

## **Skill Shortages, Training Needs & HRD Strategies of MNCs in APEC Member Economies**

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### **1. Introduction**

A fundamental objective of APEC is the liberalisation and facilitation of trade and investment with the aim of accelerating economic growth and development among member economies. Human resource development is fundamental to this process. Without adequate human resources, the opportunities presented by trade and investment liberalisation will be diminished. Skill shortages can constrain the expansion of output in the short-term and limit the possibility of diversifying productive structure in the long-term. In APEC, there is increasing concern that the growth and development opportunities afforded by trade liberalisation may be circumscribed by a gap between the skills needed by industry and the output of educational and training institutions.<sup>1</sup> Thus a principal concern of the APEC member economies is to ensure that the capabilities of their workforces advance in parallel with the structural changes that underpin the growth and trade liberalisation process; that programs of education and training encourage rather than impede structural change. This is an important challenge to the region's educational and training institutions.

Over the decades prior to the 1997 financial crisis, the economies of East and South East Asia experienced rapid economic growth and structural change. This occurred over the last three decades in the case of the NIEs of Hong Kong, Singapore, South Korea and Chinese Taipei, and over the last decade and a half in the case of the

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<sup>1</sup> It is recognised that there often exists long adjustment period between changing skills requirements of industries and the types of training and education provided by a country's education and training sectors (Iredale & Mitchell 1995; PECC 1998).

'younger Tigers' of Malaysia and Thailand<sup>2</sup>. Competition from the young Tigers has forced the older Tigers (i.e. NIEs) to attempt to change their productive structure over the last decade away from low-valued added labour-intensive industries toward skilled-labour capital-intensive industries. More recently, competition from the less developed economies of the region, viz. China, Indonesia, the Philippines and Vietnam, has been forcing the younger Tigers -- Malaysia and Thailand -- to move away from labour-intensive low-valued added industries to more high-tech capital intensive industries. In Latin America, structural changes have been underway since the first oil shock in the 1970s. Intense competition and an accelerated rate of technical progress have pushed firms in Chile and Mexico to continuously restructure and internationalise their operations, and adopt radically new models of management and organisation (Frischtak 1997, p. 431).

Such transitions in productive and organisational structure require corresponding shifts in the skills profile of the workforce at both the professional and vocational levels. Without appropriate quantity and quality of skills, these structural changes can be frustrated. There is much anecdotal evidence from the Asian economies that many companies' plans for expansion and restructuring are being impeded by an inadequate supply of appropriate skills (e.g. Dean 1996; Thong 1996; Lin 1997). Indeed, some commentators (e.g. Asia Money 1997; Krugman 1990; 1994; 1997) have blamed widespread skill shortages, worker and managerial inefficiency, and a lack of research as some of the fundamental causes for the 1997 Asian economic crisis. With recovery from the Asian crisis, the Asian economies will most likely again experience a problem of industry and occupation specific labour shortages, even in the midst of continued generalised unemployment.

To some extent, the foreign corporate sector is able to cope with shortages of professional and highly skilled workers by importing expatriate workers. However, this adds substantially to the cost of doing business and risks upsetting host governments who encourage MNCs to localise their workforce. This problem is not restricted to the Asian Tigers however. In the case of the Latin America (e.g. Chile and Mexico), the conflict between expatriates and local managers has been known to emerge when expatriates urge local employees to change their work culture without sufficient training and cultural sensitivity (Sargent & Matthews 1998; Abarca et al. 1998). This has often induced higher costs in terms of losing competent local managers and lowered productivity because of low morale. Because of cultural differences, managing host country nationals (HCNs), planning human resource demand and supply, and curbing high rates of employee turnover and staff training

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<sup>2</sup> We use the term NIEs (newly industrialised economies) in reference to the 'mature Tigers economies' of Singapore, Korea, Hong Kong and Chinese Taipei. We use the term 'young Tigers' to refer to Malaysia and Thailand. By the 'less developed economies', in the context of Asia we are referring to China, the Philippines, Indonesia and Vietnam. We are using the term 'liberalising industrial economies', to refer to Australia, Canada, Japan, & New Zealand.

and development are just among many issues of international human resource management that MNCs need to face while they are operating in the region.

This study was designed to further investigate these issues by assessing the nature and extent of skill shortages and training needs in selected eight APEC economies, in particular, by focusing on the experiences of 625 MNCs within four sectors, namely manufacturing, banking and finance, insurance and business service. The foreign corporate sector was chosen for study because MNCs with their international experience are often in a better position to assess the skill deficiencies and training needs of their workforce since they can benchmark the skills of their workers against international standards. Also, the experience of MNCs is more relevant to firms currently involved in the APEC economies and those contemplating direct or joint venture investment in these economies. Moreover, the skill shortages experienced by MNCs may mirror the problems encountered by domestically owned firms.

It is necessary to examine skill shortages and training needs in the context of the longer-term structural changes taking place in these APEC economies. Therefore, this report commences in Section 2 with an overview of labour market trends in the selected APEC economies. Section 3 briefly describes the survey sample. Regionalisation and globalisation trends in APEC will be examined in Section 4 in the context of MNCs profile in the survey. The extent of skill shortages and training needs in the surveyed MNCs is the subject of Section 5. The focus will be on a comparison of differences between the mature Tiger economies of Singapore and Chinese Taipei, the younger Tiger economies of Malaysia and Thailand, the less developed economies of the Philippines and Indonesia, and between these six Asian economies collectively and Latin America. The development trends and issues of international HRM will be discussed in Section 6. Section 7 briefly looks at gender issues arising from the study. Lastly, policy recommendations and HRD strategies for MNCs will be outlined in Section 8.

## **2. Labour Market Trends in Selected APEC Member Economies**

In this section, key features and trends in the labour markets of the APEC member economies selected for this survey will be reviewed and various labour market issues addressed.

### ***2.1. Labour Force***

As can be seen from Table L1<sup>3</sup>, by 2000, the population aged 15 over in the eight selected APEC member economies reached to 345.3 million. The largest number in this age bracket reside in Indonesia (141.1 million), followed by Mexico (64.1

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<sup>3</sup> Please refer to the Appendix for all tables mentioned in this synthesis report.

million), the Philippines (48.6 million), Thailand (45.8 million), Chinese Taipei (17.5 million), Malaysia (15.1 million) and Chile (10.8 million). The country with the least number of people of this age was Singapore (2.3 million). Table L1 also indicates that, for these eight member economies, out of their total population aged 15 and over, 225.7 million are economically active. This represents an average labour force participation rate (LFPR) of 65.4 percent. The LFPR varies from a low of 55 percent in Chile to a high of 72 percent for Thailand. The rates for Indonesia, the Philippines, Mexico, Malaysia and Chinese Taipei were 67.9 percent, 65.8 percent, 60.0 percent, 60.6 percent and 55.8 percent respectively.

Despite the Asian Crisis, which commenced in 1997, employment growth continued its decade long upward trend in most of the APEC economies investigated (ILO 1998; 2000) (Table L1). Thailand is an exception, which should not be surprising, as it was the country was hit hardest during the Crisis. For Thailand, over the period 1995 to 1999, an additional 425,000 joined the ranks of the unemployed. Females bore the brunt of the growth in unemployment, comprising 87 percent of those who were added to the unemployment toll.

Table L2 displays the trends in the LFPR from 1950-2010 in the eight APEC economies. There is clear evidence of a growing feminisation of labour force among all member economies investigated (except Chinese Taipei for which data is not available). Between 1950 and 2000, Singapore experienced a rise of 26 percentage points in its female LFPR. This was followed by Mexico and Indonesia, both with rises in their female LFPR of 19 percentage points. The female LFPR in Thailand has increased by only 4 percent between 1950-2000. This is because the female LFPR has always been high in Thailand. For example, in 1950 it was 52.5 percent. In the same year, the LFPR in Indonesia and Malaysia was 20 percent, and in the Philippines and Singapore it was 24 percent and 13 percent, respectively. Mexico's female LFPR in 1950 was a mere 8 percent, rising to 27 percent in 2000. The corresponding figures for Chile were 18 percent and 27 percent. Thus currently, Chile and Mexico have female LFPRs that are substantially below the Asian APEC economies included in this study.

## **2.2. Education**

The structure and content of the education system in host countries can exert considerable influence on the HRD activities of MNCs operating in those countries (Tregaskis 1998). According to Tregaskis et al. (2001, p. 36), education shapes the skills and knowledge of MNC's workforce which, in turn, shapes their training systems. Therefore, it is important to examine the level of education among the eight APEC economies surveyed in this research. PECC (1998) reports the level of literacy and education among key APEC economies (see Table L3). It is found that in 1995, adult literacy rate (aged 15+) for all eight APEC economies had reached to over 80

percent, with Chile achieving the highest level of adult literacy rate. The lowest adult literacy rate is in Indonesia (84 percent) and Malaysia (83 percent). There was no significant difference in primary school enrolment among these economies. However, the differences become apparent when secondary and tertiary enrolment ratios are compared. Among all economies investigated, Chinese Taipei has the highest enrolment ratios both for secondary (96 percent for male and 98 percent for female) and tertiary education (48 percent). The lowest secondary enrolment ratios for male and female appeared in Thailand, followed by Indonesia. Indonesia also had the lowest tertiary enrolment ratio at 10 percent, followed by Malaysia (11 percent). Although these figures were mostly for 1993, the divergent trend in educational attainment among the APEC economies remains.

ILO (2000) shows a significant divergence in educational attainment in the 1990s across three economies for which data were available. The illiteracy rate (aged 25+) in Indonesia is still 27 percent, compared with 11 percent in Mexico and 4 percent in Singapore. The percentage of the population attaining tertiary education is also low in Indonesia (4 percent), whilst 33 percent of the population aged 25 over have obtained tertiary degrees in Singapore, and 23 percent in Mexico. In general, the proportion of women who are able to access all levels of education is much lower than it is for men (Table L4).

### **2.3. *Changes in employment structure***

The process of industrialisation among the Asian and Latin American APEC economies commenced in the 1970s. This process also has been manifest in significant changes in the structure of employment (Feridhanusetyawan, Stahl & Toner 2001). The data in Table L5 reflect these changes. As can be seen, employment in agriculture as a percentage of total employment has declined continuously over the decade of the 1990s for the eight member economies participating in this study. Nonetheless, the agricultural sector is still the most important source of employment in Indonesia, the Philippines and Thailand. Of the two Latin American economies covered in this study, Chile has the lowest proportion of its workforce in agriculture at 14 percent, while Mexico's proportion 21 percent. Of the Asian economies covered in this study, next to Singapore, Chinese Taipei has the lowest proportion of its workforce in agriculture, followed Malaysia. Over the decade, Thailand and Indonesia have experienced the most significant decline in the relative importance of their agricultural sectors for employment, with proportion of the workforce in agriculture declining 15.5 percentage points for Thailand and 14.7 percentage points for Indonesia.

Looking at the industrial sector, which is comprised principally of manufacturing, we see that several of the more mature economies covered in this survey have experienced a relative decline in employment in that sector, viz. Chile, Singapore and Chinese Taipei. The major gainers in industrial sector employment have been

Indonesia, with a 5.3 percentage points increase in employment in that sector between 1990 and 1997, and Malaysia and Thailand with changes of 4.5 and 4.4 percentage points, respectively.

In all member economies, the services sector has gained in relative importance. Thailand has experienced the largest proportionate gain in that sector, with a rise of 11.1 percentage points. Of course in Thailand, as would be the case in the Philippines and Indonesia, many of these jobs would be in low-valued added personal services, retail trade and restaurants. Indonesia and the Philippines gained 9.4 and 5.5 percentage points with respect to the relative importance of the services sector. Chile's services sector increased its share of total employment between 1990 and 1998 by 4.5 percent, while Singapore and Chinese Taipei gained 6.7 points and 6.6 points, respectively.

In all of the eight APEC economies that are the focus of this study, the services sector is the most important employers of women. For example, in Chile it accounts for 82 percent of total female employment, 70 percent in Mexico, 77 percent in Singapore and just under 64 percent in Chinese Taipei. Also, with the exception of Mexico, it is the services sector that has experienced the largest relative increase in terms of female employment over the decade of the 1990s. In Indonesia, Malaysia and Thailand, the services sector has increased its share of female employment by 10.3, 10.5 and 13.4 percentage points, respectively, over the decade. Once again, it is important to remember that much of this increase in employment would have been in low value-added services.

In Thailand, agriculture is still the most important sector with regard to female employment, with 47 percent of women finding employment in that sector. Other economies in which the agricultural sector features importantly in terms of female employment are Indonesia (42 percent) and the Philippines (27 percent).

Table L6 shows the distribution of employment among different occupations. If Singapore were taken as a benchmark with regard to the distribution of employment across various occupations (i.e. 12 percent managers, 14 percent professional, 23 percent sales & service and 19 percent production workers in 1999), all other APEC member economies would have had a much lower level of managerial and professional staff<sup>4</sup>. Table L6 indicates that there is a higher level of production workers in Chinese Taipei (36 percent), Chile (31 percent) and Malaysia (33 percent) in 1999. The proportion of sales and services staff are also much higher for Chile (26 percent), Mexico (35 percent) and the Philippines (26 percent). But clerical staff were less in Mexico (6 percent), the Philippines (4 percent) and Thailand (4 percent), and relatively more in Chile (14 percent), Chinese Taipei (11 percent) and Malaysia (11 percent).

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<sup>4</sup> It must be acknowledged that although 12 percent of its labour force are managers, Singapore still finds itself short of workers in this category (see Singapore's country report).

#### **2.4. Main labour market issues in each member economy**

Given the different nature of labour force, educational level, employment structure and economic growth stages in the APEC member economies, there will be different issues and concerns in the labour market in each member economy. We extract some key points of labour markets issues from the subsequent member economy reports and summarise them in the following.

##### ***Chile***

Three distinct periods emerge in Chile's economy in which it underwent alternate declines and recoveries and was also ruled by different institutional frameworks. In the first period, starting in the mid 1970s, an important structural change took place involving sectoral realignment of resources and a possible decline in workers' skills which, because it occurred simultaneously with macroeconomic adjustment, led to persistently high rates of unemployment. The second period, starting in the early 1980s, was characterised by a macroeconomic crisis, not a structural adjustment. Events in that period were responsive to the effects of the macroeconomic cycle which, while guided by more coherent policies and an improved institutional framework designed to help companies make internal adjustments, allowed for a relatively quicker recovery. Finally, the third period started in 1990. Its beginning was marked by the return of democracy. Though in this period no important structural changes can be identified, some key institutions, including the labour law, the privatisation process, and in general, the focus towards a more private economy with less government involvement were confirmed under a new political set-up.

##### ***Indonesia***

Two main labour market trends have occurred prior to and during the economic crisis. Prior to the crisis, there has been a dramatic structural transformation of the labour force characterised by a massive shift of labour from agriculture to non-agriculture employment. Employment growth in the manufacturing sector constituted about 60 percent of job creation, and was caused by the growth of labour-intensive export-oriented industries such as textiles, footwear, clothing, wood and furniture. Meanwhile, the banking and finance sectors also grew in importance. Employment in the (business) trade sector also increases significantly. At the same time, the pace of urbanisation and formalisation of employment has been hastened by the process of industrialisation. However, the crisis has reversed the trend in exports, reduced investment and any further development of manufacturing sector, but increased total employment in agriculture from 41 percent in 1997 to 45 percent in 1998. It seems that the economic crisis has slowed the transformation of Indonesian employment structure. In addition, it increased unemployment rate. Job losses were particularly severe in the manufacturing sector. Although it is believed that the crisis is temporary, the transformation of the labour force at the time of our survey was, if not totally halted, at least temporary reversed.

### *Malaysia*

Malaysia has experienced the problem of labour shortages since the economic boom period in the late 1970s. These shortages have resulted in recruitment difficulties, high staff turnover and wage inflation. Current labour market issues are growth in low-skill employment, rising wages and unit labour costs, and an increasing reliance on low-skilled foreign labour. The main labour market policies that the government has attempted to integrate with other economic and industrial policies are those aimed at increasing the supply and demand of skilled labour and shifting the attention from job creation in the 1980s to skill development in the 1990s. Education and training also focus on a demand-driven approaches that provide incentives and encourage private investment in skill formation. Immigration policy also aims to limit the intake of low-skilled foreign labour and encourage the return of Malaysia expertise from overseas. In addition, another important labour market policy aimed at augmenting the supply of labour and skills in Malaysia is to increase the LFPR of females.

### *Mexico*

The labour market trends in Mexico for the past two decades have been characterised by a rapid growth of the economically active population and an increase of the female labour participation rate. Although the unemployment rate is relatively low compared to many developed countries, there exists a high degree of underemployment, whereby the employed work less hours per week than they wish. There is no indication of an overt change in employment structure over the past decade. Nonetheless, the proportion of self-employed and family workers in the services sector has increased. It is evident that employment in the manufacturing sector has moved toward exporting industries, even though the overall employment rate within the sector has not changed over the last 20 years. The rapid growth of economically active population within the younger age cohort may require corresponding changes in the structure and content training and education that can address the growing gap between workforce skills and the needs of industry, particularly in view of the rapid development and structural transformation of the Mexican economy.

### *Philippines*

It would be too hasty to say that there exists skill shortages in the Philippines while the country remains as a major exporter of human resource. In 1999, the Philippine Overseas Employment Administration (POEA) reported that over 800,000 Filipinos work overseas (see the Philippines' country report). If there are skill shortages then one would have to ask if these are not the result of a possible 'brain-drain'. However, both domestic unemployment and underemployment rates are relatively high. A much younger workforce with less skills is often quoted by employers who complain about the lack of qualified personnel to fill vacant positions. There seems an imbalance between the level of education and the supply of skills in the labour market. The suggested remedy (see the Philippines' country report) is to encourage the private sector to take up the responsibility of equipping labour with skills, but such a process



would take a while to fully meet the demand of skilled labour, especially when the economy shifts its focus from agriculture to the services sector.

### *Singapore*

Although Singapore has been relatively successful in its HRD strategy, its new challenge is to build a mass of professionally and technically skilled workforce that can meet the demand of a knowledge-based economy. The desired skill profile is to have 65 percent of population skilled by the end of the 2008-2013 period. Figures for 1998 indicated that only 34 percent of population was skilled (see Singaporean country report). The government's labour market policies also are geared toward attracting foreign talent, while at the same time addressing the issues of aging population, a relatively low female LFPR, and job insecurity and hence possible industrial unrest among the older and less educated Singaporeans.

### *Chinese Taipei*

The two main issues of the labour market have been the steady increase in the domestic unemployment rate and the rise of the numbers of foreign workers in the recent years. The skill shortage is mainly reflected in the lack of personnel in research and development. Therefore, the government has actively sought the return from abroad of scholars and researchers originally from Chinese Taipei.

### *Thailand*

Past 50 years has witnessed a radical change in Thailand's economic landscape as the country moved from a primarily agricultural to non-agricultural society. Currently, Thailand is moving toward a knowledge-based economy. Hence IT skills and various managerial skills are important and much needed. Yet, these types of skills are not readily available, even though the overall educational level, especially the secondary education, has shown impressive achievements with the proportion of employees with secondary education increasing from 8 percent in 1979 to almost 30 percent in 1999. Continuous efforts by the Ministry of Education is expected to help address the problem of skill shortages in science and technology.

## **2.5. Summary**

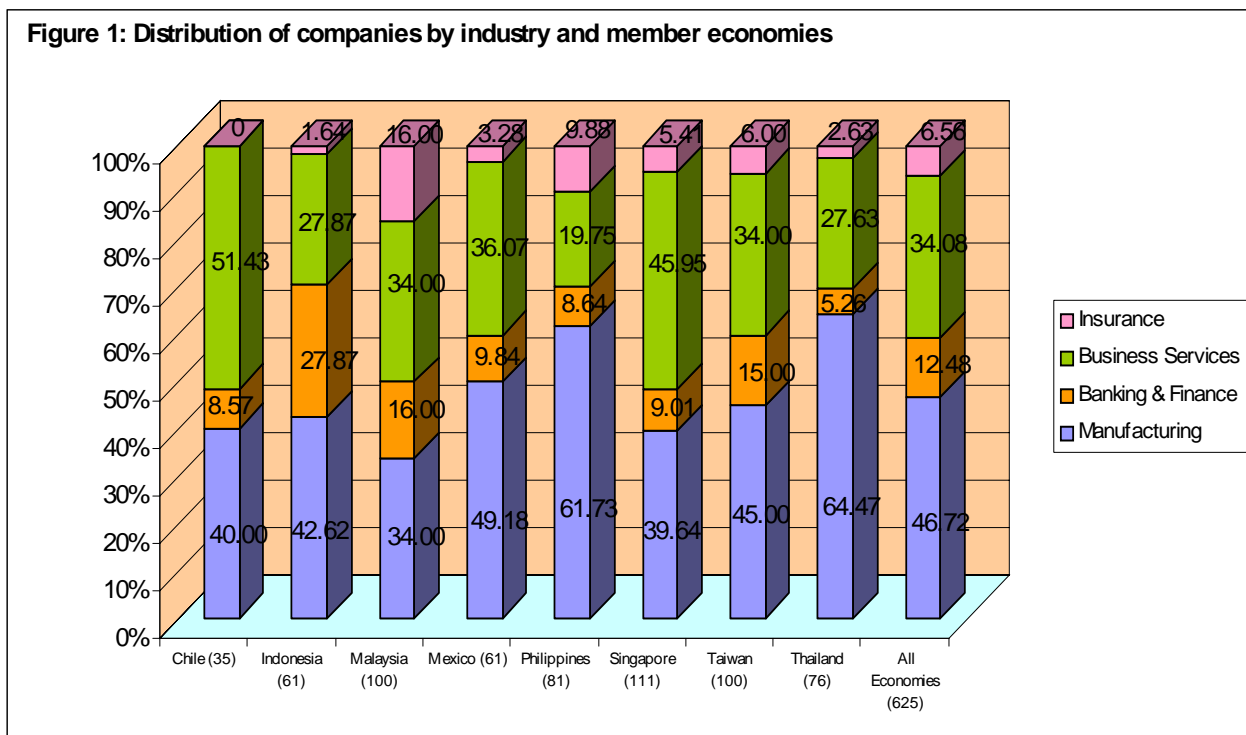
It is clear that structural changes associated with industrialisation require different kinds of skills, and a shift of labour from the agricultural sector to the industrial and service sectors also demand corresponding changes in skills. Yet, the relatively low level of educational attainment and skill base in most of member economies is unlikely to guarantee a sufficient supply of needed skills. With different stages of economic development across the APEC member economies, the principal labour market concerns and policies of each member economy can be quite diverse. Therefore, MNCs operating in these economies may not only find it difficult to recruit skilled workers for their business expansion, but they may also need to seek different market strategies that are compatible with host countries' labour market

conditions and the specific cultural context. But to what extent have MNCs experienced skill shortages in their host APEC member economies? And what are some different strategies adopted by MNCs operating in these countries? The results of our survey seek to answer these questions. However, it is necessary now to look at the survey profile and regionalisation and globalisation trends in APEC before the issue of skill shortages and training needs of MNCs are examined in Section 5.

### **3. Survey sample**

The 1997 Asian economic crisis had a significant impact on a number of APEC member economies. Although it did result in a rise in the general level of unemployment, there was concern that the finance and banking sector would be in short supply of the types of skills needed to carry out the reforms that the Crisis identified as essential. Hence this was the rationale for the choice of this industry as one of the four on which the survey concentrates. In contrast, the manufacturing sector experienced a significant shedding of labour, thus possibly giving that sector breathing space with regard to its perennial labour shortages. Hence there was interest as to whether the manufacturing sector has emerged from the Crisis in better shape with regard to its demand for skills relative to their supply. The other two industries chosen for this survey -- business services and insurance -- were selected because services are becoming an increasingly important component of trade amongst APEC economies. If trade in services is to continue its growth in both absolute and relative terms, a sufficient supply of relevant skills is essential.

The survey sample covers 625 multinational companies (MNCs) operating in eight APEC member economies – Chile (35), Indonesia (61), Malaysia (100), Mexico (61), The Philippines (81), Singapore (111), Chinese Taipei (100) and Thailand (76). Across all of the eight economies, the industry distribution of MNCs is: 46.7 percent in manufacturing, 12.5 percent in banking and finance, 34.1 percent in business service, and 6.6 percent in insurance (Figure 1). There was a relatively low level of response of MNCs in banking and finance industry. We suspect that this was due, at least in part, to the extreme pressures that banks have been under to get their houses in order and the siege mentality that this pressure has inculcated. As can be seen from Table A1, the survey responses have predominantly been from the manufacturing sector, with the most responses from that sector in Thailand (64 percent), followed by the Philippines (62 percent).



With regard to the number of years established, about 70 percent of the MNCs surveyed (excluding Chile and Mexico<sup>5</sup>) have been in business for more than 10 years (Table A5a and A5b).

In term of organisational size, some 31 percent of the firms surveyed employ over 500 people (Table B1). Small firms (less than 50 employees) and medium-sized firms (less than 500 but more than 100 employees) account for 69 percent of the total number of MNCs responding to the survey. Size seems not to be a necessary determinant for the globalisation of an organisation. An increasing number of small and medium-sized enterprises (SMEs) have aggressively internationalised their operations in order to remain competitive in the global market (Zelade 1998). This is also reflected in this survey. Table B1 also shows that the larger firms are predominantly in the manufacturing sector, and the smaller firms tend to engage in business services. For example, while 41 percent of the manufacturing firms employed over 500 people, only 20 percent of the business service firms employed over 500 workers. In contrast, only 8 percent of the manufacturing firms surveyed employed less than 50 people, while 27 percent of the firms in business services were with less than 50 employees.

<sup>5</sup> There is no data available from Chile and Mexico on this aspect.

#### 4. Regionalisation and Globalisation Trends

In this section, the history of regionalisation and globalisation is briefly reviewed. The survey data on MNCs' profile is used to indicate current trends of regionalisation and globalisation in the APEC region.

##### 4.1. Sources of Regionalisation and Globalisation

Since the establishment of GATT (General Agreement on Tariffs and Trade) and thereafter WTO (World Trade Organisation), an international trade regime has been based on the principles of non-discrimination and multilateralism. The central objective of the trade regime is to remove impediments to international trade. Under the GATT/WTO regime, economic interdependence among countries in the Asia Pacific region has developed steadily since the 1960s (Okamoto 1995). The establishment of APEC since 1989 has further strengthened the Asia Pacific policy makers' intention to facilitate trade and investment liberalisation in the region (Elek 1992; 2000)<sup>6</sup>. The growth of direct foreign investment (DFI) and the concomitant expansion of the activities of multinational corporations (MNCs) have been facilitated by the push for free trade and investment liberalisation<sup>7</sup>. This is one of the foundation stones of globalisation. Multinational companies have become the 'driving force of globalisation', playing an important role as a 'conductor of transborder interdependence' to link up their associated 'networks' of international and domestic affiliates in the process of globalisation (Castells 1996, p. 253)<sup>8</sup>.

In the process of trade and investment liberalisation, regionalisation has emerged as an alternative to globalisation for two reasons. First, economically, regionalisation puts nations and organisations in a better position to reap the benefits of comparative advantages offered by shorter geographic distances and less language and cultural barriers. Second, as claimed by Ohmae (1995), globalisation may erode 'the

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<sup>6</sup> Under the APEC agenda, this objective is referred to as TILF -- trade and investment liberalisation and facilitation.

<sup>7</sup> The estimated 53,000 multinational companies (MNCs) currently operating in the world control about 450,000 subsidiaries. They represent the leading edge in the internationalisation of the world economy (United Nations 1998).

<sup>8</sup> For the purpose of this study, the definition of 'globalisation' in this report adopted the concept advocated by 'the positive hyperglobaliser' as they are labelled by Castles (1999, p. 7). The group believes that open, global markets of capital, commodities and labour will ensure optimal economic growth. This group is also largely represented by most of APEC decision-makers who in the past decade have aimed to select trade policy options to advance the region's over-riding interest in a more open global trading system (Elek 1992). For other definitions and debates on globalisation and its impact on social transformation, see a comprehensive summary by Castles (1999).

sovereignty of the nation state'. Hence regionalisation may serve as a better option to maintain nation-state status in the world system. More precisely, according to Castles (1999), regionalisation emerged as a result of power struggle. For those countries (the USA, Japan and Western Europe) who have been at the centre of economic and political power for sometime, globalisation may shift the balance of power. But through building regionally dominant economic blocs such as the EU, NAFTA, and even APEC, these countries will be able to maintain their dominant positions in the world trade system.

In a sense, market integration in the Asia Pacific in the last 30 years has been largely subject to Japan's influence and emulation among Asian countries. According to Okamoto's analysis (1995), after WWII, Japan increased its demand for minerals and foodstuffs from the region to boost its own economic growth. It also used the region as its ideal destination of exported manufactured goods. With Japanese demand for raw materials and flow of capital and technology transfer to the region, the region had experienced unprecedented growth in the 1970s-1980s. Emulation among Asian countries is first reflected in that other economies in the region followed the Japanese lead. It has been evident that the development of four NIEs (South Korea, Chinese Taipei, Hong Kong and Singapore) mimicked Japan's model, whereby the economies adopted outward-looking, trade-oriented industrial strategies. This allowed resource-rich countries such as Indonesia, Malaysia and Thailand to enjoy large export earnings first. However, later on, the success of the NIEs was emulated among Southeast Asian countries (particularly Malaysia and Thailand). This created another wave of large flows of capital and foreign direct investment (FDI) from capital-rich countries to resource-rich countries, the latter now represented by China, Indonesia, Vietnam and other South Asia countries. Therefore, interdependence has been strengthened through this process. According to Elek (1992, p. 212), the complementary group of APEC economies (then 12 members) accounted for more than half of world GDP and almost 40 percent of world trade. Among them, 65 percent of their exports were to each other.

However, as stated by Garnaut and Drysdale (1994), 'regionalisation' in the Asia Pacific is a form of 'open regionalism' whereby integrative processes contain no element of exclusion or discrimination against outsiders (p. 2). Its regionalism, as represented by a regional group such as APEC, is different from the discriminatory nature of the EC and NAFTA, because member economies have come together to promote global economic interests, rather than to defend their own narrower markets by forming trading blocs (Elek 1992; 2000). Therefore, APEC regionalisation has emerged out of cross-dependency of similar political, industrial and social systems. But participation is rather open-ended, based on the strength of economic linkages. This partly explains why the membership in APEC has increased from the original 12 economies to the current number of 21. Although most of the members are from Asia, membership extends across four other continents – North America (USA, Canada),

Latin America (Chile and Mexico), Europe (Russia) and Australia (including New Zealand). The membership is expected to continuously expand.

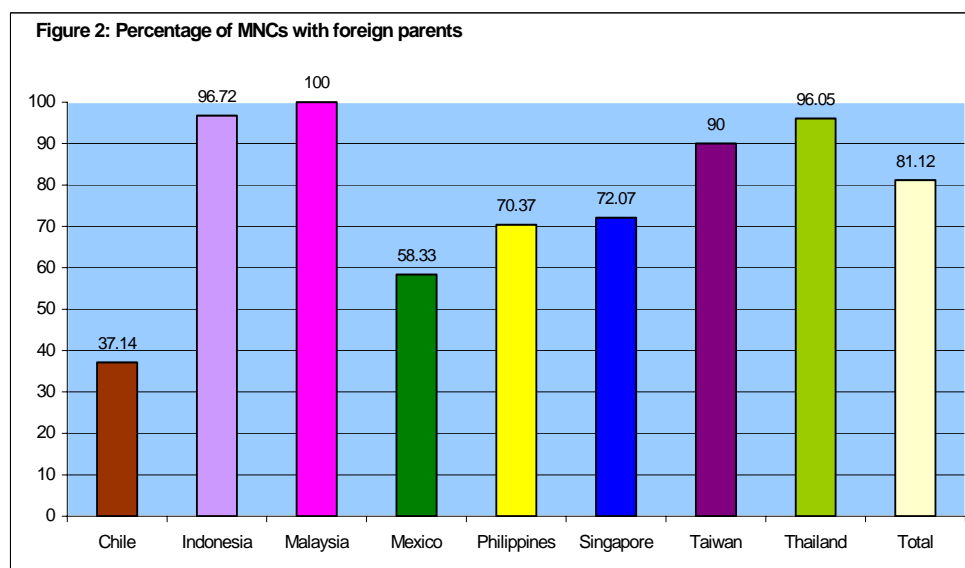
#### ***4.2. MNCs' Profile – Current Trends of Regionalisation and Globalisation***

MNCs and their overseas subsidiaries have become increasingly important players in the global economy (Castells 1996; Tregaskis et al. 2001). To what extent have MNCs contributed to the development of both globalisation and regionalisation? The survey data on MNCs collected should shed some light on this issue. The survey focuses on three aspects of MNCs' operation in the selected APEC economies. They are:

- The source of MNC's parent companies
- The extent and source of expatriate labour in the surveyed MNCs;
- The use of regional headquarter for staff training

##### **Source of parent companies**

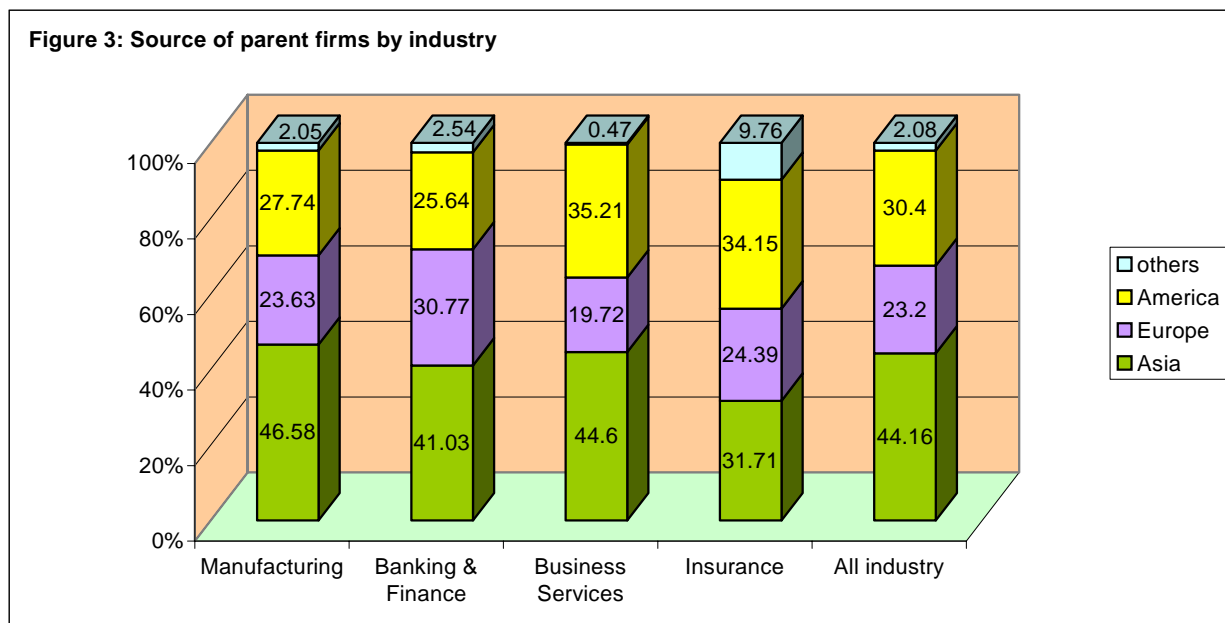
The survey indicates that 81 percent of the MNCs surveyed have foreign parents (Figure 2). This implies that almost a fifth of the MNCs were home-grown. Enright (2000) used a 'cluster-based' development model to indicate that local firms, through a form of organic economic development, may interact with MNCs, then be transformed, and able to inject themselves into international markets, eventually become globalised firms (p. 114). Caves (1996, p. 215) classified three types of MNCs in developing economies which are: (1) exporters of natural resources and resource-based products; (2) exporters of manufactured goods or components; and (3)



service providers for domestic and overseas markets. He found that the second and third classes of MNCs were more likely to globalise their operation.

It is found in our current survey that Chile and Mexico have a higher percentage of home-grown MNCs, followed by Singapore and the Philippines. This can only indicate the trend of developing local-based MNCs amongst APEC member economies. However, the data should be interpreted with caution as our initial intention of the survey was to examine MNCs with foreign parents. Collected data with the inclusion of domestic MNCs prompted us to question to what extent the regionalisation and globalisation has helped to breed domestic multinational companies. Table A2a provides preliminary evidence that a number of MNCs have developed within the Latin American and NIEs in the region. The industries of these home-grown MNCs are mainly manufacturing and business services. For instance for Chile, 72 percent of the MNCs surveyed in manufacturing sector and 67 percent in business sector were home-grown. For Singapore, 25 percent of MNCs surveyed in manufacturing sector and 35 percent in business service were home-grown. For Mexico and the Philippines, over half of the MNCs surveyed in banking and finance industry and just under 37 percent in business service were home-grown. If these MNCs were exporters of manufactured goods or service providers for domestic and

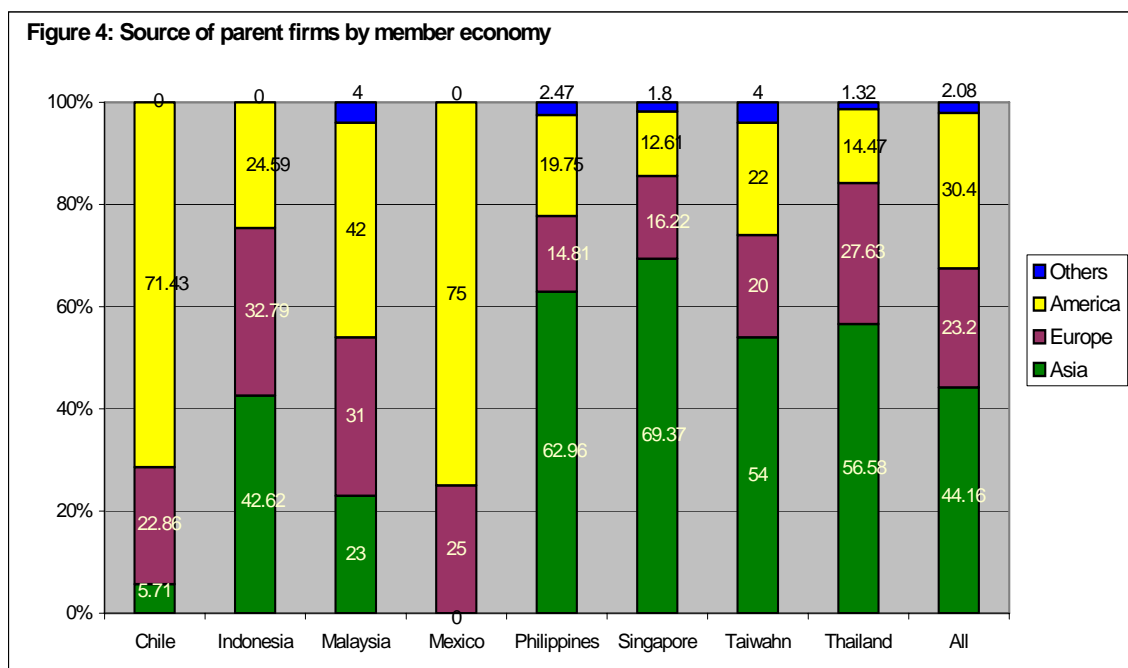
**Figure 3: Source of parent firms by industry**



overseas markets, then the result has been much in line with Cave's (1996) proposition that these types of firms would be more likely to be global companies.

Figure 3 shows that 44 percent of the MNCs' foreign parents are from Asia. Among them, Japanese MNCs dominate (22.7 percent). The number of MNCs from the NIEs (15 percent) and the younger tigers (6 percent) is also substantial (Table A2b). This confirms our earlier discussion on the emulation of Japan among Asian economies in their development approach, and the possibility of inclusion of domestic-bred MNCs if it happened that the survey was conducted in these economies. Other sources of parent firms are from Europe (23.2 percent). There is a much higher proportion of MNCs in Chile and Mexico with parent companies in

North and Latin America; over 70 percent of the companies in Chile and 75 percent in Mexico have headquarters in the USA (Figure 4). A very small proportion of MNCs surveyed in the selected economies are from Australia and New Zealand (2 percent). This indicates a strong regional cluster as a strategic choice made by MNCs (Enright 2000; Yeung et al. 2001).



### **Extent and source of expatriation**

Firms' decision to send expatriates is influenced by a number of factors. Firstly, their staffing policy (i.e. ethnocentrism, polycentrism, geocentrism and regiocentrism<sup>9</sup>) on key positions in headquarters and subsidiaries would determine how many and what type of expatriates should be sent to their subsidiaries abroad. For instance, firms with ethnocentric staffing approach would be more likely to send expatriates, but firms with a polycentric staffing approach will seek to fill key managerial positions in subsidiaries with local staff. Secondly, the development stage of MNC's subsidiaries is another factor. There will always be a strong need to send expatriates in the early stage of MNC expansion. This is to ensure that the operation of the subsidiaries is in line with the strategy and structure set up by the headquarters of MNCs (Dowling et al. 1999). Thirdly, firms often have to send expatriates because managerial and professional skills cannot be readily found in the local labour market. Lastly, the constraints placed by the host government on hiring practices may influence firms' ability to send expatriates. A number of host countries (e.g. Mexico and China) often set conditions for MNCs to train and select local managers before they are allowed to

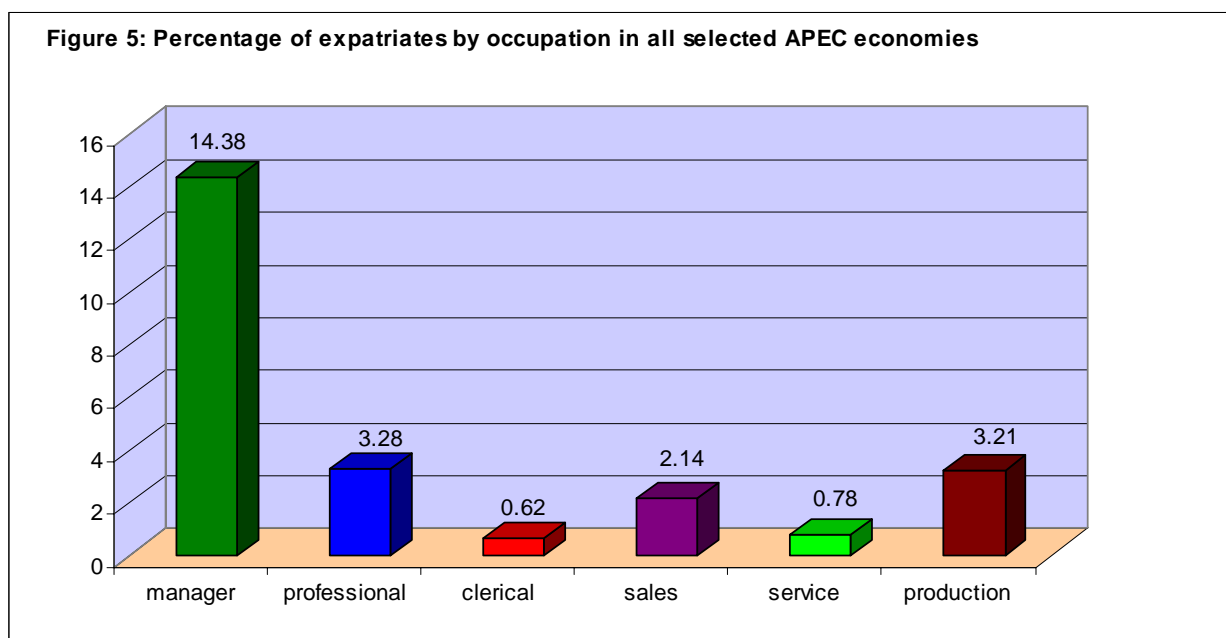
<sup>9</sup> For detailed explanation for these staffing approaches, see Perlmutter (1969), Ghoshal and Nohria (1989), Rosenzweig and Nohria (1994) and Dowling et al. (1999).



be operational in the local market (Sargent & Matthews 1998; Child & Lu, 1996). It is also evident from the Malaysia country report that the Malaysian immigration policies limit the number of managerial expatriate posts in order to ensure that native Malaysians are not deprived of high paying managerial positions

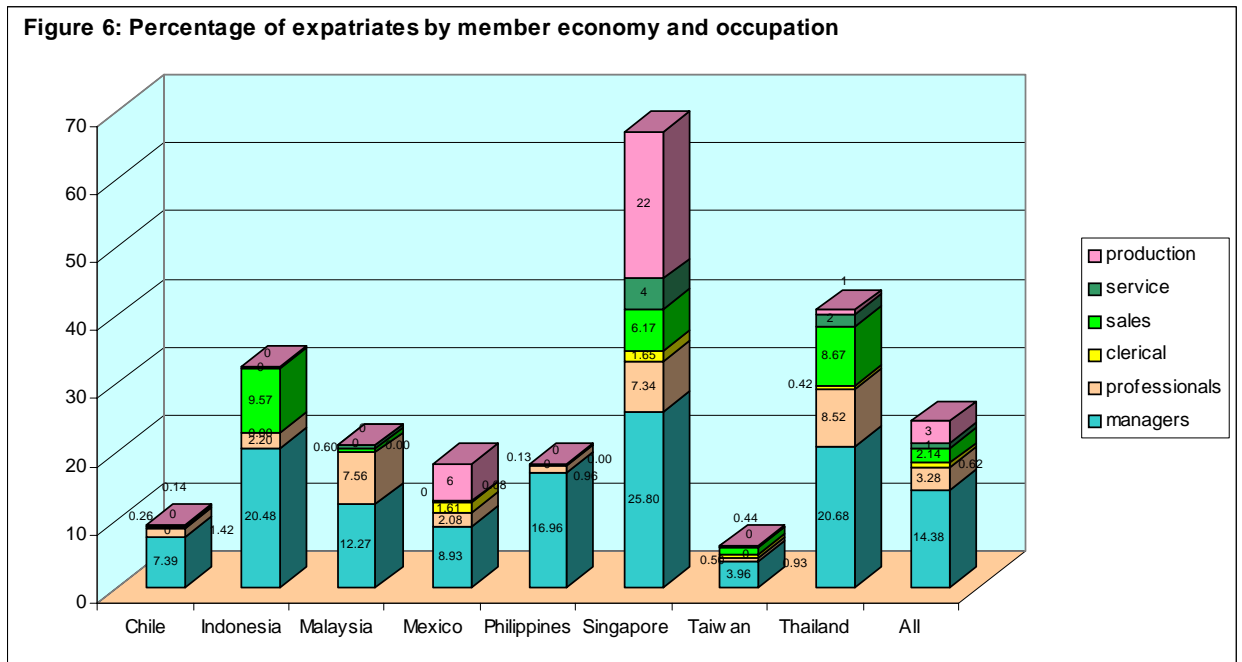
This report particularly examines the third factor – skill shortage in the host country’s labour market -- that may prompt MNCs to send their own personnel from headquarters. Table B2b provides a summary of the extent and occupations of expatriates in the MNCs for all surveyed economies and industries. By occupation, the highest percentage of expatriates is found for managers (Figure 5). On average, each MNC in the region would have 14.4 percent of their managers sent by their parent firms. In contrast, only 3.3 percent of their professional staff were sent by headquarters.

By country, it seems that Singapore is in considerable need of managerial staff and production workers, with 25.8 percent of managers and 21.6 percent of production workers being expatriates (Figure 6). The economies with more expatriate managers are Indonesia (20.5 percent) and Thailand (20.7 percent) (Figure 7). Thailand also has a high demand of professional staff in the manufacturing sector, with 11 percent being expatriates (Figure 8). Chinese Taipei has the least managerial and professional expatriate staff, just under 4 percent and 0.5 percent, respectively. There were also low managerial expatriate rates for Chile (7.4 percent) and Mexico (8.9 percent).

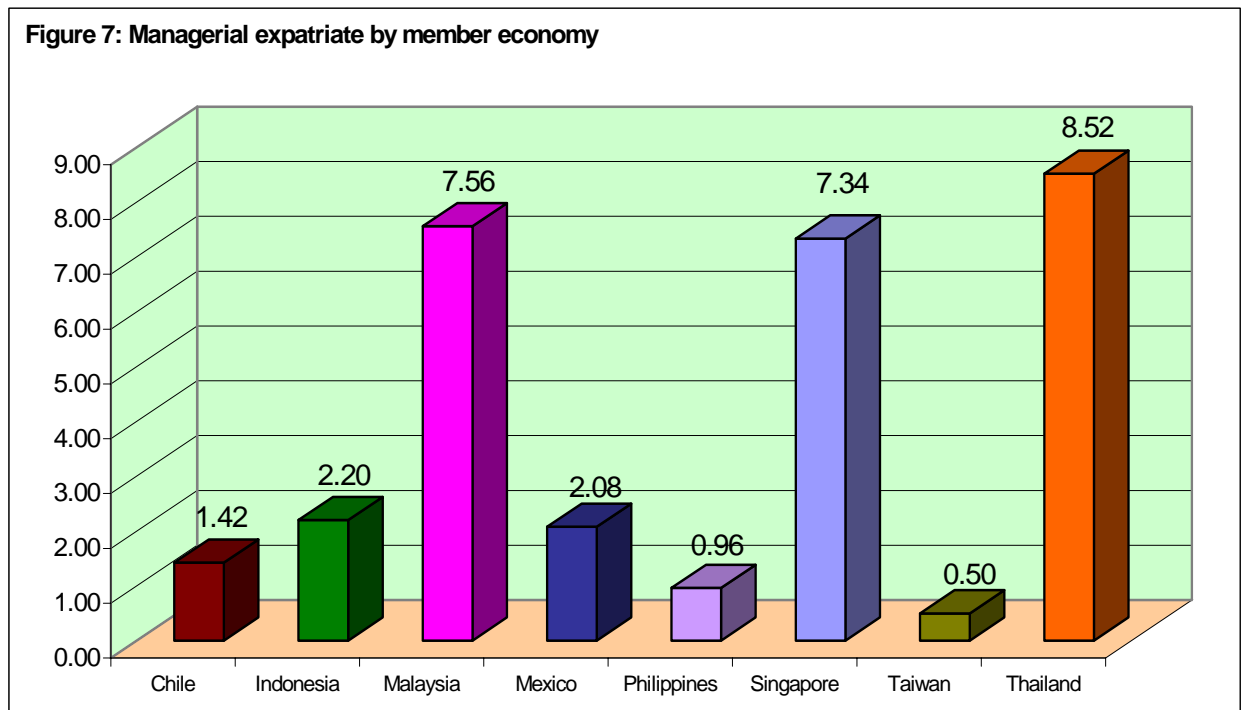


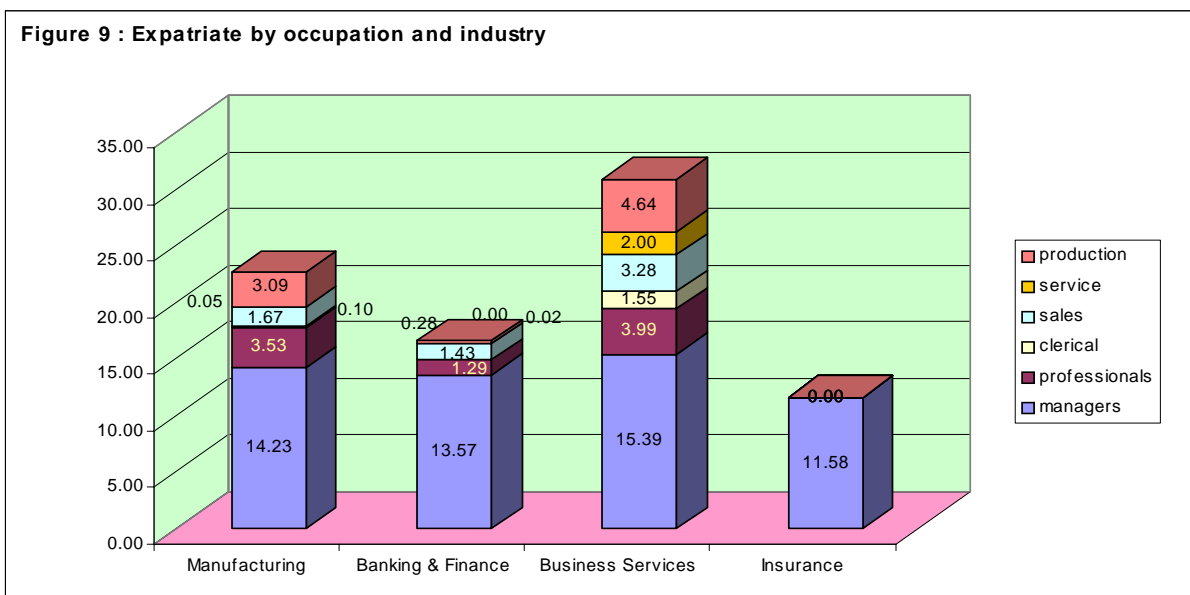
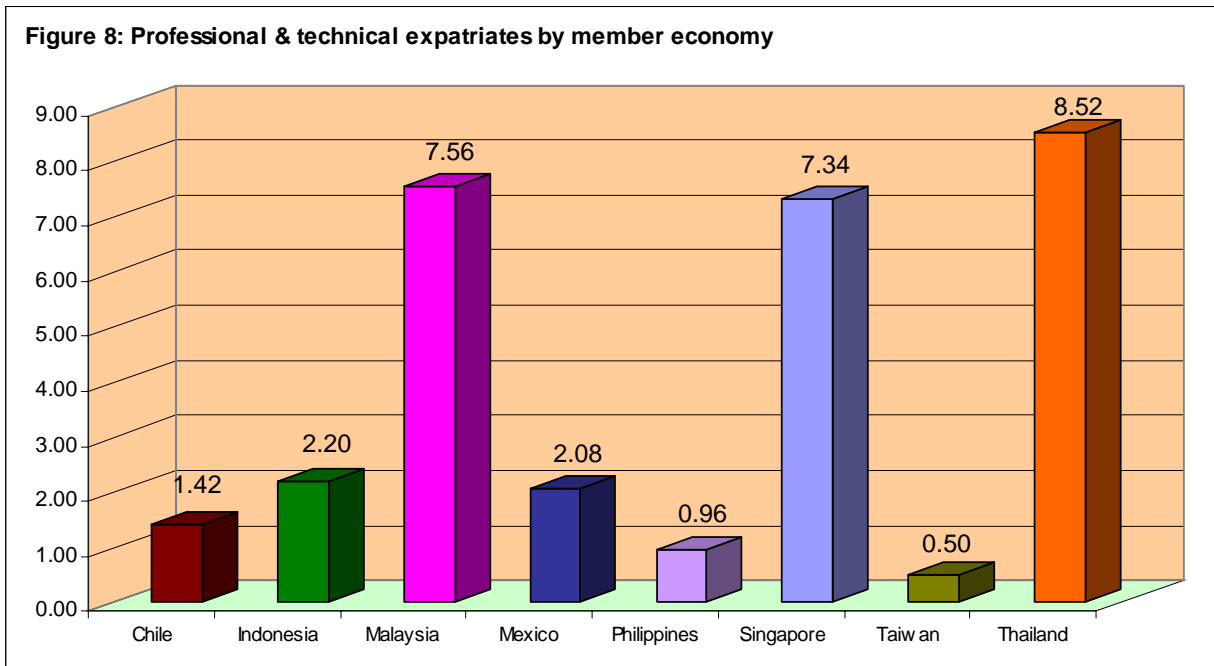
This confirms the observation by Sargent and Matthews (1998) and Abarca et al. (1998) that intensive conflict between local managers and expatriates in these countries has reduced the number of expatriates sent from parent firms.

**Figure 6: Percentage of expatriates by member economy and occupation**



**Figure 7: Managerial expatriate by member economy**





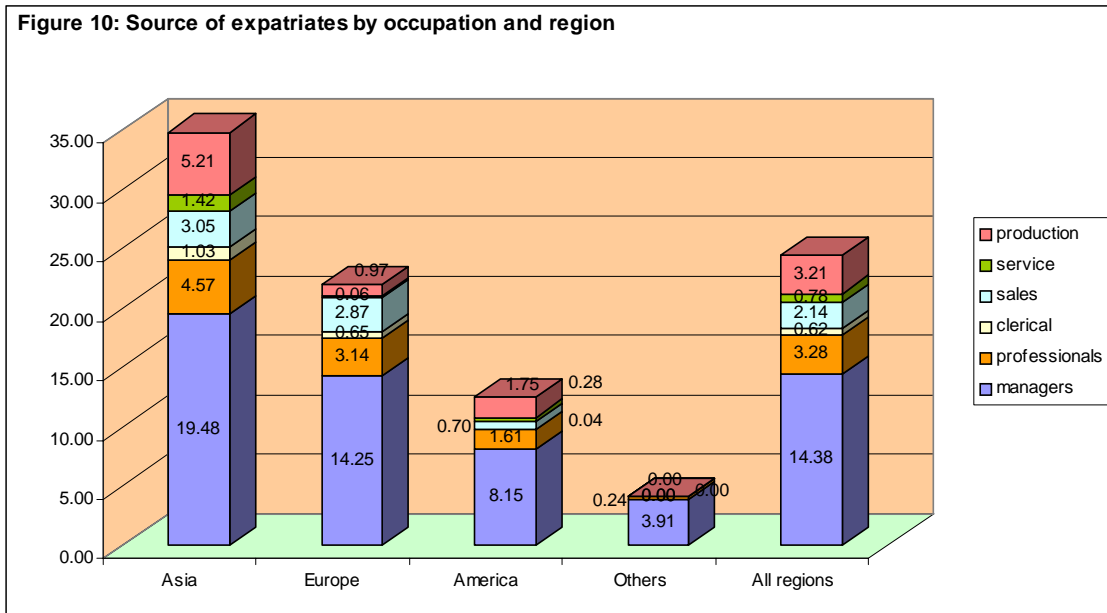
For all economies, the majority of expatriate managers are in business services (15.4 percent) and manufacturing sectors (14.2 percent) (Figure 9). But Malaysia, the Philippines and Thailand show a relatively high level of demand for managerial expatriates in banking & finance, insurance and business services sector (Table B2b). Whilst Mexico still has a higher demand for expatriate managers in manufacturing sector, Chile seems shifting its focus to managerial expatriates in banking and finance

and business services sector. This might be consistent with our earlier review of current labour market trends in the Asia Pacific that illustrated that when these economies underwent structural changes, rapid growth in demand for managerial and professional and technical skills in the fast growing sectors has led to skill shortages. If MNCs want to be successful in the local market, these skills must be exported first before local staff can be trained.

The fact that the large proportion (almost 20 percent, compared with 14 percent from Europe and 8 percent from America) of the management expatriates in these eight economies are from Asia (see Table B2c) indicates that the selection of expatriates for Asia Pacific assignments may be culturally bound (Figure 10). Cross-cultural suitability would be taken as key selection criteria for expatriates (Dowling et al. 1999). MNCs in Asia or Asian MNCs would adopt such criteria as a way of taking regional advantages of geographical position and social and cultural similarities. Consequently, regionalisation of labour, especially of managerial and professional staff may have also occurred.

**Use of regional headquarter for staff training and development**

If sending expatriates is one strategy by which MNCs have overcome the problem of skill shortages in local operations, staff training is another strategy that MNCs can employ to reduce the risks of such shortages impacting on firms' long-term growth.



To compete successfully in a global market, MNCs need to focus on the role of human resource as a critical part of their core competence and a source of their competitive advantage (Dowling et al. 1999, p. 154). The effectiveness of human resource training and development will provide the key to competitive differentiation between MNCs. Solomon (1995) argues that MNCs are paying greater attention to search for ways to improve HRD in their overseas operations. They do so by

exporting their management development and training systems or building organisational mechanisms to support the training and development of individuals.

We have found in our survey that various training methods have been used by the MNCs in the region. However, external training is mostly used to train managerial and professional staff, while clerical and production workers often take more on-job training (Table E3). When respondents were asked to specify their external training methods, group training, overseas training and training conducted at regional offices and headquarters were frequently mentioned (Table E3a). This may suggest that MNCs in the region are seeking 'isomorphism'<sup>10</sup> (DiMaggio & Powell 1983) in their HRM practices, at least in the areas of providing standardised training.

Setting up regional headquarters, be it a training centre or product development centre, is a current fad of MNCs. Yeung et al. (2001) analysed the role of regional headquarters in the globalisation strategies of transnational corporations. They identified that geographic distance, strategic necessity and the availability of business services are the three main reasons that firms adopt regional headquarter to increase their demand for control and coordination formerly performed by their global headquarters. The fact that a number of the MNCs that responded indicated their use of regional training facilities in this survey supports Yeung et al.'s analysis. Without sending substantial numbers of expatriates, training in the regional offices may be an effective way for MNCs to develop their global workforce (Katz & Seifer 1996; Deolalikar et al. 1997; Kamoche 1997).

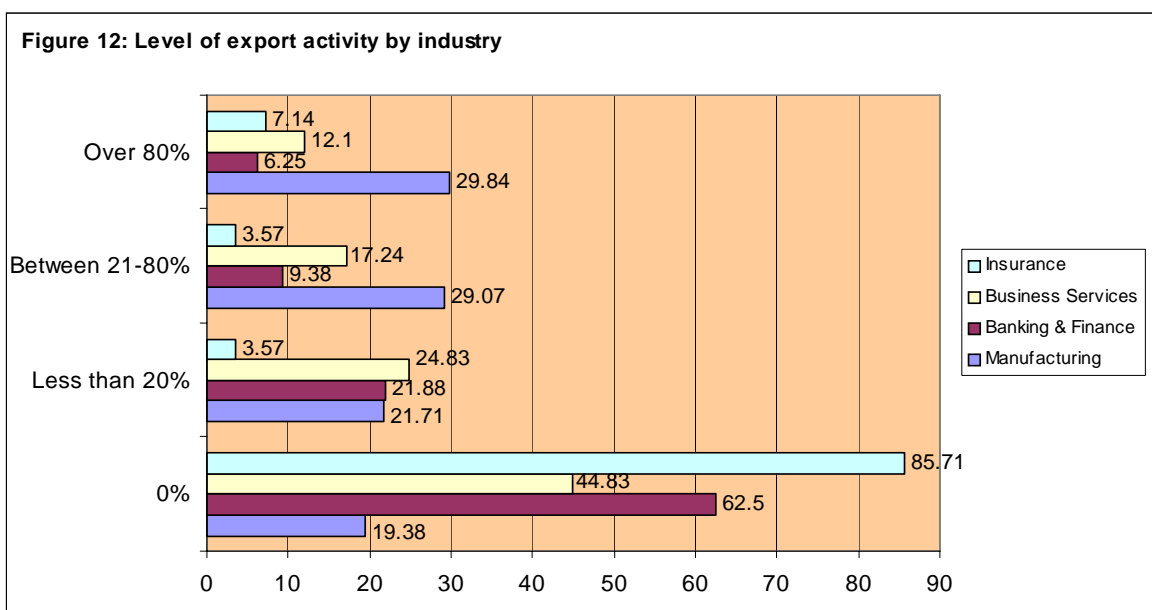
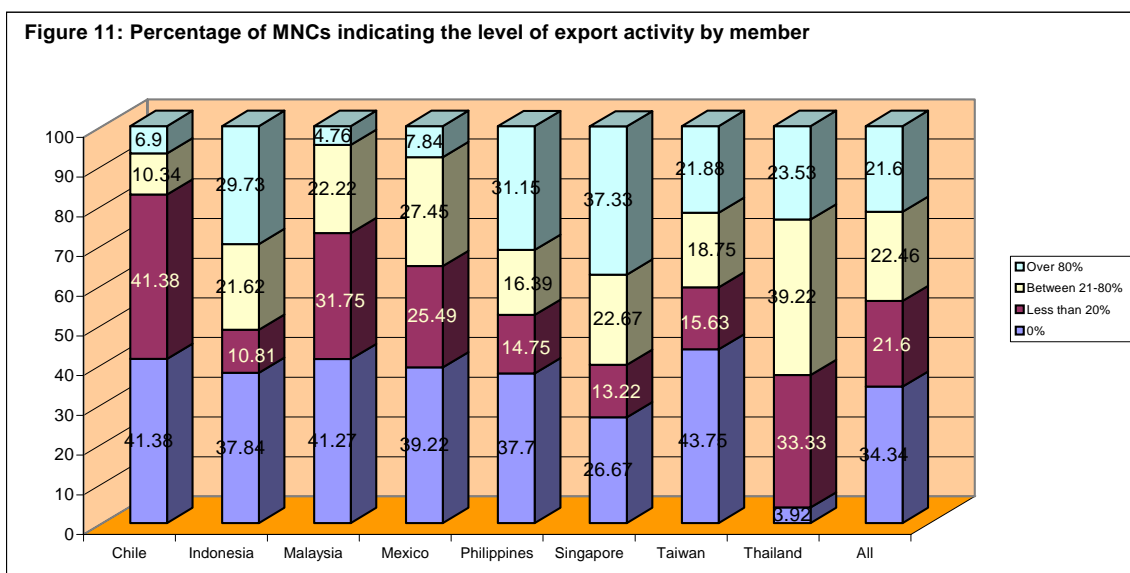
### ***4.3. Developmental Trend of MNCs***

Almost two-thirds of the firms surveyed have exported their products and services (Table A4). Among them, 21.6 percent exported over 80 percent of their products and services, and 22.5 percent indicated that their exports account for between 21-80 percent of their total volume of production and sales. The percentage of the firms with less than 20 percent of their products and services exported was 21.6 percent (Figure 11). Over a third of the firms surveyed did not export their goods and services, with the majority of these from the insurance and banking and finance industries (Figure 12). Such a phenomenon of fewer exports by the insurance and banking industries may be due to two reasons. On the one hand, as service providers, serving the

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<sup>10</sup> Isomorphism is the concept used to capture the process of homogenisation in organisational theory. Isomorphism is a constraining process that forces a unit in a population to resemble other units that face the same set of environmental conditions (DiMaggio & Powell 1983, p. 149). If an organisation adopts an 'isomorphic' HRM approach, it tends to increase unit compatibility by standardising organisational HR policy and practices and providing standardised training to ensure a population within the organisation able to embrace environmental diversity.

domestic markets would be their main focus (see Caves 1996). On the other hand, the industries may still be under the tight control executed by various governments after the severe financial crisis in 1997. Hence, any forms of capital and technology flow might be constrained under the current reform agenda. In Asia, except for those firms in Singapore and Chinese Taipei that might have been less seriously affected by the crisis, the majority of banking and finance and insurance MNCs in Indonesia, Malaysia, the Philippines, and in particular Thailand, covered in this survey expressed a conservative attitude towards exporting their services. In Latin America, there is a relatively low level of export activities among the MNCs surveyed. More firms in Mexico exported between 21-80 percent of their products and services than that in Chile (Figure 11).



Exports are largely generated from manufacturing industry – almost 30 percent of the manufacturing firms surveyed exported over 80 percent of their products. This statistic once again reflects the outward looking, exporting oriented development strategy, with specific reliance on manufacturing goods, pursued by the successful economies of East and Southeast Asia, and perhaps also being pursued by countries in Latin America..

Continuous efforts to promote trade and investment liberation under APEC, and trade agreements established by various regional blocs, may have a major impact on bilateral and multilateral trade among the APEC member economies (Elek 2000). We are not yet clear how these arrangements would affect further business expansion of MNCs operating in the region. The survey indicates that over half of the firms intended to expand their operations (Table A3). Among those that want to expand, there is a much higher proportion in insurance (73 percent) and business service (60 percent) than that in banking (50 percent) and manufacturing (52 percent). This is another indication that further development of services sector among the APEC economies. A slight uncertainty experienced by the MNCs is also expressed by less intention to expand among firms in the banking and finance industry. As noted above, this could be the result of reforms undertaking within the financial sector after the financial crisis.

By country, Mexico has the highest proportion of the MNCs (75 percent) wanting to continue to expand their business, followed by firms in Thailand and Singapore. Less firms in Chile expressed an intention to grow. The manufacturing firms in Mexico and Thailand will continue to grow strongly. Interesting, banking and finance firms in Mexico, the Philippines and Thailand expressed a strong interest to grow, but less so for the same types of firms in Chile and Chinese Taipei. MNCs in business services an insurance show a great potential to continue growing in the region (Table A3).

#### **4.4. Summary**

Shifts in productive structure from agriculture to industry and services, and from low to high value-added manufacturing and services throughout the region, is leading to new demands for skills that, in turn, enables further business opportunities for MNCs. Competition is intense and markets are moving rapidly. This requires fast-moving organisations to continually ‘refresh with new talent’ (Cappelli 2000, p. 103). The trends of regionalisation and the effects of global operations have resulted in a greater need for organisations to set up HRD strategies to acquire and retain competent workforce so that they can maintain competitive market positions in the region. But addressing the problem of skill shortages and training needs is the first step of establishing appropriate HRD strategies for MNCs. Hence, the extent of skill shortages experienced by the MNCs in the region will be discussed next.

## 5. Skill Shortages & Training Needs

Skill shortages are a commonly recognised phenomenon in APEC. According to Iredale and Mitchell (1995, p. 1), a mismatch has occurred in some APEC economies between skills required by industry and those currently available within the labour forces. APEC economies have needs for skills, work patterns and training facilities that they have yet to develop. From a macro-level, Iredale and Mitchell (1995) assessed skill shortages in six APEC economies (i.e. Australia, Brunei Darussalam, Hong Kong, Malaysia, the Philippines and Thailand) under the APEC-HURDIT Network. They found that some sectors of the economies have labour surplus and under-utilised training facilities, while others experienced severe skill shortage. They concluded that the identification of skill shortages is an area that has received little attention in the past from researchers and planners in most economies (p. 87). They called for further identification of areas of skill shortages in APEC with a more standardised code of occupations and the adoption of an index of ‘both the number and length of vacancies’<sup>11</sup> to measure the shortages.

The current research on the skill shortages in MNCs in APEC, in some ways, responds to the recommendations of Iredale and Mitchell (1995). Six occupations in the survey were categorised according to two international standard classification of occupation (ISCO-1968 and 1988, ILO 1998; 2000). They are managerial, professional, clerical, sales, service and production workers<sup>12</sup>. In this section, the extent of skill shortages in MNCs is examined through such lenses as:

- 1) past and future recruitment difficulties for these six categories of occupations;
- 2) types and amount of works contracted-out by MNCs; and
- 3) time-period and level of difficulty to recruit IT skills.

Training needs among MNCs in APEC will also be identified through:

- 4) measuring the level of employee training by MNCs; and
- 5) examining the areas of training needs.

### ***5.1. Past and future recruitment difficulties for six categories of occupations***

In the past two years up the time of the survey, it seems that the APEC member economies have experienced a shortage of professional skills. Over half of the firms

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<sup>11</sup> A ‘vacancy index’ has been the most commonly used measure, but it may not be the most appropriate. Iredale and Mitchell (1995) suggested to use an index of ‘both the number and length of vacancies’ to measure the extent of skill shortages.

<sup>12</sup> We exclude ‘other occupations’ in this study as they cover arm forces and skilled farmers, fishermen, which are not applicable to our study on MNCs.



investigated indicated having difficulty in the recruitment of professional staff (Figure 13). Managerial staff has also been in short supply, as over 30 percent of the MNCs found it difficult to recruit workers in this category. In all of the member economies investigated, a relatively high percentage of companies (ranging from 31 percent to 67 percent) experienced difficulty in obtaining professional workers (Table C1). More companies in Chinese Taipei (67 percent), Thailand (58 percent) and Mexico (53 percent) have experienced difficulty in the recruitment of professional staff than those companies in other member economies (Figure 14). While there has been less difficulty for companies in Chile, Singapore and Malaysia to get managers, they did have problems in getting other types of workers, especially production workers in manufacturing sector. For instance, 31 percent of manufacturing firms in Chile found it difficult in the past to recruit production workers. Similarly, over 50 percent and 70 percent of the manufacturing firms in Singapore and Malaysia, respectively, found it difficult to recruit production workers (Table C1).

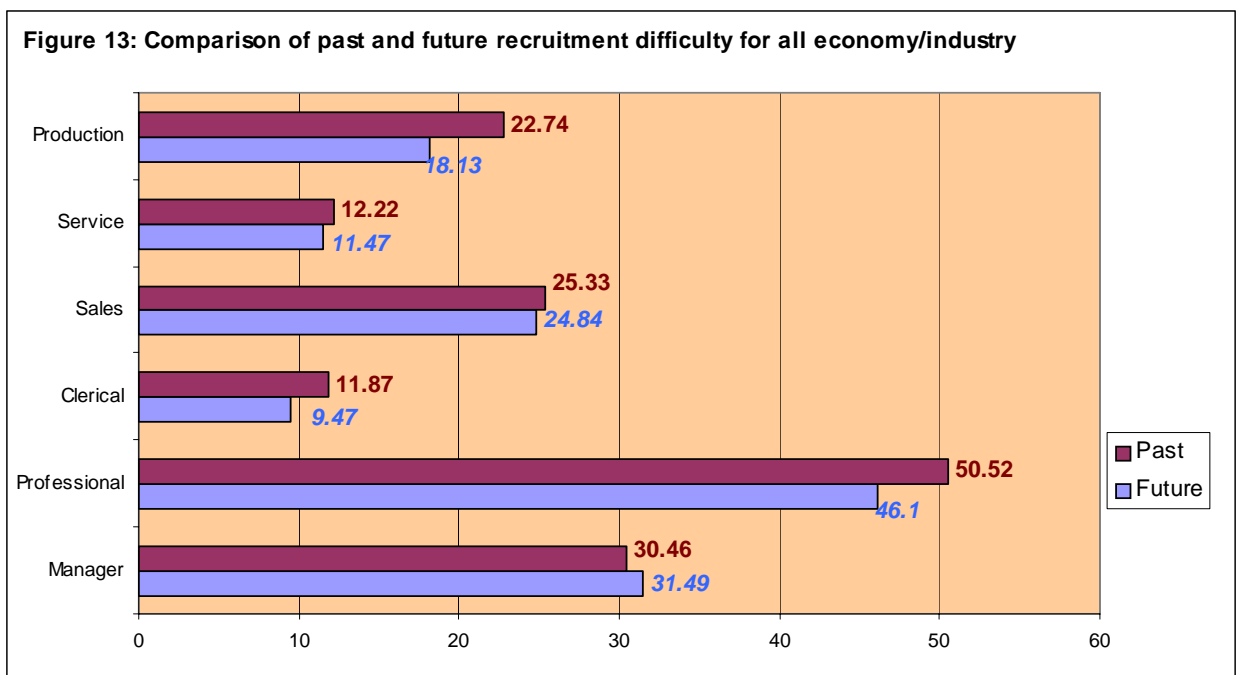
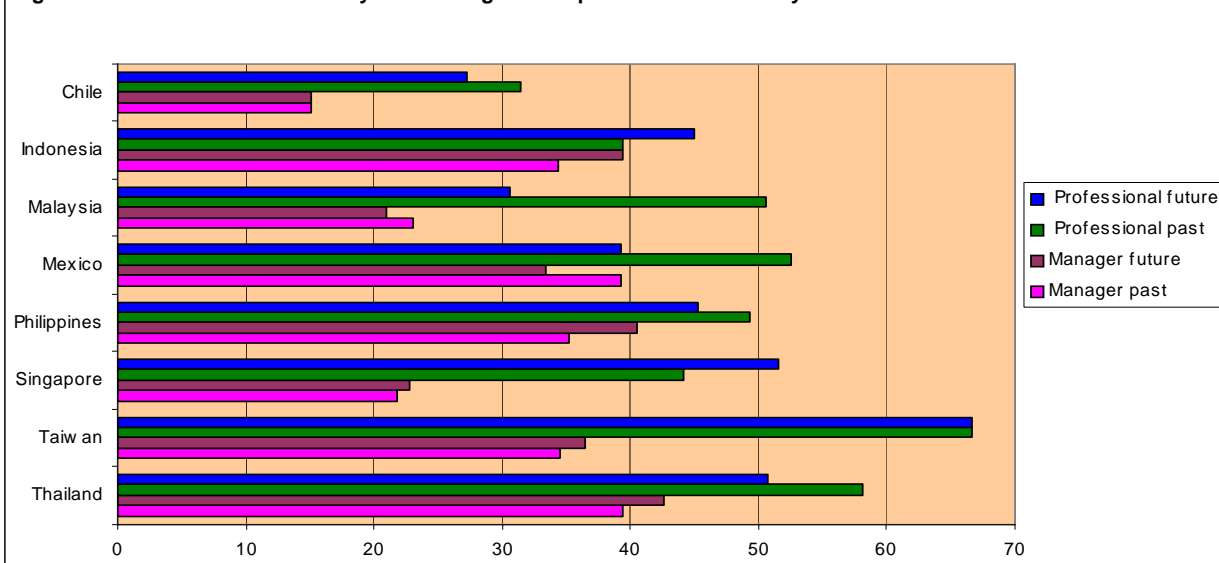


Figure 14: Recruitment difficulty for managerial & professional staff by member

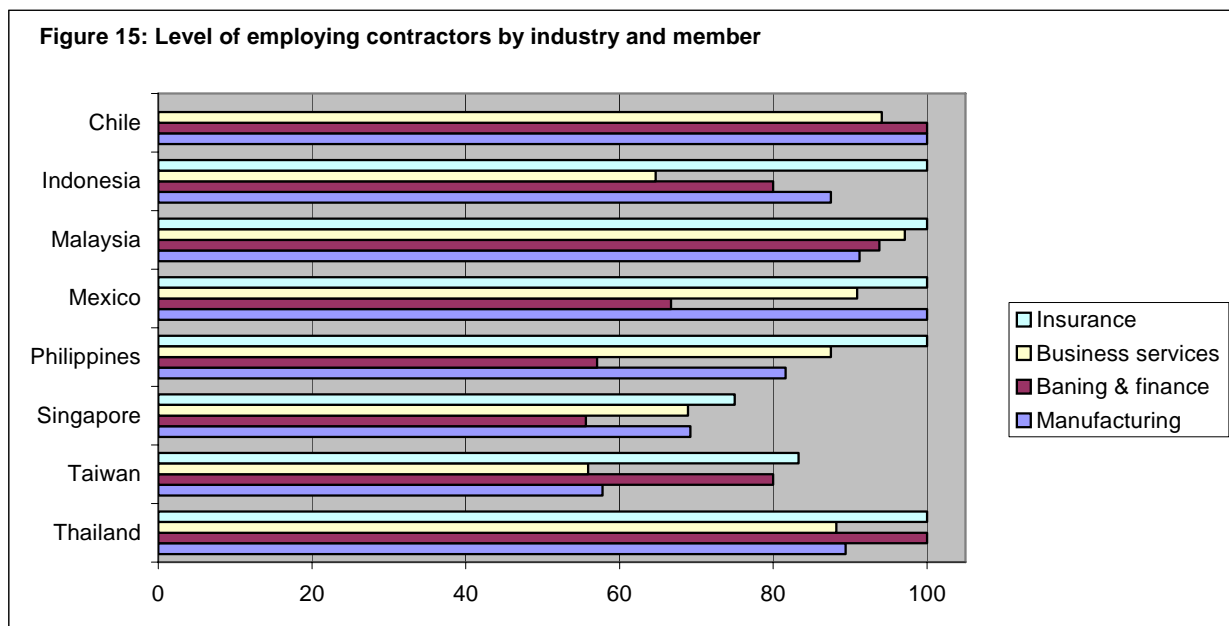


Firms were asked if they anticipated any difficulties in the recruitment of staff in the various occupational categories over the next two years. For most categories, the expected difficulties were less than they had experienced in the previous two years, the only exception being managerial staff (Table C2). Overall, however, the percentage of the firms anticipating difficulty in recruiting professional (46 percent) and sales staff (25 percent) is still high (Figure 13). These statistics provide us further confirmation that shortages in the specific areas of managerial and professional skills is present in MNCs in APEC. There is an urgent need for MNCs and their affiliated host countries to address this issue through training and adopting better HRD strategies.

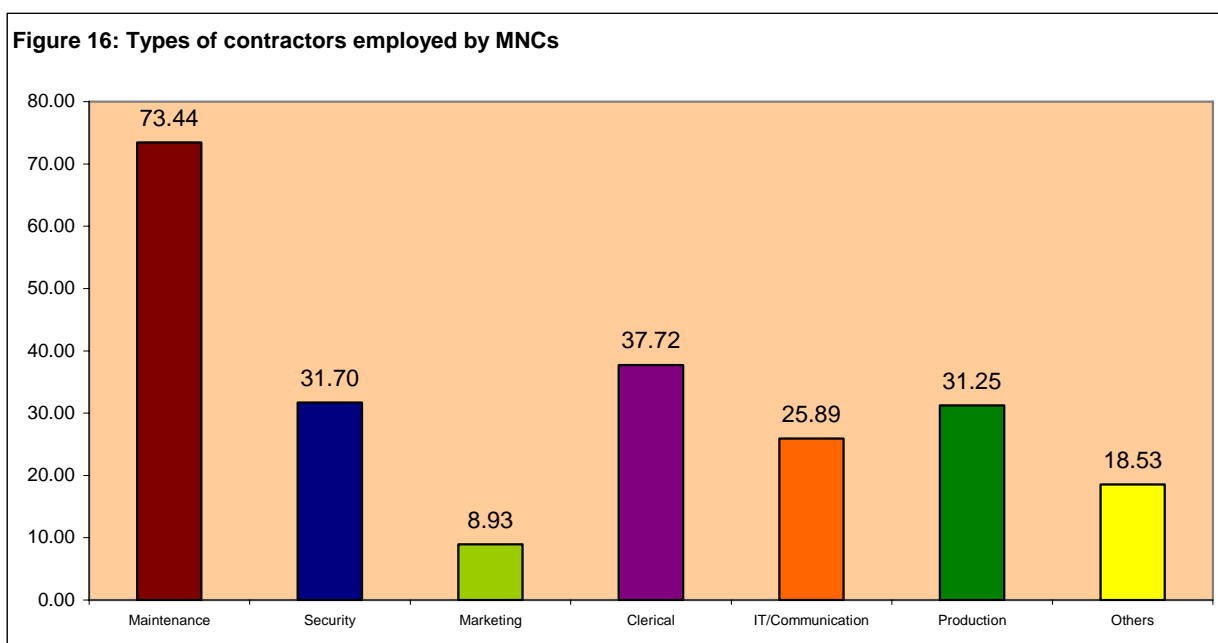
### 5.2. Types and amount of works contracted-out by MNCs

Firms choose to contract out their work because contract work can be cost effective and flexible, and serves the firms' special needs without interfering their main stream business operations. There is an alternative argument stating that firms contract out their work because contractors have special skills that internal labour force lack. Our survey intended to examine the extent of contract work provided by MNCs and the key areas of work that have been contracted out.

Table B5 shows that 81.3 percent of the companies surveyed in all member economies have employed contractors. Chile stands out as an economy that has the highest percentage (97 percent) of companies who employ contractors. Malaysia and Mexico follow close behind with 95 and 93 percent of surveyed companies, respectively, indicating that they employ contractors. Next are Thailand (90 percent), the Philippines (83 percent) and Indonesia (79 percent). In contrast, fewer companies in the industrialised economies such as Singapore and Chinese Taipei have contracted out work (Figure 15).

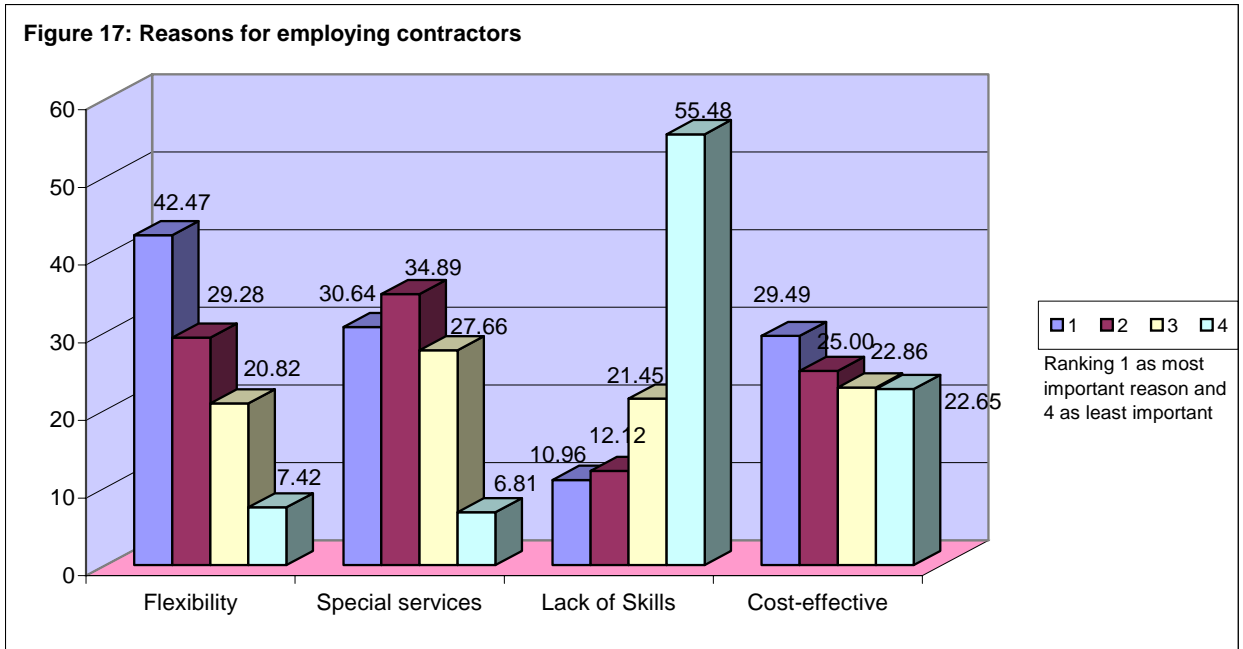


Among surveyed companies in Asia,<sup>13</sup> 448 out of total 529 companies (85 percent) has in one way or another contracted out some aspects of their work (Table B6). The key area of contract work is maintenance – 73 percent of the firms surveyed have contracted out this area of the work. Security (32 percent), clerical (38 percent) and production (31 percent) are among other main areas of contract works provided by the MNCs surveyed (Figure 16). Over a quarter of the MNCs surveyed also contracted out IT and communication work.



<sup>13</sup> Data from Chile and Mexico were not categorised into these areas of contract works.

Examining the reasons for contracting out, the majority of the firms indicated that flexibility is the main reason for contracting out (Figure 17). A lack of adequate skills is reported as being the least important factor determining a firm's choice to contract



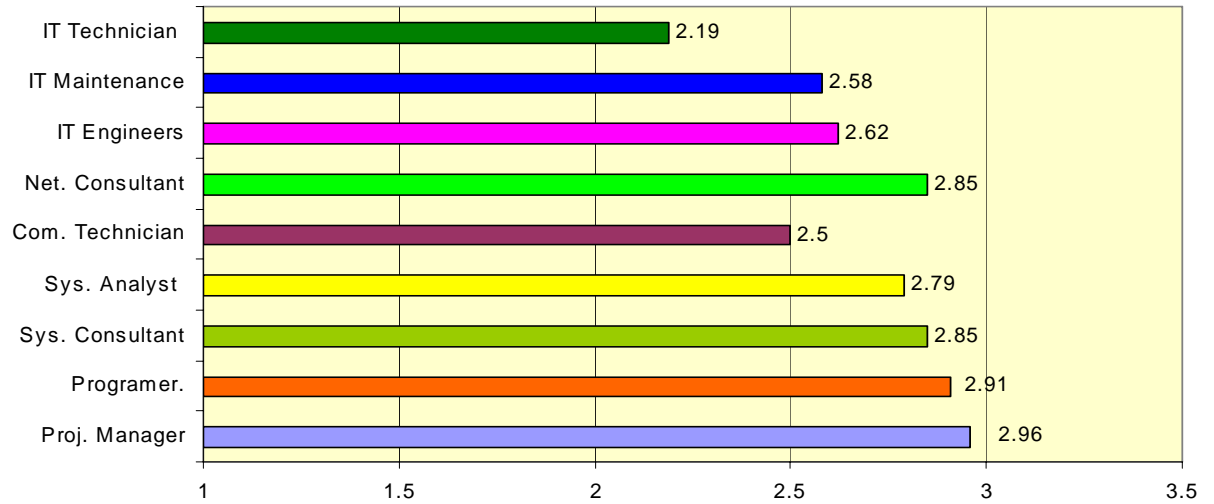
out (Table B7 and B7a).

This result may lead us to dispute the ‘lack of skills’ argument for contracting out. In addition, we may argue that using the scale of contracted work in this survey may not be a good indicator to measure the level of skill shortage. MNCs have other sound reasons to contract out their works besides skill shortages, which deserves further investigation.

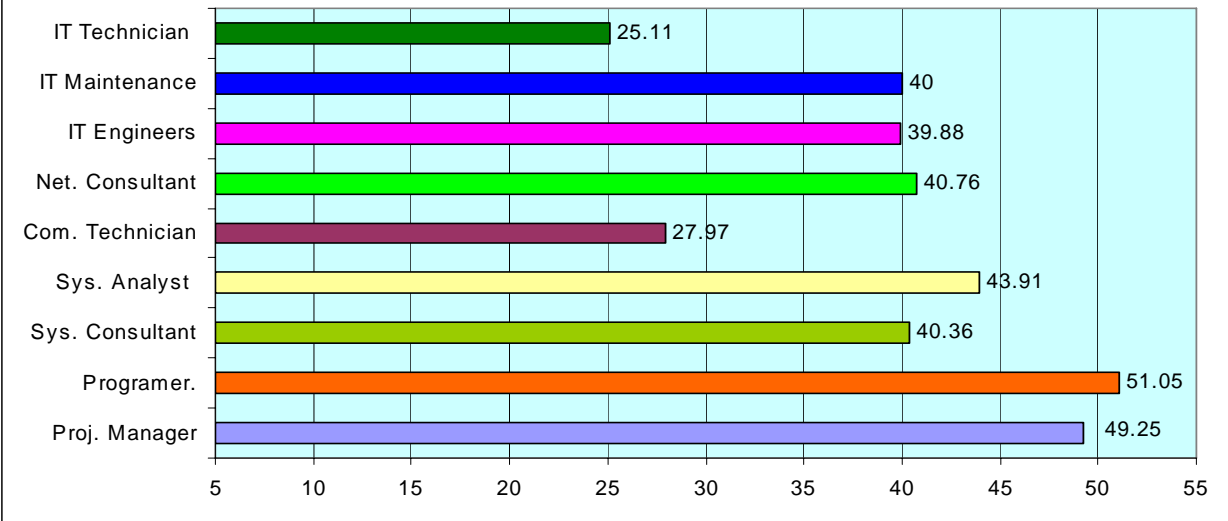
### 5.3. Time-period and level of difficulty to recruit IT skills

The extent of skill shortages for various IT positions in the MNCs surveyed is measured by using the median time-period needed to fill these positions. It is believed that the longer the time period the more difficult it is to recruit skills, and hence the more likely it is that IT skills are in short in quantity and/or quality. Table C3 demonstrates that the median time period for all economies and all industries for all types of IT skills is between 2-3 (median 2 = 4-7 weeks and 3 = 8-11 weeks). This means that commonly it would take firms 4-11 weeks to recruit any type of IT skills (Figure 18). Manufacturing firms in Malaysia and Chinese Taipei report taking longer (12-15 weeks) to recruit IT engineers, whilst insurance companies in Mexico take over 16 weeks to recruit network consultants. In addition, project managers, programmers and system analysts would also take a relatively longer period of time to recruit, particularly in the banking and finance, business services and manufacturing sectors.

**Figure 18: Time periods for recruiting various IT skills**



**Figure 19: Percentage of Firms indicating difficulty to recruit various IT skills**



Among those firms in Asia<sup>14</sup> that responded to the survey, a range of 40-50 percent of the firms believed it would be difficult to recruit various IT skills in the future (Table C4). This applies particularly to project managers, programmers, system analysts and consultants, IT engineers and maintenance staff (Figure 19). The surveyed companies indicate that it will be relatively easier to recruit computer and other IT technicians. It must be acknowledged that there was an overall low number of companies

<sup>14</sup> Again data for Latin America are not available.

responding to this question which asked ‘to indicate future difficulty in recruiting IT skills’. Whether IT skills are not currently applicable to firms or because the needs of such skills are not predictable is not clearly expressed in this survey. The fact that most firms reported a relatively long period of time needed to recruit IT staff, and the fact that almost half of the MNCs expressed concerns about the future recruitment of IT staff, may be indicative of a certain level of shortage of IT skills in the region.

From the above-analysis, it is tentatively concluded that there are at least three areas of skill shortages among the MNCs surveyed. First, a shortage of managerial and professional skills is more prominent in the less developed APEC economies (such as Indonesia, Mexico, the Philippines, Thailand). Second, clerical and production workers are in short supply in more developed economies such as Chile, Singapore and Malaysia. Thirdly, there might be an overall shortage of IT skills for all member economies that has not been overtly expressed in this survey, which needs further verification from member economy reports.

It is generally believed that skill shortages can be reduced through continuous training initiated by firms and/or through vocational education provided by governmental bodies, or the combined efforts of these two. Indeed, a number of recent studies (e.g. Voss & Blackmon 1996; Noble 1997) argue that MNCs may provide a platform for the diffusion of best practices, and are potentially important to the national vocational education and training systems in which they operate. Often MNCs are thought to be more capable of exerting a leadership role in developing and implementing efficient and effective training and development programs. With this expectation, the level of employees trained by the MNCs surveyed is examined next.

#### ***5.4. The level of employees trained by MNCs***

This survey has found in six Asian economies<sup>15</sup> that the percentage of managerial and professional employees who received training is much higher than that of other categories of employees in MNCs (Table E4). For instance, an average 10.0 percent of clerical, sales and service staff received training, versus 34.5 percent of managers and 33.6 percent of professional staff. With the exception of companies in Chinese Taipei that were better able to provide training to their employees, all firms in other economies have provided relatively low levels of training to their staff. Much lower level training has been offered by the MNCs in Thailand, with only 1.5 percent of managers, barely 3 percent of professional staff, 3 percent of production workers, and 0.5 percent of clerical, sales and service workers receiving training. A lower percentage of employees trained was also found in the Philippines. Professionals in Malaysia and Singapore received more training than other occupations (Table E4b).

This set of statistics may reflect what Rosenzweig and Nohria (1994) called, the ‘context-specific’ and ‘corporate-wide’ training strategies adopted by many MNCs.

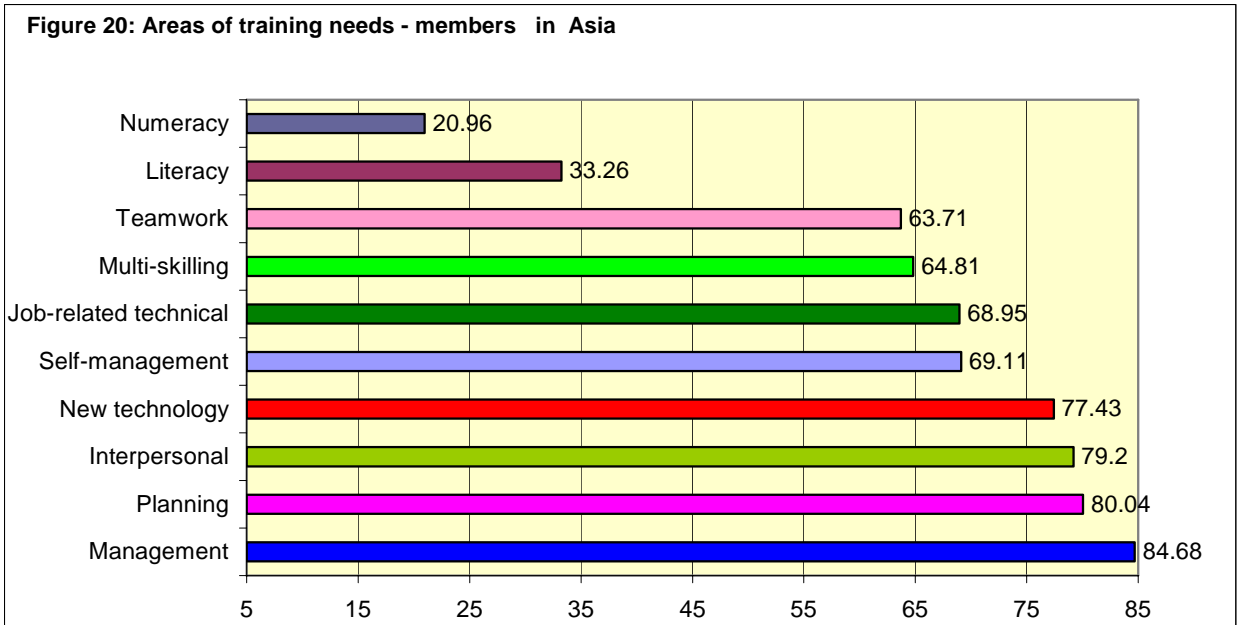
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<sup>15</sup> Data for Chile and Mexico are not available for this aspect.

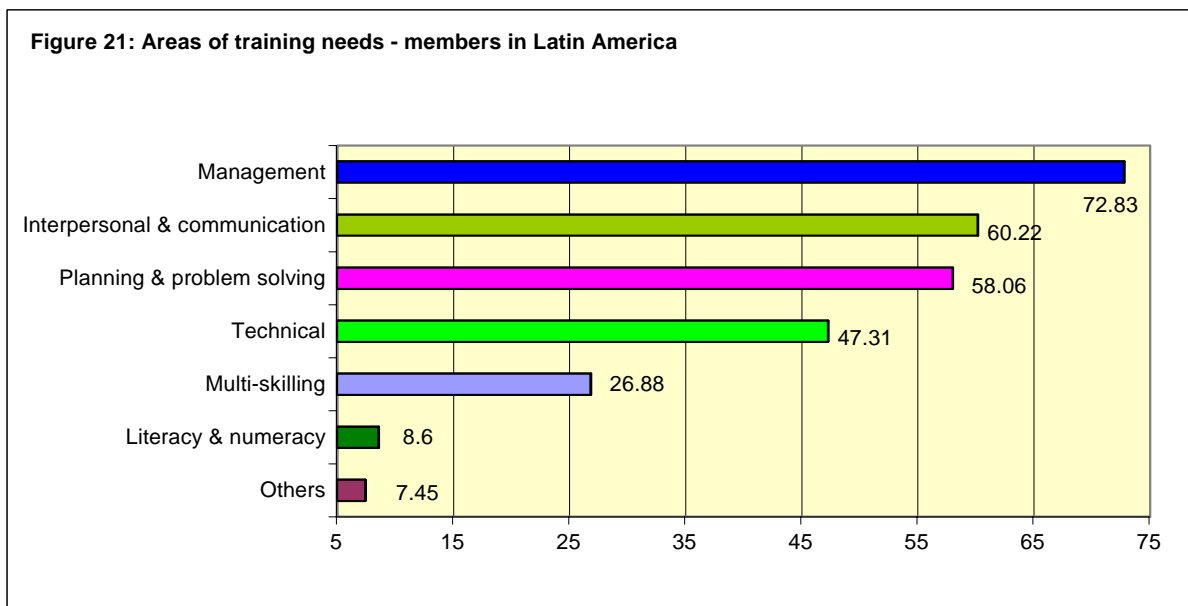
On the one hand, MNCs' training and development needs vary according to local specific conditions and requirements. On the other hand, MNCs may have corporate-wide policies regarding employee training, as well as management philosophies favouring certain types of training that serve to exert pressure to adhere to parent practice. The varied emphasis on managerial and professional training indicated by the survey may be either due to greater demand for such skills in the local context or that management training is just another HR policy executed by the corporate headquarter. The different level of managerial and professional training among the member economies also could have been generated from their different developmental stages. To borrow Walsh's (1995) argument of 'more professional, higher demand for training', it is observed that as the economy develops, there would be more managerial and professional staff. Often when workforce becomes professional, their requests for personnel development and skill upgrading will be ahead of organisational planning for staff development. Therefore, more managerial and professional training is offered in more developed economies (e.g. Singapore and Malaysia) than in less developed ones (e.g. Indonesia and Thailand). However, demand for managerial and professional training seems to be driven more by individual preferences than to address organisational (MNC) needs. This is a perplexing dilemma, as one would expect that shortage of managerial and professional labour in the less developed economies would require MNCs to provide more training to fill their needs. But in reality, the opposite is true. This could further lead to severe skill shortages in the less developed economies of which both MNCs and their host economies must take heed to.

### *5.5. Areas of training needs*

Because training provided by the MNCs can be context-based or corporate-HR strategy-based, areas of training needs will also be diverse among the MNCs surveyed. The MNCs in all six selected APEC economies indicated a high level need for skill improvement in the areas such as management (85 percent of the companies surveyed so responded), planning (80 percent), interpersonal skills (79 percent), new technology (77 percent), self-management (69 percent), job-related technical skills (69 percent), multi-skilling (65 percent) and teamwork (64 percent). There is a lower level need for skill improvement in the areas of literacy and numeracy (Table D1, Figure 20).



In Latin America, 73 percent of total 92 companies indicate needs for skill improvement in management. There is also a high proportion of companies indicating needs to improve interpersonal and communication skills (60 percent), planning and problem solving skills (58 percent) and technical competency (47 percent) (Table D1a, Figure 21).





As to whether it is necessary to train newly hired workers, the survey again provides diverse results. Except the MNCs in Thailand that have reported a high level of training needs for all categories of occupations, MNCs in other member economies have diverse training needs. For instance, a relatively higher percentage of insurance companies in Indonesia indicate a need to further train their managerial, professional and clerical staff (both median/mode<sup>16</sup> = 5). Only manufacturing firms in Malaysia indicated a need to further train their professional and production staff (both median/mode = 4). The Philippines shows more training needs for managers and professionals in their banking and finance sector (both median/mode = 4). Firms in Singapore and Chinese Taipei prefer to further train their professional staff only in banking and business service sectors (Table E2a). In Latin America, training needs for managerial and professional staff in banking and insurance sector is more prominent (Table E2). This confirms Rosenzweig and Nohria's (1994) argument that MNCs may address their training needs according to their specific context and corporate development strategies.

## 5.6. *Summary*

The unprecedented growth of the Asia-Pacific economies over the last quarter century, up until the crisis, has been associated with significant changes in the structure of production and the distribution of employment (see Section 2). These changes have and are placing high demands on educational and training institutions to provide the quantity and quality of human resources needed to underwrite continued change. The fundamental policy concern is how to keep both manager and worker's capabilities advancing in parallel with the structural changes which underpin the growth process. A failure to manage this problem may manifest in skill bottlenecks that can impede both recovery and future economic growth, and may also retard the move to higher value-added industries (Feridhanusetyawan, Stahl & Toner 2001). This is also a great concern for most of the MNCs in our survey. It is indicated that 65.7 percent of the firms surveyed project that skill deficiencies would have a negative impact on their business expansion, and 38.8 percent of the firms fear that further skill shortages will affect their long-term growth (Table C5, D2).

There is a general consensus that training is the way to address the problem of skill shortages. It seems also that MNCs have realised the importance of addressing the issue of skill deficiency for their long-term growth. However, as this survey shows, companies have not provided sufficient training, and areas of training needs have been diverse.

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<sup>16</sup> Median indicates that at least 50% of the sample population responding to the scales from 1 (low) to 5 (high) to indicate the level of additional training needs for various occupation. Mode refers to the most frequent response by the sample population.

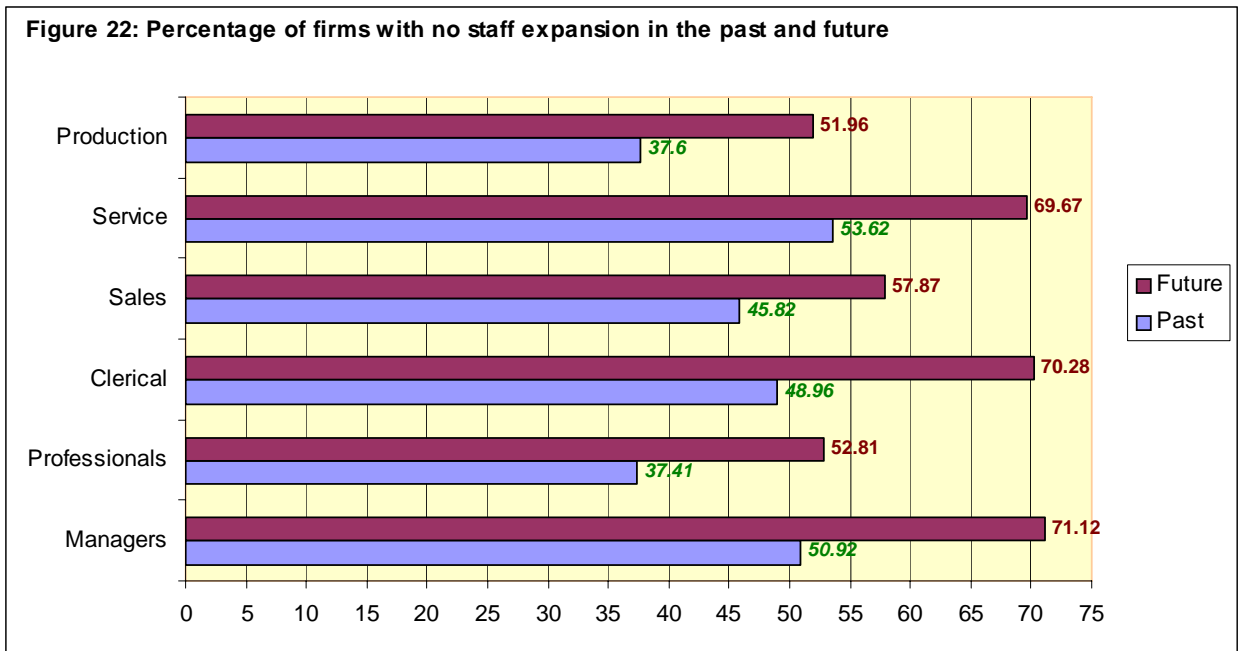
A similar survey conducted by a New York consulting firm in 1999 found that 86 percent of employees view self-improvement as important to success, while 97 percent see up-to-date skills as crucial. However, only 72 percent reported they get enough training from their companies (Air Force Times, 1999, p. 48). Another study by Wells (1999, cited in Shah et al. 2001, p. 23) looked at IT market in the Northern Virginia and found that a major reason for IT workers to leave their previous employers is the lack of training and development support. A high level of staff turnover, especially of managerial staff, is also a common phenomenon in Asia (a point to which we shall return in Section 6). The high employee turnover may be also partly due to lack of training. For MNCs, new HRD strategies that focus on employee development must be sought in order to attract and retain employees in today's tight labour market (Shah et al. 2001). To properly identify HRD strategies in the international context, issues of international human resource management currently encountered by MNCs in the region are first explored.

## **6. Issues of International HRM**

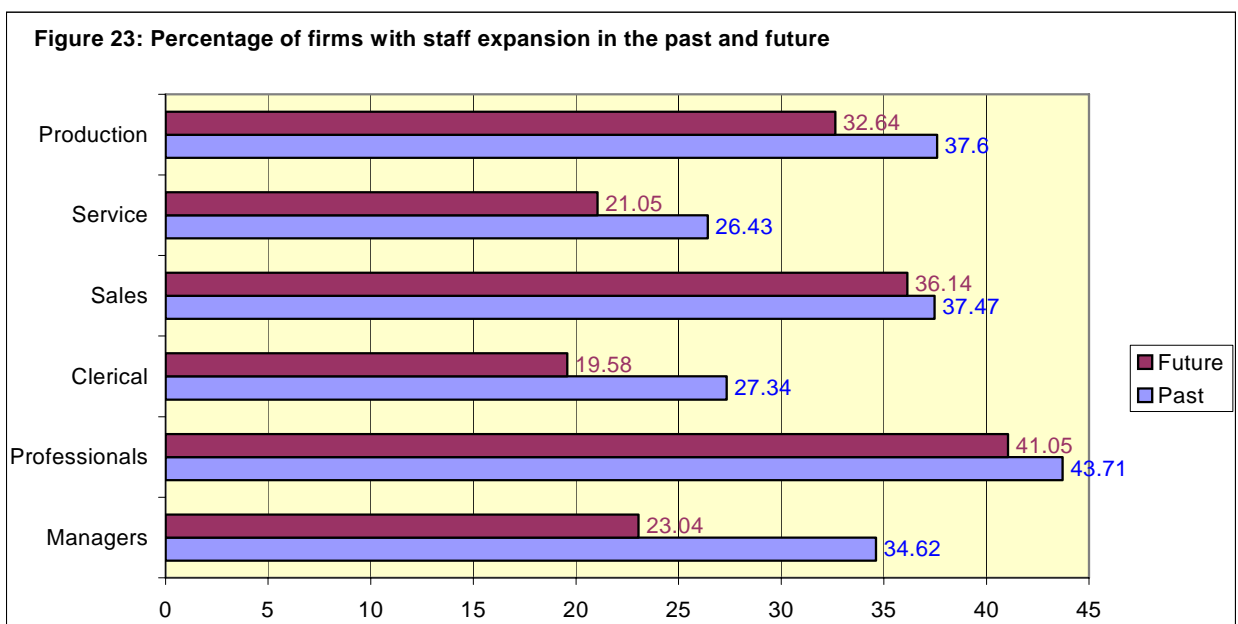
Earlier in Section 4.3, it was reported that over half of the MNCs surveyed indicated their intention to further expand their business in the host country where they are currently operating. Continuous growth poses new challenges for MNCs. Among these challenges, the issue of people management in the international context is most complex. International HRM encompasses not only human resource activities that cover a number of areas such as human resource planning, recruitment and selection, performance management, training and development, remuneration and managing labour relation (Harzing & Ruysseveldt 1995; Dowling et al. 1999), but also different types of employees in various countries (Morgan 1986). It has been reported (e.g. Stone 1991; Sargent & Matthews 1998; Rugman & Hodgetts 2000) that the primary causes of failure in multinational ventures stem from a lack of understanding of the essential differences in managing human resources, at all levels, in foreign environments. Application of certain management philosophies and techniques may be successful in the domestic context, but may not be appropriate in a foreign environment. This too often leads to failure or under-achievement of MNCs. Because of the volatile international environment, it is often difficult for MNCs to project demand and supply of human resources in their subsidiaries. Other difficulties of managing workforce in the context of the Asia Pacific, as often commented on in the literature, include high level of employee turnover, nepotism in recruitment and expensive training costs. The current survey looks at these four main issues of international HRM as they have been experienced by the MNCs in the region.

### 6.1 Human Resource Planning

Although the MNCs surveyed expressed their desire to further develop their businesses, the desire seems inconsistent with their action. The overall planning for staff expansion indicates a rather conservative approach. In fact, most of the firms (over 50 percent) do not want to further expand their staff in the future for all categories of occupations. In contrast, the percentage of the firms who had past staff expansion in all categories of occupations is much higher than their future plans



(Figures 22 and 23).



By country, however, Thailand stands out as the one country with the highest percentage of firms that have recruited more managers (52.8 percent), professionals (54.3 percent), sales (48.2 percent) and production workers (53.3 percent) in the past. Firms that will recruit more managers, professional and sales and production workers were largely in Indonesia and Thailand, implying that the recovery from the economic crisis may be fully underway, and that there will be a greater extent of employment expansion in the future in these two economies. Mexico shows the similar potential to expand staff, in particular of sales (51 percent), production (47 percent) and professional workers (43 percent) in the future. Production workers have both been expanded in Mexico (47.5 percent) and Singapore (42.2 percent) in the past, but will expand less in the future.

Firms in more developed economies (i.e. Chinese Taipei, Singapore and Malaysia) appear less likely to expand their staff in the future than those in the newly developed economies (i.e. Thailand and Indonesia) (Table B3, B4).

By industry, there had been a higher proportion of recruitment of professionals (45.7 percent) and production workers (41.5 percent) by firms in manufacturing. More professional staff were also recruited by the insurance industry (45.7 percent). Salespersons were more demanded by firms in banking and finance (48.8 percent) and insurance (60 percent). Demand for sales and professional personnel in the banking and finance and insurance industries will continue in the future. But there have been rather stable recruitment of managerial, clerical and service staff both in the past and in the future. There was only minor staff expansion in the MNCs in clerical and service workers occupations in the past for all member economies in all industries (except insurance), and this trend seems set to continue.

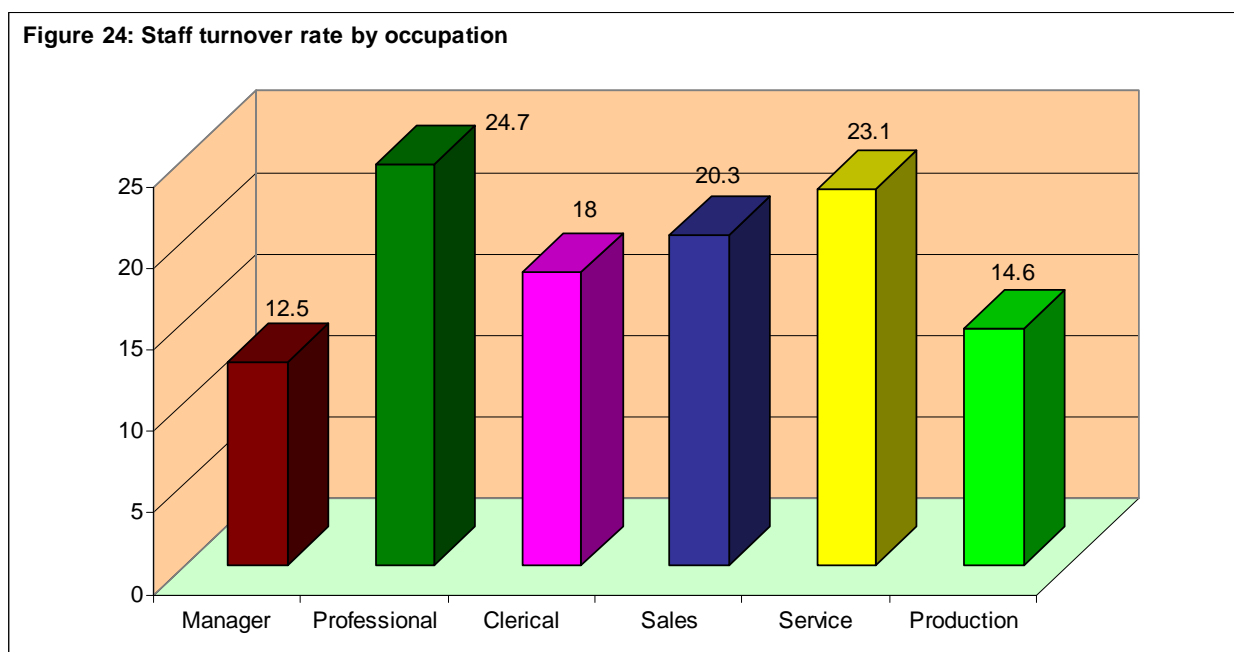
## **6.2 Employee Turnover**

Table B8 provides information pertaining to the employee turnover rate for all categories of occupation among the MNCs surveyed. The highest employee turnover rate (24.7 percent) appears among the professionals, followed by service workers (23.1 percent), salespersons (20.3 percent), and production workers (14.6 percent). The turnover rate for managerial staff stands at 12.5 percent (Figure 24). Prior studies (e.g. Price & Mueller 1986; Wai & Robinson 1998; Khatri et al. 2001) found that, in general, non-managerial employees were more likely to quit than managerial employees, but managers showed greater inclination to leave than non-managers in business services (e.g. retail). The observation from our current survey tentatively supports such a claim, except in Indonesia and the Philippines where the managerial turnover rates (11.7

percent and 10.3 percent respectively) in business services are lower than that in manufacturing (24.4 percent; 11.8 percent) and banking & finance (25.9 percent; 18 percent) (Table B8).

The literature does not provide a clear indication as to what level staff turnover rate should be considered as high. However, commonly, a turnover rate in excess of 5 percent for managerial and professional staff is considered rather high. A rate less than 10 percent for other occupations is regarded as acceptable. Yet any level of turnover would affect organisations considerably as it would mean productivity loss, increased costs for recruitment and training and low worker morale (see empirical studies by Coughlan & Schmidt 1985; Cotton & Tuttle 1986; Arthur 1994; Huselid 1995 for their measurement of staff turnover on firm performance).

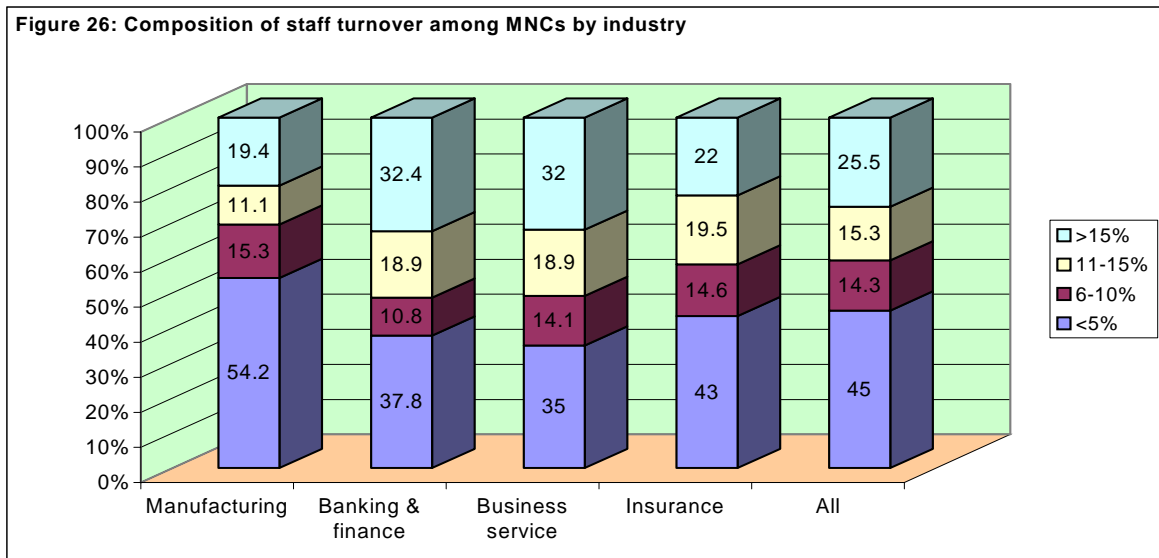
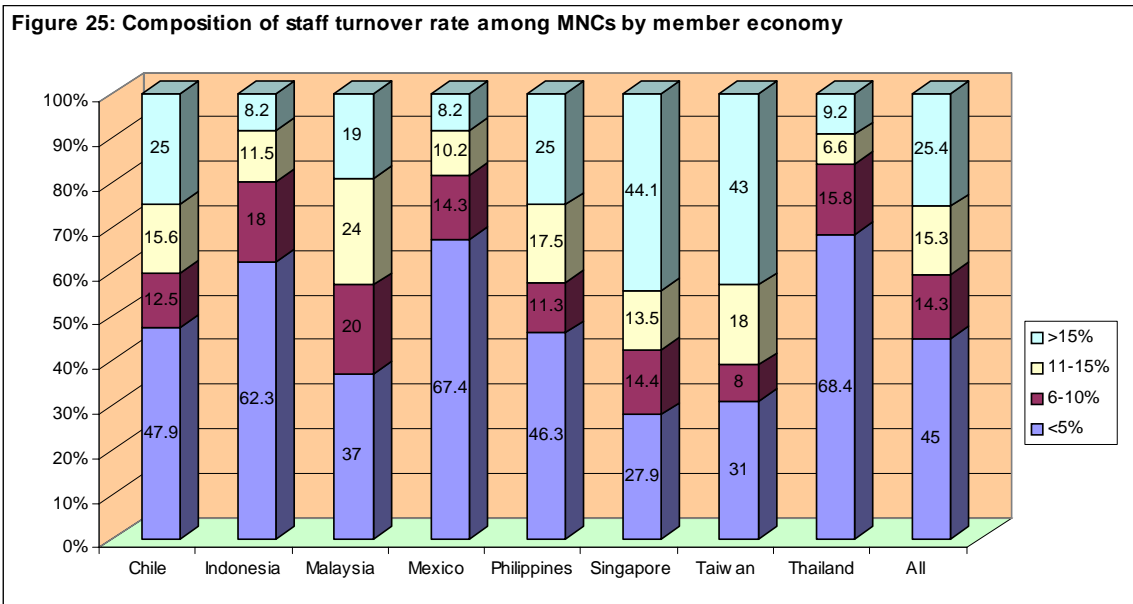
**Figure 24: Staff turnover rate by occupation**



Barnard and Rodgers (1998) reported that the average monthly resignation rates were 3.4 per cent, 2.9 percent and 2.7 percent in Singapore, South Korea and Chinese Taipei, respectively. They used these statistics to indicate ‘a culture of rampant job-hopping among the Asian countries’ (cited from Khatri et al. 2001, p. 54).

In this survey, over a quarter of the MNCs surveyed reported that over 15 percent of their total staff left in the past year. 15.3 percent of the firms had a total employee turnover rate between 11-15 percent, and 14.3 percent had a turnover rate of between 6-10 percent. Less than half of the MNCs surveyed (45 percent) had staff turnover rates less than 5 percent (Figure 25). It is clear that ‘job-hopping’ is a serious issue among the AEPC member economies surveyed. In particular, firms in banking and finance and business service sectors have experienced the highest level of staff turnover rate, with over 30 percent of firms in these sectors indicating more than 15

percent of their staff leaving the firm in the past year (Figure 26). Khatri et al. (2001) jokingly comment that solving the problem of employee turnover issue may save HR managers in MNCs in many Asian countries ‘lots of sleepless nights’ (p. 54).



Causes of employee turnover can be associated with demographic factors, external labour market conditions and internal organisational management (Mobley, 1982; Mowday et al. 1982). Demographic factors include age, gender, education, income level, job category and length of service. External labour market conditions provide employees with perceived alternative employment opportunities (PAEO), which Khatri et al. (2001) treated as uncontrollable factors. If individuals perceive the availability of alternative jobs in the labour market, that would lead employees to change jobs. Such perceptions are often induced by skill shortages in the labour market. Steel and Griffeth (1989) argued that both PAEO and labour market conditions are positively associated with employee turnover. Organisation design, pay and other management commitment are internal factors which MNCs, through setting their human resource management strategies, can control and reset job design, alter compensation methods and change managerial styles to influence individuals' decision to leave.

According to Khatri et al. (2001), prior studies on employee turnover were mainly conducted in western organisational contexts, while studies in Asia tend to be limited. But the *The Straits Times* (1996; 1999) has frequently reported the issue of 'job-hopping' in Singapore and Malaysia, and pointed to the problem of labour shortage as the most important factor that causes employee turnover. It is also reported that foreign investors, particularly in manufacturing sector, are extremely concerned about the frequency of job-hopping in Asian countries (Khatri et al. 2001). The results from the current survey support these observations. For instance, 32.4 percent of the manufacturing firms in Malaysia and almost 30 percent of similar firms in Singapore reported to have a staff turnover rate of 15 percent. More firms (60-66 percent) reported a high level of staff turnover (over 15 percent) in the banking & finance in Chile, Singapore and Chinese Taipei (Table B8a).

### **6.3 Recruitment Methods**

'Nepotism<sup>17</sup>', is regarded as a common practice among both Asian and Latin American countries. It has been reported in the literature that such practice also affect MNCs' operation in these countries, especially in their recruitment and selection of host country nationals (Dowling et al. 1999). Wyatt (1989) recounts an example of an Australian expatriate of a mining venture in Indonesia who could not understand why the local HR manager had hired most of his extended family rather than staff with the required technical competence. Other researchers (e.g. Chen 1995; Lasserre 1991; Lasserre & Schutte 1999) provide examples to explain why the recruitment methods (such as via advertisement, job fair) commonly practiced in the West were not suitable in many Asian countries. Instead, 'word of mouth' and introduction by more influential personnel would provide a better probability of securing a job in these countries. These scholars have attributed such practice to strong government

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<sup>17</sup> Whereby people with power and influences often prefer to act with favour towards their relatives and friends.

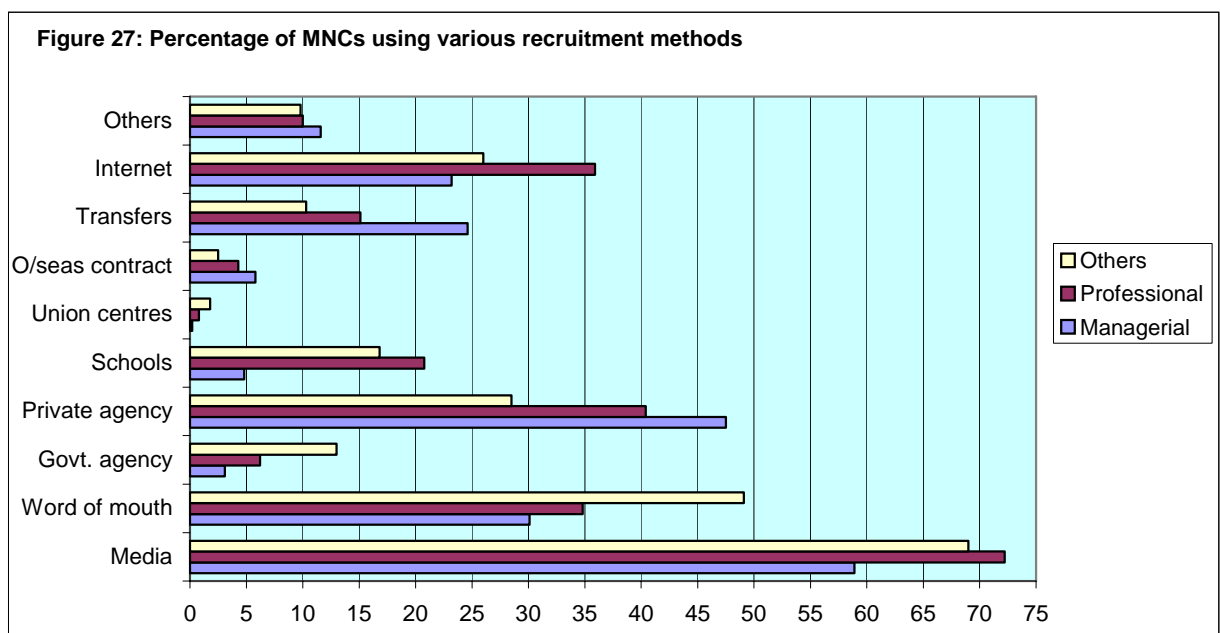
intervention in Asia, a large pool of family businesses (often operated as an informal sector) and a strong emphasis on networks and personal relations for decision-making and obtaining major resources.

Our survey examines the recruitment methods currently adopted by the MNCs in the region (Table B9a, B9b, B9c). Recruitment methods for three types of occupations, namely managerial, professional and other types of staff -- clerical, service, sales and production -- are compared. Figure 27 shows that media is a more commonly used tool to recruit all types of staff. Just under 60 percent of the MNCs surveyed reported using the media to recruit their managerial staff, 72 percent for professional staff and 69 percent of firms for other staff. Relatively more firms (almost 50 percent) used 'word of mouth' to recruit other types of staff. But only 30 and 35 percent of the firms respectively used this method to recruit managers and professionals.

Although the term was not clearly defined, private agencies are used by a significant number of the MNCs surveyed to recruit their managerial (48 percent), professional (40 percent) and other types of staff (29 percent).

Use of the Internet as a recruitment method by MNCs is an interesting phenomenon. Overall, the percentages of the firms that reported using the internet as a channel to recruit their managerial, professional and other types of staff are 23 percent, 36 percent and 26 percent, respectively.

A small proportion (25 percent) of the MNCs reportedly transferred their managerial staff. The transfer of professional (15 percent) and other staff (10 percent) was relatively less in the MNCs surveyed.





Other recruitment methods (i.e. government agency, schools, union centres and overseas contract) have been relatively less adopted. Firms also reported using ‘others’ as a way to recruit their managerial (12 percent), professional (10 percent) and other types of staff (10 percent). The specifications of ‘others’ were mainly ‘introduced through networks, family members and relatives’. Such findings are, in some ways, consistent with the assertion coming out of prior research (e.g. Lasserre 1991; Chen 1995). However, the percentage of firms reported using such methods is relatively low.

By country, media is adopted by more companies in Malaysia and Singapore to recruit managerial (88 percent, 80 percent) and professional staff (96 percent and 85 percent), but adopted less by companies in other member economies, especially in Latin America. Only 17 percent of companies in Chile and 8 percent in Mexico used ‘media’ to recruit managerial staff. In fact, a common channel to recruit both managerial and professional staff in Chile is ‘word of mouth’ (57 and 54 percent respectively). Mexico used ‘school’ (57 percent) to recruit professional staff. Private agencies are also widely used for management recruitment in Latin America. More companies in Chinese Taipei (65 percent) also used private agencies as their recruitment methods.

It seems that ‘word of mouth’ had been used less in the context of recruiting managerial staff (Chile is exception), but more so for professional and other types of staff. This is especially the case in Chile, Indonesia and Thailand. For instance, only 32 percent of firms in Indonesia and 14 percent of firms in Thailand reported to use ‘word of mouth’ as a recruitment method for managers, but over 40 percent of firms in both countries use such methods for the recruitment of professional staff. Some 67 percent of firms in Indonesia and 66 percent of firms in Thailand indicated that they used the method for recruiting other types of staff.

This set of analyses on recruitment methods used by the MNCs surveyed in the selected APEC member economies indicates that although features of using ‘word of mouth’ and ‘others’ as recruitment methods are still apparent, they are not dominant recruitment methods. In fact, the percentage of firms that have used ‘media’, ‘private agency’ and ‘internet’ as their recruitment methods is relatively high. This implies that HRM practices in the areas of recruitment among MNCs in the region may have moved away from old practice of ‘nepotism’, and converged with those modern practices in the West (Sparrow et al. 1994).

#### **6.4 Training**

The paradox of ‘the expense of cheap labour’ is cited as another issue of international human resource management MNCs would encounter in their operation, especially in Asia (e.g. Price Waterhouse 1993; Kamis 1996; Melvin 1996). For foreign firms investing and operating in Asia or other developing countries such as Chile and

Mexico, part of attraction has been their low labour cost. Only later did they find that they needed to invest heavily in the training of local employees, or bringing host country nationals (HCNs) to global or regional headquarters for technical, operative and managerial training, as earlier discussed. This has substantially increased unit cost of labour. Another dimension of this paradox is that locally trained employees are often 'poached' by other MNCs. As a result, a MNC may find that its competitors reap the training benefits while it receives little return for its investment in training (Dowling et al. 1999, p. 166). 'Job-hopping' is often closely related to 'poaching' of HCNs, especially in Asia. In addition, host country governments may also place pressure on MNCs to train of local staff. For instance, in Mexico, the law requires a certain amount of spending on personnel development (Kras 1991 cited in Abarca, Majluf & Rodriguez 1998, p. 30). Thus MNCs operating in the country must abide by the law and invest in training and development of local employees. In China, the joint venture operation is regarded by local partners as a convenient way of re-deploying their surplus employees who may not have the skills required. In that case, the MNCs have to invest heavily in the training of the joint venture HCNs in order to achieve their strategic objectives for the large China market (Zhu 1997). These factors have been reported to push MNCs to increase their training expenditure.

Our survey also investigates the amount of training expenditure by MNCs in APEC. Table E1 displays the average training expenditure per employee by different occupation in six APEC member economies<sup>18</sup>. On average (descriptive mean), US\$3,817 was spent on professional and technical training and US\$3,283 for management training. Training expenditure for sales and service staff is relatively low. In the selected Asian economies where data were available, the MNCs surveyed reported that they spent just over US\$2000 and US\$1000, respectively, to train a clerical and production worker each year! But a MNC would spend a total of almost two million dollars on training, as indicated in Table E1a.

In Asia, the country that tops the training cost is not surprisingly in Singapore. Each firm has spent roughly US\$6 million in total on training. The amount of training expenditure for all occupational categories in Singapore is also the highest among all member economies investigated. Chinese Taipei is ranked second in term of overall MNCs' expenditure on training. The country with the least expenditure on training is Malaysia, followed by the Philippines. Companies in Indonesia and Thailand have also spent a considerable amount of money on staff training and development.

By industry, the banking and finance sector spends more money on management training (\$9,243) than any other sectors. Whilst banking and business service sector spent on considerable sum on professional and technical training, the manufacturing sector focuses more on production workers' training, though companies in this sector also spent on managerial and technical training.

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<sup>18</sup> Data collected from Chile and Mexico are inconsistent with normal expectations and are therefore excluded from the analysis (see Table E1).

Training and development of the workforce is an increasing focus of firms that are seeking to strategically sustain a competitive advantage. Companies are encouraged to consider staff training in connection with jobs that entail specialised skills that will, in turn, promote company growth (Shah et al. 2001). There are several fundamental shifts of training focus and methods. Previously, training has been largely based on obtaining new knowledge and updating skills. Hence on-job-training method has been often used. However, to retain key talent, remain competitive and ensure long-term profitability, organisations are making dramatic changes in the way they change their workforce. They have been inclined to adopt more off-the-job and external training (such as regional and headquarter training as mentioned earlier), and to focus more on lifelong learning. Hence, as reported by Shah et al. (2001), key methods adopted, especially by MNCs, would include corporate universities (e.g. Motorola, GM and McDonald), self-directed learning, outsourcing and career development. Our survey in some ways supports this suggestion. As Table E3 indicates, although over 50 percent of the firms surveyed used on-the-job training, a substantial proportion adopt off-the-job and external training, especially for managerial and professional staff. On-the-job training is largely provided for clerical and production workers.

The issue of effective training will be a continuous challenge for MNCs operating in the region. Past Research (e.g. Zhu 1997; Tomlinson 1997) found that HCNs, especially in the developing countries, tend to take corporate-provided training as incentives to work for MNCs. But the researchers also indicated that lack of career development for local employees, plus a high emphasis on material incentives, have caused the problems of high turnover and ‘disloyalty’ of HCNs observed in many MNCs operating in the region. Perhaps effective training and development could help firms solve the pending problem of staff turnover. Companies may be able to use training as both hiring and retention tools for competent and skilled workers. Bear in mind, however, costs of training for MNCs may be continuously rising, but who says ‘no pain, no gain’? It is suggested widely in the literature that eventually benefits of training will outweigh costs (e.g. Russell et al. 1985; Bartel 1994).

### **6.5. Governmental and Industry Group Training**

Before we sum up this section, the survey results of training provided by both industry groups and government agencies to MNCs in the region are examined. There are a relatively less MNCs (40 percent) that participate in industry group training. Among those participating, the highest percentage is in the insurance sector (71 percent). Only 35 percent of MNCs from business services participated in group training (Table E9). In terms of the impact of group training on firms’ productivity, export performance and industrial relation, 85.8 percent of the firms in Asia<sup>19</sup> that have participated in the group training expressed some degree of impact (ranging from ‘some impact’ to ‘large impact’) of group training on improving their productivity. Just over 60 percent of participating firms thought that such training

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<sup>19</sup> Again data for Latin America is not available.

enhanced their export capacity, and another 81.7 percent of the firms found that group training helped harmonise their industrial relations (Table E10).

Similarly, a rate of participation in government-run training programs by the firms surveyed is relatively low (39 percent) (Table E5). A list of government training programs is provided in Table E6, covering areas such as health and safety, labour regulation, taxation regulation, business information briefing and some forms of human resource development (such as Malaysia's HRDF, and Singapore's Apprenticeship Scheme, Skill Redevelopment program, and People Developer Standards). These government-run training programs were rated as moderately successful by almost 80 percent of the firms that have participated, while another 19 percent responded that the programs were very successful (Table E7). Those who did not attend government-run programs claimed that they either lacked the information about such programs, or the programs were not related and not suitable to address their companies' needs. A proportion of respondents did not attend government training programs because their firms have provided internal training, primarily through on-the-job, off-the-job and external at local, regional and headquarter levels (see previous discussion on training issues). They indicated that in some ways, firms' level of training was more effective in addressing specific needs of the industry, and government training can only supplement and inform more broadly the general regulatory information.

In terms of identifying the areas of training improvement, 68 percent of the MNCs surveyed demand training both at the enterprise level and national level to be more relevant. 62 percent of the firms asked for better quality of internal training and 55 percent for quality of external training (Table E11). 54 percent of the respondents also indicate that more training should be made available and the method of delivery of training can be more flexible (43 percent of the MNCs responded so). The cost of training seems a great concern for companies in Chile (94 percent of firms responded so). However, less concern was placed on the completion rate of training, even though degrees, diploma and certificates were recognisable items that indicate individuals' qualification and would increase their employability. That is probably not the main concern of the respondents to this survey who we believe to be mainly managers in key positions in the MNCs surveyed.

## **6.6. Summary**

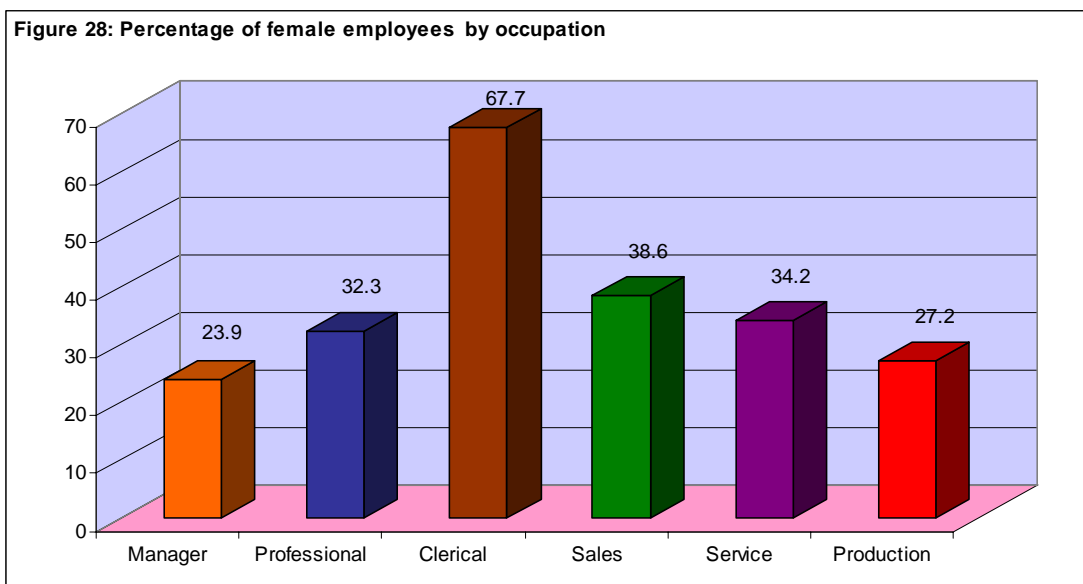
As discussed above, there are three major issues of international HRM that the MNCs surveyed have encountered in the region. First, the inconsistency between human resource planning and MNCs' development intention is obvious. This might be caused by the uncertainty of environment in the region whereby a number of economies are currently still undergoing political and institutional reforms (e.g. Indonesia and Thailand). The inconsistency may be also due to improper assessment by MNCs of current skill shortages and training needs in the region. This has resulted

in business expansion being constrained by difficulties of staff expansion or lack of resources to upgrade necessary skills. Secondly, the employee turnover rate is still relatively high among the MNCs surveyed. Skill shortage and lack of training provided by MNCs could be the main reasons among many factors that have caused the high level of employee turnover in the region. Thirdly, although training expenditure is relatively high, the scale of training may still not be sufficient. Often, training may not be relevant or readily accessible. It also may not be of the quality needed to address employees' and industries' real needs.

The good news is that recruitment methods in the region have been more in line with modern practices often advocated by large companies in the West. Less use of 'word of mouth' and a greater adoption of 'media' and 'internet' as channels for recruitment provides some evidence that 'nepotism' may be gradually done away. Convergence of HRM practices between East and West in the area of recruitment and selection may be tangible in the future.

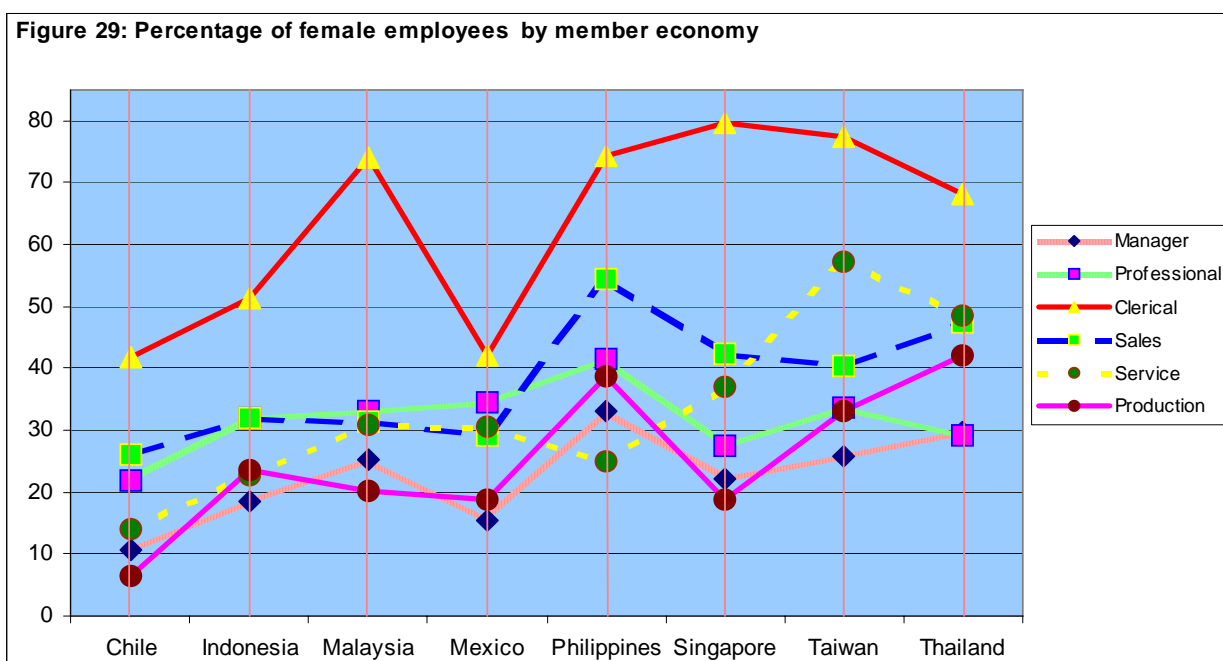
## 7. Gender Issues

The limited data collected from this survey on gender issues still provides a clear picture that occupational segregation is apparent, both horizontally and vertically among MNCs in APEC. Horizontal occupational segregation refers to the distribution of men and women across different occupations - women traditionally regarded as more suitable to be maids and men as truck drivers, for instance. Vertical occupational segregation examines the distribution of men and women in the job hierarchy in terms of their status within the same occupation, e.g. production workers versus production managers (see Zheng 1998; Heward & Bunwaree 1999). Horizontal occupational segregation in this survey is reflected in the fact that female employees in the MNCs surveyed have largely taken up clerical positions (67.7 percent) – traditionally regarded as women's jobs; and less than 30 percent of women are



employed in production – possibly men’s work, so to speak (Figure 28). There are fewer women represented at the managerial and professional levels, indicating vertical occupational segregation (Table B2a).

More female managers and professionals are currently employed by the MNCs in the Philippines (33.2 percent), compared with those in other member economies (Figure 29). The survey indicates that women are more able to advance into managerial and professional positions in the banking and insurance industry relative to the manufacturing and business services sectors. This is more likely because the banking and insurance sector has expanded more rapidly in recent years, following a series of deregulations among the various APEC member economies since the 1980s. There would also have been more licensed foreign banks moving into the region, creating a desperate shortage of trained staff and managers (see our earlier discussion). Cheng and Liao (1993) reported that the most visible top women executives are disproportionately found in Western MNCs and banks operating in Chinese Taipei. They argued that this is because the MNCs recruit and promote employees based on ‘objective’ criteria, and therefore less discriminative to promote women managers (Cheng & Liao 1993, p. 74). In addition, there is a traditional belief that women deal with finance better than men, and they are more meticulous and can be trusted (Wright & Tellei 1993, p. 30). Hence, women are more likely to be promoted to managerial positions in banking and finance sector.



However, in many respects, management has been an archetypal male occupation both in the composition of managerial workforce and in the conception of the role (Edwards et al. 1999, p. 55). Despite the changes in labour market structure, feminisation of labour force, increasing level of female's educational attainment, and the demand for more managerial and administrative skills, the proportion of women in management is still low. Sly et al (1998) found in their study in the UK that the proportion of women managers and administrators has risen by just 2 per cent from 30.2 percent in 1991 to 32.4 per cent in 1997.

According to Edwards et al (1999), women tend to choose and thrive in specialist rather than general management roles, and expansion in certain specialist areas account for much of the growth in the number of female professionals. This observation was also reported in White et al.'s (1992) study. The higher percentage of women professionals (32.3 percent) and saleswomen (38.6 percent) in this survey is consistent with the results derived from the previous research.

International experience and the ability to operate effectively in an international environment have become additional factors if women want to gain career success. However, there is evidence indicating that women are less likely to be considered suitable for international assignments and are also less willing to relocate because of family reasons in order to advance their careers (Brewster & Scullion 1997; Harris 1995). This survey did not collect gender differences of expatriate managers among all member economies except Chinese Taipei. Even in that singular economy's data, among the number of expatriate managers the MNCs sent to Chinese Taipei, only 1.8 percent were female. A recent study by Huang (2001) found that some of the reasons for the very low percentage of expatriate female managerial and professional staff related to issues of family commitments and safety.

Zheng (1998) identified a number of issues of women in SMEs in APEC. Among those issues, there is a general lack of access to training for women. However, the survey data for Chinese Taipei provides some promising trends of training for female employees in the MNCs operating there (Table E4a). More female managerial, professional and production workers have been trained, given the percentages of women in these occupation categories are low. However, this level of access to training for women may not be applicable to all member economies, as Chinese Taipei is regarded as an economy whereby MNCs were more willing to spend on training, as compared with those in other member economies (see our earlier discussion in Section 6.4). Past research on women managers in Thailand by Siengthai and Leelakulthanit (1993, p. 93) found that because of women's dual responsibility in the home and workplace, they often lack adequate time for additional study and training. In addition, senior executives in large corporations often doubt women's ability to combine the roles of wife, mother and executive, and view women as 'weak, indecisive, emotional, dependent and less productive than men', and therefore provide women with less opportunities for further executive training (Siengthai & Leelakulthanit 1993, pp. 97-8). In this case, we may not yet have a rosy

picture as expressed in Chinese Taipei given this survey was not able to collect sufficient data on this issue. There is a need for greater in-depth research on gender issues among MNCs operating in APEC.

## **8. Conclusion & Policy Recommendations**

This synthesis report of the survey results concludes that there remains an issue of skill shortages in the region. In particular, MNCs have a greater demand for managers, professional and technical staff and IT skills than the current APEC labour markets are able to supply. Training needs have not been appropriately addressed in the past both by industry and government. A number of emerging issues of international human resource management encountered by the MNCs also need urgent attention. Such issues include HR planning, employee turnover and effective training. There is a need for various levels of organisation, industry and governments of APEC member economies to come up with a set of HRD strategies to address skill shortages and training needs in APEC. The HRD strategies designed must be relevant to address the various economies' needs, and be able to provide quality and accessible training programs to both men and women in the region.

Given the diverse needs of each APEC member economy as selectively presented in this report, specific policy recommendations for MNCs operating in individual member economy would not be possible. However, in this concluding section, a general direction for HRD strategies at three levels: company, industry and government in APEC is discussed.

### **8.1 Multinational Company's HRD Strategies**

The results of the survey underpinning this report suggest that MNCs operating in the selected APEC economies to some extent have experienced difficulties in recruiting skilled workers. This is particularly true in the areas of managerial, professional and IT skills, which the survey shows are in short supply in most of the surveyed economies. To respond to these shortages, MNCs have adopted various strategies such as sending in expatriates, out-sourcing various aspects of their operations, and to a small extent by further training of their employees. Yet, in the age of knowledge-based economy, MNCs must create leading capabilities through continuous investment in resources, assets and competence (Lasserre & Schutte 1999, p. 41). The most effective way for MNCs to create both organisational and individual capabilities is to invest in the development of their employees in order to achieve competitive advantage and sustainable growth (Barney 1991; Snell *et al.* 1996). It is to this end that the appropriate HRD strategies must be sought.

However, the pursuit of the right HRD strategy is not an easy task for MNCs operating in APEC. Many MNCs have found themselves managing workforces in economies with very different political and economic systems and cultures, according



to Stening and Ngan (1997). It is essential to consider the concept of ‘fit’ in designing any HRD strategies. The ‘fit’ was discussed by Snell et al. (1996) as the organisational HR strategy that would incorporate the organisational structure, human resource and market strategy *closely* with cultural setting of the host country whereby a given MNC is operating. From the subsequent member economy reports, one can find that the focus of MNCs’ HRD strategies is quite different from one member economy to another. The strategies adopted by MNCs in more developed economies such as Singapore and Chinese Taipei would provide more emphasis on training and retaining high calibre of staff and adopting performance management to cope with a higher level of managerial and professional employee turnover. In contrast, the MNCs in the less-developed economies were thought to be better off seeking cooperation with government to improve the host country’s education system, with MNCs also providing generic skills training to improve graduates’ and new staff’s work competencies (for example in Indonesia and Philippines). In Latin America, the impact of cultural on the design of proper HRD strategies is especially prominent in Chile. As discussed in the country report, the issue is not so much that skill improvement is the concern for MNCs operating in the Chile, but how to change the cultural concept on work habits of local staff and build their capacity to learn.

Therefore, despite some evidence in the literature of convergence in HR policy and practices worldwide, culturally based divergences remain (Sparrow et al. 1994; Stening & Ngan 1997). Nonetheless, formulating a relevant HRD strategy is pivotal for MNCs operating in different international settings. To successfully operate in the APEC region, MNCs must understand not only ‘hardware’ issues such as different HRM practices and social-level systems, but also ‘software’ issues which deal with the basic values that drive behaviour at all levels, individuals, groups and society at large (Stening & Ngan 1997, p. 12). Vijay Kanapathy in the Malaysian country report rightly calls for MNCs ‘to be more culture sensitive in their practising HR strategies in the region’.

There are, nevertheless, some specific HR issues that MNCs at firm level can address, despite the uncertainty and diversity of operations in the region. Such issues cover HR planning, staff turnover and managing the rocketing cost of training. The survey results indicate a mismatch between MNC’s intention for future business development and recruitment plans (see earlier discussion in Section 6.1). This could be largely due to the difficulty experienced by MNCs to recruit and retain host country national staff, as also suggested by Lasserre and Schutte (1999) in their study of MNCs in Asia. To address the recruitment issue, it is suggested that MNCs undertake a thorough labour market study to understand the various HR characteristics in the APEC region. Lasserre and Schutte (1999, p. 270) compared recruitment issues for MNCs among half of the APEC member economies<sup>20</sup>. They concluded that there exists different foci. For example, language would be

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<sup>20</sup> The economies included in Lasserre and Schutte’s (1999) study are Singapore, Japan, Korea, China, Hong Kong (China), Chinese Taipei, Thailand, Indonesia, Malaysia and Philippines.

problematic in the initial recruitment process in economies such as China and Thailand. Shortage of technical skills are more prominent in Malaysia and Taiwan, while the supply of skilled and trained managers is more the issue in Singapore and Hong Kong, China. In contrast, Philippines contains high level of skills ready for MNCs to tap into. Understanding of these characteristics in various labour markets in the region would help to better plan HR supply and demand. In addition, companies should have their own internal workforce database to assess and forecast HR needs according to the stages of their business development in the region.

The second issue MNCs may address at firm level is a high level of staff turnover. Employee turnover is due to two main reasons: scarcity of skills and volatile political and economic environments (Lasserre & Schutte 1999). The scarcity of skills in the region has been confirmed in this report and elsewhere discussed in the literature (e.g. Segal-Horn & Faulkner 1999; Lasserre & Schutte 1999). Many APEC member economies have experienced quite unsettled political and economic environments in recent years, in particular the 1997 Asian Financial Crisis and recent terrorists attack on America. It is expected that employees in the region would have less incentive to be loyal to the firms, especially MNCs with foreign source. There will be a continuous concern on ‘job-hopping’ – one of many serious issues that has been plaguing MNCs in Asia for years. The phenomenon of ‘job-hopping’ is also evident in the current survey, which displays a substantially high level of managerial and professional staff turnover across all surveyed APEC economies (see Section 6.2). Finding ways to curb this high turnover rate is essential for MNCs to strategically plan and expand their business operation in the region. Here we recommend a number of strategies that may be adopted by MNCs to address the issue of staff turnover and to enhance their staff retention rate, especially of those skilled and competent employees. These HR strategies include:

- Firms’ HR policy and practices must be fair to local staff. Often in the international operation, MNCs treat their expatriates far more favourable than local staff in terms of compensation and benefits offered. Such practices may cause resentment among local staff and create disloyalty to parent firms;
- Strategic compensation schemes must be designed to encourage managerial and professional staff to remain and grow with firms. Compensation schemes, such as profit- or gain-sharing plans could be considered (Gomez-Mejia & Welbourne 1991; Bonache & Fernandez 1997; Gross & Duncan 1998);
- Often simple strategies such as creating a sense of belonging for staff can be quite effective, especially attract Asian personnel (Lasserre & Schutte 1999, p. 276);
- Long-term career development plans that integrate with job-training would ensure staff of the firms’ commitment to their personal growth and career advancement.

Again, these retention strategies are, however, culturally bound. They must be incorporated within the relevant cultural setting to enable their effectiveness.

Investing in human capital will bear fruits eventually, but the initial high costs of training, as discovered in this survey, may be seen as problematic and hence sap MNCs' confidence to invest substantially in something that might appear to have intangible results. In this regard, it is important to carefully manage training and evaluate its benefits by linking training cost to overall performance management (Dowling et al. 1999). In short, it is important that firms should carry out a cost-benefit analysis of their training programs.

In summary, skill obsolescence in today's knowledge-based economy is a major concern for MNCs (Shah et al. 2001). Individual employees expect employers to share the responsibility for their continuing education and lifelong learning. The issue of competition will never go away, but by investing in skills development, MNCs may gain increased effort from their employees, and most of all their commitment to organisation's success (see discussions in Beer et al. 1984; Guest 1987, 1997).

## **8.2 HRD Strategies at the Industry Level**

Our current survey reveals that the percentage of MNCs participating in industry-run training programs across all surveyed APEC member economies is relatively low, except for those in insurance industry (Table E9). Those firms that have participated generally found these programs have small impact on their productivity, export performance and industrial relations (Table E10). Firms also provided five key reasons for not participating in the industry- and government-run programs. These reasons are:

- Lack of information about the programs;
- Irrelevance of programs because they do not meet the company's specific needs;
- Not necessary as in-house or headquarter training have already been provided by the company;
- Programs lack interactions, thus not interesting, not recommendable;
- Lengthy process of application prevents positive attitude to attend these programs.

To address these issues, any HRD strategies pursued at industry level must first ensure the HRD programs provided by the industry body to affiliated firms to be accessible and relevant and run by high quality staff. Relevant information addressing industry's specific needs must be made available to all firms, either through mail-out or using the media.

In the context of continuing structural change in most APEC member economies, the industrial landscape has been largely changed from agriculture to industry and

services, and from labour-intensive to technology and capital-intensive production. It is often a painstaking process that involves industries that are losing their competitiveness being forced out of the market. For example, Chinese Taipei and Malaysia both have experienced a rapid development of their services sector and a shrinking of the manufacturing sector as firms are forced to shift their factories to other Southeast Asian countries. Yet, some firms in manufacturing sector in Taiwan and Malaysia still try to recruit foreign labour to lower their labour cost in order to successfully compete in the international market (see member economy reports for Chinese Taipei and Malaysia). Such measures may serve the purpose of remaining competitive in the short run, but it undermines possibility of sustainable growth of the manufacturing industry in the long run. It is suggested that industry with less competitiveness within member economies (i.e. manufacturing industry in more developed economies) must pursue alternative strategies that can foster competitiveness through the development of new skills, which could facilitate the transition to high value-added skill-intensive production (see suggestion also made in Malaysia country report).

In contrast, industries with an emphasis on high-tech, high labour skills often face the challenge of tight supply of these skills (such as in the case of Singapore). They must be able to equip themselves with better HR planning, better labour market information and more relevant retention strategies, as discussed earlier, to cope with the labour shortages and uncertainties of the labour market. The industry body must take the lead in informing their affiliated firms about labour market trends, providing relevant training programs to upgrade and develop new skills, and keep abreast with new development in information technology.

### **8.3 *HRD Strategies of Member Economies***

As discussed in Section 2, there are different labour market issues that each member economy needs to address. Consequently, HRD strategies adopted by each member are also diverse. The following brief summary of recommendations provided by the researchers from the surveyed member economies indicates how vastly different HRD strategic focus of member economies in APEC is. In some ways, they may not even be in alignment with MNCs' HRD strategies.

#### **Chile**

The current labour market strategy for the Chilean government is to address unemployment, as it is the main political concern. Its continuing decentralisation of the administrative responsibilities for education and training institutes is another HR policy aimed at promoting efficiency and equity. Improvements in educational system are viewed as an instrument to develop basic abilities and to change work habits among Chilean workforce.

### **Indonesia**

To address skill shortage and training needs, it is recommended that the government should seek a macro aspect of long term HRD strategy that would reflect Indonesia's development needs. Basic education must be emphasised even though educational budget is limited. The government must ensure that Indonesia maximises the potential benefits derived from the presence of MNCs. Therefore, employer-provided training and development of not only a high level of personnel but also junior level of employees will be reinforced.

### **Malaysia**

Malaysia is currently experiencing the movement of industrial competition to a higher technological plane. Hence HRD strategies need to focus more on the development of professional and technical skills, and in particular expertise in IT. Malaysia has also successfully implemented the Human Resource Development Scheme (HRDS) with firm-based training over the years. However, the HRDS' predominate success has been and continues to be in manufacturing sector. Such a scheme needs to be extended to others sectors. There is a greater need for the government to further its efforts in encouraging firms and individuals to invest in skill enhancement. National affirmative action policies that require the hiring of bumiputras at all levels of MNC's operation are definitely inconsistent with MNC's HRD strategies, and have created much tension between business and government. Change in such policies should be considered if there is a need for closer partnership between business and government.

### **Mexico**

The government must adopt effective education and training measures to optimise the use of the scarce resources. In addition, reassessment of a National Competence Standardisation System and a Certification System is needed to ensure the basic education programs provided by the government meet the skill requirements in the labour market.

### **Philippines**

The government cannot and should not rely on private firm-level training as a substitute for quality education that is the responsibility of the government to provide to its citizens. MNCs in the Philippines are described as being 'footloose', and hence limited in their capacity to invest in developing human resource. It is the government's role to enhance the quality of education and to broaden the degree of access that has already been achieved. The focus of HRD should be on developing generic skills and capabilities that is in line with market demand.

### **Singapore**

The Singapore government's HRD strategies focus on addressing shortages and inadequacies at the higher levels of skills and expertise, especially among professional and IT workers. Education and training measures have also shifted to a higher gear. The issue of older workers and a generally ageing population puts the pressure on Singaporean government to focus on 'greater employability'. Therefore, efforts at 're-skilling, re-tooling and changing the industry or occupation' of these workers are in train.

### **Chinese Taipei**

Government agencies need to increase the variety of training programs and ensure these programs address the skill needs of private sector. With that said, there does appear to be a certain degree of willingness for the government to work closely with MNCs to identify training needs and address the needs by providing government-run training programs.

### **Thailand**

Strengthening the ties between the private and public sector should be the key focus of the government's HRD strategies. In particular, the development of managerial, professional and IT skills is essential to underwrite the changing structure of the economy.

In general, from eight member economy reports there is a unanimous call for a close partnership between government and business in facilitating skill improvement in their economies (except Philippines perhaps). It is believed that such partnership and cooperation in skill development could lead to effective usage of scarce public resources and provide up-to-date information from business to government for better labour market policy-making.

Although there are different strategic foci in HRD among the APEC member economies, there is a general consensus that the competitive advantage of a nation lies in solid commitment to investment in its people (Pfeffer 1994; 1998). The fact that continuous economic development and growth counts on quality and equity investment in human capital has been proved in prior studies and much discussed in the literature (see Schultz 1961; UNDP 1996; Low 1998; World Bank 1995; 1999a; Todaro 2000). It will be of the great benefit for the APEC member economies to continuously emphasise the importance of formal and vocational education for their people, so that their labour force will become more employable, productive and internationally competitive in order to attract foreign investment. In the new era of knowledge-based economy, MNCs no longer look for cheap, low skilled labour as a main reason for their investment. Instead, skilled and competent labour has become one of the most sought resources MNCs look for to diversify their operation and

create a competitive advantage in the international market (Pfeffer 1998; Rugman & Hodgetts 2000).

In this report, the surveyed MNCs indicated considerable difficulties in recruiting skills in their host countries. Such difficulties may be largely linked to the insufficient supply of skills generated by the existing education and training systems. It is in this area that member economy governments can play a key role in transforming their education and training systems so as to meet the skill requirements in a changing labour market.

#### **8.4 HRD Strategies in APEC**

The vision of APEC, according to John Wolf, former US Ambassador to APEC, is 'not just to define best practices but get them in place, to build the infrastructure, install clean production technologies and train people for the challenges of the 21<sup>st</sup> century' (cited in Petri 2000, p. 46). There seems a lot that APEC as a regional body can do to address training needs among its estimated two billion plus workforce. The ways that APEC can facilitate the process of change is through its TILF and Ecotech agendas. It is expected that both the TILF and Ecotech programs may be able to assist greater policy coherence with regard to HRD within various APEC member economies (Scollay 2000, p. 303). Over the years, there has been much talk in APEC about human resource development. It is now the time to deliver. Substantial efforts are needed to help the region put in place the policies and the infrastructure essential to human resource development. This will require greater access to education and training, a more stable political environment, and more sustainable economic growth. APEC as a regional body can promote coordination among member economies and facilitate the linkage between MNCs and member economies' governments to provide quality vocational and training programs and to address skill shortages and training needs in the region.

One of remaining issues in the APEC member economies is that of gender. This report reveals that the female labour participation rate has increased in all surveyed APEC economies. A study by Elder and Johnson (1999, p. 463) also supports the notion that the female employment-to-population ration has increased in most countries, and this trend will continue. This is a compelling reason not only for MNCs to pay attention to women's advancement issues within their companies, but also for member economies to be aware that one of their own skills and talent pool is female labour force. Tapping into a skilled female labour force might be the one way to address the continuing problem of skill shortages in the region. In fact, Singapore has adopted a labour market strategy that will allow female workers flexible working hours in order to attract women, especially those with children, back into the workforce. The Singaporean government also provides tax incentives for hiring domestic maids to encourage female workers back to their desks. To some extents, this measure may reduce the pressure of skill shortages in Singapore. However, the

Singaporean strategy may not be applicable to other member economies. It is necessary for each member economy to identify specific ways to improve work conditions for female labour force.

In fact, this survey found that there still exists a serious problem of occupational segregation by sex in APEC. Most of female employees in the surveyed member economies are dominant in clerical positions. Women are significantly under-represented in managerial and professional positions. To retain, motivate and develop female labour and fully utilise their potential, proper training and career advancement opportunities for women should be provided. In addition, the level of basic education such as primary and secondary education for girls must be enhanced, especially in the less developed economies such as Indonesia and Thailand.

The first APEC ministerial meeting on women held in Manila in 1998 established the groundwork to advance women in the areas of business, science and technology and HRD. Much work still needs to be done to realistically assess economic role of women so as to design more effective labour market policies and programs in favour of women throughout the APEC member economies.

### ***Further Research***

This report provides an overview of the extent of skill shortages and training needs among MNCs in four industries in APEC. However, it does not indicate clearly the causes of such shortages, although the broader context of the labour market conditions in the region gives us some hints as to the cause. Given the richness of survey data, it would be interesting and possible to further examine whether such shortages are associated with other factors. Such factors may include organisational size, source of MNCs' parent firms, years of establishment, expenditure on training, regional differences (e.g. Asia vs Latin America), country differences, industry differences, different recruitment methods, level of employee turnover, and possibly the use of female international managers.

Future labour market trends are likely to be more volatile and uncertain with continuous structural in most of the APEC economies. There is a need to further observe changes in the labour markets and exchange ideas and disseminate information among all players in the labour market. With fast development of information technology, there is also a need to improve labour market information both in quantity and quality, as well as in speed (see Low's comments in Singaporean report). It is believed that improved labour market information would enable a more effective addressing of labour flexibility and other labour market issues. To this end, the team of international researchers who have been involved in this study will carry this research project further and continue their efforts to identify various issues relating to the skill shortages and training needs of MNCs in APEC member economies.



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