small firms through subcontracting and technical assistance will also be discussed.

SMEs in Indonesia

According to estimate figures for 1997, there were in total 2,610,693 household industry establishments, 241,169 small-scale and 23,632 large and medium-scale enterprises in Indonesia². As can be seen, household industries are very dominant in terms of number of establishments in Indonesia's manufacturing industrial structure, while large and medium-scale enterprises constitute only a relatively small portion. Compared to 1994 figures, the number of large and medium-scale enterprises increased by 24.3 %, small-scale enterprises by 43.4 %, but only 10.1 % in case of household industries. But in terms of contribution to overall employment, the large and medium-scale industries absorb the largest employment level, 4,337,609 in 1997 compared to 4,275,424 in the household industries and 2,077,298 in the small-scale industry sector. Employment growth as compared to 1994 reached 17.3 % in the large and medium-scale industries, 47.6 % in the small-scale industries, but only 8.3 % in the household industries. So the largest contribution to employment came from the small-scale manufacturing industry sector. See Table 1 and 2.

Looking at the individual manufacturing subsectors of small and household enterprises, the picture is as follows. In general, both the number of industrial establishments and the employment level increased sharply during the 1994 to 1997 period. In terms of number of establishments in the small-scale industry category, the four largest subsectors in 1997 were by following order, the food and beverages industry, then the construction material industry, the wood industry, the textile, garment and footwear industry. The three smallest subsectors were the steel and iron industry, the chemical industry, and the paper and printing industry. However, the fastest expanding subsectors from 1994 to 1997 were the iron and steel industry with 126.5%, followed by paper and printing industry with 113%, the chemical industry with 68% and the food and beverages industry with 61%. While the metal and electrical products and motor vehicle components industry remained almost stagnant with 3%. See Table 1 and 2.

In the household industry category, in terms of number of establishments, the four largest subsectors in 1997 were by following order the food and beverages industry, the woodworking industry, the textile, garment and footwear industry, and the construction material industry. The three smallest subsectors were again the iron and steel industry, the paper and printing industry and the chemical industry. The fastest expansion from 1994 to 1997 were to be found in the miscellaneous product industry with 52.9%, followed by the chemical industry with 44.8% and the paper and printing industry with 43.7%. Two industries however showed contracted development, the iron and steel industry with -17.6% and the woodworking industry with -2.1%. See Table 1 and 2.

In terms of employment in the small-scale industry category by subsectors, by far the largest absorption of labour occurred in the food and beverages industry, followed respectively by the textile, garment and footwear industry, the construction material industry

² Indonesian statistics do not make further separation between large and medium establishments.



and the woodworking industry. The smallest labour absorption occurred again in the iron and steel industry, the chemical industry and the paper and printing industry. The largest expansion in labour absorption between 1994 and 1997 was to be found in the manufacturing subsectors iron and steel industry with 219.1%, paper and printing industry with 138.4%, food and beverages industry with 99.8%. The smallest increase in labour employment was in the metal, electrical products and vehicle components industry with only 8% during the period, See Table 1 and 2.

In the household industry sector, the four largest subsectors in terms of labour absorption were respectively, the food and beverages industry, the woodworking industry, the textile, garment and footwear industry, and the construction material industry. The smallest were again the iron and steel industry, the chemical industry, and the paper and printing industry. Growth in employment increased fastest during the period 1994 to 1997 in the chemical industry with 87.2%, iron and steel industry with 72%. On the contrary, negative employment growth was observed in the woodworking industry with -7.3%. See Table 1 and 2.

Table 1. Number of Establishments and Persons Employed of Large/Medium, Small and Household Manufacturing Enterprises in Indonesia, 1994 - 1997

Industrial code	Number of Establishments			Persons Employed		
	Large/Medium	Small	Household	Large/Medium	Small	Household
(1)	(2)	(3)	(4)	(5)	(6)	(7)
31 1994	4,826	57,080	840,590	739,133	435,817	1,564,501
1995	5,336	66,318	856,477	895,762	517,545	1,606,248
1996	5,608	79,242	881,586	810,221	617,085	1,642,682
1997	5,713	91,922	963,213	784,667	780,136	1,794,794
32 1994	4,423	29,295	311,828	1,255,536	272,770	429,006
1995	4,958	33,779	319,867	1,312,767	331,353	425,645
1996	5,230	38,965	357,023	1,354,716	381,901	453,403
1997	5,261	38,258	359,240	1,399,827	375,294	456,214
33 1994	2,487	32,414	919,532	527,098	272,936	1,353,799
1995	2,913	34,982	908,461	538,935	286,935	1,276,256
1996	3,145	41,093	886,384	562,231	336,740	1,235,081
1997	3,240	39,740	900,338	581,763	325,964	1,254,595
34 1994	833	2,953	12,351	132,461	25,514	27,027
1995	905	4,101	13,789	149,016	39,634	30,257
1996	1,035	5,833	16,464	165,390	56,354	35,502
1997	1,004	6,293	17,749	174,399	60,823	38,285
35 1994	2,236	2,694	15,293	444,040	25,631	23,902
1995	2,412	3,310	16,992	472,334	30,483	36,600
1996	2,581	4,310	21,026	485,701	39,692	42,495
1997	2,590	4,529	22,151	473,306	41,708	44,751
36 1994	1,603	30,545	179,938	156,904	271,423	373,963
1995	2,027	33,787	194,885	179,847	275,105	403,538
1996	2,158	41,938	214,340	190,308	341,172	440,495



	1997	2,382	43,753	220,533	232,084	356,252	453,225
37	1994	151	275	1,845	46,774	2,035	3,400
	1995	169	317	2,248	47,644	2,670	4,599
	1996	182	623	1,521	50,420	6,494	5,847
	1997	190	623	1,521	54,508	6,494	5,847
38	1994	2,074	8,739	47,960	437,178	63,440	100,863
	1995	2,389	8,993	52,643	499,719	68,362	108,200
	1996	2,596	10,308	60,735	523,438	77,256	121,668
	1997	2,758	9,009	60,371	565,557	68,487	124,223
39	1994	384	4,159	42,881	74,546	37,421	71,711
	1995	442	5,180	47,953	78,117	45,712	77,582
	1996	462	6,666	62,490	72,542	58,684	98,590
	1997	494	7,042	65,576	71,498	62,140	103,490
Total	1994	19,017	168,154	2,372,218	3,813,670	1,406,987	3,948,172
	1995	21,551	190,767	2,413,315	4,174,141	1,597,799	3,968,929
	1996	22,997	228,978	2,501,569	4,214,967	1,915,378	4,075,763
	1997	23,632	241,169	2,610,693	4,337,609	2,077,298	4,275,424

31 Food, beverages and tobacco

32 Textiles, garment and leather products

33 Wood, bamboo, and rattan products including furniture

34 Paper and paper products, printing and publishing

35 Chemical, petroleum, coal, rubber, and plastic products

36 Non-metallic mineral products, except products of petroleum and coal

37 Basic metal industries

38 Fabricated metal products, machinery and equipment

39 Other manufacturing industries.

Source: Central Statistics Agency.



Table 2. Growth Rate of the Manufacturing Industries in Indonesia, 1994 – 1997 (in %)

Industrial Code	Number of Establishments			Persons Employed		
	Large/Medium	Small	Household	Large/Medium	Small	Household
(1)	(2)	(3)	(4)	(5)	(6)	(7)
31	18.4	61.0	14.6	6.2	99.8	14.7
32	18.9	30.6	22.6	11.5	37.6	6.3
33	30.3	22.6	-2.1	10.4	19.4	-7.3
34	20.5	113.1	43.7	31.7	138.4	41.7
35	15.8	68.1	44.8	6.6	62.7	87.2
36	48.6	43.2	22.6	47.9	31.3	21.2
37	25.8	126.5	-17.6	16.5	219.1	72.0
38	33.0	3.1	25.9	29.4	8.0	23.2
39	28.6	69.3	52.9	-4.1	66.1	44.3
Total	24.3	43.4	10.1	13.7	47.6	8.3

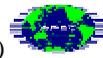
Source : Calculated from Table 1.

HUMAN RESOURCE MANAGEMENT IN SMEs

Entrepreneurial attitude, capability and performance differ among the various ethnic groups in Indonesia. The Chinese ethnic minority, it is estimated that they comprise around 5 % of total Indonesian population of around 200 million, dominates the greater part of the Indonesian economy, especially in the medium and large-scale enterprise category. Their presence is very conspicuous, as they dominate the business districts in large cities. And obviously they are the most successful ethnic group, which raises envy and deep-rooted hatred among other ethnic groupings. Consequently the Chinese were often the victim and target of social tensions and frustration in particular from *pribumis*, ending in violent riots and burning, like the violent atrocities of May 1997. Their business success is due to the fact because Chinese in general work harder than *pribumis* (Sutojo: 43), and are diligent, pragmatic, thrifty and trustworthy by nature, qualities that are needed to be a successful entrepreneur. However, among *pribumi* intellectuals, the sentiments towards Chinese are divided. Some praise the Chinese for their good values, but the majority hate them for being cunning, selfish, exclusive, stingy, etc. (see Jahja).

Next to the Chinese are Arabs, whose community is much smaller than the Chinese. In terms of entrepreneurship they are considered to be relatively successful. Contrary to Chinese, they are not considered as aliens but as *pribumis*. This is because they are already fully integrated with the *pribumis*, in particular because of their common Moslem religion, and since many of them are religious leaders in *pribumi* society where the majority is Moslem. In the historical past some rich Arab merchants founded sultanates and became Sultans. Arab Indonesians go to the same schools with *pribumi*, mostly live in the same neighbourhood although there are also Arab quarters, and the rate of intermarriages is high.

Generally on the bottom line are *pribumi* businesses. Seldom can *pribumi* businesses compete equally with the Chinese or Arabs. But here again there are great differences among the various *pribumi* subethnic groups, which are again geographically determined. E.g. people from the Minangkabau area in West Sumatra, from South Sulawesi and from Bali are generally



known as successful business people. Curiously enough, the role of women entrepreneurs is dominant in some parts of Indonesia, e.g. in Minangkabau, in Bali and to some extent also in Java. In these parts, women bear greater responsibility than men to sustain the family economically. In Minangkabau the cultural system is matriarchal, whereas in Bali women's position in society is equal to men.

However in most parts of Indonesia, generally the people have little business acumen. The Javanese cultural heritage of social harmony and to be respectful toward others does not comply to the need of being aggressive in daily business activities (compare Roepke: 112f.; Sutojo: 43; Vroom: 29). In some areas the people are still culturally backward, they live mainly from agriculture, and they are not used to running businesses. The few business activities that exist in these backward regions are owned by migrants from other parts of the country or by large companies having large forest concessions. To give an extreme example, e.g. in Irian Jaya, traditional village people in remote areas still live with minimum body coverings, the older people do not go to school, they do not master agricultural techniques, and they are estranged with monetisation.

Historically, during colonial times, indigenous Indonesians were excluded from business activities, instead the Dutch colonial rulers positioned the Chinese to act as middlemen between the indigenous peasants and the Dutch companies. Hence the Chinese could strengthen their economic dominance even until today. (Compare Roepke: 181, 199-202). After independence, the Chinese could maintain their dominant economic position by colluding with the political and military elites (see Roepke: 222).

Generally speaking, small enterprises is a reflection of personal weaknesses in doing business, as they do not have the necessary business acumen. Basically they are mentally poor: lazy; unreliable; no motivation for achievement, weak financial management, mixing personal and business financial matters together; concentration on the production side and less attention to foster sales; careless in achieving good quality standards; no introspection on one's mistakes and failures and blaming others instead of correcting and improving oneself (compare Priyono et al.: 58, 77). It is even being said that Indian and Chinese merchants inhibit the development of *pribumi* business activities through their well-established business channels (Priyono et al.: 98). Instead, some *pribumi* businessmen tend to compensate their entrepreneurial weaknesses with political relations. These weaknesses of SMEs do not stem from education, because high education does not guarantee successful entrepreneurial performance, since many businessmen can be successful although they receive only minimum education. Though it is difficult to change habits, attitudes, philosophy of life and culture of societies, nonetheless, still the most operational variable to change these weak attitudes to some extent is through education and training.

GOVERNMENT SME POLICY

The Indonesian government has since the early independence day taken discriminatory actions against the Chinese economic dominance and introduced various programmes to promote and support SMEs, in particular *pribumi* businesses, however without much success (Suryadinata: Ch. 6). Nonetheless the former were more successful in developing their businesses without much government support, sometimes even faced with

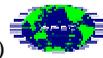


hostile government policies. The negative sentiments of *pribumis* against the Chinese came already to the surface even during colonial times with the founding of a Moslem Union Movement, the *Syarikat Islam*, in 1911, founded primarily to counter the economic dominance of Chinese businesses. Despite these anti-Chinese sentiments, Chinese businesses managed to flourish.

Important measures taken by the government to promote SMEs development are:

- The foster father partnership scheme, where large firms take care and advice a number of SMEs to support their development, among others through subcontracting. This programme was not very successful. In Indonesian culture *bapak* (meaning father) is a person that is to be honoured, it is “the necessity to honor the older and higher status people, because they are thought to have the role of fathers in the societal family.’ (Vroom: 29). The traditional paternalistic father-child connection “suggests that both parties have mutual obligations in order to maintain social harmony: the first one to protect and to educate the others, the others to provide the first ones with everything they need for a decent living” (Vroom: 29).
- Various credit schemes with relatively low interest rates. This programme was not very successful either, since the banks were reluctant to participate, as the costs of lending small credits are much higher than large ones.
- Using 1-5% state-owned enterprise profits to extent financial support to SMEs with low interest rates. Lack of commitment and weak channeling system of funds made the programme less successful.
- Conglomerates were urged to donate some shares to cooperatives. This was more a political move by former President Suharto to ease the tension between small and large firms. The amount of shares granted to the cooperatives were too small and only few conglomerates comply on the appeal to be effective.
- Education and training for SMEs. “Provision of training is frequently linked to the provision of working capital and, very occasionally, fixed capital.” (Sandee, et al.: 124). However capital is needed to adopt new technologies, and this is generally lacking (Sandee, et al.: 128). Participation rate of these programmes were however low (compare Sandee, et al.: 122-5), because they do not see the direct benefit of these training for running their businesses. In addition there are a number of loan programmes to financially support the development of SMEs (see Timberg, Pangestu). The accessibility to financial credits is imperative for the development of SMEs, since in the formal financial market they usually lack collateral means to obtain loans and therefore they have to depend on non-formal financial market loans with sometimes very high interest rates.

To promote the development of SMEs more forcefully, the government reorganised the Directorate General of Small and Medium Scale Industries to the Department of Cooperatives, forming a new Department with the name Cooperatives and the Development of SMEs.



Another obstacle to promote the development of SMEs is the negative attitude of government officials in charge of the programmes. Government apparatus often obstructs the issuance of permits (Priyono, et al.), and they prefer to collude with large businesses and neglect to support SMEs. The main cause is, because wages of government employees in Indonesia are very low, and the common saying among government officials is: why make things easy if you can make them difficult, so they can abstract some money from the business people. Government support programmes are being planned from the top, motivated by personal interests of government officials and not suited to the needs of SMEs. In reality the officials are learning much from the experiences of SMEs, and not the reverse. (Priyono et al.: 23)

EDUCATION AND TRAINING

Training and educating workers are the other option, but after training they may cause workers to seek better employment elsewhere. The quality of workers employed depends on the recruitment policy of firm owners, since usually all kinds of skills are available in the labour market, depending on wages. Indigenous Indonesian philosophy of life is to see human beings as equals, therefore they tend to seek workers with the lowest pay, not the best qualification. Therefore SME owners are generally reluctant to send their employees for training.

The firm owners themselves are also generally reluctant to attend training to enhance their knowledge and improve their performance, since they do not see immediate results they can use nor increase their sales. They consider such training as wasting time and unproductive, it is more important for them to attend their shops, and instead they send their children or relatives. Training organised by various Departments are often conducted in the evenings, free of charge, the participants get free consumption, and sometimes take place in the neighbourhood of the firms. A training usually get full attendance only if it is linked to a promise to provide loans afterwards.

CONCLUSION AND POLICY RECOMMENDATIONS

There are at least four areas for enhancing human resource development of SME owners, i.e. improving corporate management, financial management, marketing capabilities and increasing technological skills. These can be achieved through various training programmes, organised by the government and respective industry associations. A research on need assessment of the target group should first be conducted before the training starts. Involvement of industry associations is imperative, since they know the needs of their members best. Company visits by experts should also be part of support programmes, as these experts can advise the SME owners and solve problems together directly on the spot.

The support programmes should also be linked to the access of credit facilities. In the past, various credit schemes for SMEs were not very successful, and commercial banks were reluctant to provide credit to SMEs, because the interest rate was set lower by government regulation than the normal loan interest rates to promote the development of SMEs, whereas the administrative costs of extending small loans are much higher. In actuality, because of the difficulty in obtaining loans from commercial banks, many SMEs go to traditional money lenders and loan sharks, who demand high interest rates. Therefore, the Indonesian



government should revise the policy of providing cheap loans to SMEs and instead it should set a slightly higher interest rate than the normal rates, but much below the rates demanded on the informal financial market. This policy would give an incentive for commercial banks to engage more actively in providing small loans to SMEs.

Nonetheless, it is not enough to enhance HRD of SMEs only, but it is also of no less great importance to enhance the HRM capabilities of government officials, in particular those who are directly involved and responsible for the promotion of SME development. Wage improvement of government employees and increase of HRM capabilities are therefore imperative, so they can support the development of SMEs more effectively.



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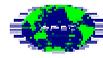
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THE FUNCTION OF MARKETING IN SMI'S IN SARAWAK

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THE FUNCTION OF MARKETING IN SMI'S IN SARAWAK

ABSTRACT

Marketing is a critical field in the realm of Human Resource Management that has huge potential in the development of the economy of Sarawak. Despite being one of the dominant fields of study in academic communities throughout the world, marketing is often misunderstood and misused. The essence of marketing is that, in an increasingly competitive consumer driven world, organizational success is driven through the ability of the firm to match the needs and wants of the consumer with the strengths, objectives and competencies of an organization. While the marketing orientation is now the dominant approach, some industries and firms still face demand and supply conditions, either due to the state of the market or the competitive environment, that allow approaches that are more production or sales orientated. Given the increasing importance of marketing activities this research develops the current understanding held by managers and marketing executives in SMI's in Sarawak. The functions of the marketing department, managers, and executives in SMI's are explored. This provides a vital clue as to whether the correct understanding and application of a major function in business is applied in Sarawakian SMI's. This paper also explores the perceptions of SMI marketing personnel toward institutional training in marketing. Increasingly businesses will find that they can no longer expect sales either through manufacturing efficiencies or the use of persuasive sales tactics. For organizations to continue to be successful require that they become market orientated. Suggestions and recommendations of how a better understanding of marketing can be used to assist SMI's in planning their future human resource requirement are provided.



INTRODUCTION

Since McKitterick (1957) first introduced Marketing as an area of organizational importance, the development of skilled marketing personnel and marketing departments has burgeoned. Today in many organization's, particularly large corporations, the marketing department is a separate and distinctive identity providing specialized human resources expertise. However despite the growth in its importance, different countries, regions, and even types of companies have embraced the marketing concept as a central business dogma to different extents. Small and medium sized industries (SMI's) in developing growth markets have been slow to take up and apply this critical area of human resources expertise.

In order to understand the underlying basis of these regional variations requires an understanding of the development of the industries in question. In reviewing the perceptions of marketing in Sarawak it is therefore axiomatic that we first review the history and growth of the organizations under analysis. This will provide insights into why currently held beliefs are practiced.

LITERATURE REVIEW

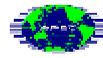
The Evolution of the Marketing Concept

The marketing concept developed as an area of importance largely due to changes in demand conditions that occurred in developed nations. As developing and Newly Industrialized Nations demand conditions change, their business orientations are likely to mirror those of Industrialized nations. Globalization will also increase the rate at which this process change occurs. These orientations and the processes of development are briefly discussed.

The Production Orientation

Different types of orientation have evolved over the decades to meet the changing needs of the marketplace. In growing markets, with high and increasing levels of consumer demand, coupled with a developing manufacturing base, demand often exceeds supply. Firms main focus is therefore the lowering of costs and the increase in production capacity to meet the, relatively, unlimited demand for manufactured goods. A sellers' market with high demand and limited supply exists. Entrepreneurs set up production, based upon the need to minimize costs and maximize output with little concern about sales and marketing. There is little need to spend resources on promotional or market research activities as any production is easily sold. At this stage attaining economies of scale is the focus.

“A production philosophy exists when an organization emphasized the production function. An organization following such a philosophy values activities related to improving production efficiency or producing sophisticated products and services. Production drives the organization Bearden, Ingram & Laforce (1995:9)”



The Sales Orientation

Changing demand conditions due to; increases in production, large economies of scale and market saturation, leads to abundant supply relative to limited demand. This creates problems for production-orientated organizations and increasing manufacturing efficiencies merely cause further excess production capacity. The emphasis changes to sales, and a sales-orientation.

This is usually a transition period for businesses as their manufacturing efficiencies determine what they produce and they develop more extensive sales networks to push these products in the consumer marketplace. Changing consumer demands mean that a sales approach is only a short-term solution as the consumer has ultimate control over their spending. This control means that as consumer tastes and preferences change, unless businesses are able to change their production to satisfy these changing demands, sales inevitably decline.

“The idea that consumers will not buy enough of the organization’s products unless the organization undertakes a large scale selling and promotion effort” Kotler & Armstrong (1996:16)”

The Marketing Orientation

As living standards and income levels rise, competition increases and the consumer population becomes more educated and sophisticated, consumers become the dominant force in the marketplace. Businesses can no longer expect sales either through manufacturing efficiencies or the use of persuasive sales tactics. For organizations to continue to be successful require that they become market-orientated.

Firms need to analyze the consumer in order to understand their changing needs and demands. To maintain continued success organizations are required to coordinate their efforts to ensure customer satisfaction. A competitive marketplace and low manufacturing costs means that better products or services continue to arrive and a firm must be able to adapt to changing consumer demands.

With the realization of the importance of the consumer also comes recognition that the consumer is not after a product, but rather a bundle of benefits. The product is merely one way of satisfying a particular need or want. The needs and wants of the consumer become the focus and the product merely a means of satisfying those needs and wants.



Table 1: Types of Business Orientation

	Production Orientation	Sales Orientation	Marketing Orientation
Strategy	Lower Costs, Increase Production	Increase Sales Volume	Develop Profitable Products to Meet Consumer Demand
Expertise	Engineering & Manufacturing	Sales	Market Analysis & Strategic Planning
Operational Focus	Efficient Production	Effective Sales Techniques	Customer Needs & Wants
Philosophy	We can sell more if only we can produce more and we will make more profits if we reduce costs	We need to find more markets for our existing product lines	We need to determine consumer needs and wants and produce goods and services to match.

The Marketing Concept

The range and breadth of the literature on the marketing concept is long, ranging from the thoughts of McKitterick (1957), Levitt (1960), Kotler (1977), and Webster (1994a; 1994b). However, it is generally agreed that the traditional marketing concept relies on customer focus, co-ordination of effort, and profitability (Kotler, 1994).

One of the earliest, authoritative definitions of the Marketing concept was posited by McKitterick (1957: 78). It is his view that a company that practices the Marketing concept:

“... focuses its major innovative effort on enlarging the size of the market in which it participates by introducing new generic products and service, by promoting new applications of existing products, and by seeking out new classes of customers who heretofore have not used the existing products.”

It has been argued that the old marketing concept was born out of economic scarcity, pent-up consumer demand, and growing consumer confidence (Webster, 1994a). The new marketing concept thrives on the affluent, sophisticated and informed consumer, economic pessimism, global competitors, and superior value.

To maintain the customer focus in the light of manufacturing, financing, and sales concerns, is often difficult to achieve and requires well-formulated marketing strategies. The key to a market driven organization is co-ordination of its operations based upon the wants and needs of its customers. The fundamental reality of marketing is that the marketing organization is driven not by the needs of its employees, managers or manufacturing base, but by the customer. A customer focus provides an organization with a sustainable competitive advantage.

A competitive advantage is an edge that the company has over its competitors, such as lower costs or better quality. Most companies have held a competitive advantage at some time in their operations. The key to corporate success is the sustainability of this advantage. In the current, highly dynamic, competitive, world market environment, no company can sustain an advantage without maintaining



awareness and focus on changing customer needs and wants. In order to be marketing orientated therefore requires a dynamic and progressive company philosophy.

While the marketing orientation is now the dominant approach, some industries and firms still face demand and supply conditions, either due to the state of the market or the competitive environment, that allow approaches that are more production or sales orientated. This research analyzes SMI's in Sarawak to determine the current orientation in order to provide future insights into the future development of human resources needs in this region.

SMI's IN SARAWAK

Oil, timber, agricultural activities and pepper have been the mainstay of the Sarawak economy since the 1960's. In the late seventies Sarawak recognized that its dependence on natural resources would not be sufficient to sustain its economic growth. In the 1980's the State gave priority to the manufacturing sector. The number of people employed in the manufacturing sector in 1970 was only 6.5%. By 1997 the sector employed 24.1% of the workforce in the State and this percentage has been steadily rising (Table 2).

Table 2: Percentage Distribution of People Employed in the Manufacturing Industry

Year	Percentage (%)	Percentage (%) Increase
1970	6.5	-
1980	9.5	3
1991	15.4	5.9
1993	20.8	5.4
1997	24.1	3.3

Source: Sarawak Facts and Figures, 1997.

The number of manufacturing organizations in the State increased from 726 in 1991, to 1919 in 1995. The number of paid personnel increased from 33,153 to 59,843 during the same period (Refer Table 3). The manufacturing industry has provided significant growth and job opportunities in Sarawak. The largest sector in manufacturing in terms of job employment is Wood and Wood Products, including Furniture.

Table 3: Manufacturing Industries in Sarawak

Year	1991	1992	1993	1994	1995
No. of establishments	726	770	890(a)	945	1919
No. of Paid Personnel	33,153	40,849	50,451	58,383	59,843*
No. of Persons engaged	33,730	41,431	51,112	59,069	64,045
Gross Value of Output (RM million)	6,322	6,450	7,600	8,754	10,829

* based on 2.5% growth.

(a) Information based on surveys that covered the larger organizations, as identified by employment cutoffs.

Source: Yearbook of Statistics 1996, Sarawak and Yearbook of Statistics 1997 Malaysia.



Table 4 details current employment figures in SMI's, rates of labor shortage and the employment requirements by the year 2000. The manufacturing sector is expecting a severe shortage in unskilled (33.63%), semi-skilled (25.48%) and craft skilled (7.89%) workers by the year 2000. Given these severe shortages in basic labor requirements there has been little emphasis on managerial (current shortage of 2.93%, employment requirements (2000) is 4.6%) and other graduates (current shortage of 3.06%, employment requirements (2000) is 2.33%).

Table 4: Current Employment, Shortage, and Numbers Required By Types of Employment and Sector

Type of Employment	Current Employment		Current Shortage		Employment Required (2000)	
Managerial	1110	4.15%	68	2.93%	736	4.60%
Electrical engineers	27	0.10%	14	0.60%	49	0.31%
Chemical engineers	5	0.02%	2	0.09%	14	0.09%
Mechanical engineers	62	0.23%	24	1.03%	72	0.45%
Chemist	25	0.09%	4	0.17%	24	0.15%
Accountant	290	1.08%	26	1.12%	174	1.09%
Other graduates	1059	3.96%	71	3.06%	373	2.33%
Mechanical technician	366	1.37%	29	1.25%	360	2.25%
Electronic production technician	66	0.25%	12	0.52%	190	1.19%
General mechanics	637	2.38%	88	3.79%	533	3.33%
Plant maintenance mechanics	238	0.89%	42	1.81%	257	1.61%
Electrician	102	0.38%	21	0.90%	114	0.71%
Welder	929	3.47%	143	6.15%	565	3.53%
CAD-CAM operator	785	2.93%	77	3.31%	725	4.53%
Clerical and related duties	1626	6.08%	97	4.17%	1094	6.84%
Other semi-skilled	5861	21.91%	496	21.34%	4076	25.48%
Craft skill	1775	6.64%	178	7.66%	1262	7.89%
Unskilled	10669	39.88%	932	40.10%	5381	33.63%
Non-Response	1118	4.18%		0.00%		0.00%
TOTAL	26,750		2,324		15,999	

Source: Ministry of Industrial Development Sarawak & Mara Institute of Technology Sarawak (1995). Strategic Industrialization Programmes and Database for Small and Medium Industries (SMI) in Sarawak. Volume 2. p. 45, 48, 49. Ministry of Industrial Development Sarawak: Sarawak.

Specific Marketing Data in SMI's In Sarawak

Previous studies on Sarawak SMI's have shown that separate marketing departments do not exist in most manufacturing organisations. Only 39% of SMI's indicated that they had a marketing unit. Out of the total workforce of 59,843 only 786 people are employed in marketing positions.

Small firms stated that they employ more full time marketing staff (49%)



compared to medium (26.2%) and large (17.2%) firms. However this is due to the relative size of the firm to their marketing personnel. In addition the perception of marketing personnel by small-scale firms is that they are sales personnel. This perception is reflected in the fact that small-scale firms' report having a lower percentage of marketing units (32.4%) compared to large (50.0%) and medium (56.8%) scale firms (Refer to Table 5).

Table 5: Size of manufacturing organisation by existence of marketing unit and total number of full-time marketing staff

SIZE	NO. OF EST.	EXISTENCE OF MARKETING UNIT		TOTAL NUMBER OF FULL-TIME MARKETING STAFF	
		NO	%	NO	%
Small	491	159	32.4	358	49.0
Medium	148	84	56.8	206	26.2
Large	56	28	50.0	135	17.2
Non-Response	52	20	38.5	60	7.6
TOTAL	747	291	39.0	786	100.0

Source: Ministry of Industrial Development Sarawak & Mara Institute of Technology Sarawak (1995). Strategic Industrialization Programmes and Database for Small and Medium Industries (SMI) in Sarawak. Volume 1. p.81. Ministry of Industrial Development Sarawak: Sarawak.

Most manufacturing sectors in Sarawak do not operate separate marketing units. Less than 50% of the different manufacturing sectors have marketing units. The Wood and Wood Products sector has the largest number of marketing units (88). These 88 firms with marketing units however, only account for 31.8% of the total number of firms in the sector. Therefore over 68% of firms still do not operate separate marketing units even in the most prolific marketing based sector. The large percentage of marketing units in Crude Petroleum and Natural and Gas sector is due to there being only three companies, two of which have marketing departments.

The number of staff hired in each sector also differs significantly. The sector with the largest number of marketing staff is the Food, Beverages and Tobacco sector (231 people, 29.4%), followed by Wood and Wood Products, including Furniture (174 people, 22.1%), and Paper and Paper Product, Printing and Publishing (106 people, 13.5%) (Refer Table 6).



Table 6: Types of manufacturing organizations by existence of marketing unit and total number of full-time marketing staff

TYPES OF MANUFACTURING ESTABLISHMENT	ISIC CODE	NO. OF EST.	EXISTENCE OF MARKETING UNIT		TOTAL NUMBER OF FULL-TIME MARKETING STAFF	
			NO	%	NO	%
Food, Beverages and Tobacco	31	135	53	39.3	231	29.4
Textile, Wearing Apparel and Leather Industries	32	7	2	28.6	3	0.4
Wood and Wood Products, including Furniture	33	277	88	31.8	174	22.1
Paper and Paper Product, Printing and Publishing	34	46	31	67.4	106	13.5
Chemical, and of chemical, Petroleum, Coal, Rubber and Plastic Product	35	62	33	53.2	85	10.8
Non-Metallic Mineral Product, except Product of Petroleum and Coal	36	56	25	44.6	39	5.0
Basic Metal Industries	37	20	9	45.0	26	3.3
Fabricated Metal Products, Machinery and Equipment	38	130	40	30.8	95	12.1
Crude Petroleum and Natural and Gas Production	22	3	2	66.7	3	0.4
Mining /Quarry	29	5	5	100.0	20	2.5
Others	39	6	3	50.0	4	0.5
TOTAL		747	291	39.0	786	100.0

Source: Ministry of Industrial Development Sarawak & Mara Institute of Technology Sarawak (1995). Strategic Industrialization Programmes and Database for Small and Medium Industries (SMI) in Sarawak. Volume 1. p. 79. Ministry of Industrial Development Sarawak: Sarawak.

Marketing is also a stronghold of Non-Bumiputeras* SMI's. However the percentage is still low. Only 37.5% of Non-Bumiputera SMI's have a marketing unit, although the numbers are higher than Bumiputera SMI's (253 compared to 33). Non-Bumiputera SMI's employ 715 marketing personnel consisting of 91% of the total



marketing employees in Sarawak. Bumiputera SMI's on the other hand have a smaller number of firms with marketing units (33) but with a higher percentage. This is due to the fact that the total number of Bumiputera firms is still relatively small (Refer Table 7).

Table 7: Equity of manufacturing organisation by existence of marketing unit and total number of full-time marketing staff

EQUITY	NO. OF EST.	EXISTENCE OF MARKETING UNIT		TOTAL NUMBER OF FULL-TIME MARKETING STAFF	
		NO	%	NO	%
Bumiputera	63	33	52.4	49	6.2
Non-Bumiputera	674	253	37.5	715	91.0
Non Respond	10	5	50.0	22	2.8
TOTAL	747	291	39.0	786	100.0

Source: Ministry of Industrial Development Sarawak & Mara Institute of Technology Sarawak (1995). Strategic Industrialization Programmes and Database for Small and Medium Industries (SMI) in Sarawak. Volume 1. p. 82. Ministry of Industrial Development Sarawak: Sarawak.

The Sarawak State Government has provided facilities to SMI's to market their products throughout the country and for export. However, the response to these efforts has not been large (Refer Table 8).

*Bumiputera refers to the indigenous people of Malaysia



Table 8: Types of manufacturing organisations by usage for facilities provided by government agencies to market products

TYPES OF MANUFACTURING ESTABLISHMENT	ISIC CODE	NO. OF EST.	YES		NO	
			NO.	%	NO.	%
Food, Beverage and Tobacco	31	135	8	5.9	125	92.6
Textile, Wearing Apparel and Leather Industries	32	7	0	0.0	7	100.0
Wood and Wood Products, Including Furniture	33	277	17	6.1	252	91.0
Paper and Paper Products, Printing and Publishing	34	46	4	8.7	39	84.8
Chemicals and of Chemical, Petroleum, Coal, Rubber and Plastic Product	35	62	2	3.2	60	96.8
Non-Metallic Mineral Products, except Product	36	56	6	10.7	49	87.5
Basic Metal Industries	37	20	1	5.0	19	95.0
Fabricated Metal Products, except Products of Petroleum	38	130	7	5.4	121	93.1
Crude Petroleum and Natural Gas Production	22	3	0	0.0	3	100.0
Mining/Quarry	29	5	1	20.0	4	80.0
Others	39	6	1	16.7	5	83.3
TOTAL		747	47	6.3	684	Other s

Source: Ministry of Industrial Development Sarawak & Mara Institute of Technology Sarawak (1995). Strategic Industrialization Programmes and Database for Small and Medium Industries (SMI) in Sarawak. Volume 1. p. 104. Ministry of Industrial Development Sarawak: Sarawak.



Implications of the Industrial Analysis

An analysis of this data indicates that SMI's are faced with an environment of high growth and continued demand. Few companies have developed strong marketing departments and the data denote that marketing activities are primarily based around sales. Strong employment demands and shortages in workers in both skilled and unskilled positions indicate that demand conditions are still favorable. This suggests that for such organizations a sales or production orientation is more appropriate.

Common perceptions of marketing

There has been little analysis of perceptions of marketing outside the United States. It would be expected that in the U.S. the perception of marketing would be closely tied to the satisfaction of consumer needs and wants. However even marketing practitioners in the U.S. could not articulate a definition of marketing or see themselves in a marketing framework. They however agreed that marketing is; sales, customer driven, and a long-term relationship activity (Anonymous, 1996).

A common perception among businesses and SMI's is that 'marketing' is 'sales'. In a study in 1996 most business managers related the marketing concept to an emphasis of sales and resulting profits (Anonymous, 1996). Little consideration of the needs and wants of the consumer were expressed.

METHODOLOGY

Purpose of the study

An exploratory study was undertaken to substantiate the findings indicated in the industrial data. This survey was also designed to elicit information to ascertain organizational orientation in SMI's. This survey analyzed the current perception of marketing in a small random sample of SMI's in Sarawak. To this end data was collected regarding the functions of the marketing units, managers, and executives. Knowledge of the functions of the departments, managers and executives can assist in determining the main type of business orientation in Sarawak's SMI's.

The importance of human resource training aspects is also reviewed and assessed for Sarawak's SMI's. Current management views of a number of areas were analyzed including;

- ❏ The view of marketing training, both in-house and through institutions of higher learning.
- ❏ Perceptions of marketing graduates from institutions of higher learning.
- ❏ Perceptions of what skills are lacking in graduates from institutions of higher learning.
- ❏ Marketing personnel recruitment requirements and problems.



Description of the study

Random sampling was used to select firms from the list provided by the Ministry of Industrial Development, Sarawak and the Sarawak Association of Manufacturers. 75 firms were selected and questionnaires faxed to them. A 26% rate of return was obtained. These firms are engaged in the manufacture of numerous items, services, and construction. The firms are listed under the Industrial Code 22000 to 95120.

Faxed questionnaires were used to collect an array of information from the sample. The firms were contacted by fax and during the same day were called to confirm receipt of the fax. They were then asked to fax back the completed questionnaire.

The data obtained closely paralleled the industry data in 1996. Manufacturing firms were the largest respondents followed by Other (Construction) (25%) and services (20%). 75% of respondents have a marketing department or unit. The majority of the responding firms were small in size (50%) and a large percentage (68%) had Non-Bumiputera equity (Refer Table 9).

Table 9: Breakdown of Respondents Details

Type of industry	%
Manufacturing	55%
Services	20%
Other (Construction)	25%

Have Marketing Dept	%
Yes	75%
No	25%

Size	%
Small	50%
Medium	35%
Large	15%

Equity	%
Bumi	32%
Non-Bumi	68%



Survey Results

Table 10: Size of respondent's organization relative to the existence of a marketing unit and total number of marketing staff

SIZE	EXISTENCE OF MARKETING UNIT	TOTAL NUMBER OF MARKETING STAFF
	%	%
Small	50	7
Medium	100	7
Large	100	27

Table 11: Ownership of respondent organization relative to the existence of a marketing unit and total number of marketing staff

EQUITY	EXISTENCE OF MARKETING UNIT	TOTAL NUMBER OF MARKETING STAFF
	%	%
Bumiputera	85.71	29
Non-Bumiputera	73.33	6

The definition of marketing in SMI's indicated, as expected, a strong perception of marketing as a sales function (47%) (Refer Figure 1). However the dominant view, 68% of respondents, was that marketing is related to product knowledge. However responses indicated that product knowledge had little to do with the development of consumer demand characteristics, rather marketing such product knowledge as a basis for establishing an organization's market.

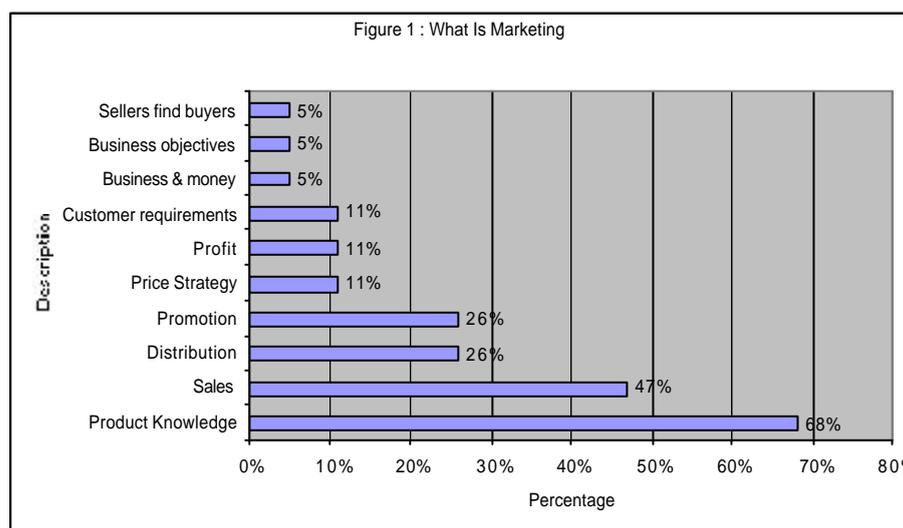


Figure 2 depicts specific functions of SMI's marketing departments. Customer service was seen as the primary marketing function although, personal selling, sales management, and product/service distribution, were also indicated as functions by the majority of respondents. The key marketing functions of market research, product development and brand development rated as three of the four least important functions



by respondents. Even responses to the role of the marketing manager (Refer Figure 3), the key initiator of customer strategies in a marketing orientated firm, indicated a low level of response for these three areas. This data indicates that respondent SMI's marketing emphasis is geared toward sales rather than a marketing orientation.

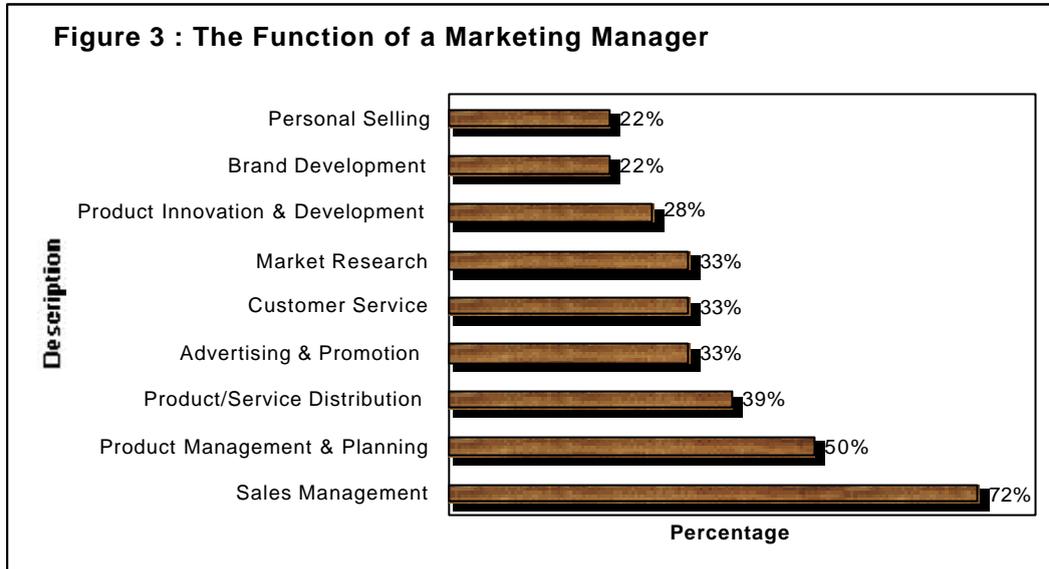
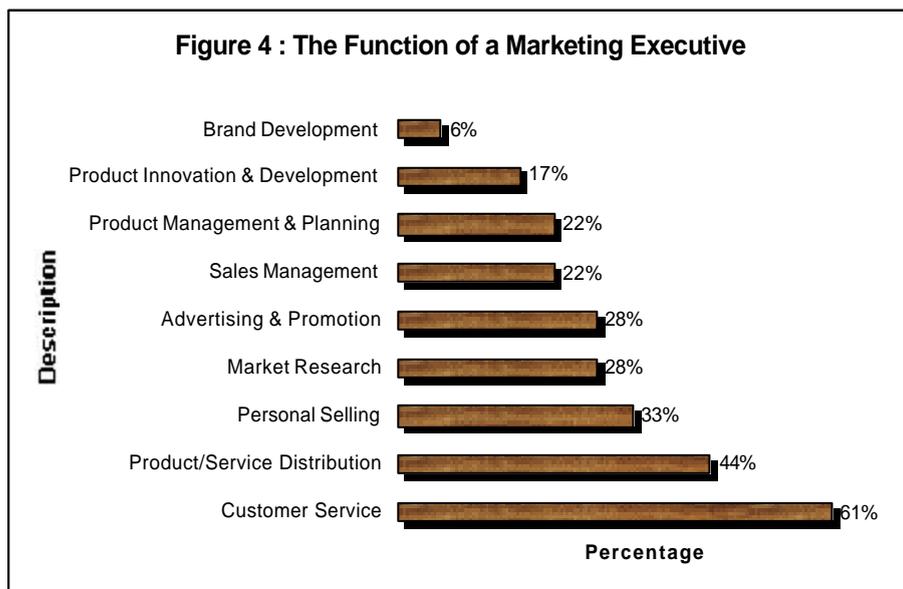


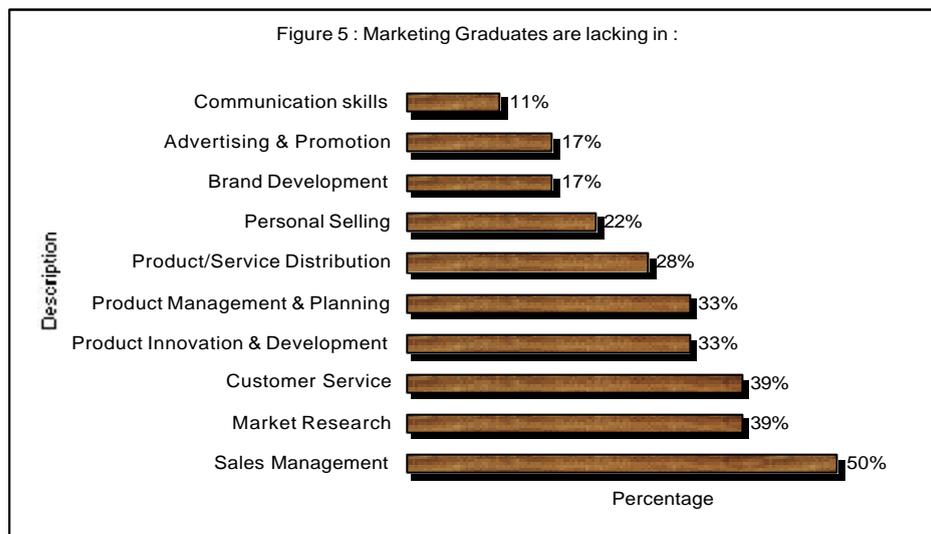
Figure 4 shows responses concerning the functions of the marketing executive. The responses indicated, in line with the industrial data, that the marketing executive's role is seen as largely that of customer service, product distribution and personnel selling. Marketing research was rated as the fourth most indicated area of response but the percentage was only 28%.





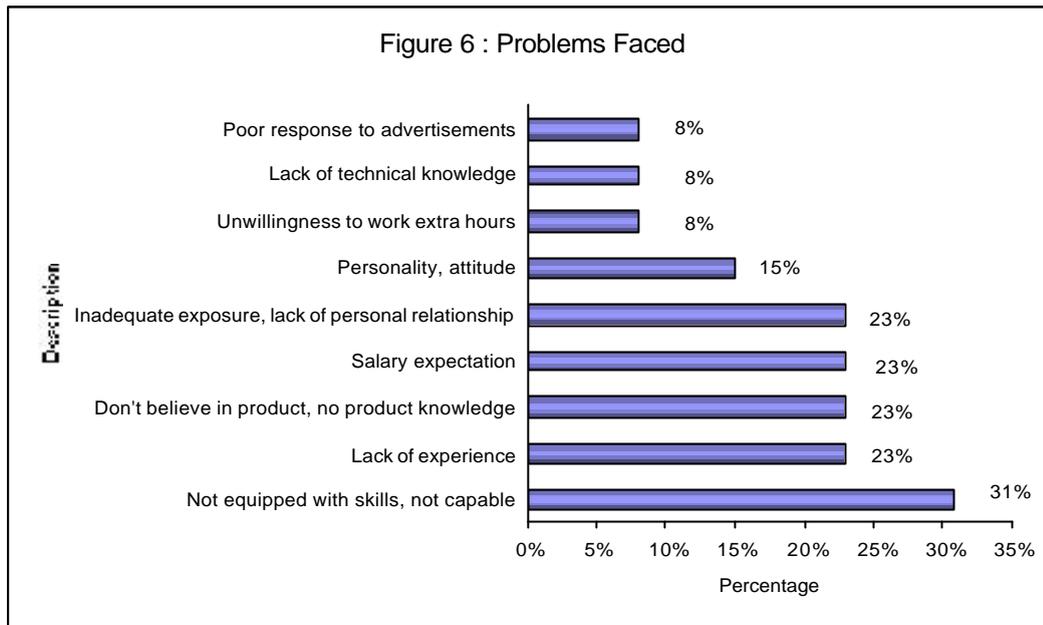
Two seven point Likert scales (1 being extremely good, 7 extremely bad) were used to evaluate perceptions of marketing graduates and the value of the theories and ideas they have developed during their course of study. The ratings for the former was 2.65 and the later 2.5 indicating a strong perception of marketing graduates and their university expertise. However this result must be tempered by the possibility of a co-operative response bias.

Figure 5 notes the key skills marketing graduates are perceived to be lacking in respondents. The primary area was in sales management. Interestingly market research was viewed second equal, along with customer service skills, possibly indicating a change in emphasis toward more customer orientated requirements as the market becomes more competitive and consumer driven.



Three further Likert scales were used to discern respondent views of university education, in-house training, and the ability to obtain personnel. Both university and in-house training were viewed as important with in-house training seen as slightly more important 2.62 to 2.82 University educated. This result requires further, more conclusive verification, as this result will help assess the extent to which practical relative to theoretical skills are valued within these organizations.

The third Likert scale asked respondents to indicate whether they had problems obtaining marketing personnel. In line with the industrial data, the average figure was high, 4.56. Figure 6 provides information pertaining to the problems faced when recruiting marketing personnel. The major problem was that marketing personnel lacked the required skills, followed equally by; a lack of experience, little product belief or knowledge, inadequate exposure and high salary expectations. These issues indicate that practical skills related to selling expertise are perceived as lacking.



DISCUSSION OF INDUSTRIAL AND SURVEY DATA ANALYSIS

The survey results corroborate the major contentions posited in the analysis of the industrial data. SMI's in Sarawak are still faced with strong growth markets and there is limited need for a marketing orientation. Marketing is perceived as related primarily to selling, distribution, and related product knowledge expertise.

Skills requirements by SMI's are focused on the need for practical sales skills, including customer relations, network marketing and product knowledge. Results indicate a lack of available marketing personnel. These results all indicate an environmental situation where firms have developed in strong demand conditions. Subsequently production and sales orientations are likely to be prevalent.

With the continued growth in manufacturing firms, and the advent of more open global competitors, these conditions are likely to drastically change. Already the exploratory results indicate that more market research skills are in demand. From the perspective of the Human Resource Manager, identifying these changing demand and personnel requirements will allow transition between competitive orientations to be smoothly achieved.

IMPLICATIONS

This research highlights the importance in the future growth and demand for skilled marketing personnel. In order to avoid shortages in this critical area, and provide Sarawak SMI's with access to skills that should increase their potential for developing global competitive advantages, the government should emphasis the training of marketing graduates.

There is a requirement in government policy development that these changing demand conditions are foreseen and integrated into policy objectives. A prime policy of



many national and local governments has been the encouragement of SMI's due to the belief that SMI's have great potential to generate job and wealth creation (Westhead and Birley, 1995). These SMI's have been characterized as being dominated by owner managers (Kerr and McDougall, 1999). SMI's are therefore often lacking in key marketing skills, which are reinforced due to limited competitive manufacturing organizations. As market conditions become more consumer driven these marketing expertise will be increasingly in demand.

Government Human Resource Policies should acknowledge the accepted process of market development and use industrial and survey data analyses, such as those represented here, to guide them in the development of their education policies. As there is a lead time in terms of producing skilled personnel, these market transition conditions can be used as a guide and implemented to ensure key expertise are available to firms when required.

SMI's have short-term perspectives because of the substantial uncertainty they face (Casson, 1982). This has unfortunately lead to a view in SMI's that training is an operational expense rather than an investment (Finegold and Soskice, 1988). Extra training is often only provided when the firm is making money (Hendry et al, 1991), and it is normally informal on the job types of training (Bacon et al, 1996). Government policies to encourage SMI's to invest in training, may therefore be necessary to ensure skill development is not under-prioritized. The Singaporean model of training development for small firms is an example of such successful policies.

CONCLUSIONS

It is inevitable that as Sarawak continues to develop, rising living standards and income levels, increasing competition, and a more educated and sophisticated population, will lead to consumers becoming the dominant force in the marketplace. This situation is occurring throughout Asia, where wealth creation in the past few years is causing a shift in demand conditions.

Increasingly businesses will find that they can no longer expect sales either through manufacturing efficiencies or the use of persuasive sales tactics. For organizations to continue to be successful requires that they become market-orientated. This change in emphasis will require a range of new human resource skills and expertise to be developed to take on this challenge. SMI's will increasingly need to analyze their customers in order to understand their changing needs and demands.

The success of every business is determined by its overriding decision-making policies. There is a need to ensure that a company's strategy stays in line with the overriding conditions of its environment. In an increasingly competitive consumer driven environment a change in emphasis toward the customer is an inevitable forerunner to long-term success. A study by Wright, Pearce, and Busbin (1997) on 188 manufacturing firms show that those who are customer orientated outperform those who are not. Sarawakian SMI's need to realize and identify these changing marketing conditions for continued growth and success.



LIMITATIONS & AREAS FOR FURTHER RESEARCH

The research survey in this paper is exploratory in nature and was used to corroborate the findings posited from the industrial data analysis. The exploratory character of this data requires that it is not viewed in isolation, but only as a basis of tentative support to more comprehensive industrial figures. The survey findings point to further areas of necessary research including the needs for human resource planning at all levels within SMI's in Sarawak.

The literature alludes to the fact that marketing in theory and in practice is often two different things. Greenley and Bayus (1994) views of marketing planning in SMI's are that "... the general tenor of these results is that few companies seem to adopt the prescriptions of marketing planning that are advocated in the literature." Carson (1993; 1995) states that much marketing decision making in practice corresponds to entrepreneurship and thus is less based on textbook definitions. Carson (1998) goes on further to suggest pragmatic teaching of marketing in Universities so that it will meet the demands of the business world.

One of the problems for human resource training of marketing personnel in SMI's is the basis of emphasis. Universities emphasize theoretical based systems that are often not viewed as practical for managers in SMI's, particularly those that are involved in more production and sales orientated systems. This leads to the need to develop training systems that allow for this combination of practical and theoretical expertise to support current SMI activities that are in transition. Further research into the content analysis of such training programs is required.



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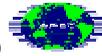
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**HUMAN RESOURCE MANAGEMENT AND SME
DEVELOPMENT IN VIETNAM**

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HUMAN RESOURCE MANAGEMENT AND SME DEVELOPMENT IN VIETNAM

ABSTRACT

Since 1986, Vietnam has been implementing its “DOI MOI” policy to confirm that Vietnam is heading toward a market- driven economy within the framework of a multi-sector economic system. In the last years Vietnamese Government pays more and more attention on development of private sector development, especially on small and medium enterprises (SMEs). The importance of the role that Vietnam SMEs should play is becoming a more important factor for our economy. In the near future Vietnam will have Government Degree on SMEs promotion policies, in which will be introduced some measures of training, information, capital... support for SMEs.

This paper sets out to introduce some issues of HRM in Vietnam and its impact on SME development. Vietnam is one of the countries, which is always enthusiastic about education, nowadays it has been intend in introducing education and training programs on cooperate management, economy, technology and skills from developed countries. However, with the exception of some programs now under way with assistance from some foreign countries, the level of the education and training programs have been inadequate due to the shortages of funds, facilities, teaching materials and instructors. Not all the contents of these programs have been highly regarded by cooperate managers.

Base on analyzing bought two sizes (supply and demand) of labour force, and their correlation; the paper shows that there are some problems to be solved. The paper also introduces some recommendations to restructur educational and training system and to improve policy system for giving better conditions to SMEs to develop in the coming time.



First of all I would like to thank the committee of the APEC Human Resource Management Symposium on Small and Medium Enterprises (SMEs) for giving me opportunity to attend this very important forum.

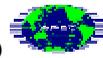
According to the terms of population Vietnam stands 12th in the world list and 2nd in the Southeast Asia region. Abundant and skilled Labour force is the important source for economic development but also poses a heavy pressure on employment and ensuring the living conditions on the people.

In Vietnam and in many other countries all over the world, the small and medium enterprises (SMEs) have the large development potentials. These enterprises also play an extremely important role in promoting the socio-economic development of each country. The roles of SMEs are embodied as follows:

- They produce many goods for domestic consumption, the machinery, equipment, tools, and capital goods necessary to the industries producing consumer goods and handiwork as well as the art handicrafts.
- They create the jobs for a large number of laborers. It is very important for those who are unemployed in urban areas or who are searching for jobs coming from the rural areas, and especially for those who are the old, children, women and handicapped.
- They explore and utilize effectively the potentials in financial funds and the domestically available raw materials or intermediate inputs, including the craps from consumption and production.
- They contribute the effort to allocating the industries in many different resident areas, reducing the development gaps between the areas, and stimulating the balanced development in the regions over country.
- They play a complement role in supporting the large industries to create the cooperation and the competition with each other in the development process.
- They contribute importantly to sustaining and development the professional villages and traditional handicraft occupations to produce the goods characterized with the national culture.

At present, the SMEs in Vietnam do not develop correspondingly with their inherent potentials, facing many difficulties in the business activities. On one hand, the transparent legal framework for the SMEs to operate is still not available. On other hand, the government policies are still lacking the appropriate promoting measures and the effective supporting solutions suitable to the characteristics of SMEs.

There are many things Vietnam has to do to develop SMEs; among them Human Resource Management is most important one because Education and Training have had quite big impact on Labour force and SME development in our country. In this paper I



would like to introduce 2 issues of HRM in Vietnam: i) The training system in Vietnam, and ii) Labour market in Vietnam.

CURRENT STATUS OF PROFESSIONAL EDUCATION FOR SMES BUSINESS MANAGEMENT IN VIETNAM

When one say about the professional education for SMEs in Vietnam, it can be useful to keep in our mind the followings:

- There are different features between state owned SMEs and private one.
- In most of the cases the ownership and management are not separable for private SMEs.

The professional education, which is refereed to here is defined as the training for business management for executives, managers and students who are working and will work for SME in the fields of general management, accounting and financial management, marketing, production technology management and so on.

1. Main forms of education in Vietnam

It could be better for understanding the education system of Vietnam as a whole and Professional Education for SMEs Business Management in Vietnam if one consider it as a system of two main forms of education: Long term and short term.

1.1. Long - term education for future professionals

This kind of education (hereafter will be refereed as First Kind of Education) consists of various training programs such as full time training, specialized supplementary training and in service training, which are carrying out at universities, colleges, remote education centers and technical schools with the training periods from 2- 5 years.

The students of this kinds of education are mainly young peoples who just came from secondary schools (like upper-secondary schools in Japan) but few of them can be executives, managers, who came from business environment and want to get higher degrees of education (as usual, they follow the programs of specialized supplementary training and in service training).

This kind of education is supervised and controlled by Vietnam Ministry of Education and Training in terms of degrees, training programs and curriculum, lectures, places of learning and financially supported by the government through the Ministry. Statistical data of this kind of education are always available for every year.

1.2. Short-terms education

This kind of education (hereafter will be refereed as Second Kind of Education) is applied for managers, executives who are working for SME recently and want to



upgrade or improve their knowledge and management skills. As usual, the training period lasts from one week to 3 months and only in few cases it lasts more than 3 months.

This kind of training is organized at ministerial business schools, various training centers under various non-governmental organisations, provinces and universities and colleges acting under control of Ministry of education and training. This kind of training had been developed very rapidly since DOIMOI started in Vietnam. So it has played very big role in training business people on the market economy, new skills and knowledge of business management in the context of market economy.

2. Training institutions involved in professional business management training for SMEs in Vietnam.

2.1. Universities, colleges acting under supervision of the Ministry of education and training of Vietnam.

The main function of universities and colleges is to organize long-term training programs through various forms such as full time training, supplementary, in service training and even new form of remote education. But since the process of DOIMOI in Vietnam started these institutions have taken very active parts in organisations of short-term training courses for various target groups of people coming from SMEs.

2.2. Management schools under industrial ministries

In Vietnam each ministry has it's own management schools where executives and managers of enterprises can come and improve, renew their knowledge and management skills. This kind of institutions used to play very important role during the period of central planning before DOIMOI and since DOIMOI up to now these schools could manage to diversify their training program according to changing needs of trainees and play important role in organization of training for the people from business world in Vietnam.

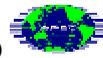
2.3. Other organisations

Along with the mentioned about institutions, that take a part in training process for SME, there are various centers acting under the umbrella of NGO organisations that actively participate in the process of training of business management for SME such as VCCI center, VICOOP SME center, Youth centers, Woman center and so on.

3. General Department of Vocational Training/MOET and MOLISA

The history: The General Department of Vocational Training established firstly in 1969 as agency attached to the Government.

1987-1992 moved to formal Ministry of Higher, Secondary Technical and Vocational Education and was reorganised as one of the Department (not General) of



this ministry. Before 1992 the word “Vocational training” was interpreted as training of workers only.

From 1992 up to 1998 it was merged to the Department of Secondary Technical Department with such a name as the Department of Secondary Technical and Vocational Education.

According to Decision of Premier Minister No 67/1998/QĐ-TTg, 23-5-1998 General Department of Vocational Training under control of MOLISA was created based on human and physical resources of Department of Secondary Technical and Vocational Education under MOET. In other words, the function of state control and realization of strategy of vocational training was passed to MOLISA from MOET.

According New Education Law in Vietnam passed by National Assemble 02/12/1998, vocational training consists of two components: (1) Secondary vocational schools with the courses of 3-4 years for those persons who has a certificate of Senior Secondary School and 1-2 years for those who has a certificate of Junior Secondary School; (2) Craft-teaching Schools with short-term courses less than 1 year and long-term courses of 1-3 years for those who has suitable level of knowledge and health.

Vocational training was separated from MOET to MOLISA as a General Department by some reasons:

- Until 1996s there was only 10% Labour force of the whole country who has been trained. Among those who has been trained, there existed inconsistent structure between higher education, secondary technical and worker training (1: 1,5: 2,5) compared to 1: 4: 10 structure of Southeast Asian Countries. So Vietnam now is in short of skilled workers and craft-man.
- The target was set for the year of 2000 was that 22-25% of Labour force to be trained as for whole country.
- Under control of MOET vocational education had been neglected.
- MOLISA seem to be more closed to the need of the Labour market in the country.

Generally speaking, by moving from MOET to MOLISA with higher legal status (General Department) General Department of Vocational Training has better conditions (much more resources) to implement the vocational strategy of the country.

4. Role of private sector in professional education

Nowadays in Vietnam the role played by private sector in professional education is not significant. According to the data of MOET-1998, in terms of university and college’s education (number of students) the weight of private sector is about 8%. Today among 139 universities and colleges we have 16 private one (15 universities and 1 college). There almost is not private participation in secondary vocational training. In



terms of the quality of private professional education, it is just enough to say that the students who had graduated from private sector are very difficult in looking for jobs. For the long term, the role of private sector must be increased in the sense of limited government's budget and supporting policies of the Government.

5. Professional education

As mentioned about the Long-term training programs referred to about as First Kind of Education are supervised and monitored by Ministry of Education and Training of Vietnam.

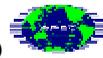
The thing that should be paid more attention here is that of short-term training programs (the Second Kind of Education). Until recently, there is three kind of training programs applied for this kind of education, they are as follows:

- Programs that are carrying out by foreign trainers (teachers, mentors or coach). As usual these programs are financed by foreign organisations.
- Programs that are carrying out by local trainers
- Programs that are carrying out by mix group of foreign and local teachers, trainers.

There are three forms of professional education: Technical Secondary School, MBA course and Short term training course.

5.1. Technical Secondary School

According to Education Statistical Data dated 31-12-1998 among 247 Technical Secondary Schools, there are 86 ministerial schools and 161 provincial schools. Table 1 shows the number of schools in Vietnam by sectors.

**Table 1. Number of Schools**

School Years	Total amount of Schools	Of which					
		Industri al	Agricult ure- Forestry culture	Econom ic manage ment and service	Teacher 's training	Health and sport	Culture and Art
1988-1989	269	39	41	60	58	47	24
1989-1990	270	30	42	57	53	46	26
1990-1991	261	37	42	57	53	46	26
1991-1992	265	38	31	58	57	47	24
1992-1993	266	37	42	56	54	49	28
1993-1994	272	35	35	60	62	48	32
1994-1995	259	35	31	60	54	48	31
1995-1996	264	37	30	65	51	48	33
1996-1997	244	33	31	52	46	48	34
1997-1998	244	33	31	52	46	48	34
1998-1999	247	46	37	53	29	48	34

Source: Education Statistical Data- Information Center for Education Management, MOET.

To understand the structure of the National Education System under Decree 90/CP dated November 24, 1993, especially the characteristics and differences between Secondary Vocational School, Specialized Secondary School and craft teaching Schools one should base on a truly designed structure of the National Education System under Decree 90/CP, which is unlike the interpreted one.

5.2. MBA course in Vietnam.

MA and MBA training is the new form of training applied in Vietnam by moving gradually from old (similar to formal Soviet Union Education System) system of education to the new one, that can meet the need of market economy. According to MOET Decision No 2902 dated 14-11-1991, MA training can be applied for 10 subjects, those are as follows:

- Political Economy
- History of National Economy
- Economics of Labour and Population
- Economics of Industry and Transport
- Economics of Agriculture
- Economics of Trade and Services
- Finance and Credit
- Statistics
- Accounting
- Public Economy



MBA training was just allowed from the date of 1995, August by MOET Decision No2631. This kind of training is just started and needs a further development for being the independent education block building. The training is carrying out according to “so called” adaptation’s program, which has to be much improved. So it is too soon to say about the quality of that kind of training in Vietnam.

5.3. Short-term training course

There are 28 ministries and agencies attached to the government has their own training school for their cadres, but those of following list consist of number of schools that are more or less concerning professional business management training.

THE CURRENT SITUATION OF THE LABOUR MARKET IN VIETNAM

1. Some information about education and training in recent years

Enrollment of each level of education by region for 1997-1998 School year is showed in table 2-4.

Table 2. Enrollment of each level of education.

Level of Education	1000 per									
	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99*
1.. Primary	2157	2233	2166	2126	2178	2321	2349	2417	2268	2091
2.Secondary										
- Junior	928	882	842	935	1081	1314	1476	1548	1547	1660
-Senior	208	136	235	259	290	359	419	460	600	682
3Vocational										
- Secondary Technical	37,8	41,4	40,5	37,6	33,6	44,4	48,9	54,2	-	88,1
- Short-term	74,5	71,4	29,8	35,9	23,9	34,0	45,8	51,1	-	-
4.Colleges and universities										
	32,8	48,4	59,5	73,5	80,7	77,0	124	169	-	140

- Data of 31/12/1998.

Source: Education Statistical Data- Information Center for Education Management, MOET.



**Table 3. Enrollment of each level of education by regions
100% for whole country Percentage (%)**

Regions*	I	II	III	IV	V	VI	VII	VIII
1. Kindergartner	24,2	15,8	3,3	20,3	8,6	5,2	12,8	9,7
2. Grade Schools	19,6	15,2	2,9	15,1	8,4	4,5	14,6	20,0
3. Vocational** -Technical								
Secondary(full time)	19,7	15,7	4,7	12,8	11,6	2,7	18,6	14,3
-Technical workers	25,0	18,0	1,5	13,1	9,6	1,6	22,6	8,6
4. Universities and colleges (full time)**	42,0	6,0	0,7	7,3	8,8	2,0	26,2	6,9

*Note:

I- Red River Delta

II- North East

III- North West

IV- North Central coast

V- South Central Coast

VI- Central Highlands

VII- North East South

VIII- Mekong River Delta

** Excluding private sector

Source: Estimation based on data of Statistical Yearbook 1998.

**Table 4. Enrollment as a % of total students of each education level
1000 per, %**

	1995	1996	1997	1998
Creches	434	452	444	409
Children (0-2 y.o)	5,872	5,875	5,819	5,836
% of enrollment	7,39	7,69	7,63	7,01
Infant schools	1,932	2,093	2,246	2,171
3-5 y.o children	5,687	5,709	5,741	5,773
% of enrollment	33,97	36,67	39,12	37,61
Primary school	10,200	10,378	10,431	10,248
6-10 y.o children	8,859	8,900	9,100	9,300
% of enrollment	115,1	116,6	114,6	110,2
Junior secondary school	4,300	4,861	5,252	5,578
11-14 y.o children	6,998	7,247	7,312	7,101
% of enrollment	61,4	67,0	71,8	78,6
Senior secondary school	1,000	1,176	1,390	1,654
15-17 y.o children	4,656	4,728	4,842	5,090
% of enrollment	21,4	24,9	28,7	32,5

Source: Estimation based on data of Statistical Yearbook 1998.

In the recent years, Vietnam government pays more and more attention on training for businesses; it is showed in table 5.

**Table 5. Main training indicators at 30/12/1998.**

No	Main indicators	Data of 1998-1999 Schools year
1.	Enrollment	88,149
	Of which:	
	Regular Full Time Courses	59,468
	In Service Courses	20,818
	Specialized Supplementary	668
	Other	7,195
2.	Number of students	178,244
	Of which:	
	Regular Full Time Courses	125,893
	In Service Courses	40,557
	Specialized Supplementary	1,640
	Other	10,154
3.	Graduated students	46,366
	Of which:	
	Regular Full Time Courses	33,197
	In Service Courses	9,385
	Specialized Supplementary	-
	Other	3,784

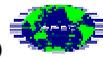
Source: Estimation based on data of Statistical Yearbook 1998.

2. General features of the Labour force - Labour supply of the Labour market of Vietnam

The outcome of the survey *‘The current situation of Labour and employment in Vietnam in 1996’* indicated that the Labour force of the country is about 35,9 million people (19.06% in urban areas, 80.94% in rural areas) accounts for 72.7% of the population aged 15 above and 80.1% of the working population. (Similarly the percentage in urban areas is 66.85% and 73.67%; in rural areas is 78.24% and 86.35%). Due to low level and scale of development in Vietnam, the percentage joining the Labour force in Vietnam is lower than the average level of the world (85% - 87% of the working population), thus remains large potential.

The age structure is young for the people aged 15 above, nearly 72% is under 45 years old of which the group of 15 -24 years stands the largest portion (28.3%), followed by the group of 25 - 35 years (24%). All are available for the Labour market.

The aged structure of the Labour force: young Labour force for a large portion and is an advantage of the Labour force, 55.8% of the Labour force is at the age of 15 - 34 years, of which the group aged 25 - 34 holds the largest percentage (29.8%); followed by group aged 15 -25 (26.2%). The majority of the Labour force is of the 3 age group under 45 years old of which the group age 25 - 34 accounts for the largest



percentage in urban areas (31.3%), but in rural areas the percentage of young Labour force is higher.

The educational level of the Labour force of Vietnam, which is ground for technological training and absorbing new technologies, is generally high in comparison with that of countries of the same GDP per capita Only 8.4 % never attended classes (3.7% in urban and 10.2% in rural areas respectively). The literate percentage of the population aged above 10 is 86.6%, of which the literate percentage of the population aged 18-34 is 92%, the average schooling years are 7. These shows that the young Labour force with the advantages like large numbers and high academic level, is strong point of Vietnam.

In general, throughout the country, 45.5% of the Labour force completed primary education (9 years) and secondary education (10-12 years) of which 13.5% graduated from secondary schools; 26.7% has not finished primary schools, and 5.7% is illiterate. Out of 7 territorial areas, the highest number of people in the Labour force completed primary and secondary schools is in Red River Delta (72%), followed by Northern Center (62.2%), Northern mountainous areas and mid-land areas (48.9%). The percentage is about 35% in the South, except the Mekong River Delta with that of 19.9%. This implies that the academic level of the Labour force in the North is much higher than that in the South. The gap between urban and rural areas is very large, namely: 60.9% and 41.9% respectively. The academic level of female Labour force is generally lower than national average level, which is 42.3%.

The percentage of the Labour force taken training out of the total Labour force through out the country is 12.3%, of which only 2.4% is holders of College, University or Masters degrees; professional secondary education and technical workers account for 9.9%, the untrained percentage is still big - 87.7%. The percentage in terms of training ranks out of the total Labour force of Vietnam is far smaller than that of industrial countries: 65%, 5.5%, 59.5% respectively with only 35% unskilled workers.

Comparing with industrial countries, the quality of our technical Labour force is very unreasonable in the structure between levels: in Vietnam, the situation is more masters than workers are. We lack a lot of skilled workers.

Table 6. The structure of level of the Labour force

	Vietnam	industrial countries
Total	100.0	100.0
University-college above	20.3	5.0
secondary education	35.5	20.0
skilled workers	44.2	75.0

Source: DSI, 1998

The technical and professional levels of the urban Labour force are much higher than that of the rural Labour force: The percentage of trained urban Labour force is 31.68%, 3.4 times higher than that of the rural areas. The higher the level, the bigger the difference with the appropriate percentage of technical workers, professional education



is 23/3%, 3.7 times higher and with colleges, universities, and masters levels of 8/3%, 9.2% times higher. This is an inevitable result caused by the effects of supply and demand relationship in the market. However, this limits the shift of economic structure in rural areas and in undeveloped areas as well as industrialization and modernization if resolution is not found.

2. Socio-economic Development and employment situation - demand of Labour market

During the past time, thank the positive effects of the renovation process, the economy has enjoyed fast and continuous growth for a long time, creating employment, increasing productivity and incomes, and improving living conditions of the workers.

In 1996, 34.9 million people were working in the national economy, accounting 97.3% of the Labour force (female: 97.7%, urban areas: 98%, rural areas: 94.5%) and of 98.5% in comparison with the working Labour force.

Labour scale and structure distributed in accordance with general national economic branches, urban, rural and other areas are showed in table 2-4.

The above Labour structure working in the national economic branches indicates that the majority works in the agricultural sector (69.8%), 10.55% in industry and construction, 19.65% in service industry. The highest number of the Labour force working in services, industry-construction is in eastern part of the South (38.7% and 27.7%), followed by the Mekong River Delta (24.7% and nearly 10%). The northern areas have the highest number in agriculture (74% and 85%).

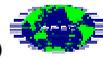
In terms of economic sectors, the highest number of regular workers is in the joint economic sector (52.7%), followed by non-state economic sector (38.64%); satiate sector (8.4%), foreign sector represented a small portion (0.28%).

Regarding employment status, household employment accounts for the largest portion (45%) followed by self-employed entrepreneurs (36.85%), employees (17.55%); others represent a small portion.

On territorial areas, the relation in employment status is similar to that of the above employment status. Except eastern part of the South, employees account for the highest percentage (40.62%), followed by self-employed entrepreneurs (approximately 32%), with only 25% for household employment. Employment status in urban arisen general and other areas (except Taynguyen) is similar to that in the eastern part of the south.

3. Correlation of Labour Supply and Demand

There are not enough jobs for people who are in working age; Throughout the country, 7.2 million people in rural areas are unemployed, accounting for 26.6 of the Labour force of the age; notably, the highest number of unemployment falls on young group of 15-24 (36% -37%), followed by group 25-34 (27% -28%), group 35-44



(20%). These people are in good physical conditions with high economic level. On 7 territorial areas, the rural areas of the Red River Delta and Mekong River Delta suffered from the highest rates of unemployment (30.5%), followed by Northern Midland and Central Coast (28%-29%). Agricultural workers represent the highest number of unemployment (86.9%), indicating the urgent need for the shift of economic structure to change employment structure.

In view of employment relations status, the majority of those who are unemployed are in household businesses (55.8%), followed by self-employed entrepreneurs with new demand for Labour organization. The percentage of using workers of the rural Labour force is only 72% (71% for female workers). For the whole economy, the average working days are low in the north, particularly they area only 208 days in northern Mid-land, equivalent to 84.5% in comparison with the average level of the whole country.

- Throughout the country, urban unemployment is 5.9%, 7.7% in Hanoi, 5.7 in Ho Chi Minh City. The highest unemployment rates are in the Red River Delta (7.3%), followed by northern Mid-land (6.67%) and mountainous areas and mid-land areas (6.1%).

- The outcome of the survey on the current situation of employment proved that although the number of people with regular jobs is quite big, unemployment are one of the issues that should be solved with priority socially and economically, the objects are not those unemployed but also those who are semi-unemployed, those who incomes are low or inadequate for living.

- Free migration from rural areas to urban areas: through a survey in 12 months from 7/1995 to 7/1996, there were more than 2 million people aged 15 above migrated from rural areas to urban areas for jobs is in Red River Delta with approximately 800,000 people accounting 13% of the rural Labour force. In Hanoi alone, the figure is approximately 140,000 people while it is 60,000 in Ho Chi Minh City.

Throughout the country and in other areas in view of the relations between Labour supply and demand, between scale and quality structures of the Labour force with the above scale and employment structure show considerably unreasonable differences. In the sectors and areas of large employment and high quality of worker force, the employment rates are high. In the areas with high quality of worker force and large skilled and trained employment source, the economic growth, economic structure and social Labour division (employment structure in the national economy) are low. In contrast, there are some areas with large foreign investments, fast economic growth, but the quality of worker force is low. They seriously lack skilled workers. Though they have attracted a lot of outside technical workers, the demand can not be meet resulting in big unbalance and causing social evils. So is there a “distraction” in allocating resources for economic growth? particularly allocating of productive force without taking into account the organization and development of human potential, the most



valuable advantage of our country - resulting in "false" Labour redundancy and shortage in each area.

In 1996, industrial and construction workers were about 3.7 million people accounting for 11% of the Labour force working in the national economy (27% in urban areas, 6.8% in rural areas).

Though the professional level of industrial workers is higher than average level of the whole country, it is still low. Of the total industrial workers, 32.5% are trained (2.6 times higher than that of workers in national economy). The shrink of the vocational system currently is causing it difficult to supply skilled workers for industries, particularly in areas with big foreign investments.

Table 7. Labour in professional level 1996

	Industry		Whole national economy	
Total number of workers of which:	3,530.0	100.0	35,866.2	100.0
1. untrained	2,382.8	67.5	31,452.2	87.7
2. Technical workers	917.8	26.0	2,207.5	6.15
3. Professional secondary Education	141.2	4.0	1,378.3	3.84
4. University - College	88.2	2.5	877.66	2.6

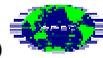
Source: DSI, 1998

The results of the survey of 200 businesses in 1996 (100 in Hanoi, 100 in HCMCT) implied that the industrial Labour structure in terms of professional levels of forms of business is as follows:

Table 8: Survey results of 200 businesses

	general	of which				
		stock companies	Ltd. companies	private enterprise	Joint ventures	State Enterprises
Total	100.0	100.0	100.0	100.0	100.0	100.0
of which unfinished secondary education	9.0	0.0	15.9	14.3	0.0	7.6
finish secondary education	26.0	28.6	29.5	25.0	19.0	24.3
finished technical vocational education	23.0	28.6	27.3	25.0	23.8	20.0
professional secondary education	23.0	0.0	20.5	10.7	28.6	26.8
university – college	19.0	42.8	6.8	25.0	28.6	19.0

Source: CIEM, 1996



The figure show that even in the biggest cities, 1/3 of the total Labour forces in businesses finished primary schools with no professional training.

Recently, due to the impacts of renovating economic management structure, though the value of industrial productions keeps rising quite high (12% - 14%) - higher than the average level of the national economy - industrial Labour is low, often lower than the working rates in the national economy. This has positive impacts increasing productivity and effectiveness of industrial production. This trend, however, does not create much employment in industry, nor promote the shift of social Labour division in the direction of industrialization and modernization. It is not suitable for the reality of the Labour market in Vietnam. The shift of ramifications with high Labour volume branches, appropriates technological structure reasonably allocated in territorial areas in order to bring into full play the advantage of young Labour with high economic level, low wages to create large employment and not to cause too severe needs for training skilled technical workers in those areas, is an urgent task in the process of reforming enterprises in Vietnam.

THE PROBLEMS ABOUT HUMAN RESOURCE DEVELOPMENT IN THE COMING TIME AND SOME RECOMMENDATIONS

1. Analysis of the census forecast to the year 2020 and socio-economic problems

To the year 2020, our population will be from 100-108 million people depending on the results of the implementation of the family planning program, working people is about 68 million. Changes of age structure of the population (PAI) are showed in table 5.

Table 9. Census forecast and population structure

	1995	2000	2010	2020
Total	74,000	81,350	95,000	105,000
Of which:				
1. Under working age	27,662	28,254	28,186	26,325
- Portion in comparison with total	37.4	34.7	27.3	25.1
2. In working age	38,995	45,175	57,772	68,000
- Portion in comparison with total	52.6	55.5	60.8	64.7
3. Above working age	6,154	6,833	8,200	9,875
- Portion in comparison with total	8.3	8.4	8.6	9.5

**Total is complete population, in age groups and permanent addresses.*

Source: DSI, 1998

Population activity in 2001-2020 will have positive and negative impacts on the development of human resources.

- Reduced birth rate leads to reduced population growth (averagely 1.9% in 1996-2000 down to 1.56%/year in 2001-2020) creating favorable conditions for the fast increase of average GDP per capita and better concentration of resources to the improvement of other per capita socio-economic criteria.



- Changes of the population structure in the ways to keeping the number of children stable (to about the year 2010) and then gradually reducing to the year 2020. On the one hand, it creates favorable conditions to develop education (concentrate to develop education quality and higher education generalization). On the other hand, it is signal of the danger of absolute reduction in the scale of employment resource and population in the farther future. The growth rate together with the absolute growth rate of the number of working people (averagely 1,260 people/year in 2011-2020), on the one hand reduced employment pressure but on the other hand, it shows that the Labour supply is gradually reducing. The average age of the working population groups, the portion of young people decreases; the portion of the old aged groups increases implicating that our advantage of young Labour force is disappearing gradually.

The continuous and fast increase of the number of old people requires increases in the total subsistence expenses for them while the present social insurance system has yet widely attracted these population groups.

Table 10: Increases in Human Resources to the year 2020.

	In working age	Percentage compare with total	Average growth rate
1985	29,500	49.3	...
1990	33,728	50.8	2.70
1995	38,955	52.6	2.92
2000	45,175	55.5	3.00
2010	57,772	60.8	2.49
2020	68,000	64.7	1.64

Source: DSI, 1998

The average growth rate of the working population increases gradually each 5-year plan because of a large number of active working populations and a stable retired population. Changes are as follows:

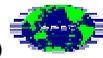
Table 11: Yearly Working Population Growth

Unit: Thousand people

	Total active age	Total retired age	Total in added working age
1995	1,632.5	384.2	1,248.6
2000	1,747.7	356.9	1,390.8
2005	1,812.4	369.9	1,442.5
2010	1,879.9	491.6	1,338.3
2020	1,862.9	892.0	970.9

Source: DSI, 1998.

The above situation requires the national economy-in each 5 year plan, followed primary education-to train millions of young people professionally and vocationally, to crease more than 5-6 million new jobs for new Labour force, let alone those lose their



jobs due to increased productivity and those are currently unemployed or semi-unemployed.

However, it should be noted that though the number of young people aged 15-30 keeps increasing in absolute number from 21.4 million (1995) to 24.2 million (2000), 28.1 million (2010); and 26.9 million (2020), the portion of young Labour force in the total number of specified working population tends to decrease from 55.0% (1995) to 53.6% (2000), 48.6% (2010) and 41.3% (2020) implying that the advantage of young Labour force will continue to decrease. We have failed to take this advantage during the past 10 years and if we still fail to take this advantage in the coming 10 years, it is assumed that our country has lost a remarkable opportunity in the process of development (Japan succeeded in taking this advantage in the past). At the same time we will have to face their consequences socially.

From a bird's eye view, the young population of our country does not continue to grow shown by the gradual decreases of the portion of children aged 0-14; on the one hand, the continuous growth of the working population to the year 2020 highlights the advantage of our country in number, high growth rate and young Labour force. On the other hand, they pose great challenges for employment creation, foresee the period with increased portion of old people after 2010 when those born in 1950s and 1960s are retired.

2. Main problems to be solved

The training policy, which is generally applied to enterprises including SMEs is not, attached with appropriate importance. Most of the enterprises have, in fact to finance training of professional skills for their employees and managers from their already limited budget. The State has not issued suitable policies nor taken effective measures to promote and support enterprises through tax reduction or exemption for training costs incurred by the enterprises, assist in the formulation of vocational training centers for enterprises, stimulating the formation of professional associations as a forum to exchange information and experience which are considered as a practical and positive training method, etc. The field study results show that the professional and managerial levels in SMEs are extremely limited, namely up to 74.8% of employees of the SMEs have not yet completed 10-grade education and approximately 30% of laborers have not net provided with any regular training course. This is proven to be one of the reasons causing lower productivity and poor product quality, and hence the competitiveness of these enterprises in the market.

As a whole, training system for SME in Vietnam does not meet the training needs of the SME business people. There are some problems, which must be solved in near future, as follows:

- There is not a kind of governmental institution, who takes care about development of professional training for SME in Vietnam in terms of it's system's perspectives, development programs, coordination of training



activities, government policy in support of development of the training system in the country.

- Production technology training and high level technical worker's education have not received due attention. In another words, one can say that "technology education" in context of market economy is almost absent.
- Training programs are not diversified enough in terms of time and location of training. Training curriculums are poor and can not meet the needs of various target groups of learners.
- Teachers, trainers, mentors/ coaches are in short quantitatively and qualitatively; training of trainers have no received due attention. Teaching methods in most of cases are traditional; learners are in passive position.
- Training rooms and facilities are in short and poor in quality that do not allow the new and active methods of training to be applied.

3. Some recommendations

3.1. Restructure educational and training system in conjunction with expanding scale

To concentrate in completing primary education generalization in the year 2000, then secondary education generalization in 2010, at the same time efforts to be taken to improve education quality.

Significant changes to the ramification of pupils after completing secondary education. Quickly increase the number of secondary education degree holders to the vocational system.

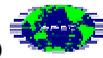
Diversify forms of education and training

The State plays the leading role in the education generalization to be the foundation for the development of jobs training and other higher professional training forms.

To encourage and attract the participation of businesses, private sector, social and people's associations etc. to develop education and training.

Improving education-training quality through following measures:

- To improve the infrastructure
- To improve teaching content and quality
- To further quality teachers
- Mobilization of resources
- Diversify of forms and resources
- To recover expenses reasonably



3.2.Improve policy system

The HRD policy toward SMEs should be improved, following measures should be implemented in near future:

a) *The State should place a leading role in the education issues*, particularly in primary education level; it is necessary to increase funds for education and training in pace with the socio-cultural development needs. Also, it is very important to encourage social forces to participate in training the Labour force, as well as contributions from learners. There should have policies in premises, grant or confessional loans including State funds at the early state to encourage social forces to actively participate in the establishment of vocational schools. Quickly increase the role of the business sector and individuals, particularly in higher education and human resources training.

b) *To attract foreign businesses into training human resources for industrialization*, because our workers go aboard to get intensive training not basic knowledge. It must be the responsibility of our education. Training abroad can not replace basic training. Workers who wish to undergo skilled training must finish secondary education and possess basic professional knowledge. The important thing is to make use of the advantage of export production zones in order to train qualified staff and skilled workers. Export production zones must be training establishments. Experienced and skilled staff and workers in Export production zones can be used to form the core for the development of other export production and industry zones.

c) *To create market encourages trained Labour force and movement of resources between areas and regions*. The establishment of market encourages trained Labour force requires improvement in payment policy. Though presently the Government does not directly intervene in the payment of salary of businesses, basically, the payment policy of businesses is still based on Degree No. 25-26 CP, in which differences between workers with different levels are very small, and average yearly increase in payment without taking into consideration the willing to study to improve levels, working efficiency etc. does not encourage workers to improve skills and productivity. The encouragement of skilled Labour market through payment policy must be done timely and conjunction with the improvement of skilled levels meeting the development needs. In the present integration and competition trend, advantage of cheap Labour is no longer attractive, therefore, concentration should be paid to improve professional levels of workers to bring into full play the advantage of young Labour force with high academic level must be the top priority to industrialize the country and to attract foreign investments.

d) *To give special treatments to training establishments*; Circular No. 32 TC/TCT dated 6/07/1996 of the Ministry of Finance provides guidelines for the implementation of tax reduction and exemption to training establishment under regulation of Labour Law. Applied objects consist of: Establishments of businesses, organizations, individuals, provide vocational training for those who need to get vocational training to seek jobs or to create jobs for themselves. Establishments of



vocational businesses provide vocational training for workers to meet the needs for business and production development, to change production structure, or technology of the business.

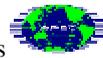
**VIRTUAL EMPLOYEE MANAGEMENT THROUGH THE
INTERNET**

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VIRTUAL EMPLOYEE MANAGEMENT THROUGH THE INTERNET

ABSTRACT

Flexibility and stability of workforces are essential for a firm to keep competitive in the market. Both the internal and the external labors should be flexibly organized and coordinated in order to meet the firm's strategic goals in a stable way. In this paper, we explore the systematic methodologies for flexible and stable management of workforces. We propose a computationally plausible model (named VEM) for managing *virtual employees* (VEs) through the Internet. A VE may be an internal labor or an external labor. After being assigned with a specific task of a project, the VE acts as a regular employee of the firm. The position for the VE disappears when he/she finishes the task. Thus the firm may get qualified workforce without suffering from many problems (e.g. skill training, fringe benefits, and layoffs) in hiring regular employees. Mutual understanding between the firm and the VE may be enhanced for further cooperation. On the other hand, due to the diverse backgrounds of VEs (e.g. working styles, available time, and workplaces), the benefits of employing VEs cannot be obtained until a more effective management strategy is implemented. Three major aspects of effective VE management are identified: proactive project management, VE communication, and task evaluation. They are achieved through the Internet so that all the VEs in different workplaces may be linked together as a team. The interactions among the three aspects provide the necessary supports (e.g. VE recruitment, coordination, early warning, and exception management) to the management level of the firm. Thus the firm may flexibly direct various kinds of workforces to their strategic goals.

Keywords: Virtual Employee Management, Proactive Project Management, VE Communication, Task Evaluation, Internet



INTRODUCTION

Flexibly setting up suitable workforces is a critical success factor for most companies. Therefore, the boundaries among the internal departments of a company are being redefined in many ways (e.g. identity, political, task, and authority boundaries [6]). On the other hand, as more and more companies rely on contingent workers (e.g. part-time workers, self-employed workers, business services, and temporary workers), external labors become another valuable human resource to be fitted into the companies [2]. Therefore, to maintain a stable workforce, a company should be able to flexibly organize both the internal and the external labors.

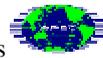
The flexible organization of internal and external workforces is helpful in many ways. It establishes diverse workforces that may promote flexibility, reduce operating costs, and speed up the responses to technological change [3]. External labors often bring new technology and skills to increase competitive capability. Integration of internal and external labors enhances the diverse workforces and stimulates creativity.

Obviously, the above benefits of diverse workforces cannot be obtained until effective management strategies are implemented. Therefore, due to the concerns of cost, risk and productivity, many alternatives (e.g. outsourcing and employee leasing) have been used to find contractors to reduce the management efforts. These alternatives save the cost of recruitment, training, management, and fringe benefits.

However, many companies have been (explicitly or implicitly) in the revolutions of shifting their basis from natural resources to intellectual assets [5]. For those jobs that need intensive intellectual assets and core experiences of the company, qualified and trustable contractors are often difficult to find. Furthermore, the problems of maintenance and trouble-shooting of the products from the contractors are often heavy burdens for the company.

Therefore, more and more contingent workers that are organized and controlled by the company are introduced to the workforce [2]. From the viewpoint of flexible organization boundaries, core workers and contingent workers of a firm should be integrated together to achieve the goals precisely defined by the firm. From the viewpoint of project management, these workers (no matter internal or external) are grouped together to achieve the goal of the project. Thus the workers from different sources and of different backgrounds are integrated on a project-based basis. In the project, each worker becomes a *virtual employee* (VE). Due to the diverse backgrounds of VEs, the management of the VEs is a challenge to both the human resource management community and the information technology community.

In this paper, we explore the ways of effectively organizing and managing the qualified VEs. In particular, we are concerned with the integration of information technologies so that employee management may be supported by an information system. In the next section, we define a concept of VE. In section 3, we propose a model for effectively managing VEs through the Internet. We identify the major functions and their architectures for both obtaining the benefits of VEs and excluding the potential problems



of VEs. Section 4 evaluates the framework from several practical concerns such as costs, risks, and critical success factors of employing VEs. We finally conclude that, through the introduction of information technology, information systems may be developed to support the effective management of VEs, which are fundamental components for establishing flexible and stable workforces.

VIRTUAL EMPLOYEE

When compared with regular employees, a VE is a worker having the following four features:

- (1) He/she may be an internal labor or an external labor.
- (2) He/she is precisely assigned with a task of a project.
- (3) He/she performs his/her task under the control of the project manager of the company.
- (4) He/she leaves the project team after finishing his/her task.

A VE differs from a traditional part-time worker in that he/she works in a project-based and task-oriented manner (rather than in a fixed-time and routine-like manner). A VE differs from a traditional outsourcing contractor in that the VE team for a particular project are set up and controlled by the project managers of the company (rather than by the contractors). As each qualified labor (internal or external) is treated as a task-oriented VE, the company may obtain a more stable supply of suitable workforces, which are organized and controlled using project management techniques.

The benefits of introducing VEs

The benefits of employing VEs may be summarized as follows:

- (1) The cost (e.g. skill training, fringe benefits, and layoffs) of hiring regular employees may be reduced.
- (2) Human resources often play a central role in building competitive advantages for a company [11]. By considering the internal and the external human resources, the strategic goals of the company is more likely to be achieved by qualified workforces.
- (3) Diverse work forces may promote flexibility, reduce operating costs, and speed up the responses to technological change [3]. Integration of internal and external VEs may enhance diverse workforces and stimulate creativity.
- (4) Through the process of executing VE projects, mutual understanding between VEs and the company may be enhanced for further cooperation. The cost and the risk of hiring inappropriate regular employees may be reduced.



Typical conditions of introducing VEs

As described above, VEs are teamed up in a project-based manner. The conditions of introducing VEs may be summarized as follows:

- (1) The company has the core knowledge for conducting the project,
- (2) The knowledge is a valuable intellectual asset for the company, and
- (3) Qualified workers (internal or external) may be found for the tasks in the project.

The three conditions guarantee that the benefits of VEs are worthy of being pursued.

Critical success factors of introducing VEs

Quality and schedule controls are the major challenges of introducing VEs. Due to the diverse backgrounds of VEs (e.g. working styles, available time, personality, and workplaces), more effective management on VEs is essential. In particular, the critical success factors may be summarized as follows:

- (1) Proactive project management: In addition to task definition, assignment, and schedule control, *early warning* and *exception management* are important for VE management. Early warning provides the manager with enough time to deal with the next-stage human resource and schedule requirements of VEs. Exception management provides the manager with the way of managing the exceptions (e.g. quality and schedule) when they occur.
- (2) VE communication: Being teamed up in a project, the team members require effective communications to develop common mental and coordination models [4]. Since VEs have diverse workplaces and available time, in addition to normal ways of communications, asynchronous communications through the Internet are required.
- (3) Task evaluation: Selecting right VEs and then assigning them with right tasks are critical as well. As described above, a VE may be an internal worker or an external worker. Thus, the performance VEs should be evaluated and recorded for reference in other projects. Thus quantitative statistics are generated to assure quality. This may help to improve customer satisfactions and reduce failures in competitive business environments.

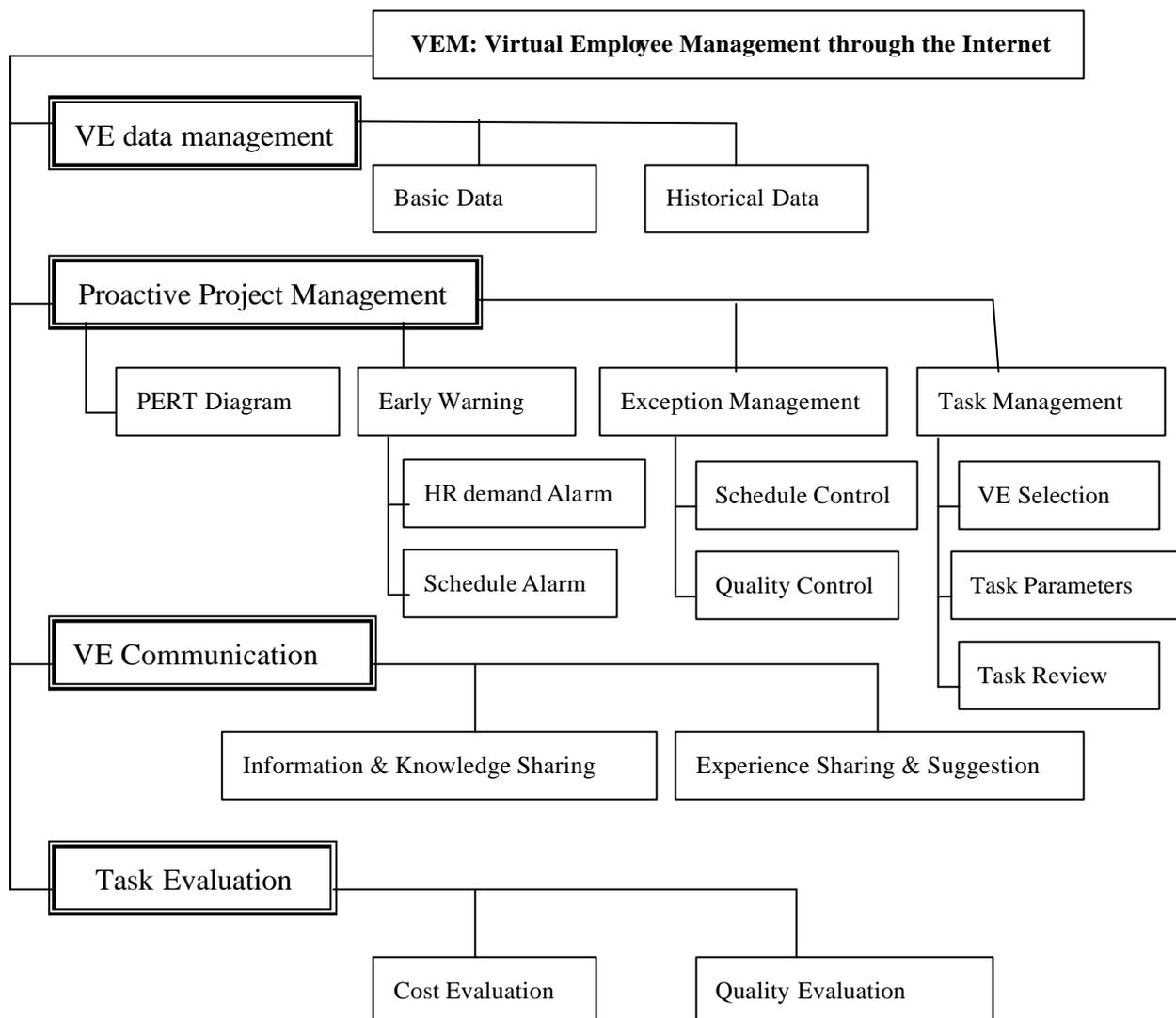


Figure 1. Functional overview of VEM

VIRTUAL EMPLOYEE MANAGEMENT THROUGH THE INTERNET

We propose a computationally plausible model (named VEM) to support VE management through the Internet. VEM aims at supporting the managers in obtaining the benefits of VEs, while at the same time, reducing the problems induced by VEs.

A functional overview of VEM is illustrated in Figure 1. There are four main functions in VEM: (1) VE data management, (2) project management, (3) VE communication, and (4) task evaluation. The context diagram of them is shown in Figure 2.

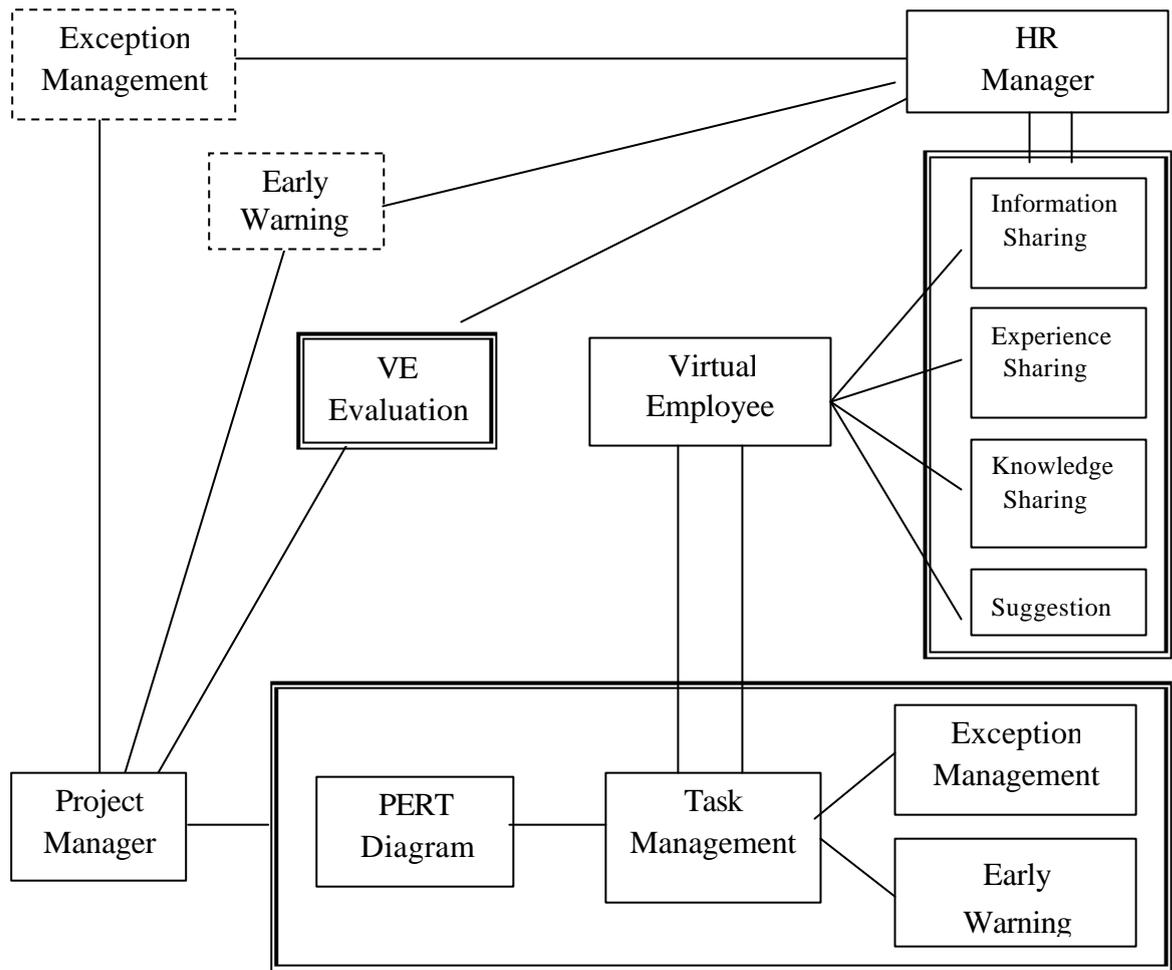
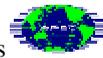


Figure 2. Context diagram of VEM

VE Data Management

The VE data management module processes basic and history data of VEs. Basic data includes VEs' personal information like name, address, sex, birth of date, degree, certificates, available time, ... etc. Historical data includes all the information concerning the performances of the VEs in previous projects. Historical data serves as the basis for rewarding and organizing VEs. It is mainly from the task evaluation module of VEM (ref. Section 3.4). The following aspects of performance data are identified as essential historical data of a VE:

- (1) Timeliness of the work completed by the VE,
- (2) The quality of the work completed by the VE,
- (3) The extend to which the VE shares knowledge with others,
- (4) The working altitude of the VE, and



(5) Other problems and contributions of the VE in the project.

VE data may be updated through the Internet so that the most up-to-date information about the VEs may be referenced for VE management.

Proactive Project Management

The proactive project management module proactively supports the manager to control the quality and the schedule of the projects. It includes four functions: (1) task management, (2) PERT diagram generation, (3) early warning, and (4) exception management.

Task Management

The task management module provides a platform for the manager to set up the project and the VE team. It supports task definition, task parameters setting, VE selections, and task review. Through the platform, the manager and the VEs communicate with each other about the current status of each task. Once any events concerning a task (e.g. successfully completed, delayed, ... etc.) is updated, the corresponding sub-modules of project management will be triggered to achieve proactive project management.

PERT Diagram Generation

The module displays the task network and calculates the critical path of the project based on the Program Evaluation and Review Technique (PERT). Due to the exceptions (e.g. quality and schedule exceptions) of the VEs, the critical path of a project may switch from one to another. Therefore, proactively monitoring the change of the critical paths is necessary. The manager in charge will be notified of any change of critical paths. A visual drill-down interface is designed to provide the manager with all information concerning the tasks of the project.

Early Warning

Due to the dynamically changing conditions of VEs, the manager needs a facility of early warning in order to have more time to deal with the critical events that will happen. The facility is *proactive* in the sense that it allows the manager to avoid possible exceptions (rather than dealing with exceptions after they have occurred). The manager is notified before the critical events actually happen.

Two kinds of events are identified to be critical for the manager: human resource demand and VE schedules. The system notifies the manager of the human resource demand of tasks before the needs actually occur for the task. Therefore, the project may be conducted even though some tasks are not assigned with VEs. This is important for VE management, since it is often impractical to assign all tasks with VEs at the initiation stage of the project. Even all tasks are assigned with VEs, uncertainties still exist due to the diverse backgrounds of the VEs.

Similarly, before a task is actually completed, the manager and the VE in charge are



notified to check the schedule. Suitable procedures may be conducted if the task might be delayed. The amount of time that early warning precedes the actual happening of the events is a system parameter that may be set by the manager.

Exception Management

When an exception actually happens, the system should be able to promptly detect it and support the manager in designing solutions to the exception. There are two kinds of exceptions identified in VEM: schedule exceptions (i.e. the task is not completed on schedule) and quality exceptions (the task does not adhere to the quality requirements). Measurable specifications for the exceptions are needed so that the system may effectively detect the exceptions [9].

The exception management facility allows the manager to promptly reorganize the schedules and the resources so that the project may go on smoothly. When reorganizing the schedules and resources, the system supports the manager in pinpointing the problems, redefining the schedules, selecting backup VEs, assigning the backup VEs, and estimating the possible loss due to the exceptions.

VE Communication

The VE communication module provides a platform for the manager and the VEs to share information and knowledge through the Internet. Being set up as a team, the VEs need to develop and share the same mental models [4]. Due to the diverse workplaces and working time of the VEs, synchronous and asynchronous communications through the Internet are required. Therefore, in addition to common media for communications, a web site that integrates the VEs as a society will be helpful.

In the platform, knowledge and information sharing may be documented for reference in VE management. All the team members may get suggestions and experiences from each other. Mutual understandings among the manager and the VEs may be enhanced through the platform as well.

Task Evaluation

The task evaluation module is a facility for the manager to evaluate and control the cost and the quality of the project. By setting up a set of measurable evaluation criteria, the module monitors the progress of the project. As an exception concerning the overall cost and quality of the project occur, the manager is notified to deal with the situation.

The performance of each VE (ref. Section 3.1) is also monitored and recorded for reference as well. Statistical data of each VE's performance may be used to assign right people with right tasks. This is a major concern of most human resource managers. In VE management, the historical performance data VE is of particular importance.

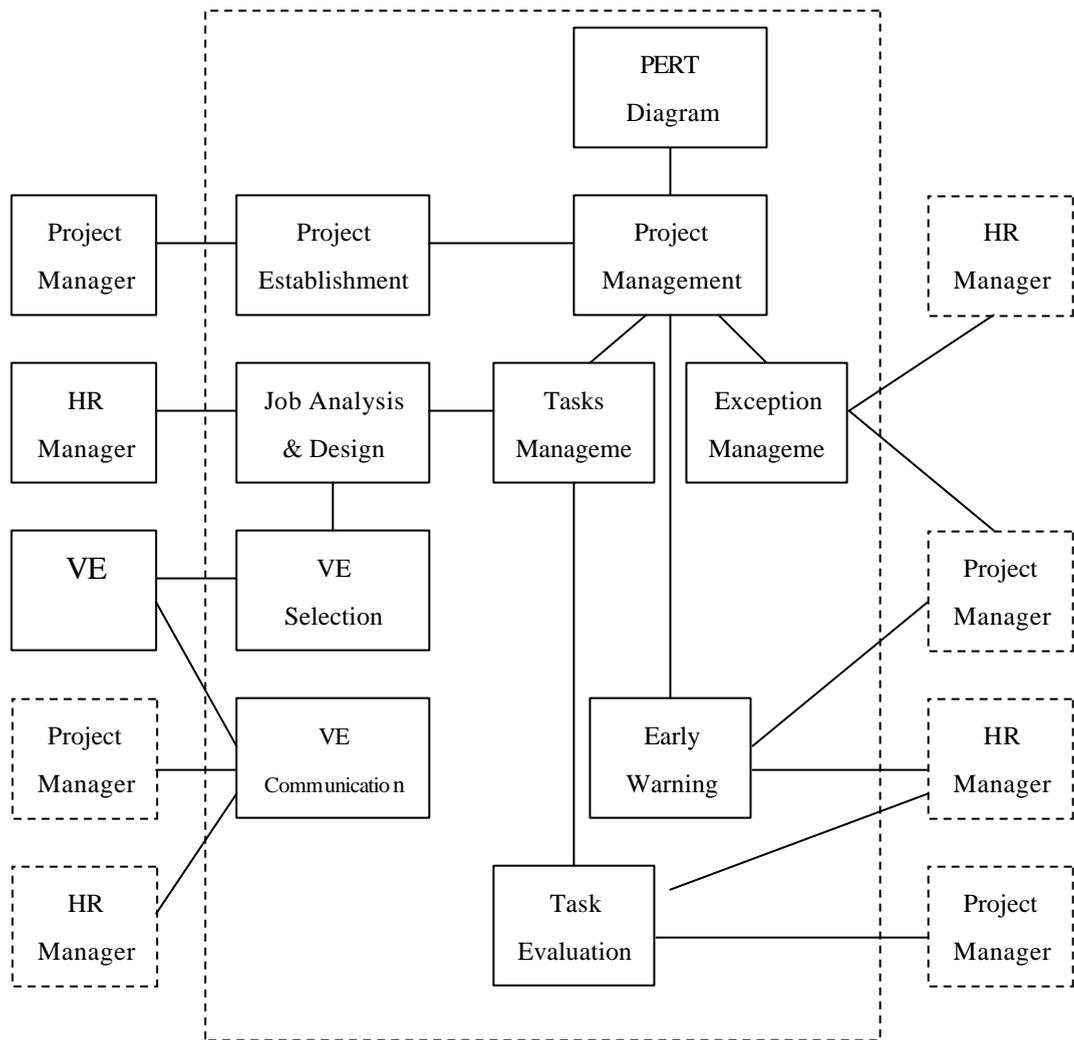


Figure 3. An example flow chart of VEM

An example

A flow chart of VEM is shown in Figure 3. To illustrate the flow, an example is raised as follows. Suppose a senior employee of a company is appointed the manager of a project. The project is to achieve the firm's strategic goal. He works out a task network and defines each task precisely. A team needs to be promptly set up to complete the project. Since this project requires much core knowledge of the firm, he decides to establish a team based on VEs.

After finishing job analysis and design, he scans a VE candidate pool to list qualified VEs either inside or outside the firm. Based on the procedures of VE selection and recruitment, he establishes a two-way communication with each candidate to check their available time and attitudes toward this project. The project manager then collected



feedback information from the candidates and prepares a list of qualified candidates. After interviewing each qualified VE candidate, the VE team for the project is established. The project manager informs the team members and keeps in touch with them through the Internet. The VEs in the team may begin to communicate with each other through the Internet as well.

During the execution of the project, the project manager collects and studies all the information concerning the VEs. He aims at finding and solving any problems that the VEs encounter. Occasionally the manager is notified (by the system) of the human resource demand of some tasks. Before the needs actually occur, the manager arranges suitable VEs for the tasks to avoid the possible exceptions. Sometimes the manager is notified (by the system) of the tasks that should be completed in the near future. He contacts the VEs that are in charge of the tasks. The schedule is checked to avoid possible delays of the project.

The manager encourages all the team members to exchange and share information with each other. Experiences and knowledge concerning the execution of the project are gradually accumulated for later reference. The society and the cooperation among VEs was tightly established through the Internet.

Once an exception or an alarm happens, the project manager is invoked to solve the problem. If a VE does not fulfill the requirements of his/her task, the project manager is notified of whether the critical path of the project is changed. Redeployment of backup VEs and redefinition of original schedules are two common methods to deal with the problem. The project manager selects a method and then initiates whatever managerial actions to implement the method.

The VEs begins to report the completion of their tasks. The project manager evaluates their work from the viewpoints of quality and timeliness. The evaluation results are recorded as historical performance data of each VE. Based on the evaluation, the project manager identifies the ways of rewarding those VEs that have met the requirements of their tasks.

EVALUATION

We have proposed a definition of virtual employees to facilitate the flexible integration of internal and external labors. A computational plausible model VEM is also proposed to effectively manage the virtual employees through the Internet. In this section, we evaluate the framework from the following four perspectives: (1) related work of VEM, (2) benefits of delivering VEM, and (3) critical success factors of VEM. Based on the evaluation, we summarize the future research directions of the work.

Related Work

From the viewpoint of underlying information technology, database technology and Internet computing are relevant to VEM. They serve as the fundamental platforms on which VEM is developed. The maturity and stability of the technology facilitate the implementation of VEM.



Another fundamental technology for VEM is the project management technique. Various techniques and information systems for project management have been developed in literature [7]. Critical Path Management (CPM) and Program Evaluation and Review Technique (PERT) are two popular and well-known techniques closely related to VEM. They have been implemented in some commercialized packages as well (e.g. Microsoft Project 98). They may help the manager to direct the firm's valuable resources to critical tasks in order to speed up the whole project. VEM implements CPM and PERT on the Internet in order to build a suitable platform for managing VEs in different workplaces at different work time.

Redeployment of employees and redefinition of schedules have been identified as effective ways of tackling problems in project management [8]. VEM extends the idea and provides several novel supports to the manager when an exception happens. In supporting the redeployment of VEs, VEM provides a facility to select and set up the backup VEs. In supporting the redefinition of schedules, VEM provides a drill-down interface to redefine the schedules. The items related to the schedules (e.g. cost evaluation) are automatically checked once the change of the schedules is confirmed. In addition, VEM further achieves *proactive* project management in the sense that the system notifies the manager of the critical events that will happen in the near future. Thus the manager may have enough time to avoid exceptions (rather than simply dealing with the problems that have happened).

VEs share some features with outsourcing contractors. An outsourcing contractor completes a project for the company. Thus the cost of project management, labor maintenance, and unemployment compensation liabilities may be reduced for the company [1]. Outsourcing is different from hiring a VE outside the company to perform a task. The major difference is that companies must be in charge of VE management. VEs are preferred when the company is conducting an important project that requires core intellectual assets of the company.

Information and knowledge sharing is essential for enhancing the performance of project teams [10]. Project changes may happen at any time in many ways. Regardless of the specific change, there exists ambiguities and doubts associated with the change. Therefore, VEM provides a platform for the managers and VEs to communicate with each other at any time in any places. The information and knowledge shared among the team members may be further documented for improving VE management.

Benefits of Delivering VEM

The benefits of VEM are twofold: (1) cost and risk reduction in human resource management and (2) quality promotion in project management.

Cost and Risk Reduction in Human Resource Management

VEM aims at supporting a firm to flexibly organize and direct its workforces to its strategic goals. The flexibility of integrating various kinds of workforces may contribute



the reduction of cost and risk to human resource management [3, 6]. In this area, the contributions of VEM may be summarized as follows:

- (1) VEs are organized in a project-based manner. They are not appointed to any regular positions of the organization. After the project is completed, the VEs are dismissed. The cost and the risk of reorganizing the organization structure may be significantly reduced.
- (2) Only core employees are deployed into the functional groups of the firm. There is no surplus of jobholders. Thus the core intellectual assets of the firm may be accumulated. The cost and the risk of layoffs, turnovers and breeding of human capitals are reduced.
- (3) By considering both the internal and external labors, the firm may have a larger basis for recruiting qualified workers. The cost and the risk of human resource training may be reduced.
- (4) Tracking and recording the performance of VEs in previous projects may reduce the cost and the risk of inappropriate VE assignment.

The reduction of the costs and the risks provides the firm with more resources for rewarding VEs. Rewarding the VEs stimulates the motivations of the VEs, which in turn, further reduces the costs and the risks of human resource management (ref. section 4.3).

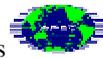
Quality Promotion in Project Management

The quality of VE project management is obviously essential. The key point is that the manager should fully understand the philosophy of their own quality management and be totally committed to the goals [6, 12]. The quality will be promoted based on strong leaderships and measurable management standards. VEM supports the manager in committing the quality controls on VE projects. Its contributions to quality promotion are twofold:

- (1) Through VEM, a VE team may be established to bring talented and experienced workers together. The quality of the VE project may be promoted by stimulating creativity and interchanging experiences through the Internet.
- (2) VEM supports the manager in managing exceptions such as delayed schedule, defects, and VE turnovers. Its proactive project management facility provides the project leader and the human resource manager with enough time to track and tackle abnormalities. Thus the quality of the project may be promoted, while the risks of project failures may be reduced.

Critical Success Factors of Delivering VEM

Although VEM may provide contributions to human resource management and project management on VEs, other management strategies are still necessary so that the benefits of employing VEs may be actually obtained. The management strategies are



necessary due to the diverse backgrounds of VEs. Each VE may have his/her own available time, working style, workplace, and jobs. The different backgrounds lead to uncertainties in qualities and schedules of VE tasks. VEM is a tool for the manager to monitor and control the uncertainties. Additional management strategies should be set up for reducing the uncertainties and their effects. These strategies become the critical success factors of delivering VEM to the firm:

- (1) More efforts should be paid for stimulating effective communications among the diverse workforces of different talents. Although VEM incorporates a platform on which the communications may be conducted through the Internet, traditional media of communications (e.g. telephone, face-to-face, documents) and are still necessary. As described above, a virtual society of VEs may be established through the VEM. All forms of communications should be conducted in a society-based manner.
- (2) Suitable policies for rewarding VEs with good performances should be established. As discussed above, the VEs selected for a project are of qualified talents and experiences. They will be dismissed after the completion of the project. A suitable rewarding policy may stimulate the motivations of the VEs.
- (3) Task analysis and design should be precisely and completely conducted before setting up the VE team. This involves the clarification of the inter-relationships among tasks. The specification, responsibility, and expected costs of each task should be clearly defined.

Future Work

We are currently extending the framework from the following perspectives:

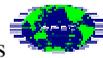
- (1) Implementing all the modules of VEM: All the modules are implemented and run on the Internet.
- (2) Developing a technique for automatic VE selection: Currently, VEM records the basic and historical data of each VE. A more automatic VE matching and selection technique is required when there are many VEs in the database. The technique may be used in setting up VE team and selecting backup VE (when an exception occurs).
- (3) A comprehensive real test of VEM: The system based on VEM will be delivered to a test site. The performance and contributions of VEM may be comprehensively evaluated in the real test.
- (4) Analyzing the feasibility and critical success factors of employing VEs: Based on the system implementation and the real test, the feasibility and the usage of VEs may be re-examined. The ways of employing VEs may be improved from the analysis.

CONCLUSION

In this paper, we propose a definition of virtual employees to flexibly integrate internal and external labors of a company. A team of virtual employees is set up in a



project-based manner. Since the VEs are inherently of different backgrounds, their management becomes a major challenge. Therefore, we propose a plausible computer model VEM to facilitate the effective management of virtual employees through the Internet. Proactive project management, effective communication, and task evaluation are identified as critical components to support virtual employee management. VEM serves as a platform on which the manager may conduct project-related management through the Internet. The system creates a communication channel among all the team members. Critical exceptions and events concerning the project are proactively monitored by the system. The manager is notified when the exceptions and the events occur. Thus the manager may have more time to avoid and deal with exceptions. As the flexibility of workforce organization has been recognized as an essential consideration in current competitive environments, virtual employees and their management information systems may be a way to maintain a stable workforce to meet the strategic goals of a firm.



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**THE IMPACT OF INFORMATION TECHNOLOGY ON CAREER
STRATEGIES AND CAREER DEVELOPMENT ACTIVITIES OF
YOUNG KNOWLEDGE WORKERS**

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THE IMPACT OF INFORMATION TECHNOLOGY ON CAREER STRATEGIES AND CAREER DEVELOPMENT ACTIVITIES OF YOUNG KNOWLEDGE WORKERS

ABSTRACT

The aim of this paper is to measure the impact of information technologies (IT) on the career strategies and career development activities of young knowledge workers in technology-driven organizations. These activities as reported by Burke, Divinagracia and Mamo (1998) include orientation, career development program, technical training, management development, certification program, advanced management program, coaching from peers, key project assignments, mentoring, sponsoring, networking, and career pathing.

Information was obtained from young knowledge workers at the Los Banos Science Community (LBSC) in the Philippines. The LBSC is host to numerous food, engineering, and biological-related technology-driven organizations.

The young knowledge workers, who served as respondents in this study, are highly educated and are satisfied with the progress that they are achieving in their careers and jobs. Most of them anticipate an upward movement in the managerial hierarchy of their respective organizations because of their performance and merits. The respondents gave a high rating on the usefulness of the career development activities that they participated in. They likewise perceive a higher level of usefulness in the career development activities that they will participate in the future. These include, among others, increased participation in management development and its related programs; and networking.

In the next five years, the career strategies of the young knowledge workers are aimed at obtaining a broad-based work experience in their present work environment; and using a network of contacts inside and outside their respective organizations to obtain useful information. The engagement of these future career strategies are driven by the strategies that the young knowledge workers have pursued within the past year, and the information technologies that are currently employing in their jobs.

The information technologies, career development activities, and career strategies of the young knowledge workers are intertwined with their work environment and movement in their organizations. In preparation for their upward movement, the respondents' career strategies were aimed at acquiring broad-based work experience and the pursuit of management development-related career development activities. With lesser dependence on immediate subordinates in their work stations, the future career strategies of the young knowledge workers will also be directed at using a network of contacts within and outside the organization, and the application of internal and external networking in their career development activities. The envisioned increased usage of information technologies that are related to networking are essential and necessary to enable the young knowledge workers to cope up with their growing work-related and home-related tasks.



BACKGROUND AND RELEVANCE OF THE STUDY

The rapid change in information technology during the past decade is a major force in reshaping the practice of human resource management in the SMEs and other organizations of the future. Information technology and advances in telecommunications have given birth to the future workplace- the virtual enterprise. Using technology, Schellenburg (1994) and Geber (1995) had mentioned that virtual project teams of individuals having the best brains could be formed regardless of geographic location. Greiner and Metes (1995) further stated that virtual work tasks are designed around "electronic information access rather than sequential flow." This means that virtual operations will be characterized by parallel work that is performed by dispersed human resources. People in the virtual workplace will see their work develop and evolve, and contribute to it as appropriate. Moreover, Handy (1997) had characterized the enterprises of the future as "boxes of contracts." Drucker (1997) further described them as networks of lean organizations with shared goals but no long-term relationships.

As the organizations of the future become flatter with hierarchical structures replaced by ad-hoc teams, traditional career paths will disappear. Thus, the challenge is to provide career development programs that will generate meaningful work experiences for the employee (Hendrick, 1989); in a problem-solving environment (Miller, 1997), and a comprehensive orientation program that can speed up organizational culture learning where "teamwork and partnership are the dominant modalities" (Smith & Kelly, 1997).

The aim of this paper is to measure the impact of information technologies (IT) on the career strategies and career development activities of young knowledge workers in technology-driven organizations. These activities as reported by Burke, Divinagracia and Mamo (1998) include orientation, career development program, technical training, management development, certification program, advanced management program, coaching from peers, key project assignments, mentoring, sponsoring, networking, and career pathing.

RESEARCH METHOD

Information was obtained from young knowledge workers at the Los Banos Science Community (LBSC) in the Philippines. The LBSC is host to numerous food, engineering, and biological-related technology-driven organizations.

Pre-tested questionnaires adopted from the research work of Burke, Divinagracia, and Mamo (1998) were used. Quota sampling was used to determine the technology-driven organizations selected for the study. Thereafter, a set of selection criteria was applied to generate the list of respondents interviewed from the sampled organizations.

The measures for career and job success were adopted from measurement scales developed by Quinn and Shepard (1974), Burke (1991), Greenhaus et.al. (1990), and Lodahl and Kejner (1965). The measures for participation in career development



activities were adopted from those formulated by Greenhaus et. al. (1990) and Burke and McKeen (1994). The rest of the measures were adopted from Burke, Divinagracia, and Mamo (1998).

RESULTS AND DISCUSSION

Demographic Characteristics of the Respondents

The demographic characteristics of the respondents are shown in Table 1. Out of the targeted 120 respondents, there were 42 young knowledge workers (or a response rate of about 33%) who participated in this study. More than half of them was below 37 years old. The respondents were predominately female, married, and had completed college.

More than half of them were earning less than P15,000.00 per month (US\$400), have children but without household help. These respondents do not have a professional designation, and worked more than 40 hours on a 5-day week without the benefit of having an immediate subordinate.

The respondents were mostly occupying middle management level positions. About half of them expect to move up the organizational ladder.

Levels of Career and Job Satisfaction

Table 2 shows that the respondents have expressed a favorable level of satisfaction with the success that they had achieved in their career; and the progress that they had made in meeting overall career goals as well as goals for advancement.

The respondents somewhat expect to advance as far as their abilities permit. They perceive that promotion in their respective organizations is based on merit and achievement.

They are also, to a certain extent, personally involved in their work. Although the respondents had occasionally thought of leaving their jobs, they are still willing to stay with their present employers even if they will be given the opportunity to go to any job that they wanted.

Career Strategies

The respondents tend to engage the following career strategies (Table 3) more frequently in their respective organizations within the past year:

1. worked harder when they knew that their superiors would see the results;
2. obtained a broad-based work experience in the organization; and
3. used a network of contacts within and outside the organization to obtain useful information

Although their career strategies are not expected to change significantly in the future, the respondents will increasingly engage the second strategy over the first one.



Career Development Activities

Tables 4a and 4b show that the respondents mostly participated in the following career development activities: technical training; key project assignments; mentoring; career development programs, orientation; and coaching from peers. The respondents found these career development activities useful in helping them achieve their career goals.

The following career development activities were also rated useful: management development; career pathing; external networking; and internal networking. The respondents, relative to the former activities, did not as popularly participate in these activities.

In the future, more respondents are expected to participate in the following career development activities, management development; certification program; advance management program; career pathing; external networking; internal networking; and sponsoring.

Use of Information Technologies

Within the past year, the respondents in their work frequently used information technologies such as the Internet, the personal computer, and the telephone. The electronic pager was least utilized (Table 5a).

In the next five years (Table 5b), the respondents expressed higher levels of utilization of each of the different information technologies are available in their respective organizations. Other than the Internet and the telephone, the respondents perceive a significant increase in the usage of personal computers that are linked through a network (e.g. Intranet) from among themselves; and their partner organizations and clients.

Relationship of Information Technology Utilization, Career Strategies, and Career Development Activities

Stepwise regression was applied to determine the possible relationship among current and future information technology utilization, career strategies, and career development activities.

Results showed (Table 6) that there is a highly significant positive relationship between current career strategies (as a dependent variable); and the usefulness of the career development activities that the respondents participated in (as a predictor variable). This means that the usefulness of such activities to the young knowledge workers would tend to positively influence their frequency of engaging a particular set of career strategies.

Moreover, a highly significant relationship was also observed with the career strategies that will be pursued in the future (as a dependent variable), and the career strategies currently pursued as well as the information technologies presently utilized by



the respondents in their work environment (as predictor variables). This relationship implies the likely impact of information technologies on future career strategies.

Lessons Learned

The young knowledge workers, who served as respondents in this study, are highly educated and are satisfied with the progress that they are achieving in their careers and jobs. Most of them anticipate an upward movement in the managerial hierarchy of their respective organizations because of their performance and merits.

In the performance of their tasks, most of the young knowledge workers either have a very limited number of immediate subordinates or none at all. They worked more than 40 hours in a 5-day workweek while attending to the needs of their families and growing children sans nannies and household help.

The respondents gave a high rating on the usefulness of the career development activities that they participated in. They likewise perceive a higher level of usefulness in the career development activities that they will participate in the future. These include, among others, increased participation in management development and its related programs; and networking.

In the next five years, the career strategies of the young knowledge workers are aimed at obtaining a broad-based work experience in their present work environment; and using a network of contacts inside and outside their respective organizations to obtain useful information. The engagement of these future career strategies are driven by the strategies that the young knowledge workers have pursued within the past year, and the information technologies that are currently employing in their jobs.

The information technologies, career development activities, and career strategies of the young knowledge workers are intertwined with their work environment and movement in their organizations. These are illustrated by the following:

1. In preparation for their upward movement, their career strategies are aimed at acquiring broad-based work experience and the pursuit of management development-related career development activities.
2. With lesser dependence on immediate subordinates in their work stations, the future career strategies of the young knowledge workers will also be directed at using a network of contacts within and outside the organization, and the application of internal and external networking in their career development activities.
3. The envisioned increased usage of information technologies that are related to networking are essential and necessary to enable the young knowledge workers to cope up with their growing work-related and home-related tasks.



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Table 1.
Demographic Characteristics

	N	%
Age		
20-23	1	2.38
24-27	8	14.28
28-31	8	14.29
32-36	9	21.43
37-40	20	47.62
Gender		
Female	24	57.14
Male	18	42.86
Marital Status		
Single, never married	12	28.57
Married	30	71.43
Education		
College undergraduate	2	4.76
Completed college	18	42.86
Some master's	4	9.52
Completed master's	9	21.43
Some doctorate	7	16.67
Completed doctorate	2	4.75
Monthly Gross Income (PhP)		
Below 10,000	5	11.90
10,000-14,999	22	52.38
15,000-19,999	11	26.19
20,000-24,999	2	4.75
35,000 and over	2	4.75
Children		
No	16	38.10
Yes	26	61.90
Household Help		
No	27	64.29
Yes	15	35.71



Table 1 (continuation).
Demographic Characteristics

	N	%
Professional Designation		
No	32	76.19
Yes	10	23.81
Hours Worked per Week		
36 to 40	11	26.19
41 to 45	14	33.33
46 to 50	7	16.67
51 to 55	3	7.14
56 to 60	3	7.14
More than 60	4	9.52
Immediate Subordinates		
More than 10	1	2.38
7 to 9	0	0
4 to 6	4	9.52
1 to 3	15	35.71
None	22	52.38
Current Level in the Organization		
Senior Management level	1	2.38
Middle Management level	20	47.62
Lower Management level	14	33.33
Lowest Management level	7	16.67
Perceived Level in the Organization in the Next Five Years		
Senior Management level	12	28.57
Middle Management level	21	50.00
Lower Management level	7	18.67
Lowest Management level	2	4.76



Table 2
Indicators of Career and Job Satisfaction

	Average Rating
Career Satisfaction	3.76
Career Prospects	3.52
Job Involvement	3.72
Job Satisfaction	3.23
Intention to Quit	2.21

The average response represents the respondents' agreement/disagreement with statements that measure the level of career and job satisfaction. A value of 5 would mean, among others, that the respondent strongly agrees with the statement that he/she is satisfied with his/her career/ job success. An extreme value of 1 would mean that he/she strongly disagrees with the statement on being able to attain career/ job success. The reverse would apply for the last measure, "Intention to Quit."



Table 3a
Career Strategies Engaged Within the Past Year

	Average Rating
Career Strategy 1 Worked harder when you knew your superiors would see the results.	3.14
Career Strategy 2 Used a network of contacts within the organization to obtain useful information.	2.89
Career Strategy 3 Obtained a broad-based work experience within the organization.	2.91
Career Strategy 4 Used a network of contacts outside the organization to obtain useful information.	2.73
Career Strategy 5 Made your boss aware of the assignments you want.	2.18
Career Strategy 6 Sought career guidance from experienced persons within the organization.	2.38
Career Strategy 7 Sought career guidance from experienced persons outside the organization.	2.17

A value of 4 would mean “Always” (100% of the time); a value of 3 would be associated with “Frequent” (71% to 99% of the time); the value of 2 with “Occasional”(45% to 70% of the time); and the value of 1 to “Never” (less than 45% of the time)



Table 3b
Career Strategies That Will Be Engaged in the Next 5 Years

	Average Rating
Career Strategy 1 Worked harder when you knew your superiors would see the results.	3.20
Career Strategy 2 Used a network of contacts within the organization to obtain useful information.	3.10
Career Strategy 3 Obtained a broad-based work experience within the organization.	3.34
Career Strategy 4 Used a network of contacts outside the organization to obtain useful information.	3.11
Career Strategy 5 Made your boss aware of the assignments you want.	2.79
Career Strategy 6 Sought career guidance from experienced persons within the organization.	2.78
Career Strategy 7 Sought career guidance from experienced persons outside the organization.	2.42

A value of 4 would mean “Always” (100% of the time); a value of 3 would be associated with “Frequent” (71% to 99% of the time); the value of 2 with “Occasional”(45% to 70% of the time); and the value of 1 to “Never” (less than 45% of the time)



Table 4a.
Indicators of Participation In Career Development Activities
and Level of Usefulness

Career Development Activity	Number Participating		Usefulness	
	No.	%	Ave.	SD
ORIENTATION: Program to brief new employees on rules and regulations; policies; procedures; and benefits.	27	64.29	4.73	0.45
CAREER DEVELOPMENT PROGRAM: Classes and/or seminars to help develop a greater awareness of interests; values and career goals; develop career decision-making skills and learn about different career opportunities.	28	61.90	4.68	0.47
TECHNICAL TRAINING: Programs designed to teach specific job-related information and skills (e.g. programming, budgeting, operations research, etc.)	32	76.19	4.90	0.40
MANAGEMENT DEVELOPMENT: Programs designed to teach broad management skills such as supervision and coaching; management decision-making; strategic policy making.	12	28.57	4.63	0.52
CERTIFICATION PROGRAM: Formal certification program in which the employee participates with the company's financial support.	11	26.19	2.21	0.67
ADVANCE MANAGEMENT PROGRAM: Summer or year-long program in management training and development typically conducted at a graduate or professional school.	8	19.06	3.35	0.52

A value of 5 under the column of “Usefulness” would mean that the career development activity was “Extremely Useful”; a value of 4 would mean that the activity was only “Somewhat Useful”; 3 was “Neither Useful or Useless”; 2 was “Somewhat Useless”; and 1 was “Extremely Useless”.



Table 4a (Continuation).
Indicators of Participation In Career Development Activities
and Level of Usefulness

Career Development Activity	Number Participating		Usefulness	
	No.	%	Ave.	SD
COACHING FROM PEERS: Formal or informal process of day-to-day coaching and counseling by one or more of your peers on how to improve your job performance and how to get along in the organization.	26	61.90	4.23	0.88
KEY PROJECT ASSIGNMENTS: Formal or informal process in which you were selected to carry out or assist in carrying out a specific project, typically involving work on a project team, task force or ad hoc committee.	31	73.81	4.64	0.49
MENTOR: A relationship with a more experienced colleague in order to provide you with increased opportunities for advancement, corporate visibility, guidance and advice, and ‘running interference.’	29	89.05	4.74	0.48
SPONSOR: A relationship with an individual of higher status or greater influence in the organization that provides you with ‘favored status’, special treatment or increased power and influence.	11	26.19	2.01	0.77
INTERNAL NETWORKING: An informal set of contacts and channels of communication inside the organization used to obtain information or advice relevant to your job performance and career goals.	22	52.38	4.51	0.50
EXTERNAL NETWORKING: An informal set of contacts and channels of communication outside the organization used to obtain information or advice relevant to your job performance and career goals.	22	52.38	4.60	0.51
CAREER PATHING: A process of providing or transferring you to a different job in the organization to provide you with needed skills, experience and exposure.	16	38.10	4.60	0.51

A value of 5 under the column of “Usefulness” would mean that the career development activity was “Extremely Useful”; a value of 4 would mean that the activity was only “Somewhat Useful”; 3 was “Neither Useful or Useless”; 2 was “Somewhat Useless”; and 1 was “Extremely Useless”.



Table 4b.
Indicators of Future Participation In Career Development Activities
and Perceived Level of Usefulness

Career Development Activity	Number Participating		Usefulness	
	No.	%	Ave.	SD
ORIENTATION: Program to brief new employees on rules and regulations; policies; procedures; and benefits.	31	73.81	4.78	0.46
CAREER DEVELOPMENT PROGRAM: Classes and/or seminars to help develop a greater awareness of interests; values and career goals; develop career decision-making skills and learn about different career opportunities.	32	76.19	4.72	1.93
TECHNICAL TRAINING: Programs designed to teach specific job-related information and skills (e.g. programming, budgeting, operations research, etc.)	34	80.95	4.84	1.99
MANAGEMENT DEVELOPMENT: Programs designed to teach broad management skills such as supervision and coaching; management decision-making; strategic policy making.	32	76.19	4.76	1.70
CERTIFICATION PROGRAM: Formal certification program in which the employee participates with the company's financial support.	27	64.29	4.74	1.87
ADVANCE MANAGEMENT PROGRAM: Summer or year-long program in management training and development typically conducted at a graduate or professional school.	26	61.90	4.77	1.71

A value of 5 under the column of “Usefulness” would mean that the career development activity was “Extremely Useful”; a value of 4 would mean that the activity was only “Somewhat Useful”; 3 was “Neither Useful or Useless”; 2 was “Somewhat Useless”; and 1 was “Extremely Useless”.



Table 4b (Continuation).
Indicators of Future Participation In Career Development Activities
and Perceived Level of Usefulness

Career Development Activity	Number Participating		Usefulness	
	No.	%	Ave.	SD
COACHING FROM PEERS: Formal or informal process of day-to-day coaching and counseling by one or more of your peers on how to improve your job performance and how to get along in the organization.	28	66.67	4.54	1.41
KEY PROJECT ASSIGNMENTS: Formal or informal process in which you were selected to carry out or assist in carrying out a specific project, typically involving work on a project team, task force or ad hoc committee.	33	78.57	4.80	1.76
MENTOR: A relationship with a more experienced colleague in order to provide you with increased opportunities for advancement, corporate visibility, guidance and advice, and ‘running interference.’	31	73.81	4.80	1.76
SPONSOR: A relationship with an individual of higher status or greater influence in the organization that provides you with ‘favored status’, special treatment or increased power and influence.	21	50.00	3.92	2.51
INTERNAL NETWORKING: An informal set of contacts and channels of communication inside the organization used to obtain information or advice relevant to your job performance and career goals.	35	83.33	4.63	1.20
EXTERNAL NETWORKING: An informal set of contacts and channels of communication outside the organization used to obtain information or advice relevant to your job performance and career goals.	33	78.57	4.62	2.07
CAREER PATHING: A process of providing or transferring you to a different job in the organization to provide you with needed skills, experience and exposure.	28	66.67	4.52	2.01

A value of 5 under the column of “Usefulness” would mean that the career development activity was “Extremely Useful”; a value of 4 would mean that the activity was only “Somewhat Useful”; 3 was “Neither Useful or Useless”; 2 was “Somewhat Useless”; and 1 was “Extremely Useless”.



Table 5a
Use of Information Technologies in Work/ Profession
Within the Past Year

	Average Rating
Telephone with NDD/IDD features	2.88
Mobile phone or cellular phone	2.20
Personal computer with no local area network	2.96
Personal computer with a local area network	2.54
Internet and/or electronic mail	3.04
Fax Machine	2.41
Pager	1.12

A value of 4 would mean “Always” (100% of the time); a value of 3 would be associated with “Frequent” (71% to 99% of the time); the value of 2 with “Occasional”(45% to 70% of the time); and the value of 1 to “Never” (less than 45% of the time)



Table 5b.
Expected Future Use of Information Technologies
In Work/ Profession

	Average Rating
Telephone with NDD/IDD features	3.32
Mobile phone or cellular phone	2.74
Personal computer with no local area network	2.94
Personal computer with a local area network	3.47
Internet and/or electronic mail	3.55
Fax Machine	3.03
Pager	2.04

A value of 4 would mean “Always” (100% of the time); a value of 3 would be associated with “Frequent” (71% to 99% of the time); the value of 2 with “Occasional”(45% to 70% of the time); and the value of 1 to “Never” (less than 45% of the time)

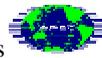


Table 6
Stepwise Regression

Dependent Variables	R²	Prob_F	Prob_T
Career Strategies Pursued	0.40	0.0003	
Usefulness of the Career Development Activities			0.003
Career Strategies to be Pursued	0.37	0.0032	
Career Strategies Pursued			0.029
Information Technologies Utilized			0.040

**TECHNOLOGY INNOVATIONS IN THE 21ST CENTURY:
IMPLICATIONS FOR HUMAN RESOURCE MANAGEMENT IN SMEs**

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TECHNOLOGY INNOVATIONS IN THE 21ST CENTURY: IMPLICATIONS FOR HUMAN RESOURCE MANAGEMENT IN SMEs

ABSTRACT

The SMEs in the APEC region have been experiencing radical changes in the past decade such as the economic ambience in the mid-90s as well as the economic turmoil in the late 90s. Besides economic changes, the advent of new technology has also created profound impact on SMEs in terms of products, services, delivery methods, and other business transactions. A recent survey has revealed that the owners of SMEs has regarded human resource management as the second most important function in their enterprises. Although there may not be a separate human resource department established in most SMEs, there still exist the strong demand for effective human resource management practices to effect organizational success of SMEs.

There is a need for the human resource function in organization of all sizes, with the small and medium size enterprise in particular, to keep up with the growing demands for services as the businesses they support expand to meet the competitive global market place. Application of information technology in human resource practice is one means of enhancing the organizational competitiveness within the global arena.

Under the impact of the technological advance, the traditional HR functional model of the SMEs may not be sufficient in the global setting in the 21st century. In this study, the author would examine to what extent that the SME has made use of information technology in their HR practices and how they perceive the importance of such application in the future. Both quantitative and qualitative approaches have been used in this study. The contribution of this study provides valuable insights to executives of SMEs and researchers who are interested in developing effective human resource management for SMEs in the future.



INTRODUCTION

A survey conducted by Hess (1987) showed that small business owners ranked human resource management as the second most important management activity next to general management and organizational work. Moreover, most studies conducted on human resource practices have been targeted at large size enterprises, few attempts have been made to examine how human resource practices contribute to the effective functioning of SMEs. Even rare is the study on impact of information technology on human resource practices of SMEs. This survey is an exploratory study in examining the impact of information technology on the human resource practices adopted by SMEs in the Asian region.

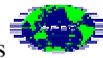
The 21st century is the age of information technology. Information technology will permeate almost every business practice and drive enormous strategic and practical progress. Information technology has brought about tremendous changes in the management process. Although lesser use has been reported in the human resource area when comparing with other management function like accounting and finance, more human resource managers have begun to make full use of information technology in their work.

In 1989, the survey by National Computer Board (NCB) of Singapore has investigated the usage of information technology in Singapore. Results indicated that among all organizations with computers, 49% were using them for human resource applications while 85% used computers for accounting and finance functions. Although the usage for human resource applications was lower than for financial functions, there has been an increase since 1987 when only 30% of the organizations used them for human resource applications. As indicated in the report, the use of computers for human resource applications is more extensive in the larger organizations. The usage was 39% among those with 10-24 employees, compared with 69% among those with more than 100 employees (Torrington & Tan, 1994).

Application of Information Technology in Human Resource Practices

Application of information technology has lagged behind its applications in other management functions such as accounting, manufacturing, and financial planning. It was payroll that gave birth to the first application of information technology in human resource practices in the form of human resource information system (HRIS).

HRIS is defined as a computer-based method for collecting, storing, maintaining, retrieving, and validating HR data. More than just a system for preparing standard reports, an HRIS is typically designed and structured to permit the retrieval of user-defined ad hoc reports, comparative analyses, and employee data items (Carrell et al, 1995). A well-developed human resource information system (HRIS) can provide many benefits to the company. By integrating the available information from various sources, the system can generate output data which are useful for decision-making and planning activities related to human resource activities.



In addition to employee and applicant information, the HRIS data base contains organizational and job-related data. The creation of the data base may be the most important step in implementing the system.

In 1992 Towers Perrin conducted a study which is used as a global benchmark on a number of HR items, identified the top three major current and future benefits of HRIS. First one is the faster information processing and greater information accuracy; second is the improved planning and program development; and third is the enhanced employee communication.

In fact, HRIS has provided the hub of data base which enhance a wide range of human resource administration ranging from manpower planning, job analysis, recruitment and selection, job evaluation, compensation, training, performance appraisal to succession and career planning.

Besides the usage of HRIS, information technology has also different variety of services to be offered by the human resource practitioners. With the advent of electronic commerce, web recruiting has proved to be cost effective and becoming popular in the Asian region. Information technology has also influenced the selection criteria. Future work will require a high level of computer literacy. It will demand not only people who know how to use the Internet, a word processing program and a spreadsheet, but also individuals who understand the radically different conceptual framework in which tasks, projects and alliances will be handled. Company training materials or programmes could be disseminated via web with boundless coverage.

METHODOLOGY

In this survey, questionnaires have been sent to small and medium size enterprise. Small and medium size enterprise refers to company registered in Hong Kong with employee size of two to five hundred. Questions have been asked on their use of information technology in human resource practices; degree of effectiveness in such IT application; and perceived importance of IT application in the future. In addition to the quantitative approach, qualitative approach in the form of interview was used. Human resource managers or person in-charge of human resource function of twenty SMEs were interviewed to express their views on IT application on human resource practices in their organization.

RESULTS AND DISCUSSION

The total number of returned questionnaire is 236. Out of these 236 respondents, only 201 (85%) enterprises having Asian ownership have been included in this study. The ownership distribution is that 54% is Hong Kong; 20% is Chinese; 16% is Chinese Taipei; 4% is Japanese; 3% is Singaporean; 1% for both Malaysian, Indonesian and Thai respectively.

Among these small and medium size enterprises, trading is their major business which amounts to 62%. Technology business is ranked as second (13%) and followed by marketing and advertising ranks (11%). Communication business amounts to 6%



while manufacturing amounts to 5% to be followed by financial services (2%) and construction (1%).

When asked about the application of IT in human resource practices, 35% reported as frequent; 41% reported as sometimes; 14% as occasional and 10% as seldom. 32% of them regarded such application very effective; 49% as effective while 19% reported as quite effective. When asked about the perceived importance of IT application in human resource practices, 42% reported as very important and 53% reported as important.

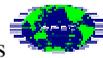
As far as recruitment and selection is concerned, 16% reported frequent use of IT in their recruitment and selection process; 71% reported as sometimes user; 5% as occasional and 2% reported as seldom. Only 6% reported they have not use any IT in their recruitment and selection process. 3% reported the IT application in recruitment and selection is very effective while the majority of 32% reported effective. 19% reported quite effective in the application. When asked about the perceived importance of IT application in recruitment and selection, 41% reported as very important; 27% as important while 32% reported as quite important.

57% of the respondents reported the frequent application of IT in the training and development activities. 24% and 9% reported sometimes and occasional use respectively. Among all respondents, 53% reported the application of IT in their training and development function to be very effective; while 29% reported as effective and 8% reported quite effective. 69% considered IT application in training and development as very important; while 12% and 19% regard it as important and quite important respectively.

96% reported frequent use of IT in compensation administration and 4% reported as sometimes users. 74% of the user rated the application as very effective; while 20% rated as effective and 6% as quite effective. 65% of the respondents perceived IT application in compensation administration as very important; while 19% of them rated important while 16% reported quite important.

2% reported as frequent users of IT application in performance appraisal; while 24% reported as sometimes users; 29% reported as occasional users. 28% reported that they seldom have IT application in performance appraisal function while 17% reported 'not at all' IT application in performance appraisal. Among those SMEs who have use IT applications in performance appraisal, only 1% gave 'very effective' rating, while 28% rated the IT application as 'effective' and 54% rated it as 'quite effective'. The perceived importance of IT application in performance appraisal is 39% rated very important while 40% rated as important. The rest of 21% rated as quite important.

Among the four major human resource practices, compensation administration is the one using the IT application most frequently, to be followed by training and development; performance appraisal. Recruitment and selection is having the least frequent IT application.



As far as effectiveness in use is concerned, compensation administration is having the highest percentage of 'very effective', to be followed by training and development and performance appraisal. Recruitment and selection is having the lowest degree of effectiveness.

Training and development is having the highest degree of 'perceived importance' among the four human resource practices, to be followed by compensation administration and performance appraisal. Recruitment and selection is having the lowest degree of perceived importance among the four human resource practices.

Implications

From the results of this survey, 100% of SMEs have somehow make use of IT application in their HR practices. It implies that IT application has been widely used in the HR practices among SMEs, although the frequent use is found in the compensation administration work. Not only that IT application has been found as most frequent in compensation administration (96%) but also it has been rated as most effective by the users (74%). One reason for such high usage and high effectiveness is due to the early development of related software for the compensation administration package. Also, the job nature of compensation administration justified the frequent application of information technology to reduce the job tediousness. The implication is that the more frequent the usage, the more people get familiarized with its usage and the high effectiveness can be within reach.

On the other hand, there is not much related IT application for the recruitment and selection activities available to be used by the human resource practitioners. This may be due to the unavailability of appropriate technology to be used in the recruitment and selection process. Moreover, it is anticipated that recent use of web or online recruiting may create tremendous change in the traditional recruitment and selection process. The availability of user-friendly web-based preparation techniques enhances the human resource practitioners to make better use of information technology.

IT application in training and development is perceived as the most important among the four human resource practices. This may imply that information technology will not merely satisfy with data provision for training related activity but would diffuse its application in other forms of application like web-based training which has recently gained its popularity. It also may imply the importance of aligning training and development needs, which has grown into a more important human resource function, with latest information technology development in order to achieve the organizational competitiveness in the dynamic arena that all organizations whether large or small are facing.

Interview results indicated that there are reasons for the application of IT in human resource practices. The most obvious reason is the efficiency involved. IT helps to reduce tedious job that was previously done by hands. The efficiency in turn benefits in the time saved and a better job design as a result of IT application. IT can also help to maintain the quality standard of human resource services and activities involved.



Assessment and auditing of HR activities is made flexible and feasible. IT can provide accurate and current data to enable the linkage of HR data and business needs.

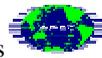
On the other hand, there are many barriers that hinder the application of IT in the human resource application. The first barrier is the costs involved. This is especially true to really small company with less than ten employees. Second barrier is the lack of IT orientation of the person in charge. This lack of IT orientation and knowledge limits the feasibility of selecting appropriate IT application.

RECOMMENDATIONS

There has been the misconception that only large multinational organizations justify the application of information technology in human resource practices. With the availability of latest and economical technological resources, it is also justify for small and medium size enterprises to make better use of IT in the human resource management. Although the initial set up cost may imply financial burden, it can be cost effective in the long run with adoption of appropriate selection criteria. It also enhances empowerment and better job design of the human resource practitioners concerned. The orientation of user and selection of resources can be crucial factors for the application.

CONCLUSION

21st century is the time for information exchange and such exchange should not be restricted to just a few management functions like operations, finance or marketing. It should extend its coverage to other important management function like human resource function. Such coverage has definitely benefited the large size organizations, and is now extending its influence to the small and medium size enterprises. The application of information technology has started to impact the human resource practices in tremendous ways and will continue to do so in the coming millennium .



Appendix

Table 1: Nature of business

Nature of business	%
Trading	62
Manufacturing	5
Financial services	2
Construction	1
Communications	6
Technology	13
Marketing and advertising	11

Table 2: No. of employees

No. of employees	%
1-20	9
21-50	10
51-100	21
100-150	5
151-200	14
201-300	12
301-400	17
401-500	12

Table 3: Ownership

Ownership	%
Hong Kong	54
China	20
Chinese Taipei	16
Japan	4
Singapore	3
Malaysia	1
Indonesia	1
Thailand	1



Table 4: HR department/person in charge of HR matters

HR department/person in charge of HR matters	%
Yes	98
No	2

Table 5: Use of IT application in human resource management practices

Use of IT application in human resource management practices	%
Frequent	35
Sometimes	41
Occasional	14
Seldom	10
not at all	0

Table 6: Degree of effectiveness in IT application in human resource practices

Degree of effectiveness in IT application in human resource practices	%
very effective	32
effective	49
quite effective	19
ineffective	0
very ineffective	0

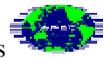


Table 7: Perceived importance of IT application in human resource practices

Perceived importance of IT application in human resource practices	%
very important	42
important	53
quite important	5
not important	0
very unimportant	0

Table 8: Use of IT application in recruitment and selection

Use of IT application in recruitment and selection	%
Frequent	16
Sometimes	71
Occasional	5
Seldom	2
not at all	6

Table 9: Degree of effectiveness in IT application in recruitment and selection

Degree of effectiveness in IT application in recruitment and selection	%
very effective	3
effective	32
quite effective	19
ineffective	0
very ineffective	0



Table 10: Perceived importance of IT application in recruitment and selection

Perceived importance of IT application in recruitment and selection	%
Very important	41
important	27
quite important	32
not important	0
very unimportant	0

Table 11: Use of IT application in training and development

Use of IT application in training and development	%
Frequent	57
Sometimes	24
Occasional	9
Seldom	0
not at all	0

Table 12: Degree of effectiveness in IT application in training and development

Degree of effectiveness in IT application in training and development	%
very effective	53
effective	29
quite effective	8
ineffective	0
very ineffective	0

Table 13: Perceived importance of IT application in training and development

Perceived importance of IT application in training and development	%
very important	69
important	12
quite important	19
not important	0
very unimportant	0

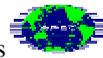


Table 14: Use of IT application in compensation administration

Use of IT application in compensation administration	%
Frequent	96
Sometimes	4
Occasional	0
Seldom	0
not at all	0

Table 15: Degree of effectiveness in IT application in compensation administration

Degree of effectiveness in IT application in compensation administration	%
Very effective	74
Effective	20
Quite effective	6
Ineffective	0
Very ineffective	0

Table 16: Perceived importance of IT application in compensation administration

Perceived importance of IT application in compensation administration	%
very important	65
important	19
quite important	16
not important	0
very unimportant	0

Table 17: Use of IT application in performance appraisal

Use of IT application in performance appraisal	%
Frequent	2
Sometimes	24
Occasional	29
Seldom	28
not at all	17



Table 18: Degree of effectiveness in IT application in performance appraisal

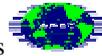
Degree of effectiveness in IT application in performance appraisal	%
Very effective	1
Effective	28
Quite effective	54
Ineffective	0
Very ineffective	0

Table 19: Perceived importance of IT application in performance appraisal

Perceived importance of IT application in performance appraisal	%
very important	39
important	40
quite important	21
not important	0
very unimportant	0

Table 20: IT application on different HR practices

IT Application in different HR practices	Frequent use of IT application	Very effective application of IT	Perceived importance of IT application
Recruitment and selection	16	3	41
Training and development	57	53	69
Compensation administration	96	74	65
Performance appraisal	30	24	39
Overall HR practices	35	32	42

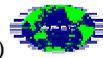


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**HRM PRACTICES IN SMALL ENTERPRISES IN SELECTED
ASIAN COUNTRIES: HOW DO THEY COMPARE WITH
LARGER ENTERPRISES?**

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HRM PRACTICES IN SMALL ENTERPRISES IN SELECTED ASIAN COUNTRIES:HOW DO THEY COMPARE WITH LARGER ENTERPRISES?

ABSTRACT

A global consortium of researchers has been conducting a survey of human resource management (HRM) practices in a number of countries to address the following broad questions: Which HRM practices are most used currently? Which practices are related to organizational effectiveness? Are there universal best HRM practices or only situation-specific best practices? These questions have not been adequately answered by the current state of research and theory, yet are important in providing guidance on the best way to manage human resources that would benefit both the organization and its members given the increasingly global world that firms face.

The current paper presents results from the People's Republic of China, Indonesia, South Korea, and the Philippines. Specifically, data will be presented on the prevalence of various practices with respect to hiring, training and development, performance appraisal, and compensation, comparing small enterprises (employment size of less than 250) to medium-sized enterprises (employment size between 250-1000) and large enterprises (employment size larger than 1000). In addition, the different HRM practices will also be related to their assessed effectiveness, and to perceived overall organizational performance.



A global consortium of researchers has been conducting a survey of human resource management (HRM) practices in a number of countries to address the following broad questions: Which HRM practices are most used currently? Which practices are related to organizational effectiveness? Are there universal best HRM practices or only situation-specific best practices? These questions have not been adequately answered by the current state of research and theory, yet are important in providing guidance on the best way to manage human resources that would benefit both the organization and its members given the increasingly global world that firms face. The consortium hopes to begin to address this inadequacy by providing a thick description of HRM practices in several countries, that enable the identification of possible contextual factors that influence HRM from an international perspective.

The current paper focusses on results from the People's Republic of China (PRC), South Korea, Indonesia, and the Philippines¹. Specifically, data will be presented on the prevalence of various practices with respect to hiring (8 practices), training and development (10 practices), performance appraisal (11 practices), and compensation (9 practices), comparing small enterprises (employment size of less than 250), medium-sized enterprises (between 250-1000 employees) and large enterprises (employment size larger than 1000). In addition, the different HRM practices will also be related to their assessed effectiveness, and to perceived organizational performance.

METHODS

Variables

A five-point scale was used to indicate the extent to which each of the listed practices described the respondent's own company, with "1" representing "Not at all" and "5", "To a very great extent". For each country, means were computed for each of the 38 practices according to employment size of the enterprise.

For each group of practices (e.g., hiring criteria), respondents were also asked to what extent their company's practices were effective. The same five-point scale was used to evaluate the following three statements:

1. The practices help our company to have high-performing employees.
2. The practices help our company to have employees who are satisfied with their jobs
3. The practices make a positive contribution to the overall effectiveness of the organization.

The average mean was then computed and this constituted the score for Assessed Effectiveness (Eff). Correlations of each of the practices under the group with its Eff score were subsequently computed.

The questionnaire also included a question on overall assessment of their company's performance. On a scale of five, with "1" representing "Very False" and "5", "Very True",

¹ Data are now available from nine other countries.



respondents were asked to what extent each of the following statements accurately described their company:

1. It produces high quality goods/services.
2. It has a promising future.
3. It manages its people well.
4. It is flexible enough to change when necessary.
5. It has high quality people working here.
6. It has a strong unified corporate culture.
7. It is very effective overall.
8. It has a very satisfied work force.
9. It has a very productive work force.
10. It is seen as a leader in industry.

The average mean was then computed and this constituted the score for perceived overall organizational performance (Org). Correlations with each of the practices with the Org score were then computed.

Profile of Respondents

The samples from the four countries were significantly different in terms of employment size. Chi-square analysis of each country shows that the South Korean sample was not evenly distributed, with more large enterprises and fewer small enterprises. As to the other countries, the sample was evenly distributed in terms of the three employment size categories.

To determine the extent to which the different samples were comparable, several organizational characteristics that might affect HRM practices were also measured. Table 1² provides data on the responding organizations from each country, according to employment size. Within each country, small, medium and large enterprises were significantly different on some organizational characteristic, but these organizational characteristics varied across the four countries. In the PRC, small, medium and large enterprises were significantly different in terms of industry, and perceived organizational performance. In South Korea, small, medium and large enterprises were significantly different in terms of perceived competitiveness of the environment, and status of the HR department³. In Indonesia, significant differences were found in terms of industry and organizational life cycle. In the Philippines, significant difference was only in terms of whether the organization was unionized or not.

Statistical comparisons of enterprises of the same employment size category across the four countries show significant difference in terms of unionization, product diversity, and

² Tables are attached at the end of the paper.

³ See appendix (at the end of the paper, before the tables) for the items included to measure perceived competitiveness of the environment and status of the HR department.



organizational life cycle, except in terms of industry, where only small enterprises did not differ significantly across the four countries, and in terms of competitiveness of the environment, where only large enterprises differed significantly across the four countries.

RESULTS

Because of the differences in the profile of respondents described above, it is not possible to collapse the different country samples into just the employment size categories of the firms. There will therefore be two levels of analyses: within-country comparisons among the small, medium and large enterprises, and between-country comparisons of the same employment size category enterprises.

Tables 2a to 2d show the means of all 38 practices, and the correlations of each practice to its assessed effectiveness (Eff) and the perceived overall organizational performance (Org). Only significant correlations are included in these tables. The asterisks attached to a practice indicate significant difference of the mean across small, medium and large enterprises. The top three and bottom three practices, in terms of means, in each employment size category were also identified for each of the four HRM subfunctions (hiring, training, appraisal, and pay).

Prevalence of Practices

People's Republic of China. Small, medium and large enterprises significantly differ in 23 practices (60.5% of the 38 practices), with most in performance appraisal and compensation practices, 10 out of 11, and 6 out of 9 respectively. Post-hoc analysis⁴ show that small enterprises in China were more similar to large enterprises: they do not differ significantly in 13 practices (56.5% of 23), and in these practices their means are lower than the means for medium-sized enterprises. Small enterprises are similar to medium-sized enterprises in only 8 practices (34.8%), mostly in compensation, and their means for these practices are higher than the means for large enterprises. Small enterprises were different from both medium-sized and large enterprises only in terms of benefits as being an important part of the total pay package.

Common in the top three practices across small, medium and large enterprises are ability to perform technical job requirements and proven work experience in similar job as hiring criteria, training to improve technical job abilities, appraisal to recognize things done well, and part of earnings contingent on group performance. Common in the bottom three practices across small, medium and large enterprises are right connections and future co-workers' opinions as hiring criteria, training to provide reward to employees and to improve interpersonal abilities, appraisal to plan development activities, and very generous employee benefits package.

South Korea. Small, medium and large enterprises significantly differ in 15 practices (39.5%). Unlike the Chinese sample, however, small enterprises are more similar to medium-

⁴ It should be noted that Scheffe analysis at alpha=.05 did not always show different subsets for those variables found to be significantly different.



sized enterprises, with no significant difference in 6 practices. Small enterprises are not significantly different from large enterprises in 4 practices, and small enterprises are significantly different from either medium-sized or large enterprises in 5 practices.

Common among the top three across small, medium and large enterprises are ability to get along well with others as a hiring criteria, training to improve technical job abilities, initial training for new employees, appraisal to determine subordinate's promotability, incentives as a significant part of total earnings, and seniority as not entering pay decisions. Common among the bottom three are future co-workers' opinions as a hiring criteria, training to provide reward to employees and to prepare employees for future job assignments, appraisal to determine appropriate pay, and pay raises mainly determined by job performance.

Indonesia. Small, medium and large enterprises do not differ significantly, except in one practice ("belief that person will stay with the company" as a hiring criteria). In this practice, small enterprises are similar to medium-sized enterprises.

Common among the top three practices across small, medium and large enterprises are ability to perform technical job requirements and ability to get along well with others as hiring criteria, training to improve technical job abilities, benefits as important part of total pay package, and seniority as not entering into pay decisions. There were no common practices in the top three appraisal practices. Common among the bottom three are right connections and future co-workers' opinions as hiring criteria, training to help employees understand the business, appraisal to plan development activities and to allow subordinate to express feelings, very generous employee benefits package, and futuristic orientation of pay system.

Philippines. Small, medium and large enterprises significantly differ in 10 practices (26.3%), mostly in training. Small enterprises were similar to medium-sized enterprises in 4 practices, and to large enterprises in 2 practices. Only in one practice were small enterprises different from either medium or large enterprises: training to improve technical job abilities.

The top three and bottom three practices in hiring criteria were the same across small, medium and large enterprises. The top three ones are ability to perform technical job requirements, proven work experience in similar job, and fit with company's values and ways. The bottom three are future co-workers' opinions, right connections and belief that person will stay with company in that order.

In the other subfunctions, common among the top three practices are training to improve technical job abilities and to build teamwork within the company, appraisal to document subordinate's performance and to determine subordinate's promotability, benefits as important part of total pay package and pay raises mainly determined by job performance. Common among the bottom three are training to provide reward to employees and to help employees understand the business, appraisal to discuss subordinate's views and to allow subordinate to express feelings, and futuristic orientation of pay system.

Country Comparisons. Country comparisons of enterprises with the same employment size category were also made statistically. Across all size categories, no significant difference was found for only two practices: providing training as a reward for employees, and seniority as not entering pay decisions. Table 3 lists additional practices in



which enterprises of the same employment size category did not differ significantly across the four countries.

Post-hoc analysis was conducted to determine in which country significantly different practices can be found. The results are shown in Table 4. Across all employment size categories, the Philippine sample was significantly different from the other country samples in more practices. On the other hand, the Indonesian sample across the three employment size categories were not significantly different in any practice from the other country samples.

Large enterprises in the Philippines showed the most difference: 17 practices across the 4 subfunctions, and in these practices, the Philippine sample had higher means. Next in the large enterprise category is the South Korean sample with significant difference in 4 practices, scoring lower than the other countries in all 4 practices. Among medium-sized enterprises, the Philippine sample again had more significant differences (5 practices), and all with higher means. Next is Korea again, with 3 practices, scoring lower in all. The PRC sample was significantly different in one practice, scoring in the middle ground. The pattern is broken somewhat among small enterprises. While the Philippine sample was again significantly different in 4 practices and scoring higher, and the South Korean sample was not significantly different from other countries, the PRC sample was significantly different in one practice, and scoring higher.

The practices that appeared in the top three (according to their means) in small enterprises across all the four countries are proven work experience in similar job as hiring criteria, training to improve technical job abilities, and benefits as an important part of total pay package. Among three of the four countries are ability to perform technical job requirements as a hiring criteria (except South Korea), appraisal to recognize subordinates for things done well (except South Korea) and to determine subordinate's promotability (except PRC). In medium-sized enterprises, common in the top three across all countries are ability to perform technical job requirements as hiring criteria, and training to improve technical job abilities, and among three of four countries is appraisal to determine subordinate's promotability (except PRC). In the top three in large enterprises across all countries are ability to perform technical job requirements as hiring criteria, training to improve technical job abilities, and appraisal to recognize subordinates for things done well. Practices in the top three for large enterprises in three out of four countries are ability to get along well with others as a hiring criteria (except the Philippines), benefits as an important part of the total pay

package (except PRC), and seniority as not entering into pay decisions (except the Philippines).

The common bottom three practices in small enterprises across all four countries are future co-workers' opinions as hiring criteria, and training to provide reward to employees. Common in three out of the four countries are right connections as a hiring criteria (except South Korea which includes this as a top three), appraisal to discuss subordinate's views (except Indonesia), long-term results more important in pay practices (except PRC) and generous employee benefits package (except the Philippines). In medium-sized enterprises, common in the bottom three across all countries are right connections and future co-workers' opinions as hiring criteria, and training to provide reward to employees; in three out of four



countries, the common practices are appraisal to allow subordinate to express feelings (except PRC), very generous employee benefits package (except the Philippines). In large enterprises, the common practices in the bottom three are right connections and future co-workers' opinions as hiring criteria.

Correlations with Assessed Effectiveness and Perceived Organizational Performance

People's Republic of China. Across small, medium and large enterprises, all or almost all (that is, except for one) of the practices listed under training and appraisal were perceived to be effective and positively correlated with organizational performance. In addition, for medium-sized firms, all or almost all (except for one) of the practices listed under hiring criteria were correlated with perceived effectiveness and organizational performance. These correlations are positive, except for right connections as hiring criteria. For small enterprises, this particular practice was positively correlated with perceived effectiveness. For large firms, all the pay practices were perceived to be effective, although not all were positively correlated with organizational performance.

South Korea. All or almost all (except for one) of the practices listed under hiring criteria and pay were perceived to be effective across small, medium and large enterprises. However, only in medium enterprises were hiring criteria (except one) positively correlated with organizational performance, and only in large enterprises were pay practices (except one) positively correlated with organizational performance. For medium and large enterprises, all practices listed under training and appraisal were perceived to be effective (hence, all or almost all practices under hiring, training, appraisal and pay were deemed effective by medium and large enterprises). However, positive correlations with organizational performance are shown only for all or almost all practices in hiring and training for medium-sized enterprises; for large enterprises, this is true for appraisal and pay practices.

Indonesia. None of the enterprise groupings find all (or almost all) practices under hiring criteria as effective, while almost all or almost all practices in training were seen as effective across small, medium and large enterprises. In addition, small enterprises found all pay practices as effective, although only a few were correlated with organizational performance. Almost all of the practices under appraisal were found to be effective and also positively correlated to organizational performance by small enterprises. Organizational performance was found to be positively correlated to all practices under training and appraisal by medium-sized enterprises, which also found these practices effective, while in large enterprises correlations with effectiveness and organizational performance were found for almost all practices under training only. In medium and large enterprises, right connections as a hiring criteria were negatively correlated with organizational performance, and in large enterprises it was also negatively correlated with perceived effectiveness. A negative correlation with organizational performance was also found for seniority as not entering pay decisions in large enterprises.

Philippines. Similar to Indonesia, small, medium and large enterprises did not find all the practices under hiring as effective, nor positively correlated to organizational performance. It is under training that all or almost all practices listed which were found to be effective across all employment size categories; however, it is only in small enterprises were these practices



also positively correlated with organizational performance. In addition, small and medium-sized enterprises found all practices under appraisal to be both effective and positively correlated with organizational performance (as did the Indonesian sample). Medium-sized enterprises also find that almost all the listed pay practices were effective and positively correlated with organizational performance. One negative correlation with organizational performance was found: right connections as hiring criteria in small enterprises.

Country Comparisons. Among the four subfunctions included in the survey, training practices are to be seen as the most effective (that is, all or almost all listed practices) by firms of all employment size categories across the countries, except for South Korea, and hiring practices seem to be seen as the least effective, except for South Korea. In South Korea, all or almost all the hiring practices listed were seen as effective across the three employment size categories, while in Indonesia and the Philippines, only some hiring practices were considered effective across the three categories and in China, only medium-sized firms considered almost all hiring practices as effective, with right connections correlated negatively with assessed effectiveness. In South Korea also, medium and large enterprises perceive all four subfunctions as effective, whereas in other countries, none of the employment size categories perceive all four subfunctions as effective.

Among small enterprises across the four countries, all or almost all training and appraisal practices are seen as effective, except South Korea, where it is hiring and pay practices. Medium enterprises across the four countries also perceive all or almost all training and appraisal practices as effective (for South Korea, hiring and pay practices are perceived effective by medium-sized enterprises). For large enterprises, only training practices are seen as all or almost all effective across the four countries.

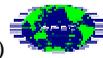
It is in the People's Republic of China, where the most number of practices correlated positively with perceived organizational performance, with all or almost all practices listed under training and appraisal correlating positively across the three employment size categories. In no other countries were all or almost all practices listed under a subfunction correlated positively with organizational performance. The least number of practices correlating with organizational performance is in South Korea, where the most number of practices were seen as effective.

SUMMARY

The rich data that has been generated will now be summarized. To reiterate, because of the differences found in the profiles of the country samples, the question posed in the title of this paper can best be answered on two levels: comparisons of small, medium and large enterprises within a country, and comparisons of enterprises of the same employment size category across the four countries included in the survey.

Within-Country Comparisons

- The most number of difference in HRM practices among small, medium and large enterprises can be found in the People's Republic of China, where small enterprises were more similar to large enterprises. The next country with the most differences is South Korea, but small enterprises are somewhat similar to medium-sized enterprises, somewhat similar to



large enterprises, and also uniquely different from either medium or large enterprises. In the Indonesia, small, medium and large enterprises were hardly different from each other, showing only one significant difference in HRM practice (belief that person will stay with company as a hiring criteria). In the Philippines, small enterprises are different from either medium or large enterprises in only one practice (a lower mean in training to improve technical job abilities).

- In the Philippines, small, medium, and large enterprises shared the most number of practices in the top three and bottom three practices across the four subfunctions, particularly in hiring criteria, where the top three and bottom three are the same across the three employment size categories.
- South Korea had the most number of subfunctions where the practices listed were seen as effective by the different employment size categories, with medium and large enterprises considering all or almost all practices in all four subfunctions as effective. This was not observed in the other countries. In Indonesia and the Philippines, small enterprises did not perceive all or almost all hiring practices as effective.
- Overall, there were fewer practices that were correlated with organizational performance than were perceived as effective across all employment size categories in all four countries. Further, where South Korea posted the most number of subfunctions that were perceived as effective, South Korea has the fewest number of subfunctions where all or almost all of the practices listed were positively correlated with organizational performance across the employment size categories. The People's Republic of China had the most number of positive correlations across the four subfunctions for different size categories, and this is particularly true with training and appraisal practices. None of the other countries showed any subfunction with all or almost all practices as positively correlated with organizational performance across all employment size categories.

Between-Country Comparisons

- Enterprises of whatever size category differed across the four countries, with the most number of differences in HRM practices found among large enterprises (84% of the 38 practices listed), with small and medium enterprises differing in 68% and 66% of the 38 practices, respectively.
- Philippine enterprises differed in the most number of practices (26 or 68% of 38 practices), particularly in the large enterprises (17 or 45% of 38), while the Indonesian sample did not differ significantly in any practice from other countries across all employment size categories. South Korean small enterprises and large enterprises in the People's Republic of China did not differ significantly from other countries in any practice.
- Training to improve technical job abilities appeared as a top three across all employment size categories in the four countries. Future co-workers' opinions as a hiring criteria appeared as a bottom three across all employment size categories in all the four countries. In medium and large enterprises across all the four countries, ability to perform technical job requirements as a hiring criteria appeared in the top three, and right connections as a hiring criteria appeared in the bottom three (in South Korean small enterprises, right connections was a top three practice). A common bottom three practice in small and medium



3. It seems to keep informed about the best human resource management practices that are used in other countries.
4. It is viewed as an effective department.

Scale: 5-point, with "1" - Very False, and "5" - Very True

Table 1.- Profile of Responding Organizations from Each Country According to Employment Size

Organizational Characteristic		PRC (N=190)			South Korea (N=497)			Indonesia (N=146)			Philippines (N=134)		
		Small n=57	Medium n=65	Large n=68	Small n=114	Medium n=163	Large n=220	Small n=42	Medium n=50	Large n=54	Small n=45	Medium n=54	Large n=35
Unionized	Yes	100.0%	100.0%	100.0%	57.4%	71.2%	73.2%	23.8%	40.8%	43.4%	26.7%	59.3%	77.1%
	No	-	-	-	42.6%	28.8%	26.8%	76.2%	59.2%	56.5%	73.3%	40.7%	22.9%
Industry	Manufacturing	52.7%	79.4%	80.6%	44.8%	45.8%	37.9%	31.7%	62.0%	46.2%	25.0%	37.0%	31.4%
	Services	10.9%	3.2%	10.4%	16.1%	29.9%	30.1%	63.4%	32.0%	38.5%	47.7%	51.9%	68.6%
	Government	3.6%	-	-	18.4%	6.3%	16.5%	4.9%	6.0%	15.4%	-	1.9%	-
	Agriculture	-	-	-	9.2%	6.9%	9.2%	-	-	-	2.3%	-	-
	Other	32.7%	17.5%	9.0%	11.5%	11.1%	6.3%	-	-	-	25.0%	9.3%	-
Product Diversity	One	67.3%	67.2%	51.6%	53.6%	41.4%	44.5%	68.3%	60.9%	73.1%	42.4%	33.3%	29.4%
	Related	21.8%	25.9%	39.1%	29.8%	35.7%	29.5%	19.5%	32.6%	25.0%	55.6%	59.3%	67.6%
	Unrelated	10.9%	6.9%	9.4%	16.7%	22.9%	26.0%	12.2%	6.5%	1.9%	2.2%	7.4%	2.9%
Life Cycle	Mature	44.4%	41.0%	47.5%	36.0%	39.7%	41.1%	34.1%	62.5%	84.9%	63.6%	61.5%	60.0%
	Growth	55.6%	59.0%	52.5%	38.7%	51.1%	41.7%	65.9%	35.4%	15.1%	36.4%	36.5%	40.0%
	Both	-	-	-	25.3%	9.2%	17.2%	-	2.1%	-	-	1.9%	-
Competitive Environment		2.51	2.53	2.33	2.29	2.51	2.54	2.47	2.46	2.42	2.50	2.56	2.77
Status of HR Department		3.89	4.04	3.67	2.86	3.20	3.23	3.37	3.45	3.64	3.84	3.90	4.10
Organizational Performance		3.30	3.68	3.32	2.99	3.17	3.11	3.36	3.44	3.49	3.63	3.59	3.71

Note: Shaded cells indicate significant differences:



p < .05



p < .001

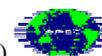


Table 2a.- Means of Practices and Correlations with Assessed Effectiveness (Eff) and Perceived Organizational Performance (Org) in the People’s Republic of China According to Employment Size

	Practice	Small			Medium			Large		
		0	Eff	Org	0	Eff	Org	0	Eff	Org
Hiring Criteria	Ability to perform technical requirements	3.11	.46**	.46**	3.40	.58**	.45**	3.19	.62**	.31**
	Ability to get along well with others	2.88			3.08	.35**		3.06	.26*	
	<i>Right connections</i>	2.70	.24*		2.45	-.43**	-.32**	2.65		
	Belief that person will stay with company	3.04	.25*	.35*	3.35	.48**	.40**	3.01	.54**	.46**
	Proven work experience in similar job**	3.11	.48**	.31*	3.59	.72**	.46**	3.26	.41**	.22*
	Potential to do a good job	2.82	.38**		3.02	.49**	.57**	2.82	.36**	
	Fit with company’s values & ways*	2.95	.34**		3.25	.43**	.44**	2.79	.33**	
	<i>Future co-workers’ opinions</i>	2.63			2.78	.33**	.41**	2.42	.31**	.28*
Training Purposes	<i>Provide reward to employees</i>	2.57			2.52			2.62	.58**	.42**
	Improve technical job abilities*	3.21	.43**	.58**	3.57	.73**	.65**	3.18	.54**	.31**
	<i>Improve interpersonal abilities**</i>	2.63	.34**	.29*	2.95	.29*	.34**	2.43	.46**	.50**
	Remedy past poor performance	2.89	.46**	.54**	3.13	.32**	.35**	2.88	.48**	.34**
	Prepare employees for future job assignments	2.95	.46**	.46**	3.18	.54**	.57**	2.96	.28**	.26*
	Build teamwork within company	2.82	.35**	.36**	2.97	.34**	.43**	2.71	.48**	.53**
	Initial training for new employees	3.07	.41**	.51**	3.17	.56**	.56**	2.90	.51**	.33**
	Help employees understand the business***	3.20	.46**	.42**	3.38	.75**	.74**	2.72	.42**	.40**
	Provide skills for a no. of different jobs***	2.82	.62**	.47**	3.27	.66**	.57**	2.68	.60**	.53**
	Teach employees about company’s values***	2.88	.53**	.36**	3.38	.84**	.77**	2.53	.63**	.43**
Appraisal Purposes	Determine appropriate pay**	2.91	.50**	.41**	3.42	.73**	.48**	2.93	.41**	.47**
	Document subordinate’s performance*	2.58	.36**	.40**	2.92	.30**	.34**	2.60	.57**	.51**
	<i>Plan development activities*</i>	2.54	.50**	.49**	2.95	.72**	.74**	2.54	.71**	.44**
	Salary administration**	2.75	.31**	.27*	3.28	.75**	.49**	2.88	.57**	.45**
	Recognition for things done well*	3.14	.38**	.40**	3.45	.71**	.49**	3.06	.50**	.27*
	Specific ways to improve performance***	2.82	.51**	.50**	3.31	.77**	.62**	2.69	.68**	.50**
	Discuss subordinate’s views***	2.63	.48**	.47**	3.05	.75**	.54**	2.43	.62**	.33**
	Evaluate subordinate’s goal achievement***	2.86	.59**	.51**	3.51	.76**	.56**	2.59	.69**	.38**
	Identify strengths & weaknesses***	3.16	.55**	.42**	3.42	.75**	.55**	2.71	.74**	.38**
	Allow subordinate to express feelings***	3.11	.65**	.52**	3.22	.81**	.71**	2.58	.60**	.27*
	Determine subordinate’s promotability	2.96	.45**	.38**	2.95	.55**	.34**	2.79	.58**	
Pay	Incentives as important part in pay strategy	3.32	.30*	.24*	3.55	.75**	.58**	3.21	.32**	
	Benefits as imp. part of total pay package***	3.33			2.95			2.72	.58**	.42**
	Part of earnings contingent on group perf.	3.63			3.49	.63**	.60**	3.31	.45**	.23*
	Long-term results more important***	3.42	.33**	.28*	3.23	.68**	.66**	2.51	.64**	.46**
	Seniority does NOT enter into pay decisions	2.82			2.71			2.88	.40**	
	Incentives significant part of total earnings*	2.93			2.75			2.54	.43**	.35**
	<i>Very generous employee benefits package*</i>	2.72	.51**	.60**	2.88	.39**	.37**	2.46	.35**	.33**
	Futuristic orientation of pay system***	3.02	.60**	.49**	3.02	.68**	.55**	2.45	.54**	.33**
Job perf. mainly determines pay raises**	3.05	.43**		3.18	.76**	.60**	2.60	.65**	.49**	

* p < .05 ** p < .01 *** p < .001



Small enterprises not significantly different from either medium or large enterprises.

Small enterprises significantly different from both medium or large enterprises.

Note: Means in bold type indicate top three; means in italics indicate bottom three. Practice in bold type indicates common top three across employment size categories; practice in italics indicates common bottom three across employment size categories.

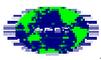


Table 2b.- Means of Practices and Correlations with Assessed Effectiveness (Eff) and Perceived Organizational Performance (Org) in South Korea According to Employment Size

	Practice	Small			Medium			Large		
		0	Eff	Org	0	Eff	Org	0	Eff	Org
Hiring Criteria	Ability to perform technical requirements***	2.49	.41**	.61**	3.00	.48**	.26**	2.95	.46**	.36**
	Ability to get along well with others	3.07	.47**	.49**	3.03	.44**	.42**	2.96	.45**	.28**
	Right connections*	2.79	.20*		2.44			2.54		
	Belief that person will stay with company*	2.61	.52**	.30*	2.94	.53**	.42**	2.88	.48**	.33**
	Proven work experience in similar job	2.83	.44**		2.64	.22*	.20*	2.61	.40**	.21**
	Potential to do a good job	2.79	.44**	.59**	2.82	.47**	.47**	2.80	.35**	.18*
	Fit with company's values & ways	2.70	.47**	.47**	2.86	.51**	.43**	2.86	.45**	.36**
<i>Future co-workers' opinions*</i>	2.65	.47**		2.61	.36**	.25**	2.31	.29**		
Training Purposes	<i>Provide reward to employees</i>	2.37	.39**	.60**	2.56	.31**	.38**	2.46	.36**	.33**
	Improve technical job abilities*	2.86	.32**	.28*	3.03	.52**	.46**	3.23	.51**	.29**
	Improve interpersonal abilities	2.76	.30**	.39**	2.86	.36**	.33**	2.79	.46**	.35**
	Remedy past poor performance	2.71			2.72	.24**	.22*	2.76	.15*	
	Prepare employees for future job assignments	2.51			2.65	.32**		2.60	.29**	
	Build teamwork within company	2.71		.45**	2.79	.35**	.46**	2.88	.42**	.38**
	Initial training for new employees	2.81			2.91	.43**	.30**	3.02	.27**	.34**
	Help employees understand the business	2.75	.27**	.29*	2.87	.53**	.36**	2.97	.47**	.32**
	Provide skills for a no. of different jobs	2.57	.25**		2.66	.39**	.43**	2.84	.41**	.33**
Teach employees about company's values***	2.51	.24*		2.99	.48**	.35**	3.23	.49**	.24**	
Appraisal Purposes	<i>Determine appropriate pay</i>	2.57	.41**	.30*	2.44	.34**	.19*	2.31	.36**	.26**
	Document subordinate's performance	2.76	.62**	.46**	3.00	.49**	.43**	2.89	.39**	.47**
	Plan development activities	2.66	.57**	.52**	2.82	.53**	.36**	2.76	.52**	.40**
	Salary administration*	2.54	.53**	.34*	2.62	.32**		2.31	.29**	.25**
	Recognition for things done well**	2.67	.61**	.49**	3.14	.59**	.45**	2.95	.31**	.36**
	Specific ways to improve performance*	2.73	.50**	.55**	2.58	.43**	.35**	2.38	.41**	.48**
	Discuss subordinate's views	2.47	.56**		2.62	.21*		2.47	.35**	.39**
	Evaluate subordinate's goal achievement	2.63			3.04	.48**	.40**	2.98	.40**	.44**
	Identify strengths & weaknesses	2.59	.35*		2.52	.23*	.29**	2.62	.32**	.35**
	Allow subordinate to express feelings***	2.86			2.24	.36**	.28**	2.13	.28**	.26**
	Determine subordinate's promotability	3.46	.40**	.37*	3.48	.48**	.27**	3.37	.19**	.23**
Pay	Incentives as important part in pay strategy	2.62	.44**	.31*	2.70	.42**	.54**	2.68	.41**	.50**
	Benefits as imp. part of total pay package	2.88	.46**		2.83	.39**		2.78	.41**	.28**
	Part of earnings contingent on group perf.***	2.70	.45**	.44**	2.88	.46**	.21*	2.29	.26**	.14*
	Long-term results more important*	2.51	.28**	.58**	2.74	.52**	.31**	2.39	.38**	.40**
	Seniority does not enter into pay decisions	2.77	.26**		2.98	.45**		2.87	.23**	
	Incentives significant part of total earnings	2.95	.22*	.34*	2.89	.26**		3.08		.19*
	Very generous employee benefits package	2.62	.43**		2.68	.49**	.27**	2.60	.45**	.42**
	Futuristic orientation of pay system***	2.72	.54**	.43**	2.73	.59**	.43**	2.31	.58**	.46**
<i>Job perf. mainly determines pay raises***</i>	2.54	.44**		2.16	.42**		1.90	.30**	.17*	

* p < .05 ** p < .01 *** p < .001

- Small enterprises not significantly different from either medium or large enterprises.
- Small enterprises significantly different from both medium or large enterprises.

Note: Means in bold type indicate top three; means in italics indicate bottom three. Practice in bold type indicates common top three across employment size categorize; practice in italics indicates common bottom three across employment size categories.

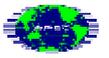


Table 2c.- Means of Practices and Correlations with Assessed Effectiveness (Eff) and Perceived Organizational Performance (Org) in Indonesia According to Employment Size

	Practice	Small			Medium			Large		
		0	Eff	Org	0	Eff	Org	0	Eff	Org
Hiring Criteria	Ability to perform technical requirements	3.49	.53**	.28**	3.32	.47**	.43**	3.33	.46**	.39**
	Ability to get along well with others	3.27	.46**	.42**	3.10	.25*		3.12	.65**	.33**
	<i>Right connections</i>	2.51			2.52		-.27*	2.85	-.26*	-.35**
	Belief that person will stay with company**	2.68		.45**	2.76			3.33	.38**	
	Proven work experience in similar job	3.08			2.88			2.90		
	Potential to do a good job	3.05	.37*		3.04	.32*		3.08	.44**	
	Fit with company's values & ways	3.00	.31*	.44**	3.14			3.12	.46**	
	<i>Future co-workers' opinions</i>	2.49			2.42			2.27		
Training Purposes	Provide reward to employees	2.61	.38**	.31*	2.66	.45**	.45**	2.84	.40**	.32*
	Improve technical job abilities	3.10	.46**	.29*	3.16	.50**	.54**	3.43	.75**	.42**
	Improve interpersonal abilities	2.80	.36*		2.84	.50**	.51**	2.90	.54**	.34**
	Remedy past poor performance	2.83			2.94	.43**	.47**	3.06	.63**	.26*
	Prepare employees for future job assignments	2.76	.48**	.39**	3.02	.55**	.64**	2.94	.55**	.39**
	Build teamwork within company	2.78	.33*	.42**	3.06	.64**	.47**	3.14	.59**	.27*
	Initial training for new employees	2.73	.60**	.28*	2.70	.44**	.33*	2.76		
	<i>Help employees understand the business</i>	2.54	.41**	.37*	2.55	.31*	.32*	2.54	.40**	.33*
	Provide skills for a no. of different jobs	2.76	.46**	.45**	2.64	.44**	.40**	2.76	.55**	.37**
	Teach employees about company's values	2.63	.42**	.57**	2.86	.57**	.59**	2.78	.51**	.44**
Appraisal Purposes	Determine appropriate pay	3.10	.54**	.55**	3.12	.52**	.50**	3.12		
	Document subordinate's performance	3.03	.54**	.38*	3.34	.41**	.44**	3.26	.41**	.49**
	<i>Plan development activities</i>	3.00	.72**	.68**	2.90	.50**	.42**	2.78	.52**	.52**
	Salary administration	3.10	.58**		3.27	.57**	.47**	3.26		
	Recognition for things done well	3.17	.67**	.45**	3.17	.64**	.59**	3.14	.47**	.59**
	Specific ways to improve performance	3.00	.78**	.53**	2.83	.67**	.49**	2.88	.54**	.52**
	Discuss subordinate's views	3.14	.76**	.43*	2.98	.30*	.28*	2.74	.58**	.55**
	Evaluate subordinate's goal achievement	3.10	.48**	.36*	3.22	.36*	.33*	2.85	.58**	.58**
	Identify strengths & weaknesses	3.17	.70**	.52**	3.10	.61**	.57**	2.84	.66**	.56**
	<i>Allow subordinate to express feelings</i>	3.00	.69**	.49**	2.85	.40**	.37**	2.73	.62**	.49**
	Determine subordinate's promotability	3.17	.74**	.43**	3.29	.67**	.43**	2.94	.35**	.41**
Pay	Incentives as important part in pay strategy	2.78	.36*		2.90		.25**	2.84	.43**	.57**
	Benefits as imppt. part of total pay package	2.98	.46**		3.14	.42**	.41**	3.28		.25*
	Part of earnings contingent on group perf.	3.05	.31*		2.96		.50**	3.06	.36**	.47**
	Long-term results more important	2.78	.44**		2.96	.41**		2.92	.25*	.37**
	Seniority does not enter into pay decisions	2.88	.33**		2.98			3.24		-.28*
	Incentives significant part of total earnings	2.88	.54**		2.86	.30*	.24*	2.84	.33**	.35**
	Very generous employee benefits package	2.35	.47**	.33*	2.32	.29*		2.46		
	Futuristic orientation of pay system	2.40	.36*	.36*	2.82	.56**	.50**	2.60	.31*	.44**
Job perf. mainly determines pay raises	2.88	.39**	.40**	3.10	.46**	.47**	2.86	.41**	.36**	

* p < .05 ** p < .01 *** p < .001

- Small enterprises not significantly different from either medium or large enterprises.
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Note: Means in bold type indicate top three; means in italics indicate bottom three. Practice in bold type indicates common top three across employment size categorize; practice in italics indicates common bottom three across employment size categories.

Table 3.- Nonsignificantly Different HRM Practices in Same-size Enterprises Across the 4 Country Samples

	Small	Medium	Large
HIRING	<ul style="list-style-type: none"> • Ability to get along well with others • Future co-workers' opinions 	<ul style="list-style-type: none"> • Ability to get along well with others • Right connections 	<ul style="list-style-type: none"> • Right connections • Future co-workers' opinions
TRAINING	<ul style="list-style-type: none"> • Provide reward to employees • Improve interpersonal abilities • Remedy past poor performance • Provide skills for a no. of different jobs 	<ul style="list-style-type: none"> • Provide reward to employees • Initial training for new employees 	<ul style="list-style-type: none"> • Provide reward to employees
APPRAISAL	<ul style="list-style-type: none"> • Lay our specific ways to improve performance • Allow subordinate to express feelings 	<ul style="list-style-type: none"> • Plan development activities • Recognition for things done well • Evaluate subordinate's goal achievement 	
PAY	<ul style="list-style-type: none"> • Seniority does not enter into pay decisions • Incentives a significant part of total earnings 	<ul style="list-style-type: none"> • Long-term results more important • Seniority does not enter into pay decisions • Incentives a significant part of total earnings • Futuristic orientation of pay system 	<ul style="list-style-type: none"> • Seniority does not enter into pay decisions

Table 4.- Significantly different HRM Practices in Same-size Enterprises Across the 4 Country Samples

SIZE	Philippines	South Korea	PRC	Indonesia
Small	<p>HIRING CRITERIA</p> <ul style="list-style-type: none"> • Ability to perform technical job requirements • Proven work experience in similar jobs • Fit with company's values and ways <p>APPRAISAL PURPOSE</p> <ul style="list-style-type: none"> • To document subordinate's performance 	No significant difference from other country samples	<p>PAY</p> <ul style="list-style-type: none"> • Long-term results more important 	No significant difference from other country samples
Medium	<p>HIRING CRITERIA</p> <ul style="list-style-type: none"> • Ability to perform technical job requirements • Proven work experience in similar jobs <p>TRAINING PURPOSE</p> <ul style="list-style-type: none"> • To improve interpersonal abilities • To build teamwork within company <p>PAY</p> <ul style="list-style-type: none"> • Benefits as important part of total pay package 	<p>APPRAISAL PURPOSE</p> <ul style="list-style-type: none"> • To identify subordinate's strengths and weaknesses • To allow subordinate to express feelings <p>PAY</p> <ul style="list-style-type: none"> • Pay raises mainly determined by job performance 	<p>HIRING CRITERIA</p> <ul style="list-style-type: none"> • Proven work experience in similar job 	No significant difference from other country samples
Large	<p>HIRING CRITERIA</p> <ul style="list-style-type: none"> • Ability to perform technical job requirements • Ability to get along well with others • Proven work experience in similar jobs • Fit with company's values and ways <p>TRAINING PURPOSE</p> <ul style="list-style-type: none"> • To improve interpersonal abilities • To prepare employees for future job assignments • To build teamwork within company • Initial training for new employees • To provide skills for a no. of different jobs <p>APPRAISAL PURPOSE</p> <ul style="list-style-type: none"> • To document subordinate's performance • As recognition for things done well • To evaluate subordinate's goal achievement • To identify strengths and weaknesses • To allow subordinate to express feelings • To determine subordinate's promotability <p>PAY</p> <ul style="list-style-type: none"> • Benefits as important part of total pay package • Very generous employee benefits package 	<p>APPRAISAL PURPOSE</p> <ul style="list-style-type: none"> • To determine pay • For salary administration <p>PAY</p> <ul style="list-style-type: none"> • Part of earnings contingent on group performance • Pay raises mainly determined by job performance 	No significant difference from other country samples	No significant difference from other country samples

HRM PRACTICE IN THE FAST GROWING CHINESE SMEs

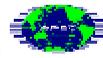
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HRM PRACTICE IN THE FAST GROWING CHINESE SMEs

ABSTRACT

China has undergone drastic changes from the planned to market-oriented economy. Economic structural change has caused the changes in the organisational behaviour in enterprises, especially in the small and medium sized enterprises (SMEs) which have gained much more management autonomy since the reform.

Research has shown that SMEs in China are growth-oriented and the sector is the engine to the national economic development. The paper attempts to examine internal management structure of the 74 interviewed SMEs and to compare the elements of effective enterprise performances shown in the fast growing SMEs.

Seven key human resource management (HRM) functions in the interviewed enterprises have been examined and compared. Cross-tabs analysis results in 4 hybrids of an intriguing Chinese HRM-SME Model. However, factor analysis on the HRM practices in the selected Chinese SMEs leads to three significant elements of HRM practices that have contributed to the fast-growing Chinese SMEs. These three elements are:

- *management autonomy* (ie. free selection of staff from market instead of state allocation of staff as was dominantly practiced by enterprises in the planned system);
- *retention of competent staff* via training and incentive given (ie. social security scheme);
- *motivation of staff* by linking payment with performance and promoting staff involvement in management decision making.

The paper concludes that a sustainable enterprise growth can be maintained by restructuring internal management system and building a sound and institutionalised HRM policies and practices especially for Chinese SMEs in the transformational period.

Key words: human resource, management, enterprise, growth, factor analysis, China



INTRODUCTION

The transition from a centrally planned to a decentralised market economy has brought drastic economic restructuring in China. Management practices in small and medium sized enterprises (SMEs) have undergone a number of changes, whereby enterprise managers are finding greater autonomy in their activities and more responsibilities for decision-making.

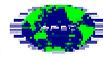
Research (Chen, 1995, Hall 1994) has shown that SMEs in China are growth-oriented and the sector is the engine to the national economic development. However, there is no clear indication that the growth is as a direct result of management autonomy and overall changes of management practice.

This paper attempts to find interrelationship between management practice and enterprise growth by examining human resource management (HRM) practices in a sample of 74 selected Chinese SMEs. The paper identifies key management factors to facilitate SME growth and applies both cross-tabs and factor analyses to pin down some elements of HRM practices that are correlated with Chinese enterprise performance.

Seven key HRM functions in the interviewed enterprises have been examined and compared. Cross-tabs analysis results in 4 hybrids of a Chinese HRM-SME Model. However, factor analysis on the HRM practices in the selected Chinese SMEs leads to three significant elements of HRM practices that have contributed to the fast-growing Chinese SMEs. These three elements are:

- *management autonomy* (ie. free selection of staff from market instead of state allocation of staff as was dominantly practiced by enterprises in the planned system);
- *retention of competent staff* via training and incentive given (ie. social security scheme); and
- *motivation of staff* by linking payment with performance and promoting staff involvement in management decision making.

The paper concludes that a sustainable enterprise growth can be maintained by restructuring internal management system and building a sound and institutionalised HRM policies and practices that promote management autonomy, emphasise retention strategy and implement performance management especially for Chinese SMEs in the transformational period. The rest of the paper is arranged as follows: Section two overviews management practices in the Chinese enterprises, Section three introduces the research methodology of this paper, Section four displays the key research findings and Section five provides a concluding remark with policy implications.



OVERVIEW OF MANAGEMENT PRACTICES IN CHINESE ENTERPRISES

Chinese small and medium enterprises are operating under the transitional economy. Their human resource management functions have been shifted slowly from the previous modes under the planned system to the modes more related to a market-oriented system (Child, 1994; Ding et al 1997; Goodall & Warner 1997; Lam 1993; Lu and Bjorkman 1997; Luo, 1991; Tsang 1994; Wang 1988; Warner 1993, 1995, 1996a, 1996b, 1997a, 1997b; Zhao 1996; Zhu 1997). Nonetheless, compared with the West practice, most of the Chinese enterprise management practice has shown its normative trend, whereby a set of values were defined and put forth to implement organisational goals.

In the past decade of reforms, change of the traditional manager responsibility in which managers were often selected by the state, and the contract management responsibility system introduced in 1987 as well as the asset management responsibility system introduced in the 1990s (Kong & Marks, 1999) as a way of building modern enterprise management system have indicated the government's effort to reform enterprise especially those state-owned to achieve profitability, efficiency and market competitiveness.

There are very few cases whereby enterprises start their HRM approach from pursuing internal set of ideal practices to improve internal management and achieve fitness for gaining market advantages. And strategic human resource management approaches are sought to respond to increasingly changing external environment to gain competitiveness.

Chinese enterprises (particularly state owned enterprises) have been highly relying on the state's intervention to keep their profitability and market competitiveness via price control (i.e. distorted price as mostly reflected as monopolised pricing policies) and restriction on market entry often set by the local governments. Internal management improvement is either not possible under the state control or largely ignored.

However, a patchy practice of HRM functions both in state-owned enterprises, and much more so in the growing private-owned enterprises (so called *minying qiye* - people-run enterprises which also cover those enterprises owned and/or funded by foreigners) and joint ventures (Tsang, 1994, Warner 1997 and Goodall & Warner 1997). For instance, labor contract has been introduced, so some are now free from the state allocation of staff and workers, and able to select, recruit and dismiss their general staff and workers according to the signed labor contracts (Warner 1997a). The 'iron rice bowl' which provides no incentive of wages and benefits has been abolished in most of the enterprises, replaced with various levels of payments and incentive reward system directly linked with performance (Ding *et al.*, 1997; Goodall and Warner, 1997; Lu & Bjorkman, 1997 and Tsang 1994). Training and development of competent and skilled workers on on-going basis to match job descriptions & requirements have also been introduced to prevent the overwhelming phenomena of *zhuang ye bu dui kou* - work in the area with no special skills under the previous system. In some enterprises,



management has also adopted an increasing level of transparency by exercising the institutionalised performance appraisal procedures. Previously, the assessment of staff promotion and rewards was largely built on superiors' personal opinions toward and relationship with subordinates as well as the length of services staff hold in firms.

Although management and staff communication has been largely dominated by the Party's authoritarian leadership over enterprise management, labor union and worker representatives have taken a new form in this age of the enterprise reform, especially with frequent occurrence of labor management conflicts in joint ventures, private-owned and collective enterprises.

In comparison with western enterprises, Chinese enterprises management have not taken the same autonomy as pursued by enterprises under the free market system, they are still much more influenced by changing external environment such as government economic policies, the nature of market, legislation changes and industry sectorial characteristics. Firms' management (and HRM) strategies are set up to match government's requirements and the external changes focusing on achieving corporate objectives of profitability and market advantages.

RESEARCH METHODOLOGY

The research intends to search for interrelationship between HRM practice and performance in Chinese SMEs in the sample. Given the circumstances in Chinese enterprises management, it is particularly focused on the following seven areas of HRM practices to see whether these practices have direct impacts on a better enterprise performance, hence, growth *per se* in the selected Chinese SMEs.

Seven areas of HRM practices were identified. Interviews were carried out to determine the extent to which the selected SMEs have been practicing:

- 1) **free market selection and recruitment of staff and workers (FMS)**
- 2) **payment linked with performance (PLP)** - provision of true incentive reward systems as against the standardised rigid wage system
- 3) **social security scheme (SSS)** - provision of the 'cradle to grave' social welfare as against giving incentive staff benefits for retention purpose
- 4) **training and development of competent and skilled workers on on-going basis to match job descriptions & requirements (T&D)**
- 5) **performance evaluation process (PEP)** to facilitate increasing level of transparency of promoting competent staff based essentially on merits instead of superiors' personal opinions toward and relationship with subordinates as well as the length of services staff serve in firms



- 6) **decision making process (DMP)** to promote overall flow of management communication to encourage staff participation in management instead of having only Party's authoritarian leadership over enterprise management
- 7) **labor management relationship (LMR)** clarified to exercise appropriate labor union's power to create cohesion and to truly protect staff (workers) interest.

Two hypotheses were laid down before the data collection and entry: It is assumed that firstly, Chinese SMEs that practice the above-mentioned 'best practices' of HRM show good HRM outcomes. Secondly, the better HRM outcomes shown in Chinese SMEs will determine good enterprise performance specifically in growth, market competitiveness and expansion tendency.

The interviewed SMEs profile according to enterprise structural ownership is tabled in Table 1. Nine wholly state-owned enterprises (SOEs), fifteen partially affiliated to SOEs (ASEs), another nine collectively owned enterprises (COEs), nine joint ventures (JVEs), twenty three domestically private owned enterprises (DPEs), six foreign owned private enterprises and three town and village enterprises were interviewed.

Table 1: Interview Samples - Enterprise Ownership

Enterprise Ownership	Number	Percentage %
Wholly State-Owned Enterprise (SOE)	9	12
Partly Affiliated to SOE Enterprises (ASE)	15	20
Collectively Owned Enterprises (COE)	9	12
Joint Venture with Foreign Firms Enterprises (JVE)	9	12
Domestically Private Owned Enterprises (DPE)	23	31
Foreign Private Owned Enterprises (FPE)	6	8
Town & Village Enterprises (TVE)	3	5
Total	74	100

Interviews were used to assess the above areas of HRM practice, plus firms' performance in the past years (maximum 5 years) and/or since their establishment, market competitiveness and expansion plan. Firms' overall HRM outcome in terms of congruence (CGR), commitment (CMT), competence (CPT) and cost-effectiveness as expressed in staff annual turnover rate less than 10% ($0 < r < 0.1$, RLESS), according to Beer, et, al. (1984)'s map of HRM territory, were also examined. Information collected was descriptive, variables were treated as dummy variables (0, 1).

The initial intention for a cross-tabs analysis was to identify whether there were any significant differences in practicing the identified elements of HRM between state-owned enterprises and newly developed private owned enterprises and joint venture verses solely foreign owned companies. The results shown in Table 4, 5, and 6 confirm such an exploratory thinking. An interesting so-called Chinese HRM-SME Model in the



transitional time was developed to explain distorted indicators often otherwise non-explainable. A detailed analysis on this model will be found in the next section.

The cross-tabs analysis is interesting, yet it does not totally satisfy. For the key issue is to pin down some crucial factors that affect enterprise growth. Hence, factor analysis as another statistical technique was pursued to draw out main driving forces for the growing SMEs in China.

According to Malhotra et al (1996), factor analysis is an interdependence technique or multivariate statistical techniques in which an entire set of interdependent relationships can be examined. It is applied in this research based on three main reasons. First is that there are overtly too many variables, secondly, by data reduction, it is easier to identify key factors that link directly with enterprise performance; thirdly, mathematically, it is similar to multiple regression analysis, in that each variable can be expressed as a linear combination of underlying factors.

From Table 2, it is clearly found that there is a matrix of correlations between the seven variables, whereby there are relatively high correlations among PEP, T&D and DMP. These variables are expected to correlate with the same set of factors. Likewise, there are relatively high correlations among SSS, LMR but highly reversed correlated with FMS, and relatively high correlation between DMP and PLP.

The results of factor analysis are given in Table 3. The null hypothesis, that the population correlation matrix is an identity matrix, is rejected by the Bartlett's test of sphericity (248.61350, significance = 0.00000). The value of KMO statistic (0.73907) is also large (0.5). Hence factor analysis can be considered as an appropriate technique for analysing the correlation matrix of Table 2.

Using SPSS, the eigenvalue was set at 0.5, three factors were extracted, and they explain 81.7% of the total variance. Rotated Factor Matrix identifies that SSS (provision of social security scheme) & LMR (labor management relations represented by labor union & worker representatives) are highly correlated with factor 1. In the same matrix, it is found that FMS (free market selection) is highly uncorrelated with factor 1. PEP (performance evaluation process) and T&D (training and development) are highly correlated with factor 2. And DMP (decision-making process involved in staff participation) and PLP (performance linked with payment) are highly correlated with factor 3.

Table 2: HRM Elements Correlation Matrix:

	PEP	SSS	T&D	LMR	DMP	FMS	PLP
PEP	1.00000						
SSS	.06875	1.00000					
T&D	.79155	.10196	1.00000				
LMR	-.31386	.52446	-.15340	1.00000			
DMP	.61871	-.07022	.41493	-.33325	1.00000		
FMS	.43481	-.50380	.30634	-.65838	.49867	1.00000	
PLP	.43038	-.30316	.30151	-.38713	.54996	.54329	1.00000

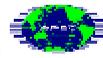


Table 3: Results of Principal Components Analysis

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .73907

Bartlett Test of Sphericity = 248.61350, significance = 0.00000

Initial Statistics:

Variable	Communality	Factor	Eigenvalue	Pct of Var	Cum Pct
PEP	1.00000	1	3.39231	48.5	48.5
SSS	1.00000	2	1.66294	23.8	72.2
T&D	1.00000	3	.66249	9.5	81.7
LMR	1.00000	4	.47948	6.8	88.5
DMP	1.00000	5	.35860	5.1	93.7
FMS	1.00000	6	.29330	4.2	97.8
PLP	1.00000	7	.15088	2.2	100

Factor Matrix:

	Factor 1	Factor 2	Factor 3
PEP	.77562	.52565	-.15530
SSS	-.38953	.78743	.12558
T&D	.61385	.60132	-.39389
LMR	-.67808	.48429	.27444
DMP	.75586	.23615	.39322
FMS	.81641	-.33238	-.07561
PLP	.75137	-.06500	.48145

Rotated Factor Matrix

	Factor 1	Factor 2	Factor 3
PEP	-.08829	.85107	.41217
SSS	.85395	.23106	-.07027
T&D	-.02560	.93548	.13330
LMR	.83775	-.20304	-.16306
DMP	-.10243	.36563	.79846
FMS	-.72985	.27436	.41805
PLP	-.29595	.12136	.83562

As provision of social security scheme (SSS) often goes along with strong labor union (LMR)'s influence, factor 1 is defined as 'Social Benefits' factor. Development of staff through training (T&D) and performance evaluation (PEP) is defined as 'Staff Development' factor 2. Factor 3 is defined as 'Performance Management' factor which emphasises giving incentive on payment based on staff performance (PLP), and improving performance through staff involvement in quality control, innovation and other management decision making (DMP).

With the explanation of the basic research methodologies and techniques of statistical applications, let's now turn to examine the HRM-SME model in the context of Chinese enterprise management and check how the above-defined factors will affect HRM outcomes and enterprise growth in the selected Chinese enterprises.



ANALYSIS OF THE RESULTS

Results from Cross-tabs Analysis

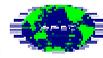
The model (Figure 1) is derived from Table 4, 5 and 6 which indicate different management practice, HRM outcomes and enterprise performance among four different categories of company structures, namely SOE, ASE, DPE and/or FPE and JVE.

**FIGURE 1: HRM Practice and Enterprise Performance
- Chinese SME-HRM-Model**

		Enterprise Performance	
		Good	Bad
HRM Practices	No	HYBRID I i.e. Tyrant SOE	HYBRID III i.e. Messy ASE
	Yes	HYBRID II i.e. Baby DPE/FPE	HYBRID IV i.e. Unfortunate JVE.

Table 4: Comparison of HRM Practice among Different Enterprise Ownership

No. %	PFMS	FMS	PLP	PSSS	SSS	PT&D	T&D	PPEP	PEP	DMP	PTU	TU
ASE	4	7	11	7	7	5	4	2	2	6	2	4
	27%	47%	73%	47%	47%	33%	27%	13%	13%	40%	13%	27%
SOE	1	1	3	0	9	4	1	0	1	2	0	7
	11%	11%	33%	0%	100%	44%	11%	0%	11%	22%	0%	78%
DPE	2	21	21	5	4	8	7	4	7	15	1	0
	9%	91%	91%	22%	17%	35%	30%	17%	30%	65%	4%	0%
FPE	0	6	6	2	2	0	6	0	6	5	0	0
	0%	100%	100%	33%	33%	0%	100%	0%	100%	83%	0%	0%
JVE	4	2	3	6	3	5	2	1	3	4	2	5
	44%	22%	33%	67%	33%	56%	22%	11%	33%	44%	22%	56%

**Table 5: HRM Outcomes in the Selected SMEs in China**

Enterprise category	0<r<10%		CGR		CPT		CMT	
	No.	percent	no.	percent	no.	percent	no.	percent
ASE (15)	12	80	7	47	11	73	11	73
SOE (9)	3	33	1	11	5	55	2	22
DPE (23)	17	74	17	74	19	83	20	87
FPE (6)	5	83	5	83	6	100	6	100
JVE (9)	6	67	6	67	6	67	3	33

Table 6: Enterprises Performance in the Selected SMEs in China

Enterprise category	ICR/SP		MKT		EXP	
	no.	percent	no.	percent	no.	percent
ASE (15)	8	53	9	60	9	60
SOE (9)	6	67	6	67	4	44
DPE (23)	20	87	18	78	20	87
FPE (6)	6	100	5	83	6	100
JVE (9)	4	44	6	67	6	67

Figure 1 demonstrates four hybrids, whereby the horizons indicate both good and bad enterprise performance, and the verticals show whether firms have taken HRM approaches.

Hybrid I means that enterprises which do not practice much HRM functions as indicated, however achieve good results in their overall performance in terms of output reflecting in increasing amount of sales, production and profits of firms (ICR/SP); market competitiveness (MKT) and growth tendency (EXP). It is found that SOEs fit preferably in this hybrid because from the interviews, the SOEs displayed a lack of overall HRM practices (Table 4 – Row SOE), and their HRM outcomes also look undesirable (Table 5 – Row SOE). However their enterprise performance in terms of sales and production and market competitiveness are better off than that in ASEs and JVEs (Table 6), though SOEs show a lack of vitality in future growth compared with ASEs and JVEs.

DPEs and FPEs sit well in Hybrid II where HRM practice were exercised to a certain extent and thus better HRM outcomes were generated, a stronger and healthier enterprise performance was also demonstrated (Table 4, 5 and 6 – Row DPE and FPE).

A number of evidence from the interviewed enterprises indicated that ASEs are in the position of Hybrid III whereby the companies have not sufficiently practiced HRM,



and their enterprise performance has also resulted in a bad shape, at least comparing even with that of SOEs (Table 4, 5 and 6 – Row ASE).

Hybrid IV is an unfortunate case where HRM practice did take place, nonetheless the end results were not desirable. Such cases are shown in joint ventures where particular foreign joint partners tend to focus on addressing internal management - the intention not well understood by their domestic partners. Conflicts often occur between local labor force and non-domestic management staff, in particular areas of management understanding of local staff - their work ethnic and cultural background (Table 4, 5 and 6 –Row JVE).

It is believed that the major causes of such a unique model of the SME-HRM combination lie in the imperfect legal system, unfair competition, imperfect market and inflexible labor market in the transformational period China is undergoing. Such systems in the way provide lee-ways particularly for SOEs to gain temporary, monopolised pricing and market advantages over new enterprises especially those with private owned in market domination and control of new entry to protect their distorted competitiveness. A few empirical studies (Huang & Meng, 1997, Zhang 1998 and Kong & Marks, 1999) support the same argument and advocate that the method of revitalisation of SOEs and their sustainable growth should lie in the establishment of internal management and exercising ‘corporate governance’, rather than pursuing a short term gain, which could hinder a long term benefits in effectively reforming SOEs.

Furthermore, the research results demonstrate better HRM outcomes and enterprise performance of DPEs and FPEs, though some elements of HRM practices in Chinese SMEs still need time to be institutionalised such as those areas dealing with performance appraisal and training & development of staff, and union’s function. This may imply that management autonomy in terms of free selection staff from market should be given solely to enterprises, and the state should withdraw its ultimate control on major decision-making on staffing, remuneration and development of firms. The point will be further extended with the explanation via factor analysis using the similar set of data presented in the following.

Results from Factor Analysis

In Table 7, it is found that better HRM outcomes in terms of cost effectiveness (RLESS = staff turnover <0.1 annually), congruence (CGR), competent (CPT), and commitment (CMT) are significant results of factor 1, 2, 3. In another words, practice or non-practice of the identified seven elements of HRM would have significant impacts on staff commitment, competency and overall enterprise cost-efficiency.

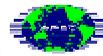


Table 7: Relationship between Factors, HRM outcomes and Enterprise Performance

HRM outcomes/ Performance/ Factor	Factor 1 B, Significance	Factor 2 B, Significance	Factor 3 B, Significance	rho ²	Goodness of Fit %	Overall Observed %
RLESS	-.4299, .1642	.5262, .1856	1.7324, .0057	0.69	74.07	68.92
CGR	-1.0863, .0017	.8749, .0311	1.9432, .0028	1	75.44	75.68
CPT	-.2312, .4656	.2062, .6076	1.1027, .0778	0.20	73.61	71.62
CMT	-1.0098, .0035	1.1064, .0302	2.4615, .0007	0.67	69.62	77.03
ICRSP	-.2748, .3674	.7877, .0566	.9284, .1413	.33	73.75	70.27
MKTCP	.2895, .3812	.6392, .1166	.9302, .1505	0.25	75.11	68.92
EXP	-.1861, .5511	.5871, .1456	.3559, .5800	0.18	72.58	72.60

The provision of social security schemes (factor 1 as ‘Social Benefits) including pension, housing and health care etc. does not create a positive influence on HRM outcomes and enterprise performance (Table 7). Neither does labor union’s influence which most likely in Chinese enterprise cases are under the Party’s authoritarian leadership over enterprise management on performance, Instead, a reversely correlated variable of free market selection (B shows in negative) could have contributed more positive HRM outcomes and to enterprise growth.

Staff Development and Performance Management are the two key factors that have not only contributed to better HRM outcomes but also to enterprise growth.

A similar exercise is taken to treat HRM outcomes as independent variables (Table 8, 9 and 10). Factor analysis results in two factors: Factor 1 is highly correlated with CGR, CMT and RLESS, it is defined this factor as “Staff Commitment” and Factor 2 is only correlated with CPT, which is defined as “Staff Competency”.

Table 8: Correlation Matrix for HRM Outcomes (as independent variables)

	CGR	CMT	CPT	RLESS
CGR	1.00000			
CMT	.70614	1.00000		
CPT	.43759	.44311	1.00000	
RLESS	.63731	.69798	.54133	1.00000

Table 9: Principal Components Analysis of HRM outcomes

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .78680

Bartlett Test of Sphericity = 128.38294, Eigenvalue set at .5

Variable	Communality	Factor	Eigenvalue	Pct of Var	Cum Pct
CGR	1.00000	1	2.74721	68.7	68.7
CMT	1.00000	2	.63734	15.9	84.6
CPT	1.00000	3	.34587	8.6	93.3
RLESS	1.00000	4	.26958	6.7	100



Rotated Factor Matrix:

Factor Score Coefficient Matrix:

	Factor 1	Factor 2	Factor 1	Factor 2
CGR	.87367	.19311	.49300	-.22218
CMT	.88903	.21275	.49304	-.20575
CPT	.24881	.95804	-.33903	1.06679
RLESS	.75861	.43941	.28381	.14712

Table 10: Relationship between HRM Outcomes and Enterprise Growth

Growth/ Factors	Factor 1 B, Significance	Factor 2 B, Significance	rho ²	Goodness of Fit %	Overall Observed %
ICRSP	2.9162, .0000	.4044, .5346	0.71	68.46	79.73
MKTCP	1.3436, .0137	.6473, .2511	0.36	73.33	70.27
EXP	2.0725, .0005	.9844, .0998	0.53	70.69	76.71

It is not significant at all that the first factor ‘staff commitment’ will be the sole reason for better performance in the selected SMEs. However, positive B values (2.9162, 1.3436, and 2.0725) represent that staff commitment if combined with good HRM outcomes could have contributed to firms’ increasing sales and production (ICRSP), market competitiveness (MKTCP) and further development of the firms (EXP). Table 10 indicates that the second factor of ‘staff competency’ is a more positive factor for firms to gain competitive advantages in taking more market shares and being more likely to lead to future development.

From the above, three key elements of HRM practices can be concluded to have contributed to the growing Chinese SMEs. They are management autonomy, retention of competent staff, and the motivation of staff.

Enterprise management, being able to recruit their own staff and workers free from market (rather than manoeuvred by the state planned system whereby staff and workers were allocated to state-owned and collectively owned enterprises and in some cases even to joint ventures) is seen as a key to a better enterprise performance. In a number of interviewed enterprises, in particular with state-owned enterprises, social welfare provided to staff and representation of labor union in organisations have not created appropriate incentives for better production and staff performance. Instead, staff development via training together with the incentive social security scheme tightly linked with staff performance, is a more effective factor to enterprise growth. The research has also demonstrated that training and development of staff has led to more competent staff who have helped increasing firms’ competitiveness in market and enhancing growth tendency.

Motivation of staff by linking payment with performance and involving staff in management decision making is the key performance management factor which has also contributed to enhancing staff competency that assists the Chinese small and medium sized enterprises.



The factor analysis has clearly indicated that the firms with more management autonomy and focusing on retention strategies and performance management demonstrate their better position in market competitiveness and more growth potential.

CONCLUSIONS AND IMPLICATIONS

The cross-tabs analysis shows that though SOEs do not practice the identified elements of best practice of HRM, their enterprise outcomes are in some ways similar if not too much better off to those who do practice. Unfortunately JVEs even put emphasis on HRM practice have not achieved desirable results as expected. From the interviews, it is concluded that the reasons for such distorted indicators were due to imperfect market information, unfair competition, inflexible labor market etc, rather than the direct result of non-practicing HRM. In fact, the firms that do practice HRM show more likely for future expansion and growth. That phenomena has also applied to a number of interviewed JVEs, in contrast, SOEs, though are better off in the areas of increasing production and sales and market dominance as indicated, have not demonstrated a strong sense of growth tendency.

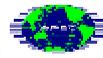
It is confirmed from the follow-up factor analysis that to achieve a sustained growth especially for SMEs such as those interviewed private owned enterprises, establishing internal management system and building a sound and institutionalised HRM policies and practices are the better option to gain sustained competitiveness and growth. To revitalise SOEs especially SME SOEs, industry policy in China should further pursue management autonomy, allowing enterprises themselves to make decisions, rather than to be constantly intervened by the state on the key management decisions for staffing, investment, resources allocation and expansion plans.

It is also encouraged that better HRM policies in enterprises should be designed to promote retention of competent staff and develop performance management tools to encourage staff to participate in all levels of quality control and management decision making.



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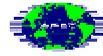
**COPING WITH ASIAN ECONOMIC CRISIS: THE RIGHTSIZING
STRATEGIES OF SMALL AND MEDIUM ENTERPRISES**

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COPING WITH ASIAN ECONOMIC CRISIS: THE RIGHTSIZING STRATEGIES OF SMALL AND MEDIUM ENTERPRISES

ABSTRACT

Hong Kong has been experiencing the worst economic downturn in decades for the last two years. What, how and to what extend the SMEs have done to overcome the situations are unknown? Given the apparent importance of retrenchment to small firm survival and success in economic turmoil, but its clear neglect in a Chinese socio-cultural environment, this paper provides in-depth knowledge of the rightsizing strategies of Chinese small and medium firms in Hong Kong. The research results suggest that SMEs in Hong Kong exhibit different human resources practices at different stages. In the 'restricting stage', SMEs reduce or stop intake staff and restrict overtime for the existing staff to deal with the fall of sales and oversupply of manpower. In the 'trimming stage', SMEs scale down or streamline the operations. In the 'proactive stage', SMEs request the existing staff to work overtime and start to hire new staff with lower pay but higher technological competencies to prepare for the recovery. A tentative model for rightsizing strategies of Chinese small and medium firms in Hong Kong is proposed.



INTRODUCTION

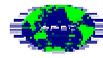
Starting from October 1997, Hong Kong has experienced as other Asian countries the worst economic crisis of the last few decades. The impact has been more widespread than expected. Hong Kong is going through an economic adjustment period. The employers are under pressure to restructure their organizations by reducing their overheads, operating cost and increase productivity by way of lay-off, downsizing or reduction of wage (Cheung, 1999).

In Hong Kong the small and medium enterprises (SMEs) have made up more than 90 percent of the total establishments. They are the hardest hit sector of the economy. When the external environment is averse, the strategic options for organizations would usually be aiming at improving the internal environment: resources, capabilities and core competencies (Hill and Jones, 1995). Resources include the firm's financial, physical, organizational and human resources. Capabilities represent the firm's capacity to deploy resources to achieve a desired state. Core competencies are the source of the competitive advantage for a firm and distinguish a company competitively and reflect its personality. By definition, SMEs have a smaller number of staff than their larger counterparts. With a lean structure, limited resources and core competencies, the SMEs face greater difficulty to cope with the downturn.

LITERATURE REVIEW

Facing the worst economic downturn in Asia, firms in Hong Kong start a wave of turnaround in the hope to combat this external influence. An empirically-driven conceptual model has been developed by Pearce and Robbins (1993) to explain the turnaround process. Two phases of turnaround responses: retrenchment phase and recovery phase has been discussed in the model. Retrenchment consists of a combination of cost cutting and asset reducing activities and followed by recovery response to regain their pre-downturn level of performance (Hofer, 1980). One of the most common means of retrenchment is cost cutting by downsizing that is a reduction number of employees, but it may or may not change the composition of businesses. However, many firms that downsized only partly met their goals of reducing expense, increasing productivity and competitive advantage (Hitt, Ireland and Hoskisson, 1997).

The issues of whether, when and how to downsize are clearly important. Cameron (1994) and Cameron, Freeman and Mishra (1991) have discussed the prescriptions of best practices for downsizing. Baron and Kreps (1999) have considered the process issues on downsizing to attenuate the psychological cost for workers and reputational costs for the company and suggest ways to minimize the adverse effects. Hitt, Keats, Harback and Nixon (1994) have discussed the effective as well as ineffective downsizing practices. There are nine downsizing practices have been proved to be ineffective. The first four practices relate to reduce workforce: implement voluntary early retirement programs; make across-the-board layoffs; make deep reductions of staff and implement layoffs slowly in phases over time. There are another four practices that relate to survivors: place survivors in challenging jobs for which they have insufficient skills; expect survivors to work harder; emphasize employee accountability in place of



employee involvement and promise high monetary rewards rather than careers. The last ineffective practice that relate to eliminate training and development program. There are nine downsizing practices that have been proved to be effective. The first four relate to manpower adjustment: reduce the number of layers/levels rather than the number of individual positions; consider the interdependent relationship before cutting particular positions; rightsizing: instead of focus on how much to cut, seek the appropriate size; continue to hire, grow, and develop in priority areas. There are another three relate to survivors: identify and protect individuals with strong leader in the organization; empower key individuals and ensure maximum flexibility and emphasize team effort and team building among remaining units. The last two relate to development and competencies: protect and promote educational programs and identify and protect core competencies. The effective downsizing practices emphasize rightsizing by reevaluating the appropriate size of the organization periodically. Rightsizing is a specific way of downsizing that when downsizing is necessary, the cuts are done in a way that the firm's human capital changes do not affect strategic competitiveness (Hitt, Keats, Harback and Nixon, 1994).

The SMEs have adopted retrenchment during economic downturn. The retrenchment activities did improve the performance of the small firms studied (DeDee and Vorbies, 1998). They used both cost and asset reductions in their retrenchment. The recommendations for practitioners are clear. When they have to retrench, they should cut those factors as they can be easily rehired or repurchased in markets that are not related to the core of their competitive advantage (Michael and Robbins, 1998).

RESEARCH OBJECTIVES

To date, there is no research into the rightsizing strategies of small firms in a Chinese socio-cultural context. The purpose of this study is to explore the various HRM strategies and practices that the Chinese SMEs in Hong Kong employed to overcome the economic downturn. Specifically, the research objectives are:

1. To examine the extent to which rightsizing strategies have been adopted by Chinese small firms in Hong Kong;
2. To identify the human resource practices exhibited by Chinese SMEs in Hong Kong at various stages; and
3. To propose a tentative model to explain the rightsizing strategies, specifically related to major human resource practices, adopted by Chinese SMEs in Hong Kong.

RESEARCH METHODOLOGY

This is an exploratory study based on a case-study design (Yin, 1989). This allows multiple sources of data to be included in the collection and analysis. Data were obtained from two sets of interviews. A semi-structured interview schedule was used to collect information. McCracken's (1988) long interview techniques guided the interview and provided focus on a series of open questions pertaining to human resource



practices in small firms. The average duration of each interview was one to two hours. Interviews were recorded and transcribed accordingly. The grounded theory approach (Glaser and Strauss, 1967; Strauss, 1987; Strauss and Corbin, 1990) was used to analyze the interview script.

The first set of interview is with three key officers in the Hong Kong Labour Department with a thematic interview guide consisting of opened questions were used to uncover the background for this study by revealing the context for general labour and labour relations situation in Hong Kong. The second set of interview is with sixteen owner managers of SMEs. The interview is based on a semi-structure interview schedule with open-ended questions so that the SME managers are able to discuss their human resources strategies and practices in overcoming the economic downturn.

One chief labour officer from the Labour Relations Unit, one senior labour officer from the Workplace Consultation Promotion Unit and a registrar from Minor Employment Claims Adjudication Board were interviewed in May. Information gathered regarding the latest statistics and labour market situation and the labour department's role in assisting companies during retrenchment.

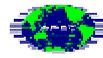
Sixteen owner managers of SMEs were interviewed during May, July and August. They were asked to discuss about the economic downturn and its impact on their organizations with different periods of difficulty in form and/or extent if such periods do exist. The corresponding human resources strategies and practices for different periods of difficult time were reviewed with their underlining reasons given by the owner managers.

HONG KONG SITUATION

The Asian economic crisis provides a chance for Hong Kong to evaluate the past and plan for future in terms of appropriate company strategies for firms and government policies. The economic downturn is a combined result from the Asian regional downturn and the burst of asset price bubble. Being a small and open economy, the crisis has pushed Hong Kong to reevaluate not just its market mechanisms but also its high land and labour costs and productivity (Enright, Scott and Leung, 1999).

SMEs have played an important role in the economic development in Asia. There is no precise definition of an SME. They can vary in terms of size and can be distinguish as follows: micro with 0 to 19 employees; small with 20 to 100 employees and medium with 101 to 500 employees (UNCTAD, 1998). Using this definition, more than 96 percent total establishments in Hong Kong can be classified into this category. The importance of this group of organizations and its impact on Hong Kong economy is indisputable.

In general the labour relation scene is relatively peacefully in Hong Kong. In the Report of the Commissioner for Labour 1997, it states the economic conditions took a down turn after late October together with the easing back of tight labour situation. The number of trade disputes and the number of claims handled by the Labour Relations Service have been on an upward surge from 1997 to 1999. The increase between 1997



to 1998 is about 50%. However, the increase in the first quarter of 1999 is about 8.5% for trade disputes and 19.3% for claims. These reflected the increase of labour disputes mainly resulted from wage cut and lay off that have been happening in Hong Kong. After experiencing more than eighteen months of difficult times, in recent months, although the number of disputes has increased, the employees tend to be more willing to negotiate and settle in disputes.

To provide advice to employers seriously affected by the economic downturn, the Labour Department has written the 'Guidelines on What to do if Wage Reductions and Retrenchments are Unavoidable'. It is highly recommended that employers should enter sincere discussions with their employees to find solutions and allow employees a reasonable notice period between 7 to 14 days for decision on proposal. It is also suggested that the employers should assure employees that if the company's situation worsens further, and retrenchment has to be considered, severance pay will be calculated at an employee's wage level before the wage reduction scheme was introduced. If possible the employer should assure employees to have appropriate adjustments if the performance improves. The Labour Department is fully aware of the distresses that the employers and employees have been through. In time of difficulty, harmonious labour relations underpin Hong Kong's prosperity and success. The 'Guide to Good People Management Practices' sets out a series of good practices in order to build up teams of highly motivated and efficient employees who will in term achieve the competitive advantage for their respective companies.

FINDINGS - SME's HRM PRACTICES

From the interview conducted with the Chinese owner managers, specific human resources practices used for turnaround to overcome the economic downturn have been revealed. The most common practice that they adopt is downsizing in one form or the other. The following is to illustrate the human resources management practices from the interview results.

Cut Staff Development Fund

Distinct human resource wheel or human resource process is not apparent among the interviewees. Being a sub-contractor of major exporters in Hong Kong or prestigious overseas importer, most of the Chinese SMEs work as a production arm. Thus, the Chinese SMEs perform as an order-taker, as suggested by Siu (1997). Chinese SMEs would cut their operation costs as low as possible. Hence, the staff development or expenditure will only be kept at a minimum level. Neither well-designed training programs nor human resource development activities are found. Finding it difficult to tackle the recession due to the financial turmoil, some of the owner managers even admit that they cut the budget for recreational activities for the workers as well.

One owner-manager recalled: "Normally, we will have ball games and competitions every month. I will arrange some gifts for the winning teams. Now,



they could have their games and competitions, I would not pay for any banquet nor presents”.

The interview results suggest that the Chinese owner-managers perceive that human resource as a peripheral function to production. Thus, they will cut the staff development fund immediately in view of the financial crisis.

Wage Cut

During the financial crisis, the major objective of the SMEs is to maintain normal operation and proper cash flow. Thus, they will cut the salary expenditure. Interestingly, however, they would not choose to lay off workers before cutting of wages. Rather, they try to cut their entire salary expenses in a very subtle manner.

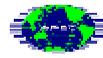
For workers on wage system, the owner managers would start out by cutting their work in overtime, which in term save a big amount of wage expenses. In the past overtime work is part of the workers regular work with higher pay. The workers rely heavily on this part of income and the SMEs depend on these extra working hours to complete their order without hiring extra manpower. In times of trouble, cutting overtime work is the first option that the owner manager and the workers would both agree to carry out. This is a form of wage cut by restricting the working hours to their normal hours.

One owner-manager remarked: "We previously used a quota system to motivate our workers. We identified the average production level of skillful workers. Then we set the quota at 70% of the average production level. Thus, every worker could attain the basic salary. We allowed worker to work overtime as they could earn more. Even facing the financial turmoil, I do not want to lay off workers. Thus, we do not allow them to work overtime at present. Previously, if we did not allow overtime work, workers would resign immediately. Now, most of them know the business environment is not good and they accept our arrangement. As long as we could have a proper cash flow, we would like to maintain our operations at a normal level."

For the middle and senior management, the owner managers of SMEs used another approach. As the family members are mostly the senior managers in the company, they would cut their own salaries to a minimal level.

One owner-manager mentioned: "It is a family business. The family members form the management team. We understand the current situation. We only have the basic salary. I remembered in the most difficult time, I worked with no salary for over three months. As I lived in the factory, I tried to stay there and kept my daily expenditure as low as possible."

Analysing the interview transcript suggests that the Chinese managers will try to maintain the operations. Reasons for this are unknown. Be that as it may, it is a family business and they would try to maintain the continuity. Or they perceive that sales will be picking up soon. Notably, however, they absorb the salary cut subtly. For workers, the owner managers tend to prefer not to allow overtime work than cutting



the wage across the board as long as they can as a measure to reduce the wage expenditure. Also, the family members work with no salary to maintain the operation in a proper cash flow. Thus, the nature of family business tends to affect the operations significantly.

Lay Off

If the situation does not improve much, actively they would start to lay off part of the workers and passively they would encourage natural attrition. If a supervisor resign, the owner manager will not try very hard to retain him or her. However, this approach is not effective in some cases.

One manager remarked: “My assistant resigned. She decided to resign because she wanted to get married and have a baby. As she wanted to be a housewife and we also faced the financial turmoil, I did not urge her to stay on. I asked my brother to take charge of her work. Initially, we thought it was a good arrangement. First, we cut the salary expenditure. Second, we could absorb the job by our existing staff given the slow sales. However, it was not as we have expected. The workload was not double; rather it was triple or even more. We were busy at "extinguishing fire" daily and could spend less time on quality control. A customer put in a claim because of poor product quality!”

Human resource as a functional area does not have a major role in corporate planning. The interview results suggest that the Chinese owner managers do not have detailed job analysis and human resource planning. Their poor planning or lack of planning in eliminating or combining posts created hardship for the survivors.

Plan For Recovery

After using various measures of downsizing, the situation has stabilized for some of the companies. The owner managers of those companies predict that their business might pick up in a short period of time and they forecast the need for more quality employees.

One of the managers commented with enthusiasm: “We can see the light from end of the tunnel now. It might take about six months for us to move out from the bottom of the valley. As we have cut down our product line and become more focus on our high quality items to maintain our competitiveness, we need to equip ourselves with high quality employees that they are of high capability and productivity to sustain our new direction.”

This group of companies has either started to hire quality staff to join their company or planned to do so. However, the newly hired staff is for the new business direction or competitiveness that the companies have defined for. The new recruits are different from those that they have dismissed. Some of the owner managers view this economic downturn as positive. They felt that because of the downturn, they found it easier to hire quality employees at a lower cost and mobilize their employees for changes that were necessary in order to reshape the company. The owner managers are



more willing to share their vision for the future and become more conscious to reevaluate the appropriate size of the company periodically. The companies are thus healthier than they were before the crisis.

A Dilemma Case

Some owner managers commented that they did not practise active downsizing by dismissing some of the employees because their companies were not able to afford severance or long service pay. As they have not established provident fund for their employees, they can not finance this large sum of extra payment related to dismissal of employees. This is a great dilemma for the SMEs. On one hand, lay off would be too costly for them in this time of hardship. As an alternative, carry a group of employees with no work for them for extended period of time is a heavy financial burden as well.

One manager disclosed: “ It is a suicide one way or the other. If we lay off the employees in order to cut down our expenses, we have to borrow from the bank or somewhere to pay them off. As most of them have worked for us for more than five years, the amount of funds required for dismissal is alarming. With our present situation, this is like cutting our throat. However, by keeping all the employees with limited work, this is like bleeding to death.”

The way out for this group of companies is to reduce asset as a way maintain their liquidity and aggressively look for other markets for orders to prolong their chance of survival. This group of companies is generally weak financially, if the economic situation can not move out from its bottom in the next six to eight months, they may have problem to maintain their businesses.

A Success Case

However, the human resource management process and the market orientation are interrelated. Using Ford and Rowley's (1979) categorisation, Chinese owner-managers can be classified as the owner-managers or the professional managers. The professionally managed companies conformed far more closely with, compared with the owner-managed companies, the theoretical model of the marketing concepts, particularly in respect of explicit analysis, planning and control of the marketing function. The professionally managed companies exhibit distinct human resource activities and adopting effective downsizing and rightsizing practices.

The following interview excerpt from a professionally managed company shows the differences: "Yes, we had a very difficult time as we encountered slow sales mainly due to inadequate orders from our major buyers. Lay off workers is the only strategy to maintain our operations. The employment size was reduced from 500 to 300. Fortunately, one of our major product lines is coffeepot for hotels in Europe and the US. This is a simple classic product and we could have steady orders during the financial turmoil. We could make use of this product line to maintain our operation level. After that, the employee turnover rate of our company was quite low. However, we tried to add value onto our existing product in order to have a competitive edge over our major competitors. The whole management team was involved in the new product



development. We recruit 100 new workers specifically for this new product. At present, the sales figure of our new product increases steadily. Facing the financial crisis, we are not able to operate with profit. Thus, I cannot give any bonus to the senior and middle managers as we normally did in previous years. I understand that they have worked very hard. I talked to them and I agreed to distribute some of my shares of the company to them if we can survive this crisis. With the full cooperation of staff, we can maintain our operations. Last quarter, our sales increased slightly. I expect we could attain break-even this financial year.”

Also, the professionally managed company does not perform as a production arm of the export houses or overseas importers. They also develop their own products. Thus, they have to use innovative approach to motivate their employees rather than cutting costs. An overlapping task force is formed to develop new products. There are also open communications among employers and employees in professionally managed companies. Figure 1 shows the relationship among the human resource practices of SMEs, external and internal environments and perception of the owner-managers.

A TENTATIVE MODEL - SME's RIGHTSIZING STRATEGY

To summarize, what have the Hong Kong SMEs done to overcome the economic crisis? The most commonly turnaround strategy that the SMEs have adopted is retrenchment. Under retrenchment, downscoping and downsizing are the most favour options for the SMEs. However, the downscoping would be less significant for the smaller companies as they have limited unrelated business for them to divest. For some of the SMEs, they did not just react to the situation by downsizing alone; they have adopted rightsizing to increase the firm's capabilities to overcome the crisis. There are three stages for rightsizing strategy, each stage with its corresponding practices reflecting different degree and nature of difficulties that the firms are facing in their external environment and how they tackled them.

Table 1
Stages for SME's Rightsizing Strategy

<u>Stage</u>	<u>Focus</u>	<u>External/Internal Environment</u>	<u>Turnaround Response</u>	<u>Major Human Resources Practices</u>
1	Restricting	Bad	Retrenchment	Moderate downsizing
2	Trimming	Worst	Retrenchment	Drastic downsizing & wage cut
3	Proactive	Improving	Recovery	Rightsizing

In Table 1, we have summarized the focus, environmental situation and major human resources practices for different stages. Stage 1 is the 'Restricting Stage' that the companies start to find themselves facing low sales that they have not experienced in years. They would reduce or stop intake of staff and restrict overtime for the existing staff to deal with the fall of sales and oversupply of manpower. They would also



drastically reduce or cut their expenses on items that they felt is peripheral in nature like the staff development and recreational funds. Stage 2 is the 'Trimming Stage' that the firms find themselves unable to survive with the restricting practices only as the demand situation getting worst. They would encourage natural attrition and carry out reduction of staff and/or pay to trim down the operation in head count and overhead cost. For those companies with unrelated and unprofitable businesses, the management would opt downscoping to streamline the operation. Stage 3 is the 'Proactive Stage' that the company has survived so far and found that the decline of sales has levelled off. Their measures to overcome the adverse environment have been successful. If they predict that the economic situation in the near future or/and their new focus of maintaining their competitive advantage has been successful, the owner managers would place greater emphasis on maintaining and recruiting quality employees. They would request the existing staff to work overtime and start to hire new staff with lower pay but higher technological competencies to prepare for the recovery.

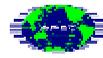
The first two stages belong to the retrenchment phase of the turnaround response for the SMEs to cope with the economic downturn. The third stage belongs to the recovery phase of the turnaround response for those SMEs that have survived so far to increase their capabilities and core competencies in order to equip themselves for economic recovery.

As SMEs have limited capacity to influence the external environment, all they can do to overcome the economic crisis would be to make themselves as efficient as possible internally. Rightsizing seems to be an effective strategy that it would not be for the retrenchment response to overcome the situation of economic downturn only and it includes the recovery response that prepares the company for the economic upsurge that would eventually come as the downturn ends.

CONCLUSIONS

In the past, Hong Kong has faced many challenges and on each occasion, we have emerged stronger, better and more vibrant. SMEs should treat this economic downturn as another challenge for them to improve themselves. By working together, the owner managers and their employees can rebuild their company not just to survive the adversity of the external environment and to be prepared for the recovery of the environment.

The human resource strategies of Chinese SMEs depend on the relationship with their buyers. If they perform as a production arm, human resource management will be considered as a peripheral function and limited resources will be allocated to human resource activities. Professionally managed companies place much more emphasis on human resource management and innovative measures to motivate staff are found. The influences of the nature of family business are still profound. To lay off employees would not be on the top of the consideration set. They will use the family members as a buffer to absorb the operating expenditure.



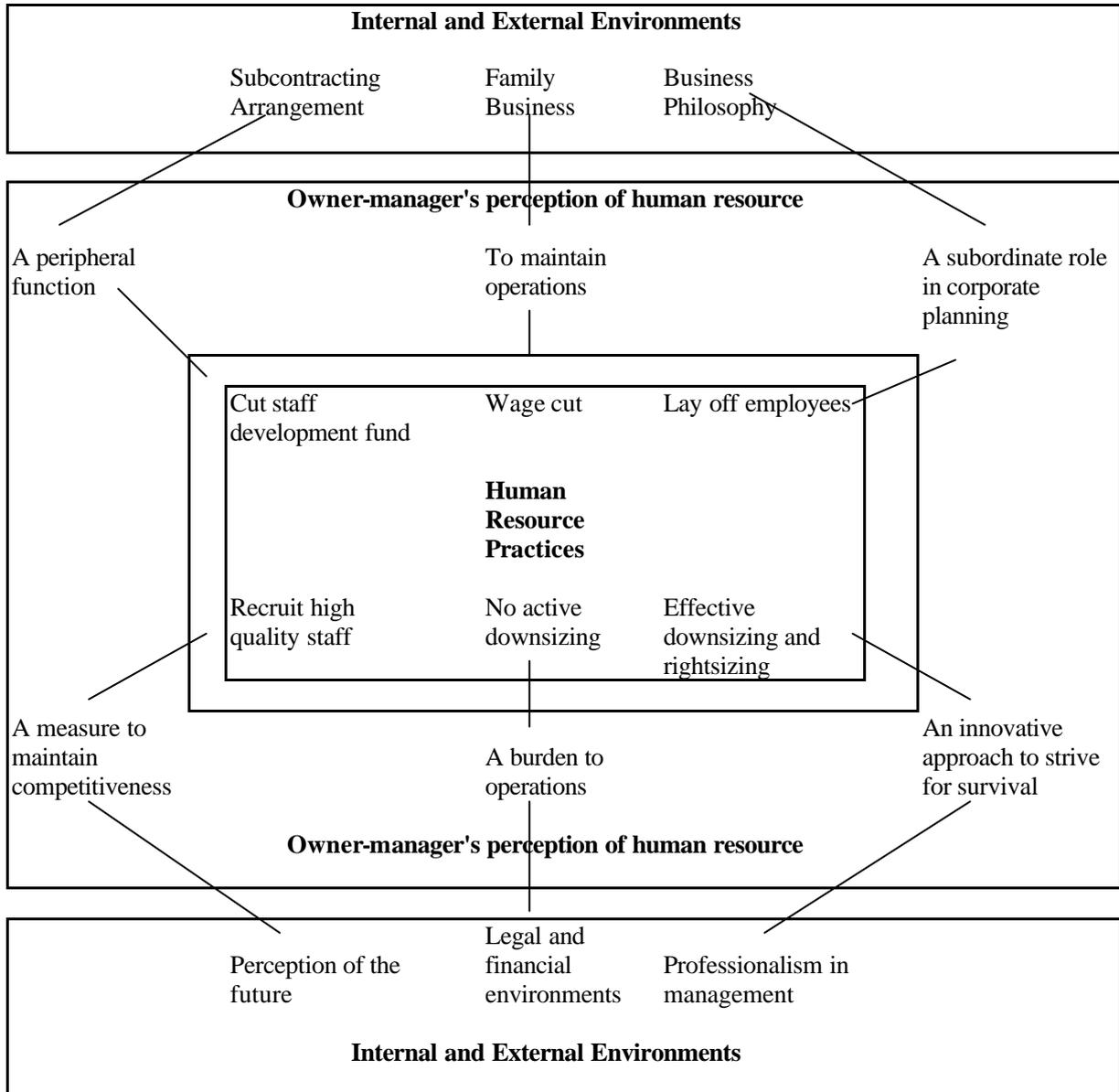
The rightsizing strategy that seems to be effective for the SMEs is in fact can be linked to and supported by the Pearce II and Robbins' (1993) model for turnaround. As described by Pearce II and Robbins (1993) and Robbins and Pearce II (1992), the rightsizing strategy is the recovery response that is necessary to follow the retrenchment response in order for successful turnaround to occur.

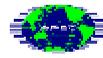
Future research might fruitfully focus on differentiation effective and ineffective retrenchment practices in various size, industry and environmental context. To follow Mroczkowski and Hanaoka's (1997) idea, we can carry out a comparative study of effective rightsizing strategies in various Asia countries instead of their Japan and American study. The finding of this study also suggest that a particularly promising line of research may be an investigation to test the stages for rightsizing strategy and its corresponding effectiveness. Hopefully, such efforts will increase the practical utility of the SME's strategic management and human resources practices.



Figure 1

The relationship among the human resource practices of SMEs, internal and external environments and the perception of the owner-managers





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**SMEs AND ELECTRIC INDUSTRIAL MACHINERY AND
APPARATUS IN MALAYSIA**

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SMEs AND ELECTRIC INDUSTRIAL MACHINERY AND APPARATUS IN MALAYSIA

1. INTRODUCTION

Small and medium scale industries (SMIs) have been argued in the past to be better allocators of resources due to their incapacity to influence prices. The effects of competition from small resources is also considered to force SMIs to operate at optimal factor utilization limits. Recent works have added further support for SMIs due to the scope and flexibility offered by smallness. The myth of the large corporation posited by Pratten (1971), Chandler (1985) and Scherer (1970) to enjoy the capacity to reap minimum scale efficiency is now increasingly questioned (see Audretsch, 1999; Best, 1999). This debate is still unclear as size structures of firms in different industry groups still vary, even if a number have become increasingly lean.

Small firms, given their infancy, competitiveness in particular industries and critical role in assisting large firms, have often figured strongly in government support. The special advantages offered by smallness such as economies of scope, flexibility, lower capacities has often been the basis for special loans administered by financial institutions in the developed economies, including Japan, Chinese Taipei and South Korea. Where the regulatory framework discouraged the growth of efficient small firms in industries such as machine tools where small size is important, their performance have generally been dismal. The inflexible *chaebols* of South Korea have failed to generate efficient machine tool production so that the country continues to face high imports in domestic demand. While Chinese Taipei enjoys effective state support – especially in supporting institutions that solve collective action problems – its greater reliance on small private firms operations has stimulated the rise of machine tool exports. Malaysia has faced more uncoordinated regulatory industrial policies, which in general have not directly enhanced the performance of local machine tool firms.

However, the success of firms in particular settings cannot just be explained by size. *Inter alia*, industry differences and the coordination networks firms embed also explain why firms succeed sometimes and fail sometimes. The latter has become increasingly important following the growing knowledge disparity (creation and appropriation) between sites, which is particularly significant in the electronics and related industries where the miniaturization process and product cycles have evolved exponentially.

While there is growing support for leaner firms and industrial organizations where the division of labor inside firms have become shorter and that between firms longer,¹ it has been argued such trends only occur in locations where effective institutional networks exist. Also, given the potential for government failure, firms have also often resorted to systemic relationships that require business-coordination of government support. The Silicon Valley (Saxenian, 1997), Keihin District (Best, 1990) and Emilia

¹ Which leads to Young's (1928) classic dictum that while the division of labor is dependent on the size of the market as argued by Smith (1776), the size of the market is also dependent on the division of labor.



Romania (Brusco and Sabel, 1982) are examples of relatively successful examples of effective industrial networks.

For a number of reasons problems of measurement and the regulatory environment often leads to an understatement of performance by SMIs. In Malaysia, there is a general bias of the regulatory environment towards bigger firms. Generous financial allowances for export-oriented big firms in such strategic industries as electric/electronics often qualify for substantial tax exemptions. Tax exemptions in Malaysia may actually encourage transfer pricing out of profits, causing inflated performances (e.g. profits). SMIs may deflate their performance (e.g. value added) rates, while reporting their capacity expansion figures (e.g. employment and investment). Firms with a paid capital of less than RM2.5 million enjoy registration waivers and thus no serious government scrutiny. Also, often efficient SMIs expanding operations will graduate upwards to larger scale categories shifting the positive bias towards big firms, and the converse declining firms the negative bias towards SMIs. Hence the data used in the paper must be treated with caution.

This paper attempts to show the growth and performance of the electrical machinery and apparatus firms in Malaysia based on size. The first part of the paper presents crucial policy instruments and the growth in significance of the electric/electronics industry within overall electric/electronics and manufacturing in Malaysia. The second part analyzes the growth and performance of particular size groups in the electrical machinery and apparatus industry, which constitutes the international standard industrial classification (ISIC) 5-digit code of 38310.

2. SMIs AND THE REGULATORY ENVIRONMENT

The development of SMIs in Malaysia's manufacturing sector was initially constrained by weak government support instruments. During colonialism, the British introduced financial support for small and craft industries under the Rural Industrial Development Authority (RIDA), largely to reduce discontent among the Malays (see Rasiah, 1995: chapter 3). Such lukewarm initiatives were continued with greater financial support after independence under the Rural Development Ministry. It was not until the late 1970s that official policy attempted to earmark SMIs for support, albeit its development remained uncoordinated and cumbersome until SMI activities were given direct prominence by the Ministry of Industrial development following the launching of the Industrial Master Plan in 1986. The umbrella concept of marketing – originally introduced in 1983, was augmented with the Subcontract Exchange Program (SEP) in 1986 and the Vendor Development (VDP) Program in 1992. In addition to the extension of export-oriented double tax deductions to SMIs from 1986, the government introduced the Industrial Technical Assistance Fund (ITAF) and complementing credit guarantee supports as well as matching efforts in the late 1980s. A separate Small and Medium Industries Development Corporation was incorporated in the 1990s to govern their activities.

However, official state policy tended to discourage local SMIs with size above mandatory registration levels as the experienced ones were dominated by Chinese



ownership. It is only in locations where complimentary local state power and better government business coordination has helped the development of better SMI supplier firms. Given the lack of such politico-business alliances beyond Penang, the share of establishments in the manufacturing sector with size less than 50 employees have fallen over the period 1985-95 (see Rasiah, 1999). The contribution of SMIs in generating investment, value added and employment in Malaysia's manufacturing sector has also generally fallen in the period 1985-95 (see Rasiah, 1999). Firms with size exceeding 200 employees, have gradually expanded their grip on value added.

Being generally small and medium in size and dominated by Chinese ownership, the local machine tool firms faced the same fate. Much of the initial federal support for the evolution of machine tool firms came indirectly, and in some sense fortuitously. There were no clear effort to attract electronics firms with the purpose of spawning local firms when the government first launched its export-oriented industrialization policy following the Investment Incentives Act (IIA) in 1968. Electronics components multinationals only began relocating in Malaysia after the Free Trade Zone Act was enacted of 1971 and the subsequent opening of the zones in 1972. National Semiconductor — the first semiconductor firm to commence operations in Malaysia — built its factory in Bayan Lepas in 1971 and started production in 1972. Government efforts to woo export-oriented manufacturing firms have been critical at least in four important ways:

- The federal government's free trade zone (FTZ) legislation offered financial benefits in the form of:
 - a. pioneer status — which gave tariff exemptions on imports and exports, and tax holidays over a period of five to ten-years. Firms were thus exempted from corporate income tax of 35 per cent and development tax of 5 per cent;
 - b. Upon expiry of the pioneer status, firms have often been granted investment tax credit (ITC)² which has given further tax exemptions for five to ten years. The exemptions have been equivalent to approved investment. Losses during the allowance period can be replaced after the period;
 - c. Where FTZs could not be established, licensed manufacturing warehouses (LMWs) have been established. LMWs enjoy similar privileges as firms located in FTZs;
- Amendments to the Employment Act of 1955 in the late 1960s and the Industrial Relations Act of 1967 imposed tighter controls on labor organization. The government did not allow unions in the electronics industry until 1989 when in-house unions were first allowed. Several firm managements still refuse to recognise some of these in-house unions;

² This allowance was renamed the Investment Tax Allowance following the Promotion of Investment Act of 1986.



- Government leaders offered unofficial guarantees to safeguard multinational corporate interests to ensure effective production coordination (e.g. for power supplies and customs regulation);
- The local state government offered subsidized land, water, electricity and other physical infrastructure.

While the potential for the development of SMIs emerged following the growth in demand generated from the relocation of foreign electric/electronics subsidiaries, the regulatory environment generally disadvantaged their development until the late 1980s. Large firms enjoyed considerable advantage over small firms in their access to pioneer status, ITC, FTZ and LMW incentives. The initial wave of electronics component firms to Malaysia was also of large size with employment exceeding 500 employees. As a symbolic gesture the Penang government opened Penang Electronics in 1970. National Semiconductor of the United States in 1971 was the first semiconductor firm to build its factory in Malaysia. Japanese owned Clarion was the first foreign electronics component firm to start operations in Malaysia in 1971. A combination of lucrative incentives directed at firms generating larger employment and investment levels, and the labor-intensive production technologies associated with electronics assembly in the 1970s and early 1980s skewed the industry towards large firms (see Rasiah, 1993; 1996). Local private initiatives were initially constrained by official policy directives under National Economic Policy (NEP), which with the promulgation of Industrial Coordination Act (ICA) in 1975, discriminated non-Bumiputera entrepreneurs. Firms with an employment size of 25 and above and a paid up capital of 250,000 were required to obtain licensing, often requiring compliance with national ethnic restructuring conditions. Also, local non-Bumiputera firms also hardly enjoyed access to incentives.

Given the lack of production experience in electronics components making prior to the 1970s, local initiatives in the industry only began to emerge from the 1970s. With the exception of showpiece industries and other scattered small-scale efforts, local involvement in electronics component manufacture did not grow much until the late 1980s. Being small and largely owned by local Chinese capital, electronics component firms generally enjoyed little state support. Smaller local owned electronics firms only received strong impetus only following its classification among the promoted industries in the Industrial Master Plan of 1986. Being complementary to the operations of the strategic industries such as electronics, the industry enjoyed similar incentives, though, the extent of foreign direct investment was extremely small. The Promotion of Investment Act of 1986 offered the industry equal duty exemptions if located in free trade zones (FTZs) or licensed manufacturing warehouses (LMWs) and export incentives such as the double tax deduction on exports and export credit refinancing.

Under such circumstances, domestic policy have tended to be biased toward large industries. The global glut in 1984-86 forced several small electronics firms to close, especially local ones. Penang Electronics and Penang Printed Circuit Boards were a few of them. The only foreign casualty of that period, Mostek which assembled Dynamic



Random Access Memories (DRAM), was sold to Thomson CSF which later sold it to International Device Technology.

Thus, federal policy instruments generally discouraged the growth of small and medium electronics component firms in Malaysia. Against this general trend nationally, changes in production organization especially from the mid-1980s began to change the size configuration of electronics component firms in Malaysia. With considerable assembly and test upgrading, as well as, aspects of redesigning taking place in Malaysia, local state initiatives began to stimulate the development of institutional networks to enable greater deepening in Malaysia. Penang state was arguably the most advanced in pursuing such opportunities. Government-business initiatives led to the formation of the Penang Skills development Center (PSDC) in 1989. Several other aspects of infrastructure were strengthened so that firms could externalize substantial aspects of production, which was internalized in the past due to the uncertainties associated with the local structure. Such production segments were dissimilar but complementary to the operations of the main electronics component firms in Malaysia. The lack of similar strong networks in the Kelang Valley and Johore discouraged strong development of electronics component SMIs. Singapore's strong institutional network enabled the relocation of SMIs in Johore to service firms located across the causeway.

With the exception of Penang, local electronics component SMIs in the rest of Malaysia generally faced constraints accessing government support. Under such circumstances, SMIs that have had a long entrepreneurial experience and show potential linkage development effects - dominated by ethnic Chinese ownership - have enjoyed little state support. Chinese owned small and medium electronics component suppliers faced considerable problems in their efforts to supplier multinationals in locations outside Penang. The lack of state support has left them facing severe market failure problems - though ethnic congruence with the generally ethnic Chinese purchasing officers in the multinationals have encouraged some amount of local sourcing. Not only are electronics component multinationals badly positioned to identify small and medium scale firms' potential capabilities as it would require detailed scrutiny and monitoring, they themselves have received little encouragement to participate in such developments, which can be risky and uncertain. Hence, outside Penang, little links were forged between foreign multinationals and local SMIs in the electronics components industry. They not only face finance problems - including accessing subsidized loans and technical assistance from the credit guarantee schemes and the industrial technical assistance fund (ITAF) - but are also hardly prominent to attract the attention of potential multinational clients. Indeed, interviews show that the list of small and medium scale firms promoted by the government include relatively few machine tool firms operating in the Kelang Valley. Where it has involved active state promotion, such as those by the *Bumiputera* venture trust, Permodalan Usahawan Nasional Berhad (PUNB) stringent ethnic-based conditions apply.

The lack of political support has restricted the establishment and strengthening of sourcing relationships between microelectronics multinationals and local machine tool firms. The intermediary coordination role played by the PDC in Penang has been missing in the Kelang Valley. Lacking state efforts through institutionalization of risks



and other support services, microelectronics multinationals in the Kelang Valley reported lacking motivation to develop local machine tool capabilities. Unlike in Penang where a proactive state leadership has played a critical role in stimulating links between local firms and multinationals, state leadership in other parts of West Malaysia has generally avoided such a role (see Rasiah, 1998a). Since the federal state, *de facto* has generally been the active governance agent in the rest of West Malaysia, national considerations embedded in the NEP and its successor, the national development plan, have dictated the promotion of local sourcing. *Inter alia*, ethno-class has differences restricted the effectiveness of the nationally coordinated SEP. Its success in stimulating subcontract relations between ethnic Chinese firms and microelectronics multinationals have been modest even after the enactment of the 30 per cent local sourcing condition in 1991 for firms applying to enjoy financial incentives. Yet 2763 firms had registered under the SEP by 1993 (Malaysia, 1994: 260).

The federal state has only been slightly more successful than SEP in its promotion of the VDP involving the electric/electronics industry. Anchor companies began to support small and medium firms with an equity of not less than RM100 thousand that show *Bumiputera* participation in equity and employment of 70 per cent and 55 per cent, however, respectively. Participation in this program within the electronics industry has so far largely involved consumer and industrial electronics firms. Few of them, however, has established links with microelectronics firms. Sapura and Sharp were the initial anchor firms. This program has helped create *Bumiputera* controlled suppliers from scratch within a short time in the electronics industry. The government planned to create 80 new vendors over the sixth and seventh Malaysia plans (Vijaya Letchumy, 1993: 14). Subsidized loans and technical assistance offered through ITAF and venture companies such as PUNB have been critical in their development.

Socio-political divergence in the Kelang Valley - between the small and medium business community and UMNO dominated political leadership both at the state and federal levels - stifled the development of complementary institutions to support the growth of ethnic Chinese controlled small and medium scale businesses. With weak inter-ethnic relations at the small and medium scale level, the Chinese business community involved in metal, tooling, foundry, rubber and later electronics and plastic works enjoyed little support to grow. Federal financial incentives associated with support for SMIs too failed to stimulate the growth of local SMIs comparable to Penang. Hence, the few successful electronics component SMIs in the rest of West Malaysia have tended to be foreign owned.

3. GROWTH AND PERFORMANCE OF ELECTRICAL MACHINERY AND APPARATUS FIRMS

In light of the general bias of government policy towards large firms, it is only natural that the relative contribution of SMIs to overall electrical machinery and apparatus industry would be expected to be considerably weaker than Chinese Taipei where large firm biases were generally avoided. This section presents the contribution of the electrical machinery and apparatus sub-sector to overall electronics and manufacturing output, the relative contributions of the different employment size



categories to the number of establishments, value added, employment and fixed assets, and growth and performance of these categories.

The total number of electrical machinery and apparatus establishments grew from 20 in 1988 to 116 in 1995. Firms with employment size less than 50 employees contributed 55.0 per cent of the establishments in 1988, the share falling to 26.9 per cent in 1992 before rising to 60.3 per cent in 1995 (see Figure 1). The size category of 200-499 employees contributed the next highest, 19.2 per cent in 1988 and 12.1 per cent in 1995. Firms with size of 1,000 and were the least in number, contributing 3.4 per cent of total firms in 1995. The data from the statistics department shows no firms at all in the 500-999 employment category in 1988-89.

The total value added of the electrical machinery and apparatus industry in 1985 prices, rose from 67.4 million ringgit in 1988 to 343.8 million ringgit in 1995. Firms with employment size less than 50 employees 200-499 contributed most to electrical machinery and apparatus value added in the period 1988-89 and 1994 (see Figure 2). Firms with employment size exceeding 1,000 employees was the leading contributor in 1990-91 and 1995. Firms with employment size 500-999 was the leading contributor in 1992. The value added contributions to the total of size categories 50-99 was the least by 1995, followed by 100-199 and 1-49 employment categories. The fluctuations within size categories 200-499, 500-999 and 1000 and above employees could be a consequence of firms moving in and out of size categories.

The electrical machinery and apparatus industry contributed total employment of 2,783 employees in 1988, reaching 18,318 employees in 1995. Firms with employment size of 1,000 and more contributed most to electrical machinery and apparatus employment in 1988 and the period 1990-95 (see Figure 3). There was substantial alternation between size categories of 500-999, 200-499 and 100-199 for second place, suggesting considerable movement of firms depending on their end of the year employment figures. Firms in the smaller size categories of 1-49 and 50-99 generally contributed least to overall electrical machinery and apparatus employment.

The total fixed assets of the electrical machinery and apparatus industries increased from 48.0 million ringgit in 1988 to 315.0 million ringgit in 1995. Firms with employment size 200-499 was the largest contributor in the period 1988-89, followed by employment category 100-199 (see Figure 4). The 200-499 employment category also contributed most to total fixed assets in 1994. Employment size 100-199 owned the largest amount of fixed assets in total fixed assets in 1990. Firms of employment size of 1,000 and more became the largest contributor in the period 1991-93 and 1995. These fluctuations could be a consequence of firm turnovers, and others moving up and down in along the employment categories.

The measurement of growth rates and productivity is somewhat affected by a decline in electronics production in 1995, the end year used. The production of especially semiconductors fell in 1995 following a dip in global demand (see Figure 6). A global glut caused prices to fall. Since the problem is considered to affect all size categories, the relative performance of each of the size categories can still be compared.



The contribution of the electric/electronics industry to manufacturing value added fell from 29.8 per cent in 1994 to 28.9 per cent in 1995), after rising from 15.3 per cent in 1986.

Table 1 presents the growth rates of total factor productivity (TFP), value added, inputs, labor and capital. It can be seen that firms with employment size exceeding 1000 grew the fastest in value added and factor inputs. Firms with employment size 200-499 achieved the second highest average annual growth in value added, followed by firms with size of less than 50 employees. Firms with employment size 50-99 employees recorded the second highest growth in inputs, followed by firms with size 500-99 employees. The salaries and wages of size categories 0-49 and 500-999 recorded the second and third highest average annual growth. Firms of size 0-49 employees faced the second highest growth in fixed assets accumulation, followed by size category 50-99 employees.

Using TFP as a measure of performance, size categories 50-99, 0-49 and 500-99 employees have done the worst, recording sharp declines in disembodied technical efficiency. Firms with employment size of 100-199 employees followed by firms with employment size 1000 and more employees have outperformed the others. Along with employment size 200-499, these are the only three categories to record TFP growth in the period 1988-95. There is also no clear pattern of TFP growth.

Interviews with officials from three firms each in all of the size categories shows that the first two categories of 0-49 and 50-99 are characterized by relatively higher turnover rates, firms ceasing operations as well as firms graduating to higher employment size categories following expansion. Hence, these two size categories may have been severely affected by relatively newer firms as well as some successful ones moving on to higher size categories. Most of the firms in these categories perform simple subcontract operations for larger firms, specializing in lower value added activities. Most firms in these categories do not enjoy financial incentives

Firms in size categories 100-199 and 200-499 are engaged in both subcontract as well as original equipment activities for export markets. Products assembled include power driven machinery, automated and other electrical machinery. Most of the firms in these categories are foreign owned and enjoy export-oriented incentives. Some enjoy investment tax allowances. Except for 1994-95 when some firms expanded and moved from employment size category 100-199 to 200-400, the number of firms in these categories have been stable with gradual increase in new firms over the years.

Interviews suggest that some firms in size category 500-999 performed badly, while others expanded operations in the period 1990-95. Two firms graduated to size category 1000-1999 in the year 1995. The negative performance of the size category which included electrical machinery assemblies, also included the onset of a downturn in 1995.

Firms in size category 1000 and above employees enjoyed a positive TFP growth. Apart from gaining from the entry of growing successful firms, the category,



which is dominated by some of the world's leading electronics component assemblers, also benefited from the market access and technological sophistication of these firms. Firms in this category assemble particularly disk drives. Seagate and Komag are some of the firms in this category. Some firms, such as Seagate also undertake redesigning of older slider products, and considerable process flow and design research.

While the general specialization of firms in each of the employment size categories in different products suggest that scale effects may still be important, further research is necessary before such a statement can be concretized. Future research should also examine the movement of particular cohorts of firms in each of the size categories before the conjectures introduced earlier can be refuted or defended. It should also be noted that there has been a trend rationalization in the industry. For example, the average per firm employment fell in 1995, largely from a decline in the largest category of employment size of 1,000 and more (see Figure 5). This category experienced a sudden rise in the period 1991-94 due to the relocation of labor-intensive disk drive firms. Overall, it seems that scale may still be important, but its effects are gradually waning from the extent of externalization made possible by developments in networks.

Table 1: Average Annual Growth by Employment Size, 1988-95 (constant 1985 prices)

Size	TFPG	VA	Inputs	Labor	Capital
1-49	-13.29	10.25	15.13	23.86	36.69
50-99	-22.53	3.28	30.50	11.01	25.66
100-199	3.69	2.46	-4.22	6.37	-0.22
200-499	0.36	21.88	22.95	17.63	21.15
500-999	-5.52	18.49	26.79	23.09	20.05
1000-	3.30	52.22	37.29	47.01	68.24

Source: Computed from Data Supplied by Statistics Department.

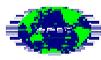


Figure 1: Distribution of Establishments by Employment Size, 1988-95

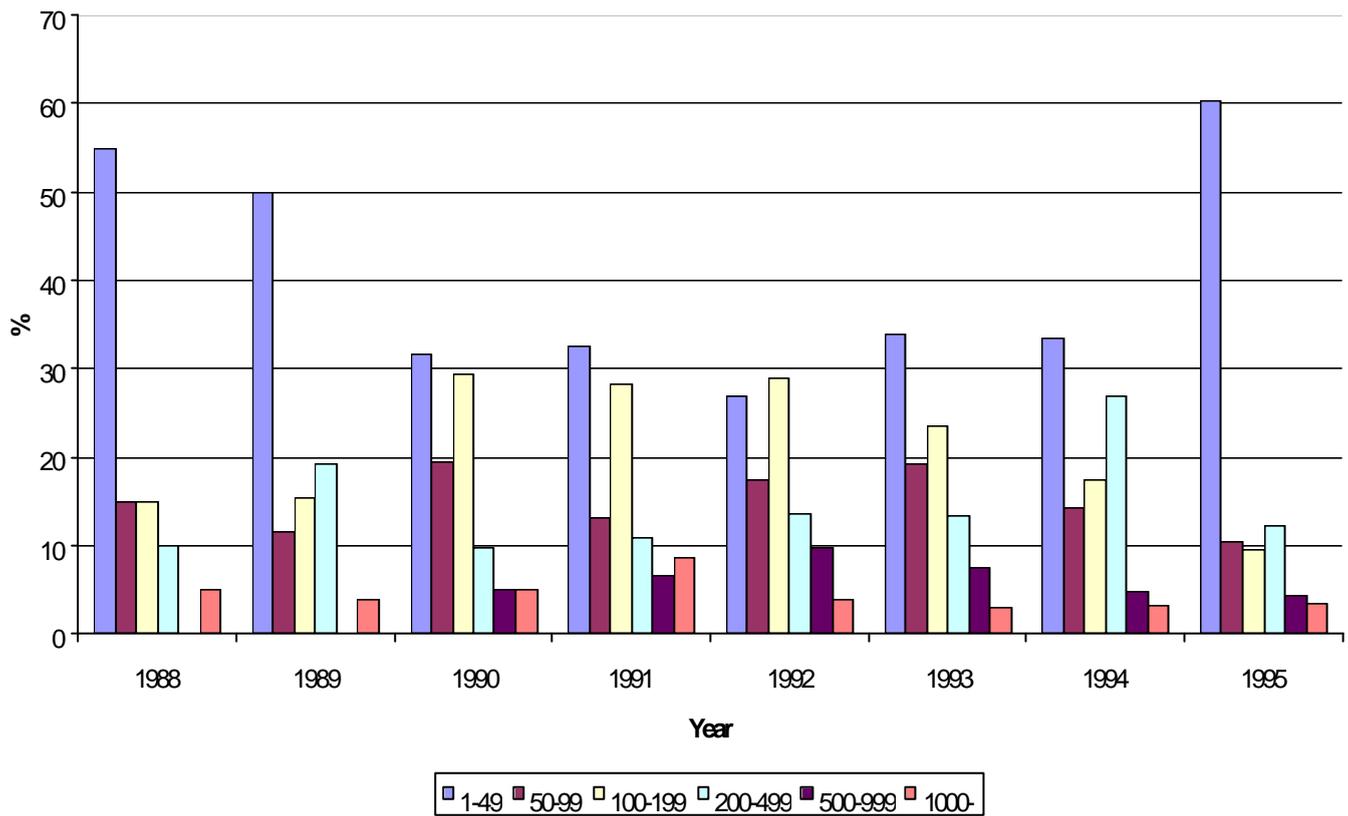


Figure 2: Distribution of Value Added by Employment Size, 1988-95

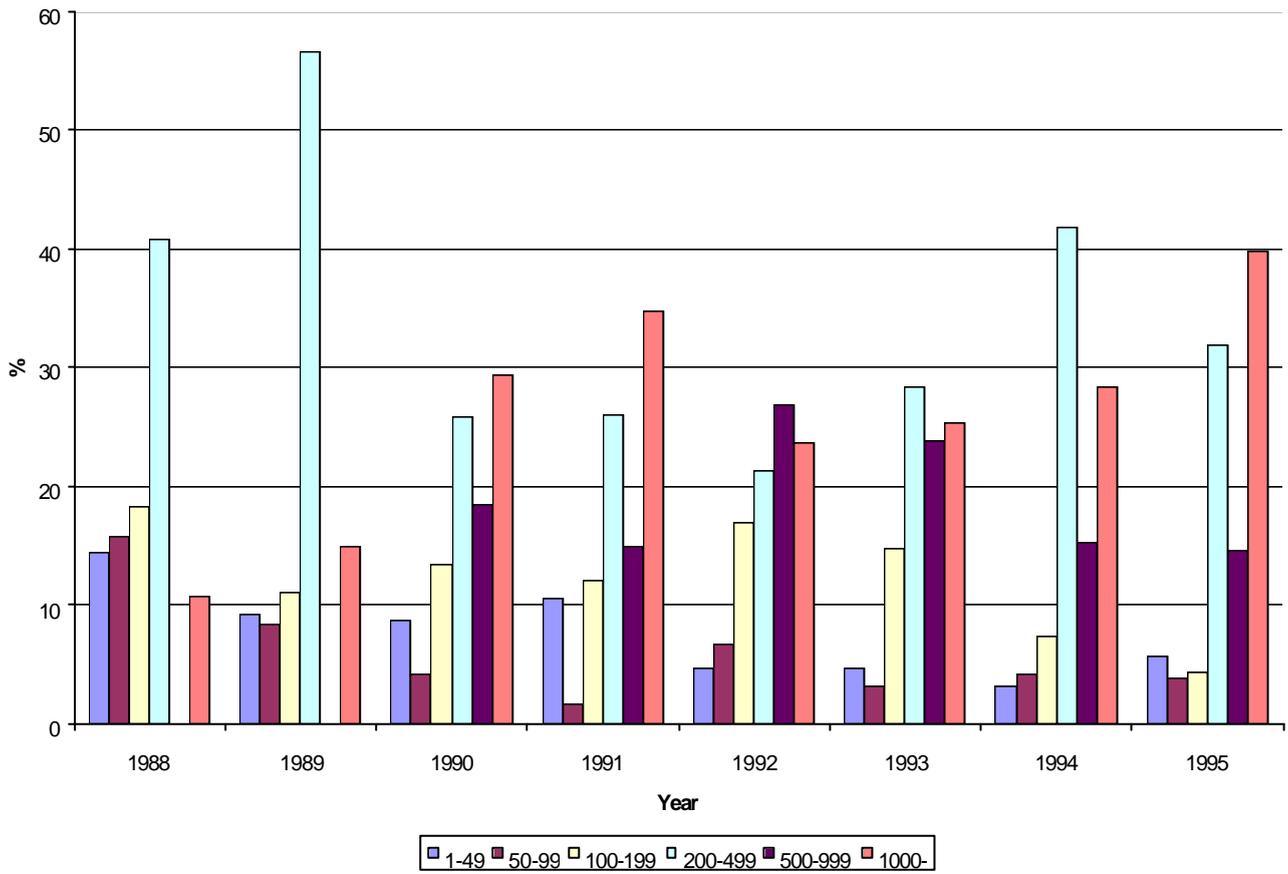




Figure 3: Distribution of Employment by Size, 1988-95

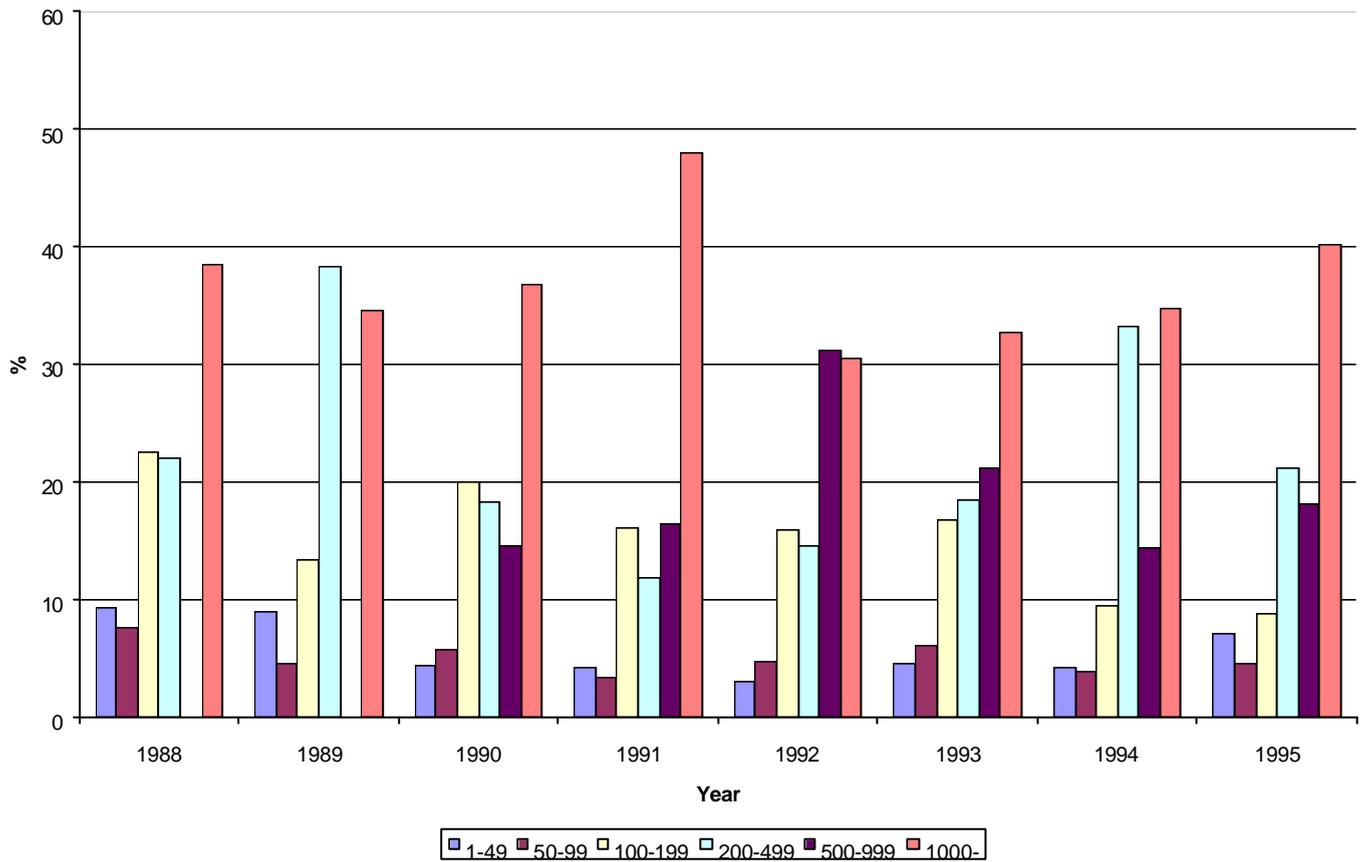
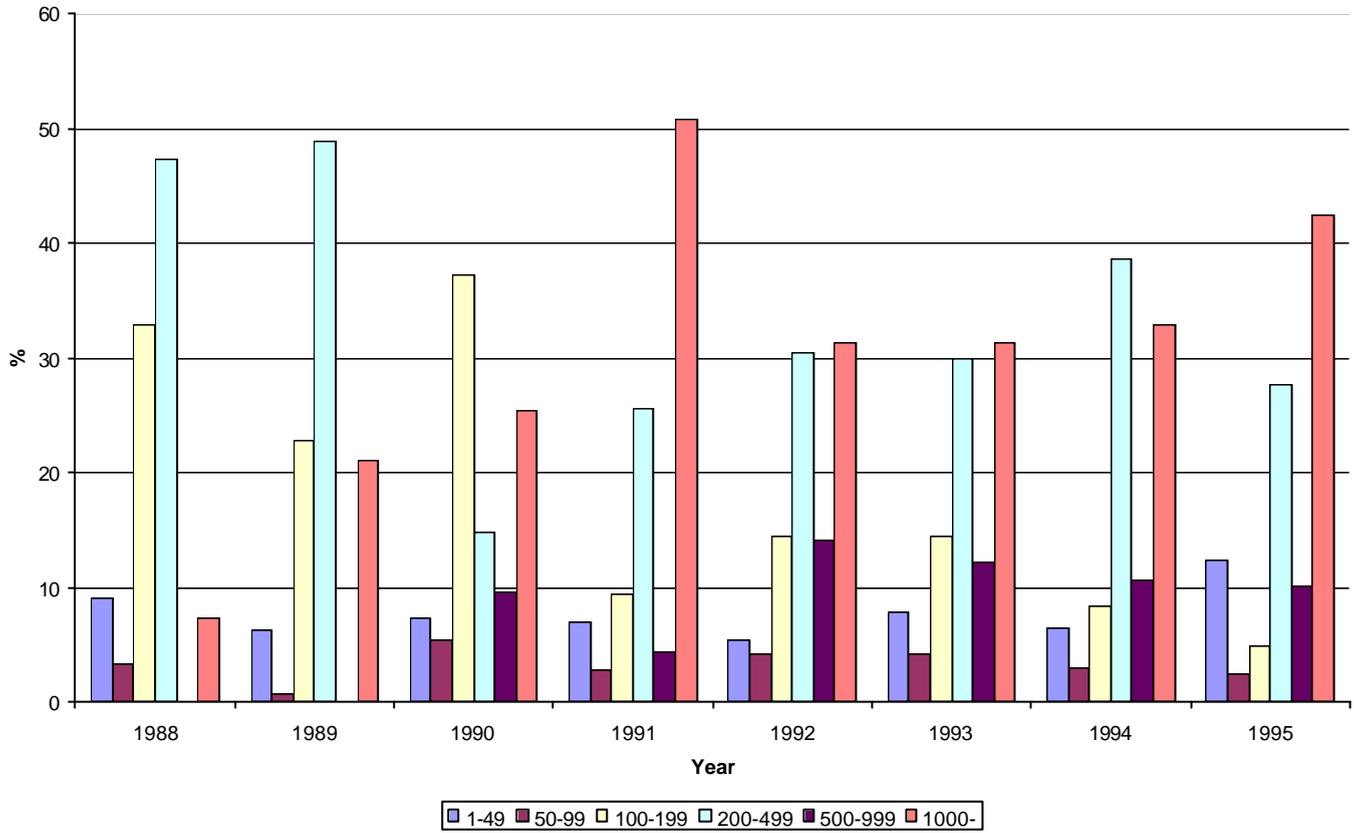


Figure 4: Fixed Assets Distribution by Employment Size, 1988-95



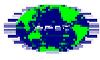
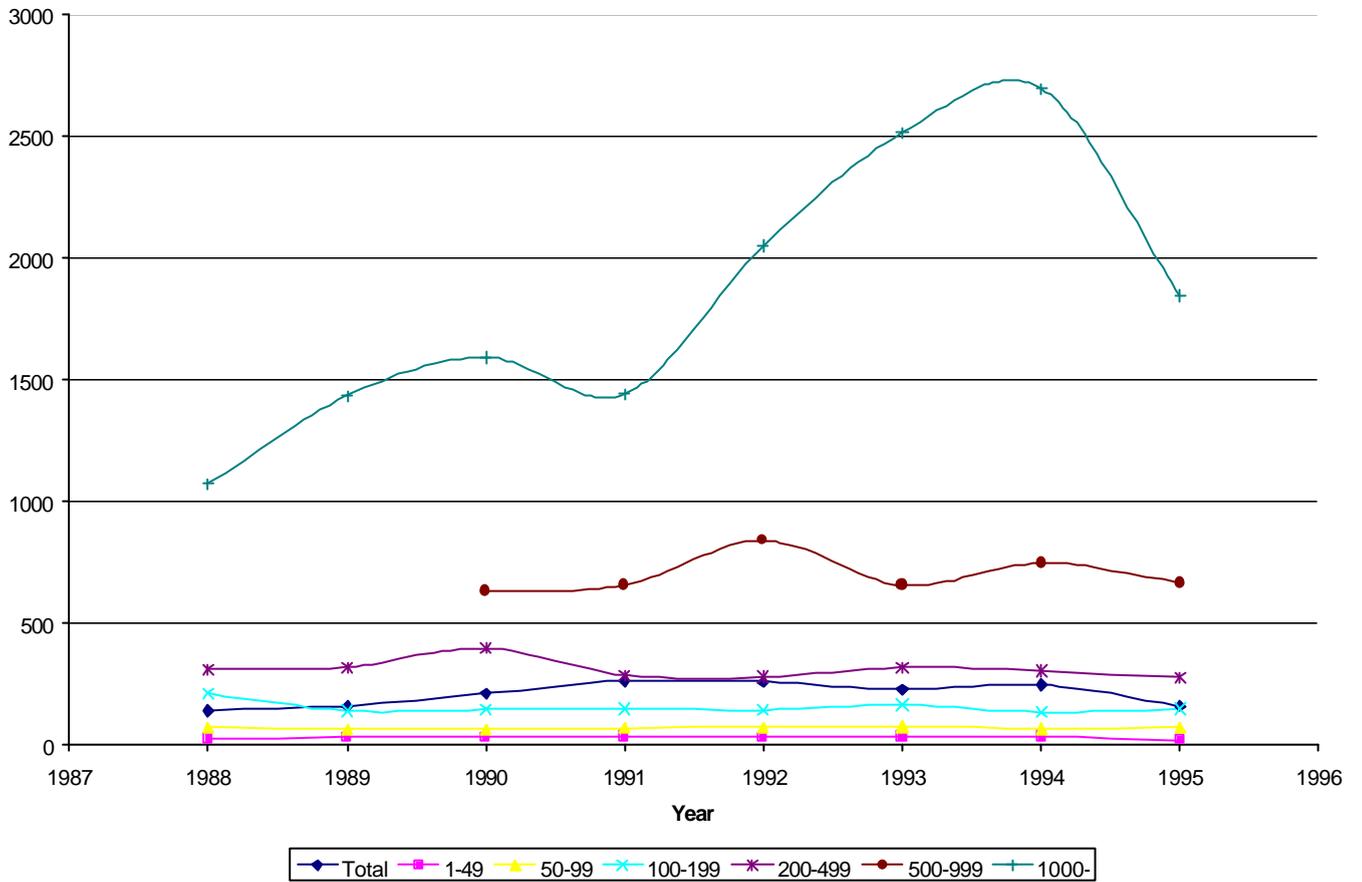


Figure 5: Average Per Firm Employment by Size, 1988-95





The rationalization tendencies with falling employment size began first in the electronics components sub-sector. Its spillovers following buyer-supplier links with other industries as well as exhaustion of labor reserves in West Peninsular Malaysia, led to similar developments in the electrical machinery and apparatus sub-sector. The general work organization began to change strongly from the 1980s in the electronics components firms (see Rasiah, 1995). Especially in semiconductor production - where product cycles have become increasingly shorter and prices have fallen sharply - firms began to introduce rapid changes in work organization. Most high technology firms began to introduce flexible production systems - superimposing cellular manufacturing onto state-of-the-art human resource techniques such as total quality management (TQM) (Rasiah, 1987; 1994). From the late 1980s, the larger electrical machinery and apparatus firms irrespective of ownership began introducing flexible production techniques, integrating innovative capacity with execution throughout the division of labor - thereby reducing hierarchies and making them interlock in the process. The sharp fall in labor reserves from the late 1980s left even disk drive firms to turn to flexible production strategies (Rasiah, 1995; 1996).

Off-shore production involving electronics multinationals in Malaysia had transformed from a mobile off-shore activity (Lim, 1978; Rasiah, 1987) - to a deep-rooted regional operation (Rasiah, 1987; 1988). The growth of product and process customization within the rapidly growing Asia Pacific market enhanced such a development further. These developments - particularly to enable productive flexible specialization - has encouraged a strong impetus for proximate local electrical machinery and equipment sourcing and the intensification of employee training in-house and externally. Currency fluctuations too were important but as Rasiah (1994) has argued, they accompanied rather than initiated such developments. Some elements of research and development in the redesigning of mature products such as the 80386 and 80486 microprocessors and EPROM chips has also emerged to tap the direct externalities generated out of the development of local labor's innovative faculties and changes in financial incentives (Rasiah, 1996a). Interestingly the appreciation of the ringgit after 1992 reversed the exchange rate advantage.

Using direct and indirect (cutting edge process techniques) proxies such as quality control circles (QCCs), small group activities, just in time (JIT), quick change overs and multi-product lines, total quality management (TQM), total preventive maintenance (TPM) and statistical process control (SPC), the timing of application of flexibilization of production. A detailed time-series presentation of the absorption of flexible production techniques into both electrical and non-electrical machinery firms is undertaken in Rasiah (1994: Figure 2).

The analysis in this section did not establish any clear pattern of growth and performance in electrical machinery and apparatus industry with employment size. Compared to general international statistics, SMIs in the electrical machinery and apparatus industry tend to contribute less to the number of establishments. Their contributions to value added, fixed assets and employment have generally been smaller but the pattern again is not obvious. Employment size categories of 100-199, 200-499 and 1000 and more show positive TFP growth, while the rest negative. While the dip in



1995 could have affected overall performance, the size categories of 1-49, 50-99 and 500-999 have performance dismally. The smaller categories seem to be affected by high turnovers and the graduation of successful firms to bigger groups. The large category of 1,000 and more employees have benefited considerably from the relocation of giant disk drive companies.

5. CONCLUSION

This paper broached the role of SMIs in Malaysia's manufacturing sector, with specific reference to the electrical machinery and apparatus industry. The overall lack of effective government support for SMIs was advanced as a major drawback that has reduced the contribution of SMIs in the manufacturing sector. Government incentives have clearly shown a strong bias towards larger firms.

Relatively complementary local socio-political structure helped enhance effective coordination between markets, institutions and firms to enhance the development of small and medium scale firms in Penang. The specific nature of local politics in Penang, and the local political leadership's relative autonomy over the federal government helped the local state to support ethnic Chinese small and medium scale businesses more actively. The special intermediary role of the Penang Development Corporation has been instrumental in forging strong state-business-multinational coordination. Thus, markets, trust and in-house command worked complementarily to coordinate the expansion and deepening of machine tool subcontracting firms in Penang. Although similar federal policies also faced other locations in West Peninsular Malaysia, weak development of institutional networks restricted the expansion of similar electrical and electronics SMIs. The local state offered little proactive support the growth of SMIs and to forge links between electronics multinationals and local electrical machinery and apparatus firms. The official vendor development programs promoted by the federal governments have remained under-utilized.

As a consequence the growth and performance of electrical machinery and apparatus SMIs in Malaysia have fallen short of their bigger counterparts, albeit the firms compared tend to fall in slightly different product groups. Apart from holding small contributions to value added, employment and fixed assets, the employment categories of 1-49 and 50-99 also show highly negative TFP growth in the period 1988-95. The poor performance could also be attributed to high turnovers and graduation of some successful firms to larger categories. However, the pattern is unclear as the best performers were size categories 100-199 and 1000 and more employees. The employment category of 500-999 also recorded negative TFP growth. Also, the largest category also benefited from the relocation of American disk drive firms in the 1990s.

The results suggest tentatively the significance of the relationship between industry type and scale in firm level performance. However, a more rigorous individual firm level assessment using the same firms historically is essential for more definite conclusions. Also, the scope and flexibility offered by smallness may still be relevant if it can be established that these firms have graduated to larger categories over time.



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**HUMAN RESOURCE MANAGEMENT IN SMEs IN PAPUA NEW
GUINEA: TRADITIONAL Vs TECHNOLOGICAL**

Karuppannan Sengodan
Office of Higher Education (Papua New Guinea)



HUMAN RESOURCE MANAGEMENT IN SMEs IN PAPUA NEW GUINEA: TRADITIONAL Vs TECHNOLOGICAL

1. ABOUT PAPUA NEW GUINEA

The Country: Papua New Guinea (PNG) lies south of the Equator and approximately 150 kilometres north of Australia occupying an area of 463,000 square Kilometres. The country with a population of about 4.5 million people comprises the eastern half of the world's largest island with several hundred islands in the Bismark and Solomon seas. Vast tracts of the country are wild and underdeveloped. Extremely rugged mountains, thick jungles and seas, have for centuries restricted contact among different tribes, inhibiting the growth of a common language and contact with the rest of the world. The geographical features of Papua New Guinea partly account for the large number of diverse groups who speak more than 850 languages and dialects. These features contributed to the unequal distribution of amenities including, education, training and industrial development.

Social indicators

Compared with other South Pacific and Asian countries in the same income group, PNG ranks last in terms of most major social indicators. In 1995 life expectancy at birth was 57 years, the lowest among South Pacific countries and much lower than in Asian countries with comparable income levels. The infant mortality rate is nearly twice the average in comparable countries. The level of adult literacy in PNG is significantly below the levels in most other South Pacific countries. Enrolment and attendance rates are poor and there are high attrition rates at primary schools. A significant gender imbalance exists at all levels of the education system. It reflects the general lack of participation of women in social and economic development in PNG.

The Economy:

Papua New Guinea prides itself of a potentially very rich country with ample resources in mining, gas, marine, agriculture and forestry. Its marketed Gross Domestic Product (GDP) was an estimated K6.5 billion, equivalent to about US\$ 500 per person.. Following negative growth in 1989, the rate of growth has increased from 3 percent in 1990 to 9.4 percent in 1991 to 11.8 percent in 1992 to 14.4 percent in 1993. These high rates of growth were due to the construction and operations of few large projects in the mining and oil sector. However, real GDP rose by only 3 percent in 1994, fell by 1 percent in 1995 and was virtually unchanged in 1996

Basic features of PNG and its society

- PNG is a very mountainous country coupled with the fact that its outer island provinces and surrounding atolls are separated by large expansion of sea.
- Eighty percent of its population are subsistence farmers and live in rural areas and only 20 percent live in urban and semiurban areas.



- There continues to be a heavy urban drift resulting in a lot of unskilled and worse, unemployed people living in the towns.
- One can observe a clear and obvious build up in the economic concentration in the urban areas. Industries establish themselves in the urban areas and thus increase the magnetic pull (urban migration) on the rural people.
- Rural economic activities are basically concerned with cash cropping and subsistence farming.
- The larger economic activities in the rural areas are the mining enclaves such as OK Tedi, Porgera, Misima and Ligor Gold and Copper Mines, which remain as the major export revenue earners for the country.
- The government remains as the major educator and employer in the country. Higher education is almost fully subsidised with only 2 percent of those who enter schools benefit. Still only about 67 percent of the school age children enter into school system.

Political status

As an independent country, PNG is fairly young having obtained its political independence on 16 September 1975. Since attaining independence, PNG embarked on a very ambitious but noble political task of administration and decentralisation. In embarking this process, PNG was thinking about its development with emphasis on self-reliance, equitable distribution of wealth, political participation and therefore, the adoption of institutions and policies to further these aims.

The decentralised system of government was formally introduced in 1976 to among other goals, bring the administration closer to the people. Nineteen provincial departments each under a Provincial Government were created outside the National Capital District which remain the seat of National Government. The Provincial governments have control over their own administration and budget. Under the provincial government reform introduced in 1996 the Regional Parliament Member of each province will be the governor with a provincial assembly consisting of Members of Parliament from the province and the Presidents of the Local Level Governments as members of the Provincial Assembly assisting him. Nationally PNG has adopted the Westminster Parliamentary System of Government with National Parliament having 109 elected members from all provinces. The Prime Minister is the executive Head of State and is elected by majority members. Queen of England is still the Head of State with a Governor General as her representative in Papua New Guinea.

2. HUMAN RESOURCE DEVELOPMENT IN PNG GOVERNMENT POLICY

The National Government maintains the responsibility for general human resource development in the country. This includes all forms of general education and skills training conducted in primary, secondary, vocational and tertiary levels. The function of education and training fall within the Ministry of Education, Ministry of Youth and Employment and Public



Service respectively. Under the Ministry of Education, Department of Education is responsible for the general and vocational education while the Office of Higher Education is responsible for the tertiary education. The National Training Council and the Apprenticeship Board within the Department of Employment and Youth are responsible for training while the Department of Personnel Management is responsible for the training in the Public Service specifically..

As stipulated in the Constitution and the Public Service Act, the Public Services Commission has specific legal responsibilities in recognising that training and human resource development are a necessary and inseparable functions of each department/ organisation? management. As such the Commission adopts the crucial role of planning and promoting the development, improvement, coordination and evaluation of all training and human resource development activities for both private and public sector.

It is recognised that timely and accurate assessments of training needs are an essential and integral part developing and maintaining a capable and qualified workforce. As much as possible training needs are linked up with the human resource planning to ensure that short and long term staffing needs are met.

Papua New Guinea? human resource policies reflect the growing population, extensive resource base, the infrastructural needs and the range of services provided. PNG like many other developing countries in the region is disadvantaged by the critical shortage of trained and skilled human resource which has adverse effects on development programmes. It has been recognised that the adoption of an appropriate human resource planning framework would greatly assist in the assessment of likely required skilled labour over a defined period of time, analysis of the employment possibilities in the formal sector of the PNG economy and the policy implications on education, training and localisation.

Analysis of the work force in the formal sector indicated that almost two thirds of the citizens with jobs in the formal sector are less than thirty years of age while non-national workers average between thirty and forty years of age. This clearly indicates the relatively recent history of education expansion in Papua New Guinea. In relation to educational attainment it has been estimated that about 59 percent of all citizens employed has no more than primary schooling. About 70 percent of the employed non-nationals occupy more professional, technical, administrative and managerial occupations. Despite the relatively short history of education development it is encouraging to note that base levels of the public service and of the private sector are now localised.

Training facilities

At present Papua New Guinea aims to adequately meet the general training needs within the country and where possible prefers to utilise training opportunities and facilities in the region. However, for post graduate training and certain technical and other specialised needs, training is acquired overseas. Efforts are continually being made to upgrade the standards of training to ensure that the programs are responsive to the national needs. More emphasis is also being placed on utilising foreign-aid for in-country training which is proving more appropriate, effective and economical. The establishment of National Training Council (NTC) to coordinate both public service and private sector training is a welcome step in the right



direction. AusAID assists the country in setting up a National Apprenticeship and Trade Testing Board (NATTB) which will increase the quality of technical personnel coming out of technical colleges.

The development of technical education in Papua New Guinea is a recent history. There are four state technical colleges, several vocational centers and six universities supplying human resource for the SMEs. The problem of irrelevant curricula, unqualified instructors and out of date equipment in the institutions results in the production of graduates who are not attracted by the industrial sector. They prefer foreign workers.

Training and Development

Training and development of human resources is important to improve the productivity and international competitiveness of any enterprise. Most of PNG SMEs spend nothing for this purpose while most of the industrialised countries spend about 2 percent of their GDP on training. Industries are pinching people who have learned skills elsewhere than give them those skills themselves. One survey indicated that there is no skill shortage in many fields. But only half of the work force with skill qualification work in the jobs for which they are trained.

PNG schools and colleges are also criticised for producing graduates with irrelevant training to the needs of the SMEs. Controversy rages over classroom hours against practical training, under qualified and inexperienced instructors, outdated equipment and facilities and irrelevant curricula.. There is also criticism about quality of graduate output from state institutions which resulted in large number of private training institutions both local and overseas being established. Control and monitoring of such educational institutions are worries for the state authorities.

When Asian countries are moving so fast in providing relevant training to meet global competition, PNG is lacking in this regard and may not be able compete meaningfully in the global competition. Realising the lack of training provision by industries the government has enacted a legislation forcing all the companies pay 2 percent of the pay roll as training levy. But instead of the government using this levy for training purposes the money is paid into general government account and is used for purposes other than training.

Papua new guinea gives low priority to matters of labour. Everywhere in the world and in all forms of development, labour is always a priority, a key and most important factor of production, without which no development can take place. This is also true for PNG and for PNG to give lowest priority to matters of labour continues to be the single hindrance in creating jobs for people. Labour is the engine room for development because it skilfully converts capital, land and entrepreneurship into the kind of infrastructure and wealth that the nation boasts for today.

The Department of Employment and Youth? (DEY) mission statement charges it with the responsibility of creating and sustaining a harmonious industrial relations climate between employers and employees on both the private and public sectors; with the responsibility of promoting job opportunities for citizens; and with the responsibility of setting and enforcing acceptable employment terms, conditions and standards.



DEY achieves HRD through training. Its various training programs facilitate the training and imparting of skills to enable citizens to secure jobs in the labour market. It has a number of continuing and new programs for the training and development especially for school leavers and unemployed. The human resource programs that the department delivers are the apprenticeship training scheme, the trade testing and certification scheme and training and localisation programs. The private sector supplement the DEY training programs by conducting training programs using local resources or from abroad. One example is Daltron Electronics in association with Australian Institute of Management conducting training programs. Two such programs relevant to HRM are: "Taking control with time management" and the "New supervisor" focussing of team leadership and increase the ability to achieve overall objectives.

3. HUMAN RESOURCE MANAGEMENT (HRM)

Human resource management? simple definition is managing people within the employer-employee relationship. It involves the productive utilisation of people in achieving the organisation? objective and the satisfaction of individual employee needs. HRM is a major contributor to the success of the enterprise. Likewise ineffective HRM can be a major barrier to employee satisfaction and organisation success. Thus HRM is thus either a part of the problem or part of the solution in gaining the productive contribution of people.

Human Resource Planning (HRP)

Human resource planning is the process by which an organisation attempts to ensure that it has the right number of qualified people in the right jobs at the right time. It does this by comparing the present supply of people with organisation? projected demand for human resources. Simply HRP is used to achieve:

- . more effective and efficient use of human resources
- . more satisfied and better developed employees
- . more effective equal opportunity planning.

Diagnostic Approach to HRM

Many factors affect HRM. These may be from organisation? external environment or its internal environment. Whatever may be the case, the impact of a particular influence must be identified and considered by the HR manager. HRM is influenced by factors such as changes in technology, laws, social values and economic conditions which exist outside the organisation in addition to factors which exist inside the organisation such as the organisation? objective, strategy, culture and structure. All of these can have a significant influence on the organisation? HRM objectives, strategies and action plans. An integral part of strategic HRM involves the human resource manager in analysing the environmental influences to identify those factors which inhibit the organisation and those which help the organisation achieve its objectives. An ideal situation in this circumstances is to identify and access the external and internal influences against the organisation? purpose, objectives and strategy and plan the



HRM objectives and HRM strategies. The HRM activities will follow then. Finally the HRM outcomes can be compared with HRM objectives that were designed.

Influences:

Effective HRM depends on the identification of external and internal influences that affect the HRM. Internal influences are influences such as organisation mission or purpose, objectives and strategies, culture and structure involving factors which are found within the organisation. Some of the major external influences existing outside the organisation include: political, legal, environmental, technological, cultural, demographic, social, business, economic and industrial relations. Political attitudes towards business and unions and such issues as management rights, strikes, secondary boycotts and enterprise bargaining can influence HRM. Laws and regulations regarding such matters as hours of work, holidays, equal employment, affirmative action, sexual harassment, workers compensation, health and safety, fringe benefits have clear impact on HRM.

The level of technological advancement and rate of technological change affect job design, recruitment, selection etc. The boom in portable PCs have changed the nature of some jobs. Computer networks are eroding traditional workplace hierarchies. The historical background, ideologies, values, norms and language all influence employees' views on the role of HRM. The nature of human resources available to the organisation in terms of numbers, geographical distribution, age, sex, literacy, skills and education levels have obvious impact on HRM. Changing values and attitudes toward such issues as work, minorities, unions, management, social mobility, status, rewards, smoking, job security have impact on every aspect of HRM. Changing values and attitudes typically create new challenges for the HR manager. These influences will be discussed in detail later in the context of HRM in Papua New Guinea.

HRM activities:

HRM involves the acquisition, development, reward and motivation, maintenance and departure of an organisation? human resources. Certain key HRM activities must be undertaken to satisfy these aims. Each of these activities is interrelated and together represent the core of HRM. These activities are job analysis, human resource planning, employee recruitment and selection, employee appraisal, training and development, employee motivation, compensation, benefits, industrial relations and health and safety.

Human Resource Information Systems (HRIS)

Computer technology is revolutionising the entire world. SMEs are of the opinion that computer software is a modern technology that can be used only by big enterprises. HRIS, if used correctly can provide a powerful competitive edge. Many organisation use the information system only to record employee information. It must be used an integral approach to acquiring, storing, analysing and controlling the flow of HR information throughout the organisation. It provides the necessary data for planning activities such as forecasting, succession planning and career planning and development. The major benefit of HRIS is the accurate and timely access to diverse data for the HR manager and the top management. HR



manager must be thus computer literate. Even in many developed countries majority of senior executives are computer illiterate since computer literacy is a low corporate priority.

Changing work force:

With greater movement of people from one part of the country to other and from one country to other we are faced with greater mix of racial and cultural differences. This presents a significant challenge for HR managers. The proliferation of cultural backgrounds at work brings to the surface many varieties of values, work ethics, and norms of behaviour that are ethnically and culturally based. Attempts to work together with employees of different background are likely to be hampered by communication issues, insensitivity and ignorance of each other? motivation. The best approach will be to look for ways to integrate and not assimilate the mix of people from diverse cultures into the workplace.

The present climate of economic turbulence, savage competition and pressure for increased productivity has identified the need for HR managers to adopt a strategic approach, be part of the top management team, be involved in corporate planning, develop business know-how, become bottom-line oriented and develop a vision of what HRM is all about. The central challenge now facing HR managers is performance improvement in the shift from an industrial to an information society. Organisations must now manage their employees quite differently if they are to compete successfully in a world where human resources have become the competitive edge.

4. SMALL AND MEDIUM ENTERPRISES(SMEs)

What are the small and medium enterprises and why should we talk about human resource planning in SMEs? Small business makes up the majority of companies, basically in any country including developed countries. They contribute to employment, export and GDP. If we take Europe for example there are more than 15 million small businesses contributing to almost 60 percent to total employment. They contribute almost 50 percent to GDP and 40 percent to exports. In many countries the majority of businesses are small and not medium and that is why we should help small businesses more than anything else. This fact is not realised in many countries especially developing countries like Papua New Guinea and thus tend to ignore the development of SMEs which are vital to the national development.

Across the world , SMEs face two constraints: financial services and competitiveness. Financial services that are needed by SMEs are such as checking accounts, letter of credits, overdrafts etc. Most of the SMEs do not need loans. They will be happy with the overdraft account for their working capital and also need a safe place to store money and get access when they need.

Competitiveness include **capability, market functioning, government policies and physical infrastructure**. The studies show that companies that invest in the human resources have the bigger chance to survive and compete. Due to government education policy many small businesses face problems of finding skilled labour. Sometime the government policies on businesses will also affect small businesses.

Challenges for SMEs



The major challenge for SMEs is to be able to stand up to competitive pressures and effectively participate in both home and international markets. SMEs also need to be able to exploit new markets opportunities arising from globalisation and trade liberalisation. The SMEs should be supported for the development, growth, diversification and internationalisation. Three major dimensions must be developed to achieve this. First is to develop the entrepreneur. His/her technical, managerial and human relation skills; the interest to grow, exposure to growth stimuli, and basic foreign language skills must be developed. The second is the development of the enterprise itself. The enterprise? productive capacity and technical capability; the level of modernisation; its proximity to suppliers and markets, its stage of development and growth must be given attention. The third issue that must be addressed is the product and services of the enterprises. The overall quality of the product or services, design standards, suitability to foreign markets and compatibility must be looked into.

5. HRM IN SMES IN PNG CONTEXT INDUSTRIAL DEVELOPMENT IN PNG-SMEs

PNG became an independent country only in 1975. Rugged and terrain landscape, diverse culture and languages, lack of contact with outside world and the colonisation until 1975 restricted industrial growth. Infrastructural development such as road links, bridges, water supply and power are still rare and movement by road to many parts of the country is very difficult even now. PNG has ample raw materials such as coffee, tea, rubber, timber, cocoa which are not being processed within the country due to lack of initiatives and relevant government policies on downstream processing. Raw materials were being exported overseas for processing. Few industries that were established are mostly service industries and are owned and operated by foreigners. PNG does not have manufacturing industries as most of the products are still imported. Some manufacturing industries that were established could not survive due to problems in importing raw materials and identifying market for the products. The establishment of SMEs in PNG is seen only in urban areas due to the absence of infrastructure development in rural areas. This has also forced urban migration increasing law and order and social problems in towns.

Only mining companies, timber companies and agricultural plantations operate in rural areas some in very remote locations. Most of the above companies are still foreign owned.

International and Australian companies such as Shell, British Petroleum, Mobil, Commonwealth development Corporation, ANZ, Westpac, BHP, Hornibrooks are operating in Papua New Guinea.. In developing HRM policy a key question that must be raised is for what type of organisation we develop HRM policy?. A PNG Company, an Australian Company operating overseas or a multinational company with foreign workers operating in Papua New Guinea? This will decide what type of management practices that can be imposed on the company. It will also permit the organisation to identify those core values which are critical to its success and which makes it unique. Lack of understanding of the above procedure will result in applying improper management policies in the organisation.

In order to promote effective HRM, ILO in its 1994-95 general program for the region defined three priorities as below:



- promoting the advance of democracy-through the rule of law, tripartism, sound industrial relations practice and the elimination of discrimination;
- the fight against poverty - by developing responsive training systems, employment creation schemes and social institutions, and ensuring that restructuring policies take account of social needs; and
- protecting working people- by creating safe and human working conditions, reforming and extending social security and meeting the needs of the most vulnerable groups: child workers, women workers, migrants and those in the informal sector.

Within these priorities, the ILO in PNG focussed on labour standards, equality of women, employment promotion, work environment and informal and rural sectors.

Future role of SMEs in PNG

In the era of globalisation and free competition in the next millennium the future of SMEs in Papua New Guinea is unknown. There is a fear that SMEs will not be able to survive in future trade era where there will be stiff open competition in which Papua New Guinea may not be able to compete. Another factor which will affect the SMEs in Papua New Guinea is its high labour cost which is one of the highest in the region. It is believed that the Asia Pacific region will become the dominant factor in guiding the economy of the world in the next century. What will be the part played by PNG in this effort as one of the countries in the region. Unless measures are taken to improve the future of Papua New Guinea SMEs will be uncertain.

In the next century trade will become increasingly global and there are moves towards elimination of all trade barriers and restraints in trade. Papua New Guinea industries find themselves at a cross-road; they must achieve more with less effort in order for their products to remain competitive in the world market or be prepared to sink. Increasing productivity in any business is a challenge. Improvement of productivity depends on many factors, some of which are related to workers, some others are related to the supervisors and the relationship between the two. Human resource management is thus a contributing factor in the survival game for SMEs in Papua New Guinea.

Since Papua New Guinea is a small country with small number of enterprises there is no role model for workers from leaders, politicians and churches. Overall human values does not exist in PNG. Organisations cannot develop in this situation. There is no motivation for workers who are only interested in all perks that a job can offer to them but are not responsible for the work that they are doing. They are also least interested in increasing productivity. Organisation? vision statement is short term and not long term due to frequent changes in the government policy.

Impact of cultural values

Cultural, social and economical values have impact on work. Melanesian culture is very easy going where punctuality, time conscious and responsibility are not considered very important. Many workers do not show up at work usually after a long weekend. Wantok



(relatives or who speak same dialects) system is very strong in the social system. Urban migration brings more wantoks from rural areas. They come to town and stay with their wantoks sharing their income and facilities. This creates extra social pressure, unemployment, law and order and other social problems on the community. Except some multinational companies housing is not provided for the workers by small and medium enterprises. Housing rental is very high and workers are forced to live in settlements with their unemployed wantoks. Safety and security are not guaranteed. Health services in Papua New Guinea is very poor and there is no separate hospitals for workers or such as Employees state insurance for workers as exists in many Asian countries. Drinking, gambling and polygamy are accepted factors by the society. Family breakdown is quite common in the PNG society. Detachment of workers for a longer period for training overseas changes the situation and their attitude towards work but on return quickly influenced by the society and return to the original situation. Hence the change is not sustainable. Group training will be preferable. Village values have more influence on work style. Though the National Constitution stipulates integral human development PNG educational institutions fail to achieve this objective.

Traditional Vs Technological style of HRM in PNG

Two sectors of work exist in PNG: the traditional sector work in rural areas covering almost 80 percent of the population and modern sector mainly in urban areas covering just 20 percent of the population. These two are fundamentally different in organisation of production. While in the modern sector labour is perceived as a factor of production and compensated by prevailing wages, in the traditional sector the labour is mainly for subsistence living. A range of social and cultural factors determine the organisation of production and the use of land and labour in the traditional sector. The use of textbook HRM style cannot work in the traditional sector. Any effective HRM policy must take into account the characteristics of traditional employment in the rural areas in order to be relevant and meaningful to the needs of the majority.

Occupational Shifts

Frequent movements in the occupational categories from traditional to modern and vice versa in PNG make the work of HR managers difficult. Due to heavy competition for education and training in the later part of this decade there are notable shifts in the job categories. Overall people from rural areas moved out of subsistence into monetised and formal sectors. They moved mostly into cash farming, a positive shift for development. On the other hand in the urban areas the shift was out of wage employment and into unemployment. There were also shifts as well out of housework and into cash farming, schooling and self-employment.

Due to its well known diversity in culture and languages traditional management has been built on clan or wantok system. Since Papua New Guinea has been exposed to outside world very recently compared to other countries in the region the people are not exposed to external pressure either in their normal life or in their working environment. Exerting pressure at the work place will result in the workers leaving their job even if they do not have any alternative work or means of living. They will simply return to their villages. Due to the above factors management and workers in Papua New Guinea do not have a close ongoing



relationship. Human resource management seeks to integrate the interests of an organisation and its employees. The obstacles to the effective human resource management in Papua New Guinea is the authoritative and irrelevant management style of mostly expatriate supervisors against Melanesian cross-cultural setting of work force, wantok system in the hierarchy and the resistance to change. A participatory management approach blending technological management principles with the traditional management practice is necessary for successful employee investments in Papua New Guinea. Another factor is the government unstable industrial relations policy.

Expatriate Bosses

Most of the SMEs in PNG are foreign owned and are managed by expatriates. Expatriate bosses in Hong Kong are regarded by their staff as more supportive than their Chinese counterparts, according to a survey. This was particularly felt to be the case among female middle managers. Chinese bosses were found to be far more authoritarian and hierarchical leaving their subordinates feeling powerless. What is the situation in Papua New Guinea? Immediately after the independence and during 1980s majority of the supervisory work force in SMEs were all foreigners and hence the management was much easier. At present very few expatriate managers exist in any single enterprise. Unlike Hong Kong expatriate managers in PNG are not well liked by the national work force. HR managers relationship with the subordinates can be assessed in terms personal interest in the subordinates work, friendliness, information sharing, consultation, recognition and job assistance. Expatriate managers working in PNG are not same in terms of the above factors. Some are friendly with subordinates and some are not, some consult with the subordinates and share information and some are not and some managers are friendly with their staff. Some feel that closeness with staff might diminish differences in status and will make supervision difficult. Some managers are authoritative and use foreign style management creating unrest and conflict. Three case studies were conducted to access the HR managers view on their work force and to establish the style of human resource management techniques that exist in Papua New Guinea.

Case study 1

The first case study was conducted with the Lae Branch of the Australia and New Zealand Banking Corporation, an Australian Bank with an Australian Branch Manager

There are a total number of fifty staff with only the manager as expatriate leaving all other forty nine staff as PNG nationals. The manager has already worked in Australia and Vanuatu. He has full exposure to the Melanesian culture. His views are that expatriate managers will fail in their work if they do not understand the local values and culture. He says text book method of human resource management will not work in Papua New Guinea and he has no problem in managing his staff except in some situations his decision is not acceptable by his staff. His experience is that expatriate managers are respected more than the national managers. Sometime wantoks short circuit the management cycle. He has found out that values are diluted when Papua New Guineans manage Papua New Guineans and managing female staff easier than male staff.

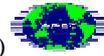


Case Study 2

The second case study was conducted at the Lae International Hotel which has a total of 150 plus staff. There are 6 expatriates while the rest are Papua New Guineans with 25 percent of them female staff. The HR manager is a Papua New Guinean with about 6 years experience mainly in airline industry. His view is that national manager supervising national staff is easier due to the clear understanding of cultural values. Wantok system gives pressure on his work but ignoring the pressure makes the work more recognised. He thinks that cultural values have more impact than social values on one? work and hence solution to the problems such as punctuality and attendance must be dealt in cultural way and not using textbook methods.

Case study 3

The third case study was conducted in an airline sales office where the sales supervisor is a female Papua New Guinean. All her 22 staff are female Papua New Guinean staff. She has no problems in managing and supervising her staff and is well respected by her staff. She has been awarded Queen? honour for her outstanding achievements as sales supervisor of one of the busiest sales office of the airline.



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**THE PINOY MANAGEMENT STYLE: HOW IT HAS SERVED
THE PAST AND HOW IT SHOULD EVOLVE TO SERVE THE
FUTURE**

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THE PINOY MANAGEMENT STYLE: HOW IT HAS SERVED THE PAST AND HOW IT SHOULD EVOLVE TO SERVE THE FUTURE

In their management style, Filipino, or to use a colloquial term, “Pinoy,” managers are like the proverbial bride on her wedding day – they use something old, something borrowed and something new.

As “Pinoy” is a term of fairly recent coinage – it must have begun to be popularized in the late 1960s ---- Pinoy management style is often used to refer to the management approaches and practices adopted by the contemporary Filipino manager.

While the discussion made in this paper covers Filipino managers in general, they are, in the perception of the authors, more easily observed among small and medium enterprises or SME’s.

SOMETHING OLD, SOMETHING BORROWED

Old and much-vaunted is the Filipino manager’s role as patriarch to his work force. To him, they are an extended family, whom he does not only pay just wages but also feeds, shelters, nurtures. Lesser known but also quite old is a preference for the subtle approach in controlling workers -- not so much by direct orders as by suggestions, not so much by discipline as by persuasion, not so much by formal rules and systems as by more personal, spontaneous ways.

Borrowed by today’s Pinoy manager, on the other hand, are lessons and insights from Anglo-American popular management theories and concept. These have taught them to become more objective, less personal and more organization-oriented.

THE AMALGAM

The combination of old and borrowed has evolved into something new and quite unique – a Pinoy managerial style that tempers the blunt, straightforward ways of Western managers with “good, old” Filipino values and traditions, including familism and personalism. It might also be described as a dualistic style that varies at different levels in the organizational hierarchy, more “borrowed” at the top rungs and traditional at the lower levels. It might also be regarded as achieving a tricky balance between being people- and work-oriented.

A study conducted in the 1980’s asked 200 managers in Metro Manila whether they thought Western theories and concepts worked. Their answers were intriguing: at the managerial level of interaction, yes; at the floorshop level, no.

To understand this contradiction, it is important to take a look at the cultural foundations of the Filipino, and then to trace the western influences that have helped shape the “hybrid” which is now known as the Pinoy management style.

ORIGINS OF PINOY MANAGEMENT STYLE

How did the Pinoy management style evolve?



A noted Filipino anthropologist and author, Dr. F. Landa Jocano, spent decades conducting studies on Filipino culture values and practices and how they impact on the various aspects of the national life, and his works will be prominently cited in this paper. According to him (Jocano: 1997), the Filipino management style derives from the dominant features of the Filipino culture. These include familism, personalism, and emotionalism.

Familism

Familism dominates Filipino behavior whether at home, in the community, or in the work place. The family is considered as the most important social unit in the community. In its expanded sense, the family includes kinsmen acquired through descent (consanguinity of blood) as in parents-children relations; marriage (affinity) as in husband-wife relations; and *compadrazgo* (ritual affiliations) as in godparents-godchildren relations. The latter, *compadre* relationship, is formed when one stands as sponsor for baptism, confirmation or marriage rites.

Informal kinships are also built through the “barkada” or peer group. It may be a street corner gang or sorority, fraternity, civic or professional group, and church or religious organization.

Terms to express kinships are liberally used. Older people are addressed *lola* or *lolo* (grandmother or grandfather); *tito* or *tita* (uncle or aunt); or *kuya* or *ate* (older brother or older sister) both by blood and non-blood kin. Professional, civic, and religious group members call each other “brods” and “sis”. The term *pare* (where President Joseph Estrada’s nickname “Erap” originated from in its inverted form) has become a byword among mensfolk as synonym for “pal” although it originally denoted *compadrazgo* relations.

In the corporate world, a close circle of family and friends of business owners usually occupies the sensitive positions in the company. Vacancies are also filled up with kinsmen or their recommendees. But this practice is not regarded as nepotism. Rather, this is believed helpful in producing a binding spirit, as that in the Filipino family, that will lead to internal cohesion in the organization.

In turn, the families are held responsible in looking after their proteges. It is believed that a wrongdoing on the part of the latter will discredit the whole family. Filipinos love to say that “Ang sakit ng kalingkingan ay dama ng buong katawan.” (A pain in the small finger is felt in the whole body.)

Conversely, a success achieved by a kin is feather on the cap of the entire family.

A study conducted in Philippine industrial setting patterned after Maslow’s Hierarchy of Needs shows Filipinos being family-centered. Psychologist Leonora de Jesus’ Ph.D. dissertation (1985) compared Maslow’s hierarchy of needs with that of Filipino workers in the industrial setting.

Maslow’s hierarchy of needs includes:

1. Basic psychological needs



2. Safety and security
3. Belonging and social needs
4. Esteem and status
5. Self-actualization

On the other hand, Filipino workers' hierarchy of needs includes:

1. Having a happy family
2. Having/owning a house and lot
3. Having educated and successful children
4. Having a good and fulfilling job
5. Being financially secure
6. Getting social recognition
7. Being liked by friends and neighbors

It can be gleaned from the above that in the Filipino workers' mind, the family comes foremost. Specifically, having a happy family is their paramount concern.

Jocano (1988) contends that being kin-oriented, Filipinos tend to integrate the "self" to the "other selves," as reflected in their use of plural pronouns *tayo*, *natin*, or *namin*, (we, us, ours) in formal conversations rather than *ako* or *akin* (I, me or mine).

Closely related to familism is the value of paternalism. In the ancient days when Filipinos used to reside in barangays (communities), they were governed by a datu (chief of the people), who wielded his power not like a ruler governing his subjects, but like a parent nourishing his children.

The datu was known to be morally upright, too, and ruled by example. And although not a tyrant, he imposed strict discipline on his people. Yet his style of governance applied consultation, persuasion and consensus – the same style after which Pinoy bosses would pattern their own centuries later.

Personalism

Personalism, according to Dr. Jocano, is a tendency of Filipinos to take things personally—or to be taken personally. It is rooted from their predilection towards being relationists, or to their strong desire to belong to the collectivity. Thus, this value runs counter to the Western concept of objectivity.

Personalism is also demonstrated by Filipinos preference for personalized service over self-service. Some self-service restaurants have been reported to have hired waiters to carry



trays or water for the customers. Between a self-service and a non-self-service gas station, Filipinos would troop to the latter.

One Filipino habit that foreigners find amusing, if not irritating, is their inclination to ask personal questions. “How old are you?” “Are you married?” “How many children do you have?” “What do you do for a living?”—these are some of their usual queries when they start an interaction. Some foreigners may feel that these personal questions encroach on their privacy. To Filipinos, to be personal is to be friendly, to want to connect, to want to establish a positive relationship.

In the workplace, bosses are expected to know by heart some significant details about the workers’ private lives. If they fail to show interest in such, the managers are seen as distant, aloof or lacking in concern.

Personalism is recognized in the workplace when a manager approaches a personnel privately to tactfully inform him to expect a management decision unfavorable to the said worker before a memorandum is sent to him. This usually softens the blow.

Emotionalism

Dr. Jocano considers Filipinos as extremely sensitive. According to him, this is often attributed to how they are raised. As adults, they are quick to be moved to tears as they are to anger. Hence the rule is, as much as possible, one must avoid hurting other people’s feelings.

It is this concern for other people’s feelings that make Filipinos dwell in ambiguities sometimes. For instance, if someone is invited to a party, she will not say outright that she does not intend to come, even if she is sure that she will not come. She is likely to say “I will try.” An outright “no” is considered rude.

It is well-known that the average Filipino will say “yes” to mean any of the following: 1) he does not know; 2) he wants to impress; 3) he is annoyed; 4) he wants to end the conversation; 5) he half-understood the instruction or what is being said; 6) he is not sure of himself; and 7) he thinks he knows better than the one speaking to him.

One saying in a Philippine dialect captures this spirit: *Tangu ng Basti, bang agad mikawani*. (Say yes fast, to part ways fast.)

What would move Filipinos to anger? When their personal honor and dignity is under attack or when they lose face. Thus, to avoid conflicts, one should then prevent others from being shamed. Being respectful helps.

Being blunt offends Filipinos. Hence, the traditional way through which they communicate follows three steps: to hint, to make conscious, and to open up.

In disciplining personnel, bosses resort to the circuitous manner of communicating sanctions. This approach follows the following steps: to call attention, to give advice, to censure in private, to threaten, and to impose sanctions.



But things should not reach the extent where bosses and employees take positions adversarial to each other. Managers can nip problems in the bud by talking things through. It is generally believed that everything can be settled by talking things through. In jest, men, often transform this saying into everything can be talked through with a bottle of drink (as in a bottle of beer). It is a common practice that a male boss joins the male employees in drinking sprees as this gesture does not only give them a feeling that he is one of them. It also provides a venue for them to ventilate to the boss some work concerns in a convivial atmosphere.

Being a lady, one business proprietress considers it a handicap that she cannot join her male workers in their drinking sessions. To make up, she supplies the “pulutan” (foodstuffs taken while drinking) to give them the sense that she is one of them!

NEW INFLUENCES

In the 1940s, just after World War II, the American influence on Filipino culture became more pronounced. It was to become a dominant contemporary influence on Philippine society, education, politics, arts and, yes, management style.

Filipino entrepreneurs come from various socio-economic origins. Many were raised by entrepreneurial parents. . Some are self-made entrepreneurs, driven to business by necessity and dint of hard work. Some are professionals like doctor or lawyers. Some are retirees. Some are graduates of business and training schools with masteral or doctoral degrees. Lately an increasing number are foreign contract workers who have made small fortunes in overseas employment.

Whatever their origin, most Pinoy managers have adopted one or another of Western management theories and principles. Taylor’s Scientific Management theory convinced most Pinoy managers that financial incentives was the best way to motivate workers to perform well. Likewise, Maslow’s Hierarchy of Needs Theory, David McGregor’s Theory X and Y and Mouton’s managerial grid attracted huge followings among those who were more interested in the human side of the enterprise. Similarly, Reinforcement Theory, Expectation Theory, Behavior Modification Theory and Job Satisfaction Theory were pursued by Pinoy managers who were in quest for alternative techniques on how best to influence their workers. And there were other Western concepts that caught their interest.

The Western textbook orientation taught them to give high premium on:

- Being objective in handling problems, situations and people
- Being oriented to goals through building a team of people dedicated to the common goal.
- Being productivity-oriented by resorting to the most efficient ways to finish a job with the least input of time and energy
- Being impersonal or professional detached in hiring, promoting and firing employees



- Being organization-oriented, to the extent of putting company interests before other interests, including those of family. interests first before other interests, including those of the family.

These new management orientations brought in, too, formal management systems and tools, including organizational charts, job descriptions, wage and salary structures, training needs analysis, personal career paths, and performance evaluation systems, to name a few.

As soon as the Pinoy managers take all these principles to the shopfloor, however, their dilemma begins. They remember that workers' orientations are rooted on traditions and hence run counter to that of the managers. Usually being minimally educated and recent migrants from the provinces, workers carry with them traditional values that uphold subjectivism, personalism and familism. Some educated employees and even some managers may share the same outlook, but not to the same extent as the workers.

There lies the contrast in value orientation between the managers and the workers. Western-oriented Pinoy managers tend to be bureaucratic (formal and sticking to specific rules), legalistic, and confrontational. They have learned to decide and act according to procedures. On the other hand, workers expect their superiors to be non-formal and behave according to customs, use standards consistent with the workers' values, and favor non-adversarial relations.

RECONCILING OLD AND NEW

Noting the adverse effect of these contradictions on the workplace over time, Pinoy managers learned to be flexible in their approaches. Today, most have kept management structures patterned after Anglo-American models while they have slowly shifted to Pinoy-oriented human resource management practices.

Management expert Ernesto Franco (1986) identifies four general styles of Pinoy management.

- Management-by-*kayod* (working like a dog) or Realist Manager is wielded by an autocrat who wants quick action, has gut feeling, priority-oriented, strives for optimal performance, knows how to use people and resources, cuts problems down to manageable size, practical, fast decision-maker, impatient and shrewd.
- Management-by-*libro* (book) or Idealist Manager is a thinker and technocrat; is meticulous, cautious, stubborn, planning-oriented and systematic; strives for professional performance; thinks first before deciding; seeks quality results; and has high ideals.
- Management-by-*lusot* (shortcuts, bribery, rulebreaking) or Opportunist Manager is willy-nilly, has no conscience, loves to get by, likes to resort to shaky deals to achieve easy settlements, avoids headaches, and believes in non-money-no-work philosophy.



- *Ugnayan* (movement to interrelate)-management or Reconciler-Manager is a cross of idealist and realist manager, believes in contingency management, solid, shares his knowledge, and has excellent behavioral skills.

How do they take in people? The opportunist headhunts. The realist manager applies the jungle method, that is, he pits the candidates against each other and whoever survives is considered the fittest and therefore is the one hired. The idealist manager opts for high-quality candidates with suitable degrees and training. The reconciler-manager gets partly experienced applicants, tries them out and screens them meticulously.

How do they act during implementation?

The Realist Manager does-evaluates-plans a little-does. The Idealist Manager plans a lot-does-evaluates-replans a lot. The Opportunist Manager plans-does-does again and again. The Reconciler-Manager evaluates-plans-does and at the same time evaluates again.

Franco believes that Idealist-Managers eventually realize that they are ineffective in real life and become Realist Managers. The same goes for the Opportunity Managers. The best of the four are the Reconciler-Managers, claims Franco. It is noteworthy that this type is equipped with superior human relations skills.

SUGGESTIONS FOR THE FUTURE

Business enterprises that want to survive and grow must gear up to the challenges and opportunities of a “globalizing” future. Simply, this means, for the Pinoy managers, being able to bring out among their people the optimum in productivity and efficiency. This is then translated into products and services that are able to compete in the barrier-free marketplaces.

Thus the best parts of the effective Pinoy management style (Jocano: 1997) – consultative, persuasive and consensual – can serve the Pinoy manager well in drawing out the best performances from workers.

A consultative approach goes beyond consultation. It is allowing people to participate in planning and implementation activities and thereby making them share their perceptions and feelings on the possible ways of working things out. They share in decisions affecting their future, including their own personal development plans as an employee. When he goes to a technical training program for example, he is motivated to give his best because he “owns” the decision to be trained as well as how to be trained.

Using persuasion involves appealing to values, emotions, and conscience of others. It is the counterpart of the Western pathos. This is a crucial managerial skill in that if used proficiently it can lead to creating the desired feelings or response on the part of the worker. The worker must be made to feel, for example, that changes, including new technology and production control systems, would benefit the whole company of which he is the vital part. Thus, the paternal, one-family system is still at work here.

Persuasion is anchored on concern and respect. A supervisor who uses persuasion conveys concern over teamwork, respect for the rights of members to participate in group



activities, and trust for their ability to handle the task given them. In a sense, it is a gesture of delegation, which is an effective modern management technique.

A consensual style takes into account the collective position, which has been agreed on by the concerned parties. Using consensus in decision-making expands the superior's control over the group activities and increases his moral ascendancy. Thus he can tactfully remind dissenters that the matter at hand has been agreed on and weren't they in that job since the start?

All these values are consistent with Pinoy paternalism. The authoritarian patriarch is tempered by his personal concern for his workers, which manifests in consultation, persuasion and consensus-seeking. On the other hand, the patriarch with the soft touch must take care that his kindness is not abused. For example, one can only consult, persuade and seek consensus so much, with a recalcitrant worker, after which more formal and direct measures must be applied. Indeed, Pinoy managers have been known to "crack the whip" when necessary.

The Pinoy manager is in the right direction when she tries to marry the management principles that have worked in the western world with time-honored value systems in the native country. Practising objectivity, goal-orientation, professional detachment, productivity-orientation, etc. while taking time out to consult, persuade, seek consensus and, indeed consulting, persuading and consensus-taking have been known to work with the Filipino workers and must be reinforced and encouraged.

How does this admixture translate in the work-a-day world of the Pinoy manager as she deals with her people?

Some specifics include:

- Quality and problem-solving circles – These should not be just randomly organized but instituted, with regular meetings and program of activities. The circles should gather managers, supervisors and rank-and-file workers to brainstorm on creative solutions to problems of productivity and quality. They should also be made to participate on decisions affecting their future. In such circles, workers would be encouraged to speak openly and frankly if an informal, friendly and non-judgmental atmosphere is created.
- Customer-feedback system involving workers – Workers hearing feedback from customers – both positive and negative – would feel an increased sense of responsibility for the quality of and a sense of ownership of the product and services.
- Productivity awareness campaigns and workshops – Improved productivity, quality and efficiency should be seen to have direct benefits to workers. The Pinoy manager should see to this.
- Information and communication tools – It is often said that those working below an organizational hierarchy tend to be myopic and unable to see the "bigger picture." Workers should then be helped to broaden their perspective by a policy of



transparency and information-sharing. Communication and information is specially important in introducing changes – whether in production methods or in administrative policy

- Leadership by example – Managers should set the example. In the Philippine setting, actions speak louder than words. The best way to implement rules is to show that managers are following. The best way to suggest action is for managers to show the way.
- Values orientation – Seminars and workshops on values should be introduced and actively pursued.
- More systematic recruitment, selection and hiring practices – Recruitment efforts should be expanded to target more applicants, other than kins. Similarly, scientific selection methods like tests can improve the hiring process.

CONCLUDING REMARKS

The advent of globalization is on the doorstep of Filipino enterprises. It is both a threat and opportunity – it can't simply be ignored by the Pinoy manager. Hence, more than ever there is a need for him to steer his enterprise skillfully if he wants to cope with the demands of the times. And as it has been in the past and will be in the future, a Pinoy management style that adopts modern textbook approaches tempered with Filipino cultural psychology will better harness the workers' potentials for teamwork, efficiency and productivity.



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**NEW ZEALAND BIZ PROGRAMME :
INCREASING OPPORTUNITIES FOR HRM IN SMES?**

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NEW ZEALAND BIZ PROGRAMME : INCREASING OPPORTUNITIES FOR HRM IN SMEs?

ABSTRACT

Like other countries, New Zealand's small and medium business enterprises have received support from a variety of sources. This paper analyses central governmental assistance that has been provided over recent years. The historical evolution of this assistance is traced and the level of support for the development of human resource management is discussed.

Traditionally, and up until 1995, the New Zealand government's business development programmes were essentially based on a grants-based focus of assistance. The approach reflected a hands-on emphasis and the programme was administered by the Ministry of Commerce. The programme providers were Business Development Boards acting as crown entities designed to encourage business development in their region.

During 1998 the structure of the business development programme was reviewed. There seemed to be support for a programme that was more responsive to the needs of different businesses and of those in different regions. The government was seeking to re-orient the programme so that delivery would come from experienced community providers, contracted by the government and with a focus on helping to achieve better business management. The new programme, *BIZ*, launched in April 1999 was designed to provide services to small and medium sized businesses throughout the country with the stated aim of improving their management capability.

The small business owner often brings a technical background to the business. While some management experience may be evident, this is by no means always the case. Human resource management skills get even less of a look-in than general management in this environment. By way of comparison, the accounting perspective is far more visible in the early stages and initial growth of the business. Training initiatives, compliance demands, externally-driven deadlines and the financial institutions who fund newer enterprises are factors that tend to drive this emphasis. Thus, for many managers, the elements of best practice in human resource management are often lacking.

Unfortunately, human resource management did not have a high profile in the earlier business development programmes. This appears to be a bleak picture for the development of human resource management in SMEs. In order to address this perceived gap, it was necessary for those businesses that recognised the need to cover the area through the use of specific training or by receiving assistance from various mentors or agencies, including the firm's external accountant, rather than human resource specialists *per se*. However, the new programme, *BIZ*, does offer increased opportunities for human resource management initiatives and principles to become more evident in the smaller business enterprises. This paper advances why there are increased opportunities and how these might be further encouraged.



INTRODUCTION

During a recent literature review I came across a book entitled *The Rise and Decline of Small Firms*. [Boswell] Admittedly it was written in 1973, but it resulted in some reflection.

There has been a prevalent view that many SMEs fail in their first few years of operation and that they have a greater failure rate than large businesses. However, evidence suggests that pure statistics present a harsher picture than actually exists for these recorded "deaths" signify such diverse aspects as, for example, changes in location, ownership, or seasonal fluctuations. [Joint SEEANZ and IIE Conference]

Major changes publicly trumpeted from the rooftops have heralded the restructuring of larger enterprises. Large companies are not only downsizing, they are disappearing. According to information provided by the US Census and Department of Labor, between 1980 and 1994, 40% of the Fortune 500 companies disappeared through break-up, acquisition, or bankruptcy. However, it has been estimated that for every job lost in the Fortune 500 companies, 2.5 jobs are created by small companies.

Most of us are aware that small business has become a vital and vibrant part of the business environment in the developed countries, and that they have become the job creators.

APEC reported in 1995 that most members recognise that the primary role of government in assisting SMEs is to create a business environment conducive to strengthening SME competitiveness. [Best Practices for Small and Medium Enterprises in APEC, APEC, 1995]

At the April 1999 APEC Small and Medium Enterprises Ministers' meeting held in Christchurch, New Zealand an action plan was formed to promote the growth of SMEs in the region. In a prepared statement the chairman, Max Bradford, said, "Ministers and business representatives acknowledged their joint responsibility to promote the growth and profile of SMEs, which are emerging as the engine rooms of the knowledge-based APEC economies of the future." In addition, ministers *inter alia* advanced a number of projects proposed by member economies relating to business networks, e-commerce, enhancing management performance and improving consumers' information.

Like other countries, New Zealand? SMEs have received support from a variety of sources over the years. This paper discusses support that has been provided through one central governmental assistance programme in particular known as the Business Development Programme (BDP). The historical evolution of this assistance is traced and the level of support for, and development of, HRM within that assistance is analysed.



SETTING THE SCENE

Before considering the BDP and its evolution, it would be helpful to place the programme in context. This will enable more appropriate comparisons to be made with other countries or jurisdictions. A few facts and figures about New Zealand follow to assist in contextualising the situation:

- Physical area - a comparatively small country by international standards of about 270,500 square kilometres (roughly the size of countries such as Japan or Great Britain)
- Population - the resident population is estimated to be about 3.8 million (31/12/98)
- Labour force - 1.875 million with a participation rate of around 65% and unemployment about 6.5%
- Full-time workers - 77% (F/T = 30+ hours pw). Over the last decade full-time employment has grown by 7.9%, while part-time employment grew by 42.8%.
- Average working hours - 39pw. This has remained in the range of 38.7-39.4 since 1987.

There is no universally accepted definition of an SME as these can vary across industry sectors, and between different countries. Common definitions are based on number of employees, invested capital, total value of sales, sales volume, and shareholders' funds. By whatever criteria is used, New Zealand is predominantly a country of smaller firms with an average of five full time equivalent workers in each geographical unit. (The formulae used in this calculation regards a geographical unit as one that is economically significant which itself is defined as having \$30,000+ in GST expenses or sales or being GST exempt; part-time workers are calculated as being half-time; and the calculation excludes farms, property owners, etc.).

THE EARLY 1990S BUSINESS DEVELOPMENT PROGRAMME

The 1991 Review of Enterprise Assistance proposed a rationalisation of the Government's enterprise assistance measures. As a result, the Government made changes in a number of specific areas including proceeding with the Business Development Boards Act 1991 which established the Boards as independent Crown agencies (entities from 21/12/92). The day-to-day operating rules and guidelines for the Boards were set down in a single Code for all Business Development Boards which, as required, was amended or revoked as provided for under Section 7 of the Act. By their very nature these Codes were prescriptive. For example, the 1993 Code (No. 2) contained 135 pages and included a raft of forms for each grant type.

The programme was administered by the Ministry of Commerce and the approach reflected a hands-on emphasis. The Ministry was to administer the legislation, appoint board members, review the Boards' Code and pay the Boards' operating costs. The providers of the programme were to be the Boards acting as individual Crown entities designed to encourage business development in their region.



Twenty one Boards were established throughout New Zealand in February 1992 with responsibility for the delivery of the BDP. The Boards operated with 4-7 members, appointed by the Minister of Business Development, but they had the authority to co-opt special assistance from others on a voluntary basis.

The legislation enabled the devolution of responsibility for decision-making on grants to the Boards. Although the Boards were also empowered to provide business advice and referrals, and to encourage business development in their region, the focus was on three types of grant assistance:

- Business Development Investigation Grant - to help applicants investigate business ideas new to the region. Paid 50% of approved costs, \$20,000 maximum.
- Expert Assistance Grant Scheme - to help businesses engage specialists to improve their management skills. Paid 50% of approved costs, \$8,000 maximum.
- Enterprise Growth Development Scheme - to help businesses improve their international competitiveness. Paid 50% of approved costs, \$20,000 maximum.

The Ministry of Commerce? Business Development Group was to assist the Minister to consider appeals against the Boards' decisions on grant applications (of which there were 84 in the year ending 30/6/64). The Business Development Group was part of the Ministry's Business Policy and Programmes Division whose purpose was to promote and sustain the international competitiveness of New Zealand business. Among other things, the group was also to assist the minister to promote and organise the Business Development Quality Awards (BDQAs), develop the ExcellenceNZ programme, produce monthly issues of "Business Development News" and promote better co-ordination among government agencies involved in delivering enterprise assistance.

The BDQAs were entry level quality awards, complementing the premier New Zealand National Quality Awards. Delivered nationally on an annual basis, they were open to all organisations and had no entry fee. The ExcellenceNZ package comprised three measures: Total Quality Management, World Competitive Manufacturing and World Competitive Service. The package ? initiatives were offered by the Ministry in agreement with the Business Improvement Branch of the Department of Industry, Science and Technology in Canberra. The ExcellenceNZ initiatives were delivered by consultants contracted to the Ministry which organised consultant training utilising the authors of the initiatives and monitored the performance of the contracted consultants.

THE MID-1990S PROGRAMME REVIEW

Up until 1995 the New Zealand government sponsored BDP in the regions was essentially focused on a grants-based focus of assistance. In September 1994, Cabinet directed the Secretaries of Commerce and Labour to carry out a "stocktake" review of enterprise assistance measures. In May 1995 a broad strategy for enterprise assistance measures was agreed and this included refocusing the BDP to a business capability framework to grow SMEs.



The revised BDP was introduced with effect from 20 November 1995 although new applications to the existing grant schemes had been terminated on 13 September. This gap enabled the Boards to process the applications on hand and to provide training in the refocused programme. An extensive business information needs survey was undertaken by the Ministry and the Boards to assist in developing an appropriate strategy for providing timely and relevant information to businesses.

The refocus had four specific components - information provision, business capability improvement, some grant support and improved inter-agency co-operation. From late 1995 then the Boards' new services were:

- Information - on New Zealand? overall economic and regulatory environment, the regional economy, sources of advice and assistance and techniques to improve business skills.
- Preliminary business appraisal - an independent assessment of business capabilities. Provided on a dollar-for-dollar basis, up to \$500, and free to individuals going into business.
- Business capability improvement programme - a training and education programme built on the results of the appraisal. Businesses attend at their own cost.
- Grant scheme - allows businesses to test and apply the skills gained in three areas - strategy, innovation and research & development, and implementation. Reimburses 50% of eligible costs, up to \$20,000 in a financial year and to a maximum of \$50,000 per business. Restricted to businesses employing up to 50 full time staff.
- Quality initiatives - to foster the application of TQM principles and best practice.

Subsequently, a further area was added to these services:

- Hard business networks - to help a group of companies form a network. This was provided on a dollar-for-dollar basis, up to a maximum of \$20,000 annually to a group.

The BDP continued to include the BDQAs and ExcelleNZ initiatives, to encourage and support the development of a quality culture, best business practice and excellence. However, the then Minister signalled that the refocused programme would involve more rigorous monitoring and evaluation measures to ensure that existing funds were spent in a way that provided maximum value and benefit to taxpayers and that there would be an increased emphasis on fostering participation by women, Maori and Pacific Island people.

GATHERING CLOUDS

In April and May 1997, the Ministry, as part of its monitoring and evaluation measures, undertook a review of 473 grant approvals made by the Boards. On 6 August 1997 the Ministry reported to the Minister of Business Development that "a large proportion of clients are receiving grant funding for which they or the project are not eligible." The Ministry was



advised by the Crown Law Office that payments for grants approved in breach of the BDP Code criteria would be contrary to the appropriation provided by Parliament. Consequently, such payments would be contrary to the Public Finance Act and, therefore, unauthorised and illegal.

The matter was referred to the Auditor-General whose conclusions in March 1998 *inter alia* stated:

? e identified 17 cases of grants approved by six Business Development Boards that did not comply with the criteria contained in the *Code for Business Development Boards 1995*. This is a serious matter because of its implications for the Ministry of Commerce in making payments which are other than in accordance with the appropriation provided by Parliament, and are therefore unlawful.... The six Boards we reviewed were conscious of their responsibility to comply with the Code. We found no instances where they purposely disregarded the limits of their authority.... The current arrangements that separate who approves grants (Boards) and who pays them out (the Ministry) create a division of responsibility and accountability which is unusual and gives rise to a duplication of effort because both the Ministry and the Boards must satisfy themselves of the validity of the grant approvals given. The more usual arrangement for similar grant schemes is that the entity that has the power to approve a grant is also funded to pay out the grant.” [Office of the Controller and Auditor-General, p.7]

Parliament had previously validated the unappropriated expenditure on the basis that the Ministry was to develop procedures to be in place by 1 September 1997 to assist Boards to comply with the Code; and to put in place a monitoring and evaluation regime. The Ministry took this action including the issuing of *Guideline Notes for Business Development Board Members* about their respective roles and functions and a booklet entitled *Business Development Boards - A Guide to the Accountability and Relationship Framework for Crown Entities*.

The Ministry reported to the Cabinet Committee on Industry and Commerce on a wide range of concerns including the following:

- The reporting and accountability requirements placed on Boards through the Public Finance Act impose heavy demands on the resources of individual Boards
- Boards have difficulties complying with the *Code for Business Development Boards 1995*, which sets out the activities they are to undertake and the criteria for grant assistance
- The grant measures are very expensive to run, with considerable overheads, locally and centrally - in 1996/97 it cost approximately \$6 million to make payments of approximately \$12 million
- The awareness of the BDP is low in the business community. Research indicates that employer and industry associations are commonly used sources of business assistance while government agencies, including Boards, are considered to be (the) least valuable sources of assistance



- The relevance of the BDP to the needs of target groups (Maori, Women, Pacific Island peoples) has been questioned. Boards are generally not considered to be proactive in delivering services to these groups and accordingly the awareness of the BDP among these groups is low
- The BDP overlaps with initiatives delivered through other government agencies and the private sector.

These and other perceived problems led to a review of the policy approach at the microeconomic level in a paper to the Cabinet Committee on Industry and Environment. Business development assistance was regarded as a subset of enterprise assistance which had been defined previously as those measures targeted at addressing problems which constrain business, especially small to medium-sized firms, from achieving optimal performance. Business development assistance had previously distinguished itself from other forms of enterprise assistance by aiming to improve the performance of small to medium sized firms by improving managerial potential, as opposed to employment potential, trade potential or tourism potential.

The Ministry was authorised to undertake consultation on a BDP review and this was completed by early February 1998. Commerce officials met with representatives from 50 organisations with an interest in business development including the 21 Boards, chambers of commerce, local council enterprise agencies, employers and manufacturers organisations. The Ministry invited 186 organisations to make written submissions, including all enterprise agencies and a range of business and sector groups and about 100 submissions were received. Many points were advanced during this consultation process. Although many of the points do not relate specifically to HRM all the key themes advanced in a paper subsequently presented to the Cabinet Economic Committee are presented (as Appendix I) as they provide insight into the SME sector. A perusal of these is appropriate at this point.

The consultations undertaken by officials and written submissions received had expanded the initial concerns expressed earlier. The key themes are recorded in Appendix I but further issues identified specifically related to the BDP and the Boards:

- the BDP grant scheme was important to Boards for attracting clients who then receive assistance with non-grant elements of the BDP;
- it is the enhanced skills and capabilities that result from business education and upskilling that are important to SME growth, rather than grants;
- there are difficulties in measuring value for money and additionality;
- the Code is seen as inflexible to meet the regional needs of business;
- the autonomy of the 21 Boards had worked against any national co-ordination and promotion of the BDP; and
- in the main centres Boards are considered by some as not being proactive and not having a profile in the business community.



The papers presented to the Cabinet Committee traversed various options for the future and proposed

“... that capability enhancement assistance be delivered to small and medium-sized enterprises (SMEs) by way of a local autonomy model under a service contract approach.”

It was argued that this approach would allow for flexible and tailored responses to varying business needs, including target group needs and would encourage SMEs to take responsibility for enhancing their own capabilities. The approach would involve a reverse contract system whereby interested parties would tender for government funding to design and deliver capability enhancement and information facilitation assistance (within defined broad parameters) in areas, and to target groups, throughout New Zealand. Deliverers would need to demonstrate an intention and ability to co-ordinate delivery with other enterprise assistance deliverers in their area of coverage, and would be held accountable for achieving agreed outcomes.

The Minister announced that the Coalition Government has decided in principle to terminate the grant elements of the programme. This is because they are not effectively meeting our business development objectives, and because of the administrative difficulties highlighted in the recent Controller and Auditor-General's report.”

Six of the Boards legally challenged the suspension but in February 1999 the High Court refused an order which effectively would have lifted it at that stage. Subsequently the suspension on grant approvals was lifted to enable the approximately 900 applications to be processed, but the Boards were required to give assurances that they would apply procedures designed to ensure their compliance with the Code.

THE 1999 BDP

The new programme, *BIZ*, was designed to provide services to small and medium sized businesses throughout the country with the stated aim of improving their management capability. *BIZ* with the by-line “achieving Better Business Management” is a nation-wide government funded scheme set up to offer training, advice and mentoring to SMEs. Under the reshaped programme, government awards a contract for service to business assistance experts to design and provide services for their local region, and in some instances nationally. As appropriate, these organisations may then contract themselves with specialist sources of professional, management or technical skills that the programme will provide to businesses. The second element of the new programme was to set up a national business information service (NBIS) to deliver user-friendly information.

These moves signalled a complete change of focus for the BDP. The government was to replace the grants-based focus of its assistance and would no longer be a hands-on provider. The two initiatives were budgeted to receive about \$12 million of annual funding from the government.

The Ministry of Commerce was to manage the delivery of *BIZ*, including quality assurance monitoring and auditing of performance against the contracts. The Ministry, via the *BIZ* programme funds a variety of training and advisory workshops and courses giving access



to training and advice aimed at upskilling owners/managers of SMEs. Effectively there are to be no price barriers to a person gaining knowledge that will assist in the successful running of the business.

The 21 Boards who were the providers of the existing BDP, were to cease to operate as crown entities by the end of 1998 but they were eligible to participate in the tender process, if they wished to operate as new business entities. On 30 September 1998, the Ministry sought expressions of interest on an open tender basis in the government? reshaped BDP, *BIZ* and the NBIS. Applications closed on 13 November and were evaluated by four people from the private sector and two from the Ministry.

The preferred providers were selected from over 400 who tendered and the Ministry worked towards finalising the contracts for an official launch in April. Services provided by the 46 providers contracted under *BIZ* include business needs assessment, financial forecasting and HRM training, strategic planning, IT, accounting and cashflow training, mentoring and networking, legal compliance training. These providers represented a mix of national and regional providers to ensure national coverage and to cater for local needs. Some of the providers under the previous BDP were successful in gaining contracts.

The Ministry also received 10 proposals from parties interested in operating the new NBIS to provide a single source of information about the assistance available to small and medium sized businesses. *BIZinfo* is a free service provided by NBIS Ltd., which was successful in winning the contract. NBIS Ltd is a partnership of four organisations - the New Zealand Chambers of Commerce, a combined NZ Employers' Federation-NZ Manufacturers' Federation grouping, Poutama Trust and the Pacific Island Business Trust.

BIZinfo was launched on 14 April 1999 by the Prime Minister to provide businesses with one-stop access to information and assistance. There are over 30 physical locations nationally although the majority of these occupy an area staffed by people from associated enterprises who have access to resources including the NBIS website. The five stand-alone metropolitan offices also act as the call centres for a national call-free telephone number. *BIZinfo* works in conjunction with *BIZ*, to steer businesses in the right direction for information, advice and assistance to help them "survive and thrive". It has a comprehensive database of government agencies, business advisors and education and training providers.

By 23 June *BIZinfo* had received 3,000 phone calls and recorded almost 60,000 searches for information at its website. The website indexes a wide range of topics and the subject headings include *BIZ* programmes (free of charge); business associations and networking; business skills; financial advice; grants and funding sources; importing, exporting and trade; markets and marketing; as well as a weekly update section. Each subject area gives access to details of relevant organisation publications and businesses, with over 200 sources indexed in several of the subject areas. Users can also search the website by location, selecting their home region for a listing of available services.

The scheme is pitched at people who have probably been in business for two to five years and need to improve their skills. Although there will not be courses for those wanting



advice on how to start out, the NBIS website does include a "Business Start-Ups" subject category also to direct searchers to other public and private sources of assistance.

It seems that the new programme may have struck a responsive chord. A weekly New Zealand business newspaper, *The Independent*, summed up the new programme with the banner head-line "IZ Delivers Lists And Lessons, Not Lolly" [Speden, p.19].

At the political level with an election later this year, the major opposition party in the New Zealand parliament, Labour, re-released its industry policy in April 1999 with little change from last year's draft. It also proposes contracting out business training programmes to providers like local bodies and business groups. It proposes no new nation-wide delivery network, which could see something like the *BIZinfo* survive. Labour's policy specifically allows for *BIZ* training contracts to be "honoured and woven in" to its own scheme.

SMEs AND HRM

The role of HRM is under scrutiny. Recently, I read a couple of brief articles about the outsourcing of HR. [Ceelen; Field] They described the benefits and problems associated with organisations wanting to outsource non-core business activity. Such protagonists believe that there are surplus activities within organisations and that HRM may be one of them.

Re-engineering and restructuring are, as the terms imply, "engineering" responses to organisational challenges. The restructuring in New Zealand, as elsewhere, has been based on what might be termed an "economic rationalism" model which, as far as employee motivation is concerned, largely dismisses the optimistic view of human nature held by the mainstream writers on motivation.

And what about the skills required by the future organisation? We are all aware of the impact of the pace of technological change. Burstein and Kline (p.2) express it as follows:

"The next few decades will witness profound alterations not only in the way we live, work, entertain, and inform ourselves, but also in the strategies of businesses, the dynamics of the marketplace, the competition between companies and between countries, the process of wealth creation, and even the role of government."

Computer literacy is a recognised skill. Computer fluency is another skill altogether as it involves being able to access and process information without thinking about technical abilities. A study conducted by the US Bureau of Labor Statistics of 54 jobs identified as having the highest growth between now and the year 2005, found that only eight do not require computer fluency. This reinforces again that we need the ability to constantly acquire new knowledge and skills and will have to be lifelong learners. The response to this is a challenge for us all as well as for HRM.

Likewise, as the number of businesses is increasing and the average size of businesses is shrinking, the specialist HRM role becomes more problematic. Perhaps the changed environment demands a different response from those who espouse HRM's importance? Reference to some recent studies provides some clues.



A forthcoming publication (due September 1999) is based on a study of New Zealand manufacturers' business practices and compares the results internationally. An initial stage of this comprehensive study by the Ministry of Commerce and Statistics New Zealand was based on the results of a questionnaire distributed to 1,400 manufacturers with more than 10 employees. There was a high 84% response rate and participating firms were sent a score-card of their results allowing them to compare themselves with the average firm in their sector and to benchmark. This study followed a 1994 joint study *Leading the Way* carried out in Australia and New Zealand by the Australian Manufacturing Council and the New Zealand Manufacturing Advisory Group.

Although as yet unpublished, initial results found New Zealand manufacturers have a high degree of customer focus. They also have well developed supplier relations, quality and operations practices but need to focus on improving their leadership and staff development practice if they are to achieve world-class performance. Manufacturers should also look at taking a more strategic approach to innovation, rather than letting technology drive their business.

The study found that many manufacturers still have relatively weak leadership and planning practices. Although the majority of firms have well developed planning processes, the extent of consultation with stakeholders, especially employees, appears to be limited. This suggests that there is scope for developing effective employee practices. Many businesses do not seem to recognise that their performance depends not only on their ability to attract and retain the best people, but on empowering them to reach their full potential and providing them with incentives to commit themselves to the firm's objectives.

The second view emanates from the strategist Professor Michael Porter who asserted in an address to business people and government representatives in Wellington on 10 November 1998 that New Zealand has to fundamentally change the character of its economic reform process. This was a follow-up visit seven years after he wrote a study of New Zealand's competitive advantage, the so-called "Porter Project", based on an analysis of the country's top 20 export industries.

Professor Porter described the areas where New Zealand had to change - in innovation, human resources (people), the New Zealand worker, university research, equity capital, investment, producer boards, customers, and clusters. These may not have been specifically ranked but the first three of these (and possibly the fourth) are fertile ground for "HRM". If one uses the term "human response" rather than HRM then the opportunities are even wider.

The Cabinet papers referred to earlier identified the six major barriers restraining growth of New Zealand SMEs as access to appropriate information; access to capital; technology development and innovation; developing linkages; management skills; and motivational factors. Again this looks like a strong demand for a "human response" to the perceived issues.

We must be conscious of the wariness expressed by SMEs to seek assistance as referred to earlier. But perhaps there is a perception problem also. Traditionally, a common image of HRM has been the person (or face) who helps (or hinders) in various people-



oriented processes. Consider an SME seeking to increase the level of staffing by a massive 20% ? his year”. In numerical terms that he/she may be talking about one person and that person may be part-time. HRM terminology such as training needs analysis, job analysis, position and person specification, recruitment policies, interviewing skills, assessment testing, selection, ability-job fit and the like is altogether too much for such people.

Tway in her book *People, Common Sense and Small Business* describes these in terms such as how to find the right people; hire the right people; train ...; motivate ...; develop the right people. This type of terminology is probably more SME-friendly.

In a sense, HRM needs a different paradigm package to present what it has to offer in assisting SMEs.

Ulrich presents a more radical conceptualisation using a three-domain framework. He and his fellow researchers have spent a number of years studying the relative competencies for HR professionals as business partners. In his recent book Ulrich (p.251ff) has analysed data from 12,689 associates which would suggest that HR people have four different roles to play and have to play all of them, all of the time. The relative weightings of the three key areas of knowledge and skills needed for effective performance in HRM are described by Ulrich as being:

1. Management of change (creating meaning, problem solving, innovation and transformation, relationship influence, role influence) - 41.2%
2. Knowledge of HR practices (staffing, development appraisal, rewards, organizational planning, communication) - 23.3%
3. Knowledge of business (financial capability, strategic capability, technological capability) - 18.8%

An interpretation offered by Ulrich is that knowing the business lets an HR professional *join* the management team; knowing HR practices helps the professional *contribute*; and managing change helps the HR professionals *make things happen*. Significantly, less than a quarter of this framework involves the functional and technical areas which have traditionally been the mainstay of HRM or personnel management.

Moreover, the picture is not complete without the fourth dimension of

4. Personal credibility - 16.7%

The researchers' interviews with HR professionals have yielded insights into what HR professionals can do to acquire this ? ersonal credibility”. The behaviours that enhance credibility include the following:

- Accuracy: being accurate in all HR work.
- Consistency: being predictable.
- Meeting commitments: doing what you say you will do on time and within budget.



- Chemistry: being personally comfortable with peers, subordinates, and supervisors.

This may be a missing link between the technical and professional skills of many HR practitioners and their ability to practice their craft effectively and successfully. This is likely to be compounded within the SME situations where there is no specialist HRM element.

Where can those SME owners/managers who seek to manage more effectively go for HRM assistance? Here is an interesting exercise. Take a visit to a typical public library. Not a specialist library that you may have access to through either an academic institution or a large corporate enterprise. In doing so I have found that there is a real dearth of information about how to manage people more effectively in a smaller enterprise. There are occasionally earlier editions of the text-books used in local tertiary institutions. In my experience of both manual and computer searches, I have found more resources to guide a business on purchasing a computer than on how to manage its people better. There are far more resources on how to prepare a business plan (with a financial emphasis) than on the management of the people in that business. HRM is the poor relation of accounting and information technology in that environment.

Within the BDP, HRM has not had a high profile to date. The earlier emphasis had been on establishment grants. The 1993 Code, for example, did have provision for HRM as one of nine types of projects eligible for funding under the Expert Assistance Grant Scheme where it was described as:

? RM assists the applicants to be a good employer and ensure productivity through the development of strategies and programmes that will:

- employ the right people
- pay them appropriately
- train and develop them
- ensure productivity.

Assistance will not be provided for ? ne-off' activities, such as staff training, recruitment, or negotiating pay rates."

As in many other countries, the SME owner often brings a technical background to the business. While some management experience may be evident, this is by no means always the case. HRM skills get even less of a look-in than general management. By way of comparison, the accounting perspective is far more visible at least in the early stages of the business. The training initiatives and the financial institutions who fund newer enterprises tend to drive this emphasis. Compliance costs, externally-driven deadlines and the like mean that for many managers the elements of best practice in HRM are lacking and often perceived as secondary.

This appears to be a bleak picture for the development of HRM in SMEs. In order to address this perceived gap, it is necessary for those businesses that recognise the need, to cover the area through the use of specific training or by receiving assistance from various



mentors or agencies, including the firm? external accountant, rather than HRM assistance *per se*.

SMEs share mutual challenges, such as restrictions on time, space, money and staff. However, there are options available that might be considered and some of these are advanced now.

Effectively HRM has never been “insourced” in many SME business situations. There are some parallels then with the mainstreaming or even outsourcing of HRM in larger businesses. Here a common scenario now is for an HR Adviser to assist the line manager or team leader as and when required. This is the sort of model that is more appropriate to smaller enterprises where the whole business is the team.

Mentoring is an oft-quoted example of assistance. This is an option in New Zealand under the BDP as well as outside of it.

Another option available now is to tender for the specific provision of HRM advice and/or training within the contestable environment of the BDP.

Training or education opportunities allow people from smaller businesses to leverage these opportunities by attending classes or taking distance-learning options in conjunction with other businesses. Even if such training opportunities are not available “free” under the BDP or similar programme, the costs that may be incurred will be shared. Together small companies have more buying power and more options for accessing needed training.

The shared resource approach is also fruitful if the accountants that work with SMEs are aware of the benefits of using HRM skills appropriately. The accountant is often the most commonly used information source and should be able to access easily the skills required. Perhaps the real access to assisting SMEs with their people issues is through networking via accountants that specialise in SMEs’ business.

Katherine Curtis, former director of human resources at the American Society for Training and Development, suggests that one way to supplement a small (training) staff is to use volunteers from local colleges and high schools. They can provide valuable skills (training) where the business lacks specialised skills and could be obtained at low or no cost.

Likewise, there are many seasoned managers and others including those who are skilled in HRM who are looking for part-time working opportunities. They will have some of the credibility that Ulrich refers to and they may not be seeking permanent employ that involves set hours. The growth in the number of those who seek “portfolio” type of work situations for economic and/or life-style reasons has added to a pool of those who have appropriate people skills. Such people can perform a role that differs from the consulting image to which some small businesses may be averse.



CONCLUSION

Small and medium sized businesses or enterprises constitute the majority of all enterprises in New Zealand:

- 85% of enterprises employ the equivalent of five or less staff
- 93% employ 19 or less staff
- 96% of business can be described as SMEs
- Enterprises with 100 or more staff make up less than one percent of all businesses in New Zealand.

Like many developed countries, New Zealand? SME sector has been growing. The owner/manager needs to be multi-skilled, rather than be a specialist, and also have expertise in a diverse range of areas. The owners/managers are also constrained by the amount of time and money that they can invest in searching for information and assistance. It is these different needs which the BDP has been designed to meet.

A vital topic to be addressed is ways of developing workplaces which are suited to future ways of working. Modern enterprises increasingly require motivated, highly skilled, innovative, committed employees who are capable of making decisions and taking responsibility.

The 1999 World Competitiveness Yearbook, released recently by the Switzerland-based IMD (Institute for Management Development), ranked New Zealand 39 out of 47 countries in the "rain Drain" list - saying that nearly six in ten well educated people left the country for other shores.

Opening the *BIZinfo* office in Wellington on 14 April, the Prime Minister advanced that the difference between a successful and mediocre business in today? environment was its people and their attitude. ? they need to have the right information. *BIZ* is a network of fresh ideas and information, providing hands-on experience and practical advice. It shows businesses how to improve management, especially within small and medium sized enterprises which are the real workshop of New Zealand business."

Improving the quality of management is seen by the government as the best and most cost-effective way of helping New Zealand? businesses to grow and succeed. Under the old grants-based programme, less than one percent of SMEs benefited and perhaps dependency may have become a problem for some of those. However, to be fair, some of those businesses owe their subsequent survival or growth to the grants and associated assistance that they received.

It is to be hoped that the changed focus on BDP will play a positive part in the upskilling of people and business practice. The signs appear positive so far and there are opportunities for HRM to play a part.



APPENDIX I

Results of consultation process

The following are the key themes to come out of the meetings that were held and written submissions received during this review:

- The main barriers to SME growth are limited access to information and lack of management capability within firms;
- Motivational factors can also inhibit SME growth. Factors such as owners' desire to grow, and their confidence to do so, are extremely important;
- SMEs do not have all the skills they need in-house (typically owner/managers are technical experts, not necessarily skilled in business management, marketing etc);
- Businesses receiving assistance should be required to make some sort of reinvestment in the future growth of the business community once they realise the benefits of the assistance received;
- Some SMEs are reluctant to utilise consultants and other professional advisors because of their high cost, uncertainty over their value, a lack of trust, and because SME managers do not always recognise the type of assistance they require;
- While a large number of consultants exist, some are not suitably qualified or experienced business advisors, and are primarily concerned with ensuring the profitability of their own business. This may affect their ability to provide honest and independent advice to clients;
- Regions vary considerably in the availability of business assistance services. Regions also vary in terms of the types of businesses that operate and the nature of problems faced;
- In the main centres, rationalisation of delivery is favoured by many. The large number of existing assistance sources is seen as confusing and detrimental to achieving enhanced SME performance;
- Outside the main centres, a "one-stop" or "first-stop" approach was favoured whereby all regional delivery agencies would be co-located and coordinated;
- Flexible, tailored responses to meet the needs of individual businesses, and account for local variations in these needs, is important;
- It is extremely difficult to measure the success of an assistance programme. Assessment relies a great deal on qualitative measures. Communication and face-to-face follow-up with firms may be the most effective method of determining additionality from assistance."

Source: Cabinet Economic Committee paper entitled *Review of the Business Development Programme*, March/April 1998(?), p.3



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Relevant Internet sites include the following

BIZinfo at <www.bizinfo.co.nz>

Ministry of Commerce at <www.moc.govt.nz>

New Zealand Government at <www.govt.nz>

Small Business Enterprise Centres at <www.sbecnz.org.nz>

Statistics New Zealand at <www.stats.govt.nz>

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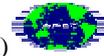
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**HRM PRACTICES AND STRATEGIES OF SMES IN THAILAND
TO FIGHT WITH ASIAN ECONOMIC CRISIS**

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HRM PRACTICES AND STRATEGIES OF SMES IN THAILAND TO FIGHT WITH ASIAN ECONOMIC CRISIS

ABSTRACT

Many Asian countries such as Thailand, South Korea, Malaysia, Indonesia, and Japan, etc. have been facing the economic crisis. It causes various problems to most the Small and Medium Enterprises (SMEs) in this region in running business such as the lack of financial liquidity, changing behavior of the the target customers, out of date technology and the lack of potential employees. Aside from these, there is a problem of lack of good information for making business decision, etc.

To survive in the current economic condition, the Thai SMEs must be sincerely supported by the government. Their must be productivity and quality improvement with low cost ; it can be done by using resources in their firms or organizations with most efficiency. This is because the more we decrease waste, the more we decrease capital ; that is, the cause of waste within the firms or organization is from the staff most. Therefore, the way the entrepreneurs can do immediately and easily is productivity improvement of the employees in the firms or organizations. This means that the employees must have potential to match with their organizational vision and mission. Also, they must suit to the task given in order to manufacture products or perform services that meet the customer needs.

Aside from the productivity of the employees, the entrepreneurs themselves must improve their potential particularly their knowledge of efficient management. The entrepreneurs of the SMEs must know the human resource management strategies in order to get the potential employees. If the entrepreneurs can establish and maintain the human resource management system, they will finally get the potential employees who can help the SMEs entrepreneurs to have a competitive advantage. That can make their organization survive in the competition and succeed in the future.



I. AN OVERVIEW OF ASIA ECONOMIC CRISIS

On July 1997, The Bank of Thailand admitted defeat and floated the baht. Other Asian currencies, such as the Malaysian ringgit, Indonesian rupiah and Philippine peso, soon followed downward. That financial crisis hit Thailand first, moved on to Indonesia, Malaysia, the Philippines, South Korea and is coughing away at Hong Kong and the Chinese mainland. This led Thailand, Indonesia and South Korea to sign up for International Monetary Fund (IMF) loans and programs, and other countries to adopt similar tight-money and austerity policies. One year later, currencies remain under pressure and foreign investors were still staying away. Arup Raha, an economist with Citibank in Singapore, said “The Asian crisis was and remains a debt crisis, first and foremost”.¹ A stumbling block has been the way Asia’s problem debts were spread across thousands of companies, unlike the 1995 Mexican crisis that was centered on government debt. That makes any initiative harder to implement.² With devaluation, high interest rates and a spending crunch, domestic banks and companies wilted, further undermining the financial health of crisis-hit economies.

The economic crisis which happened to the Asian region resulted in many aspects such as fall in currency versus US\$, decline in stock-market index, percent decline in imports, by value, rise in unemployment rate (see Table 1), decline in GDP growth, rise in inflation rate (see Table 2). Aside from this, it effected the 1998 competitive ranks of Asian countries ; that was, they could not maintain their ranks compared to the year 1997 (except China) while most countries outside Asia could still maintain their ranks as there were in 1997 (see Table 3)

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Countries	Currencies	Stock Index	Imports	Unemployment 1997	
Indonesia	-83.2%	-35.0%	-33.4%	16.8%	<i>14.2%</i>
Thailand	-40.2%	-48.0%	-39.5%	8.8%	<i>3.0%</i>
Malaysia	-39.4%	-56.0%	-22.4%	5.0%	<i>2.7%</i>
Philippines	-36.1%	-33.8%	-7.5%	13.3%	<i>10.4%</i>
South Korea	-34.1%	-58.7%	-36.1%	6.9%	<i>2.6%</i>
Singapore	-16.5%	-43.5%	-19.5%	2.2%	<i>1.7%</i>
Hong Kong	nil	-43.2%	-4.0%	4.2%	<i>2.5%</i>

Note : *Fall in currency vs. US\$, June 30 1997-July 3,1998 ; percent decline in stock-market index ; unemployment (1997 in italics) ; percent decline in imports, by value

Source: Adapted from Ricardo Saludo and Assif Shameen, “How Much Longer?,” *Asiaweek*, July 17, 1998, p.41.

¹Ricardo Saludo and Assif Shameen, “How Much Longer?,” *Asiaweek*. (July 17,1998), p. 38.

²Anonymous, “Indiscriminate Slaughter”, *Asiaweek*. (January 16,1998), p. 15

7DEOH * URZVKDQG, QIDMRQIQ\$ VLDQ&RXQMIHV



Countries	Growth				Inflation			
	1996	1997	1998	1999*	1996	1997	1998	1999*
Indonesia	7.6	4.6	-13.4	-2.0	6.5	6.6	65.4	28.5
Thailand	6.7	-0.3	-6.4	-0.2	5.8	5.6	10.5	7.0
Malaysia	8.2	7.8	-1.7	0.5	3.5	2.7	7.0	5.4
Philippines	5.7	5.1	1.9	3.5	8.4	5.1	10.7	7.5
South Korea	6.9	5.5	-3.8	1.4	4.6	4.5	9.3	5.7
Singapore	6.6	7.8	1.2	2.0	1.4	2.0	1.5	1.9
Hong Kong	4.6	5.3	-1.3	1.0	7.0	5.7	3.3	3.3

Note : *Predicted Value

Source: Adapted from Ricardo Saludo and Assif Shameen, "How Much Longer?," *Asiaweek*, July 17, 1998, pp.52-55.

7DEOH 5DQNQJ &RPSHMWYHQHW

Countries	Overall Score 1998*	Rank	
		1997	1998
United States	100	1	1
Singapore	84.3	2	2
Hong Kong	69.3	3	3
Netherlands	67.6	6	4
Finland	66.1	4	5
Norway	64.5	5	6
Switzerland	63.6	7	7
Denmark	63.5	8	8
Luxembourg	63.2	12	9
Canada	62.6	10	10
New Zealand	57.2	13	13
Chinese Taipei	54.6	23	16
Japan	53.7	9	18
Malaysia	48.7	17	20
China	44.0	27	24
Philippines	27.8	31	32
South Korea	25.5	30	35
Thailand	22.9	29	39
Indonesia	21.8	39	40
India	19.6	41	41

Note : *The Institute for Management Development (IMD), a Swiss business school, issues a World Competitiveness Yearbook. Using 259 criteria, the IMD ranks "ability of a nation to provide an environment which sustains the competitiveness of enterprises."

**Index : U.S. = 100

Source : Adapted from Anonymous, "Ranking Competitiveness," *Asiaweek*, May 1, 1998, p.

8.



Aside from the economic crisis, it effects the Small and Medium Enterprises (SMEs) in this region to run their business. These enterprises are facing various problems such as low financial liquidity due to restriction on loan consideration of financial institutes ; decline in purchasing power of target groups ; close their offices or minimize the size of the offices and lay-off their employees. These problems cause and increase unemployment condition which the entrepreneurs must find the solution ; especially the problem of Human Resource Management (HRM). This is because the number of employees is limited, so the employers must find an effective way to ultimately develop their employees' potential. If the entrepreneurs succeed in developing their employees' potential, good quality product can be made to meet the requirements of their target groups. In addition, the entrepreneurs must offer attractive fringe benefits as an incentive of industry. It will lead to make their employees have sense of belonging and royalty to their firms. It could be believed that these enterprises would be able to survive and compete with other enterprises efficiently.

In this study of mine, I would like to discuss only on how HRM could have contribution to the survival of the SMEs in Thailand when they are facing the current economic crisis.

II. THE ROLE OF SMES IN THE ECONOMIC DEVELOPMENT IN THAILAND

Due to the decline in economic of Thailand at present, Most Large Enterprises (LEs), are not able to increase their productive circulation. This is because they are facing inadequate capital to run their business. Therefore, it is essential to develop Small and Medium Enterprises (SMEs) to have adequate potential to help support Large Enterprises. If this incident is applicable, Thai's industry and its economic will be expanded again.

According to the study of World Bank, it is found that the SMEs generally has the rate of increase in efficiency more than that of the LEs.³ At present, there are approximately almost 400,000 the SMEs in Thailand or 80 percent of all enterprises.⁴ In fact, there are around 127,400 industrial plants for the SMEs or 98 percent of all sizes of industrial plants.⁵ It is also found that most sizes of industry are the SMEs in terms of the classification of their industrial production line. (see Table 4)

³Prusanee, "5 Steps to the SMEs Development," *The Interest Journal*. Vol. 17, n. 213 (March 1999), p. 57.

⁴Narut Terdsatheerasak, "The Roles of the Government in the SMEs Development," *Thailand's Investment Promotion Journal*. Vol. 10, n. 2 (February 1999), p.28.

⁵Danai Tianput, "Entrepreneur and SMEs : Survival of Thai Economic," *HR Magazine*, Vol. 20, n. 1 (January – March 1999), pp. 42-43.

**Table 4 : Size of Industry on the Basis of Line of Production**

Unit : Percentage

Line of Production	Size		
	Large	Medium	Small
Food and Drink	3.3	5.7	91.0
Textile and Clothes	10.5	30.6	58.9
Shoes and Leather Accessory	11.6	19.6	68.9
Electronic and Electrical Appliances	9.3	16.6	74.1
Jewelry	7.0	23.0	70.0
Timber and Furniture	1.8	8.3	89.9
Motor Vehicle and Its Assembly	3.8	8.8	87.5
Plastic Products	3.5	11.2	85.3
Para Rubber Products	5.8	17.6	76.6

Note : Large Industry refers to as any industrial firm that hire more than 200 employees.

Medium Industry refers to as any industrial firm that hire 50 - 200 employees.

Small Industry refers to as any industrial firm that hire not more than 50 employees.

Source :Adapted from Chanin Meephokee, "The SMES Situation in Thailand," *Economic Monitor Journal*, Vol. 7, n. 1 (January – February 1999), p. 21

As a result, the SMEs plays an important role to Thailand's economic development process and its society in many aspects as follows :⁶

1. The SMEs is the large source of production that is able to hire a large number of employees in Thailand. It is believed that the SMEs in Thailand employs 4.5 million people which can be considered as 74 percent of industrial employment.
2. The SMEs is considered as an important part of Thailand's economic system since it dominates almost all kinds of industrial production : manufacturing, wholesaling, retailing, and services. Indeed, the export value which is 50 percent of the total export value of the industrial sector belongs to the SMEs' products. Besides, the SMEs produce products and services which can substitute imported products and services.
3. The SMEs is the source for enriching working experience, especially for new entrepreneurs that need not use a large sum of money for investment.
4. The SMEs supports large industries in case of producing raw material and intermediate goods by system of subcontracting between large industrial firm and the SMEs, it will make the manufacturing process complete.
5. Add value to domestic raw materials because it is an industry that domestic resources are mainly used.
6. This will lead to concerning manufacturing such as agriculture sector and there is a way for income distribution and progress to other rural area regions.

⁶Danai Tianput, op. cit., ; Narut Terdsatheerasak, op. cit., ; Anonymous, "The Policy and Determination of Small Industrial Promotion," *Industrial Journal*, 40(February – March 1998), p. 32.



III. DEFINITION OF THE SMES

At present, there has no same standard fixed definition of the SMEs ; each firm unit has their own criterion in defining their SMEs. However, classification of size is depending on criterion of employment and fixed asset (see Table 5). Meanwhile, another definition is defined on the basis of types (lines) of production : Production Sector, Service Sector and Trading Sector (see Table 6)

Table 5 : Classification of Thailand's SMEs on the Basis of Fixed Asset and Labor Force

Organization	Medium		Small	
	Fixed Asset (million baht)	Labor Force (person)	Fixed Asset (million baht)	Labor Force (person)
The Small Industrial Finance Corporation of Thailand, SIFC	-	-	Not over 50	
The Small Industrial Credit Guarantee Corporation	-	-	Not over 50	
The Industrial Promotion Department, DIP	20 - 100	50 – 200	Not over 20	Not over 50
The Industrial Council of Thailand	20 – 100	50 – 200	Not over 20	Not over 50
The Industrial Finance Corporation of Thailand, IFCT	100 – 500	-	Not over 100	
Bank of Thailand	Not over 500*	-	Not over 50	

Note : *Only Loans through the Finance Corporation

Sources : Adapted from Somchai Tuntithanawatt, "The SMEs Situation in Thailand." *Thailand's Investment Promotion Journal*. Vol. 10, n. 2 (February 1999), p. 26 ; IFCT, "The SMEs Support," *Report presented to Ministry of Finance*, December 1998, p. 51

**Table 6 : Classification of Thailand's SMEs on the Basis of Business Line (Type)**

Line (Type)	Medium and Small	Small
1. Production	Not over 200 million baht	Not over 50 million baht
2. Trading		
- Wholesaling	Not over 100 million baht	Not over 50 million baht
- Retailing	Not over 50 million baht	Not over 30 million baht
3. Service	Not over 200 million baht	Not over 50 million baht

Source : Adapted from Pornsarun Rungcharoenkittkul, "Risk Reduction and Be Ready Before Giving Loan to the SMEs," *The Money and Banking Journal*. Vol. 18, n. 204 (April 1999), p. 122.

It is obvious that there is a restriction to study this issue because there are different criteria in defining definition. This is because database collected by each organization may not be the fix ones ; it may change a little bit. Most definitions depend on the number of employees and fixed asset as criteria in classifying the SMEs

IV. THE STRUCTURE OF THAILAND'S SMEs

Most SMEs in Thailand are run by the Thai whereas there are few SMEs of which investment and new technology are shared by foreign enterprises. The SMEs entrepreneurs are expertise in a particular field and they have an average working experience about 15 years. Most of them graduated not over secondary school level and the rest are Bachelor's Degree holders or above. It is found that the SMEs entrepreneurs in Bangkok and its periphery have more working experience and higher education background than those of other regions (see Table 7)

Table 7 : Working Experience and Education Background of the Entrepreneurs

Regions	Working Experience (years)	Education Background (%)				
		Bachelor	Cert./ Dip	Secondary School	Primary	Others
Bangkok and its periphery	18	46	12	15	20	7
North	15	39	11	20	29	1
Northeast	13	21	15	19	39	6
South	13	14	18	27	39	2
East	11	29	10	7	50	4
Central	16	12	13	20	50	5
Average	15	28	13	18	36	5

Source : Adapted from IFCT, "The SMEs Support," *Report presented to Ministry of Finance*, December 1998, p. 55



The SMEs organization has been registered in the form of sole and limited partnership of 57 percent ; especially 39 percent for the sole. This shows that the administration style of the SMEs is like “One Man Show and Family Business” (see Table 8)

Table 8 : Format of SMEs Registration in Terms of Regions

Regions	Registration Format					
	Sole		Limited Partnership		Company Limited	
	Number	%	Number	%	Number	%
Bangkok and its periphery	21	5.6	76	20.1	281	74.3
North	53	40.5	34	26.0	44	33.6
Northeast	64	55.2	25	21.6	27	23.3
South	72	75.1	16	16.7	8	8.3
East	41	39.8	11	10.7	51	49.5
Central	142	78.5	21	11.6	18	9.9
Total	393	39.1	183	18.2	429	42.7

Source : Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 57

The business performance of the SMEs is supported by 2 capital sources : internal source capital and external source capital. The former is own capital and profit from the business which both can be estimated as 32 percent of the overall capital. The latter is mostly from commercial banks (45 percent) and the rest is from state-owned bank (9 percent). Aside from this, the SMEs non-systematic source of capital such as loan from relatives or from private sources of loan where its interest is very high (10 percent) (see Table 9)

Table 9 : The SMEs’ Sources of Capital

Sources of Capital	Capital Ratio(%)
1. Commercial Banks	44.6
2. Own Capital and Profit from Business	32.3
3. State-Owned Banks	8.9
4. State Financial Institute for Special Purpose	1.5
5. Foreign Investment	1.4
6. Finances and Trusts	1.4
7. Special Credit in the Government Project	0.3
8. Non-Systematic Financial Sources	9.6
Total	100

Source : Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 60



V. POLICY AND PLAN OF THE STATE SECTION FOR SUPPORTING THE THAILAND'S SMEs

The Government has focused on the importance of the SMEs towards the economic recovery of Thailand. The SMEs has been supported to meet the production factors within the rural areas which will lead to the poverty eradication at the moment. In addition, these will result income distribution, rural development and equality in basic standard of living. The state sector plays important roles in supporting SMEs as follows :⁷

1. The government has set the policy to promote the SMEs in the National Economic and Society Development Plan, Version 8 (1997 – 2001). It is briefly described as :
 - 1.1. To develop the potential of the Thai people to have managerial administration and information technology skills ; especially for those who are entrepreneurs, business leaders in communities, members of woman groups and cooperative groups.
 - 1.2. To support cottage industry, agro-industry and processed agricultural-items or industry in communities that are in line to the communities' resources. Also, it focuses on change in trend of thoughts : from not only investment for profit but also to investment for social development.
 - 1.3. To support human development and to improve quality of human life. This means to promote the communities to initiate business run and owned by each community which coordinated by private sector, private development organizations and community administrative organizations. The target businesses are agricultural business, handicraft business and business that needs local employment.
 - 1.4. To promote the SMEs distribution to the regions. It can be done by improving the local entrepreneurs' abilities and skills. Aside from this, moving basis of manufacture in Bangkok to its nearby areas and increase the roles of private and non-government development organizations.
 - 1.5. To establish provide a permanent organization to systematically develop the SMEs. This is to cement the job planning policy, allotment, and distribution of resources to be in the same direction.
2. Trends for the SMEs Promotion in the Industry Master Plan, Version 1 (1997 – 2001) of the Ministry for Industrial Affairs (Small and Medium Industries)
 - 2.1. General Trends - long term plan is provided. It focuses on decreasing capital, increasing products' value, improving administrative system, and creating network among small and medium industries. The government must arrange a working system of the state sector efficiently to meet trends mentioned above.

⁷ IFCT, "The SMEs Support," *Report presented to Ministry of Finance*, December 1998, pp. 66-77.

- 2.2. Trends for Medium Industry Development – provide budget for staff of the SMEs development organization and national productivity institute. Support provincial



Industry Council and Provincial Chamber of Commerce unification in order to determine the trends and direction of the SMEs development and also to establish the “one stop service” center.

- 2.3. Trends for Moving of Domestic Manufacturing Base – support budget for infrastructure at least 50 percent in order to establish industrial estates in various regions rather than only in Bangkok. Also, support budget and staff to develop industry in communities and rural areas project.
3. In the Plan of Industrial Structure Adjustment (1998 – 2002) which determines development mechanism for the SMEs as follows :
 - 3.1. Develop coordination between the state and public organizations to be the coordination center for industrial development policy advice.
 - 3.2. Provide motivation for unification within SMEs group as an association to maintain their rights and represent their group in business negotiation.
 - 3.3. Create linkage between the SMEs and large business for the benefits of technological transfer and necessary supports.
 - 3.4. Support unification in the form of co-operative to be the appropriate size in running their business
 - 3.5. Support loan from both financial institution of the state and the private sectors
 - 3.6. There must be “Venture Capital” between state and private sectors
4. Major firms or organizations concerning with the promotion and development of SMEs :
 - 4.1 Firms or organizations that support capital are as follows :
 - Commercial Bank, Finance Company, and Financial and Securities Company
 - The Industrial Finance Corporation of Thailand
 - The Small Industries Finance Corporation
 - The Small Industry Credit Guarantee Corporation
 - The Export - Import Bank
 - The Bank for Agriculture and Agricultural Cooperative
 - The Government Housing Projects Bank
 - The Government Savings Bank
 - The Bank of Thailand



- Department of Industrial Promotion

4.2 Major firms or organizations concerning with marketing support :

- Department of Exporting Promotion
- Department of Industrial Promotion

4.3 Major firms or organizations supporting the development of staff, technology, and management

- Department of Industrial Promotion
- Department of Skill Development
- National Science and Technology Development Agency
- Thailand Institute of Science and Technological Research
- The Thai Industrial Standards Institute
- The Industrial Textile Development Institute, Food Institute, Thai-German Institute
- Department of Science Services
- The National Institute for Productivity
- The Thai-Japan Technological Support Foundation
- Department of Non-Formal Education
- Department of Vocational Education

4.4 Major firms or organizations supporting investment and information for investment :

- Office of Board of Investment
- The Federation of Thai Industries
- The Board of Trade of Thailand
- The Industrial Estate Authority of Thailand
- The Provincial Industry Office
- The Office of Commercial Affairs
- Department of Employment
- The Foundation for the Promotion of Supplementary Occupations and Related Technic of Her Majesty Queen Sirikit of Thailand



VI. THE ECONOMIC CRISIS INFLUENCING SMEs IN THAILAND

According to the economic crisis mentioned above, it causes the SMEs in Thailand facing problems in various aspects :

1. Marketing

The results of the World Bank's study reveal that the most important problem of the Thai SMEs is the lack of purchasing power of the target group.⁸ When the economic crisis happens, the country's economic slow down. The lower the purchasing power of the target group is the demand of products is also lower. In fact, most Thai SMEs focus on producing goods or service to meet the needs of domestic market. Also, there are a lot of SMEs producing or offering goods or services to meet the needs of the people living nearby. These problems affect on the Thai SMEs a lot. Besides, free trade policy causes the Thai SMEs face competition not only among themselves but also with products manufactured by large firms, and imported products.

2. Capital

The Thai SMEs are facing the lack of financial liquidity resulting from the economic crisis. The uncertainty of the currency exchange rate causes the Thai SMEs reduces the quantity of production to save cost. The result of the Bank of Thailand's survey (1992-1997) reveals that every kind of SMEs has tendency to decrease its production capacity. (see Table 10)

7 DECH 3 URGXFWRQ&ESDFIW RI 60 (VIQWH<HDU -

Types of Business	Production Capacity (%)					
	1992	1993	1994	1995	1996	1997
Food	49.1	51.2	52.6	51.0	45.4	43.8
Beverage	80.6	81.0	79.2	88.9	91.4	80.7
Tobacco	71.1	73.5	79.3	75.2	84.2	79.0
Building	79.9	77.6	79.0	83.0	72.1	68.6
Transport Equipment	76.2	79.1	79.4	85.4	74.0	49.8
Petroleum Products	100.0	100.0	100.0	93.2	85.7	90.1
Others	77.6	72.7	80.1	77.1	71.6	66.8

Source : Adapted from IFCT, "The SMEs Support," *Report presented to Ministry of Finance*, December 1998, p. 59

⁸Karnjana Noppan, Sanya Aksonmut and Bunsom Sittipong, "Talking of the SMEs Problem Solving with Somsak Tamesomboonchai," *Thailand's Investment Promotion Journal*. Vol. 10, n. 2 (February 1999), p. 36

Aside from this, it is found that in the last quarter of the 1998s and the first quarter of the 1999s ; the number of firms closed reaches to 3,391 and 2,544 firms respectively. It is indicated that the number of firms closed in Bangkok and its periphery is 3,081 and 2,276 respectively (90.8% and 89.5%) out of the whole country. (see Table 11)



7 DEOH ' DMRQ) IIP V&@RVHG IQWH<HDU -

Unit : Amount

Areas	Quarter 1 1997	Quarter 2 1997	Quarter 3 1997	Quarter 4 1997	Quarter 1 1998
Bangkok and its periphery	1,193	1,193	1,690	3,081	2,276
Other regions	285	109	121	310	268
7RWO	1,478	1,302	1,811	3,391	2,544

Source : Adapted from IFCT, "The SMEs Support," *Report presented to Ministry of Finance*, December 1998, p. 59

Thanks to the Thai SMEs are facing the problem of the lack of financial liquidity due to ; (1) Finance Institutes are important sources of capital which is now strict in credit much more than before. This will prevent from non -profit liabilities (NPL) because it will affect to the working performance of the finance institutes if the NPL is increased. Thus, this can be seen that only 3 percent of credit is given to the SMEs by the state's finance institutes and other institutes carrying out the policy followed that of the state. However, the rest (97 percent) is the credit of the institute of the private sector whereas the Japanese's finance institute supports the Japanese SMEs for 9 percent of the credit given to all SMEs (see Table 12). (2) Most SMEs entrepreneurs manage their business either by themselves or together with their families. This leads to problems in various aspects : the accounting is not systematic, knowledge in financial administration is inadequate, lack of knowledge in planning accounting and duty tax, lack of understanding in credit acquisition. (3) Lack of collateral ; it can be seen that credit guaranty of the government for the Thai SMEs is much less than that of the Japanese. (see Table 13) The credit guaranty institute for the SMEs in Thailand is the Small Industries Finance Corporation, this private organization shares with the Thai government. There is some restriction to support the SMEs since cost-benefit of such Finance Corporation is overly concrened. (4) Finance institute like commercial banks seldom offer loan to SMEs, particularly for small firms in remote areas. This can be summed-up that the problem of the lack of financial liquidity, unusually high interest rate of loan and uncertainty of currency exchange rate are major problems of the Thai SMEs at the present



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Unit : A million million baht

	Japan	Thailand
State (Government)*	9 (9%)	0.08 (3%)
Private	91 (91%)	2 (97%)

Note : *Finance institutes of private sector following the policy of the government are included

Source : Adapted from Prusanee, “5 Steps to the SMEs Development,” *The Interest Journal*. Vol. 17, n. 213 (March 1999), p. 60

7 DEOH &RPSDULRQIRU&UHGWDIDQW 60 (V

Unit : A million million baht

	Japan	Thailand
7KH60 (V&UHGW	100	2
Credit guaranteed by the government	9 (9%)	0.002 (0.09%)

Source : Adapted from Prusanee, “5 Steps to the SMEs Development,” *The Interest Journal*. Vol. 17, n. 213 (March 1999), p. 60

3. Labor Force

Thanks to the financial problem of the Thai SMEs at present, Production have to be decreased and many are closed. As a result, a lot of entrepreneurs have to lay-off their employees and some have to lessen or decrease the employees’ salary. The report of the Ministry of Finance shows that the first quarter of 1998 has a decreasing employment of 8.7 percent. It mostly happens to household and glass products business (23% decrease) next are Textile and clothes business (22.5% decrease) and followed by paper products and publication business (16% decrease).⁹

The Thai SMEs generally depends on labor force chiefly ; especially the SMEs in the regions. These labor force are not well-educated and most of them do not work as permanent job, which is considered as one major problem. Since the uncertainty of the number of employees in each factory, it affects the production process and the quality of products. This is because the potential of the employees is limited. Moreover, the employees have no motivation to work because there is inadequate fringe benefits and they don’t know when to be laid off. This is one reason why the labor often apply for the SMEs jobs and work there not so long time before leaving. As a result, the entrepreneurs are not able to arrange seminar and workshop training continuously. It is also included, very often, that many skill-labors like to move to another bigger firm which offers more attractive fringe benefits.

⁹IFCT, op. cit., p. 63.



4. Management

The Thai SMEs has developed from knowledge and experience of its owners or inherited from their parents. Therefore, it is not a systematic administration because the business is carried out by the family members or relatives. Making decisions of the entrepreneurs are based on their knowledge or experience rather than good studying and data analysis ; particularly knowledge of marketing information, law, accounting and finance, labor force relations, and human resource management. The entrepreneurs also have problems in the trends of thought in administration which keeps stick on traditional system and their accounting system has no quality as well.

5. Production and Information Technology

The Thai SMEs often use simple technics due to low capital which causes low efficiency in production needed to be improved. Meanwhile, the SMEs also having a problem of supporting capital source and it causes restriction in improving technology to meet the needs of the markets. In fact, foreign markets need complicated process of production and have more specific character than before. Lastly, the entrepreneurs and their staff or employees lack of basic knowledge to achieve new knowledge or renovation. Eventually, there is no development in product forms and quality.

However, Thailand still needs more complement on the management of data and information both international and business aspects. The entrepreneurs also lack of potential in making use of data or information existing in the world which they can adopt it to their system such as Internet and Managerial Information System Literacy.

6. Access of Data Information and Promotion Service of State(Government) Sector and Other Organizations.

Many of the SMEs informally establish their firms e.g. at home or factory in town houses which no trading registration. This obstructs state sector's service when contact, or even they have already registered, but still not understand about tax policy of the government. They sometimes afraid of paying some more tax, or to be testified about environmental conservation or safety standard as the law has determined.

Moreover, Private organizations i.e. The Thai Banks Association, The Thai Chamber of Commerce and Councils of Thai Industry, etc. have no significant roles in offering services due to limited staff and budget. Nevertheless, most SMEs entrepreneurs worry that their trading secret may be revealed to their competitors and the public since Thailand has no law concerning about trading secret to protect the SMEs.

VII. TRENDS OF THE THAI SMES DEVELOPMENT IN THE ECONOMIC CRISIS

As years pass by, Thailand has not focused on the essentials of the SMEs development. The Thai SMEs is now facing various problems due to the economic crisis as



mentioned. In order to develop the Thai SMEs to survive in this situation, 2 factors are recommended :

1. Being supported by the government.
2. Managerial efficiency of the entrepreneurs and the quality of the employees development.

1. Being Supported by the Government

The government must support the SMEs development in every aspects which will lead to success. It comprises :

1.1 Financial support

- 1.1.1 Credit support – One significant problem is the lack of capital. Although there are some particular finance institutes such as the Small Industrial Finance Corporation of Thailand (SICF) and the Industrial Finance Corporation of Thailand (IFCT), it is not successful since there is a financial restriction and no branch in the regions. Thus, roles and scope of these finance institutes should be expanded ; especially the SIFC that should have roles in promoting credit offering rather than being the competitor of the commercial banks. The SIFC should not offer lower interest than that of the commercial banks as well. Otherwise, the borrowers will pay debt when they have much money enough to the commercial banks which offer higher interests. The IFCT should raise its roles in offering services to the SMEs especially for Small and Medium Industries (SMIs). Both the SIFC and IFCT should raise their roles in counseling services and project study for the borrowers.

Moreover, the government should encourage the commercial banks to raise their roles because they scatter almost everywhere in the regions. The Bank of Thailand should provide loan with low interests to commercial banks offering this loan to the SMEs. However, there must be adequate motivation in providing loan to commercial banks ; suggestion to commercial banks to offer loan with interests as high as interests in the market. This would be compensations of risk and expenses in project assessment.

Meanwhile, finance institutes controlled by the government ; the Export - Import Bank, the Government Saving Bank, the Government Housing Bank, the Bank for Agriculture and Agricultural Cooperatives for instance, must expand their roles and scope in supporting loan for the SMEs. Especially, the Bank for Agriculture and Agricultural Cooperatives which also offer loan to activities which exclude from agricultural activities. Also, they should have roles in allocation of loan to the SMEs in rural areas. It may be credit for rural development or credit for supporting saving groups in rural areas.



- 1.1.2 Credit guaranty – Credit guaranty for the SMEs is one aspect to encourage private finance institute to support credit for the SMEs. Therefore, the Small Industrial Credit Guarantee Corporation, which provides credit guaranty to the Thai SMEs supported by the government, must have a certain target in expanding size of providing credit guaranty. To reduce guaranty fee should also be included which will be helpful for the SMEs.

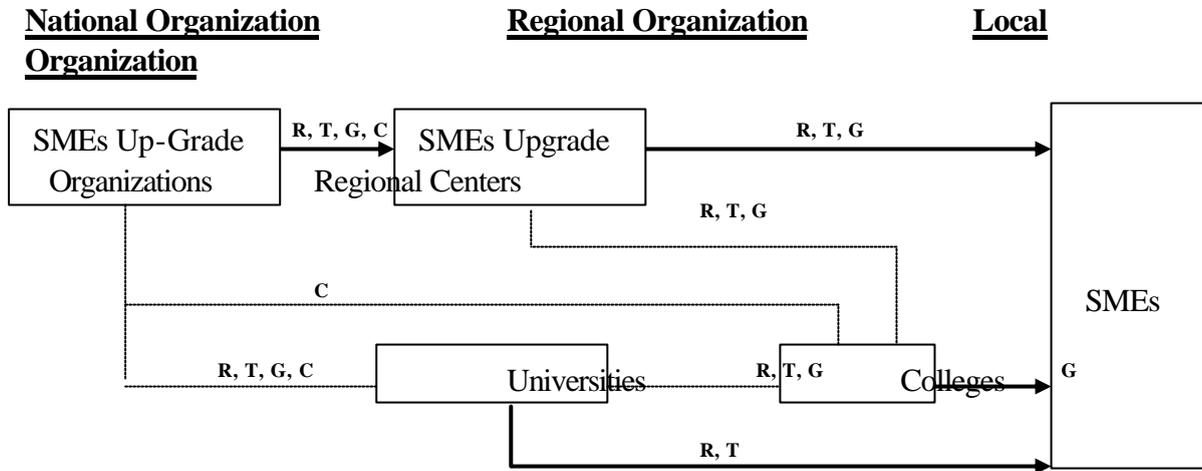
1.2 Up-grade of technology and management

Most of the Thai SMEs have problems in manufacturing ; machines and technology are out of date, problems of management, administration is not systematic and lack of business running knowledge. The Thai SMEs should do as follows :

- 1.2.1 Form a central organization with a direct responsibility to upgrade the SMEs in the aspects of technology and management. It also acts as the center for development, recruitment and registration of staff who are resource persons and staff who are the consultants of the SMEs.
- 1.2.2 Establish organization networks or centers for regional up-grade throughout the country. Besides, the educational institute's roles must be expanded to play important roles as the center of technology. Universities will be the centers for research, development and seminar. Meanwhile, colleges will play roles in technology and management counseling directly to the SMEs.
- 1.2.3 Support budget and privilege to concerning organizations.
- 1.2.4 Provide seminar courses to develop potential of counseling staff and staff within institutes.
- 1.2.5 The structure of the concerning organization can be classified as national organization, regional organization and local organization. (see Figure 1)



Figure 1 : Working Performance of the Organizations Concerning Up-Grade Technology and Management of the SMEs



Note : R – Research and Development T – Training G – Guidance
 C – Giving certificates to seminar and counseling staff

- - Direct SMEs up-grade organizations
- - - - - - - Indirect SMEs up-grade organizations

Current organizations which play roles in the SMEs

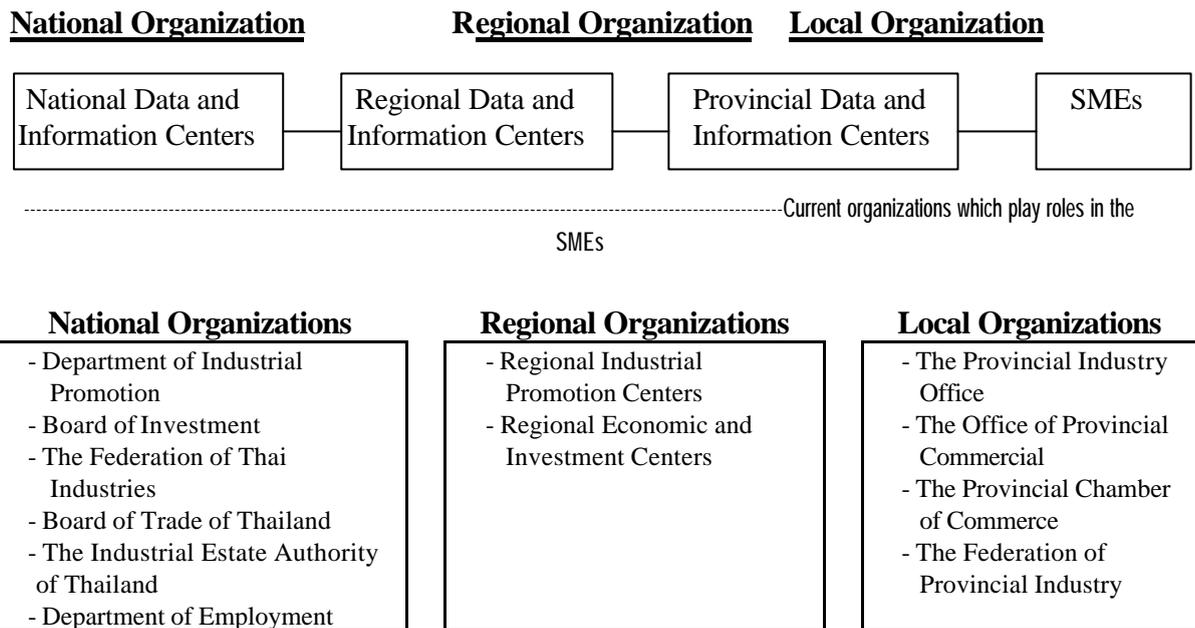
National Organizations	Regional Organizations	Local Organizations
<ul style="list-style-type: none"> - Department of Industrial Promotion - Department of Skill Development - National Science and Technology Development Agency - The Thai Industrial Standards Institute - Thai-German Institute - Department of Science Service - The Nation Institute of Increase Product, etc. 	<ul style="list-style-type: none"> - Regional Industrial Promotion Centers - Skill Development Centers - Universities, etc. 	<ul style="list-style-type: none"> - Rajabhat Institutes - Rajamongala Institute of Technology - Colleges, etc.

Source : Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 87

1.3 Information center establishment

The government should establish the national SMEs information center to collect, arrange and support data and information of technology, manufacturing, marketing, and management. Sub-centers must be established, both regional and provincial centers, to support these data and information to the SMEs. (see Figure 2)

Figure 2 : Working Performance of Data and Information Centers



Source : Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 88

1.4 Unification of the SMEs

This helps allocate limited resources efficiently. The government should support the SMEs unification as follows :

- 1.4.1 Provide motivation for the unification of the SMEs such as tax and investment privilege and long-term loan with low interest.
- 1.4.2 Promote the SMEs unification in the form of a cooperative to have more power in negotiation and to reduce expenses. The entrepreneurs who have the same business must group themselves as a cooperative in order to have the “economy of scale” when carry on various activities such as purchasing, manufacturing, market planning, product distribution, product development and loan of the members.
- 1.4.3 Establish saving cooperative of entrepreneurs for financial aid when having the problem of the lack of financial liquidity. This means to help each other before asking for help from other financial institutes.
- 1.4.4 Establish an organization as the center of policies and trends of operation setting for various cooperatives at a time to operate in the same trends. This organization will be their representative to contact or coordinate activities with the government sector in case of need for help.



1.5 Establish an office for the SMEs support

The government should establish an office for the SMEs support which will be the center to submit policies concerning the SMEs to the government systematically and continuously. This office will conduct academic research study of the SMEs' problems.

In conclusion, although the government sector plays roles as the supporter, clear directions for development may be set for the two groups of SMEs, one for the SMEs in rural areas, and the other for the high-tech SMEs. The former's direction must be related to agricultural development and self-dependent community etc. Meanwhile, the latter's direction must be related to policies for admitting foreign investment and receiving technology abroad.

2. Managerial Efficiency of the Entrepreneurs and the Quality of the Employees Development.

2.1 Managerial Efficiency of the Entrepreneurs Development

2.1.1 The entrepreneurs must improve their entrepreneurship of which characteristics are as follows :

- Need for achievement
- Calculated risk-taking and risk sharing prosperity
- Locus of control
- Personal values, integrity
- Need for power
- Need for affiliation
- Commitment, determination and perseverance
- Assuming personal responsibility
- A grip on reality
- Sense of humour
- Tolerance of ambiguity, stress and uncertainty
- Decisive, urgent
- Tolerance of failure.¹⁰

¹⁰Carson, David., Stanley Cromie, Paucic McGowan and Jimmy Hill, "Marketing and Entrepreneurship in SMEs : An Innovative Approach," New Jersey : Prentice Hall Inc., 1995, p. 51



At present, the entrepreneurs must have broader vision particularly in complex problem identification and they must be optimists and ready to confront problems. In fact, the entrepreneurs should avoid running the same business as other large entrepreneurs are doing. Also, the business they are going to run should be difficult for the large entrepreneurs to carry on or even they can do it but with no efficiency. The entrepreneurs must be tolerance, flexible and flair in running their business.

- 2.1.2 The entrepreneurs must have knowledge of financial management. They should plan their financial administration, have clear objective in spending money both long-term and short-term. Besides, they must have knowledge and understanding in the principles of project planning preparation and credit acquisition. They must have numeral data showing their financial condition systematically because it must be considered when asking for loan from finance institutes.
- 2.1.3 The entrepreneurs must have knowledge of marketing management. Since the customer needs nowadays are changing, the entrepreneurs must learn the condition of market demand. They must change their trend concept of thought from product oriented to market oriented ; that is – manufacturing for their target customers. This will begin with learning their target customer behavior in order to clearly have adequate customers for selling their products. Also, they will be able to place their positions correctly focused on quality of their products. The prices of their products must be accepted with enough profit. The entrepreneurs must focus on the advantage of the SMEs ; quick making decision to meet the need of their customers in time. According to the current economic condition, the entrepreneurs should use the low cost marketing strategy by decreasing the capital and other expenses within their organization. Also, they can use marketing tools with low budget to increase sales which will lead to make profit e.g. if there is clear target group and small market size, they should change from Mass Media to Direct Marketing. Otherwise, the entrepreneurs may use database marketing by always finding information concerning with the customers continuously. This method makes the customers feel they are important to the organization. Relationship marketing which makes good relationship continuously will inspire the customers to be loyal to the organizations for a long time, etc.
- 2.1.4 The entrepreneurs must always adapt themselves and improve production technology focusing on quality control systems. This will help manufacturing standard products focusing on the importance of the internal quality control section. Manufacturing procedures using labor force needs to be inspected during the periods of before and after manufacturing and before leaving from the factory. For the entrepreneurs who have modern machines or equipment (which have production efficiency but do not use it much enough), group themselves in manufacturing products is advised. They may share their raw materials order which enhances them have an advantage in economy of scale. Moreover, the entrepreneurs ought to study various basic knowledge



which is useful for efficient manufacturing : Total Productivity Management, Total Quality Management, Quality Control Circle, and Material Registration Process, for instance. However, the SMEs having the policy in joint venture with foreign firms should prepare basic technology and their own staff for the technology transferred from abroad. This includes the study of manufacturing process leading to the standard system of manufacturing among the countries such as ISO and JIS. On the other hand, the industry using a lot of labor force (local labor) ; using natural raw materials or local raw materials and producing products to meet the needs of the customers in their communities should unify groups of local labor force and use the machines or equipment together in order to produce products more efficiently.

2.2 Quality of Employees Development

The productivity improvement suits to the SMEs in the economic condition nowadays means to increase efficiency with low cost. This method can be done by using resources in their firms or organizations with most efficiency. This is because the more we decrease waste, the more we decrease capital ; that is, the cause of waste within the firms or organizations is from the staff most. The staff or employees must have quality, responsibility and discipline. They are able to learn from their jobs or duties and finally perform their jobs given correctly since the beginning . Therefore, human resource management to have good quality staff or employees is an important basic aspect of survival of the SMEs at present. It can be done as follows :

2.2.1 Promote every staff or employee in their firms or organizations to help improve environment within their firms by using the 5 S :¹¹

- (1) Seiri – clearly identify objects need to be used and those need not to be used
- (2) Seiton – placing objects in order and can be reached easily
- (3) Seiso – cleaning the area within the firm
- (4) Seiketsu – always keep clean and tidy by doing like the 3 S mentioned
- (5) Shitsuke – keep following the instruction correctly and continuously.

¹¹Witoon Simachockdee, “SMEs : A Chief Industrial Pillar for the Nations’ Recovery,” Bangkok : Prachachon Co., Ltd., 1999, pp. 80-81

As you can see, the 5 S is easy to do and can be practiced at once if it get to be in habit, the basic of resource utilization will be worthwhile and efficient. It creates quality both of the staff or employees and the firms or organizations itself.



2.2.2 There should be public relations communication within their organizations. According to employees lay-off, decreasing employees' salary, and reengineering their organizations, it causes some employees lack of confidence on their current jobs. There must be tension and it will lead to have bad attitude towards their organizations. To prevent from this, it is recommended as follows :¹²

- (1) Give direct information and open more chances to employees to discuss with their administrators.
- (2) Inform employees by the administrators at once when there are changes within their organizations. Give the employees chances to discuss or show opinion ; especially some employees who have negative attitude towards changes.
- (3) The employees must receive information continuously, including printed media that must be distributed for certain continuous periods during changes. Causes and effects of changes must really be informed to make understanding between the employees and their administrators.

2.2.3 Arrange workshop training for the employees in order that they are able to produce good quality products. The following are advised :¹³

- (1) On-the-Job-Training for employees by the administrators or the appointed staff.
- (2) Group Training. This method gives the employees chances to show their opinions and change experience to one another.
- (3) Job Rotation. It enhances employees the knowledge skills and experience to make them able to work more than one given job in case of someone discharge. The employees will be proud as they are worthwhile for the organizations and there is high tendency for promotion.

¹²Tayat Sriprang, "Look Back for Hope of Advancement," *HM Magazine*, Vol. 20, n. 1 (January-March 1999), p. 17

¹³ Chanin Chunnaphantharuck, "*Small Business Management*," Bangkok : Division of Document and zBook. Rajabhat Institute Suandusit, 1998, p.208

Aside from this, the employees should be encouraged to learn by themselves such as reading, watching V.D.O. or listening to tape recorders, etc. In other words, they may be recruited to attend seminar or workshop training or invite some people who succeed in their career to transfer knowledge and experience to the co-workers.



There must be 3 aspects in the workshop training :¹⁴

- (1) To improve the employees' knowledge and working skills.
- (2) To create good attitude towards their organizations, customers and co-workers.
- (3) To educate the employees carry on their way of life with ethic and modesty.

2.2.4 Set the policies of trends and encourage every section to have goals and measures (GAMs) and it must be agreed among the employees and the administrators. The policies must be compatible with the goal of the organizations. Indeed, the GAMs can be changed annually depending on agreement of both employees and administrators. Evaluation on work performance must be compared with the GAMs.¹⁵ Salary increment, bonus and promotion must depend on work performance compared to the GAMs.

2.2.5 There must be compensation administration. Salary is an important factor for employees. Therefore, the entrepreneurs must have a clear policy of salary by classifying types of job and evaluating work performance following the GAMs. This helps salary payment more justly and the paying system will be more flexible and easier to operate. Besides, the entrepreneurs have to consider about what fringe benefits should be added to keep potential employees stay with them for a long time.

2.2.6 Create relationships within organization by using two-way communication. The entrepreneurs must give their employees chances to show opinions, suggestions and problems that are happening. It can be done by meeting, circulation, and informal discussion, etc. Moreover, recreation activities should be provided for employees to relax. It enriches unity and friendship among employees themselves or between employees and entrepreneurs such as sports day and party.

¹⁴Seree Wongmontha, "*Low Cost Marketing*," Bangkok : A.N. Printing Co., 1997, pp. 137-138

¹⁵Anonymous, "Plan of Personnel Resource for the Year 1999," *HM Magazine*, Vol. 20, n. 1 (January-March 1999), p. 22

The productivity and the quality improvement (particularly of the employees) must be developed to suit their firms or organizations. They have to do this process continuously now that employees who have potential will also make the SMEs have good quality as well.



VIII. CONCLUSION

As you can see, the economic crisis at present makes the Thai entrepreneurs face various problems such as marketing problems which target customer groups has less purchase power. Besides, there are behavior changing of the target customer groups, the lack of financial liquidity which is an important problem now due to finance institutes are strict in giving credit much more than before. Also, there are problems of employee lay-off to decrease their number. The problems of lack of knowledge and managerial skill of the entrepreneurs, modern technology and good information system for making business decision are also included.

Hence, to recover the Thai SMEs, the government must be sincere to help them. The entrepreneurs must improve their potential and use the strategies of human resource management in order to develop their employees' potential. As a result, they are able to produce good quality products which are needed by the customers and result in the SMEs survival and their growth in the future.



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HUMAN RESOURCES AND SME's IN MEXICO

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HUMAN RESOURCES AND SME'S IN MEXICO

The significance of SME's in the global market has been increasingly recognised. In the APEC region, SME's make up 90% of all enterprises and are responsible for an average of 58% of employment in their respective member economies, contributing also with an average of 45% of the GDP and about 35% of the regions total exports.

Latin America is not exception to this, where around 20% of the enterprises are small and medium, and 90% are micro. The micro sector is composed mainly of selfenterprisers, family business, and economic units of around of 10 to 5 employees. In Latin America there are more than 50 million of this units, which employ more than 150 million people.

In Mexico as well, it is clear the great importance of the SME's. According to the 1994 statistics around 99.8% of the enterprises in México are SME's¹, meaning around 2,400,000; out of these 99.8%, 98.8% are micro enterprises, 0.6% are small and 0.4% are medium. They employ around 78% of the economically active population, and contribute to 69% of the GDP. Approximately 32% are in the service industry, 12% in the manufacturing, 55% in commerce, and 1% in the construction.

The roll of the SME's is crucial to our economy in the actual competitive world and their contribution to growth and development is essential. It has been proved that SME's have a fundamental roll against the unemployment problem. Due to it's characteristics the SME's employ more people in proportion to the capital investment than large companies, are more flexible to adapt to the demand variations, innovate in smaller time gaps, can be located anywhere, and have the ability to integrate their productive process to those of bigger enterprises.

On one side we have the SME's that are the result of unemployed people, who do not have an opportunity in the formal economy, and are composed of nonqualified people, like the self employed people throughout Latin America. These enterprises have been the right place for a higher generation of employment to the lowest cost, working as a mechanism of income distribution to the low status of the society. And on the other side, there are cases in which they are dynamic entities that adopt flexible forms of specialisation in order to compete in the different markets.

In Mexico the sector of the SME's has grown considerably since the eighties, contributing in a more important manner to the creation of new employment than the bigger companies. Even though it has been consider in the last years a sector of great priority in the industrial policy, this has to be critically evaluated, due to the fact that there are still a lot of limitants that affect the productive units in this sector.

The diagnosis made here takes into consideration, in a general manner, the fact that the entrepreneurial development has been limited by two types of problems: the internal problems, theoretically within the control of the enterprises, like personnel administration, technology election, and the capability to use the information. And the

¹ We consider micro enterprises those with 1-15 employees, we consider small enterprises those with 16-100 employees, medium enterprises with those from 101-250, and with a higher number they are considered big enterprises. There is another way of classification according to annual sales.



external ones, out of the control of the enterprises, like the structure of the market, the sources of information, the legal and institutional factors, and the official policies.

EXTERNAL PROBLEMS

There are external problems that affect the productivity and efficiency of SME's and their human resources:

- Fiscal problems: high taxes alter the SME's cost structure, affecting their investment policy in human resources. There is a need to give some kind of fiscal stimulus or deductibility if SME's invest in training and modernisation of technology according to their size, activity and maturity.
- There are problems due to lack of information: SME's are not aware of the different existing programs for their support given by the government and other institutions. The chambers of the sectors are not accomplishing their roll of informing the entrepreneurs, due to the lack of sensibility and articulation between them and the needs of the enterprises.
- There is a lack of programs to support the SME's in different areas, like laboratories to certify quality controls, etc. There are a couple of programs to support them in the diagnosis of their enterprise, but they do not propose or take that diagnosis into practice.
- Financing problems due to high interest rates, lack of support for new projects, and lack of competitive instruments to finance SME's.
- Problems related with technological assistance, SME's have problems of access to technology due to a lack of knowledge and economic resources. The universities do not offer adequate solutions to technical problems in enterprises, and the support given for technological development, consultancy and assistance is mainly designed for big enterprises.
- Problems related with the legislation, which instead of supporting the SME's increase their operational difficulties.
- Problems related with the environment of the enterprises: corruption, bureaucracy, and the great amount of economic and political problems within the country.
- Lack of institutional support for SME's.

INTERNAL PROBLEMS

The most important internal problems, which need to be solved are: the small priority assigned to human resources, which results in a low level of efficiency and make them unable to be competitive in the long run; the lack of qualified labour hand and managerial culture; the lack of a technological strategy and appropriate quality control practices; and the high percentage of idle capacity, amongst others.

**A study by NAFIN – INEGI outline the actual problems within the SME's:**

- Only around 40% of the SME's use technical criteria to set product prices.
- More than 50% of the SME's do not use any type of propaganda to promote their products.
- As a consequence more than 40% of the enterprises have excessive capacity.
- Around 60% are conscious of the need to expand and renovate their equipment, but more than 60% find it difficult due to high costs and lack of specialised people.
- Most of these enterprises use their utilities mainly to buy raw material.
- Only around 15 % know about the need of training in production.
- Around half do not ask for loans, due to high interest rates, paper work, and being afraid of not having payment capability.
- General:
 - Lack of interest by the entrepreneur for group work rather than individual
 - Lack of negotiation capabilities due to its reduce scale, its lack of organization and limited management
 - A tendency to improvisation
 - Restricted participation in the markets
 - Lack of input due to small scales
 - They have to many products, they are too diversified.
- Problems related to education:
 - Lack of link between universities and enterprises in order to adapt their needs to the study plans and research programs of the universities.
 - Lack of training and qualify labour hand that can face the challenges of globalisation, lacking the qualifications and the attitude to understand what is being competitive all about.
 - Lack of managerial culture, capabilities as important as administration, marketing, financing, and management of human resources.
 - The importance of human resources is only in matters of speech, because in reality there is low investment in recruitment, training, and remuneration of personnel.



- The average age of the entrepreneurs is 35 years old with an average education as follows: In the micro enterprises 38.3% have a primary level or under and 18.3% have a professional level; in the small and medium enterprises only 5.2% and 1.9% respectively are under the primary level, and 55.4% and 63.4% have a professional level.
- There is a lack of interest in entering other markets; around 8.8% are not interested in exporting, 68.8% have not exported, 13.5% do export. Around 56% do have or will have in the short run an export capacity.
- In the area of technological capabilities, the SME's have the following problems:
 - Most of them define a development strategy, but due to lack of co-ordination they have a low level of efficiency in the achievement of their objectives.
 - The use of computers is mainly for administrative uses.
 - There is not define technological strategy, it has no congruency with the global objectives.
 - The use of obsolete machinery and equipment is very common and there is not much investment in its modernisation.
 - Only around 40% of them have an established plan for the development of their suppliers, most of them do not have any kind of communication which would help them have mutual benefit.
 - SME's have a high percentage of idle capacity.
 - Most of their quality control practices are based on the detection and correction of problem.
 - The financing strategies of most of these enterprises is very conservative, they do not use the different instruments of support given by the commercial and development banks.
- Problems related to equipment:
 - One of the most important problems within the SME's is the lack of conscience to expand and renovate their equipment, technology and productive process. Only 34% of the micro enterprises do consider this, 54% of the small and 62% of the medium do as well. The main difficulties to achieve this are the high costs and the lack of qualified people. It is important to consider that 50% of the enterprises do not have idle machinery, but those who do have this idle machinery, do not use it productively.
 - The micro and small enterprises invest most of their utilities in raw materials, while the medium enterprises invest mainly in machinery.
- Problems with human resources:



- There is very low efficiency of direct and indirect labour hand; SME's face a big problem of rotation and absenteeism, due to salary aspects and lack of training. There is a high percentage of absenteeism, which represents around 42% of the labour problems, followed by high rotation that is in average around 38% and training problems, which are around 26%.
- Around 72% of the medium enterprises have received some kind of training, 64% of the small enterprises and only 19% of the micro enterprises. In their opinion, training is needed mainly in marketing, administration and production. It is important to mention that ¼ of the entrepreneurs do not know where training is needed. Regarding the technical assistance, they think this type of training should focus on the production area and quality control, while 41% of the entrepreneurs ignore which type of technical assistance they need.
- Around 48% of the small and medium entrepreneurs believe that the training of their personnel, the optimisation of the resources and the specialisation of their activities are the most viable alternatives in order to stay in the market and grow. In counterpart, only 17.2% of the micro enterprises believe that training of their human resources is needed for success.
- Nine of every 10 enterprises know of the need to improve quality in order to survive. Around 62% of the micro enterprises know that human resources contribute to the achievement of the quality objectives, while in the small and medium enterprises this percentage grows to 93%. In the micro enterprises only 37% of them have develop a process to know if their human resources are satisfy in their job, while 3 out of 4 small and medium enterprises do have a process.
- SME's in Mexico train their employees in an informal manner, according to their resources and capabilities. In 1991, there were 138,774 enterprises in the manufacturing sector, of which 87% where micro, 9% small, 2% medium and 2% big; employing 15%, 18%, 16% and 51% respectively; and of which the percentage of enterprises that train their employees represented 7%, 52%, 76%, 90%.

The lack of training in small and medium enterprises reflects the lack of culture in this sense, and as well the lack of resources. As the size of the enterprise decrease, the informal training increases. This informal training takes place through an experience work peer, in labour competencies according to their resources. Statistics also show that the percentage of training increases as the educational degree increases and as the responsibility in the job increases, while the lower levels lack training.

<i>Associated with cost factors</i>	<i>Associated with production management</i>
High costs of materials and components	Low efficiency of the direct labour force
Idle capacity	Obsolete technology
High taxation	Maintenance and repair problems
High transport and communication costs	Low efficiency of the indirect labour force
High interest rates	To many products

SUPPORT PROGRAMS



Regarding to human resources, elevating the productive potential of the labour force is crucial for the SME's in Mexico. In this sense a strategic instrument of the industrial policy needs to promote the opportunities for the technical formation and training of the employees. Even though Mexico has important and successful programs for these means, we need to recognise that in relation with the actual needs of the country, these efforts are still limited.

The government intervention in the training programs has been fundamental and has been justified due to the need of cheap training in public institutions, the lack of sufficient training by the private enterprises, and due to the need of training to all levels. The public training needs to focus on the support to employees of low income, and to increase the labour competencies of their employees.

Mexico's problems regarding labour training are not only quantitative; there are still many others: there is a lack of co-ordination between the efforts of the public and the private sector, substantial differences between the training programs offered and the market needs, lack of knowledge of the actual competence that the productive sector demands, lack of mechanisms to recognise these competence and abilities which are acquired informally or on the job. These programs are sometimes too sophisticated or require too much paperwork, they have low diffusion, co-ordination and evaluation

It has been proved that the rate of return on training is economically profitable, not only for individuals but as well for the society as a whole. The most profitable investment in human capital is in work training (21%), translated into an economical benefit to the employee, and a productivity benefit to the employer.

In México there are more than 3,600 support private and public programs, but it's cover, range and resources just satisfy around 3% of the market. Just to give an example there are 12,000 consultors and we need around 80,000.

Support programs in Mexico:

Institution	Program	Objectives
Nafin	<ul style="list-style-type: none"> • Rental • Promyp • Promin • Prodem • Prodeg • Pice 	<ul style="list-style-type: none"> • For machinery • Loans for work capital and investment • Loans for technological development • Enforce the managerial profile of SME's through training programs. • Complement the guarantees required by the banks. • Program for the development of suppliers.
Secofi	<ul style="list-style-type: none"> • Compite • Crece 	<ul style="list-style-type: none"> • Seminars to analyse their production line problems • Specialised consultancy to elaborate a diagnosis of the



	<ul style="list-style-type: none"> • SIS • PDR • Funtec 	<p>enterprises and technical advisory.</p> <ul style="list-style-type: none"> • An information system to establish links between enterprises. • Program to explore and exploit the potentialities of each region. • Funds for research and development
STPS	<ul style="list-style-type: none"> • CIMO (STPS and WB) • CONOCER • PMETYC 	<ul style="list-style-type: none"> • Supports the personal development, and the quality, productivity and competitiveness of the enterprises, through training, information, specialisation and process consultancy. • Revalue the importance of the labour capabilities, and transform the traditional process of training and technical education. • A plan to improve radically the labour competencies
Conacyt	<ul style="list-style-type: none"> • Fidotec • FFCCT • Preaem • PAE • RCCT 	<ul style="list-style-type: none"> • Fund to foment innovation investment in the private enterprises. • Fund to support the creation of research and development within SME's. • Promotes the links between the academy and the SME's in joint projects. • Events that promote the links between the industry, organisms, and research institutes. • Gives access to specialised information for the development of innovative capabilities.
Bancomext	<ul style="list-style-type: none"> • Loans 	<ul style="list-style-type: none"> • For imports and exports • Training • Promotion and diffusion

Source: Diverse, 1995.



Support programs and policies to the SME's in Mexico:

- The different programs established need to be consistent with the needs of the enterprises, need to be continuous and to focus on a long-term vision. Continuity gives enterprises security and certainty, and the ability to innovate and adapt to future challenges.
- They also need to be very specific according to sectors, and by subgroups divided by areas of economic priority, in order to establish the needed programs.
- They need to focus on competitive enterprises that can really take advantage of them, companies with a global vision capable of transforming threats into opportunities, and able to respond to the challenges of globalisation.
- These programs need to be elaborated with the direct participation of the entrepreneurs, in order to identify their problems and needs.
- In order to launch successfully these programs we need human and economic resources, but we need as well the right administrative practices, the technological and training instruments, and good operational programs and practices to achieve them successfully.

We have the need to elevate the effectiveness and efficiency of the programs and projects for the development of the SME's, in order to solve the problem of fragmentation of the different institutions in Mexico. In order to achieve this it is necessary to promote communication and interaction between the public and the private sector, apart from facilitating the diffusion of organizational know how and the infrastructure of cooperative interinstitutional networks.

SOLUTIONS

Based on a thorough study of the SME's in México, their importance, their characteristics, and their problems, I have study and outline a series of solutions according to our reality, needs, and resources in order to support the SME's and their human resources.

To start with, the industrial policy in Mexico needs to include a group of activities related with the macro aspects, or aspects that permit the existence of efficient markets that allow an adequate resource allocation. And the micro aspects oriented to guarantee the entrepreneurial and collective capabilities in order to consolidate an industrial environment.

There is the need to solve the external problems in order to have positive spill over in the internal structure of these enterprises. Each country needs to develop its right support policies in a national scale, and at the same time, concentrate a joint effort to give coherence, integration and expansion to these policies, increase the base of information and guarantee the regional exchange and the entrepreneurial cooperation within the country.

Government actions to improve the industrial policy:

- Macroeconomic stability and financial development



- Improvement of infrastructure and institutional base
- Promotion of productive networks
- Improvement of the technological industry development
- Economic deregulation
- Promotion of exports
- International business negotiations
- Competitiveness promotion

Mechanisms that reinforce the interaction of the enterprises with the government

- There is the need to reduce the great amount of bureaucratic procedures in order to promote the formation of enterprises and allow their efficient operation by having quick mechanisms to respond to their needs.
- Information booths that facilitate the access to database that can facilitate useful information to the entrepreneurs.
- Revision and adaptation of government program, identifying those that are repeated and launching new programs to fill in the urgent gaps.
- The great need to increase the number of supporting industries for the SME's.
- There is an urgent need to establish links between different institutions in order to provide a complete network of support to these enterprises.
- Subcontractors or industrial linkage like the Japanese where 55% of the SME's are connected with the big enterprises.
- The organization of forums and conference where the enterprises can propose their needs to the government.
- Establishing instruments that promote synergies within the different institutions involved in this process.

Instruments to reinforce the management capacity

- The idea is to identify the real training needs, and then assign resources to satisfy them. Training in finance, management of human resources, decision making, use of information.
- There is the need to invest more on the youth, the human resource problem in SME's is a problem of education and of behaviour, if we invest now in behavioural changes even though the results will be shown in the long run, our new generations will be aware of this problem.



- The need to train the SME's in subjects related to internationalisation and external expansion of markets, external opportunities and exporting strategies.
- Assistance in the elaboration of proposals, negotiation and development strategies.
- Promotion of technology transfer through a technological diagnosis, a systematic evaluation of the organization to determine their capacity of commitment and abilities, and the financial support.
- Promotion and diffusion of good entrepreneurial practices, by learning from successful experiences, studying them, and applying them to other enterprises. Example of this have taken place in Oaxaca and Guanajuato, where the government has been establishing some training schemes, were a research institute in joint action with the local government have exchange managers with Japan, with the idea of learning from the Japanese networks, in order to establish them in Mexico.
- Organization of forums and conferences to teach new methods and concepts, and administrative practices to the entrepreneurs.
- Support Programs of research and development: Financial support for innovation programs, transfer and adaptation of technology, evaluation of feasible projects of expansion and diversification, etc. The idea is to give as well technical and industrial advise with experiences people from universities, research institutions, and private consulting firms, who help them to get information, define their needs, establish contacts, formulate projects, and integrate their technology.
- Programs that promote the links between universities and industries through which exchanges of technical and scientific personnel can be done, the formation of work groups between the university and the industry members, and joint research programs.
- More universities of technical education
- Hiring of foreign experts in order to train their people
- Government programs in order to train unemployed professionals so that they can give consultancy of training needed for SME's.
- Universities that work in co-ordination with the SME's in order to satisfy the needs required within these enterprises, and the implementation of consultancy and training programs, at reasonable prices, in order to support the companies. It is also very important for universities to teach their alumni of the importance of the SME's and their human resources in our country, so that they promote and support their activities once they are part of the work force, either as entrepreneurs of as employees.
- Entrepreneurs should involved as well in a more direct way; not only by increasing investment in training their human resources, but also by organizing



courses in which they participate as instructors, in a way that they can share their knowledge and experience.

Instruments to have a greater access to the markets

- Having better information and diffusion sources.
- Assistance in the fulfilment of requirements in order to facilitate things for the entrepreneurs.
- Government purchasing with minimum requirements and quick payment mechanisms.
- Training in the adoption of a commercial strategy is needed to have access to other markets; this strategy should include marketing, distribution and commercialisation, practices.
- The promotion of technology and computers in order to create an electronic market.
- Programs which are focused to develop SME's as government suppliers, by searching them, giving them the same opportunity to be subcontractors, by giving them advice of how to negotiate with the government, etc.

Increase competitiveness

- Create the conditions for the direct and indirect exports
- Accelerate the mechanisms for the development of industrial, regional and sectorial networks, with high international competitiveness, and highly integrated relations.
- Promote the development of the internal market, as the base to achieve their international insertion.
- Information Access: An information center for SME's where they can have an answer to all their questions related to the beginning of a business, operational problems, tax information, support programs, etc.

Financing Instruments to support them

- Low interest rates and low taxes for those SME's that are assigning resources for the development and training of human resources, research activities, technology modernisation and implementation.
- More economic resources assigned by the government to SME's and a bigger budget assigned to the training of the human resources.
- Mexico should benchmark the different fiscal systems and an incentive given to SME's within other countries in order to adapt them to our own. There is a need of more and better incentives to these enterprises so that their cost structure is reduce and could be assigned to the development of human resources, amongst



other things. These incentives could be assigned to those enterprises that somehow use the government programs to train their human resources.

- There should be loans at competitive rates so that SME's can use these loans to modernise their technology and their human resources.
- Other programs of financial assistance: Creation of investment networks between public and private institutions that can increase the disposition of capital to those credit entities that give loans to SME's.

General training or workshops to promote the importance of SME's

- Giving a diagnosis to the entrepreneurs
- Sensitise government employees, entrepreneurial leaders, and the general public of the importance of the development of SME's.
- Make consensus about the necessary alternatives to foster the SME's
- Propose regional and sectorial specific projects.
- The government should give much more economical support and promotion in order to create conscience of the importance of the training and development of human resources in SME's, due that the main problem is a lack of awareness and a lack of information within the population.
- Increasing the chambers of commerce important roll as a diffuser of information.

CHALLENGES

Family managed

The SME's face different challenges. One of the main ones is that these enterprises are family owned managed, meaning that it is constituted by the confluence of two complexities: the enterprise and the family. Values, attitudes, and social norms of both social institutions, which inhibits or difficult the alliances with other enterprises, the forms of associations, and how professional it's administration can be.

Low value added investment

Another problem of the SME's in Mexico is that the amount of value added of the investment in Mexico is very low. There is a great amount of local industries, light industries with low linkages between enterprises that do not promote innovation and competitiveness within the market; in contrast with supporting industries or large-scale industries, with high linkages with the SME's. There is the need to differentiate the promotion policies between these two industries in order to achieve a greater development of the SME's in Mexico.

Associations or integrative enterprises

Associations have taken place since 1993 through chambers of commerce, credit unions, cooperatives of producers, and integrative enterprises; through the association



of SME's with the idea of increasing productivity, efficiency and competitively, obtaining common specialised services, and the common realisation of activities such as purchasing, commercialisation, technological improvements, financing, training and design activities.

This new model was proposed by the government to the SME's in order to take a common front to globalisation. It was evident that in an open market, SME's needed to implement quality and quantity changes for their survival, and they needed to get together according to diverse modalities in order to benefit from the positive changes. Associations are important for the strengthening and permanency of SME's, because they increase their negotiation bargaining power by representing their common interests, and obtaining certain services which otherwise are out of their reach.

The main objectives of the network can be either economical or social. Economically, the entrepreneurial networks are a way to reduce transaction costs in the market, through the acquisition of cheaper products. Socially, the benefits come from personal contacts as an instrument to obtain what they want.

In order to construct these integrative enterprises, the government establishes certain requirements in order to give mainly three types of support: fiscal, having a preferential tax regime; financial, through better access to loans; and administrative, through diverse mechanisms to strengthen the managerial activities of the entrepreneurs, through training and technical assistance.

The association of integrative enterprises can only be adequate to elevate the competitiveness of the SME's, as long as it exists a long-term development economic policy that contemplates among other things, the development of the human resources.

In other aspects, even though the SME's in México are represented by different organizations, their size and heterogeneity generate high asymmetries and unbalances, in which the most powerful groups have a higher control. The lack of well represented associations in Mexico, inhibit the SME's possibility to be represented and express and demand the needs of the sector.

Subcontracts

During the last decades, subcontracting has started to take place in Mexico, and the government has established certain programs to support it. This has been useful in developing the integration of productive networks between enterprises of different scale. These brings as a consequence advantages to the enterprises by helping them develop their productive install capacity, allowing them to develop competitive advantages by specialising and promoting work division, giving them the possibility to have new investments and increase their human resource efficiency.

Although we have realise the importance of subcontracting, there are still difficulties that these enterprises face in order to incorporate to the subcontracting system: the lack of market knowledge, the low product quality, the lack of financing, low technical capacity, lack of managerial capabilities, and lack of formality in their delivering timing.



Innovation and Link Institutions

The need to introduce changes in the production and the entrepreneurial conduct in the SME's will bring as a consequence a group of institutional and regional changes, resulting in the need of new processes and institutions in order to respond to the new needs of growth and industrial modernisation.

The concept of innovation do not only represent a group of isolated activities which are oriented to develop new products and process, but it involves a joint group of incremental improvements in the different areas involved (organization, commercialisation, production and quality), where the link institutions can play an important role.

Those institutions interested in selling their services and working as intermediaries to give specialised technological, consultancy, and training services, amongst others, to other enterprises are called link institutions. The action of the link institutions contribute to complement the support programs offered by the promotion institutions, in order to increase the confidence and co-ordination of the activities within the enterprises.

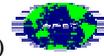
These institutions work as a fundamental instrument for the mobilisation of information, science and technology, and all those players that can develop an intermediary structure of support and control in the innovation process. These exchanges give the enterprises new expertise of the products, of the market strategies, of the organizational know-how and of the tacit knowledge, giving as a result the possibility to expand the learning horizons of the enterprises, and reducing uncertainty and transaction costs. At the same time these institutions make up the innovative capabilities of enterprises.

That is the reason why innovation is having greater importance to the policy makers. Innovation is understood in a wide sense, meaning technological or organizational incorporation, the conformation of exchange links, or human resource capabilities.

In the process of innovation complementary factors, as the qualifications of human resources and the organization or insertion of technology in social contexts and productive process, are of great importance. In this sense, technology cannot be separated from the environment where it starts, neither from organizational structures. From there the need to identify new competencies in SME's, as the capabilities that are converted in the key factor in the search of competitiveness.

During these last years in Mexico these institutions have acquired much more importance, although we still have a long way to go. The important issue here is not only the existence of these enterprises, but also the creation of technological co-operation networks that allow the existence of a national system of innovation.

The limitations that the SME's have related with the insufficiency of knowledge, organizational capabilities, and the training and administration of human resources; restrict the capability of innovation and the efficiency of these networks. There are as well other problems, which make difficult the consolidation of more complex relations. The limits of effective information and diffusion of resources, and the lack of



transparency, make difficult the consolidation of more complex relations. To this we can add the lack of communication between the research institutes, the technical formation and the industrial activities, which develop their strategies with little interest in knowing the specific problems of the regions and the productive sectors. This lack of interinstitutional co-operation brings as a consequence isolation, lack of information, and the multiplication of inefficient programs with weak repercussions.

CONCLUSIONS

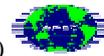
In order to achieve the development of SME's and their human resources we need the joint action of different groups: enterprises with innovative capabilities, government efforts to develop the micro and macro general conditions, and the right institutional environment which allows the flow of information between the different social actors, and as a consequence contributes to the continuous social learning. This has to be strengthened by the development of productive promotion institutions, private and public, intermediary organisms, specialised service enterprises, and scientific and technological institutions.

It has been proved that the successful experiences of industrialisation of the SME's depends directly from the competitive strategies developed, in the way they behave and are linked with other enterprises, upon the existence of an institutional frame of support that allows them to have access to the necessary resources for the constant innovation of products and processes, as well as the training of their human resources, and to the existence of adequate an specific economic and political policies for their support. This is the road that Mexico needs to follow.



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ENTERPRISE'S SIZE			
Scholarship Level	Enterprise's Size		
	Micro	Small	Medium
None	3.7	0.2	0.2
Unfinished Elementary School	15.5	1.0	0.5
Finished Elementary School	19.1	3.9	1.2
Unfinished Secondary	12.6	5.5	1.8
Finished Secondary	2.3	1.6	1.0
Unfinished Technical Studies	5.9	6.5	4.1
Unfinished High School	3.0	1.2	2.0
Finished High School	6.6	7.8	5.4
Unfinished College	5.1	8.5	7.9
Finished College	18.3	55.4	63.4
Professional	2.3	6.9	11.6

Difficulties	Enterprise's Size		
	Micro	Small	Medium
High cost of purchasing or repairing	82.5	75.5	69.9
Lack of personnel's capacitating	3.4	6.8	7.9
Insufficiency of national supply	2.6	2.3	2.3
Disregard for how to do it	3.4	1.2	2.0
Insecurity	2.6	2.5	1.5
Financial problems	1.0	2.8	2.0
Others	4.5	8.9	14.4

INVESTMENT ITEMS			
Investment Items	Enterprise's Size		
	Micro	Small	Medium
Machinery	15.3	41.8	47.3
Raw Material	62.3	49.7	40.8
Installations	14.2	38.7	40.8
Salary	13.9	29.4	27.5
Out of business	35.3	6.4	4.9
Do not make profits	1.8	3.6	4.3
Others	1.8	1.7	3.8

LABOUR DISPUTES			
Problems	Enterprise's Size		
	Micro	Small	Medium
Absenteeism	44.5	42.9	41.8
High rotation	22.4	38.3	47.5
Capacitating	24.2	30.8	26.0
Salaries Increase	19.3	23.0	32.8
Selection	18.5	19.9	16.9
Labour Disputes	10.6	16.1	17.5

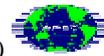


Benefits Increase	3.9	10.7	9.0
Others	2.8	2.9	2.2
CAPACITATING AREAS			
Areas	Enterprise's Size		
	Micro	Small	Medium
Marketing	27.0	31.5	31.9
Administration	18.9	21.0	15.3
Production	10.1	13.8	18.6
Finance	7.8	14.3	12.0
Human Resources	3.7	8.3	10.2
Legislation	2.4	3.0	4.9
All of them	0.7	2.4	2.6
Don't Know	25.6	3.5	1.8
Others	3.8	2.2	2.7

Areas	Enterprise's Size		
	Micro	Small	Medium
Production, quality control	17.9	34.3	47.8
Marketing	6.8	8.4	6.9
Human Resources	3.2	5.9	5.9
Administration	5.2	7.1	3.8
Sales	3.9	5.1	3.6
Finance	1.6	2.9	3.1
Do not require	6.1	4.7	3.9
Don't know	41.2	17.9	13.9

USE OF THE CREDIT			
Use of the credit	Enterprise's Size		
	Micro	Small	Medium
Raw Material Purchasing	69.3	65.5	63.5
Acquisition of machinery and equipment	19.5	30	36.6
Settlement	2.4	6.2	5.9
Demodulation	1.4	3.1	3.1
Site purchasing	3.6	2.2	3.4

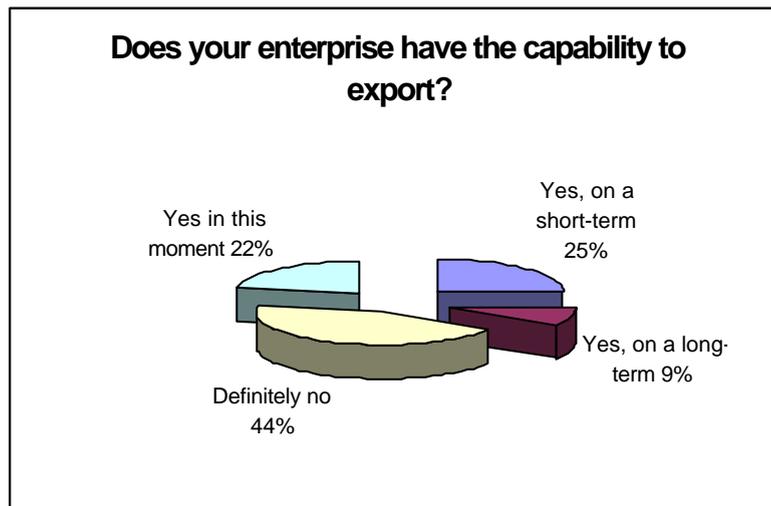
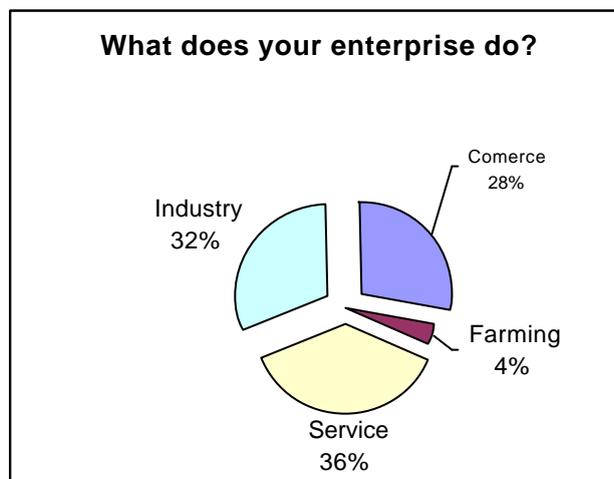
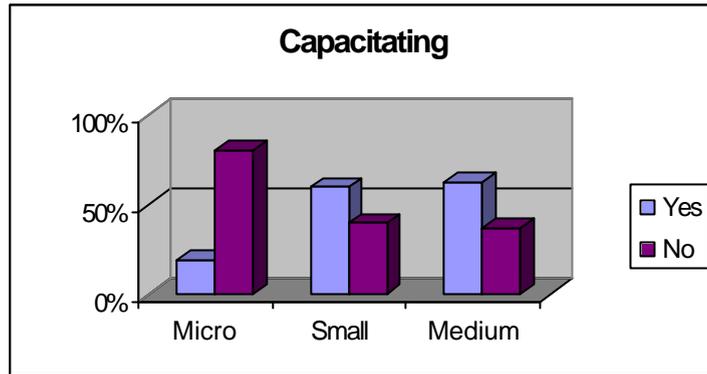
Factors that influence the growth and Maintenance on the market	Enterprise's Size		
	Micro	Small	Medium
Personnel Capacitating	17.2	47.3	49.4
Activities Specialisation	38.8	38.8	33.7
Material Resources Optimisation	18.4	38	50.4
Don't know how to do it	21	2.7	0.8
Getting grouped in order to be more productive	17.9	19	17.5
Offering a better price	2.3	1.9	2.1
Other	4	3.3	2.1

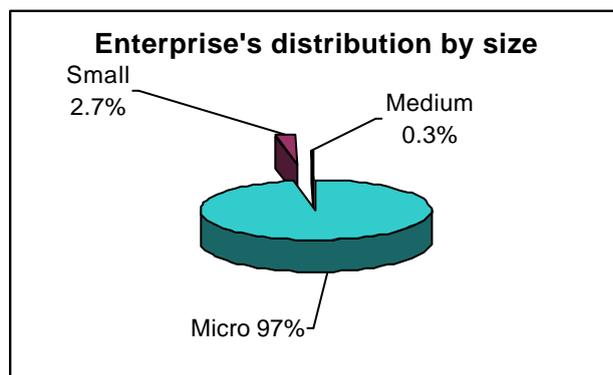
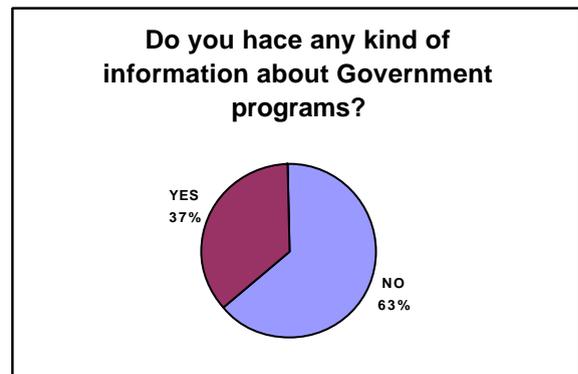
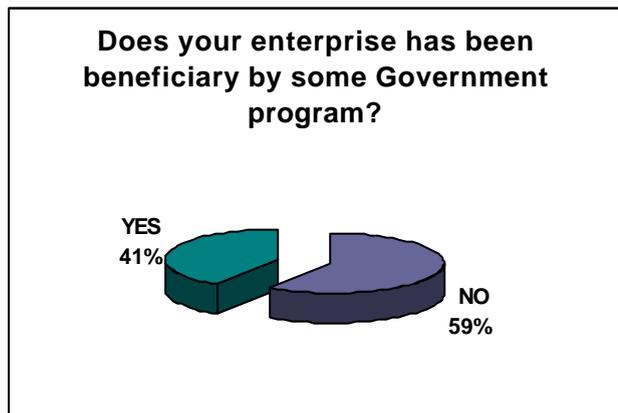
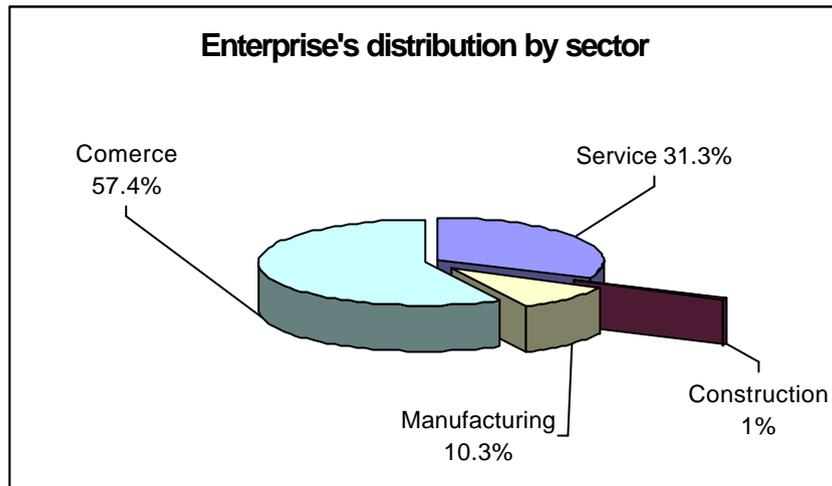
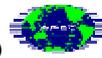


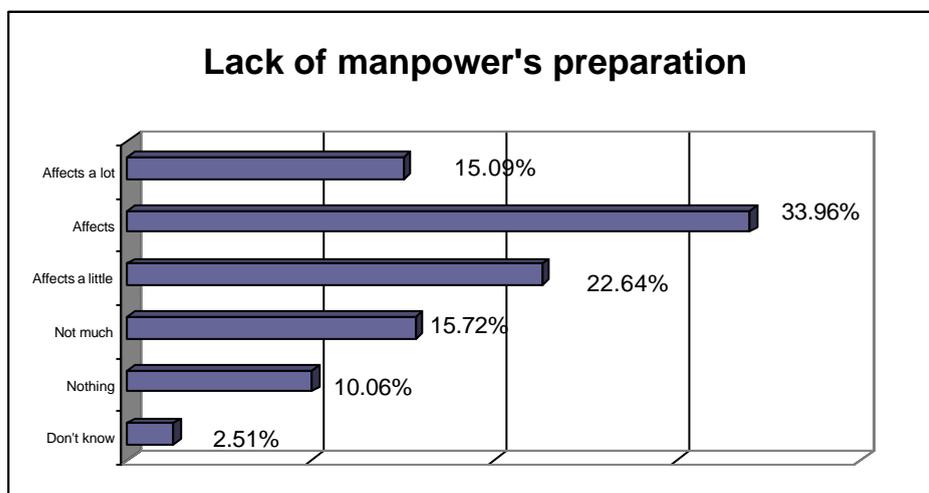
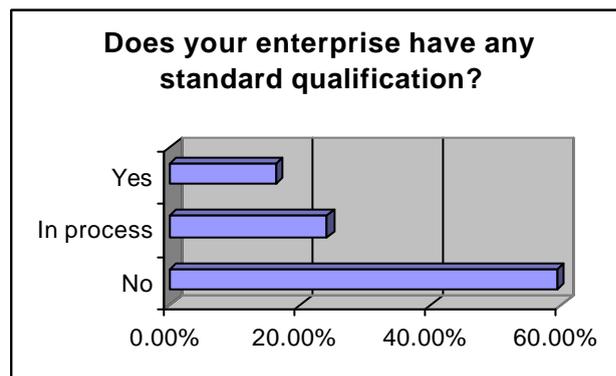
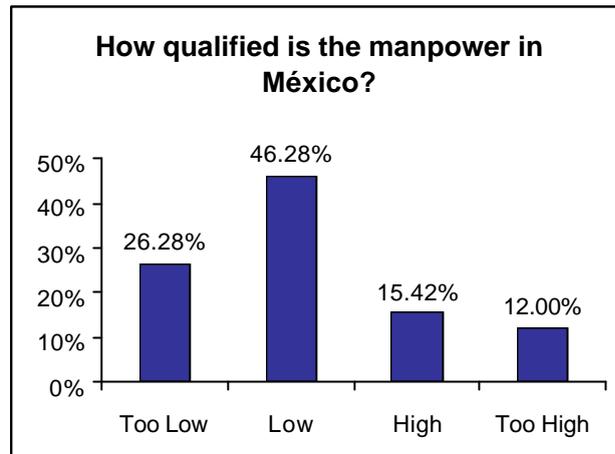
Enterprise's Size	Number of employees	Annual Sales	
		SECOFI's approach	NAFIN's approach
Micro	1 trough 15	\$ 900,000.00	\$ 2,100,000.00
Small	16 trough 100	\$ 9,000,000.00	\$ 21,000,000.00
Medium	101 trough 250	\$ 20,000,000.00	\$ 50,000,000.00
Big	More than 250	Minimum \$20,000,000	Minimum \$50,000,000

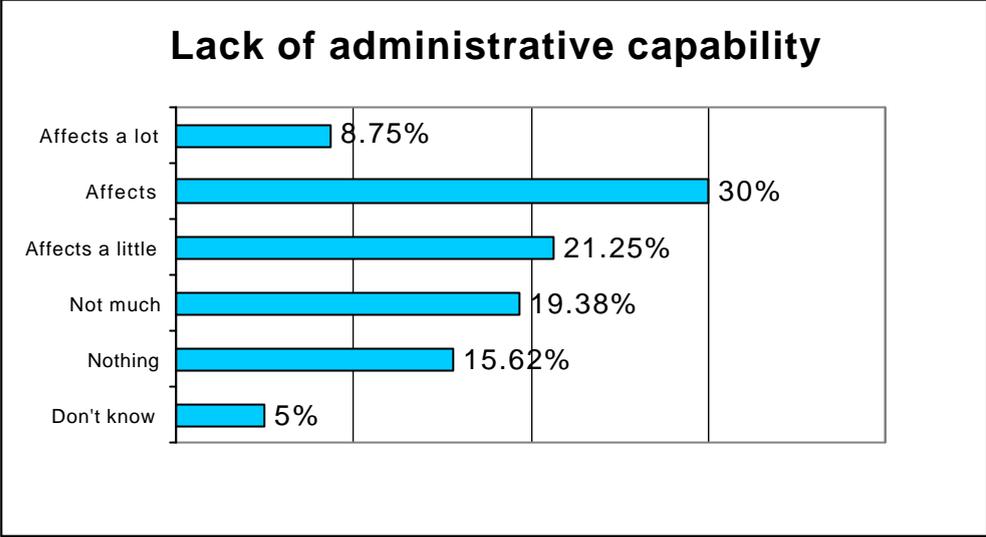
Management Universe in Mexico			
Enterprise	% Economic Units	Occupied Personnel	% GDP
MICRO	97	47	31
SMALL	2.7	20	26
MEDIUM	0.2	11	12
BIG	0.1	22	31

Size	Average of the	Size	Who is managing
	Manager's age		
Micro	41	64%	87% the manager
Small	39	11%	63% the manager









**AN EXPLORATORY STUDY OF MEASURING HUMAN
RESOURCE MANAGEMENT EFFECTIVENESS
IN SMALL AND MEDIUM ENTERPRISES**

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AN EXPLORATORY STUDY OF MEASURING HUMAN RESOURCE MANAGEMENT EFFECTIVENESS IN SMALL AND MEDIUM ENTERPRISES

ABSTRACT

Business functions are both interconnected and indispensably individually -- each important in its own right. If we were to take a more analytical look at them, though, we would find "people" to be the most important business function of all. Although Huselid, Jackson, & Schuler (1997) have provided an inventory by which Human Resource Management Effectiveness (*HRME*) can be evaluated, no clear steps or methods for using this inventory effectively have since been provided, nor has a set of accepted standards been made available by which the effectiveness of the inventory can be measured. Additionally, the emphases found in Human Resource Management activities in industries overseas are different, as is the content of such activities. It is for these reasons, then, that the present study will design a questionnaire, suitable for use by industry, to measure the effectiveness of human resource management, employing as its focus high-tech companies in Taiwan.

The main goal of the present research is to develop a localized measurement inventory suitable to the task of making evaluations of HRME in Taiwanese industry. In addition to researching relevant literature on the subject, the steps involved in the construction of our inventory will include a Consultation of organizational behavior in Taiwan and the opinions of Human Resource Management experts, scholars, and practitioners. We will summarize information; select measurement indicators; and construct initial evaluation dimensions and items. Formal inventory reliability tests will use the following to certify the stability and internal consistence of inventory : Cronbach's a Coefficient, the Item-Total Correlation Coefficient, and Test-Retest Reliability. We will also emphasize the level of effectiveness of the inventory and employ the Human Resource Management Effectiveness Inventory constructed by foreign scholars Huselid, Jackson, & Schuler (1997) which was used as a criterion while performing Canonical Correlation Analysis to test and verify the Concurrent Validity. As regards the Construct Validity, we will test and verify the measurement traits using Multitrait Multimethod Analysis. We will also perform Confirmatory Factor Analysis (CFA) using the Linear Structural Relation (LISREL) model, including Multi Factor CFA and Second-Order CFA to test and verify the suitability of using our study's inventory to evaluate structure and topic models. The tests mentioned above will reveal the validity and reliability of the inventory of the present study to be quite high, and that it will prove the effectiveness of inventory which businesses in Taiwan can use to measure HRME.

Keywords: Human Resource Management, Human Resource Management Effectiveness, Measurement, SMEs



I. PURPOSE AND RATIONALE OF THE RESEARCH

Business functions are both interconnected and indispensably individually -- each important in its own right. If we were to take a more analytical look at them, though, we would find "people" to be the most important business function of all. In recent years, academia has conducted numerous studies investigating the relationships between HRM practice and HRME, and competitive advantage and the organizational performance. The results clearly show the strategic importance of HRM in business functions (Arthur, 1994; Wright, McMahan & McWilliams, 1994; Delaney & Huselid, 1996; Delery & Doty, 1996; Hiltrop, 1996; Chen Zheyuan, 1997; Qiu Guizhen, 1997; Xu Hengsheng, 1998; Chen Mengqian, 1998; and Wen Quanfeng, 1998).

It is easy to see from the above the influence HRME can have on the organizational performance, and for this reason, the way in which HRME is measured is naturally a point of concern for both academic and industry. Despite this, very little research has been done addressing this important issue.

In 1997, Huselid, Jackson, & Schuler divided HRM into two areas -- technical and strategic -- and provided an inventory by which HRME could be evaluated. Additionally, they discovered that HRME has a highly positive impact on an organization's results. Yet, despite having an inventory by which HRM Effectiveness can be evaluated, no clear process or methodology has been constructed for applying this inventory, nor has a set of accepted standards been made available by which the effectiveness of the inventory can be measured.

The emphases found in Human Resource Management activities in industries overseas differ as well. If researchers were able to consult with scholars and experts on Taiwan, look closely at the dimensions and indicators of the island's high-tech industry HRME, and afterwards construct an inventory suitable for evaluating HRME in Taiwanese high-tech industries, the provided future HRME research could prove significant, especially regarding evaluation accuracy. For this reason the present research will attempt to do just that.

This study has as its main purpose the development of a localized inventory suitable for precise and efficient evaluation of HRME in Taiwanese high-tech industries. Specifically, it will attempt the following:

1. to analyze and examine foreign and domestic theories and literature dealing with both HRM and HRME
2. to consider which types of dimensions and indicators are best suited for an evaluation of HRME
3. to collect and organize the opinions of scholars, experts, and practitioners as regards HRME dimensions, indicators, and items.
4. to construct an inventory by which evaluations of Taiwanese high-tech industry HRME can be conducted



II. LITERATURE REVIEW

The purpose of the present research is to construct an inventory for the evaluation of HRME in Taiwanese high-tech industries. This section, the literature relevant to this study, has been divided into the following three parts:

1. Definitions and characteristics of high-tech industry

The development characteristics of high-tech industries are different from those of ordinary industries. Since the so-called "high-tech" industry of today may become a "traditional" industry tomorrow, we have yet to come up with a single definition for what precisely constitutes a high-tech industry. Using industry attributes, a definition of a high-tech-industry could include the following: 1) high precision products, 2) highly sophisticated systems, 3) products with high added value, 4) technology that improves quickly, 5) fast growing markets, and 6) high risk investment. An explanation for the definition of a high-tech industry follows:

(1) The Republic of China Council for Economic Planning and Development (1991) definition of and indicators for high-tech industry include the six following characteristics : the degree of market potential, the amount of industry relevance, the degree of added value in products, the level of technology, the amount of pollutants produced, and the level of reliance on energy resources. The CEPD's "big ten booming high-tech industries" are: communications, information, consumer electronics, semi-conductors, precision instruments, automation, top-grade aerospace materials, specialized chemistry, pharmaceuticals, healthcare, and pollution prevention.

(2)Huang Dilun (1996) organized the views of scholars and summarized definitions relating to "high-technology", "high-tech industries", "high-tech products", and "high-tech companies", finally categorizing them into conceptual and operative types. These two types are explained below:

A. Operative -- Usually considers ratios dealing with technological intensity, research and development (hereafter referred to as *R & D*), and staff size. Here, technological intensity refers to the proportion of R&D expenditures figured into the sales value of a product.

B. Conceptual -- Here, invention and innovation are the keys to survival for high-tech industries. Technology is sophisticated and improves quickly, products are sophisticated and have short life cycles, market competition is fierce, changes occur rapidly, and levels of uncertainty and risk are high. There are two main forces that bring about the development and promotion of high-tech products -- the evolutionary push of the technology itself and the pull of demand. The overall proportion of scientists (in the natural sciences), engineers, and technical experts is high as well.

(3)Using measurement indicators, Chen Wen xian and Gao Feng jie (1997) believe an industry is "high-tech" if:

1) both the proportion of technicians to overall staff members and the proportion of R & D expenses to overall operating expenses exceed industry averages.



- 2) both the proportion of technicians to overall staff members and the proportion of R & D expenses to overall operating expenses exceed 10%.
 - 3) all of the following surpass industry averages -- the ratio of R & D expenses to overall capital expenditures, the ratio of management personnel to R & D personnel, and frequency of new technological innovations.
 - 4) based on investment criteria estimates, one of the following conditions is met -- the industry is a) in the spotlight and has potential to develop further, b) has a unique competitive advantage, c) is a key industry, d) has strategic alliances with industries which are have vested interests.
 - 5) it is a key industry being strategically promoted by the government (one of the "Big Ten Burgeoning Industries").
- (4)Based on research done on the experiences of high-tech industries around the globe, Liu Chang yong (1997) defined 10 criteria that must be met by developing high -tech industries:
- 1) If the development of the lower, middle, and upper segments of an industry's systems ,or the degree that they cooperate with each other, does not occur completely in the same region, the region will become a key for the global division of industrial labor and cooperation if it can find discover a competitive niche, or provide superior added value of some sort.
 - 2) The number of businesses, the scale, density, and level of relatedness in an industry have already reached a certain level of symbiotic impetus that is both intimately related and beneficial -- that is to say that internally there is intercompetition, while externally there is mutual benefit. Scale and density are usually able to bring about increased effectiveness, which increases each business's ability to compete externally.
 - 3) The technology, products, and markets in an industry all continue to develop, and market competition is extremely fierce. Surviving industries are all strong and resilient, and a few leading businesses become strong enough to compete with large-scale companies.
 - 4) Must have abundant experience, be able to make products based on their technology, and have the ability to accumulate something is rising here quickly. If a business has these traits, it will always be able to remain a leader in a rapidly changing market.
 - 5) Must have ample funding, quality personnel, fine strategic support, a long-term R & D investment strategy, and abundant amounts of all the resources required for a growing business.
 - 6) Must have a benchmark business that is able to break through all level related bottlenecks, and deal with all the early dangers an industry will encounter while developing.
 - 7) Must be able to create an external environment that facilitates industry growth (including Taiwan and the rest of the world), and must be able to continue its development in a highly competitive global market.



- 8) The industry exudes a strong entrepreneurial and competitive spirit. There is the free flow of personnel and capital. There are significant amounts of new business starting up, which gives the industry a "new face".
- 9) Must have a capitalistic market that is able to support technology-based high-risk startup ventures and new product innovations. For these reasons, laws and institutions must also be able to spur on the formation of a free market.
- 10) The government must give strong strategic support, provide resources, and take action when necessary. Additionally, the government must coordinate and integrate the direction of industry development and help it become more competitive abroad.

From the above discussion, we can see that high-tech industries have the following characteristics: a high R&D ratio, new technological innovations that occur quickly, environmental change that occurs quite frequently, be highly sophisticated, have product cycles that are short, are low polluters, and offer high added value. In the future, high-tech industries will be among the most important industries, influencing the work and quality of life of every citizen in Taiwan. High-tech industry management topics will become increasingly important for this reason. High-tech industries were chosen as the focus of the present study for this reason as well.

2. High-tech Industry Human Resource Management

Having technology and being innovative are two characteristics of high-tech industries. Development and technological change are closely related in such industries, requiring that they invest heavily in both R & D personnel and capital. The key to success for high-tech companies lies in how they manage the highly qualified, highly skilled human resources they have available to them. In recent years, the flourishing state of high-tech industrial development has, in general, led to a shortage of professional and technical talent. The intense competition between high-tech opponents has given rise to a flurry of cross-company recruitment activity that has left personnel turnover levels at record highs. Human resource capital expenditures (including hiring and training) are relatively high and have become a burden for high-tech industries. Chen Meiru (1991) found that successful high-tech industries focus heavily on personnel management. Personnel "management" for these companies is not simply administration of personnel matters, but rather personnel administration raised to the level of human resource management and organizational development.

Maidique and Hayes (1984) interviewed 250 American high-tech industry executives (of which at least 30 were CEOs) in the fields of biochemistry, semi-conductors, computers, medicine, and aerospace. They concluded that high-tech companies are successful for six basic reasons: They

- 1) have business focus -- They focus on one product or a group of highly related products, putting a lot of resources into R & D.
- 2) have adaptability -- When faced with a crisis, they are able to change or adjust their business strategies accordingly, including making organizational changes if necessary.



- 3) have organizational cohesion -- They are able to construct good channels of communication throughout all levels of the company, implement job rotation systems to prevent organizational rigidity, encourage long-term employment through various means, and attach importance to training.
- 4) enjoy an entrepreneurial culture -- They have good communication and cooperation, are able to tolerate errors, and are risk takers.
- 5) have a sense of integrity -- They make long-term commitments to related interest groups (personnel, stock holders, suppliers, the local area).
- 6) have a "hands-on" top management -- The management of a successful high-tech business does not only want to understand how its organization operates, it wants to clearly understand the principles behind its technology, and it wants to interact with the relevant personnel.

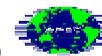
To summarize Maidique and Hayes, an organization's cohesion, its entrepreneurial culture, and its sense of identity are all related to HRM. Maidique and Hayes also emphasized the importance of communication and interaction. The results of their study show that in addition to needing to have a handle on the technology and needing to be innovative, high-tech companies must also have good cohesion. Such cohesion, they point out, can be achieved by opening up channels of communication, implementing a job rotation system, and offering long-term employment and intensive training opportunities.

Grissom and Lombardo (1985) conducted telephone interviews with managers at 18 high-tech company personnel offices in the Philadelphia area to discover what types of HRM problems they encounter. Their talks revealed that for high-tech companies which are in the process of developing, the key HRM challenge faced is finding ways to recruit and keep suitable professional talent.

Cascio (1988) researched the HRM activities at Whirlpool Technologies in Singapore and found the following: When recruiting and keeping skilled labor proves difficult, high-tech companies have to resort to offering highly attractive remuneration and benefit packages to bring in and keep their staff. Examples of items in such packages would be stock options and profit sharing. Cascio suggests that high-tech companies remain positive, innovative, focused on the future so appropriate training activities can be planned today, and that they merge career planning activities for company personnel with staff development and training activities.

Bright (1988), who used questionnaires to investigate employees at the management level of high-tech companies, came up with eight characteristics of successful high-tech companies. Of these, Bright emphasized a company's need to use financial and human resources efficiently, especially where creativity is concerned.

With 30 high-tech companies as a sample, Huiling Wu's research (1990) found five different types of HRM: "internal cultivation", "group reward", "group participation", "utility evaluation", and "independent fighters". There are obvious differences between the HRM activities of these five strategic types. Since the research was exploratory in nature, Wu only



revealed the existence of the five types and did not go into which type might be most suitable for high-tech companies, or which type achieved the best results.

Among the key characteristics of successful high-tech businesses summarized and organized by Chen Meiru (1991), personnel management (organization, leadership) is of primary importance. Key activities and elements include: assignment rotations, long-term hiring, leaders who are both seasoned and responsible, efficient personnel, and specialized training. Chen found that "operationally successful" and "middle type" businesses in the Hsin Chu Science Park all listed sales as the most important management function, with R & D in second place. A large discrepancy between current industry conditions and theory was found as well. Wu felt the reasons for this might be that these companies were all in their initial periods of development at the time, were small in scale, and had steady growth as a goal. As such, Personnel Administration is still in the realm of routine administrative affairs and has not as yet been put on the level HRM.

With companies in the Hsin Chu Science Park as a sample group, Ma Weiyang (1997) looked into the managerial environment and current strategies of Taiwanese high-tech companies. Ma found the lack of qualified personnel to be a common problem among high-tech firms engaged in R & D activities -- a personnel shortage of nearly 70%, in fact. A high rate of employee turnover is a problem also faced by Taiwanese high-tech firms.

3. Human Resource Management Effectiveness

Originally, the word "effectiveness" referred to the level of a predetermined goal that was meant to be reached once resources had been systematically allocated for the endeavor. "Effectiveness" was an indicator that could be measured and provide comparisons. In the present study we will use the HRME concepts put forth by Huselid, Jackson, and Schuler (1997) to explore how effective Taiwanese high-tech companies are when engaged in HRM activities.

Huselid, Jackson, and Schuler used Institutional Theory as their theoretical basis for including the technical and strategic effectiveness categories in their research of HRME. Institutional Theory holds that in a competitive environment, businesses will attempt to satisfy their stakeholders to gain legitimacy and acceptance, in order to increase the organization's growth and its ability to survive. Huselid et al feel that traditional HRM is technical HRM, and that it was formed mainly to satisfy both internal and external stakeholders. External stakeholder expectations usually have the greatest influence on the decisions companies make regarding their technical HRM activities -- for example, when observing laws and regulations set down by the government regarding jobs and hiring. Conversely, internal stakeholders, like managers and employees, wish their organizations had a perfect personnel system. Huselid et al came up with 14 different technical HRM activities in their research, which include a system for recruiting, a candidate selection process, an evaluation process, and a plan for remuneration and benefits, to name a few.

Compared to technical HRM, strategic HRM is much more innovative, allowing for independent workers, flexible work hours, and **authorized** personnel. No clear steps or methods for how strategic HRM activities can be implemented exist, however, nor is there a



set of accepted standards by which to measure such implementation. Despite the absence of other material pertaining to strategic HRM, Huselid et al felt certain technical HRM to be more effective than strategic HRM and even supported this conclusion in their empirical research of American industry. Huselid et al, however, did suggest that American companies should improve the effectiveness of their strategic HRM, lest they run into the ceiling effect -- a condition brought about by the desire to gain competitive superiority by continuing to improve technical HRM -- a condition which would hamper industry progress. Table 1 below shows technical and strategic HRM indicators as developed by Huselid, Jackson, and Schuler.

? .RESEARCH DESIGN

1.Constructing Process of the Inventory

The draft of the inventory will be drawn up in the constructing process. We invited twenty experts in the field to assess the content validity . After finishing the assessment of the measuring construction and fitness of the topic, we accomplish the pretest inventory. The following step is to take samples for pretesting. After the pretest, we take those effective samples to do construct validity by factor analysis, and take the common factor as the dimension, and delete the item with the weaker explanation. According to the retaining dimension and item, we construct its reliability, and design the exact inventory. By the exact inventory, we get the effective samples to test their reliability and validity. This is the constructing process (See figure 1). So far, we have accomplished the pretest inventory, and are doing the pretest. Right after finishing the pretest, we can proceed to exploratory factor analysis, and test the exact inventory on the reliability and the validity.



Table1 factor structure of the human resource management effectiveness

Technical HRM effectiveness	Strategic HRM effectiveness
1.Benefits and services	1.Teamwork
2.Compensation	2.Employee participation and empowerment
3.Recruiting and training	3.Workforce planning-flexibility and deployment
4.Safety and health	4.Workforce productivity and quality of output
5.Employee education and training	5.Management and executive development
6.Retirement strategies	6.Succession and development planning for management
7.Employee/industrial relations	7.Advance issue identification/strategic studies
8.Social responsibility programs	8.Employee and management communications
9.EEO for females, minorities, etc.	9.Work/family programs
10.Management of labor costs	
11.Selection testing	
12.Performance appraisal	
13.Human resource information systems	
14.Assessing employee attitudes	

Data Source: Huselid, Jackson & Schuler (1997), p. 176.

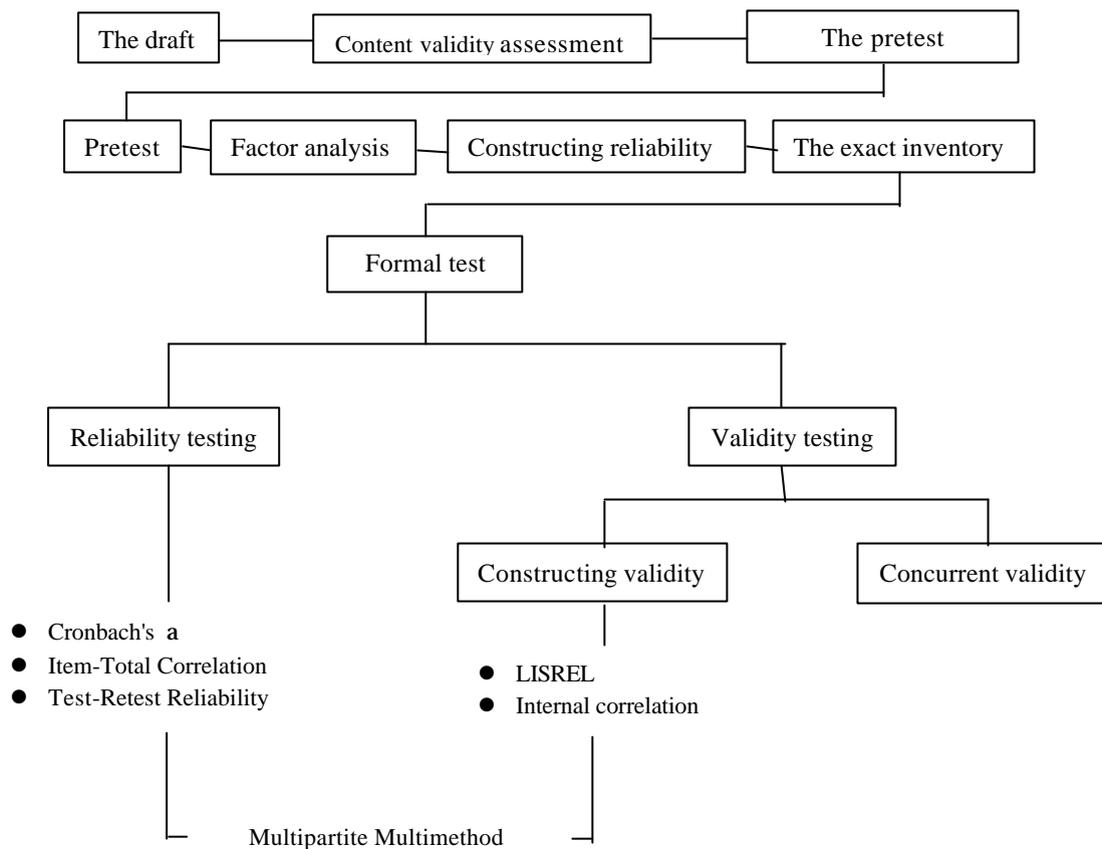


Figure1 Research Flow

2.The development designing and practice of the inventory

(1)Drafting the pretest inventory

According to the measuring construction and the indicator, we initially draw up to 2 constructions and 29 topics, and then invite experts to assess them. Based on the comments and advice the experts make, we will fix them and complete 2 constructions and 39 topics of the pretest inventory. The list of the scholars and experts as follows:



Table 2 Consultation of Scholars and Experts

Name
Tong-chuan Huang
Huo-tsan Chuang
Zai-cheang Lee
Tin-yang Liu
Chiang Hsu
Ing-chuang Huang
Shyh-er Chen
Guo-long Huang
Jian-chong Jian
Bih-Shiaw Jaw
Liang-zhi Huang
Chong-jui Pan
De-chi Lee
Ching-dong Lin
Chung-ren Jin
Huan-tao Chiu
Ci-ru Guo
Pei-guang Chen
Bo-min Liu
Po-yao Chang
Yuan-ta Ko
Guan-chun Wang

(2)Pretest and factor analysis

Of the 400 copies of questionnaires distributed by the human resource departments of each manufacturing company, 289 employees responded, producing a gross return rate of 72.25 percent (289/400). Of these responses, a total of 9 were discarded because the respondents failed to answer a majority of the questions, making the effective return rate 70 percent . In the present study, Inventory Validity Construction by Factor Analysis and the statistical analysis software SPSS for Windows 8.0. were used on a predetermined and categorized set of multi-subject samples. Principal Components Analysis was then used to identify and select common factors with Eigenvalue greater than 1.0. These factors were then processed by the orthogonal rotation of factor axes, using the Varimax Solution. Once axes rotation was complete, the size differential between the factor loadings of each common factor's subject variables were at maximum, which was of benefit when attempting to recognize and name the factors. The steps involved in this process were as follows:

A.Expunging Subjects with Little Explanatory Value Using Principal Components Analysis

Once raw data had undergone factor analysis, all communalities with a degree of effectiveness greater than 0.6, as well as all factor loadings rated at greater than 0.5 were saved. These, then, underwent a second round of factor analysis. In all, five subjects were deleted.



B. Determining the Number of Factors to Keep Using Scree Plotting

The results of the scree plotting, which took place during the first round of factor analysis, revealed that scree factor numbers increased sharply for factors four and five. When the subject data we wished to keep from the first factor analysis was put through factor analysis once again, the scree test results for factor four were easy to see. The extracted Eigenvalues for common factors, the explanatory variation percentages, the factor loading of the subjects contained in these percentages, and the communalities are detailed in the table below. Respectively, these four common factors have 11, 6, 7, and 5 subjects each, amounting to a cumulative explanatory variation percentage of 70.663%. The factor load for each subject is 0.5 or higher, and the degree of effectiveness for communalities is 0.6 or higher.

C. Formal Inventory Evaluation Structure and Subjects

Based on the results of our second round of factor analysis, we were able to readjust our evaluation structures, as well as name them. In total there were four evaluation structures and twenty-nine subjects.

Table 3 Factor Analysis Summary

Dimension	Eigenvalue	Pct of Var	Cum Pct	Rank Of Item	Communalities	Factor loading
HR Planning And Strategy	16.631	57.347	57.347	12	0.677	0.763
				24	0.716	0.837
				26	0.723	0.833
				27	0.763	0.839
				28	0.753	0.830
				29	0.719	0.820
				30	0.713	0.807
				31	0.780	0.840
				32	0.787	0.812
				33	0.669	0.703
Teamwork Competency	1.619	5.581	62.929	19	0.635	0.738
				20	0.755	0.762
				21	0.742	0.714
				22	0.767	0.777
				23	0.720	0.811
				25	0.643	0.787
People-Job Fit	1.213	4.184	67.112	10	0.662	0.777
				11	0.680	0.721
				13	0.703	0.712
				15	0.707	0.764
				16	0.676	0.756
				17	0.667	0.651
				18	0.628	0.715
Training and Industrial Relations	1.030	3.550	70.663	3	0.661	0.712
				4	0.695	0.672
				5	0.723	0.668
				6	0.688	0.550
				7	0.703	0.725



? .CONCLUSION AND RECOMMENDATIONS

1.Conclusion

Because the research is only an exploratory research, we are unable to reveal you the final stage, the exact inventory and the results of the validity and reliability testing. Also we haven't proceeded to the exploratory factor analysis, so that some of the constructions and topics, listed in the figure 3, will be changed. What we listed in figure 3 are the results that we studied through discussing documents and advice sought from experts. (Each construction and indicator in the draft refers to: (1) The validity inventory of HRM, by Huselid, Jackson & Schuler (1997); (2) Freund & Epstein (1984), Arthur (1992), Pfeffer (1994), Delaney, Lewin & Ichniowski (1989), Huselid (1995), MacDuffie (1995), Youdt, Smell, Dean & Lepak (1996), etc. They addressed optimum HRM Practices; (3) the most important Activities of 17 items of HR department, addressed by Tsui (1987); (4) HRM Performance, addressed by Bih-Shiaw Jaw (1994) and Qiu gui-zhen (1996); (5) high-tech HRM Practices, generalized by Wen jin-feng (1998), and other scholars' treatises and opinions.) There are a few differences in the inventory of HRM Validity constructed by Huselid, Jackson and Schuler (1997). We are more concerned that the scholars and experts in our country focus on the measuring construction and the indicator of domestic high-tech HRM Validity. These differences are not caused by the technical problems, but are due to the different national condition, culture, and enterprises' characteristics. According to these factors, we proceed with the construction evaluation and the fitness assessment of topics and make some precise additions and deletions. Therefore, the inventory of HRM Validity we constructed is similar, but not identical to the one constructed by Huselid, Jackson and Schuler. Besides, the topics and the language in use are all Taiwan-oriented in meaning. Compared to other foreign inventories or other edits translated in Chinese, the one we construct in this research is much more suitable for our domestic industry, and lowers the bottom line of influences which result from cultural differences. These are the advantages and characteristics.

2.Recommendations

The inventory is still under construction; therefore, about the conclusions, there remains much we need to improve. When we follow up on the exploratory factor analysis, exact inventory and the reliability testing, we can get much more precise results of the research. According to this research, we have the following suggestions:

- (1) The inventory is more like the measurement of effectiveness of HRM practice implementation--strategic and technical HRM effectiveness. The follow-up researcher may add another dimension, for example, the professional ability of HR manager and ability relative to enterprise. In this way, the inventory can be more precisely improved.
- (2) In order to let people, who fill up the inventory check the items based on his/her perceive, we adopt Likert 7 points scale to construct the inventory. If they know little about the affairs of enterprises' HRM, they lose subjectivity easily and cause bias in the result. Therefore, the follow-up researcher can add in, except for the



perceived indicator, specific measurable objectivity indicator, such as the percentage of personnel expense in total revenue, the turnover rate of staffs, the training hours of each staff member per year, etc. So, this will make the measuring mode of HRM Validity much more precise.

- (3) When the inventory is completed, it can be provided a strict measuring instrument for the follow-up researchers to do research on what is relative to the HRM Validity and such other variables as organizational performance, the business competitiveness, and business competitive advantage. The follow-up researchers can focus on different industries or another object of study and analyze them, in order to test the exact inventory on the reliability and the validity, continuously. In this way, the inventory will gradually become flawless.



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**DECLINING RELATIVE WAGE AND RISING MANPOWER
SHORTAGE RATE OF SMEs: CAUSES AND HRM POLICY
IMPLICATIONS**

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DECLINING RELATIVE WAGE AND RISING MANPOWER SHORTAGE RATE OF SMEs: CAUSES AND HRM POLICY IMPLICATIONS

ABSTRACT

The wage differentials by industry, occupation, education and gender have been diminished in Korea since 1980's. Wage differentials by firm size, however, have increased. Most of the previous studies explained these rising wage differentials by firm size with unionization. The effect of union on wage is greater in firms with more employees, since unionization rate is highly correlated with firm size. According to this explanation, rapid unionization in late 1980's lead to substantial increases in wages especially of large firms and increases in labor shortages especially of SMEs that were unable to pay the raised market wages.

This paper presents an another important cause of widening wage differentials by firm size. Industrial restructuring after the 1980s has proceeded in a such way that unproductive low wage sectors were transferred from large firms to SMEs. To analyse the characteristics of structural change in manufacturing sector, this paper classifies manufacturing industries into group: one based on technology, one on orientation, one on wages and one on skills. The structural change of SMEs and large firms are compared based on above four classification methods. It is shown that SMEs' employment in low value sectors, that is low-technology, labor-intensive, low-wage, and unskilled sectors, have risen faster than SMEs' employment in high-technology, science-based, high-wage and skilled sectors. Large firms' employment has been mainly increased in high value sectors.

In the wake of economic crisis, the unemployment rate soared from 2.6% in 1997 to 6.8% in 1998. Under the loose labor market, the maximization of job creating potential of SMEs is an urgent policy priority. Korea needs to move from the price competitive mass-production system to the diversified quality production system. For this transition, fostering competitive capacity of SMEs is essential. The mobilization of workforce of large firms to the SMEs need to be facilitated if workers are more productive in SMEs than in large firms. Government provides various incentives to induce more workers to SMEs. These measures will be reviewed and partly evaluated.



INTRODUCTION

In 1996, the Korean economy rose to 11th place in the world in terms of size with a real GDP of US\$ 484.6 billion. After rapid growth in the 1970's and 1980's, the Korean economy entered a period of stable growth in the 1990's. During 1990 to 1996 period, Korea's real GDP grew 7.4 per cent annually, compared to an annual rate of 9.1 per cent in the 1980's. Per capita GNP recorded US\$ 10,537 in 1995, and US\$ 10,548 in 1996. These figures were praised as the advent of the five-digit income era.

However, the Korean economy ran into trouble in mid-1997, due to an enormous short-term foreign debt by business and financial institutions that far exceeded Korea's foreign exchange reserve. Creditors started to lose confidence in Korea's ability to pay off debts. This lowered the value of Korea's currency, the won, and stopped foreign creditors from rolling over short-term debts. To settle the maturing debt, Korea agreed on a US\$ 57 billion IMF rescue package in December 1997.

Various explanations are given for Asian financial crisis. Krugman(1999) sees Asian crisis not as a consequence of crony capitalism or bad government policy but as of vulnerability to self-fulfilling panic. Some studies find major fallings of the Korean economy in excessive domination of *chaebol*, or the huge conglomerates (Nanto and Johns, 1997).

The *chaebols* have been the engine of phenomenal economic growth of Korea. Korea's current status as a world-market contender in such industries as automobiles, steel, shipbuilding, semiconductors, petrochemicals is attributable to the *chaebols'* capability of acquiring technical and financial resources (L. Kim 1997). Capital control and allocation were the key instruments of the government's industrial policy. The major beneficiaries of these instruments were the *chaebols*. The *chaebols* have founded firms in one industry after another. 1 The resulting massive economic concentration led to the belief among government and business circles that allowing *chaebol* to collapse would pose a systemic threat to economy. They were too big to be allowed to fail. In consequence, banks were directed by the government more and more towards questionable *chaebol* investments (D. Nanto and V. Johns, 1997).

The Korean economy needs to be restructured from a mass-production system to a diversified quality production system (Rodgers, 1993). For this transition, fostering competitive capacity of SMEs is essential. Two indicators, wages and manpower shortage rates, suggest that SMEs have had hard times in moving themselves from low value-added sectors to high value-added sectors.

This paper focuses on recent trends of wages and manpower shortage rate of the SMEs. This paper finds main reasons of widening wage differentials by the firm size and increasing manpower shortage rates of SMEs from characteristics of industrial restructuring. Industrial restructuring after the 1980s has proceeded in such a way that unproductive low wage sectors were transferred from large firms to SMEs. In that process, wage differentials by the firm size has increased simply because most of SMEs employment are generated in low wage sectors. The shortage rate is inversely



correlated with firm size. This is mainly because SMEs offer lower wage. As will be shown later in this paper, the SMEs' high manpower shortage rates, especially for production workers, are also closely related with the characteristics of industrial restructuring.

In the next section, the general explanation on Korean SMEs is given. The analysis of characteristics of structural change in manufacturing sectors follows. Lastly, this paper identifies implications on HRM (Human Resource Management) policies for SMEs. Some government policies for inducing more productive workers to SMEs are reviewed and partly evaluated.

THE SMEs IN KOREA

The major criterion of defining SMEs in Korea is the size of employment. The Basic Law for SMEs defines various cut-off levels of employment size for various industries.² In general, SMEs are defined as firms with less than 300 employees. <Table 1> shows various statistics of the SMEs in the manufacturing sector. As presented, the SMEs accounted for 99.1 percent of establishments, 69.3 percent of employment, and 46.5 percent of value added in manufacturing sector for the year of 1997. As shown in the table, the proportion of SMEs' employment has risen at a much faster rate than the proportion of SMEs' value-added in manufacturing sector. This suggests that restructuring has proceeded in a way that unproductive low wage sectors are transferred from large firms to SMEs in the manufacturing industry.

<Table 1> The SMEs in the manufacturing sector

	91	92	93	94	95	96	97
The number of SMEs	71,105 (98.5)	73,657 (98.6)	87,913 (98.9)	90,447 (99.0)	95,285 (99.0)	96,241 (99.1)	91,324 (99.1)
Employment in SMEs (in thousand persons)	1,853 (63.5)	1,845 (65.8)	1,987 (68.9)	2,026 (69.1)	2,034 (68.9)	2,006 (69.2)	1,870 (69.3)
Value added of SMEs (in billion won)	39,563 (45.8)	45,662 (47.6)	54,549 (50.3)	63,748 (49.2)	73,808 (46.3)	82,281 (47.2)	84,148 (46.5)

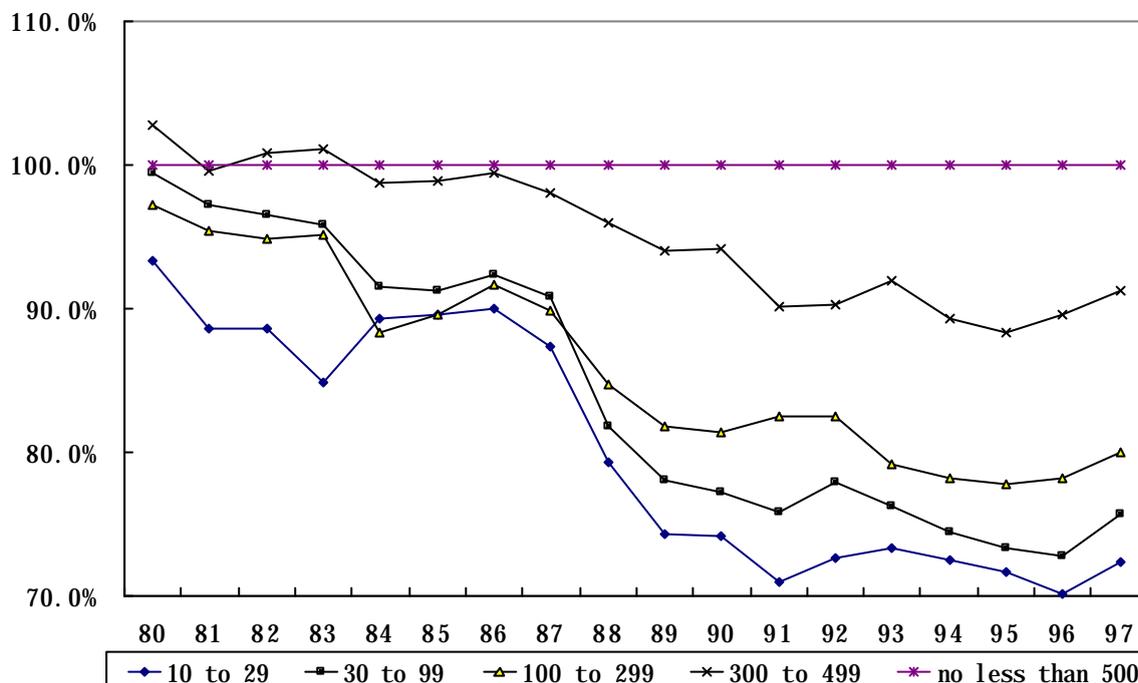
Note: The number in bracket denotes a ratio to whole manufacturing sector.

Source: National Statistical Office, Report on Mining and Manufacturing Survey, Relevant Issues



THE WAGE DIFFERENTIALS BY FIRM SIZE

<Figure 1> Change in Relative Average Wage by Firm Size (Average of Establishments Hiring more than 500 Employees=1)



Source: Ministry of Labor, Report on Monthly Labor Survey, Various Years

The wage differentials by industry, occupation, education and gender have been diminished in Korea since 1980's. Wage differentials by firm size, however, have increased substantially. Wage differentials by firm size have abruptly increased since the June 29th Declaration in 1987.3 As is shown in <Figure 1>, the wage differential by firm size abruptly widened from 1987 to 1989. The trend of widening wage differentials by firm size persisted afterwards. The financial crisis of 1997, however, somewhat mitigated widening trend.

For widening wage differentials by firm size, many studies have given union effect as a major source. The effect of union on wages is greater in firms with more employees, since unionization rates are highly correlated with firm sizes or their relation to *chaebols*.

According to 1992 estimates, the unionization rate of firms employing 10 to 99 workers was below 10 per cent, while the rate was above 60 per cent for firms employing 1,000 or more workers. The sectoral unionization rate was estimated to increase 5 per cent as the employment share of *chaebols* increases by 10 per cent in a particular industrial sector. Workers employed by big businesses, especially *chaebols*, have greater incentives to organize unions as means for rent-seeking activities. When they organize unions, they can exercise greater leverage on bargaining tables not only because of their membership size but also because of rents accrued in their



establishments through government backup for the big enterprises (Lee and Kim, 1997).

The unionization explanation, however, is not sufficient. As is shown in <Table 2>, the unionization rate jumped suddenly in 1987, reached its peak in 1989 and then gradually declined. As shown in <Figure 1> and <Table 3>, the relative wage of SMEs has been persistently declining.

<Table 2> Trends in the Unionization Rate

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
(A)	15.7	15.5	17.3	22.0	23.3	21.5	19.7	18.4	17.2	16.3	15.3	14.7
(B)	12.4	12.3	13.8	17.8	18.6	17.2	15.9	15.0	14.2	13.5	12.7	12.2
(C)	16.9	16.8	18.5	19.5	19.8	18.4	17.2	16.4	15.6	14.5	13.8	13.3

Note: (A) : the number of unionized workers divided by the total number of permanent employees in the non-agricultural sector

(B) : the number of unionized workers divided by the number of employees including both permanent and temporary workers

(C) : the number of unionized workers divided by the number of employees excluding civil servants and private school teachers

Source: Ministry of Labor, Yearbook of Labor Statistics, Relevant Issues

<Table 3> Relative wage of SMEs in manufacturing sector

	1980	1985	1987	1989	1991	1993	1995	1996
Relative Average Wage of SMEs (Large Firms' Average Wage=100)	80.2	75	72.2	66.3	67.2	65.9	64.3	61.9

Source: National Statistical Office, Report on Mining and Manufacturing Survey, Relevant Issues

THE SHORTAGE RATE

The manpower shortage rate is inversely correlated with firm size. As presented in <Table 4>, shortage rate of firms with 10 to 29 employees is more than four times higher than that of firms with 500 or more employees. <Figure 2> shows trends in manpower shortage rates by firm size. The inverse relationship between manpower shortage rate and firm size has been persistent.

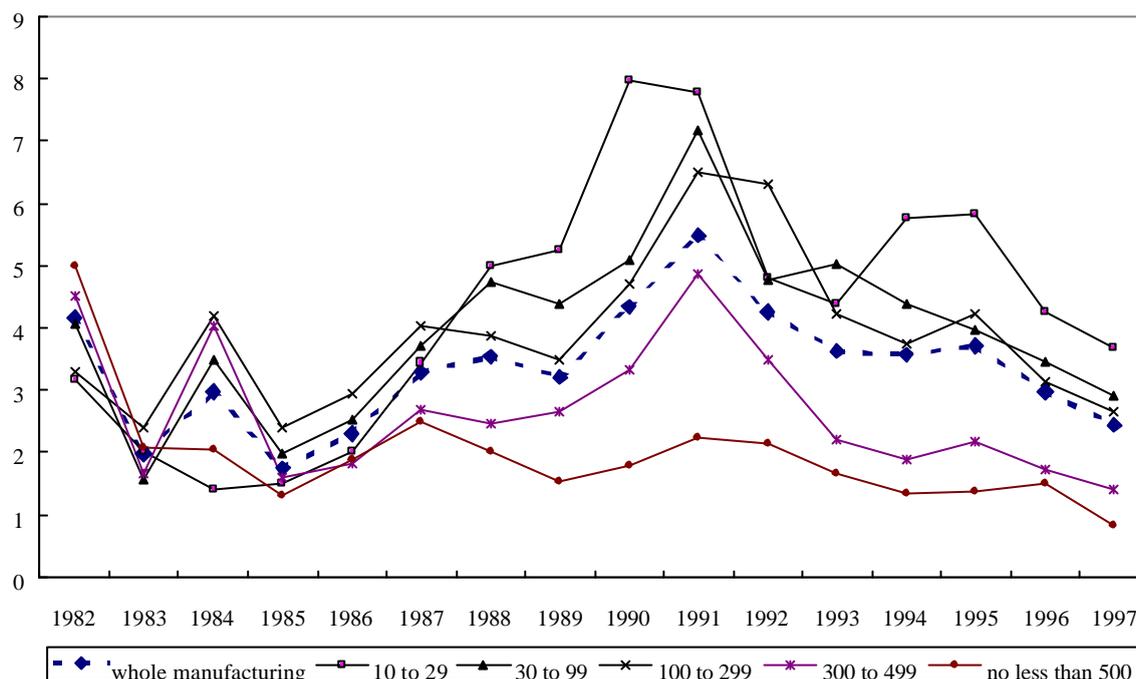
<Table 4> The Shortage Rate by Firm Size in 1997

	10-29 employees	30-99 employees	100-299 employees	300-499 employees	500 or more employees
The Shortage Rate	3.67	2.91	2.66	1.41	0.83

Source: Ministry of Labor, Reports on Employment Forecast, 1997



< Figure 2> Trends in manpower shortage rate by firm size



Source: Ministry of Labor, Report on the Labor Demand, various years

SMEs' high shortage rates do not imply that SMEs have excess demand for labor. Excess demand, by definition, represents firm's willingness to hire more workers at market wage. High shortage rate of SMEs is a consequence of SME's inability to pay raised market wage. Kim and Lee (1997) presented the relationship between the number of bankruptcies of SMEs and the shortage rates as an evidence for this argument. The number of bankruptcy cases was 4,138 in 1990, 6,154 in 1991, 10,761 in 1992, and 9,496 in 1993. Bankruptcy cases increased as much as 75 per cent in 1992, one year after the shortage rate reached its peak, then declined. This suggests that many firms suffered from labor shortages in 1991 might have gone bankrupt in 1992. Hence, SME's high shortage rate has to be regarded not so much as a consequence of excess demand of labor but as a consequence of SMEs' low competitiveness.

In the next section, we investigate the characteristics of structural change in manufacturing sector to identify a possible cause of SMEs' low competitiveness.

THE CHARACTERISTICS OF STRUCTURAL CHANGE IN MANUFACTURING SECTOR

Manufacturing industries can be classified into different groups with differing characteristics on the basis of criteria such as technology (or R&D intensity), orientation, wage and skills (Papaconstantinou, 1995). Manufacturing industries can be classified on the basis of their R&D intensity into high-, medium-, and low-technology groups. <Table 5> gives list of manufacturing industries belonging to each group according to this aggregation scheme.



<Table 5> Classification of Manufacturing Industries by R&D intensity

High Technology	Aerospace(3845), computers and office equipment(3825), communication equipment and semiconductors(3832), electrical machinery(383-3832), pharmaceuticals(3522), scientific instruments(385)
Medium Technology	Chemicals excluding drugs(351+352-3522), rubber and plastic products(355+356), non-ferrous metals(372), no-electrical machinery(382-3825), motor vehicles(3843), other transport equipment(3842+3844+3849), other manufacturing (39)
Low-Technology	Food, beverages, tobacco(31), textiles, apparel and leather(32), wood products(33), paper and printing(34), petroleum refining(353+354), non-metallic mineral products(36), iron and steel(371), metal products(381), shipbuilding(3841)

Note: The number in bracket is ISIC (International Standard of Industrial Classification) code

Source: OECD, Industrial Policy in OECD Countries: Annual Review 1992

The Manufacturing industries can be classified into the following five groups on the basis of orientation, i.e., primary factors affecting competitiveness. Those are resource-intensive(access to natural resources), labor-intensive(labor costs), scale-intensive(length of production runs), specialized-supplier(differentiated products), and science-based(rapid application of scientific advance). <Table 6> gives list of manufacturing industries belonging to each of the five categories.

<Table 6> Classification of Manufacturing Industries by Orientation

Resource-intensive	Food, beverages, tobacco(31), wood products(33), petroleum refining(353+354), non-metallic mineral products(36), non-ferrous metals(372)
Labor-intensive	Textiles, apparel and leather (32), fabr. Metal products(381), other manufacturing (39)
Specialized Supplier	Non-electrical machinery(382-3825), electrical machinery(383-3832), communication equipment and semiconductors(3832)
Scale-intensive	Paper and printing(33), chemicals excluding drugs(351+352-3522), rubber and plastics(355+356), iron and steel(371), shipbuilding(3841), motor vehicles(3843), other transport(3842+3844+3849)
Science-based	Aerospace(3845), computers(3825), pharmaceuticals(3522), scientific instruments(385)

Note: The number in bracket is ISIC (International Standard of Industrial Classification) code

Source: OECD, Structural Adjustment and Economic Performance, 1987

Manufacturing industries can be classified into high-, medium-, and low wage groups. This classification uses average labor compensation across nine countries (Australia, Canada, Finland, Germany, Japan, Norway, Sweden, United States and United Kingdom) for 1985. The high-wage group is defined as industries in which the wage was more than 15 per cent above the median, the medium wage group as industries within 15 per cent of the median, and the low-wage group as industries at least 15 per cent below the median (Papaconstantinou, 1995). <Table 7> Shows list



of manufacturing industries belonging to each group.

<Table 7> Classification of Manufacturing Industries by Wage

High Wage	Chemicals excluding drugs(351+352-3522), Aerospace(3845), pharmaceuticals(3522), petroleum refining(353+354), computers and office equipment(3825), motor vehicles(3843)
Medium Wage	paper and printing(34), rubber and plastic products(355+356), non-metallic mineral products(36), , iron and steel (371), non-ferrous metals(372), metal products(381), shipbuilding(3841), non-electrical machinery(382-3825), communication equipment and semiconductors(3832), scientific instruments(385)
Low Wage	Food, beverages, tobacco(31), textiles, apparel and leather(32), wood products (33 electrical machinery (383-3832), other transport equipment (3842+3844+3849), other manufacturing (39)

Note: The number in bracket is ISIC (International Standard of Industrial Classification) code

Source: Papaconstantinou, Globalization, Technology, and Employment: Characteristics and Trends, STI Review No. 15, OECD, 1995

The estimates of the proportion of production workers in manufacturing employment by industry can be also basis of classification. Industries with high estimates are classified as unskilled and industries with low estimates are classified as skilled. In <Table 8>, list of manufacturing industries belonging to skilled and unskilled are given.

<Table 8> Classification of Manufacturing Industries by Skills

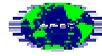
Skilled	Food, beverages, tobacco(31), paper and printing(34), Chemicals excluding drugs(351+352-3522), pharmaceuticals(3522), petroleum refining(353+354), fabricated metal products(381), computers and office equipment(3825), communication equipment and semiconductors(3832), aerospace(3845), scientific instruments(385)
Unskilled	Textiles, apparel and leather(32), wood products (33), rubber and plastic products(355+356), non-metallic mineral products(36), iron and steel (371), non-ferrous metals(372), non-electrical machinery(382-3825), electrical machinery (383-3832), shipbuilding(3841), motor vehicles(3843), other transport equipment (3842+3844+3849), other manufacturing (39)

Note: The number in bracket is ISIC(International Standard of Industrial Classification) code

Source: Papaconstantinou, Globalization, Technology, and Employment: Characteristics and Trends, STI Review No. 15, OECD, 1995

In the following, we analyze the characteristics of structural change in manufacturing sector from 1973 to 1996, using aforementioned four aggregation scheme of manufacturing sector on the basis of technology, orientation, wage and skills. Employment growth of large firms and SMEs are differentiated.

The employment growth of Korean manufacturing sectors since 1970's led by SMEs. From 1973 to 1996, the employment of SMEs has grown at an annual rate of 5.9

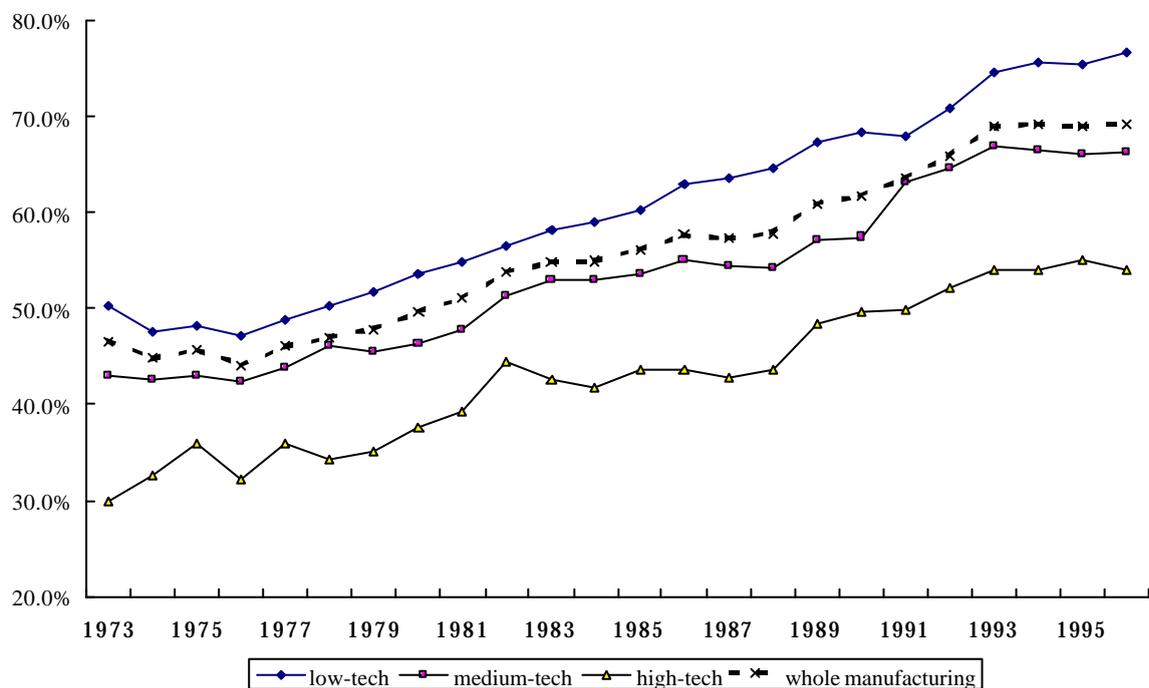


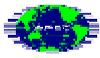
per cent whereas the employment of large firms has grown at an annual rate of 1.6 per cent. Consequently, the proportion of SMEs' employment in manufacturing sector increased from 46.6 per cent in 1973 to 69.2 per cent in 1996.

The proportion of SMEs' employment in each group of aforementioned four aggregation schemes by technology, orientation, wage and skills has changed very differently. <Figure 2> shows the proportion of SMEs' employment in each group of aforementioned four different classifications.

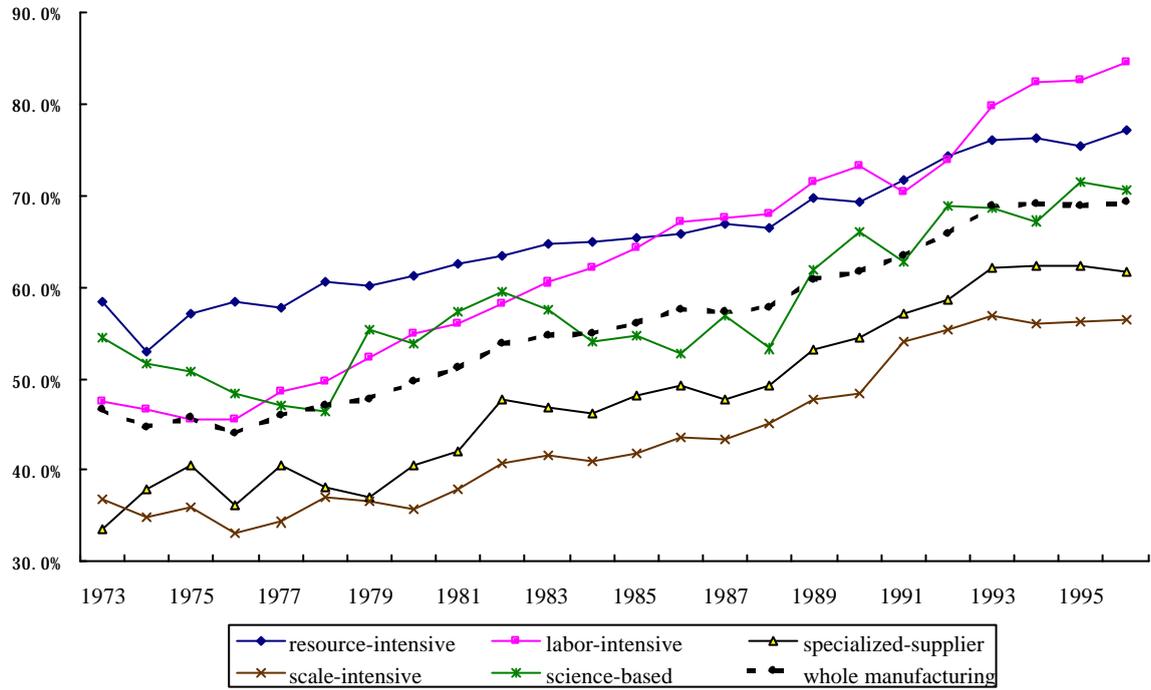
<Figure 2> The Trends in Proportion of SMEs' Employment Under Four Different Aggregation Schemes For Manufacturing Sector

(1) By Technology

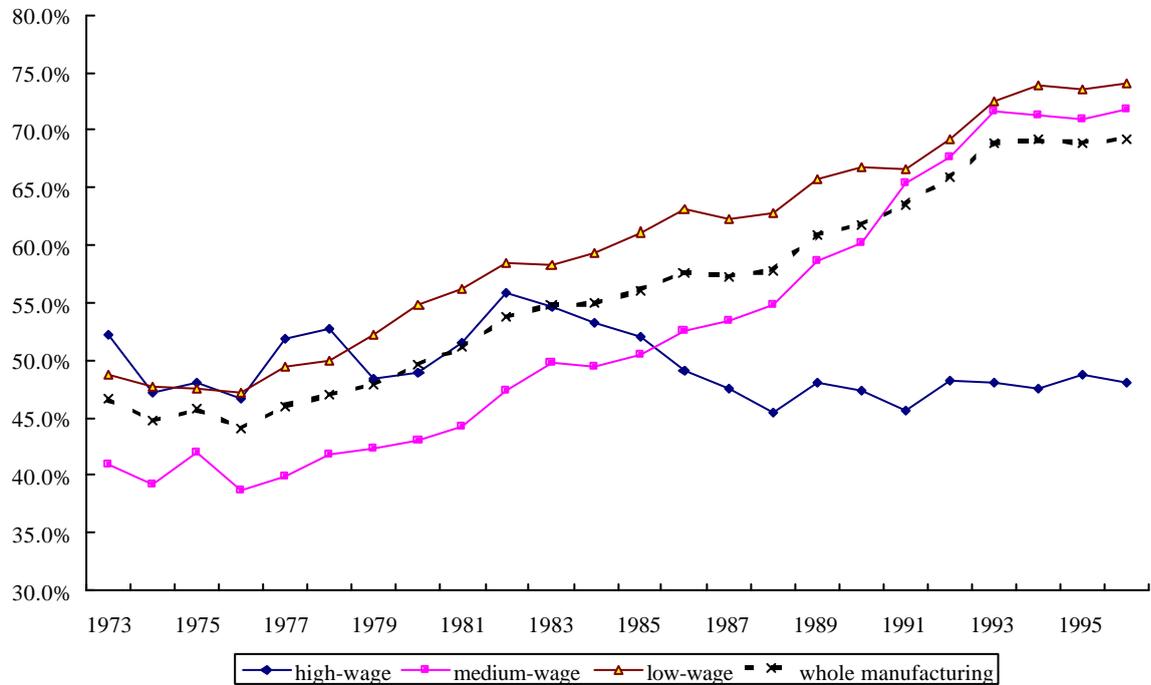


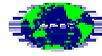


(2) By Orientation

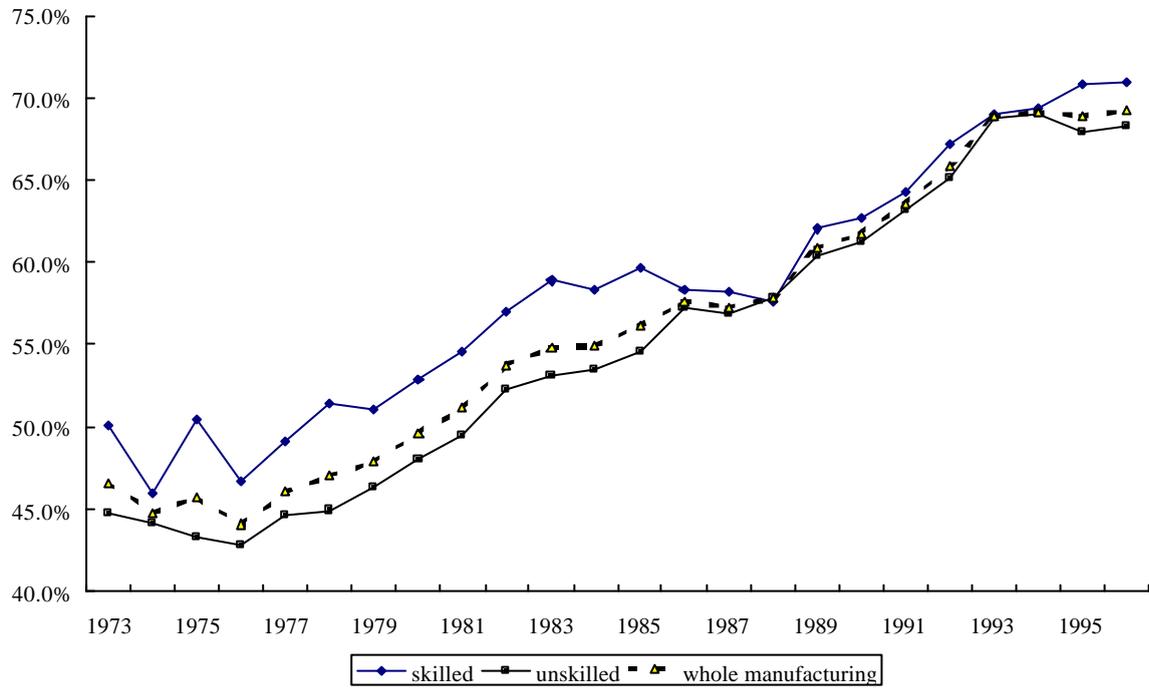


(3) By Wage





(4) By Skills





According to classification by technology, the proportion of SMEs' employment grew most rapidly in low-technology segment of manufacturing sector. As of 1996, the proportion of SMEs' employment is 54 per cent in high-technology segment, 66.2 per cent in medium-technology segment and 76.6 per cent in low-technology segment. From 1973 to 1996, the employment of SMEs in low technology segment increased at an annual rate of 4.6 per cent whereas the employment of large firms in the same segment decreased at an annual rate of 0.6 per cent.

Classifying manufacturing industries in terms of orientation shows also divergent path for large firms and SMEs in employment growth. For example, in labor-intensive industries, SMEs' employment grew at an annual rate of 4.5 per cent for the period between 1973 and 1996. The large firms' employment in labor-intensive industries for the same periods, however, declined at an annual rate of 3.4 per cent. In consequence, the proportion of SMEs' employment in labor-intensive sectors increased from 47.5 per cent in 1973 to 84.5 per cent in 1996. The speed of SMEs' employment growth was fastest in specialized-supplier industries. In this segment, the SMEs' employment grew at an annual rate of 10.6 per cent. However, the proportion of SMEs' employment in specialized-supplier segment as of 1996 recorded 61.6 per cent, which was lower than proportion of SMEs' employment in whole manufacturing industries, 69.2 per cent for the same year.

A similar divergent trends of SMEs' and large firms' employment growth can be found when manufacturing industries are classified on the basis of wages. In low-wage segment, SMEs' employment had grown 1.6 per cent annually. The large firm's employment in low-wage segment, however, declined at an annual rate of 0.5 per cent. In the high-wage segment, large firm's employment grew at an annual rate of 7.0 per cent and SMEs' employment grew at an annual rate of 6.2 per cent. As a consequence, the proportion of SMEs' employment in low-wage segment increased from 48.8 per cent in 1973 to 74.1 per cent in 1996, and the proportion of SMEs' employment in high-wage segment declined from 52.2 per cent to 48.1 per cent for the same period.

Classifying industries in terms of skills does not show divergent path for SMEs' and large firms' employment. Although employment growth rate of unskilled segment turned out to be somewhat higher than that of skilled segment for SMEs and the opposite is true for large firms, there's no real difference in employment growth of skilled segment and unskilled segment. This is mainly because even large firms in Korea failed to make a transition from production worker intensively using sectors to knowledge worker intensively using sectors. The proportion of SMEs' employment in skilled segment had been greater than the proportion of SMEs' employment in whole manufacturing industries for the whole periods under investigation, from 1973 to 1996. In other words, large firms' employment in skilled segment had been smaller than the proportions of large firms' employment in whole manufacturing industries.

The demand for production workers has been strong regardless of the firm size. Combined with absolute reduction of the labor force and the decline of labor force participation rate caused by increasing enrollment in higher education, this strong



demand led to severe shortage of the production workers. The SMEs faced more severe shortage problems, because large firms usually offered higher wage for production workers. Some large firms offered higher wage for production workers because of union threat. Other large firms offered higher wage, simply because they belong to high wage segment of the industries.

It is shown that the employment growth of SMEs and large firms in manufacturing industries followed divergent path. The SMEs' employment growth in low value-added sector, i.e., low-technology, labor-intensive, low-wage and unskilled sectors, have risen faster than SMEs' employment high value-added sectors. Large firms' employment has been mainly increased in high value-added sectors. However, the employment growth of both large and small firms has been concentrated on an unskilled sector, a production worker-intensively using sector. This widened the wage differentials of production workers by firm size and concurrently led to severe shortage of production workers for SMEs, which has little ability to pay high wage to production workers because they usually belong to low-wage sectors. Korea needs to push SMEs forward to high value-added sector. Pulling large firms out of production worker intensively using sectors would greatly help to facilitate this process.

GOVERNMENT POLICIES FOR SMEs' HUMAN RESOURCE DEVELOPMENT

It's been for a while since government recognized the importance of innovative SMEs. In February 1996, the Small and Medium Business Administration(SMBA) was established as a ministry level for better formulation and implementation of SME policies. Government has implemented various measures for human resource development of SMEs.

The rapid expansion of university enrollment in 1980s led to substantial reduction of vocational education. Vocational education institutions had been degraded into second rate schools chosen only by students who had failed to qualify for universities. Furthermore, obsolete curriculum failed to meet rapidly changing industrial needs. Quantitative and qualitative degradation of vocational education resulted in shortage of skilled manpower. Confronted with this problem, the government focused more attention on vocational education in the 1990s. The proportion of vocational high school enrollment to total high school enrollment returned to 42 per cent in 1995 from 45 per cent in 1980 and 35 per cent in 1990. To cope with the difference between vocational curriculum and industrial skill requirements, the "2+1 system for technical high schools" was adopted to upgrade vocational training adaptability by packaging two years of academic study with one year of on-site training in industry.

Before financial crisis, labor market had been relatively tight and government focused on reducing the shortage rate of SMEs. Women, the elderly and foreign workers were induced into the labor force with various incentives.⁴ The current immigration law does not allow entry of unskilled laborers except as trainees. The trainee system was originally designed to upgrade skills of foreign workers employed overseas by Korean firms, but it has evolved be used as a means of easing labor



shortage in small manufacturing firms(Y. Park, 1996). Trainees are protected under major articles of the Labor Standards Act, Minimum Wage Act, Industrial Safety and Health Act, Industrial Accident Compensation Insurance Act and Medical Insurance Act. Illegal workers are not protected under these laws. A lion's share of foreign workers are illegal workers. This produces some negative side effects. Illegal workers experience inferior working conditions and are paid much less than legal workers. Some non-governmental organizations have tried to establish equal treatment for illegal foreign workers in vain.

With government incentives, more employers adopted labor-saving automated technology. 5 Government adopts various tools to induce more workers to SMEs. Career counseling services were introduced for general high school graduate, and job information service were introduced for the unemployed (PECC, 1994). Tax incentives were also offered to reduce the shortage. Income tax for foreign technicians is exempted for the first five years. For SMEs, 15/100 of expenses disbursed for technology and manpower development is given as a tax credit, while for large firms the rate is 5/100. The technical manpower of SMEs in capital goods industry gets taxable income deduction according to the number of years of work in capital goods industry. For workers with working experience of more than 3 years and below 7 years, 10/100 of wage is deducted. For workers with working experience of more than 7 years and below 12 years, 20/100 of wage is deducted. The rate is 30/100 for workers who have worked in the capital goods industry more than 12 years.

Government has been implementing military service exemption program for research personnel and technicians. The research personnel can be exempt from military service, when he works at the designated private corporate research institutes or public research institute for five years. To be eligible for exemption, the recruit should have at least master's degree. For those who apply for SMEs, however, the candidates with bachelors' degree are also eligible. To be selected as a designated research institute for this program, the institute has to secure at least five personnel responsible for research activities who hold at least master's degree(for SMEs, two research personnel with master's degree would suffice). Technicians with national certificate for skills can be exempt from military services, when he works at designated enterprises for three years.

<Table 9> Evaluation on government's HRM policies for SMEs

Human Resource Management Policies	Rank	Grade
Military service exemptions for technician	1	79.4
Trainee system for foreign workers	2	73.4
Vocational training of MOL(Ministry of Labor)	5	54.6
Tax credit for technology and manpower development	3	63.4
Taxable income deductions for workers in capital good industries	4	62.1
Military service exemptions for research personnel	6	53.9

Source: KFSB, Report on technology and manpower development of SMEs, 1997



In 1997, Korea Federation of Small Business(KFSB) conducted employer survey on the effectiveness of government's human resource management policies for SMEs. <Table 9> summarizes the results of this survey. Interestingly, employer regarded the military service exemption for technicians most helpful and the exemption for research personnel least helpful. This manifests that SMEs' labor demand concentrated on technician level rather than on researcher level.

In the wake of economic crisis, the unemployment rate soared from 2.6% in 1997 to 6.8% in 1998. The maximization of job creating potential of SMEs became an urgent policy priority under the high unemployment conditions. In consequence, the policy instruments for innovative SME's start-up has been emphasized. Most of policies are centered on providing essential resources for start-up of innovative SMEs. Financial support is available through Korea Technology Credit Guarantee Fund for technologically superior SMEs. Various technological guidance program and management training program are offered by SMIPC (Small and Medium Size Industry Promotion Corporation), an affiliated agency of SMBA. Technology business incubators have been established in regional universities with government support.

With the entry of competitive SMEs into the market, rents generated by the monopoly in a particular product market will diminish and the wage differential between large conglomerates and SMEs will be narrowed down. The mobilization of redundant workforce of large firms to SMEs will be facilitated by the start-up of the technology intensive SMEs. The segregation of the labor market by firm size will be mitigated in every aspect. The SMEs in the future will have higher wage levels and more skilled workers. The degree of this transition largely depends on the proper development of the human resource management practices of the SMEs.



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Notes

- ¹ Many sees excessive diversification of chaebols as a major factor undermining chaebols', consequently Korea's competitiveness. However, some studies have produced partial evidence on the efficiency-neutrality of chaebols' diversification. One study sees the diversification of chaebols as a logical response to changing market fundamentals and the government business relationship (Yoo and Lee, 1997).
- ² Cut-off levels are 300 employees for manufacturing sector with a few exceptions, 20 employees for electricity, gas and water supply industry, 20 employees for wholesale & retail trade and other service industry, for example.
- ³ The June 29th Declaration of 1987 is the declaration of political liberalization. However, it greatly affected the labor market rather than politics. The government changed its position in the labor market from strong intervention to laissez-faire. This led to rapid unionization, and consequently substantial increase in wages.
- ⁴ Employment Equality Act was enacted in 1987 to ensure equal opportunity and treatment of men and women in employment. The Aged Employment Promotion Act was enacted in 1991 and became effective in 1992. The aged is defined as being a person fifty-five years of age and older. According to this law, the Minister of Labor recommends and employer to meet standard employment rate for age workers in proportion to regular workers. For example, employers hiring over 300 workers are recommended to have 3 per cent of its workers in this age category.
- ⁵ In the case of investment in productivity improvement facilities, 5/100 of investments is given as a tax credit.

**THE ROLE OF SMES IN THE CURRENT SITUATION &
PROBLEMS OF ASEAN CORPORATE MANAGEMENT**

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THE ROLE OF SMES IN THE CURRENT SITUATION & PROBLEMS OF ASEAN CORPORATE MANAGEMENT

INTRODUCTION

It is true that our region is facing great challenges because of the financial crisis that started in Thailand. The bubble economy of Thailand burst on July 2, 1997 and quickly spread to other Asean countries.

In effort to solve the present economic crisis and to enter the next century with a promising future, Asian countries need to tackle severe structural problems in the real sector as well as the financial one. Lack of competitiveness and sustainability are identified as the key problems of the real sector, the solution to both of which requires innovation as the key variable. Innovation, including both restructuring and upgrading of production and exchange, allows the real sector to emerge from stagnant, unproductive and incompetent activities, which no longer serve the interests of Asian countries in the global economy. Three key policy instruments are identified continuing education and retraining in order to increase the human and social capital, and allowing the innovation which is needed in two other key policy instruments, namely technology development and management development. Application of these instruments to production, exchange and environmental conservation will lead to both technological and economic efficiency, in turn leading to competitiveness and sustainability.

At present, there are four countries in the East Asia to face with economic crisis, namely Thailand, Indonesia, South Korea, and Malaysia. However, Thailand, Indonesia, and Malaysia are the member of the ASEAN. They have the same economic structure especially in manufacturing sector, while South Korea is the NICS. Therefore, this paper would like to emphasis on the ASEAN's country and with the same economic structure, Thailand will be more emphasis.

Context of crisis

The economic crisis in Thailand is a complex phenomenon with many causes. There are two key and interrelated factors. The first is excessive private sector borrowing. The second is panic and the subsequent collapse of investor confidence.

Private sector borrowing took place in the context of an economic boom that started in the second half of the 1980s. Much of this borrowing went into real estate and stock markets, ending in a "bubble" economy that has burst. Companies borrowed foreign currency on short-term loans and banks increased their lending too easily and rapidly for use in unproductive investments. Lending was based not on feasibility of the projects, but on personal relations. Many Thai companies and banks has borrowed offshore in foreign currencies short-term at lower international interest rate, and used the money for long-term investment. With the opening of Bangkok International Banking Facilities (BIBF) in 1993 and with an interest rate differential of several percentage points, companies and banks took advantage of this option and believed that the exchange rate regime would be maintained, large, unhedged positions. At the same time, governments had liberalised their financial markets without strengthening their loose financial and banking regulatory and supervisory systems.



They also did not change their inflexible exchange rate system that tied their currencies to the US dollar during a period when the US dollar was growing stronger against all currencies since 1995.

These widen current account deficit to 8 percent of Gross Domestic Product(GDP), On 2nd July 1997, the Thai government decided to float the Thai baht. Now, companies and banks which had borrowed US dollar with the rate of 25 bahts per US dollar will need 52 bahts to buy one US dollar to repay. The total external debt is us dollar 93 billion, or about 97 percent of GDP at current exchange rate.

Thailand's experience highlights that high rates of investment are not sufficient to sustain a large current account deficit and growing domestic credit. While most of the new funds went to investment and not consumption, the investment was often in the "wrong capital stock". Few investments were in activities that would earn foreign exchange; rather they went into updating facilities geared for domestic production or into non-productive assets. With the relative price of non-tradables rising, this was a rational response, but it has consequences for the ability of firms to increase exports now that the asset bubble and the baht has depreciated so drastically.

Once lost confidence in Thailand, fund managers in foreign countries sold out their assets. Their selling brought down the stock market. By converting baht into US dollar, they caused a further fall in the exchange rate. This crisis is a crisis of confidence.

THE EFFECT ON SMALL AND MEDIUM ENTERPRISES (SMEs)

One of the current impacts of the economic crisis on manufactures is finance crisis. Certainly regarding the financial structure of SMEs there is a heavy reliance on short term borrowing. The average bank debt-to-equity ratio is about 150 percent with almost all of the debt short term. Now, banks are increasingly refusing to roll over credit. Entrepreneurs fear that the crisis may lead to the prolonged weak macroeconomic policies and persistent cost-push inflation and managing the uncertainty of the real devaluation. Faced with three major problems for doing businesses, Thai entrepreneurs have suffered badly in the hostile environment. It urgently needs to be solved in order to gain clear solutions and advices to businesses. The three major problems are as follows:

1. Financial liquidity management

The financial liquidity problems is the most important problem foe doing business nowdays. There are several kinds of financial liquidity problems such as (1) insufficient cash for clearing checks; (2) reduced credit term from production firm to distributors; (3) suppliers have liquidity problems in purchasing raw materials, bringing problems to production firms which cannot produce goods; (4) reduced credit lines from financial institutions; (5) lack of liquidity stemming from the suspension of 58 financial companies' operation; (6) insufficient cash for the monthly payroll of the workers and staffs; (7) reduced salary; (8) cut fringe benefits and bonuses; (9) lay off workers and staffs; and (10) terminate the services of the workers and staff.

2. Managing cost-push inflation and baht devaluation



According to financial liquidity problems, firms currently face management problems due the baht devaluation which has also affected the cost of funds, production and management. The cost of raw and supporting materials quite high forced management to increase prices, while purchasing power of people is decreasing. Thai entrepreneurs lack confidence in managing the operations including decision regarding appropriated product pricing levels.

3. Regaining consumer confidence

After baht float on July 2, 1997 both entrepreneurs and consumers at all levels receives widely affect by economic recession, while the government did not provide clear measurment and strategies to tackle these problems. These have generated more confusion and lack of confidence in investment including consumers' delay of consumption. Many of them are shifting their consumption pattern tertiary or secondary into primary or basic needs.

4. Market capabilities

The export sectors growth rate had already showed down. This was due to the fierce competition poised by South Asian, Chinese and Vietnamese companies. The show down in the industrial sector combined with the current financial crisis has resulted in either a tempory cutback or cease of operation, including reduction or bermination workers. Why did Thailand lose in the fierce competition? The answer is simple. The competitiveness of the industrial sector itself has weakened.

Firstly, enterprises are still using outdated technologies that resulted in low productivity and low product quality. Product development was lacking particularly in coming out with high value added items.

Secondly, entrepreneurs lack management and marketing knowledge.

Thirdly, the basic skills of the labor force is low.

Fourthly, many export items have high import contents, particularly the raw material. In addition, most export items are destined for the middle and low-end market brackets.

Lastly, Thai exporters have limited access to markets.

There is not much choice left for most of the country's small and medium entrepreneurs (SMEs). Eighter they downsize, freeze or even worse, close their business.

STRUCTURE OF SMALL AND MEDIUM ENTERPRISES IN THAILAND

Small and medium enterprises have varied in Thailand. The Ministry of Industry uses employment and equity to define small and medium industries (SMI) and refers to legally registered factories. The employment criterion to define small scale industries (SSI) places a ceiling of 50 employees, and between 50-200 workers for medium scale industries (MSI). In terms of equity, SSIs have an invested capital not exceeding 10 million baht (about



USD355,000), and MSIs from over 10 million baht to 100 million baht (about USD3.55 million)

The bank of Thailand, the Small Industry Finance Corporation (SIFC), and the Industrial Finance Corporation of Thailand (IFCT) adopt a common definition for SSIs by using net fixed assets, that is, not more than 20 million baht (about USD710,000).

The member of enterprises throughout the country was estimated at 239,678 in 1993 of which 69,856 or 29 percent belong to the manufacturing sector. The manufacturing enterprises registered a growth rate of 4.9 percent over the 1992 figure of 66,566. Out of the total number of establishments, 224,695 or 93.7 percent are considered small enterprises employing between 1-49 employees. Total number of employees in the small enterprises sector was 1,478,000 or 30 percent of total enterprise employment of 4,911,787. Total manufacturing enterprises accounted for 58 percent (2,576,000) of total enterprise employment.

The number of industries (excluding rice mills) throughout the country as of 1991, was 64,107 of which 63,230 (98.6 percent) were considered SMIs, broken down into 51,232 SSIs (90.7percent) and 4,322 MSIs (7.6 percent). In terms of geographical distribution, it is estimated that about 45 percent of the industries are located in the Bangkok Metropolitan Area and the surrounding provinces (Samut Prakan, Samut Sakhon, Pathum Thani, Nonthaburi, and Nakon Pathom). SMIs' share of employment in the industrial sector was estimated at a high of 73.8 percent, 47.4 percent of value added, and 50.5 percent of export value.

The role of SMEs

The socio-economic contributions of SMEs encompass employment, value added, capital formation, foreign exchange earnings and savings, income generation, rural industrialization, savings mobilization, and human resource development. Small enterprises, therefore, perform a vital role in our economy a sides from being the seedbed of entrepreneurship. The SMEs concept, extending out to the people in the rural area. And that is the one of the very effective methods to stop domestic migration. And that is one way to stop the people from the upcountry from trying to come down to the central plain, looking for jobs. SMEs is the answer to that problem.

SMEs play an important role in this conventional view of the engines of asian growth. Although evidence is a little slim, SMEs appears to contribute in the following ways:

- 40% to 60% of Capital investment comes from SMEs,
- About half of productivity growth comes from SMEs,
- SMEs employ about half the workforce,
- About 35% or more of exports are generated by SMEs.



However there is some reason to believe that SMEs play a much more important role than is conventionally thought. SMEs are responsible for 70% or more of net job creation and economic growth (Chris Hall).

SME support agencies need to address these issues systematically. Programmes of assistance should be aimed at providing the entrepreneurs with more information and knowledge so as to stimulate change and innovation and increase the attractiveness of various growth options. Emphasis should also be placed on enhancing the competitiveness, productivity and profitability of the enterprises, thereby increasing the prospects for long-term survival and growth, and in the process improving employment security for those engaged in the SME sector. Agencies can also promote international enterprise alliances, between SMEs, between SMEs and large-scale enterprises, in the form of joint ventures, sub-contracting arrangements, technology and skills transfer, and various trading partnerships. It is important that entrepreneurs have access to best practices, improved and modernised technologies, and useable market information. Support agencies have have a key role to play in fostering and facilitating these developments.

In order to facilitate and enhance the process of trade liberalization, governments, in dynamic partnership with the private sector, hope to formulate guidelines, incentives and support so as to create an environment even more conducive to enterprise. We know that small and medium scale enterprises or SMEs play a very important role in the production and trade of goods and services in most economies, including APEC's. We know that by equipping entrepreneurs and their staff with advanced knowledge of production techniques, good business practices and management, these SMEs can significantly improve their competitiveness, productivity, and profitability in a much wider globalizes market.

GUIDELINES TO SOLVE PROBLEMS

1. Liquidity management and restoring the domestic credit system

* Entrepreneurs have to increase their own efficient in managing liquidity by the following measures:

- (1)Reduce investment in inefficient projects and projects with no future market;
- (2)Reduce production to match demand for products and reduce inventory as low as possible;
- (3)Implement efficient inventory and accounts receivable management systems;
- (4)Be strict when grant the credit to clients and increase the credit lines of good clients;
- (5)Increase the channels of distributions to retailers directly;
- (6)Establish an appropriate debt structure by using long term debt to finance long term projects; and
- (7)Extend credit term from oversea suppliers.



- Promoting the collaboration among trading partners including financial institutions by the following measures:

- (1) Manufacturers extend credit terms to prime customers; and
- (2) Commercial banks increase credit lines and extend payment term for their clients who need money for their main business by introducing the Domestic Letter of Credit (DLC).

2. Managing cost-push inflation and the baht devaluation

* Entrepreneurs must try to lower costs as much as possible without decrease quality and/or human resources development by using the following measures:

- (1) Implementing production processes efficiently and effectively as well as eliminating waste and non-value-added activities as much as possible;
- (2) Producing high quality products to meet consumer needs;
- (3) Replacing imported assembly parts, import products, and raw materials with local content;
- (4) Upgrading standardized products and industrial equipments such as pallet etc.;
- (5) Modifying salary and wage structures to appropriate levels.

* Using technology and new concepts to lower costs and increase productivity.

- Business must promote and encourage financial management in this uncertain environment as the following measures:

- (1) Managing foreign exchange exposure gradually by taking short-term or fixed positions;
- (2) Using one fixed exchange rate throughout the company to set product costing and for management, revising periodically when appropriate;
- (3) Restructuring debt such as using long-term debt to finance assets and loans should be hedged.

- Restructuring the organization to increase management efficiently

- (1) Reducing the workforce and flattening the organization structure;
- (2) Most entrepreneurs should try keeping employment as much as possible together with having plans to recruit the workers.

3. Regaining consumer's confidence

- Entrepreneurs must have good faith and positive attitudes toward the situation in Thailand. Even though the current economic situation still creates uncertainty and troubles in the future, they must have firm belief in their existing markets as well as



potential markets. It is important to be aware that the economic recession at present is only a normal business cycle.

- Entrepreneurs should concentrate in the business that they are keen for and produce what consumers want. Selling good quality product with fair price seems to be the best solution at the moment.
- Entrepreneurs must improve the administrative system in their organizations. The focus should be placed on the operational efficiency in all business functions as well as the improvement of the business discipline in their organizations. Those internal operations which should be more connected in terms of efficiency and effectiveness are accounting, finance, production, selling, marketing, personnel management, etc., . All of these business functions must integrate a good system of information flow internally and externally to establish a better coordination and better integration within organization. However, it is very crucial that Entrepreneurs must consider to keep the long-term competence of their companies, though they have to reduce some costs if a company needs to downsize, this must be done with a good plan and good measurement which must be development in order to maintain morale and motivation of their employees.
- Entrepreneurs must build up the new economy value system within their business organizations. This value must start at the top executives.

POLICY DIRECTIONS FOR SME DEVELOPMENT IN THAILAND

The policies of the Thai government for SME development are embodied and articulated in various forms. These include Acts of Parliament, National Economic and Social Development Plan, and Cabinet resolutions. These, in turn, are translated into objectives, targets, strategies and action plans by the various ministries. The various instrumentalities of the government operationalise these plans, strategies and action plans into programmes, projects and activities.

In terms of business survival and growth, various specialised government agencies provide technical, technological, financial, managerial and marketing assistance to SMEs through training, consultancy, extension service, information dissemination, study missions, trade fairs and exhibits, and research. These services are either free or subsidised. As a result of the baht flotation, several industries particularly the export-oriented industries with low import content, are benefiting, while others are unfortunately adversely affected. However, the government has taken steps and has come up with measures to cushion the impact of the baht flotation. These include, among others, a review of the targets of the Eighth National Plan, formulation of long-term plans to strengthen Thailand's competitiveness and restore investor confidence, including measures to generate savings in the public and private sector, restructuring of the country's agriculture and industry, retraining programme on new skills including technical and business management skills for retrenched workers, duty free importation of capital machinery, reduction in time for collecting tax rebate for exporters from 3-6 months to 45 days, as well as the setting aside of 20 billion baht for low interest-loans to strategic business that have been hurt by the flotation.



DEPARTMENT OF INDUSTRIAL PROMOTION

The Department of Industrial Promotion (DIP) under the Ministry of Industry acts as the lead agency of government for SME promotion and development and follows the guidelines set by the Ministry of Industry and the National Plan in elaborating its own policies to support the sector. These policies include:

1). Encouraging the dispersal of urban industries to rural areas by:

- preparing industrial feasibility studies
- stimulating, guiding and providing advice to investors
- providing industrial information and incubator service for new entrepreneurs

2). Encouraging investment in SMEs by:

- transferring knowledge to rural entrepreneurs
- providing advice and incubator service to both existing and new entrepreneurs
- promotion the use of the Consultancy Fund for developing SMEs in the rural areas
- carrying out career training on cottage and handicraft industries for local people
- providing investment loans for cottage and handicraft industries

3). Establishing industrial networks by:

- promoting rural industries in the form of community industries
- promoting linkages between large industries and SMIs
- coordinating with government financial institutions on loan policies
- promoting rural development

4).Promoting investments in highly potential industrial sectors and enhance the competitiveness of Thai industries by:

- encouraging investment in and developing technological capabilities of SME supporting industries
- undertaking activities according to the master plan for the development of supporting industries

5). Enhancing the competitiveness of export-oriented industries by:

- developing skilled workers for the gem and jewelry industry
- promoting textile industry by modernising its manufacturing technologies



- developing the skill of entrepreneurs in business negotiation and joint venture

A study report on Industrial Sector Development of Supporting Industries in Thailand (March 1995) prepared by UNICO International Corporation for DIP and the Japan International Cooperation Agency (JICA) included a proposed master plan for the development of supporting industries but which also affect SMIs in general. The proposal covers six elements, viz.:

- * Policy and Legislation
- * Market Development
- * Technology Upgrading
- * Financial Support
- * Upgrading of Management
- * Investment Promotion

For many years now, there have been persistent recommendations from many quarters—from donor agencies to development practitioners and industry associations, for a basic law on SMEs which would provide comprehensive and clear guidelines for the promotion and development of SMEs. A draft has long been prepared by DIP, but the proposal did not take off the ground as some key government officials did not perceive the need for such a law, considered it premature or even redundant to existing laws.

The proposed law on subcontracting promotion would have the objectives of providing measures for the efficient promotion of subcontracting arrangements between SMEs and large industries, including international sub-contracting, as well as of upgrading and strengthening the institutions promoting subcontracting.

EXISTING INSTITUTIONAL INFRASTRUCTURE MANDATED BY GOVERNMENT POLICY

Besides the Department of Industrial Promotion and the Ministry which were dealt with separately earlier, there are several Acts of Parliaments which directly relate to SME development. These refer to the setting up of the following institutions and regulations.

- **Small Industry Finance Corporation (SIFC)**

The Small Industry Finance Corporation (SIFC) was established by Act of Parliament in 1991 in order to increase the capacity of small industries in playing an important role in the economic and social development of the country through extension of long-term credit for the establishment of new business, expansion of existing business and for business improvement. It currently operates 2 provincial branches.

- **Small Industry Credit Guarantee Corporation (SICGC)**



The Small Industry Credit Guarantee Corporation Act of 1991 established the corporation to enable collateral-short but viable small industries to obtain more loans from financial institutions, to increase credit extensions from financial institutions to small-scale industries (SSIs), strengthen the confidence of financial institutions in providing to small industries, and to accelerate the dispersal of loans to SSIs.

- **Industrial Finance Corporation of Thailand (IFCT)**

The Industrial Finance Corporation of Thailand (IFCT) was established in 1959 as a development financing institution with shares from government and the private sector who control the majority shares. IFCT's main objectives are to promote and finance the development of private sector industrial enterprises and the domestic capital market. It maintains branches in 4 regions and 10 provinces.

- **Industrial Estate Authority of Thailand (IEAT)**

The Industrial Estate Authority of Thailand (IEAT) was established in 1979 by virtue of Act of Parliament as a state enterprise attached to the Ministry of Industry with and managing industrial estates throughout the the main purpose of planning, developing country. The Act was amended to cover private industrial zones so that owners of factories located in private industrial zones may be given fair protection. Th IEAT has two types of zones which require specific privileges: the General Industrial Zone and the Export Processing Zone. Altogether, there are about 45 industrial estates in the country.

- **Board of Investment (BOI)**

The Board of Investment is an agency under the Office of the Prime Minister established in 1977 under the Investment promotion Act as a tool to help promote foreign and domestic investment in Thailand and to provide assistance in such as areas as guarantees, taxes and monetary incentives. The BOI divides the country into three economic promotion zones with varying investment privileges. The BOI cooperates with DIP and privates sector business groups as well as specialised government agencies in developing supporting industries through the National Supplier Development Programme with the objective of developing SMI parts manufacturers. The BOI has set up a unit for industrial linkage development called BUILD to implement its subcontracting development programme.

- **Factory Act**

Three Factory Acts have been enacted (1969, 1975 and 1979). Among the salient features are the requirement of a permit from the Ministry of Industry before a factory can be operated or before a factory can be expanded or altered.

Other laws also apply for specific industries such as the Foods Acts, Drugs Act, Poisonous Substances Act, etc. Other relevant laws are the Machinery Registration Act, the Industrial Product Standards Act , Labour Protection Law , Tax Rebate for Export Goods Produced in Thailand Law , Building Construction Control Act, etc. These laws are enforced to safeguard the health and safety of the workers and the community, protect the environment, and to ensure a conducive working environment.



• Institute For Sme Development (Ismed)

More than 400,000 small-and medium-sized enterprises (SMEs) nationwide have been adversely affected by the impacts of the current economic crisis. To help them overcome these difficulties and to equip them for challenges of the third millennium, the Ministry of Industry, through the Department of Industrial Promotion, Thammasat University, and seven leading Thai universities establish the Institute for SMEs Development (ISMED). The institute funded under the Government's economic stimulus package intends to strengthen the competitiveness of Thai SMEs. The institute will introduce business opportunities for new entrepreneurs and offer training programs for current entrepreneurs to help them improve their business skills.

TRENDS IN POLICY FORMULATION

As already articulated in the past National Plan, the following directions affecting SMEs and SMIs will become distinctly more transparent and gain momentum in the years ahead. These include:

1. Less Government

Due to the budgetary discipline imposed by the government, the number of government officers will decrease so that eventually there will be a leaner but more efficient government staff. There is an ongoing pilot efficiency enhancement programme in selected government agencies which will be expanded to cover the entire public sector. With less government personnel there will be a corresponding move to limit government service to facilitation in the delivery of service, to institution building and network development to support and strengthen a network of SMI service providers, to coordination of the network so that in the end government personnel will no longer provide direct assistance to SMEs.

2. Private Sector Empowerment

Corollary to the trend towards less government will be the natural devolution to empower the private sector to take over some functions of the state, to be source of specialised and to regulate its own rank. Prime Minister Chavalit stated that:

“ Private individuals would be encouraged to establish organizations to control themselves so state supervision could be done away with. The role of the public sector should be limited to only servicing and facilitating. Such things as construction and building control should be handled by professional organizations from the private sector.”

The Seventh National Plan had already advocated the following:

- support for private sector role to relieve some public responsibilities, such as examination of industrial plant, machinery and equipment, as well as examination of laboratories to promote a greater speed and convince.



- budgetary support to private non-profit organizations to encourage training programmes and support activities for SMIs.
- encouraging the private sector to expend joint venture agreements in foreign countries.

The Department of Industrial Promotion (DIP) has supported this policy in various ways through:

- sponsoring the establishment of the Productivity Institute as a private body with government support to provide consultancy service to private industry in the areas of productivity and quality management. This meant turning over the consultancy function of DIP's former Industrial Productivity Division to the new institute.
- sponsoring the establishment of the Textile Institute as a private body similar to the above. This meant turning over some responsibilities of DIP's Textile Industry Division to the new institute.
- setting up of a Consultancy Fund so that SMI clients can access private and non-DIP consultants through government subsidy.
- subcontracting studies and surveys to private sector institutions.
- sourcing outside DIP for resource persons of training programmes and projects such as the Belgian Government-assisted Off-Farm Job Creation Project which is subcontracted to CARE.
- sponsoring the formation of industry associations such as the Thai Mold and Die Association and the Textile Industry Association so that they can conduct seminars and other activities on their own.

As a natural consequence of the twin factors above- less government and more private sector involvement, there will be a more dynamic public-private sector partnership insofar as sharing of decision making and responsibility for planning, implementing, monitoring and evaluating programmes and activities affecting SMEs as part of a work sharing, cost sharing concert.

More active involvement could be expected from the private sector as an advocacy body, as a consultative advisory group, as joint sponsor and as member of joint public-private sector body such as the Joint Private and Private Sector Consultative Committee (JPPCC) which is the highest public-private sector joint body chaired by the Prime Minister and having its equivalent setup in the provinces. The Thai Chambers of Commerce, the Federation of Thai Industries and the Thai Bankers Association are represented in this body. The various committees of the Board of Trade are actively involved in government consultation. Industry and trade associations are also active as a lobby group, in regulating their own ranks and in providing service to their members in terms of training, information, consultancy, business matching, joint marketing, transfer of technology and organising trade fairs, exhibitions and study missions abroad.



3. Passage of Laws and Regulations 3.

Due to the ever growing importance of SMEs as an economic and political force and the real need to strengthen the competitiveness of the sector, there will be increasing pressure in Thailand to emulate the example of the United States, Japan, Korea, Philippines and Chinese Taipei in formulating specific laws that directly affect SMEs. These new laws could revolve around:

A basic law on SME promotion (as previously mentioned) containing such provisions as:

- creation of a centralised policymaking or coordinating body responsible for SMI development and to be composed of relevant ministries and specialised agencies with strong private sector representation.
- establishment of a SME enterprise agency which evolve from a revamped DIP
- incentives for efficient and priority industries as well as industry clusters
- comprehensive package of measure to promote the sector
- * subcontracting promotion
- * modernisation promotion
- * rural industrialisation promotion
- * bankruptcy
- * structural adjustments and stabilisation measures
- * innovative financing schemes
- * technology promotion
- * private sector promotion and participation

It would also mean that private organizations would become more involve in SME promotion and economic development in general. With the passage of a proposed basic law on SMEs, it is expected that there will be mushrooming of non-governmental organizations, private organizations and even small enterprise associations, foundations or institutes which will be attached to leading universities, large companies and non-profit organizations. These will cater to the needs of SMEs in terms of training, research, consultancy, etc. This would mean an enhanced role for existing private organizations such as the FTI, Chambers of Commerce, Board of Trade, Institute for Management Education of Thailand (IMET), Population and Community Development Association (PDA), and the Thailand Development Research Institute (TDRI), industry and trade associations, among others. This would also mean more autonomy on the part of government corporations whose operations directly affect SMEs, such as the Small Industry Finance Corporation (SIFC), Industrial Finance Corporation of



Thailand (IFCT), Small Industry Credit Guarantee Corporation (SICGC), including the Industrial Estate Authority of Thailand (IEAT), among others.

4. Standardization and Simplification

As part of the basic law, there will be a uniform definition of cottage, small, medium and large industries using the following criterion or a combination of the following factors: employment, total assets, fixed assets, and equity. At present, the ministry of Industry defines a small-scale industry as having employment not exceeding 50 workers and having invested capital (equity) not exceeding 10 million baht. A medium-scale industry is defined as having employment ranging from 50 to 200 workers and invested capital from more than 10 million baht but not exceeding 100 million baht. The Bank of Thailand, the Board of Investment, the Statistics Office, as well as SIFC and IFCT adopt different definitions.

There will be standardisation and simplification of regulations, forms, training, operating systems, etc. so that these will become more customer oriented and user friendly and can readily be replicated on a mass scale for greater access by the people without sacrificing quality. These moves will definitely benefit SMIs especially in the rural areas.

5. Massive Use of Information Technology

Recognising the benefits and advances in information technology, Thailand realised that knowledge is power, but that proper use and mastery of technology are also important. Office and factory automation and communication equipment have revolutionised the manner of doing business both locally and internationally – faxes, cellular phones, Internet, E-mail, Intranet, etc. The application and accessibility of modern information technology in Thailand will be widespread and will be less costly as economies of scale are achieved. Investment by both public and private sectors in Thailand in information technology both software and hardware will expand significantly as the country joins the information cyberspace mania prevailing in other parts of the world. It is expected that a comprehensive, clear-cut policy on this subject will be formulated by the government soon. This trend will force SMIs to apply modern information technology to maintain their competitiveness and enhance their efficiency.

6. Research and Development (R&D)

Thailand's current investment in R&D on science and technology (S&T) is relatively low compared to the newly industrialising countries in Asia and developed countries. However, there is now a growing consciousness to increase R&D in S&T as a result of mass media exposure and the fruits of the dynamic efforts of various specialised government agencies. We will see dramatic increase in R&D investment by both public and private sectors to reach one percent of GDP by the year 2005. Equally important is the successful commercialisation and protection of R&D results so that attractive returns on their investment can be achieved as an incentive for further investment. This would mean that S&T agencies of the government and the private sector will become increasingly more important and prominent. Comprehensive policies in stimulating investment in R&D are expected to be announced soon. This trend should benefit SMIs.

7. Environment consciousness



As even now already pronounced, environmental consciousness by government and society with significantly increase to protect the country from the adverse effects of environmental degradation. More local and international pressure groups will make their presence felt in the way the ecological environment in Thailand should be managed insofar as renewable, non-renewable sources of energy, forest, marine and land resources, polluting and hazardous industries are concerned. Stricter measures on ecological conservation and strict compliance of existing regulations would be imposed by the government, while more cooperation among government, private sector and non-governmental, organizations would be expected. As part of their social responsibility and under external pressure, SMIs will be bound to invest in environmental protection measures, however, this should be seen as a necessary social overhead for the common good.

8. Internationalisation of Business Facilities

There will be a strong trend towards the establishment of strategic alliances by both government and private sector in different countries and towards international subcontracting to take advantage of each country's comparative advantage. Already visible are the agreement under the Asean Free Trade Agreement (AFTA), Asia-Pacific Economic Cooperation (APEC), the Asean Industrial Complementation Scheme (AICO), under the Indonesia-Malaysia-Thailand Growth Triangle (ITM-GT), Mekong River Project, and recently the partnership in economic cooperation between Thailand and Singapore in jointly developing an industrial park in the Eastern Seaboard of Thailand. These strategic moves would facilitate the movement of goods and services and their production within the agreeing countries. This trend highlights a dichotomy of countries competing in some aspects and complementing in other aspects so that the net result would be positive synergies for all. The implication for SMIs is that they have to enhance their competitiveness to reach out to international market niches and at the same time protect their domestic turf's through more efficient operations.

The ultimate goal of the inclusion of SMEs is to promote efficient, productive and self-reliant SMEs that would further contribute to the growth and development of the region and enhance the growing economic interlinkages of the regional economy.

Although SMEs are important in terms of numbers and domestic employment creation, currently they play a minor role in terms of regional trade investment. The Asia Pacific region's export markets and foreign investment flows are dominated by large companies. Hence, there need to be explicit to promote and assists SMEs as regional players.

SMEs face a number of constraints in the regional market, including limited access to market intelligence relating to business opportunities; limited access to production inputs, such as finance; difficulty in meeting product standard specifications; inadequate track records and experience; and the social and cultural mores which discourage the participation of certain groups, for example women, in business activities.

Responsibility in assisting SMEs is could be undertaken both by the public and business/private sectors. In particular, the large enterprises can, through subcontracts and



procurements, assist SMEs to upgrade their technological and managerial capabilities, such as standards quality control.

With their vast marketing, large enterprises can also be of valuable assistance to SMEs in their search for new business opportunities. Strategic alliance including franchising and new forms of dealerships benefit both large enterprises and SMEs alike.

One area where SMEs development is clearly beneficial is the development of a thriving local supporting industry. From the economy's point of view, it serves to attract foreign direct investment; reduce imports of intermediate goods; conserve foreign exchange and hence improve the balance of payments; and assist in employment creation and general economic development.

Despite meticulous forecasting and careful planning, no country can completely escape from the vagaries of economics, social and political uncertainties both from within and outside the country. Thailand is currently facing an economic crisis. But with strong faith in the resilience of SMEs against all odds, in the leadership of our government to handle their crisis, and in the common resolve of our people to improve their economic lot, we are certain we will weather this economic prosperity for all Thai people.

Big Business Linkages Business- SMEs

- Forging win-win symbiotic relations through: franchising, subcontracting, new form of dealerships, and using SME on an "as-needed" basis
- Strategic Alliances within and across national boundaries
- Business networking and information exchange

CONCLUSION

In Thailand, dynamic changes are occurring due to various internal and external factors. Those changes are affecting both public and private sectors. Among the internal factors include the flotation of the baht last July 2, 1997 the current economic downturn, government budgetary cuts as part of fiscal discipline, the rise in inflation and labour cost, lack of liquidity in the banking system, etc. Among the external factors are trade liberalisation, competition with other developing countries for foreign capital and markets, negative publicity abroad, etc. All these developments are affecting Thailand's economic progress, hence there is a need to review our targets and strategies. This is now being done by all government instrumentalities headed by the National Economic and Social Development Board (NESDB).

Despite these difficulties. Thailand's economy grew in 1997 – lower than the annual growth in the past decade but still commanding a respectable accomplishment. Thailand's economy has strong fundamentals and its prospects for growth are very bright, hence we expect a short-term economic discomfort. During this time of crisis, we have learned to realise our interdependence and our need to put our act together as demonstrated by the backlash that the baht flotation has impinged on the economies of the Philippines, Indonesia, Malaysia and Singapore.



We have established in this paper some irreversible trends that have to be considered in formulating policy directions for SMEs and SMIs. In fact, many of them would be treated as urgent under this economic situation to put our economy back on course. The policy implications resulting from these dynamic changes both positive and negative, are manifold and they have to be studied carefully.

Thailand's ability to retain its SME. Advantages or create new ones will depend on its ability to formulate a vision and create development plan designed to raise Thai SME to global standard excellence.