

# Sustainable Human Resource Management (HRM) in East and Southeast Asia

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## 1 . Introduction

### 1. 1. The Evolving Meaning of HRM Sustainability

A HRM system can be considered as sustainable if it delivers the expected performance in a long-run perspective to the relevant stakeholders. The needs they express and their expectations of what constitutes performance are linked to society and managerial values and beliefs, the political, business and innovation systems, the stage of economic development, and the dominant type of corporate governance in given time and place. So, the concepts of performance and sustainability cover a specific reality that has subjective dimensions and can only be defined in a given decisional context whose evolution reflects the shift back and forth of power relationship and legitimacy among stakeholders.

At one point in time, the United States, European countries, and East and Southeast Asian countries have nurtured HRM systems that could be considered as sustainable. Contributing to generating sustainable competitive advantages, they induced corporate growth and profitability. Creating permanent and skilled jobs they led to higher standards of living, and to the enrichment of the states and local communities. Their norms and values were legitimized, supported and/or imposed through societal and political instruments of power. They shaped modes and practices of functioning, backed-up by specific management tools of control. These practices created a dynamics of efficiency and effectiveness that assured the production and reproduction of appropriate human resources (HR).

However, the virtuous circles that the HRM systems created were made possible by the dominance of national interest and the subordination (forced or accepted because of socio-cultural and/or institutional norms) of interest and welfare of specific HR and stakeholders. Those systems were indeed sustainable but none of them was ever completely inclusive and, thus, did not optimize the whole HR potential. Moreover, they focused almost essentially on economic efficiency, neglecting the ecological dimension of sustainability. Times are changing, though, that impose new and broader norms of performance encompassing economic, social

and environmental criteria. In that sense, sustainable HRM is also linked to the concept of sustainable companies (Zadek et al., 1997; Kaptein and Wempe, 2001), i.e., expected to be fair and trustworthy to all stakeholders.

### 1.2. Sustainability in a Multi-stakeholders' Business Environment

During the last three decades, the state has retreated everywhere in Asia from direct intervention in the economy to act as a facilitator of the market principles in implementing policies of privatization and deregulation. However, Asian countries are now moving towards regulatory systems putting more emphasis on information disclosure and transparency, and on formal rules replacing the traditionally prevalent relationship-based ones. So, Asia enters into a period where the state can be expected once again to play an important role, albeit different from before, with important consequences on the HRM policies and practices. At the same time, ageing of Asian population with subsequent pressures on social security systems, the growing weight of public and private investors means that other stake-holders influence is bound to increase furthermore in the years to come.

The pressure from the capital markets is already observed in the temporality of the recruitment, career management and lay-off practices in the whole region. The shortage of skilled labor leads to a race for talents requiring innovative HRM practices to attract, protect and nurture HR. So far the resources devoted on optimizing human capital have focused on managers, engineers and technicians. But companies are under pressure to be more inclusive of all types of HR for economic (they cannot afford anymore to neglect any source of HR) and social reasons (they need to obtain the license to operate).

Improving the quality of growth, including the ecological quality, requires a transformation of the current business and social systems. Companies from developing Asia cannot solely rely on the cheap labor and ecologically costly export-driven economic model of the present. They have to develop a new HRM system whose sustainability would be based on economic efficiency and effectiveness but also on greater eco-efficiency and social equity. Meanwhile, companies from developed Asia are expected to better internalize social costs, avoid exceeding the social carrying capacities of some of their HR, offer better access to training and career advancement to a larger range of HR neglected so far, and redistribute more fairly to labor the profit of their activities.

The objective and contribution of this article is to describe and analyze HRM systems in the East and Southeast Asian region in this line of thought. First of all, will be described the context of sustainability background explaining the current situation and exploring the possibility of development of sustainable HRM practices. Then, will be examined how Asian

countries and businesses perceive and respond to the needs of creating a new sustainable HRM system integrating the set of new concepts, practices and expectations described here above.

## **2 . Sustainable HRM in its Socio-economic and Cultural Context**

### **2. 1. A Double paradigm in HRM Relationships**

In the whole Asian region there were always two paradigms. On the one hand, emphasis was put on socio-cultural elements inspired by Confucianism, Buddhism, Islam, or other local ideologies and creeds. It appears in the motto of Japanese and Korean companies insisting on social harmony and the utilization of company as family motif (Sugimoto, 2010; Hemmert, 2009). The respect for authority, the search for social harmony, the important role of personal relationships and social connections also appear in Indonesia's 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).

In that sense Asian firms were never purely institutional devices where management and employees pursued their separate interests based on individualistic utilitarian assumptions. They often were objects of genuinely loyal sentiments with interests transcending the interests of the organizations and management enjoyed internal legitimacy. In academic credential-driven societies, Japanese and Korean employees were looking on their managers as people who had performed (starting from school) better than themselves in a fair and relevant competition in which they were all engaged on equal terms (Sugimoto, 2010; Hemmert, 2009). In China too the meritocratic element was always important in the legitimacy of the hierarchy (Warner, 2010). Patrimonial Southeast Asian organizations were never driven according to the same meritocratic criteria with the exception of Singapore (Garett, 2009). But they are high power distance countries run according to a management concept where, as in Japan and Korea employees of all ranks traditionally accepted their positions in a hierarchy that they acknowledged to be legitimate (Hofstede, 1991). So, they always willingly acted in accordance with their prescribed roles in a cooperative (mutually beneficial) system rather than engaging in a zero sum (or negative sum) struggle to alter the distribution of power and rewards.

In return the permanent employees were protected and an employment relationship was normally continuous. It was the case in the publicly-owned organizations that were dominant in Southeast Asia and China until the 1980s but also in the family-owned conglomerates managed by the overseas Chinese. In Japan (especially) and Korea the legal doctrine and court

precedent since the 1950s has concluded that an employer would only be found to have just cause for termination if all alternatives had been ruled out. It is true that this had made permanent employees dependent on their employers and facing incentives to act in accordance with the long-term interests of the company, lest they would lose their status and fall into the category of the unprotected workforce. Therefore, management was clearly in command. Nevertheless, there was to some extent an effective balance of power with the state intervention.

On the other hand, stress was put on market rationality, and the interpretation in an Asian context of the principles of Taylorism and mass production driven by cost control. At certain time, virtually all Japanese and Korean companies would claim to uphold the paternalistic principles while in different contexts they expressed allegiance to the principles of market rationality and emphasized the economic rational of their HRM system. It is pointed out that modern manufacturing and service management does not make incompatible to implement various-cutting measures use outsourcing and cost-driven HRM strategies for non-strategic activities while competing on the basis of quality or responsiveness to customers' specialized needs (Boxall and Purcell, 2011). Japanese, Korean and Taiwanese companies have been pursuing such strategy relentlessly during the last three decades. It helped them to keep or create new competitive advantages. But, it excluded a large part of the workforce from the fruit of prosperity.

## **2. 2. The Difficult Adoption of the New HRM Paradigm**

Arguably, recent changes in mutual expectations of management and labor have loosened the traditional bonds of loyalty and obligations of the permanent employees. Larger external labor markets offer more opportunities of mobility to skilled workers and managers. Conversely, the high performance working systems (HPWS) adopted by leading companies in the whole region are considered as an instrument to enlarge the pool of recruitment beyond the traditional avenue and pave the way for a revamping of the mechanisms of production and reproduction of HR. Studies in several Asian countries show that the HPWS template has a strong appeal in the new generations of managers (Debroux, 2011a).

However, it does not mean that a stable and sustainable HRM system based on the HPWS can be adopted without adjustments taking account the historical, socio-cultural and economic context. The key dimensions of the HPWS are not alien to Asian organizations. Some of them were inspired by the Japanese practices and corporate culture. But if Asian companies have always nurtured both individual and collective concept and practices in the HRM systems it is often difficult to mix the HPWS paradigm with them because they are based on different

concepts of organizations and value systems. Like the traditional Asian systems the HPWS system expects more from core employees than purely utilitarian personal calculation. But the objective is not to reproduce the Japanese 'community of fate', the Chinese danwei or the paternalistic Southeast Asian organizations. High commitment and engagement in the HPWS do not exclude mobility from both parties. Sense of autonomy is expected and not rule following based on top-down communication. Teamwork dynamics with empowerment in flat hierarchical structures presupposes a pro-active management of conflicts and acceptance of diversity. Overall this is a corporate mindset at the opposite of a company environment where intra-group harmony is based on conflict avoidance; hierarchy cannot be bypassed easily; deference to authority is the norm and humility and self-restraints are considered as virtues, all characteristics that are associated to HRM in East and South-East Asia.

To find a balance between those seemingly antagonistic concepts and practices promoting simultaneously individualism and collective values is not easy. To mix mobility and loyalty may fit with the mindset of a low context culture (Hall, 1977) where public and private concerns are neatly separated. But what could be considered in US companies as a crucial element of HR cross-fertilization going side by side with employability goes against the grain of the traditional relational psychological contract and may create mistrust in high context cultures where managers and employees relationships are expected to extend beyond functional purposes. The deep sense of hierarchy is difficult to conciliate with 'impatience with rule' (Storey, 1995) and high discretion in work organization. Values of self-development and autonomy have always been promoted as well in the Confucian world (Warner, 2010) but it was always in well-defined hierarchically organized frameworks. Likewise, management of diversity remains difficult to put in practice, especially in the self-contained and culturally homogeneous organizations found in Japan, Korea and China, and in the Southeast Asian conglomerates managed by the overseas Chinese.

It has been observed that HPWS can lead to self-exploitation, burn-out and mental problems, precisely among the highest committed and engaged employees and managers (Docherty et al., 2002). The increase in work-related mental diseases of young executives all over the region, more cases of *karoshi* (death by overwork) and occupational-related suicides in Japan (Furuya, 2007) and an increase of occupational psychiatric disorders in Korea (Choi et al., 2010) show the seriousness of the issue. The significantly lower level of employees' engagement observed in Japanese, Korean and Singaporean companies compared to the US organizations, is certainly below the companies' expectations at the time they introduced the HPWS. It may also be considered as an indication of the still incomplete fit of the new HRM system in Asian settings (Gallup, 2008).

Overtime companies emerged, such as among others, Panasonic, Nidec, Ajinomoto, Canon and Nissan in Japan; Samsung Electronics and LG in Korea, Acer and TSCM in Taiwan, and Haier in China that can be said to have created a sustainable HRM environment. They developed advanced HRM systems with the HRM function playing an evolving strategic role. All of them have an organizational culture recognizing individual achievement at all levels of the hierarchy, including blue-collar workers and rank-and-file employees. Mobility is encouraged but linked to commitment and engagement. They use new tools to measure and boost performance while being aware of their limitations. Human capital accounting methods and balance scorecards for example are important in this respect because they are both short and long-term oriented and include organizational learning among the indicators. But necessity is recognized of the need to keep the system flexible in order not to become prisoner of rigid metrics.

Efficient and effective horizontal and vertical communication is considered as a must. Employees can understand the management philosophy and practices of their companies, and broadly agree with their value system. Strict evaluation of individual performance and constant up-skilling pressure go alongside with opportunities given to improve performance and recognition of the difficulties to keep up with the increase pressure of time and work pace (Debroux, 2011b). The necessity of maintaining 'slacks' in the HRM system is leading to programs of regeneration for the managerial staff (Debroux, 2011b). Among other schemes, while also serving to attract new types of HR and to offer new challenges to young managers, the social responsibility-related activities promoted by Japanese and Korean companies can also be included in the regeneration strategy (Debroux, 2011b).

### **2.3. The Incomplete Inclusiveness of the HRM systems**

As application of the second paradigm, in both developed and developing Asia cost-minimization strategies always prevailed up to this day in relation to non-permanent employees, unskilled or menial workers, and employees of small firms. Informal labor markets with sub-standard working conditions were the norm for a significant percentage of the workforce in Southeast Asia. The liberalization of the markets has created new formal jobs but the percentage of workers in the informal sector remains very high. In Japan and Korea it is even argued that the number of workers with an informal status has significantly increased during the last two decades as a result of deregulation and the decline of permanent employment (Asian Labour Law Review, 2008). The issue of the informal labor market, notably in Malaysia and Thailand, has always been linked to that of the migrant workers who remain up to this day largely unprotected by law (Asian Labour Law Review, 2008). In the case of

China, this category of workers would also include the internal migrants because of the restriction to workers' mobility imposed by law under the hukou (household registration status) system (Warner, 2010). Especially in Malaysia and Thailand, but also in China, Indonesia, Vietnam and the Philippines, the issue of migrant workers is compounded by the limited access to education, training and decent work opportunities of the minorities up to this day (Asian Labour Law Review, 2008). Moreover, the skewed access of human resources to managerial positions and to education for ethnico-religious reasons (Malaysia) or because of the control of management by families (the overseas Chinese conglomerates) also led to under-optimizing of some categories of HR.

Traditional HRM systems in Japan, Korea and Southeast Asia with the exception of Singapore, at least for managerial level personnel (Tan, 2009), are also characterized by gender bias (Rowley and Yukongdi, 2009). In general term institutional structures, persistent patriarchal gender norms and stereotypes, and ineffective representation limited women's bargaining power in the labor market and hold down their financial reward as well as career progression in the whole region up until recently. In most countries women were just considered as a buffer, ancillary type of workforce, not worth of large investment in training up until the beginning of the 2000s.

Despite slow improvement, boosted by affirmative action policies in countries such as Malaysia and Korea, and with the possible exception of Singapore, it cannot be said that any Asian country offer yet appropriate job opportunities to female university graduates. This includes the two Asian members of the OECD, Japan and Korea that are considered as grossly under-optimizing female talents (OECD, 2009). Moreover, in many countries has been observed a sharp decrease of permanent jobs opportunities for female employees, with the consequence of declining training opportunities. Life-work balance policies started to be adopted in Japanese and Korean organizations during the last decade but it does not yet pervade the whole business culture. Korean and Japanese companies are likely to continue to stick to a pattern of long working hours with short holidays. Not only does it will continue to limit the optimizing of women's talent but work habits that would create a more balanced life-style for all employees and create better conditions of employees' regeneration are unlikely to become the norm in the short term.

In general term, the issue of diversity has not been attached great importance or approached in a positive way in the whole region. For instance, such aspect of diversity as unconventional sexual orientation has been looked upon with suspicion and dismay. Mostly, East Asian countries' basic policies on the diversity-related issues were always rather reactive than proactive up until now: they limited themselves to making statements about their commitment

to non-discrimination on the basis of gender, race or religion. Despite progress (for example women in law, ITC and financial fields in Malaysia, Korea and Japan) the profile of employees in information technology, financial services, law, consultancy, accounting and academia confirms that large segments of the population are still under-represented in those fields (Welford, 2006).

### 3. The Adaptation to a Changing Paradigm

#### 3.1. Paradoxes and Uncertain Journey toward new HRM Sustainability in Japan

Luhmann (1995) stated that organizations survive because they open their boundaries and can manage the balance of mutually opening and maintaining the boundaries. In this line of thought Ehnert (2009) utilizes the Aristotle's idea of a self-sustaining oikos for an interpretation of sustainability. The oikos (household) has to be self-sustaining to a certain extent, i.e., it cannot be only consumption-oriented, but also has to be reproduction-oriented. Up until the beginning of the 1990s Japanese companies were arguably the best illustration of that idea. They were self-contained and self-sustained organization. But at the entire level of Japanese society efforts were made to balance in a long-term perspective, while assuring, quoting Ehnert (2009): 'the consumption and reproduction of HR by fostering their regeneration but also by investing into their 'origin', i.e., organizational environments where HR come from schools, universities, education systems and families'. The whole education system was built to facilitate the selection of HR on an objective basis. Women were integrated into the corporate society through their activities at home (allowing their husbands to work long hours because they would take care of the household alone) and in the children education (in making them well-socialized individuals ready to enter into the corporate society).

But, as Ehnert (2009) points out, 'the difficulty is that tension may occur in balancing the human resource efficiently and effectively today and sustaining the HR base for the future'. The changes observed during the last twenty years put in question the assertion that Japanese companies are a coalition of the shareholders and employees, integrated and mediated by management and, thus, the tenets of the sustainable HRM system. Ownership of large companies is now largely in the hands of non-keiretsu-related shareholders. Gone are the days of market-share maximizing strategy. EVA, ROI and ROE have replaced ROS as the key ratio of economic performance. However, companies still intend to pursue a long-term growth-oriented HRM strategy. They seek, successfully so far, to recreate a core of long-term oriented shareholders that accept the basic tenets of the HRM system. Adoption of appraisal and reward systems based on individual performance and eliminating the criteria of age and tenure

has been deemed necessary to re-dynamise Japanese companies. But it goes with a compensation differential that remains relatively low, i.e. around 1/20 between rank-and-file and top managers. Likewise, although workers' mobility is on the rise long-term job guarantee is still assured for the permanent workers.

The new production paradigm does not put into question the concept of efficiency and effectiveness underlying the knowledge management (KM) practices illustrated by the Nonaka and Takeuchi model (1995). But it calls for its globalization beyond the Japanese sociocultural environment. To create unique products Japanese companies intend to stick to their integrated approach of production with long-term gradual improvements of products, requiring wide multi-functional expertise, long-term dedication of the same teams on the projects, and long-term relationships with key partners. Use of more contingent labor is not considered as incompatible with the pursuit of cooperative work arrangements, i.e., with importance given to training and stable long-term relationships with the permanent employees (Itami, 2011). But to take advantage of the open technology model requires mechanisms of exchanges, sharing and new combinations modes that are not only local but also global. Competitive advantages based only on the production process and incremental innovations are not enough to stay at the top. Breakthrough innovations and the management of intangible assets such as branding and intellectual property rights require different types of HR.

Japanese companies want to diversify the ports of entry to have access to a broader talent mix but the external labor market develop very slowly. Companies are only just starting to recruit non-Japanese personnel on the managerial track in the headquarters and obstacles to their career remain overwhelming (Debroux, 2011b). They stick to the logic of the internal labor market in their recruitment but the flattening of the hierarchy means that fewer promotion opportunities are offered. Employees were ready to acquire firm-specific skills that had value, and to work hard to boost productivity but only in the specific context of an expanding company in which they had a stake in the future. Because they cannot answer anymore to the career expectations companies end up with many employees feeling trapped. This explains the paradoxical result of the level of engagement much lower than in US companies mentioned beforehand (Gallup, 2008). Trapped workers not only may not be highly productive but may also impede the recruitment of better employees that could develop a higher level of engagement.

### **3.2. A Pro-active albeit Incomplete Drive in Korea**

In this respect some leading Korean companies seem to have been able to open more widely their HRM system (Rowley and Bae, 2004). Korea shares common points with Japan in term of

production and reproduction of HR. Until recently HRM practices put emphasis on seniority and age in a hierarchically organized Confucian society. Stable social norms always generated the expectation that companies would consistently adhere to a pattern of paternalism emphasizing protection versus loyalty and discipline of the core employees. Education is assured by an elitist system with high societal legitimacy and backed up by families and old boys' networks. The World Bank estimated that a large proportion of the economic growth of Korea was due to an increasing input of knowledge throughout the 1970s and 1980s (World Bank 1999). Similar to Japan and Singapore commitment to education at all levels has remained extremely high up to this day. Coupled with matching R&D investment Korea has been able to rapidly advance into increasingly capital and technology intensive industries.

Korean HRM was never as imbued with the ideology of teamwork, consensus, and harmony as the Japanese system. Blue-collar workers were not offered the same career opportunities and welfare package. Permanent employees (including blue-collar workers) enjoyed long-term job guarantee but there was always an active external market for white-collar employees. Organizational commitment is said to have always been lower than in Japan, even among the elite white-collar employees (Rowley and Lee, 2004). Korean companies had rites of induction and inculcation of the company's values is an important part of the new employees' training (Hemmert, 2009). But they are said to never had offered the titles that instill pride, organized the meetings that reinforce the feeling of belonging, and distributed honors that motivate hard work, all features that characterize Japanese corporate culture (Hatch et al., 1996).

Those elements may explain the faster move than Japan towards a HRM system incorporating elements of diversity and cross-fertilization. While recruitment of managers at mid-career remains limited in Japan, it is casual in Korea. Conversely, there is also much less protection for the under-performing permanent employees. Korean companies have been quite successful in bringing back the Korean people who worked or were doing research abroad. During the last decade they have also been more forthcoming in offering career opportunities to foreigners. Companies develop university alliances and business school sponsorship to increase their visibility on the labor market and enlarge their recruitment pools. At country level Korea sends abroad a much larger number of students than Japan and has one of the highest ratio of students in tertiary education in the world (UNESCO, 2008).

Japanese companies' top management remains mostly composed from executives who did their career in the company and are graduated from a limited number of elite Japanese universities. In comparison, for more than thirty years Korean companies have had at the top managers who were graduated from foreign universities and business schools. It may have provided the right leadership to manage global networks and unlock the potential in the

workforce (Hemmert, 2009).

Admittedly at the same time Korea remains overall a society following Confucian code of conduct. The importance (shared by Japanese, Singaporean, Chinese and Vietnamese) that Korean people give to academic credentials is a mitigating factor in respect of the opening of the HRM system. It is both an asset and a liability in term of production of human resources. The process of selection is expected to assure the inflow of HR on meritocratic criteria. However, it eliminates those who could have contributed to business performance but whose features do not fit with the requirements of a selection process based more on rote learning than imagination and originality. Despite the recent trend to demark from the traditional examination-driven system it remains the norm, though. Its societal legitimacy is so high that it is difficult to go against the grain. But, as a result, it hinders the attempts of increasing diversity and contributes to further reinforce the homogeneity of the corporate culture. Moreover, in view of the cost of the process it eliminates those coming from families that cannot afford it. The socio-economic profile of those who enter into the elite universities both in Japan and Korea (and increasingly in China and Vietnam as well) indicates a growingly skewed distribution in favor of those from higher income brackets' families, leading to under-optimizing of potentially valuable HR.

### **3.3. The Elusive Quest for Sustainability in Southeast Asia and China**

Southeast Asian countries developed since the 1960s thanks to foreign capital. Local companies, and more specifically the Chinese-owned conglomerates, focused until the late 1990s on commercial or financial enterprises or on relatively low technology manufacturing sectors, often representing foreign interests. The conditions of local industrial capital are said (Hatch et al., 1996) to be the legacy of the organization of society into a network of ruler-subordinate (patron – client) relationships. While the stable HRM system enjoyed social legitimacy it did not create the same kind of dynamics as in Japan and Korea. It was observed that the returns from rent seeking were attractive enough to provide de-incentive to develop one's own capabilities, managerial and technological. As a result, political and business elites have failed to cultivate sufficient capital or HR up until the 1990s (Hatch et al., 1996). Except Singapore that has adopted a meritocratic-based HRM system in the other countries recruitment and selection were most often based on personal relationships. Reward and promotion were based on seniority and long-term job guarantee was bestowed to permanent employees. As in East Asian countries the situation changed in the 1990s. HPWS are now the norm in the leading Southeast Asian companies although care is taken not to destroy the traditional bonds between organizations and employees (Budhwar, 2004).

Southeast Asian countries struggle to become full-fledged developed economies. Because of the insufficient trickle-down effect from FDI the technological and managerial dependency became structural. The development of internal mechanisms to absorb and transform foreign technologies and engineer a self-sustained knowledge creation drive remains insufficient to this day. With the exception of Singapore (Malaysia and Vietnam to some extent), no other government has done enough to promote education up until the beginning of the 2000s. Singapore' goal was to eliminate the dependence upon foreign technologies and management in order to move away from a situation of subcontractor. It has pursued economic policies that allowed it to move up the technological ladder. Starting in labor-intensive industries, it successfully, through new incentives and higher wages to shift FDI towards high-tech industries by upgrading the technical skills of local workers and investing heavily in education (Garett, 2009). In so doing Singapore is the only Southeast Asian country that has become a full-fledged advanced economy.

The transformation of the business system in China the last thirty years has entailed a shift away from central job allocation, lifetime employment, and egalitarian pay system. The flexible deployment of workers has been enhanced by the gradual adoption of individual contracting. This allows individual compensations schemes recognizing differences in educational background, skills, training and work efficiency and effectiveness. The concept of HRM started to spread to the SOE companies in the 1980s and the period of transition from the traditional HRM system is almost over, at least in large companies. Chinese companies now devote important resources to training of a technical and managerial kind. As Warner (2010) pointed out Chinese businesses are becoming 'learning organizations'. A large external labor market develops in the big cities. However, the shortage of skilled workers in some regions is acute. The labor market is very fluid for certain professions and turnover is high. Widespread poaching of employees makes it difficult to develop long-term sustainability and engineer a dynamics based on HRM. At the difference of Korean and Japanese companies Chinese organizations still struggle to get access to a stable flow of HR. The situation is changing, though, as more of them, local and multinationals alike, attempt to develop local roots (getting access to local external and internal labor markets) in order to enhance their credentials as employers, with the objective of stabilizing the sources of production and reproduction of their HR (Warner, 2010).

Southeast Asian countries and China have taken up the vision of becoming knowledge-based societies. They have started ambitious plans and national strategies in which HRM systems should be based on the idea that knowledge management is central to the organizational development and to the efficiency of methods of business operation (Evers, 2010). Malaysia is

typical of this strategy. Alongside other Southeast Asian countries such as Indonesia and Thailand it has lost its competitive advantage in mass-production industries (Evers, 2010). The objective for the last two decades has been to emulate Korea and Singapore and shift towards a higher value added, technology-driven industrial structure.

Malaysia has an educational system of good quality and a relatively large number of skilled workers. However, it is pointed out that it (like most other countries in the region) moves too slowly to develop its technology infrastructure. Moreover, it does not have the same commitment as Korea and continue to invest too little in R&D expenditure (UNESCO, 2008). The success of initiatives to nurture in-house knowledge depends on the understanding by employees of what is important to the organization in terms of transformation of individual knowledge to collective one. It requires an open corporate culture favoring the creation and sharing of that knowledge. In this respect Malaysia and the other Southeast Asian countries can learn from the Japanese HR System. A key point of Japanese firms' HRM model was that they kept open the necessary spaces for discussion, communication and exploration about the kinds of knowledge needed within the organization but also in the society at large. They always gave importance to the technical dimension of knowledge but also to its social and cultural dimensions (Nonaka and Takeuchi, 1995). The multi-levels integrative networks with constant cross-fertilization of interconnected knowledge that are found inside Japanese organizations are reinforced by the constant rotation of personnel in the whole structure. It could be argued that the presence of similar networks would foster the chance of success of the projects to become knowledge organizations that are developed by Malaysian, Thai, Indonesian and Chinese companies.

As Marsden (1999) pointed out HRM can only develop if corporate and societal governance systems have the ability to support and follow through the necessary investments in physical resources and trust (Marsden, 1999). Sustainable HRM requires a change in the corporate value system, including towards knowledge production and reproduction that is based on that element of trust. But it was pointed out that in Malaysia the diffusion of a top down managerial culture that is influenced by the autocratic tradition coming from the political center seems to go against the emergence of a culture of involvement and participation that would unlock the potential of human capital and facilitate the diffusion of knowledge (Mellahi and Wood, 2004). China is more committed to upgrade its knowledge basis than Southeast Asian countries and its progress to develop a national innovation system are remarkable (SERI, 2011). But it may face similar issues of sustainability as Malaysia. It was observed that management remains top-down in most companies and characterized by a lack of trust between the parties that is pervasive in the whole Chinese business system (Redding and Witt, 2007).

### 3. 4. The Inclusion of Non-managerial HR in the HRM Systems

The gap between core employees and managers and other workers is widening in Asia in terms of working conditions and respect of labor international standards (Debroux, 2011). Working conditions of non-core workers are not improving (or not enough or fast enough) and many of them have a feeling of being treated just as “another factor of production” (Caspersz, 2006). It happens while the rapid market growth in Asia requires the creation of virtuous circles that are more inclusive. The 12th Five-Year Plan adopted in March 2011 by China’s National People’s Congress is very important in this respect. It is a clear indication of the shift of China away from an export and investment-led strategy towards a model based on consumption (Roach, 2011). It reflects the changes that are likely to occur also in other Asian developing countries. Asian workers will become the key customers driving world demand in the years to come. Similar to what happened in the US, Europe and Japan after the Second World War, a sustainable HRM system must be based on an increase of the purchasing power of the workforce.

The recent social conflicts in China, Indonesia and Vietnam have shown that young Asian workers are impatient to get a fair share of the prosperity. They cannot be expected to accept to work in harsh conditions as the Korean workers did from the 1960s to the 1990s. They kept sustainable the HRM system in a given time and context. But it was the result of a curtailing of their rights and of an abnegation driven by a sense of the public good that would be unthinkable today. Indicators, in Japan (Sugimoto, 2010), Korea (Hemmert, 2009) and China (Shafer, 2010) show a rise of individualistic and materialistic mindsets in the younger generations. So, rapidly and comprehensively satisfying their needs and expectations is bound to become an element of any sustainable HRM system.

Job-hopping of skilled workers is already causing problem in Malaysia, Thailand and Indonesia and it is becoming so too in Vietnam. It creates a vicious circle because high labor mobility reduces the companies’ motivation to maintain or improve in-house training and education, and may even hinder their efforts in this area. As a consequence, especially in countries where specialized education cannot cope with the rapid market and technological changes, which is the case of Indonesia, Thailand and Vietnam (Debroux et Tselichtchev, 2009) increased labor mobility seems to have widened the supply-demand gap for many skilled workers categories. It eventually drives up wages, and thus, pushes labor costs higher, hindering profitability.

## 4. The Institutionalization of Sustainability

### 4.1. Organized Labor as Anchor of Sustainability

Recent reforms in Japan and Korea attempt to conciliate high productivity, innovation and profitability with long-term stability of the HRM system. In Japan, while declining in relative term, the unions participate to a transformation of the business system that implies a growing use of contingent labor at home and the delocalization of the labor-intensive part of production in lower costs countries while preserving management-labor cooperation. In Korea union activities were curtailed until the end of the 1980s and up until recently organized labor-management relationships remained rather adversarial (Seung-Ho Kwon et al., 2001). As a result, the unions did not play the role of facilitator of the dialogue between management and workers. They were not involved either in employees' productivity improvement or in the facilitation of introduction of new technologies as in Japan. However, Korean companies and unions seem to have departed somehow from their adversarial relationships, trying to find a sustainable compromise, not jeopardizing the recent reforms and allowing a smooth evolution of the employment practices (Tselichtchev and Debroux, 2009).

It is less likely to see the unions becoming significant players in the building of a sustainable HRM system in Southeast Asia in view of their weakening during the last two decades (Debroux, 2011). The only exception is Singapore where they participate with government and business to the revamping of the Singaporean employment practices, that includes dealing with the training of the low skill and ageing part of the workforce unable to cope with the transformations of the economy (Garett, 2009). In China the creation of independent unions remains incompatible with the communist ideology. But a shift towards the HRM paradigm goes alongside with the introduction of more statutory labor regulations, and the reforms of welfare and social security provisions (Fang Lee Cooke, 2004). It might lead, although it is not the case for the time being, to a greater involvement of the unions in HRM practices (Ho, 2006). Examples show that workers councils with consultative function can be utilized efficiently in some cases (Bryson, 2004). Some local and multinational companies in Asia develop attractive incentive-based systems bestowing material rewards in order to motivate both their blue and white-collar workers. Their strategy is to underline the importance of corporate culture and commitment, trying to avoid the formation of systems or institutions, for instance unions, that may provoke a stand-off with their employees. Workers are pleased to see their efforts explicitly rewarded and to receive concrete gratifications for it. Still, doubts remain about the effectiveness of such systems in the long-term unless companies provide enough job security and career predictability. Short of it, they take the risk of high turnover of valuable skilled and

experienced employees, and of reduced effort on the job and lower contributions in the form of loyalty and commitment (Gough, Holland and Teicher, 2006).

#### 4.2. Sustainability and Transformation of the Business system

In term of institutional environment, there are two models of labor-management cooperation, a 'liberal' one where cooperation takes place at the micro level of the company when both sides find it in their rational interest and a 'political' one where institutional intervention is used to ensure that what micro-actors find rational will be acceptable both to their interlocutors and to society as a whole. While the first model is market-driven and private in character, the second is based on a strong public dimension. Despite the drive to create a new regulatory framework in Asia encompassing labor and environmental laws, no Asian country intends to follow the European states in making the business environment 'institutionally richer' through incentive packages while imposing non-market constraints on business in social and environmental terms. The idea in Europe is that short of fulfillment of institutional preconditions and compulsory obligations imposed on all of them to regulate economic, social and ecological issues, it would be very difficult to apply a multi-stakeholder' model.

It may not be economically rational for companies to comply to the rule voluntarily. In the specific case of HRM, it would mean for individual employers to adopt inclusive HRM practices that are required by soft (company and industry code of conduct on employment practices) and hard (the ILO conventions for example) law if the others do not do it. In Asia the position of public authorities and businesses is that corporate policies and practices that are necessary to secure positive economic, social (and environmental results) should be left to the enlightened self-interest of companies acting pursuant to their own initiatives.

Likewise, the issue of promoting quality of life (including working life and the right to live in a clean environment) for example is recognized as an important element of a sustainable HRM system. However, to link it with economic growth through rigid rules is considered as unrealistic (and counter productive) for the time being. In countries facing high unemployment of low skill people such as Indonesia, Thailand or Vietnam the idea that pollution and destruction of the environment is an unavoidable by-product of growth is still prevalent. Likewise in China with the exception of a small minority of highly educated urban residents, environmental knowledge is very limited (Shafer, 2010). The connection between social inequities and environmental destruction is not obvious. Despite the move toward more formalization of the rules in the region, the regulatory environment is likely to remains less stable and less responsible to centralization and rationalization in developing Asia for a long period. It calls for a more pragmatic approach of the issue of sustainability.

## Conclusion

In term of performance large Asian companies have responded to the needs and expectations of their key stakeholders during the last decade. They have delivered growth and profitability, and redistributed a growing part of the profit to their shareholders. They have implemented HRM systems that are efficient and effective in responding to the long-term needs for diversified skills. They have nurtured a committed and engaged labor force. The norms and standards of evaluation and reward, the management tools, but also the philosophy of HRM have been accepted by a growing (albeit still small) segment of the core employees beyond local boundaries. Companies now have a higher level of financial, functional and numerical flexibility than before. It allows them to master sophisticated information, production and R&D networks, through which they deliver competitively high quality goods and services. In so doing, they are also satisfying their customers.

However, it is less sure that they are responding to the societal needs in a broader perspective. A lack of inclusiveness of human capital beyond a small segment of managers and engineers is noticed in all countries. Overall the share of profit redistributed to labor has declined leading to sluggish domestic consumption and continuation of reliance on an export-driven growth pattern. Large companies are more selective and create a declining number of permanent jobs. The trend towards the use of contingent labor accelerated during the last decade. Because it is associated to lower (or absence) of training opportunities, overall it leads to HR under-optimizing. It also let unsolved the issues of youth unemployment and economic integration of low skill workers in both developing and developed Asia.

HRM systems still perpetuate the under-utilization of female talents and members of minorities. Little is observed in terms of systemic integration of foreign resources in the organizations, except for a small group of managers and technical specialists. Mechanisms are still insufficient to optimize foreign talents and to engage a dialogue with the foreign workforce. It concerns working conditions but also the contribution to the performance. As a consequence, the overall input of foreign labor remains limited and the lack of platforms for dialogue does not facilitate the resolution and prevention of potential social conflicts.

Overall, the issue of the sustainability of the HRM systems remains elusive in both developed and developing Asia. Virtuous circles have been created but they do not seem to be inclusive enough to assure stability and sustainability in the long-term. The common characteristic of the sustainable HRM systems that had been built in Western countries and Asia after the WWII had been the important role of the state as developer and regulator. During the last three decades, Asian states have acted as facilitators of the market principles in implementing

policies of privatization and deregulation. What develops now is driven almost entirely by private concerns with the risk of creating economic, social and ecologic unbalances that may be difficult to correct.

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