

# The Development of a Stable and Sustainable Employment System in East and South-East Asia

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## Introduction

The impact of economic globalization on human resource management (HRM) and employment issues in East and South-East Asian countries is growing day by day, changing previously stable workplace systems in the region and triggering new forms of organizations, work and careers. There are a number of contextual and structural diverse reasons for changes with different key drivers in each country. In Japan the recessionary conditions of the 1990s undermined traditional employment practices and precipitated changes in the business system that had been under way since the 1980s. After a decade of restructuring, Japanese economy, including service industry, is now completely integrated into the global business system. This requires a HRM system and labour market attuned to the new situation. Although it started slowly India has witnessed a boom in foreign direct investment (FDI) for the last 5 years. Competitive advantages have been created in some sectors such as software design and business processing but competition from other newcomers into those fields and the arrival of foreign companies in the Indian labour market forces local companies in pursuit of efficiency to rationalize their HRM practices. Moreover, the failure of the Indian education system to provide for skills and knowledge to the vast majority of its population is a big challenge. In ASEAN countries the necessity to keep or recover competitive advantages in attracting higher value-added FDI and developing its own expertise push towards an upgrading of the level of human capital. In Malaysia, Indonesia, Thailand, opportunities for fruitful use of foreign technologies continue to provide an attractive option for growth. But, an initiation of some innovation efforts can provide the necessary accumulation of learning so that future indigenous innovation will be easier. This requires many more skilled and knowledge workers than the educational system can supply for the moment and better management from local companies to optimize their talent. In China, millions of foreign and local employers independently determine wages, hours, and working and living conditions in China's huge factories and factory dormitories, as millions of peasants continue to migrate to its cities and millions of young workers enter the

job market each year. The uniformity and control and the basic stability inherent in labour relations anchored in the workplace, 'danwei', is fast becoming a memory. China resorts now to the individual employment contract as the legal framework to replace danwei-based industrial relations in a system that was long dominated by state enterprise and the planned economy.

But in parallel commonalities in the issues appear in the whole region. Public authorities and companies have to cope at the same time with an ageing of the workforce, changing attitudes of younger workers vis-à-vis work in general and their relationships with their workplace, a loss of faith in traditional employment models coupled with anxieties concerning the impact of the new ones, and a breakdown of the traditional divide between private and public sectors. Despite its huge population, East and South-East Asia is already suffering from a shortage of skilled labour. The declining birth rate is a looming demographic time-bomb that will reshape Asian societies and employment systems through a decline in the productive age population. According to United Nations estimates (medium variant), following Japan productive age population will peak in the next 10 years or so in the other developed countries in the region (South Korea, Taiwan and Singapore) and shift to a downward trend thereafter. Thailand, Malaysia and China will follow after a lead-time of 15 years (United Nations Population Division, 2005). The priorities in the whole region then will be to increase capital inputs and total factor productivity and raise work force participation rates for women and the aged and strengthen human capital in general. In order to facilitate the transition a re-conceptualization of HRM is under way to establish the basis of reward and evaluation systems on the one hand, and, on the other hand, the access to human resources and the flexibility of the employment system.

Similar to what happened in Europe the last 15 years local differences are likely to remain in place at the level of operational practices. The way the same practice is viewed and implemented can vary from country to country and even from company to company. But, as pointed out by Benson and Rowley (2004), HRM changes in East and South-East Asia are becoming institutionalized at the policy and architectural levels, i.e., those of policy choices or strategic decisions and managerial roles. Some development towards directional convergence in most East and South-East Asian countries' human resource management practices and employment systems is observed. The use of certain similar management tools increases in a few areas of HRM in the whole region. Those changes at corporate level are backed by regulatory initiatives taken by national governments. They all point in the direction of the facilitation of the creation of a more market-centered business system, this implying the possible shift towards more radical changes in HRM practices in the years to come.

However, what is in the process of creation of new HRM systems remains unstable. Until the financial crisis, most Asian labour markets were tight, even extraordinary so as in Korea.

Systems allowing easier redundancy dismissal and the use of atypical workers were introduced as part of the post-crisis economic restructuring process in most countries in the region (Benson and Rowley, 2004). Though these moves improved the flexibility of the labour markets by allowing employers to lay off workers, they also brought a sharp rise in unemployment. The unemployment rate of qualified workers subsequently fell as the economy recovered, but the number of contingent workers continued to grow and unemployment remains high for some categories of the population, notably the young and the least qualified (World Bank, 2004). Recent indicators show that the growth of the Asian middle class is continuing despite pockets of poverty and unbalance on the labour markets (Miura, 2006). Nevertheless, that does not mean that Asian countries and companies will not have to tackle delicate issues in the years to come in order to create a stable employment system.

As in Europe (and probably with similar difficulties to find out long-term solutions), Asian companies are already and will increasingly be confronted to the problem of internal consistency: how to conciliate numerical and financial flexibility and employees' commitment; how to create reward differentials strongly requested by the most dynamic employees and based on objective metrics whilst keeping motivated all the workers from core to periphery, even those who are not the best performers. Companies are putting in place HRM rules and systems they claim allow a fair evaluation and reward of performance, give freedom to both parties in the work relationships and lead to an optimization of human capital efficiency. But, they still have to show that the evaluation and reward systems are fair and convince employees of all categories that 'objective' rules and metrics are not just making them interchangeable cogs in a machine neglecting their human beings' attribute (Caspersz, 2006). The feeling of being 'forgotten' or of having one's job submitted only to cost imperatives may be strong among the employees who are not considered as strategically important. It may even be so in the case of the core strategic employees, those for whom are devised high commitment HRM strategies. The advent of the knowledge-based economy that Asian governments wish to develop will make of knowledge workers strategic assets. As in the USA they are likely to be more assertive than the other categories of workers. They will ask for a higher degree of management openness from Asian companies in terms of access to strategic information and even participation to management (Debroux, 2004).

## **The Basis of a New Employment System in Asia**

### ***The Adoption of Western HRM Concepts***

Beginning in the 1980s, Asian companies have been trying to revamp their human resources management. These attempts were prompted, first, by the diversification and expansion of

their business activities. The increasing need for specialized knowledge, which is vital to decision-making, and for more systematic management required the nurturing of high-level professional managers. As a result, it became increasingly necessary to develop management systems for securing, training and offering them attractive monetary and non-monetary packages. The second reason behind the search for better human resources management was the influx of foreign companies into many Asian countries. In the 1950s, the massive entry of American companies into the European market is said to have provided the catalyst for the modernization of European companies. This is probably because the arrival of American competitors gave European businesses the opportunities to learn new management methods (model effect) and allowed them to recruit skilled personnel who had quit from rival companies (transfer effect). Less in Korea and Japan, but certainly in China and in South-East Asian countries, the number of "trained" managers who had once worked for foreign companies has markedly increased, beginning in the second half of the 1980s. (Takeuchi, 1999).

The growing number of those who have studied at European and American higher education institutions - both among current and prospective management personnel - are creating a corporate climate receptive to Western (American) standards. Asian students accounted for 59% of foreign students in American universities in 2005. 4 Asian countries, India, China, Korea and Japan topped the list of the countries sending students in the United States in the year 2004 (Nichibei Kyoiku Inkai, 2005). After returning home, they take up various posts as candidates for manager in foreign-owned companies and major local business groups of their countries; they also enter government service as career-track bureaucrats. For a long time, Japanese companies had a lot of difficulties to integrate MBA holders in their organizational structure. This is much less true anymore. Managers born after the war are now taking the reins in large companies. They have worked abroad during their career and are shifting the strategy of their companies towards an approach (externalization through M&A, optimization of financial portfolio, and intellectual property rights strategy for example) requiring expertise and a managerial drive unknown among traditional Japanese managers. Likewise, successors of major family businesses in South-East Asia, too, often study abroad for the same reasons. Generally, American and European companies Asian subsidiaries enjoy high popularity with highly educated Asian students, not just with those who studied abroad but increasingly also those graduated from the elite local universities. Contrary to what had been expected 15 years ago the Japanese management style (and more specifically, the HRM practices and work organization) is unlikely to ever become the template in the region. There is almost no country where the number of students wishing to enter Japanese companies exceeds that of students hoping to enter American and European companies. Japanese companies themselves are changing

their practices in Japan itself, and particularly in their Asian subsidiaries. The management-style they adopt is close to the American one in many respects (Jie Yu and Meyer-Ohle, 2006).

The United States are the technological and managerial leading country in many fields and American companies' management practices are considered by many as the "best practices", which eventually other countries and organizations will have to adopt to create and keep competitive advantages. The most advanced techniques utilized in human resource management such as the balanced score card, the Six Sigma method of production process, the 360 degrees evaluation and human capital-related accounting, have all been initiated in American companies and are only now adopted by European and Asian companies. In relative term more strategic importance is given to human resource management in Asia although it may be too early to say that it will follow the same prescriptive approach based on strategic integration, commitment, flexibility and quality adopted by large American companies (Legge, 1995). Competency-based talent management systems are being introduced to ensure that the "right" people are placed in the "right" roles doing the "right" things. By clarifying specific standards for the required competency and using the standards as companies' basis for human resources management, this concept facilitates companies to recruit and train the personnel they need. Adopted alongside with salary annualization schemes, it gives the opportunity to depart from the seniority-based system prevalent so far (Debroux, 2003). The management by objectives (MBO) system, in which the roles for individual employees are defined and measurable targets are set on a regular basis, had already been introduced in most countries in the region in the 1980s as a method of organizational management (evaluation of potential and career development). It was revised in the 1990s to link more directly target achievement evaluation to managers' remuneration (Benson and Rowley, 2004). How, the schemes are gradually extended to non-managerial personnel. Changes are also observed in the roles of the human resource management function and its relationships to line management. At Taiwan Semiconductor Manufacturing Company the human resource infrastructure is systematically changed from function oriented to a new fluid network oriented system that provides not only cost-efficient services, quick and effective information but also strategically fitted human resource policies to its internal customers (Hsi-An Shih, 2001). The percentage of Asian companies devolving human resource management responsibility away from specialists towards line management seem to have been increasing since the 1980s (Debroux, 2003; Pei-Chuan Wu, 2004; Khatri, 2004). Leading Asian companies have a flatter hierarchical structure and empowerment schemes have been put in place in some of the most successful of them (Benson and Rowley, 2004). On the matter of the roles and expectations from managers in term of initiatives and risk-taking, adherence to a set of standardized rules still seems to be the norm (Benson and Rowley, 2004). This looks a far

cry from what Storey (1992) had called 'impatience with rule', the 'can do' outlook associated to the American style high commitment model of HRM (Guest, 1995). Nevertheless, a number of cases such as those of Samsung Electronics (Umashanker, 2005), Matsushita (Khan, 2005) and more recently Lenovo (Jie Shen and Edwards, 2006) seem to indicate that top management may encourage challenging discussion among managers disrespecting the hierarchical rules in some instance, this in order to break conformism and create a dynamics of change in the organization.

### *A Case of Relative Convergence*

There is a narrowing of differences in Asian countries in some areas such as the use of variable and performance related elements of compensation, or of flexible working practices. In Japan as elsewhere in the region in the 1990s, a critical re-evaluation of the HRM model took place cutting down the number of full-time employees; putting more emphasis on reliance upon a broad category of atypical workers; launching early retirement for elder workers and offering more job and careers opportunities to women. In China, more and more HRM practices based on flexible, individual-based employment contracts are adopted. Recruitment is more based on the market; selection put emphasis on merit and motivation of employees and on material rewards rather than a pledge of job security and benefits in kind (Jie Shen and Edwards, 2006). The trend towards more performance-driven rewards systems with less company-subsidized welfare services is now more noticeable, particularly as the state sector wither away. In South-Korea too there is a shift from an organization concept emphasizing collective equality and community towards individual respect, individual equity and market principles. Lifetime-employment and seniority-based remuneration have weakened vis-à-vis flexible employment (Bae and Rowley, 2004).

Nevertheless, reforms occurred without increasing significantly wage differentials among managers. On the whole, they remain small by Western (especially American) standards in countries that have revamped their employment practices the last 15 years like Japan, Korea and Taiwan (Towers Perrin, 2003). In China too, despite the strong drive towards labour market deregulation, the pay system still demonstrates characteristics of an egalitarian culture (Fang Lee Cooke, 2004). In term of job mobility the situation remains nuanced. In Japan, mobility of managers over 35 years old is growing but is still comparatively quite low (Debroux, 2006). In Korea and in South-East Asian countries a mid-career job change carries almost no negative social image, largely because the rapid economic growth of the past created a great many jobs of attractive conditions, and a fairly mobile labour market in the process. In the case of employees of managerial potential there is the growing anticipation of newly recruited uni-

versity graduates to change jobs in the future, and the increasing orientation toward acquiring specialties beyond the contextual skills ("contextual skill" is defined as the skill to share information effectively within a corporate organization, "functional skill" is defined as the skill to process a specific kind of information and apply it across and beyond companies - Aoki and Okuno, 1996) of a company illustrates some of the changes taking place in employment practices in those countries.

## **The Necessity of a New HRM System**

### ***The Shortcomings of the Educational System***

In a large number of East Asian countries the educational infrastructure and support systems have failed to keep up with the demand. To cope with the issue is an urgent problem because a number of them could use the demographic trend at their advantage in the following 20 years or so. Because of their current falling fertility rates, the large number of young people living today in East Asian countries will translate into higher proportions of people of working age than those of non-working age for a given period of time. This decreasing of the dependency ratio can boost economic growth but it gradually closes at the current young cohort ages. This 'demographic window of opportunity' closed already in Japan at the beginning of the 1990s. It will also close within the next 10 years in Korea, China and Thailand. The Philippines, Malaysia, Indonesia and Vietnam still have about 25 to 35 years to take advantage of the window but they will be unable to do it if they do not upgrade significantly the skill level of their manpower. (Bloom and Canning, 2004). This is a challenge for policy makers but also for Asian companies regarding their recruitment, training and retention policies and practices. Asian companies must maintain their competitive cost advantage while attracting the best talent and offering challenging career opportunities that match those offered elsewhere in the world. The problem is not limited to managerial personnel. It concerns also all types of skilled works, including for instance the outsourcing service jobs from industrialized to Asian developing countries. Lower cost locations such as India, the Philippines and China are now attracting outsourcing of much higher value-added services such as medical diagnostics, treasury management and software development. There is also growing outsourcing in higher value-added fields such as architecture-related design in a country such as Vietnam (Bibby, 2003).

In all cases, the shortage of skilled workers is the most limiting factor for growth. In the whole region there is a lack of welders, skilled machine operators, plumbers and other types of personnel with technical skills. Thailand put special emphasis on training engineers and scientists in a country where students have traditionally preferred liberal art degrees. It will take a major policy shift to encourage more students to pursue science and engineering degrees. Ma-

Malaysia makes efforts to improve the breadth and quality of its education, and to provide more relevant vocational training. Several new universities were set up the last 20 years in both the East and West part of the country. Malaysia has also encouraged foreign universities to set branches in Malaysia. Nevertheless, thousand of young Malaysians have to go abroad for their higher education. In a recent survey of the investment climate in Malaysia, about 50% of companies believed inadequate worker skills were the biggest obstacle to business (World Development Report, 2006). Indonesia must create more than 2 million jobs a year for the new entrants on the labour market. It faces a high unemployment rate of young people under 25 and the rapid population growth has placed a heavy burden on an educational system unable to cope with the problem. The low learning achievement in this country (but also Thailand) has quite negative effect on economic growth. It explains why youth unemployment is 6 to 9 times higher than that of adults (World Development Report, 2006).

In fact, some Asian countries put on the market a large number of engineers. But there is a mismatch between education and market needs. In China (Lynton, 2006) and Vietnam about 80% of the new graduates in engineering receive an education almost without practical applications (Truong Quang and Le Chien Thang, 2004). They cannot be utilized as engineers without a comprehensive training focusing on work in industry. In China, the country's pool of young engineers considered suitable for work in a multinational corporation is about 160000 - no larger than the United Kingdom's. This despite the fact that China produced about 600000 engineering graduates in 2005, compared to 70000 in the United States. The difficulty is compounded by the fact that it is very difficult to find people with the combination of technical competence and industry know-how (Lynton, 2006).

China is also considered to be short of some 750000 professional managers (Lynton, 2006). This situation is common in many countries in the region, reflecting the prevalent concept of management expertise so far. For already a long time in the United States and more recently in Europe, study in management is subject to a procedure of professional accreditation making of expertise in the field a certifiable body of knowledge. Although it is gaining momentum with new educational institutions springing up across Asia in order to teach specialized and general management skills, the idea of considering a manager as a 'professional' is very recent in Asia. In North America there are some 700 schools accredited by the American Assembly of Collegiate Schools of Business, producing about 150000 MBAs per year. Western Europe produces around 25000 MBA per year from about 60 schools equivalent to those in the United States. By contrast Asia has about 20 schools of comparable standard producing about 10000 MBA per year. Very few of those schools could compete in the international market place with leading business schools such as Harvard, Wharton, MIT, INSEAD or IMD.



China most acute problem is the shortage of senior managers with leadership capabilities for such jobs as marketing, sales and human resources managers. There is a pretty large generational gap between people in the 20s and 30s and people over 40 in that respect. Among those in this latter generation few have the potential to become senior managers because they have been educated and worked in a totally different economic environment making it difficult for most of them to make the shift. Hong Kong and Singapore suffer from the scarcity of good sales and marketing personnel and they do not have enough people with the requisite skills for the knowledge-based economies they plan to develop (Mercer, 2004). In many family-owned businesses in South-East Asia there is only a small class of professional managers outside of the family. This is progressively changing as companies are forced to professionalize their management by competitive forces and succession issues but the shortage impede the restructuring of many of those groups. One of the professions that have been the most neglected so far is that of specialists in human resource management. With the exception of the Philippines, Singapore, Hong Kong and Malaysia, where HRM professionals have been active for a while, the employment practices and the emphasis put on the internal labour market in the other markets such as Japan, Korea and China, made that management of people was not perceived as requiring certified specialized knowledge.

Indirectly, it can even be argued that the aging of the workforce in developed countries could have an impact on the Asian labour markets in this respect. Shortage of workers and professionals are almost inevitable in the Western developed countries. As the population ages, they will look outside their own borders to fill vacant positions. Whatever the labour supply shortcomings exposed here above Asia's talent pool has continued to increase with rapid population growth, rural-urban migration, and increased investment in education. Asian countries put on the market millions of young engineers and other knowledge workers every year. They have become a major source of talent for jobs in technology and health care. It is likely to spread over other industries and it can be expected that Western companies increasingly try to lure away Asian talents. Employees can be poached easily by next-door competitors but also from companies located on the other side of the world because the labour market for high-skilled people is becoming very tight all over the world. Germany for instance may be a high unemployment country but at the same time it faces a structural shortage of high skilled technical people.

### ***High skill Workers and the shift towards Knowledge Industry***

In the foreseeable future, a number of developing Asian countries will continue to base part of their competitive advantage on a relatively low labour cost for many occupations. Neverthe-

less, the trend toward the emergence of a knowledge-based economy is clear in the most economically advanced Asian countries driven by globalization and communication technology. Even in those that are less advanced such as Malaysia, Thailand, China and even Vietnam, relocation of labour-intensive activities to nearby countries is gaining pace because of a declining competitiveness in the manufacturing of low technology products. It results not only from wage growth but also from the rise of the contract manufacturers such as Flextronics and Solectron that manufacture to order and enjoy very large economies of scope. This explains the willingness of local governments to attract higher value-added FDI and it reinforces the necessity for local companies to adopt HRM practices attuned to the need of recruiting and nurturing a more skilled and efficient workforce.

Asian countries are eager to develop higher level innovation systems involving research institutions, universities, and businesses. Governments develop plans and programs in order to connect their research institutions with the international innovation system. Singapore was one of the first countries to shift away from capital-intensive sectors and move towards a knowledge-driven economy. Ambitious projects are emerging or are envisioned for the next decade in India, South Korea, Taiwan and China. Leading Asian cities are creating life-science centers/hubs such as Singapore Biopolis, a science park for biomedical and other knowledge-based industries, or Hyderabad with its project of life-science to match its IT Industry. China, Korea and Taiwan are building biotechnology clusters to attract back to their countries the expatriate scientists trained overseas. Malaysia, Taiwan and Hong Kong are impressed by a number of Chinese success stories and are eager to emulate them. Formal university-industry partnerships are still rare in Asia. In China, universities and research institutes have contributed a great deal to the growth of local industry. Some of the largest high-tech companies such as Lenovo and Tongfang are university spin-offs established to make and market their inventions (World Bank, 2006).

The growth of East Asian economies over 4 decades was propelled by the rapid growth of their industrial sectors. Recent changes in the international organization of manufacturing suggest the need to reduce reliance on the sector. Manufacturing based on R&D can provide the basis for continuing some types of manufacturing but service sectors are bound to grow as a percentage of national income. In East and South-East Asia, many services are provided relatively inefficiently and their Total Factor of Productivity is still lower than the OECD average. Following Japan, Korea, Singapore and Taiwan look to innovation, not only in manufacturing but also in services. Therefore, there is a strong need for expertise in finance, marketing and legal affairs. Such expertise mixing hard (technical) and soft (managerial) knowledge is all the more required that R&D centered manufacturing means that a growing proportion of the com-

panies' assets will be in intangible form represented by intellectual property.

Gradually, Asian companies (out of Japanese companies that reacted already quite a long time ago) are warming up to intellectual property rights. The value of intellectual property goes beyond pure monetary value such as the way companies can make money from licensing their intellectual property assets. It can add to the value of a company in the way it positions itself in the market. Institutions such as Singapore's IP Academy and Indonesia's Society of Intellectual Capital, have already been set up to assist companies in managing their intellectual property assets. In China, there is also an awareness of the benefits of intellectual property among companies. However, the developments still have a defensive nature as they mostly revolve around institutions creating inventory of assets. The success of a pro-active strategy can only be based on education at the company level. This requires an understanding of the new rules that are coming from the knowledge-based economy. Companies need personnel knowing how to systematically create, manage and leverage intellectual property as part of the value of their organization (Tan, 2006). So, they need to be able to promote values and norms which emphasize the importance of sharing knowledge, commitment and trust while developing compensation and career development structures that can not only motivate but also retain knowledge workers. As mentioned before, management of knowledge workers is different from that of other workers. Their knowledge is directly linked to the strategy of their organization. Therefore, it can be expected that they will be increasingly demanding in terms of monetary and non-monetary reward, ask for a more active role in the strategy conception and request more and higher level information. This will force Asian companies to change dramatically their corporate culture.

### ***The Case of Diversity Management***

This point relates indirectly to the issue of diversity management. Workplace diversity involves recognizing the value of individual employees' differences and managing them in a productive way. But in Asia it is often more common to see employees being expected to fit into a uniform corporate culture where individuality can become stifled. Even non-discrimination policies are not common within most Asian companies. The sorts of policies found in Western multinationals (and often mandated by law in home countries) are not very common. In many respects, the law in most countries in Asia is incomplete in its coverage of discrimination issues (Welford, 2006). Moreover, what policies do exist sometimes promote a particular national or racial identity above others. Even when diversity is discussed in an Asian context it tends to concentrate on the gender issue. It takes place with the background of looming labour shortage that may be caused by decreasing birth rates and aging workforce. Asian countries will be

confronted to the issue of changing work organization, so that it can accommodate the needs of female and elder workers, while also contemplating the possibility of reliance on immigration. True, gender discrimination still exists in some Asian countries although the most blatant examples of it (for example the de facto obligation of quitting job for married women in Japan and in other countries or the lack of access to training and career development schemes) are fading away. More women enter the labour market and stay after marriage and birth giving. Female employees' participation rate on the labour market is bound to continue to grow in the following years. More women are promoted to managerial positions and socio-cultural changes in the region departing from the traditional family structures makes believe that this trend will reinforce further (Yukongdi and Benson, 2005).

But diversity management is not limited to gender. It can be expected that more people in Asia will make alternatives choices about their lifestyles and working patterns. In almost all countries in the region those issues have not been considered as of great importance so far. In the case of sexual orientation for instance it can even be said that this aspect of diversity has been purposefully neglected because it was considered as socially unpalatable. In the cases diversity has been considered in broader terms it was most often in a reactive way, i.e., statements of non-discrimination policy on the basis of gender, race or religion (Welford, 2006). The idea is new in Asia that if the region's emerging multinational corporations really want to become global players, they are going to realize that in a globalized world, having a workforce with a wide diversity actually may strengthen the company in many ways. If one examines the profile of employees in sectors such as information technology, financial services, the law, consultancy, accountancy and academia, the under-representation of large segments of the population in those fields is easily apparent. A pro-active approach to diversity could simultaneously reinforce economic competitiveness, address labour market shortages and open doors to careers for traditionally disadvantaged people.

## **The Conditions of Creation of Sustainable Employment Relationships**

### ***The Shift Toward a New Psychological Contract***

As a result of the labour market reforms, career patterns are more diversified. It cannot be denied that the beliefs held by an individual and his/her employer about what they expect of one another are changing in all countries in the region (Bae and Rowley, 2004). There is a trend towards more contingent type of relationships, more driven by the external labour market, and a rapid fading away of long-term job guarantee as an implicit social contract. Asian companies are not anymore perceived as benevolent employers in the mind of the employees. But, everywhere they expect to be treated fairly, rewarded equitably, provided with growth

opportunities, to know what is expected from them and be given fair and constructive feedback on their performance.

As explained by Bae and Rowley, Rousseau (1995) developed a threefold typology of psychological contracts: 1) relational with high mutual (affective) commitment, high integration and identification, continuity and stability; 2) transitional with ambiguity, uncertainty, high turnover and termination and instability 3) balanced with high member commitment and integration, ongoing development, mutual support and dynamics. In pre-crisis in Asia the seniority-based relational - type HRM was dominant albeit with variant from country to country. This was pivotal for various HRM practices such as recruitment, evaluation, training, promotion, pay and termination (Bae and Rowley, 2004). HRM Asian traditional model was widely seen as basically 'non-adversarial'. Open conflicts leading to actions such as strikes were constrained by culture, ideology or law (Torrington and Tan Chwee Huat, 1998). Conflict-management was handled in a variety of ways in the respective national contexts but largely congruent with common values in Asian societies regardless of their political system. The respect for authority, the search for social harmony, the important role of personal relationships and social connections appear among other similar examples in the Indonesia Pancasila (Five Principles) emphasizing work in harmony and conflict avoidance; in the Thai concept of *men pen rai* reflecting the desire to keep peaceful relationships; or in the National Shared Values in Singapore, reminding people of the need for mutual respect and tolerance (Torrington and Tan Chwee Huat, 1998).

Therefore, the transition from a work and business culture putting more emphasis on collective endeavours (Hofstede, 2001) towards another one based on individualism is indeed a challenge. In post-1997 Asia flexibility-based transitional HRM massive restructuring efforts occurred with a growing number of mergers and acquisitions, management buy-outs, spin-offs, outsourcing, debt for equity swaps, downsizing and early retirement programs. The period between 1995 and the beginning of the 2000s, was one of adjustments. Be it in Japan with Sogo and Daiei, or in Korea with Hyundai Motors, Jinro or Korea Telecom, public authorities had to put some companies under their protection in order to avoid social trouble. For the same mix of economic and social motives foreign interests were kept at bay in Korea, Thailand, or in Indonesia. Both foreign and local companies were forced to make compromises with the public authorities and the unions in order to continue their restructuring reforms.

The process is not yet over and uncertainties are likely to remain in the foreseeable future. What is observed now is a slow but unmistakable move towards a balanced-type of psychological contract based on mutual investment and support adopted by large foreign and local companies. Respect for continuity and fear of social unrest did not stop Asian companies to already adopt from the early 1990s onward new HRM systems to enhance fairness in the sense of ex-

PLICIT recognition of individual achievement, rationalization and efficiency. The new urban generations in the Asian middle class do not seem to have too much problems with a management culture where promotion, pay and other organizational benefits will be based on individual contributions rather than group characteristics. They do not believe that they lose their cultural identity in accepting new working norms. On the contrary, the rise in their academic standards and their much larger exposure to the world is making them more assertive. Paternalistic corporate cultures, with symbols such as seniority, company songs and slogans, no longer appeal to those with individual talents and ambitions. They eagerly support a merit-based evaluation and reward system replacing the old one often perceived as tainted with patronage and relationships.

Foreign companies are increasingly adopting for their local managers human resource practices blurring the line between them and the expatriates in terms of reward and career development. The high commitment type of HRM they introduce for both categories of managers makes sense because they are often graduated from the same universities and business schools and deserve the same treatment in terms of reward and career development. A large differential in compensation (beyond what is considered as reasonable as higher living cost as a foreigner) would be considered by local managers as running against equity principles. In this respect, multinationals become important agent of change. Because working for a foreign company is now largely socially acceptable for the local elite, competition for the best workers is becoming tough between local and foreign companies. This forces local companies to offer similar packages as foreign companies in order to recruit and keep the best human resources.

The problem is that those HRM practices are most often creating a balanced psychological contract only for the core strategic workers. At the same time, it most often results in the enlargement of the widening large gap already existing between the salaried elite and the other workers in large companies and in the whole supply chain (Bae and Rowley, 2004). The two-tier system put in place by the companies the most committed to develop a new HRM system is designed to achieve two apparently contradictory objectives. The development of a kind of employees-management partnership profitable for both parties in a long-term perspective is considered as a key success factor. Employees' involvement is encouraged and they are empowered with decision-making responsibilities that impact on company performance (Tomer, 2001). But, the schemes are created conjointly with a relentless pursuit of cost-reductive flexibility practices. For many employees in Japan, China, India and South-East Asia, rejected from the core of strategic employees or for those who perceive their job as increasingly threatened by the adoption of performance-based systems, it is very difficult to assimilate the new performance driven work culture. Recent studies show that the feeling is strong that that they are

treated just as another factor of production (Caspersz, 2006). This is despite the attempts to develop a strong corporate culture that would replace the former old paternalistic one. This is a tricky issue, all the more that an important characteristic of the emerging HRM systems is precisely their focus on addressing changes in the context of integrating HRM policies for both classes of personnel. So, leading local and foreign companies develop incentive-based system bestowing material rewards in order to motivate both their blue and white collar' workers. The results so far are not always unsuccessful. Workers are pleased to see their efforts explicitly rewarded and to receive concrete gratifications for it. In many companies consultative mechanisms have been put into place, creating a rather high organizational commitment. But, doubts remain on their effectiveness in the long-term if it is focused only on short-term material incentives and does not cope with the issues of job security and meaningful career development hand (Caspercz).

Empowerment of non-managerial personnel cannot be done so easily using direct company-individual employees relationships as in the case of managerial personnel. It had better to be done in dealing with them as a group and standardized methods used because their occupations are less specialized. But this supposes a positive approach vis-à-vis unionization to hear their 'voice', something that many multinationals and local companies are often reluctant to consider. As a consequence, there is a risk of reduced effort on the job or output and lower contributions in the form of loyalty and commitment (Gough, Holland and Teicher, 2006). Job-hopping of skilled workers is already a serious problem in Malaysia, Thailand and Indonesia. In factories but also in workplaces such as call centers and business process outsourcing (BPO) the turnover rate is quite high, due to the lack of talent development initiatives and career structures (Lynton, 2006).

This creates a vicious circle because high labour mobility reduces the motivation of companies to maintain or improve in-house training and education, and may even hinder their efforts in that area. Given the underdeveloped state of specialized education in many countries in the region, increased labour mobility seems to have not only widened the supply-demand gap for many skilled job categories but also created disparities in the quality of managers. A recent survey (World Bank, 2006) shows that labour market regulations in East and South-East Asia tend to be relatively flexible. Compared with other regions and the OECD, the region has the lowest indices for difficulty in recruiting and laying-off as well as rigidity of hours, recruiting costs and laying-off costs. Indeed, labour flexibility management practices can help to attain cost advantage in the short term. But, the resistance activities that are likely to emerge if companies focus only on this approach may have negative long-term implications.

While many factors can cause income disparity to increase, the rise in the Gini coefficient

can be attributable in large part to increases in the number of contingent workers and to the stagnation of purchasing power of the non-core employees. There is nothing wrong per se in the current industrial restructuring. Asia shift to a service economy has been accompanied by a rise in the percentage of women in the labour force, often asking for parttime jobs and the increase in the number of contingent workers is a normal phenomenon in a modern economy. As a matter of fact the Gini coefficients in East and South-East Asia are not particularly high. Japan is, next to Denmark, one of the most egalitarian country in the world at 24.9. Among the more recent Asian successes, the lowest Gini is Korea at 31.6, that is, a European-like wealth distribution. Indonesia and India are also in the 30s, while China, Hong Kong, Singapore, the Philippines, Thailand, Malaysia are in the 40s (Miura, 2006). After growing for a while in Korea during the 1990s, the Gini coefficient stabilized during the last 5 years. In China, although it is growing overall, the income disparity in the coastal areas (the most developed ones) is actually shrinking (World Bank, 2006). But, although the situation is indeed not alarming it can be denied that there is a problem. Aggregated data mask big discrepancies at regional level and according to the workers' status. The growing gap between the different categories of workers and the subsequent feeling of economic and social insecurity it creates is a potential source of political and social problems.

It is liable to cause a backlash against economic reforms, especially against those related to labour regulations. No Asian country has a social safety net as comprehensive as that of the Western European welfare states. A structural feeling of insecurity may cause recurrent industrial unrest and have a negative impact on consumption and investment climate. The downsizing of organizations and changing recruitment and retention practices in China is more or less contained for the moment by the State apparatus, but the worries it creates is bound to grow stronger with the growing access to information of the population. Indonesia is increasingly plagued by rampant industrial disputes, as is Korea in some industries (automotive, transportation, shipping). It is expected that a similar pattern will emerge in countries like India where many of the SOE firms have surplus labour. In view of past experience, downsizing will be strongly resisted both by trade unions and political parties. Except in Japan structural uncertainty in the social position (and even possible pauperization of the lower strates) of the middle class members (and of those who had not yet reached that level but had at least succeeded to enter the formal employment sector) would have more serious consequences than in Europe and the United States. Upper middle class people may have a high saving rate but in developing Asia members of the lower middle class and those who have just put a foothold in the formal sector do not sit on assets accumulated for several generations as in developed countries. Because they own little any change in their job prospect may have far reaching economic con-



sequences for them and their family.

### ***The Limited Perspectives of a Regional Institutional Framework***

For the time being, there is no distinctly Asian array of human resources management' practices and broad-based regulations that would result from the regional institutional environment. There are no Asian institutions imposing social constraints that would have significant consequences on the running of labour markets and employment practices, such as in the European Union. At country level, except in Japan there are no interdependent social partners working together in tripartite forum dealing with labour issues. In Europe, tripartite dialogue between public authorities, labour unions and companies has been at the center of the laws and regulations related to labour. For a while, it had shown that an institutionally rich environment is not necessarily incompatible with superior economic performance. It may still be so under certain conditions. But the societal traditions cannot be defended now in Asia no more than it can be done in Europe anymore, at least in the usual way. The tripartite system in Europe could only develop in an environment where top management in large companies could take decision without thinking so much about shareholder values.

Creating a stable Asian institutional system functioning on similar lines as the European one based on collective bargaining and co-determination is not a realistic option. The shift in corporate governance system in Asia towards a more shareholder driven is occurring even before such partnership could be envisioned. Added to the ageing of the population this forces Asian companies to look for innovative solutions in order to keep simultaneously social stability at corporate (and therefore societal) level and the economy moving smoothly. In Japan the in-house unions remain the most prevalent organizations representing the workers' voice. China allows the existence of only one national union, which functions strictly according to the wishes of the Communist Party. But, in India there are many local, regional and national unions linked to political parties that generally function in an adversarial way. What is observed does not point toward a more active role of the unions in the short term at least. Their decline is observed in most countries in the region. There is little promotion of collective bargaining in the private sector counteracting the decline of the unions linked to public sectors (Benson and Rowley, 2004). In some South-East Asian countries such as Malaysia and Indonesia the state has used its legislative and executive apparatus to prohibit, curtail or only allow state sponsored worker representation. For instance, Malaysia banned the creation of unions in the electronic industry until recently. In Indonesia unions were until recently controlled by the state and their activities confined to matters excluding remuneration and deployment of workers (Caspersz, 2006).

In more general terms, as observed by Warner (2003) relative regional convergence may be achieved by the implementation of the ILO standards. So, local practices may converge with the external templates. As in Europe the State may be retreating from direct involvement in companies' management but employment relations may evolve towards a more explicit regulatory framework of labour-markets that could be laid-down by stronger labour regulations. In a recent development, the International Finance Corporation (IFC), the private sector arm of the World Bank, and the ILO agreed in August 2006 to collaborate in developing a global programme for better labour standards in global supply chains. Called the Better Work Program, it will concentrate on sectors including garments and footwear, plantations, electronic equipment, and light manufacturing, and aim to improve and promote the business case for better working conditions. The partnership will focus on creating tools for monitoring labour standards and remediation systems. The tools will be implemented in developing East Asia (also in the Middle-East and Southern Africa) in close consultation with labour authorities and supplemented by capacity building services for official labour inspectors, as well as training on best labour practices (CSR Asia, 2006).

It remains to be seen if the situation can move further on in that direction and if there is any chance to see more than mere cosmetic changes. Freedom of association is one of the historical pillars underlying the ILO philosophy. But if multinational companies in Asia play the role of change agent in term of corporate responsibility policy (CSR) in the region they generally stop short of encouraging local workers to create unions. Some of them provide a level of remuneration and welfare significantly higher than local companies, even for lower level employees. Nevertheless, their 'unitarist' policy is most often anti-union in principle. They prefer to privilege a reinforcement of corporate culture and commitment rather than the development of structures that could lead to adversarial relationships with their employees. The strong opposition by multinational corporations such as Wal-Mart, Microsoft and Nike to the project of new labour law in China perceived as 'pro-union' and to close to a kind of European way of thinking is typical of such attitude (Ho, 2006).

#### ***The Perspective of Dialogue between Employees and Management at Corporate level***

In a number of Asian countries such as South-Korea and Japan there are examples of workplace innovations towards a high performance work organization involving all workers. In South-Korean leading companies LG Electronics and Samsung SDI both management and employees developed more cooperative and participative employee relations. The willingness was to depart from the traditional paternalistic and authoritarian styles and attitudes. At LG Electronics the union and employees were effectively involved in the process of workplace innova-

tion. Cooperation of the union leadership helped to establish a new work production system. LG adopted a team production mode with a labour-management partnership. Conversely, non-unionized Samsung SDI introduced a lean production mode emphasizing TQM and Six Sigma. Adoption of a high performance working organization concept was slower in LG due to union resistance. The company adopted a bottom-up approach with involvement of frontline employees. Team production mode was more strongly institutionalized in the unionized setting and it is probably more likely to prevent easy abandonment. But if active participation of the union in workplace and collective bargaining was pursued, it was not practiced in the strategic level in product development, new investment and corporate restructuring. At the opposite, Samsung SDI adopted a top-down approach. The company operates successfully an extensive system of open communications, information sharing, and non-union employee representation. It cultivated well the attitudinal aspects of employees' relations (labour-management cooperation), but its structural and institutional aspects, employees' participation through formal mechanisms, have not yet fully developed. Therefore, it may have not penetrated deeply into the mindset of the employees (Bae and Rowley, 2004).

Matsushita Electric, the world's largest consumer electronics maker started in 1998 a 4-year programme aimed at strengthening the company's competitive position. It revamped its compensation policy and removed almost entirely the tenure and age elements in wage setting. This was made with the collaboration of the union (Debroux, 2006). The performance appraisal process was made more transparent and Matsushita began to encourage individuality and risk-taking among its staff. It created a larger wage differential among managers but the company maintained its philosophy of never let the best-paid employee earning more than ten times more than the lowest-paid one. For the first time in company's history, Matsushita resorted to staff reduction in 2000-2001. Some 13000 out of 290000 employees, mainly midlevel managers in Japan, were granted early retirement packages. This was made with the cooperation of the union. In the US, Matsushita laid-off 100 employees at company headquarters in 2002 but immediately opened new positions in other part of the company where displaced employees had the opportunity to apply for those jobs (Khan, 2005).

## **Conclusion**

In management-labour relationships potential strategies are always multi-pronged. They can vary from 'responsible autonomy' to 'consultative' and 'control' applied to different groups of employees simultaneously within the same company. It may not appear to be problematic for the time being in many companies. They are performing well and do not suffer from severe problems with their workforce. Nevertheless, it may be asked whether any model may remain

effective in the long-term if it almost exclusively focuses on management needs for human resources to be provided and deployed. The creation of a dual structure where workers are either 'empowered' as they require multi-skilling and therefore continual training and development, or 'deskilled' because all what is required from them is to be cheap and have the ability to quickly respond to market demands with minimum disruption, is bound to create huge social problems if it is not corrected. That is why it was argued in the text that it may become imperative for employers to address employees' (all of them) psychological contract needs in a new perspective. As pointed out by Gough (2006), there is fertile ground for alternative approaches and strategies for labour to support and protect.

It does not have to be the same strategies in all countries and for all types of activities. As mentioned previously, convergence is observed in all the countries in the region at the level of the principles on which HRM systems should be based upon. But HRM becomes increasingly sophisticated and multidimensional. That is also the reason why divergence may also be an option in Asian countries, with diversity more or less weighting in the balance. As Warner (2003) pointed out, Asian business systems always saw themselves as distinct and they may be able to find idiosyncratic solutions to the problems described in the text. It could be for instance in the treatment of atypical employment in terms of the extent to which it is precarious or stable or in the revamping of the educational systems. Asian countries are looking for solutions fitting to their needs. Differences understood in the context of national cultures and their manifestation in history, law, institutions, labour unions and organization structures are observed. There is nothing wrong about it per se. This does not necessarily (although it may be the case too, of course) reflect institutional and organizational inertia. Nation-wide institutions change more slowly than sub-sets of companies at organizational level. This is required by the needs for careful adjustments to the socio-economic, cultural and political reality on the field. Large local and foreign companies are able to put into place new HRM systems focusing on their specific needs because they can ignore a number of social and political constraints. Therefore, they can obviously react faster than local public authorities. But, it would be wrong for them to let the state apparatus alone to solve the issues resulting from the implementation of their policies. First of all, the states may be unable to solve the problems on their own. Second, it may force them for social and political reasons either to implement policies that would be detrimental to economic welfare (recourse to protectionism for example in order to protect categories of population that do not fit anymore into the job strategies of companies) or that could threaten the democratic fabric. As a result, it may end up with governments curbing civil liberties, for example in imposing restriction to the right of association in order to keep the business environment competitive. The issues of nurturing high skilled workers, of devising

stable and efficient HRM systems for them are very complex and both public authorities and companies devote huge resources in this respect. Demographic pressure is strong, the unemployment rate of some segments of the population is rising, and a feeling of uncertainty permeates the psyche of many workers in both developed and developing Asia. Therefore it is the responsibility (and the long-term interest) of both parties to work together to create a HRM system that would be efficient economically and fair socially to all segments of the population.

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