

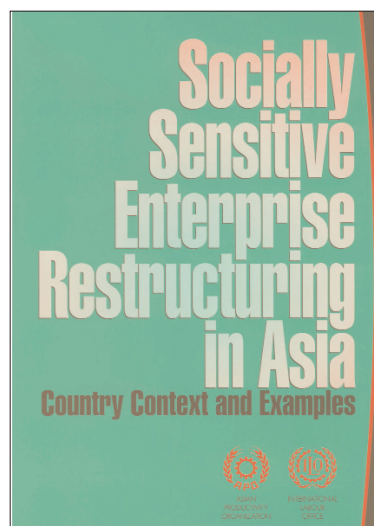
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Socially Sensitive Enterprise Restructuring in Asia – Country Context and Examples

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**Report of the Joint APO/ILO Survey on Socially
Sensitive Enterprise Restructuring—Asian
Experiences (05-RP-GE-SUV-37-B)**

Mr. Nikolai Rogovsky and Dr. Randall S. Schuler
served as the volume editors. This is a joint
ILO/APO publication.



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Socially Sensitive Enterprise Restructuring in Asia

Country Context and Examples



ASIAN
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ASIAN PRODUCTIVITY ORGANIZATION
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FOREWORD

Growing competition and globalization force business organizations to strive for greater efficiency and cost-effectiveness. In many cases, the desired results cannot be achieved without subjecting corporate strategies and structures to transformation. In this context, restructuring is no longer an option but a necessity for survival and growth. However, it is in the interest of society that restructuring be carried out in such a way that it does not jeopardize the high value of human capital. Good management practices, social partnerships, communication, and healthy industrial relations should be applied throughout the change process. This brings to the fore the issue of socially sensitive restructuring. The need for this is crucial for enterprises in Asian economies.

Over the years, the Asian Productivity Organization (APO) and the International Labour Office (ILO) have been involved in a number of joint productivity-related activities addressing not only economic but social dimensions, labor-management relations, and recently corporate social responsibility. In 2005, both institutions expressed interest in pursuing a joint project aimed at a better understanding of policy implications in the area of productivity and industrial restructuring. As a result, the joint APO–ILO Survey on Socially Sensitive Enterprise Restructuring (SSER) in Asia was undertaken. The purpose was to increase awareness of the need for SSER among Asian policymakers and enterprise managers. The main question the APO and ILO sought to answer was how an economy, a sector, or an enterprise can restructure with maximum economic benefit and minimum social cost.

The Coordination Meeting of the APO–ILO Survey on SSER in Asia was held in Vietnam, 19–23 December 2005. The meeting brought together a panel of distinguished experts from the Republic of Korea, the Republic of China, Vietnam, Malaysia, Singapore, and the Philippines. Professor Randall S. Schuler of the USA acted as the chief expert leading the team. That group of experts agreed upon the survey framework and project methodology. After returning home, the national experts from the selected APO member countries then prepared reports covering good examples of restructuring and the overall economic, legal, social, and political environments in which those examples occurred.

This book is a compilation of the country reports prepared by the members of the study team. We hope that the contents will provide useful information for governments, employers' and workers' organizations, and enterprise managers, as well as academics, lecturers, and consultants.

Shigeo Takenaka
Secretary-General
Asian Productivity Organization

Tokyo
May 2007

Part I

Global Realities and Trends: Socially Sensitive Enterprise Restructuring

GLOBAL REALITIES AND TRENDS: SOCIALLY SENSITIVE ENTERPRISE RESTRUCTURING

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INTRODUCTION

Over the past few decades a number of Asia–Pacific economies have participated in unprecedented levels of economic growth (Budhwar, 2004). One consequence of this is that the region has become a major contributor to global prosperity and stability. The economic crisis of the late 1990s suddenly halted this remarkable economic run, but it proved to be more of an aberration than a structural shift in direction. It did, however, highlight a number of characteristics of the affected economies, which needed major changes so as to enable them to even more effectively assimilate into and adapt to the global economy. Many efforts were made as a consequence of this, and the economies appear to be moving forward at a fairly rapid pace, especially in relation to the developed economies of the world (Chen, 2002; Budhwar, 2004; Arnold, 2006; Porter, 2006; Beattie, 2006).

Today the Asia–Pacific region produces more good and services than either North America or the European Union, and this trend is expected to accelerate in the years to come. Moreover, out of the 25 most important emerging markets, more than 10 are from the Asia–Pacific region (Davis and Stephenson, 2006; Garelli, 2006). In addition to this level of production, the countries in the region attract an enormous amount of foreign direct investment (FDI). With a record inflow of more than USD60 billion, China became the world’s largest destination for FDI in 2004 (UNCTAD, 2006). Furthermore, it is also predicted that most new members of the newly affluent nations will come from the Asia–Pacific region in the 21st century (Tan, 2002; Beattie, 2006).

Despite all this, most of the Asia–Pacific economies (excluding Japan and Australia) have a ways to go before they can be considered on a par with the developed regions of the world, in terms of both economic development and management professionalism. For example, many Asia–Pacific countries have reached a stage of development where their future source of growth will not lie primarily with the inflows of FDI, but with internal innovation, research and development, and generating their own FDI. Moreover, many of the advanced Asia–Pacific nations (e.g., Singapore, Korea, and the Republic of China) have lost their cheap labor and property advantages to some of the emerging economies in the region, such as Vietnam, Thailand, and India. Recently companies in China have moved some of their operations to Vietnam and Thailand to take advantage of lower labor costs. Such developments have serious implications for the economies of the region. For example, they can lead to relocation of plant and equipment, loss of jobs as well as creation of jobs in another country, unemployment of many workers, and a negative impact on the towns and villages that suddenly face the loss of an enterprise that has provided jobs, income, and a source of hope for economic improvement (Rogovsky et al., 2005).

The selections in this book highlight the dynamics of several Asia–Pacific countries as they confront global realities and trends and address the need for adjustment and adaptation: Malaysia, the Philippines, the Republic of Korea, Singapore, the Republic of China, and Vietnam. Each study provides the reader with an overview of economic, legal, regulatory, political, demographic, and workforce conditions. Each chapter also describes the implications and responses of the realities and trends and country conditions for enterprises (companies, organizations) of all

types: large, small, domestic, multinational, public, and private, in their efforts to respond to these changing conditions.

While there are many ways enterprises can respond, the chapters in this book look at those that come under the heading of “restructuring.” Since one of the concerns of the ILO and the APO, among others, is employment and its impact on the multiple stakeholders of companies, “socially sensitive enterprise restructuring” is of particular importance. This is described in more detail below.

GLOBAL REALITIES AND TRENDS

In today’s business world, enterprises must face realities and trends that can no longer be ignored. While there are many specific global realities and trends, as shown in Table 1, these characteristics can be broadly categorized as economic, social (geopolitical, cultural, and technological), strategic (enterprise), and workforce.

Table 1. Global Realities of Multinational Enterprises (MNEs)

Type of characteristic	
Economic	<ul style="list-style-type: none">• Globalization and free trade as the biggest realities, with both supporters and critics.• Huge disparities in income and standards of living worldwide.• The biggest markets for products and services are increasingly global.• Increasing demands on energy, raw materials, and infrastructure.• Concern by societies for worldwide competitiveness and job creation.• Growth of foreign direct investment (FDI).
Social (geopolitical, cultural and technological)	<ul style="list-style-type: none">• More integration and expansion within the EU, ASEAN, WTO, COMESA, NAFTA.• Greater concern by societies for sustainability.• More complexity, volatility, and unpredictability.• Still many local and regional legal and cultural qualities.• Technology is making the world flatter, more accessible, and less costly.
Strategic (enterprise)	<ul style="list-style-type: none">• A increasingly larger number of multinational enterprises (MNEs) and small and medium-sized enterprises (SMEs).• Consolidation through increased merger and acquisition activity.• Opportunities for growth and expansion in the emerging markets.• Global competitive advantage attained through scale, scope, local adaptation, knowledge management, and optimal relocation.• Costs, risks, and uncertainties are high, so greater need for alliances.• Need to change business models constantly.
(continued on next page)	

Workforce	<ul style="list-style-type: none"> • Huge potential labor force that is more highly educated and growing. • Greater awareness of worldwide disparities in income and lifestyles. • Workers can be adaptable to workplace styles and human resource practices. • Emigration flows will accelerate. • Workers need not move: work can move to them through offshoring and outsourcing.
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Source: Based on R.S. Schuler, I. Tarique and S.E. Jackson, "International Human Resource Management," presentation at the 7th IHRM Conference, Limerick, Ireland, June 2004; R.S. Schuler and S.E. Jackson, "A Quarter-Century Review of Human Resource Management in the U.S.: The Growth in Importance of the International Perspective," *Management Review* 2005; 16.4: 11-35; and D. Briscoe and R.S. Schuler, *International Human Resource Management* 2e. (London: Routledge; 2005); Pricewaterhousecoopers, *9th Annual Global CEO Survey: Globalisation and Complexity* (New York: PWC); *Trade and Development Report* (Geneva: UNCTAD; 2005), especially Chapter V; R. Schuler, "IHRM: Realities and Trends for MNEs: Implications for the IHRM Field and IHR Professionals," presentation at the Rutgers Business Conference, Rutgers University, New Brunswick, NJ, 24 March 2006. ©R. Schuler, 2006; S. Garelli, "The World Competitiveness Landscape in 2006," *IMD World Competitiveness Yearbook 2006* (Lausanne, Switzerland: IMD) 46-51.

Equally as important to enterprises, however, is the shift in demands and expectations that society has undergone regarding the role of business in society. In general, it cannot be denied that business in today's society plays a much more important role than ever before. Society's trust in political parties, religious organizations, governments, and other institutions is diminishing, and business is becoming a more dominant force in society, further increasing the level of responsibility expected by the public. However, the business world traditionally has been exempt from these social obligations, focusing instead on economic fulfillment, and as a result it is still growing into this new role (Florkowski, 2006).

The International Labour Office (ILO) is trying to help businesses define and detail this role. Director-General Juan Somavia, in his report to the 87th Session of the International Labour Office (ILO), states:

The focus on the enterprise will be a key element in the ILO approach to job creation, an important aspect of which would concern enterprise restructuring. In many countries structural adjustment and changing competitive advantage seem to be driving a continual process of restructuring of larger enterprises, which generally means downsizing. This has affected millions of employees, particularly in North America and Europe, but also in many middle-income countries. However, studies now show that the way this occurs often adversely affects organizational performance and results in repeated downsizing. Senior managers report that downsizing has not just eroded morale and trust, but also reduced productivity. All this suggests that there is both employer and worker interest—and hence prospects for partnership—in developing restructuring strategies that maintain the human resources and energies of the enterprise by giving adequate attention to the human and social side of restructuring. (ILO, 1999)

IMPLICATIONS FOR NATIONS, ENTERPRISES, AND WORKFORCES

As shown in Table 2, there are many implications of the global realities and trends for countries, enterprises, and workforces. In turn, these implications lead to further implications. For example, for enterprises they include the need to be competitive and reduce costs, and for countries they include the need to help their populations learn new skills and to attract and retain

enterprises in order to provide employment for their citizens (Garelli, 2006; IMD, 2006). For both countries and enterprises there appears to be a greater awareness of the impact of enterprise operations and behaviors on a variety of stakeholders and of the need for countries to be involved in the operations of the enterprises.

Table 2. Some Implications of the Global Realities for Countries, Enterprises, and Workforces

At the country and enterprise levels	<ul style="list-style-type: none"> • Globalization will open new markets and create new economies to enter. • CEOs will be concerned about multiple stakeholders. • There is a need to consider the issues of multiple stakeholders—the environment, ethics, providing jobs, the impact of relocating and restructuring—as well as profits. • When doing relocating and restructuring, there is a need to be socially sensitive. • Need to think/act globally, regionally and locally. • Need to think about workforce equality worldwide. • Gaining global competitive advantage depends upon knowledge sharing and transfer, adaptations and relocations, cultural understanding, and economies of scale and scope. • Need to consider the country context—legal, cultural, socio-political, religious and economic—in developing human resource policies and practices • Need for cross-border alliances, thus need to know and manage the many international human resources management (IHRM) issues in international joint ventures (IJVs) and information management and administration (IM&A). • Greater need for learning, knowledge transfer and knowledge management. • Greater need to rely more on people than structure for coordinating and controlling global operations. • Offshoring and outsourcing will continue to be strategies for MNEs. • MNE expansion will be greater in the developing markets than the developed markets.
At the workforce level	<ul style="list-style-type: none"> • Need to prepare individuals and employees to deal with complexity, volatility, and change associated with restructuring. • Greater need for transnational and diverse teams, global leadership, and borderless careers. • High-quality managers, those that can motivate employees to innovate, will be in big demand. • High-talent individuals, those who have skills and are flexible and innovative, will be in big demand • Need for global mindsets and cross-cultural competencies. • Need to think of IHRM policies and practices in terms of the global workforce but also in terms of regional and local workforces and how to mesh them. • The challenge of managing employees of an MNE will increase as MNEs get larger.
(continued on next page)	

For HR professionals	<ul style="list-style-type: none"> • All companies need to think of themselves as MNEs and act accordingly. • HR professionals (leaders and staff) can play a major role. • All employees need to think of themselves as part of the global workforce. • HR professionals can play a major role, too.
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Source: Based on R.S. Schuler, I. Tarique and S.E. Jackson, “International Human Resource Management,” presentation at the 7th IHRM Conference, Limerick, Ireland, June 2004; R.S. Schuler and S.E. Jackson, “A Quarter-Century Review of Human Resource Management in the U.S.: The Growth in Importance of the International Perspective,” *Management Review* 2005; 16.4: 11-35; D. Briscoe and R.S. Schuler, *International Human Resource Management 2e*. (London: Routledge; 2005); Pricewaterhousecoopers, *9th Annual Global CEO Survey: Globalisation and Complexity* (New York: PWC); *Trade and Development Report* (Geneva: UNCTAD; 2005), especially Chapter V; and R. Schuler, “IHRM: Realities and Trends for MNEs: Implications for the IHRM Field and IHR Professionals,” presentation at the Rutgers Business Conference, Rutgers University, New Brunswick, NJ, 24 March 2006. ©R. Schuler, 2006.

A major consequence of this is that today many companies are marketing themselves as socially responsible enterprises. It has become commonplace for a company to state: “Employees for us are not costs, they are our assets.” However, whether or not a company is indeed a socially responsible one—i.e., whether or not it takes into account not only its shareholders and the fiscal policy, but also its employees, the local community, and other stakeholders—can best be determined during times of economic slowdown, when the level of investment increases and risk levels escalate. This brings us to the issue of restructuring.

What Is Restructuring?

Restructuring is a profound change in the way a company operates, involving changes in the company’s strategy and structure and even relocation of operations. This term is also used when it comes to a reduction of the workforce, or *downsizing*, but clearly the term *restructuring* has more far-reaching implications than just the decrease in workforce size.

More than ever the goal of restructuring is the financial and economic improvement of the enterprise, and sometimes its very survival. With increased global competition, it is likely that pressure for restructuring will only increase. Numerous workers, governments, and even employers, however, share the belief that when restructuring is considered and carried out it should be carried out in a socially sensitive manner. In other words, companies should try to maximize economic benefits while attempting to minimize the social costs (particularly those related to downsizing and relocation) associated with restructuring. This is referred to as *socially sensitive enterprise restructuring (SSER)*.

This position is grounded in the ILO’s International Labour Standards (ILS), known as Conventions and Recommendations. In particular, the Termination of Employment Convention (No. 158) and Recommendation (No. 166) should be mentioned here. Both instruments were adopted by the International Labour Conference in 1982, and both are still relevant. These documents highlight the ILO recognition that termination of employment can take place for economic reasons and that this decision can be made by the enterprise management. At the same time, the ILO stresses the necessity of a long-term approach to HR planning, the importance of creating and maintaining a multifunctional workforce, and continuous training and development and emphasizes the importance of consultations between workers and employers before, during, and after the period of restructuring, creation of the most preferential conditions for the workers affected so that they may continue their professional career, and non-discriminatory policies and practices in restructuring, based on such characteristics as age, gender, union membership, etc.

There are other instruments of international law, such as those of the European Commission, regulating the restructuring process. In many countries, national law also regulates restructuring and calls for a socially sensitive approach.

However, in practice, a socially sensitive approach to restructuring is not always taken. On the contrary, the following trends have emerged:

- downsizing is often the first action taken by a company when the economic situation deteriorates;
- downsizing often occurs during mergers and acquisitions;
- there is usually little social dialogue and consideration of affected employees' interests during the downsizing process.

Good examples of socially sensitive enterprise restructuring do exist, and the ILO is promoting and advocating these practices. Contributors to this book are sharing such examples from several countries in Asia.

Background Information on Downsizing and Relocation

Before going into specific country conditions and enterprise examples, however, it may be useful to consider the general evidence on downsizing and relocation. The process may help to highlight some of the reasons for the ILO's concern about SSER.

Loss of job is more than just a loss of income. It could mean a loss of self-respect or of the respect of others, the loss of a structure for one's day, often the loss of one's *raison d'être*.

It is often believed that downsizing has a positive impact on the performance of the company and the so-called "survivors." However, in practice this is not always true. Cascio (2002), who is known for his research on socially sensitive enterprise restructuring, and others have shown that:

- downsizing employees often does not lead to long-term improvements in the quality of products or services;
- for the majority of companies, downsizing has had adverse effects on the morale, workload, and commitment of "survivors" (Gittings, 2001);
- profitability does not necessarily follow downsizing;
- productivity does not necessarily increase as a result of downsizing (Cravotta and Kleiner, 2001);
- relocation creates upheavals in the community of loss as well as the community of gain.

ACTION STEPS FOR SSER

The ILO Project on Socially Sensitive Enterprise Restructuring (SSER) is involved in a number of training, promotional, research, and policy-related activities.¹ All of these activities involve cooperation with the ILO's social partners (governments and employers' and workers' organizations) as well as other international institutions, such as the Asian Productivity Organization (APO). Action research and interactive seminars have always been an extremely important component of the ILO's activities. The ILO helps people learn from each other and is constantly learning from its own experience. The major question that the ILO asks its partners and itself is: "How can an enterprise go through restructuring in the most efficient way from both the economic and social points of view?"

Based on the ILO's experience in more than twenty countries around the world, it recommends that the following be considered:

- Company management should always have a plan of action if restructuring becomes inevitable, starting with the company's human resources.

¹ The ILO activities in the area of socially sensitive enterprise restructuring are carried out along with other ILO projects aimed at generation of more and better jobs, such as global projects helping entrepreneurs, including those displaced through restructuring, to start, improve and expand their own businesses.

- Restructuring should be based on a joint agreement between employers and workers, and in many cases the government.
- All options should be considered before downsizing, with priority given to the least “painful” options.
- If restructuring, downsizing, and relocation are necessary, they should be carried out in a socially sensitive way, using tools proven to have global success. These tools include, among others: counselling, skills assessment, training, internal job search, external job search, SME creation, mobility assistance, early retirement, alternative work schedules (part-time, sub-contracting, flexible leave), severance packages, and work with local community groups and government officials.
- Restructuring should be viewed as a process and should not be started without significant consideration. Steps in the process should include examining the different options involved in restructuring before starting the process; preparing the company and employees for restructuring through consultations and communication, and carrying out restructuring only after this is done; and evaluating how effective restructuring has been after it is done.
- It is critical to evaluate not only the costs of restructuring, but also the benefits of socially sensitive enterprise restructuring. In other words, companies should not only be able to report on the cost of carrying out restructuring in a socially sensitive way, but also to estimate what is gained by being a responsible restructurer.²
- Governments, communities, and unions should be involved in relocation decisions, in both the country losing and the country gaining an enterprise.

Whereas these lessons are universal, it makes sense to summarize more specifically the lessons that the ILO has learned by working jointly with the European Commission in Europe, arguably the most advanced part of the world when it comes to socially sensitive enterprise restructuring.³ In general, there are at least four generic, Europe-specific lessons learned, based on the presentations of a number of European companies:

1. Costs are known; benefits are not. Companies know that socially sensitive enterprise restructuring costs money, and in most cases this financial cost is possible to measure,⁴ but no one really knows how to measure the economic and social benefits of restructuring carried out in a socially sensitive way.

2. Social dialogue is becoming a reality. In most West European countries this is in compliance with existing legislation.

3. Tools of SSER now present a more or less standard package. The good news is that companies facing restructuring are aware of their options. The bad news is that some companies are blindly copying what others are doing, without contemplating whether the tools will be relevant and effective in their company.

4. Links between long-term strategy and restructuring are still rare. Quite a number of companies are still thinking short-term. Restructuring for them is a quick response to economy/sector/market changes.

² Our analysis shows that it is much more difficult to evaluate the benefits than the costs. This is true even in the case of the most responsible companies.

³ In April 2003 the ILO organized, jointly with the European Commission, a High Level Conference on Socially Responsible Enterprise Restructuring, held in Greece. This Conference brought together, for the first time, over 200 representatives of businesses, governments, employers and trade unions from 25 EU and accession countries to share experiences in the area of socially sensitive enterprise restructuring. This event was held literally days before the most recent ten states signed the treaty of accession to join the union. Over 20 case studies on socially sensitive enterprise restructuring at enterprise, regional and sector levels were presented.

⁴ At the same time, companies often have difficulty measuring the social and human costs of restructuring.

Strategic Thinking Required

The fourth lesson above is perhaps the most important. In order for restructuring to be successful, it should be linked to the long-term strategy of the development of the company, country, or region. At the enterprise level, it means that restructuring should not be viewed as a firefighting exercise. According to Cappelli:

Frequent reorganizations are like doctors treating patients with antibiotics. The medication might work short-term, but long-term it can be harmful. The constant churning caused by these reorganizations generates costs and develops long-term cynicism about why they are done and what they mean. (Cappelli, 2003)

This view is echoed by MacDuffie:

Deciding on the right strategy for the company is key. Strategy-making processes done hastily and based on the wrong assumptions can mean moving the boxes around on the org chart without thinking through all the consequences. How you get to the right place depends on your perspective. The resource capabilities view of strategy says it ought to grow organically out of a clear-eyed perception of what the company's capabilities are and how readily they can be developed as opposed to strategy-making occurring in a vacuum or from an externally focused competitive analysis that is naïve about how malleable the organization is to change. (MacDuffie, 2003)

The importance of linking restructuring to the long-term enterprise strategy is becoming an important issue in the context of socially sensitive enterprise restructuring. One may cite a number of cases when the human costs of restructuring were ignored. Managers, for example, often do not take time to explain why a restructuring effort is taking place, what the goal is, and how it will affect the jobs of the people involved, including the survivors. A huge part of the trauma associated with restructuring stems from a change over the past decade in the relationship between employers and workers. According to Cappelli, in the 1980s, IBM

... used to reorganize all the time. But the company also offered employment security, which meant that an employee might be asked to change locations or move to a different part of the organization, but he kept his job and his salary. Consequently employees tended not to resist their changes. Now, however, companies reorganize in ways that threaten people. Employees might not just be assigned to some other job, they might lose that job or be demoted. There are all kinds of negative consequences. It reflects a change in the way companies do business and the fact that they are not particularly inclined to protect employees. (Cappelli, 2003)

Long-term strategic thinking requires careful human resource (HR) planning. But, most importantly, it is linked to a management philosophy that calls for treating employees as an asset rather than a cost. Cascio came to the following conclusion:

As I investigated the approaches that various companies, large and small, public and private, adopted in their efforts to restructure, what became obvious to me was that companies differed in terms of how they viewed their employees. Indeed, they almost seemed to separate themselves logically into two groups. One group, by far the larger of the two, saw employees as costs to be cut. The other, much smaller group saw employees as assets to be developed. Therein lay a major difference in the approaches they took to restructure their organizations:

- Employees as costs to be cut. These are the *downsizers*. They constantly ask themselves, "What is the minimum number of employees we need to run this company? What is the irreducible core number of employees the business requires?"

- Employees as assets to be developed. These are the responsible restructurers. They constantly ask themselves, “How can we change the way we do business, so that we can use the people we currently have more effectively?”

The downsizers see employees as commodities like microchips or lightbulbs, interchangeable, substitutable, and disposable, if necessary. In contrast, responsible restructurers see employees as sources of innovation and renewal. (Cascio, 2002; 5)

Companies that treat employees as assets are most likely to be known for socially sensitive restructuring. These companies do not jump straight into the downsizing option, but carefully consider other options that do not involve cutting labor costs. An extreme version of this approach is a no-layoff policy used by some companies, such as Southwest Airlines (Rogovsky and Sims, 2002). While a no-layoff policy is clearly a solution that allows a company to minimize the social costs of restructuring, it is not always possible from an economic point of view. However, if layoffs and downsizing seem to be inevitable, companies may use a number of tools that aid in combining two important enterprise functions: maximization of economic output and minimization of social costs.

One of the major lessons learned throughout the work on socially sensitive enterprise restructuring is that its success is largely determined by the quality of labor–management relations that could provide a beneficial environment for restructuring.

BRIEF COUNTRY CONDITION DESCRIPTIONS

The following country studies provide a great deal of information about the economic, legal, political, regulatory, demographic, workforce, and enterprise conditions in Malaysia, the Republic of Korea, the Philippines, Singapore, the Republic of China, and Vietnam. The authors have gathered these country conditions from the latest and most reliable sources, which are cited to enable the reader to search for the latest updates.

The authors have also prepared several examples of enterprises in their countries that have gone through restructuring. These examples are offered to provide insights to others of what is possible in their experiences given a potential need for restructuring.

The country conditions of the Republic of China are described by the country experts Dr. Yue-Shan Chang of National Sun Yat-sen University and Jhih-Sian Sun of National Kaohsiung Marine University. After a detailed description of the country conditions, case examples of China Steel Corporation, Taiwan Motor Transport Corporation, and Taiwan Salt Industrial Corporation are provided.

Country conditions in the Republic of Korea are described by the country expert Dr. Jisoo Yu of Kookmin University. After a detailed description of the country conditions, case examples of the Yuhan–Kimberly Corporation, the Korea Credit Guarantee Fund, and the Daewoo Motor Corporation are presented.

Conditions in Malaysia are described by the country expert Nor Hafizah Mohd of the International Productivity Corporation, Selangor. After a detailed description of the country conditions, case examples are provided: MASKargo, Panasonic HA, and Company 3. The appendix offers readers a survey that can be used in their countries that can be compared with the experiences in Malaysia.

The country conditions of the Philippines are described by the country expert Dr. Jorge V. Sibal, University of the Philippines. After a detailed description of the country conditions, case examples of the Manila Electric Company, United Laboratories, Inc., the San Miguel Corporation, the Metropolitan Waterworks and Sewerage System, the University of the Philippines, and the Asian Transmission Corporation are presented in rich detail.

The country conditions of Singapore are described by the country expert Dr. Hing Ai Yun, Professor of Sociology, the National University of Singapore. After a detailed description of the

country conditions, case examples of the Murata Electronics Singapore Ltd., A Systems, Company M Pte Ltd., and Company Ne Pte Ltd. are provided.

The country conditions of Vietnam are described by the country expert Do Thi Dong of National Economics University, Hanoi. Case examples provided are Aviation Joint Stock Printing Company, Business Support Service Company, and Hanoi Leather and Shoes Company.

In the final chapter, the major points presented in the country examples of SSER are summarized and their implications for policymakers, governments, employers, and workers' organizations are examined.

CONCLUSION

Enterprises in most countries are facing the same external pressures that lead to ongoing turbulence and change in markets and increasing intensity of competition (Garelli, 2006). There are some convincing reasons to expect such turbulence, among them globalization of markets, commerce and financial flows, deregulation and trade liberalization, rapid technological changes, the shift from an industrial to a knowledge- and information-based economy, threats to environmental sustainability, and changing expectations and value systems. As a result, enterprises should be ready for new challenges and should address them in such a way as to maximize economic benefits and minimize social costs. At the same time, enterprises are not alone in facing these challenges; governments can also be impacted during regional or sectoral restructuring. What can enterprises and policymakers do to tackle the restructuring challenge? The cases in the following pages offer examples of what some enterprises in Asia have done. They are offered along with a rich description of their contextual context so that the reader can decide which lessons can be transferred to enterprises in other countries and regions, as well as in the countries from which the case examples are drawn.

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Part II

National Reports on Socially Sensitive Enterprise Restructuring

REPUBLIC OF CHINA

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A BRIEF INTRODUCTION

The area of the island of Taiwan is 35,980 sq km. It has a population of 23 million. Geographically it occupies a central Asian location. Taiwan has also been known as “Formosa,” meaning “beautiful.” Between 1624 and 1945, Holland, China, and Japan had a hand in the government of Taiwan.

In 1946, the Kuomintang (KMT) from China took over rule of Taiwan. In 1949, an emergency decree was declared whereby the government took strict control over many aspects of Taiwan. Politically and economically, the KMT dictated policies to protect and develop the then weak country, the Republic of China. Industrial policies involving numerous stated-owned enterprises (SOEs, nearly 140 in a variety of areas) were implemented in order to stabilize the country’s society and economy.

Towards the end of the 20th century the Republic of China gained international praise for its rapid increase in GDP accompanied by surprisingly mild inflation and low unemployment. In 1987, the emergency decree was lifted. The country expressed a desire to join various international organizations, and the government’s role in the economy changed from that of a strict babysitter to a mentor.

In the following sections we aim to provide a brief background on Taiwan’s society and economy. We will describe some of the changes brought about by economic liberalization and globalization, focusing on the impact on SOEs and their employees. Finally, we will provide three examples of SOEs that have successfully coped with a much-changed economic environment in a socially sensitive manner.

SOCIAL, CULTURAL, AND ECONOMIC CONTEXT

In the 17th century, Ch’ing immigrants from the Fujian coastal province of southeast China risked the dangerous crossing of the Taiwan Strait seeking fertile farmland and an improved life. Three centuries later, in 1949, approximately two million people came to Taiwan as part of the KMT’s move away from communist China, in an attempt to maintain their government. These two groups now account for approximately 98% of Taiwan’s population. The remaining 2% is made up of various aboriginal tribes.

Taiwan’s social culture has developed into an open and accepting culture. Religious freedom is present, with Buddhism, Catholicism, Christianity, and Taoism existing side by side. One of the most popular folk deities is Mazu, a goddess of marine safety.

From 1949, the KMT controlled the island’s economic system with an emphasis on equality of wealth. The KMT operated a mixed economy and wished to create a prosperous, affluent society, in which the government guaranteed and looked after each person’s basic living needs. SOEs were an important tool in achieving such a society. The government protected its market by discouraging foreign imports through high import taxation, while encouraging private companies to export. SOEs provided the private sector with a stable infrastructure and raw materials. In this manner, the Taiwanese people enjoyed a long period of economic comfort, often called by foreigners Taiwan’s economic “miracle.”

In 1987, the emergency decree was lifted and the Republic of China rapidly opened up. A move towards globalization and liberalization was felt at all levels. In the economic sphere, values shifted towards an anti-monopolistic market. The Taiwanese people asked that the government encourage the market mechanism—the theory that supply and demand should dictate prices and quantities and decrease the number of monopolies so that the government would not be competing against the people for profit.

Following the lifting of the emergency decree, the role of state-owned enterprises changed drastically. SOEs now had to compete with private companies and deal with the variability of a liberalized market. Consequently the work environment of SOEs also had to change. This had a serious impact on SOE employees.

The private sector was to take ownership of some public utilities, and, through the process of privatization, these companies would become more efficient than SOEs. The remaining SOEs had to restructure in order to compete with the private sector. In doing so, employees no longer had the stability and safety they once enjoyed. At that time, the trade unions became more important in protecting the interests and rights of SOE employees. They had to adjust to the “new Taiwan.”

TRANSITION TO A MORE LIBERALIZED ECONOMY

The Republic of China is unique in that it was ruled under emergency decree for almost 40 years. When the KMT took control of Taiwan’s economic development in 1949, it imposed an authoritarian rule. The KMT took charge of existing industries and created new ones. It directed both to provide Taiwan with a stable economic environment. In 1987 the emergency decree was lifted, and both the government and the people expressed a desire to join the global market.

1949–86: Authoritarian Rule

The Republic of China received praise from Western countries as a successful model of economic development during this period. According to this model, the government carried out a succession of industrial policies involving state-owned enterprises in all trades and professions. At that time SOEs provided a favorable environment for the development of the country’s economy, in the form of steady prices, interest rates, and exchange rates. Furthermore, SOEs ensured the availability of utilities, telecommunications, and transportation, to both businesses and the public, in order to maintain quality of life and promote economic development.

1987–Present: Democratic Society

In time, the Republic of China became one of the four “Asian Tigers.” It made plans to enter the World Trade Organization, and it did so in 2002. Pressure from the opening of markets in foreign countries forced the government to reduce tariffs year by year. The international economic environment changed to become more globally competitive. Private enterprises emerged. Advances in digital technology and computer networks made once naturally monopolistic industries (electricity, telecommunications, public transport) become competitive.

Since the lifting of the emergency decree in 1987 and the ensuing democratization of the society, the people of the Republic of China have challenged the government over the fact that SOEs (many of them monopolies) competed with the people to earn money. Furthermore, they suggested that the inefficiency of SOEs was a barrier to the country’s economic development. Many SOEs placed a financial drain on the government’s coffers. Furthermore, social welfare expenditure had soared rapidly (see Figure 1) and fiscal revenue was less than government expenditure (this trend continues today). The government needed to increase revenue, so SOEs had to restructure in order to improve efficiency. As a consequence, industries monopolized by the government in the past (telecommunications, finance, oil, public transportation) began to be

deregulated one after another and introduced to the market mechanism, while the remaining SOEs continue to face significant change (see Figure 2).

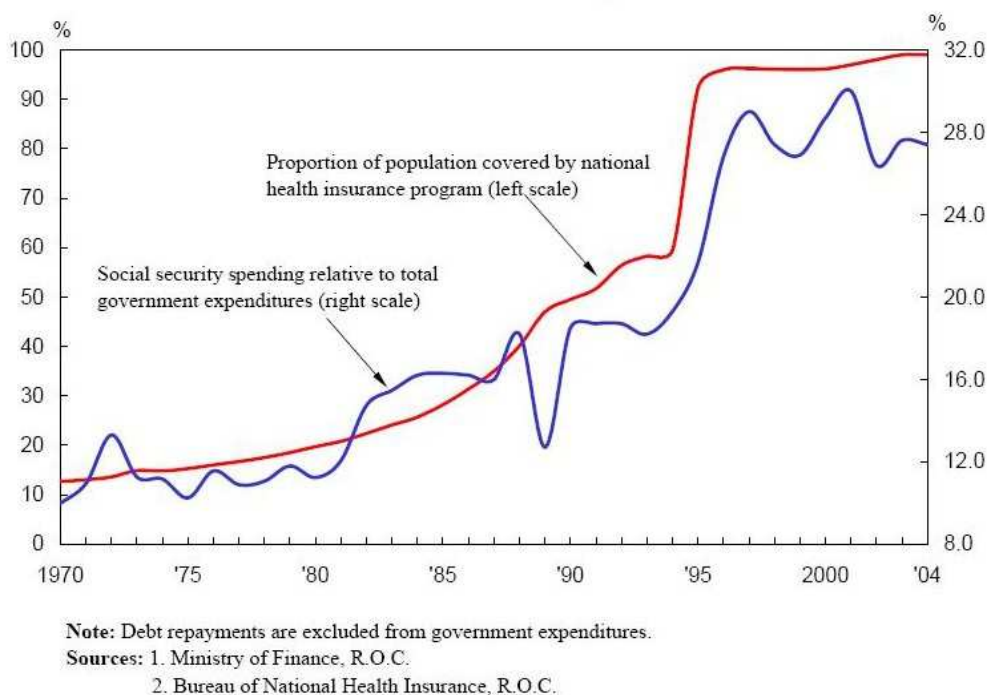


Figure 1. Social Welfare Expenditures, 1970–2004

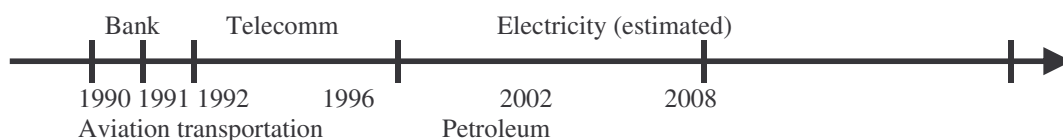


Figure 2. SOE Liberalization Schedule

A SUMMARY OF THE ECONOMY IN TRANSITION

The Republic of China went through the following stages of economic development:

1949–61: A Shift from Agriculture to Light Industry

Although some products such as rice and sugar were exported, Taiwan's agriculture sector was most important on the domestic front. To that effect, the government devised two plans—the 3.75% rent plan and the tenant ownership plan—to encourage farming and thereby maintain this important industry.

3.75% rent plan. The government controlled rent by enforcing a price ceiling. Tenants working the land paid rent of no more than 3.75% of their main crop income.

Tenant ownership plan. The government seized large tracts of land from wealthy land-owners and sold them cheaply to tenants. In this way, arable land was divided and reallocated among the people.

With the rise in population in rural areas during the 1950s, however, the agriculture sector soon became overgrown with workers. There were too many people in need of work, and there was not enough land to be worked. So, to bolster the economy even further, the Republic of China needed to expand its markets and provide jobs for those in need.

This gave rise to the development of “light” industries, such as textiles and basic goods.

Import substitution period. Raw materials, rather than finished products, were imported in order to promote the development of “light” industries, such as textile, basic goods etc.

1962–86: Export Expansion Policy

In 1962, the shift from agricultural production to industrial production became more obvious as the value of industrial production exceeded that of agriculture. At the same time, it became clear that the domestic market was too limited to encourage economic growth. In order to keep up with the huge labor force, the government initiated and encouraged the development of labor-intensive export industries, for example textiles, leather, and other light and labor-intensive industries.

This period of economic development has been generally referred to as the R.O.C.’s “industrial era.” By 1986, industrial output had climbed to 47.1% of GDP.

Encouragement of foreign investment and establishment of export processing zones. As a result of the growing export markets, foreign investors were eager to capitalize on the island’s inexpensive labor. The government supported foreign interests and encouraged foreign investment. To further attract investors, the government set forth the Nineteen Financial and Economic Reform Measures and the Status for the Encouragement of Investment. The former led to a sharp increase in factory investment by easing trade restrictions and promoting exports. The latter helped improve the investment environment by simplifying both the paperwork and the inspections processes for exporting goods and by providing incentives to manufacturers. This, in turn, attracted foreign capital and accelerated depreciation.

Areas were designated where foreign investors were encouraged to set up factories. In these areas, referred to as processing zones, raw materials were imported tax-free, processed, and then exported without entering the domestic market.

Industrial infrastructure. During this period, the government initiated the Twelve Major Construction Projects, which laid the foundation for basic infrastructure and led to the development of the heavy chemical industry.

Heavy investments were made to improve transportation, both on land (roads, highways, railroads) and by sea (harbors), and also to build up the oil reproduction industry within Taiwan. This created a stable infrastructure that promoted the development of the private sector.

Trade protection. The domestic market was protected from foreign imports in order to build up the local private sector by imposing heavy import taxes.

Accumulation of foreign currency. Exporters were prohibited from collecting foreign currencies. Foreign currencies coming into the country were held by the banks (the government), and exporters received Taiwan dollars. In this way the government was able to accumulate foreign currency.

Promotion of exports. In order to further promote exports, the government requested that Taiwan Bank set a fixed exchange rate for Taiwanese companies in the export business. This rate (USD: TWD = 40:1) was quite attractive to foreign buyers. The government also simplified the paperwork and inspection processes for R.O.C. exporters, making customs clearance easier.

Additionally, the Taiwan External Trade Development Council (TAITRA) was created to enhance worldwide trading opportunities.

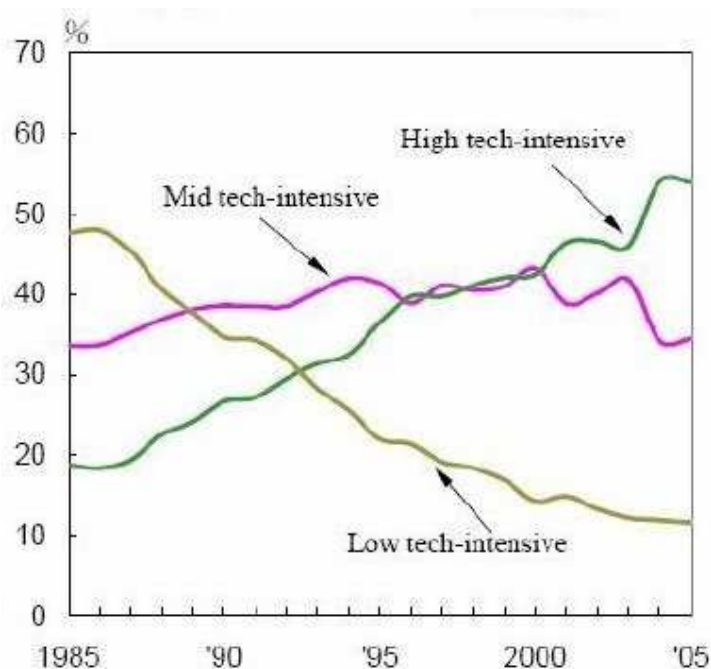
1987–Present: Economic Liberalization

As the export industry became more and more developed and as Taiwan's economy grew stronger, the government began to loosen its control. Then, in 1987, the emergency decree that had been in place for nearly four decades was lifted. This move made it clear that the government supported a shift to an open market. As such, market deregulation flourished. State-owned enterprises began to be privatized.

Taiwan dollar appreciation. Due to the successful development of the Taiwanese economy, the TWD appreciated.

Loss of labor cost advantage. As the local average wage increased, the profit margin of labor-intensive industries decreased. These traditional industries relocated production to other Asian countries in order to combat this problem.

Development of Hsin-chu Science Park. Taiwan's economic stability allowed for development in new areas. High-tech industries became a new driving force for the economy (see Figure 3). To promote growth, high-tech companies enjoyed an initial five years tax-free. Vigorous growth in this area has means that high-tech industries have replaced traditional manufacturing industries as the main provider of employment.



Sources: 1. National Science Council, Executive Yuan, R.O.C., *Indicators of Science and Technology*, R.O.C., 2005.
2. Ministry of Finance, R.O.C., *Monthly Statistics of Exports and Imports, Taiwan Area*, R.O.C., Jan. 2006.

Figure 3. Composition of Export Products

EFFECTS OF GLOBALIZATION ON THE LABOR MARKET

The Republic of China's new global economy is very different from that of the closed economy controlled by the KMT. Major changes can be seen in both the skill level needed by employees and the sectors offering employment opportunities. In the following section we will summarize the major changes globalization has had on the labor market situation.

One of the biggest changes that can be seen is the changed role of the industry sector and the service sector. Global competitiveness caused many problems in the industry sector (e.g., cheaper foreign imports, comparatively high local wages). Profit margins decreased and therefore employees were laid off and GDP contribution dropped. Over the last 18 years the industry sector's contribution to the GDP has steadily decreased. A drop from 46.68% (1987) to 29.65% (2004) can be seen (see Table 1a/b and Figure 4).

Table 1a. Percentage Share of GDP by Industry, 1987–95

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Agriculture	5.30	5.03	4.89	4.17	3.78	3.59	3.63	3.51	3.47
Industry	46.68	44.84	42.31	41.23	41.07	40.08	39.35	37.71	36.38
Service	48.03	50.14	52.80	54.60	55.15	56.33	57.02	58.78	60.15
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 1b. Percentage Share of GDP by Industry, 1996–2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture	3.19	2.55	2.48	2.57	2.09	1.96	1.86	1.80	1.79
Industry	35.71	35.33	34.67	33.24	32.52	31.17	31.36	30.57	29.65
Service	61.10	62.13	62.85	64.20	65.38	66.87	66.79	67.63	68.55
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

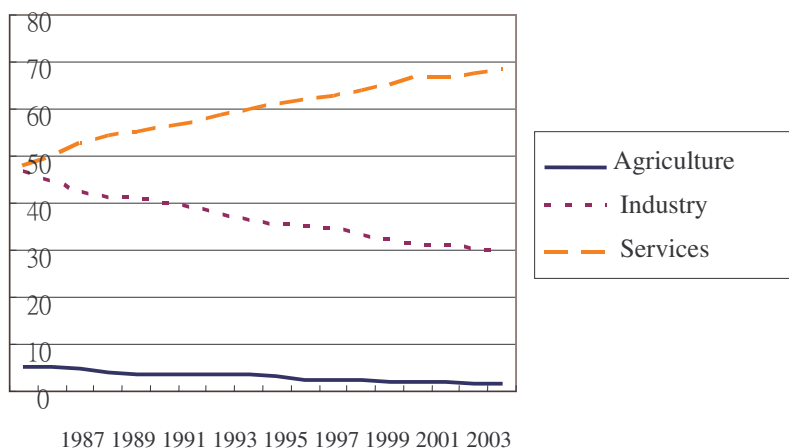


Figure 4. Trend of GDP by Industry, 1987–2003

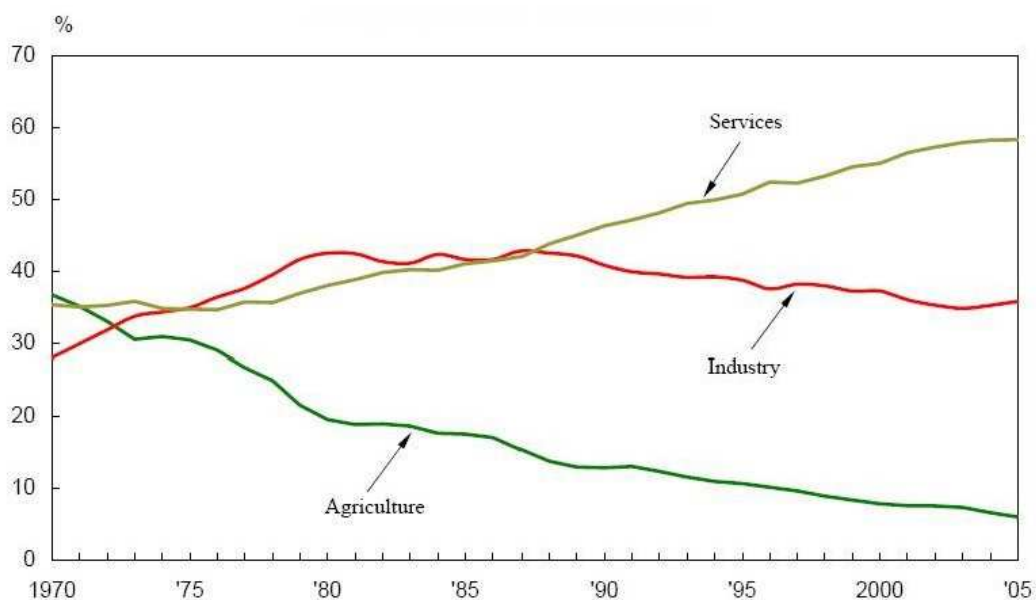
During this same period the contribution from the service sector steadily increased. The percentage of GDP contribution from the service sector rose from 48.03% (1987) to 68.55% (2004). Furthermore, in 2004, the total number of employees in the Republic of China was 1.663 million greater than in 1987 (see Table 2). Of this increase, 94% was created by the service sector and a mere 6% by the industry sector. The service sector became more significant as the major contributor to GDP and as the major employer (see Figures 5a and 5b).

Another major change can be seen in the type of employment available. Since 1987 (and the new economic direction), the number of high-tech employees increased by over 1.119 million while the number of low-tech employees increased by only 0.544 million. The percentage of employees in high-tech jobs rose from 22.0% in 1987 to 34.9% in 2004 (see Tables 3 and 4).

Table 2. Jobs Created by Sector (1978–2004)

	Jobs created 1987–2004 (10,000)	Percentage by area
Service sector	156.1	94%
Industry	10.2	6%
Total	166.3	100%

Source: Annual Report on Earning and Productivity Statistics of Taiwan. Annual edition. Directorate-General of Budget, Accounting, and Statistics, Executive Yuan, R.O.C.



Source: DGBAS, Retrospective Estimation and Adjustment of Taiwan Area Manpower Data: 1951–83, October 1984; DGBAS, Monthly Bulletin of Manpower Statistics, Taiwan Area, R.O.C., March 2006.

Figure 5a. Employment Structure

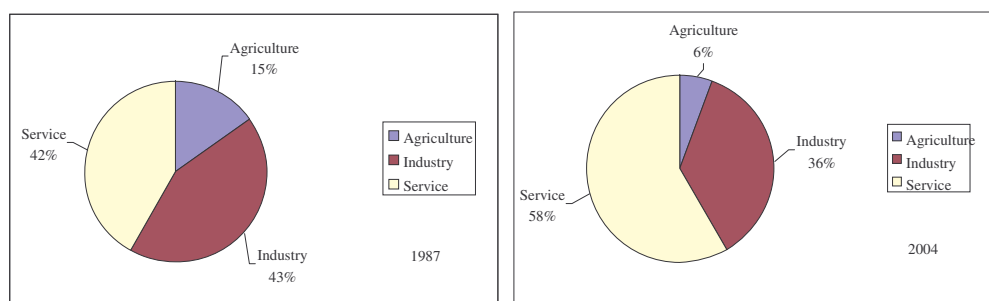


Figure 5b. Percentage of Employees by Sector in 1987 and 2004

Table 3. Division of Employment in Industry (comparing 1987 to 2004)

	Number of employees	Jobs created from 1987 to 2004 (2004–1987) (10,000)		% of high-tech workers
	1987 2004	High and low tech	High-tech Low-tech	1987 2004
Mining and quarrying	29,597 6,855	-2.3	-0.3 -1.9	31.4% 19%
Manufacturing	2,316,978 2,420,106	10.3	47.5 -37.2	39.4% 20.6%
Electricity, gas and water	34,955 34,286	-0.1	0.3 -0.3	55.1% 46.2%
Construction	356,474 379,144	2.3	2.8 -0.5	28.2% 22.2%

Note: The “high-tech” workforce includes salaried workers of an industrial department or the supervisory and technical employees of a service trade department. The “low-tech” workforce includes wage earners of an industrial department or non-supervisory employees of a service trade department.

Source: Annual Report on Earning and Productivity Statistics of Taiwan. Annual edition. Directorate-General of Budget, Accounting, and Statistics, Executive Yuan, R.O.C.

Table 4: Division of Employment in Service Sector (comparing 1987 to 2004)

	Number of employees	Jobs created from 1987 to 2004 (10,000)		% of high-tech workforce
	1987 2004	High and low tech	High-tech Low-tech	1987 2004
Trade, accommodation and eating/beverage	667,410 1,562,345	89.5	28.4 61.1	21 27.2
Transportation, storage and communication	354,791 323,327	-3.1	2.3 -5.5	14.3 22.9
Banking/insurance/real estate/business/social/personal service	411,429 1,106,846	69.7	30.9 38.7	35.4 41.1

Source: Annual Report on Earning and Productivity Statistics of Taiwan. Annual edition. Directorate-General of Budget, Accounting, and Statistics, Executive Yuan, R.O.C.

Traditionally, the industry sector employed a high number of unskilled (low-tech) workers. However, not only did the cheap unskilled labor costs in other countries cause Chinese businesses to move production out of the R.O.C., but as technological advances changed the face of industry, it became more important for workers in Taiwan to have a high level of technological ability and knowledge (see Table 3). These two factors contributed to an overall drop in employment for low-tech workers in the industry sector (see Figure 6). Within the industry sector, manufacturing accounts for most of the economic contribution (see Figures 7a and 7b). In this area the number of high-tech employees increased by 0.371 million, whereas the number of

low-tech employees decreased considerably, with a loss of 0.388 million jobs (see Table 5). Skill-intensive jobs rapidly replaced labor-intensive jobs. Thus, employment opportunities became greater for those with a high level of technological skill.

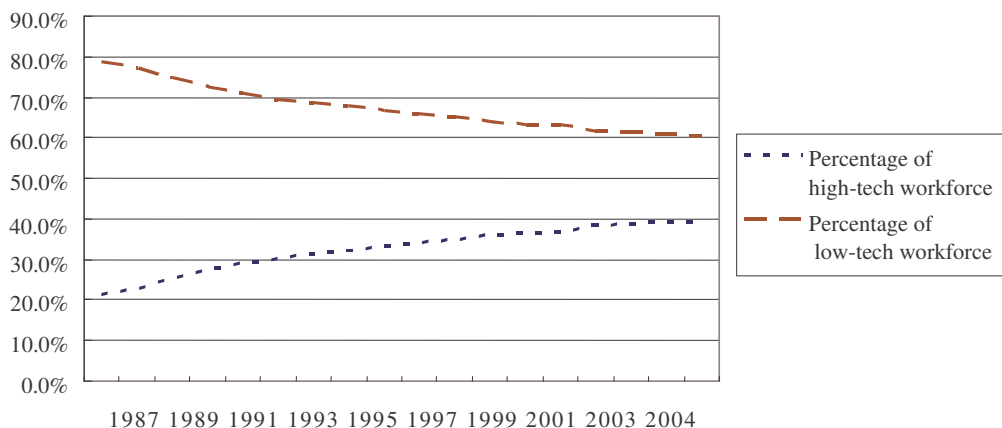


Figure 6: Manufacturing Employees by Skill Level, 1987–2004

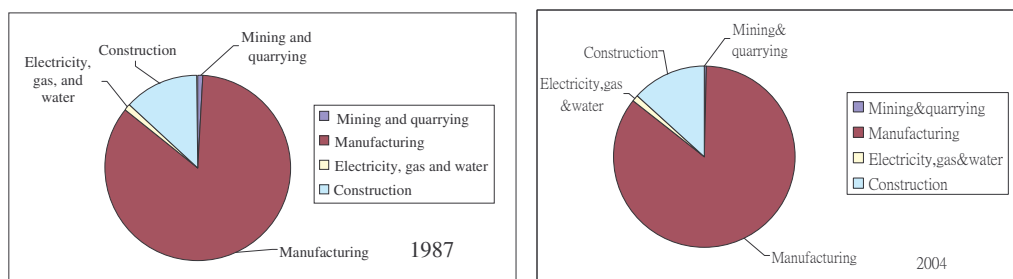


Figure 7a. Employment in Industry in 1987 and 2004

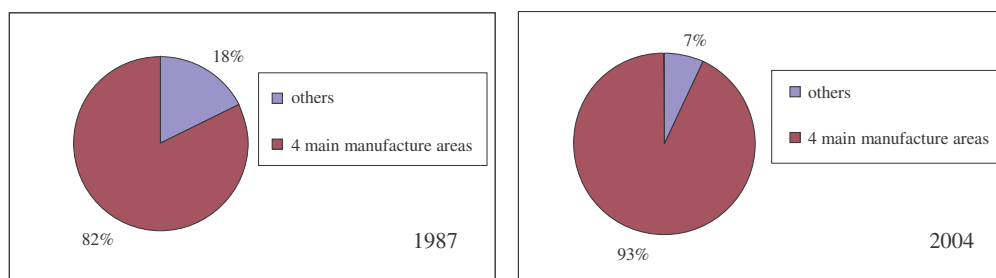


Figure 7b. Employment in Manufacturing and Main Manufacturers in 1987 and 2004

Table 5. Job Creation in Main Manufacturing Areas, 1987–2004*

		Jobs (unit: 10,000)			High-tech workforce %		
		Total	Low-tech	High-tech	1987	2004	1987–2004
Main areas of manufacture	Food and textile	-18.8	-18.2	-0.6	19.4	40	20.6
	Chemical	-12.2	-16.9	4.7	22.7	40.4	17.7
	Electronics industry and information	27.1	-3	30.1	20.1	46.6	26.5
	Metal mechanical industry	2.2	-0.7	2.9	21.2	28.3	7.1
Total		-1.7	-38.8	37.1	21.2	39.4	18.2

*Data were unavailable for 1987–93.

Source: Annual Report on Earning and Productivity Statistics of Taiwan. Annual edition. Directorate-General of Budget, Accounting, and Statistics, Executive Yuan, R.O.C.

Regarding job creation in the service sector, a slight shift towards high-tech jobs can be seen. However, the change has been less obvious, perhaps due to a polarization of employment opportunities. Service trades require both high-tech workers (e.g., IT support) and low-tech workers (first line of contact, e.g., receptionist) (see Tables 4 and 6, Figure 8).

Table 6. Job Creation in Service Trade Areas, 1994–2004*

		Jobs (unit: 10,000)			High-tech workforce %		
		Total	Low-tech	High-tech	1994	2004	1994–2004
Main Areas of Service Sector	Wholesale and retail business	25.3	14.2	11.1	23	26.7	3.7
	Accommodation and catering	-1.9	-2.2	0.3	26.2	31.2	5.0
	Transportation and communication logistics	0.4	-1	1.4	18.7	22.9	4.2
	Finance and insurance	9.5	6.2	3.3	18.2	22.7	4.5
	Real estate and leasing industry	-2.3	-1	-1.2	32.3	25.6	-6.7
	Specialty, science, and technology services	5.9	1.7	4.1	53.1	58.3	5.2
	Medical treatment and health care	6.2	1.2	5	77.2	78.3	1.1
	Culture, sport, and entertainment	-1.1	-1.1	-0.1	46.7	52.3	5.6
	Other services	4.8	3.6	1.2	20.3	21.4	1.1
Total		46.7	21.6	25.1	27.8	31.8	5.0

*Data were unavailable for 1987–2004.

Source: Annual Report on Earning and Productivity Statistics of Taiwan. Annual edition. Directorate-General of Budget, Accounting, and Statistics, Executive Yuan, R.O.C.

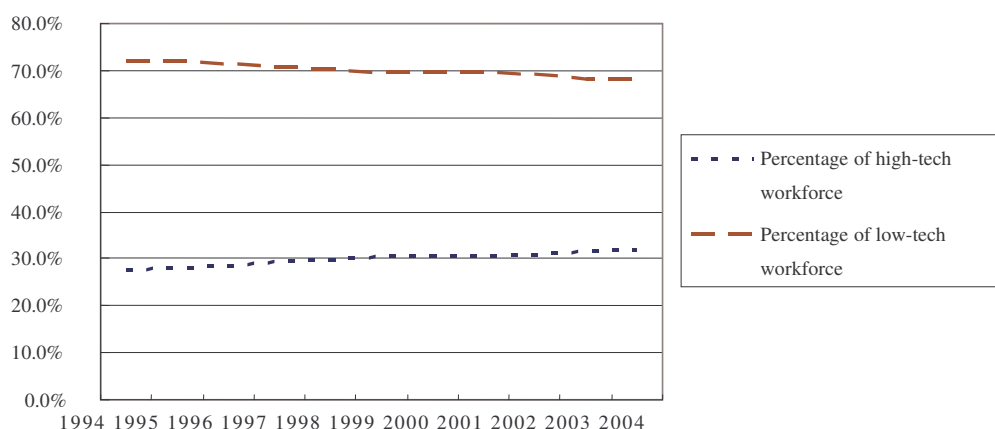


Figure 8. Service Sector Employees by Skill Level, 1994–2004

Overall, in the Republic of China's new globally competitive economy, both the industry sector and the service sector have created job opportunities. Within the manufacturing industries, most job opportunities were created in high-tech industries (integrated circuits, telecommunications, optoelectronics), whereas in the labor-intensive traditional industries (textiles, food, machinery) there was a loss of job opportunity. Service industries, particularly those which had been monopolized by the government in the past (telecommunications, banks, and public transportation), quickly grew under private enterprises and created both high- and low-tech employment opportunities (see Figure 9).

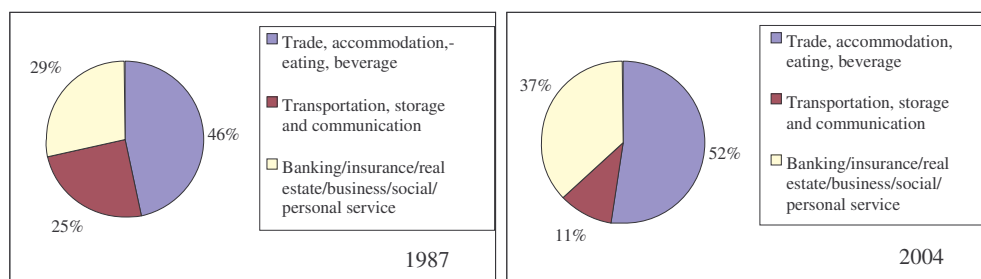


Figure 9. Employment in Service Sector in 1987 and 2004

Economic liberalization has caused employment opportunities to increase in some areas while decreasing in others. For this reason, liberalization has not caused the rate of unemployment in to rise significantly. Although the unemployment rate increased from 1987 to 2004, it was a very mild increase: from 1.97% in 1987 to 4.44% in 2004 (see Table 7, Figure 10).

The liberalization and globalization of the economy has had both positive and negative effects. Globalization has meant that Republic of China businesses can take advantage of cheaper labor costs in other countries. In fact, it has often become necessary to relocate production in order to decrease costs. Being legally unable to do this, many state-owned enterprises have lost the competitive advantage. They have been unable to compete with private businesses and foreign businesses. In order for the government to maintain and improve these industries, SOEs have had to be restructured. This restructuring often involves layoffs or personnel retraining and/or relocation. Thus, employees of SOEs have had to face the negative effects of globali-

zation and the government has had to find ways to lessen this negative effect (an issue we will examine in the following sections).

Table 7. Unemployment, 1987–2004

1987–1995	1987	1988	1989	1990	1991	1992	1993	1994	1995
	1.97	1.69	1.57	1.67	1.51	1.51	1.45	1.56	1.79
1996–2004	1996	1997	1998	1999	2000	2001	2002	2003	2004
	2.6	2.72	2.69	2.92	2.99	4.57	5.17	4.99	4.44

Source: Annual Report on Earning and Productivity Statistics of Taiwan. Annual edition. Directorate-General of Budget, Accounting, and Statistics, Executive Yuan, R.O.C.

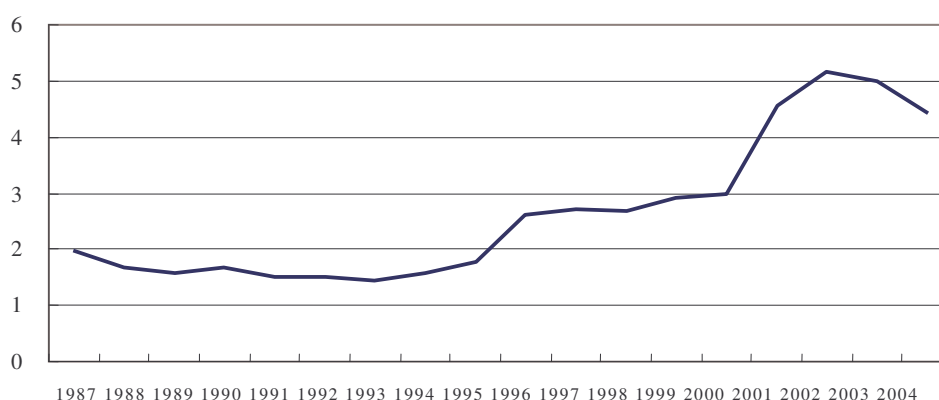


Figure 10. Unemployment Rate, 1987–2004

On the positive side, globalization deregulated the market, which allowed the private sector considerably more freedom. Investments poured into the service trades, including those once monopolized by SOEs. The services sector developed vigorously and offered significant job opportunity in both high-tech and low-tech areas. As job creation outnumbered job loss, globalization could be seen as an overall positive effect on the R.O.C.'s labor market.

Sectors of the Economy Most Affected by Economic Liberalization

The impact of economic liberalization was very different for SOEs and private enterprises. The greatest impact of liberalization has been on the former. SOEs decreased in number, while the number of private enterprises increased. Between 1986 and 2001, the percentage of SOEs decreased from 0.13% to 0.05% (see Table 8). Total output value of SOEs decreased from 15.4% to 11.01% (see Table 9). The percentage of people employed by SOEs decreased from 7% to 4.25% (see Table 10 and Figure 11).

Prior to the country's move towards a democratic society and an open market, SOEs had been obliged to supply public services to all people. SOEs also had to provide private enterprises with a safe economic environment in which to develop. Whether profitable or not, SOEs had to maintain certain services and produce certain goods.

In the past SOEs had been structured in a bureaucratic manner. They were unable to respond quickly to market needs as decisions had to be ratified by the Congress Legislation Council. This process could take up to 18 months. Also, employees had little incentive to perform well, as salaries were fixed.

Table 8. Percentage (and Number) of SOEs and Private Enterprises

	1986	1991	1996	2001
SOEs	0.13% (939)	0.13% (736)	0.09% (749)	0.05% (432)
Private	99.87% (737,975)	99.87% (610,425)	99.91% (865,824)	99.95% (934,884)
Total	100.00% (738,914)	100.00% (611,161)	100.00% (866,573)	100.00% (935,316)

Source: Report of the Industry, Commerce and Service Census of Taiwan

Table 9. Output Value of SOEs and Private Enterprises (NT\$: million)

	1986	1991	1996	2001
SOEs	15.40% (1,268)	17.07% (826)	12.52% (1,682)	11.01% (1,875)
Private	84.60% (6,969)	82.93% (4,015)	87.48% (11,753)	88.99% (15,157)
Total	100.00% (8,237)	100.00% (4,841)	100.00% (13,435)	100.00% (17,032)

Source: Report of the Industry, Commerce and Service Census of Taiwan

Table 10. Percentage (and Number) of Employees of SOEs and Private Enterprises

	1986	1991	1996	2001
SOEs	7.00% (410,202)	7.54% (389,240)	5.36% (352,792)	4.25% (282,746)
Private	93.00% (5,454,610)	92.46% (4,775,749)	94.64% (6,234,380)	95.75% (6,380,604)
Total	100.00% (5,864,812)	100.00% (5,164,989)	100.00% (6,587,172)	100.00% (6,663,350)

Source: Report of the Industry, Commerce and Service Census of Taiwan

In order to improve business efficiency, SOEs needed to change from bureaucratic structures to market-oriented organizations. To do so successfully, this needed to be done in a socially sensitive manner—thus, the birth of Socially Sensitive Enterprise Restructuring (SSER). The public obligations placed on SOEs by the government needed to be removed without the public being adversely affected. Privatization, however, adversely affected SOE employees a great deal. SOE employees had enjoyed better than average work conditions, salaries and job security. This, however, had to change. In order to have employees cooperate with the changes that came with liberalization and privatization, the government had to ensure that these changes were carried out with consideration for staff rights and interests.

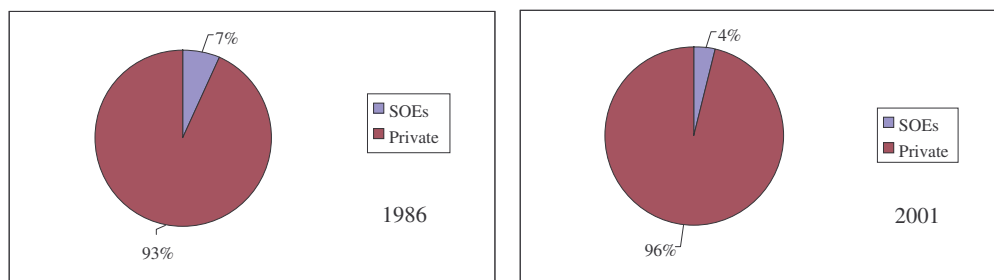


Figure 11. Employees of SOEs and Private Enterprises in 1986 and 2001

What Did the Social Partners Do?

State-owned enterprises had offered private enterprises an environment of steady development for a long time. They cooperated with the government to carry out industrial policies and contributed greatly to the country's economic development. In order to reduce the social cost of privatizing and restructuring, the government had to ensure that the employees of the affected SOEs cooperated. Therefore, the government had to promise that employee rights and interests would be looked after during and after the privatization and restructuring process. Not only was it important that the government cared about the social cost, but the cooperation of employees also meant that the economic development and restructuring could proceed smoothly.

Government Regulations

At the beginning of 1989, the Republic of China established a committee to direct the privatization of state-owned enterprises. On 19 June 1991, the government revised the Statute for Privatization of SOEs. On 28 February 1992, the government issued the Enforcement Rules of the Statute for Privatization of SOEs. And in 1996, a committee was established to ensure the above statute is carried out in a responsible manner. The aforementioned statute protects SOE employees in the following ways:

Job Reallocation

SOEs are encouraged to diversify and reallocate manpower, which translates to employee transfers. Prior to being transferred, employees are provided with training necessary for their new positions. Those who have gained a public servant license are transferred to other government departments.

Service Seniority

Employees who are laid off or transferred due to privatization receive a "retirement" package calculated according to the Retirement Fund of the Labor Standards Act. Employees receive compensation of two months' salary per year for the first 15 years. For every year beyond the first 15 years, employees receive an additional month's salary per year. There is no cap on this compensation. This applies to all SOE employees, regardless of age, period of employment, or sector.

Severance Pay

In addition to the retirement package, employees who are laid off as a result of privatization, or employees who are transferred and then laid off within five years, also receive a severance package. Typically, employees who are laid off receive six months of severance pay. For those laid off during the process of privatization, however, this package was enhanced by adding one month of compensation. This is referred to as "In-advance Salary."

Insurance Payout

SOE employees receive an insurance payout. Licensed public servants receive compensation according to Public Servant Insurance Law 16. Compensation is calculated in stages: From 1 to 10 years, employees receive one month's salary per year. The 11th to 15th years are compensated with two months' salary per year. The 16th to 20th years are compensated with three months' salary per year. This is capped at compensation of 36 months' salary. Therefore, after 21 years of employment, the insurance payout does not increase.

Non-licensed government workers receive a payout calculated according to Labor Insurance Statute 59. From 1–15 years, employees receive compensation of one month's salary per year. After the 15th year, employees receive two months' salary per year. This is capped at 45 months' salary. Therefore, compensation does not increase after 30 years employment.

In newly privatized businesses, both licensed public servants and non-licensed government workers are reinsured under the Labor Insurance Law.

Share Reservation

As SOEs' stock becomes public, according to the Statute for Privatization of SOEs 9, employees and recently laid-off employees are given purchasing priority and, in some cases, cheaper purchasing options.

Representation

Prior to privatization, it was mandatory that employees be represented on the Board of Directors of state-owned enterprises. Employee representation made up 1/5 of the Board of Directors. Since privatization, if the government holds 20% or more of the company shares, the company is required to give one seat to represent employees. If the government holds less than 20% of the company shares, employee representation is not required.

Trade Unions

SOE employees were characteristically pragmatic and rational. As such, their unions were considered to be mild unions. Between SOEs and the government, direct communication was more common than demonstrations, though perhaps not particularly effective. An example of this can be seen in the action taken by Chinese Telecommunications, an employer of some 25,000 people. During the course of its privatization only one strike took place, which was ineffective due to poor turnout. The trade unions had to accept privatization, but they asked for better compensation and working conditions, job training, and longer transition periods.

To help members who were new employees of private companies, some trade unions acted as agents by requesting that companies offer part-time positions to members' families. They also acted as wholesalers, buying essential goods in bulk and selling them cheaply to members. In this way the trade unions tried to take care of employees who faced the upheaval of privatization. This practice continues today.

Education

Through conferences and seminars the academic community educated the trade unions as to the importance of a liberalized economy while communicating to the government the importance of fair treatment for SOE employees.

Private Enterprises

Private enterprises grew vigorously and were able to offer employment opportunities to a portion of the workforce that had been let go by the SOEs. Two of the sectors to have experienced the most noticeable growth were telecommunications and banking. Prior to privatization, there was only one telecommunications provider for the whole of the country. Today there are several providers, all of whom are private. These companies compete with each other and offer

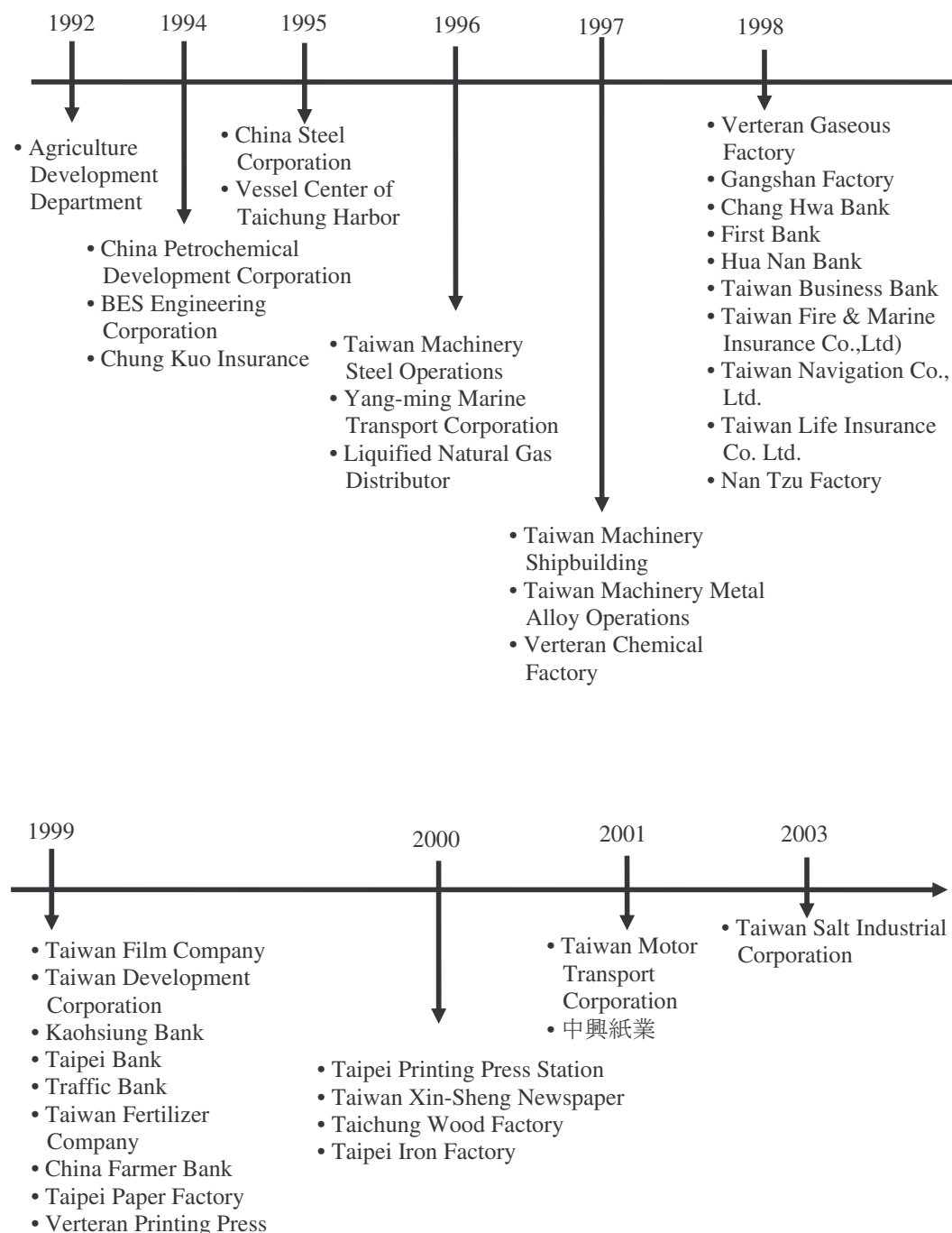


Figure 12. Republic of China's Privatization Schedule

many employment opportunities. Although there had been several SOE banks in the Republic of China before privatization, there are now close to 50 banks—most are privatized—with approximately 3,000 branches nationwide. Again, the opportunities for employment offered by banks are significant and promising.

Before SOEs' privatization, the government had set up regulations to ensure employees' rights and interests in order to reduce the social crash that was a very real possibility. During the process of the SOE restructuring, the government, the academic community, and trade unions all searched diligently for a process with a low social cost. The course of the Republic of China's SOE privatization is regarded as a community-aware and responsible process. The schedule for privatization of the state-owned enterprises is shown in Figure 12. The cases of three companies—China Steel Corporation, Taiwan Motor Transport Corporation, and Taiwan Salt Industrial Corporation—are described in detail in the following section of this report.

CASE STUDIES

Case 1: China Steel Corporation: *Syun Syu Jan Jin*—循序漸進

China Steel Corporation (CSC) is an example of a strong business both before and after privatization. Its story is one of a business that used its financial strength to create a smooth transition for all its employees. It contradicted the image of the large, impersonal, profit-driven corporation.

China Steel Corporation was established in 1971. It was jointly managed by the Preparatory Office of Steel Firm Ministry, a division of Taiwan Economic Affairs, and VOEST Company in Austria. After VOEST withdrew its investment in 1973, the R.O.C. government of Taiwan purchased its share. In 1977, CSC was restructured and became a state-owned enterprise. It began an expansion program, and by 1982 production volume had doubled. By 1988, it was producing more than 5.6 million metric tons of crude steel per year. In 1997, the production level of crude steel reached over 8 million metric tons per year.

When the government began the privatization of SOEs, CSC was selected as one of the first to be privatized. CSC stock was made available for sale on the open market six times. By the end of 1995, the government owned less than 50% of the CSC stock. CSC was the third company in Taiwan to complete the privatization process. CSC achieved this without needing to reduce staff or cut salaries. During privatization, the management of CSC became more flexible. The company diversified and developed a network of new companies that utilized CSC's core product and allowed for the relocation of employees. It also successfully interacted in the international marketplace. CSC can be used as a successful model of privatization in terms of SSER, as well as of economic growth and responsibility.

CSC learned a great deal from observing the process of privatization of China Petrochemical Development Corporation and BES Engineering Corporation. Their poor treatment of employees (mass layoffs, forced retirements, decreased salaries) had a high social cost. CSC management and workers cooperated, and the company continued (and still continues today) to operate successfully.

According to CSC's income statement (see Table 11), CSC performed well financially, both before and after privatization. Thus, it was able to provide good compensation for its employees as it evolved into a privatized company. This meant that employees were happy to cooperate in the reorganization and restructuring process. Furthermore, CSC's strong financial standing allowed the company to invest money in existing subsidiary companies and to diversify by creating new companies. This not only increased production but also meant that employees were transferred, rather than laid off, during the privatization process.

Table 11. CSC Income Statement:
Earnings per Share

Year	EPS
2000	2.12
2001	0.82
2002	1.86
2003	3.94
2004	5.26

CSC cared for and about its employees. It encouraged employees to understand the privatization process. It also ensured that employees' rights and benefits were taken care of. The following five points were key factors in CSC's smooth transition to privatization:

Safeguarding Employee Rights and Dispelling Employee Doubt

The process of privatization can create a stressful transition period. CSC took the initiative and informed its employees about the process and likely outcomes. CSC explained the relevant decree of privatization to its employees at an early stage. In later stages relevant information was compiled into the "Employee Communication Manual for Privatization." This manual was printed and distributed to employees to reassure, answer questions, and dispel employee doubt.

Reorganization and Efficient Use of Manpower

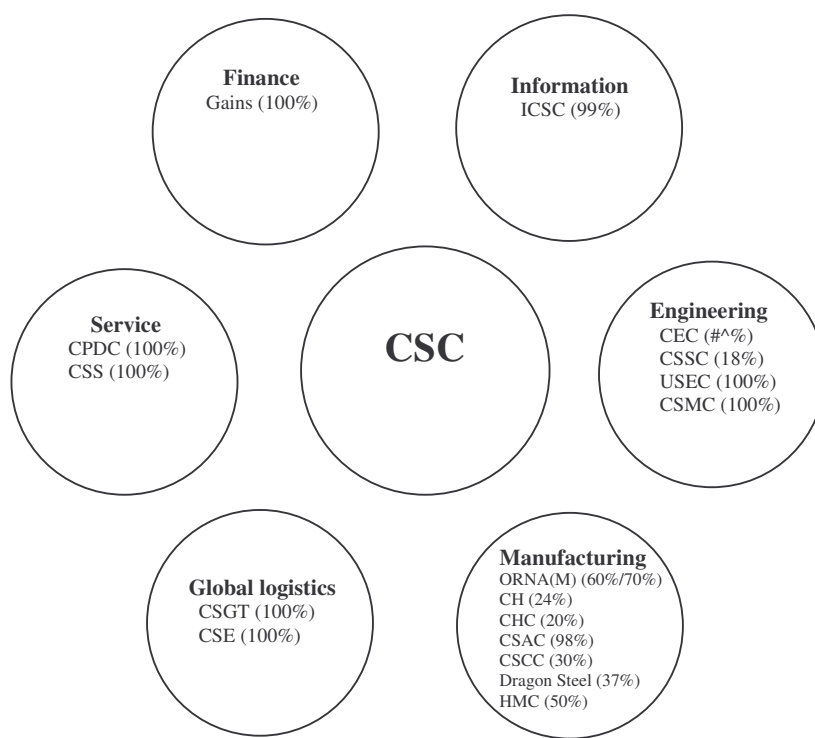
Rather than introduce layoffs as a means of carrying out privatization, CSC retrained and relocated its employees to the various subsidiary companies (see Figure 13). CSC management stressed the following points regarding use of manpower:

- employees could not be laid off;
- manpower could be relocated in the process of factory expansion;
- existing staff levels would be maintained after completion of factory expansion;
- cumbersome bureaucratic systems would be done away with, and organizational structure would be simplified;
- employee responsibility would be increased at all levels;
- an expansion program would be utilized to retrain employees.

The Plan for Employee Stock Ownership

CSC floated its stock on the public market six times. After the first time, CSC employees were given purchasing priority. This was done to encourage company interest and loyalty. The final time CSC floated its stock, it embarked on an ambitious and persuasive project to encourage employee stock ownership. CSC set up a plan in which employees were able to take out a loan from the International Commercial Bank of China (ICBC) at a low interest rate (just 7% per annum) and without need of a guarantee. The amount of stock offered to individual employees was calculated based on service seniority. Individuals' compensation (from the transference of an SOE to a private company) was available to pay off the loan. As this was also based on service seniority, CSC ensured that the amount of compensation given was more than the amount the ICBC would lend. Furthermore, the time period between when an employee purchased stock and when an employee received compensation was no more than 18 days. Thus, in effect, reduced the amount of interest employees needed to pay. CSC took care of all the paperwork. Employees simply had to fill out an application form.

The last time CSC floated its stock, in 1995, it was predicted to rise. As a result of the favorable economic climate and this well-organized project, 100% of the stock offered to CSC employees was bought by employees.



Note: numbers in parentheses () indicate stock shares by CSC

Gains	GAINS Investment Corporation	CSAC	China Steel Aluminum Corporation
CPDC	China Prosperity Development Corporation	CSCC	China Steel Chemical Corporation
CSS	China Steel Security Corporation	Dragon Steel	Dragon Steel Corporation
CSGT	China Steel Global Trading Corporation	HMC	Himag Magnetic Corporation
CSE	China Steel Express Corporation	CEC	China Ecotek Corporation
ORNA(M)	Ornasteel Enterprise Corporation (M) Sdn.Bhd.	CSSC	China Steel Structure Company, LTD.
CH	Chung Hung Steel Corporation	USEC	United Steel Engineering Construction Corporation
CHC	China Hi-Ment Corporation	CSMC	China Steel Machinery Corporation
		ICSC	Info Champ System Corporation

Figure 13. CSC Retraining and Relocation of Employees to Various Subsidiary Companies

In order to safeguard the future of CSC stock ownership, CSC developed an incentive plan in which a certain amount of stock per year would be offered to CSC employees. The employees were encouraged to save money over that year in a particular account. This money would be reserved for the purchase of stock. As an incentive, CSC would increase the individual's savings by 20%.

Perhaps the most outstanding feature of CSC's privatization was that CSC put a great deal of effort into persuading employees to buy stock. After privatization, employees were able to influence the company's management through the Work Director. The creation of the position of Work Director was the result of true industrial democracy in CSC.

The Trade Union

The Trade Union Congress elected four trade union members, who joined the Trade Union chairman to become the Consulting Committee. The role of the Consulting Committee was to gather opinions of laborers and to discuss and negotiate matters with management prior to the Board of Directors meetings. The two sides aimed to find optimal solutions and then present a united front at the Board of Directors meetings.

Thanks to the employee stock ownership plan, CSC employees held a sufficient number of shares to gain a seat on the Board of Directors. This position was called the Work Director of CSC. The Work Director, who represented laborers and the trade union, was elected by the members of the Consulting Committee. The position was only to be held for 6 months by each person, before another member of the Consulting Committee took the seat. This short time allowed key members of the Trade Union to gain understanding and insight into the functioning and decision-making process of the company. Although the Work Director received a salary, this money went directly to the Trade Union. The position of Work Director was seen not only as educational but also as an honor. Through elected representation and periodic changes of representation, the Work Director was, in essence, the representative of industrial democracy in CSC.

Safeguarding Salary and Holiday Rights

By the end of 1995, CSC had to deal with retraining and relocating employees. Employees had to deal with new job responsibilities. It was necessary for CSC management and the Trade Union to come to agreement on the following three points:

- The structural adjustment of salaries was proposed by the new Board of Directors, as follows: in principle, the base salary could not be reduced for present employees after privatization. Prior to 1997 (when CSC completed its fourth stage of expansion), if the company needed to adjust yearly salaries employee bonuses were adjusted first. In addition, all salary adjustments had to be “reasonable.”
- For the first five years after privatization, voluntary retirement would be financially remunerated.
- Holiday leave accrual would be transferred over to the newly privatized company.

Through its communication with employees and reorganization of manpower, CSC showed itself to be a very socially aware and responsible company. By taking the initiative to offer employees the “Employed Communication Manual for Privatization,” it maintained an aware workforce. By retraining and relocating employees it maintained a satisfied workforce.

In order to relocate employees, CSC diversified into a number of very different areas, including trade, transportation, finance, construction, and land development. Through this network, CSC was able to create many job opportunities. Before privatization, CSC employed approximately 9,700 full-time workers. This number dropped by 1,100 during the course of privatization. The decrease in number of employees represents those who chose to quit or retire during this period.

During the process of CSC’s privatization, there were no strikes or salary reductions. Cooperation between management and the trade union was a key factor in the successful completion of CSC’s four stages of expansion. Thus the company continued to make a profit. Furthermore, the trade union kept employees aware of the company metamorphosis. It communicated the advantages of privatization to employees. Employees knew they would face new work-related challenges, and they also knew they would receive appropriate training and take on new responsibilities. The trade union helped employees understand the challenges and possible rewards of working for a privatized company. CSC’s employees supported the company through the privatization process, making the transition smooth.

In conclusion, we can use the Chinese idiom *Syun Syu Jan Jin* 循序漸進, meaning “progress by following the prescribed order,” to characterize the CSC case. When CSC became

aware it was to be privatized, it took steps to ensure the wellbeing of the company through communication and inclusion. CSC can be used as a model of a financially sound SOE that developed into a democratic company.

Case 2: Taiwan Motor Transport Corporation: *Fa Mao Si Suei*—伐毛洗髓

The story of the privatization of Taiwan Motor Transport Corporation (TMTC) illustrates how an unprofitable SOE was privatized without forced retirement and transformed into a profitable, employee-owned business.

After the KMT took over Taiwan in 1946, the government established the Committee of Public Transportation, which controlled railroads and passenger transport. On 15 August 1980 the government founded TMTC to take on the construction of automobile routes all over the island. TMTC also provided services such as transporting travelers. In October 1980, TMTC took over additional operations and assets (routing, automobiles, service centers, bus stations) from the Public Transportation Bureau, also a government agency. All benefits of TMTC employees remained unchanged, including retirement packages and seniority as government workers.

The structure of TMTC was that of a government bureau. Its president was selected by the government. The presidency was seen as a “reward” post. The tenure was short, and the president had little business acumen and little incentive to make TMTC a profitable company. In the first three years of business, TMTC made small profits. However, from 1983 to 2001, it lost revenue. By 31 June 2001, TMTC was in debt by TWD40,000 million. During the year 2000, TMTC lost about TWD417 million each month. Of that, approximately TWD147 million was lost in operation costs. More than TWD125 million was paid out monthly as part of the retirement packages. Finally, the interest on the TMTC debt cost at least TWD125 million per month.

During the “Golden Age” of TMTC (1980–1983) the total number of employees was about 15,000. Five years after the founding of TMTC, in 1985, TMTC reported a peak of operations, with 980,000 customers daily. By 1990, the government was encouraging TMTC employees to retire, so the number of employees decreased yearly. In 2000, the number of employees had dropped to 3,000. In 1984, the Labor Standards Act was announced. Following this announcement, the Trade Union acted aggressively to press for maximum benefits to employees. In 1989, the TMTC Trade Union forced TMTC to pay employees retroactive overtime based on the Labor Standards Act. In 1989, TMTC paid over TWD1,100 million compensation in total. For an individual driver, this was an average of about TWD300,000. After 1984 until 2000, work time and salary were calculated according to the Labor Standards Act. This caused labor costs to rise significantly. Not only did TMTC have to deal with competition in Taiwan’s newly opened market, but it was also required to pay unreasonably high labor costs.

TMTC’s employee salary structure was based on the Public Servants’ structure (usually reserved for those who had passed the government examination). The average salary for drivers was TWD70,000–80,000/month (a base salary of TWD40,000 with overtime added).

Although the operation income continuously decreased from 1988 on, the labor cost increased. Because of this heavy labor cost, debt grew year after year. In 2000, the labor cost was 106% of the year’s revenue. TMTC increased the government deficit by TWD5000 million in 2000. This forced the government to act. It declared that TMTC would be privatized as soon as possible.

In 1988, the government faced economic globalization and liberalization. TMTC had maintained a vital public service—over 146 routes across the island—for many years, but the opening of the R.O.C.’s market resulted in TMTC losing its monopoly. Not only did the public demand a more efficient transportation system, but the government also had to deal with the TMTC debt. So TMTC moved into the first stage of privatization. However, from 1989 to 1995, little movement was made toward privatization. Facing the possibility of going bankrupt, TMTC management organized several meetings involving controllers of the bus stations, managers of the

service centers, and other managerial personnel to brainstorm and find a solution to save the company. A number of these meetings took place between 1995 and 1998.

Five “consensus camps,” attended by management and employees, were held as well. They were as follows:

Strategy camp—designed to reach an agreement on a simplified organization, more efficient use of manpower, and scaled-down operations.

Leadership camp—designed to reach an agreement on the role of leaders.

Seed camp—discussed how all employees can nurture the company.

Privatization camp—discussed a decrease in operation scale and how to prepare for privatization (giving up some routes and selling assets, for example).

New company model and bonus structure camp—discussed profit incentive and use of IT for management. Designed a simple, incentive-based bonus system.

By the conclusion of the camps in 1999, the government demanded that TMTC choose one of three options. The options are given below, each one followed by employee opinions.

- *Shut down the operation*—There would be a huge impact on public transportation and employees’ futures, including their retirement and layoff benefits, and a high emotional impact.
- *Reorganization first, privatization second*—Under this plan, salaries would be reduced by 30% and 20% of the workforce would be laid off. This plan would have a high social cost.
- *Direct privatization*—This would satisfy the government’s demands and reduce the company’s debt and burden. If planned properly with consideration of employee rights, the social cost would be less than that of option 1 or 2.

TMTC then organized meetings with managerial personnel and carried out a thorough survey of TMTC employees. The conclusion was that “direct privatization” was the most acceptable direction. TMTC hired three organizations to conduct evaluations of “direct privatization”; their findings, with both pros and cons, are listed below in Table 12.

Finally, TMTC decided to divide the stations and land, with the land remaining government-owned. A new company was set up which controlled the vehicles and passenger service. This was called Kuo Kuang Motor Transport Company (KKMTC).

Prior to privatization, TMTC management embarked on a series of projects that aimed to improve TMTC’s financial situation and to prove that it could be run as a profitable business. Towards the end of 2000, TMTC decreased ticket prices to match prices of competing companies. It increased service frequency. Furthermore, it gave employees training in order to improve service.

From September 2000–01, the executive manager of TMTC held numerous conferences throughout Taiwan to encourage employees to invest in and support the new KKMTC. The Vice General Director, Paul Feng, showed recent financial statements to prove that through good business management (e.g., discount tickets) revenue had increased by nearly TWD8 million.

Initially, the government asked that KKMTC accept any drivers who wished to transfer. However, KKMTC wanted its new employees to invest in the new company in order to start the company on a solid financial grounding. Every KKMTC employee was required to invest TWD300,000 in order to build up the new company. KKMTC management had set up the sale of stock in a way that the average employee’s severance pay (approximately TWD300,000) went towards company stock. Many employees chose to accept the severance pay and retire. This may have been due to the high age of the average employee (approximately 50 years old). Those who wished to transfer accepted the required investment.

With the direction of privatization being clearly identified, in October 2001, the “Plan and Procedures of Privatization of TMTC” was submitted and approved by the Transportation Bureau. Numerous meetings and conferences were held by TMTC to inform TMTC employees, in detail, about the privatization procedures.

Table 12. Evaluations of “Direct Privatization”

	Proposed plan	Pros	Cons
Chin Yeh Management Consulting Corp	Position TMTC as a company that provides medium and short-range transportation. Suggest combining the value of the current assets with private investment from the public to operate the new company.	<ul style="list-style-type: none"> • Bus stations remain as assets of the new company, which will encourage the investors willingness in running the business. • Conditions remain unchanged, therefore less complication in operation. 	Requires higher investment from private sector.
Institute of Transportation, MOTC	<ul style="list-style-type: none"> • Separate the operation and management of Vehicles and Bus Station, set up 3 companies for north, central and south Taiwan. • In the course of privatization, issue stocks to collect investment that will help in maintaining the vehicles, service centers and routes; meanwhile publicly trade the new company. • TMTC will operate, manage and run the Bus Station and Service Center as Publicly Traded Company. 	<ul style="list-style-type: none"> • Huge flexibility in operation for both service centers and bus stations. • Lower investment required. • Retain public operation style at both service centers and bus stations; meanwhile secure benefits for employees. 	<ul style="list-style-type: none"> • Less flexibility in operations due to 3 companies in different areas. • Huge difference compared to current operation owned by government. • Employees do not favor the 3 different companies in North, Central and South Taiwan.
College of Management at National Taiwan University	<ul style="list-style-type: none"> • Separate the operation and management for bus station and service centers, utilize the BOT (build–operate–transfer) method to run both areas together. • New private company operates and manages the vehicle transportation. • Temporary TMTC to service remote routes, clarify the ownership of the related land disputes and debts. 	<ul style="list-style-type: none"> • More options for the placement of employees. • Lower requirement of investment from investors. • Transportation Bureau remain the monitoring and in control of the operation of the new business. 	<ul style="list-style-type: none"> • Low interest from Transportation Bureau to purchase and operate the Bus Stations and Service Centers. • Complications on setting up. • Companies to run three parts of Taiwan, North, Central and South.

During the process of privatization, placing stock on the open market was considered but not accepted in the end, because of the possibility of negative management policies. As a reference, Table 13 shows a comparison of privatization through employee investment and privatization through public bidding.

It was considered that employees would work harder if they were working for themselves. Furthermore, the company culture would be maintained, as the employees were shareholders. TMTC management and employees agreed on this point. Thus, from its very beginning, KKMTC was 100% employee-owned (see Figure 14).

The manner in which TMTC was privatized resulted in the benefits described herein. Most of the services offered by TMTC were maintained. With employee investment in organizing a new company, the essence of democracy was truly accomplished. Employees who had participated in the establishment of the new company continued their employment with the new company and were able to continue to work with the same co-workers. This meant that a social support network was already in place, which helped minimize the fear of privatization.

Table 13. Comparison of Privatization through Employee Investment and Privatization through Public Bidding

	New company established through employee investment	New company established through bidding
Security of future employment	High possibility	Not guaranteed
Adjustment to the new work environment	Easier adjustment and old friendships remain unchanged	Difficult adjustment
Strategy in operation	Employees possess more power in decision-making	New company management has more power in decision-making
Company structure	Stocks are spread-out	Stocks are more centralized
Acceptance from employees	High	Low
Rights and benefits of employees	Employees receive 7 months equivalent compensation pay and pre-calculated retirement pension, plus secured employment with the new company	Employees receive 7 months equivalent compensation pay and pre-calculated retirement pension only
Service to public (remote areas)	Government retains some influence over services provided	Government has little influence

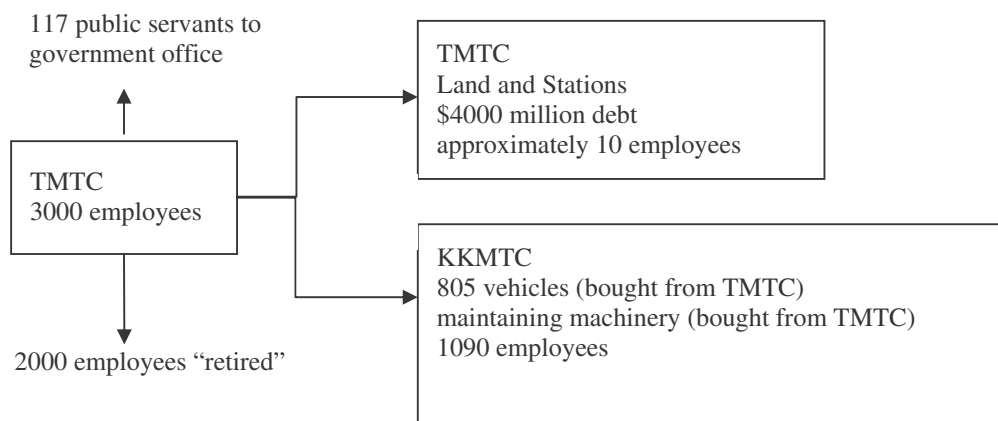


Figure 14: Division of TMTC (July 2002)

For those employees who wished to be transferred to the newly established company, but lacked the money to invest, TMTC made the investment on their behalf. The amount was then deducted from their retirement pension at a later date.

At the time of privatization, the average age of employees was about 48. Although TMTC had provided training to its employees to help them re-enter the labor force, employees were generally unwilling, and preferred retirement or transfer to KKMTC.

Despite continuing communication between management and employees, some worker protests took place. In order to express employee dissatisfaction regarding a pay decrease, on 1 July 2001 all runs between Keelung and Taipei were halted. After some negotiation that after-

noon some runs were restored, and all was back to normal on 2 July. A less formal form of action also took place upon the opening of the new company. A clear illustration of the anger and disappointment felt by drivers would be seen when, on the morning of 1 July, the new president, Hong Sheng Li, came to inspect the Taipei Bus Station. Upon seeing him, several drivers ran after him and began to beat him. The situation was quickly defused, and no further action was taken by either side.

For TMTC employees the base salary was high, and overtime was calculated at “time and a half” or “double time.” The new KKMTTC employees, however, had a considerably lower base salary. On the positive side, though, their performance bonuses were high. The base salary for TMTC employees was TWD40,000/month; this changed to TWD12,400 or 13,600/month for KKMTTC employees. Although a significant decrease, this base salary was still greater than the average (TWD9,000/month) earned by employees at other privately owned transportation companies. Due to the performance and efficiency of individual drivers, KKMTTC drivers’ salaries (base and bonus) varied from TWD30,000–80,000. Although drivers only earned approximately 70% of their TMTC salary, they still earned more than others who worked in the same field. Before privatization, salary accounted for 106% of TMTC revenue; after privatization salary accounted for less than 40% of revenue.

TMTC owned over 1,000 vehicles that operated on 146 routes. KKMTTC was given authority to take over routes. For every route KKMTTC took, however, it was required to buy the vehicles that operated along that route. KKMTTC took over 96 routes and consequently bought 805 vehicles. The remaining routes and vehicles were bought by other transportation companies.

Of the 96 routes taken, approximately 40 were profitable. Another 20 routes were considered potentially profitable, and 36 routes were unprofitable. These unprofitable routes served remote areas. Although not many people used them, the routes were necessary for those who did. To that end, KKMTTC maintained the routes. Furthermore, KKMTTC had guaranteed its workers employment. In a country where being transferred away from one’s family was the norm, drivers who lived in remote areas were allowed to remain in their home areas and serve on those routes, despite the fact that KKMTTC lost a considerable amount of money by doing so.

TMTC and the government helped the KKMTTC begin from a strong competitive position. For the first two years, KKMTTC was able to rent stations for a very cheap price. In 2003, KKMTTC was given rent priority, but the price was based on market price.

Prior to privatization the image of TMTC had been one of responsibility, safety, and honesty. KKMTTC kept this image of a good traditional company, but it also introduced new innovations to keep up with modern demands and expectations.

Before privatization and in the initial stages of KKMTTC’s development, KKMTTC management had to gain concessions from the government while dealing with an aggressive and unhappy trade union. In retrospect, a few representatives of the Trade Union regretted that they didn’t cooperate earlier with management. They felt their energy could have been better spent fighting the government for greater concessions rather than fighting their own company.

As the majority of employees are also stockholders, KKMTTC could be considered a democratic company. However, in the first few years of operation, the company had some troubles. The Board of Directors—made up of 15 people—included managers and drivers, which was unique. The inclusion of drivers on the Board changed the perspective and dynamics. In the first few years, many decisions made were based solely on human sympathy and didn’t take into account a wider business view. Over the years, though, through continued communication between management and employees, KKMTTC settled into a fairly harmonious and cooperative style of organization where there was no great division between management and employees.

In 2000, TMTC lost approximately TWD1,800 million in passenger transportation operations. Its total loss that year was TWD5,000 million. KKMTTC took over passenger transportation in 2001. Initially, other transportation companies jeeringly predicted that KKMTTC would last less than 6 months. However, through investment and sound management, KKMTTC proved

its ability. KKMTTC quickly stood out in terms of service and financial gain. From July 2001 to December 2005, KKMTTC's EPS (earnings per share) increased, on average, by about 10%. KKMTTC continues to be a profitable company. In Taiwan's competitive public transportation market, KKMTTC currently has more customers—about 90,000 people/day—than any other competing company. It is now considering diversification into other travel-related areas.

The privatization of TMTC and development of KKMTTC is a story of win-win. With respect to the government, it separated itself from a yearly loss of TWD5,000 million. TMTC, which had accrued a debt of TWD40,000 million, has dealt with the debt through the rental and sale of assets. The original employees of TMTC retired comfortably or kept their jobs and became stockholders of a profitable company. There was little negative impact on the public at the time of privatization, and since then the public has enjoyed better transportation services.

The case of KKMTTC can be linked to the Chinese expression *Fa Mao Si Sui* 伐毛洗髓, meaning to cast off the old from the inside out and to retain and renew the essence. KKMTTC developed from an SOE that faced total extinction. Despite the scale of the challenge to survive, KKMTTC management and employees retained hope and persevered. They were rewarded with the flowering of a successful company.

Footnote: As KKMTTC is not a public traded company, some figures were unobtainable. Information was gathered through the following interviews: 20 July 2006, 2:00–4:30 p.m., Paul P. L. Feng, General Vice President; Qing Jian Huang, Executive of the Trade Union; Ming Xuan Chen, manager of planning department.

Case 3: Taiwan Salt Industrial Corporation: *Suei Ji Ying Bian*—隨機應變

The privatization of Taiwan Salt Industrial Corporation (TSIC) can be considered an example of smart management and learning from others' mistakes. It shows how a progressive management was able to change the direction of a business with minimum negative effect on employees.

Prior to privatization, TSIC held a monopoly over salt production in Taiwan. The major duty of this company was to supply salt to the domestic market. It was not involved in any exporting. In April of 1951, the national government bought all of China Salt Company's private stock and became the only stockholder of China Salt Company. In 1952, it became Taiwan Salt Production Factory (TSPF), and was controlled by the Department of Economic Affairs.

Due to the Republic of China's new privatization policies in the 1980s, monopolies were no longer a desirable part of the economic system. In 1995, TSPF was restructured from a bureau into a company, Taiwan Salt Industrial Corporation. From this date TSIC knew it would be privatized. This case is unique in that TSIC had eight years in which to prepare for its privatization. During this period massive changes to the company's structure and focus were made.

TSIC had two major challenges to face before privatization could take place. The first was deciding how to treat employees fairly, particularly those who would not have a role to play in the company's future. The second was how to take a company with an enormous amount of capital (and therefore low EPS) and make it financially attractive to prospective stockholders. As TSIC owned a lot of land, its capital was very high. In order to privatize through sale of stock, the government decreased its capital, from TWD40,000 million in 1995 to TWD23,000 million in 1998 and 2,500 million in 2002, by having the land revert back to the government. This pushed the EPS up, and made TSIC stock an attractive purchase option.

TSIC Employees and Business

By 1996, TSIC had already moved the majority of its salt production out of Taiwan. When TSIC realized it would be privatized, it began to look for ways of staying profitable. As salt production would no longer be profitable, TSIC began a period of diversification.

TSIC widened its scope to focus on research and development and diversified to extend its economic life. TSIC's diversification policy initially focused on the utilization and development

of its core product. It moved away from providing table salt and, through R&D, focused production on cosmetics, medicine, and organic photoconductor drums.

As it aimed to utilize existing manpower as efficiently as possible, TSIC built up a number of businesses in a number of areas including supermarkets, gas stations, and high-tech optics. In 1996, TSIC cooperated with Dampier Salt Ltd (Australia) to establish Lake Macleod Salt Company (49% holder, AUD 1,617 thousand). This allowed TSIC to supply the domestic market with salt while decreasing its own high-cost, labor-intensive salt production. In 1999, it began investing in the optoelectronics industry and established the first new component of what would become the TSIC Group (see Figure 15).

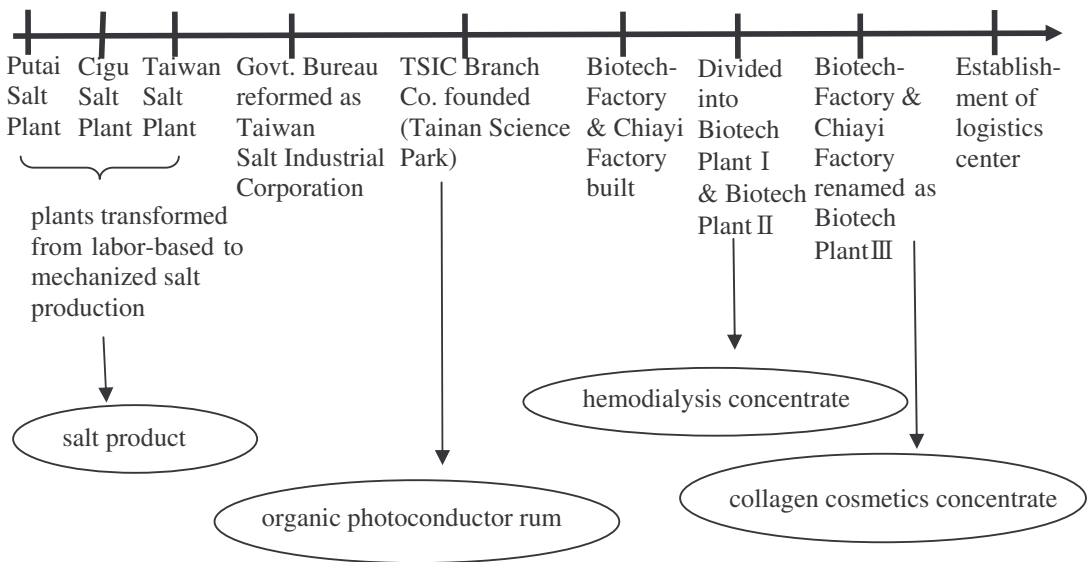


Figure 15. The TSIC Group

In 1995, TSIC employed approximately 500 people working in the general office area. During the eight years before privatization, approximately 110 people retired. New employees were then hired, and TSIC has maintained its employment base of about 500 people. No retirements have been forced. In line with its new direction, new employees were chosen for their knowledge in the areas of R&D and marketing.

TSIC has always maintained a relatively small labor force. Employees tended to remain with the company until retirement. New employees were selected for R&D skills or marketing skills rather than labor as production was mechanized. Thus, TSIC benefited not only from low labor costs but also from a high degree of personal communication.

TSIC began to diversify into biotechnology in 2001. Initially focusing on R&D in hospitals, a skin product that had been developed to help burn victims recover was discovered to be applicable to the beauty market. In this manner, TSIC's most profitable sector—cosmetics—began.

Salt Workers and the Trade Union

Originally TSIC employed a large number of unskilled salt workers. These workers were only contract workers. The salt workers, however, were the majority of TSIC employees. In 1995, TSIC employed approximately 500 people in formal positions. At that time, it also employed 1,000 contracted salt workers, who because of their numbers controlled the trade union.

The Salt Workers Union fought aggressively with TSIC management. An event that illustrates the character of the Salt Workers Trade Union occurred when the Accounting Manager failed to inform the union in advance of some budget changes. On discovering this, the leader of the trade union burst into the Accounting Manager's office, took the Manager by the lapels, and dragged him outside where he was publicly berated.

TSIC realized that labor-intensive salt production in Taiwan was not a profitable area. In 1986, TSIC began to mechanize its salt production facilities, thereby decreasing the need for salt workers. In 1995, the government announced further privatization, which would lead to the fall of the TSIC salt monopoly. TSIC realized it would not be able to depend on its salt production for profit much longer. As it began to diversify it had to deal with the remaining salt workers. In order to encourage salt workers to retire, TSIC offered a very attractive retirement package. The Labor Standards Act stipulated that employees receive TWD800,000 in retirement pay. TSIC management asked that the government double this figure in order to encourage salt workers to retire. From 1995 to 2003, the number of salt workers decreased from approximately 1,000 to 184 people through voluntary retirement. Each retiree received TWD1,600,000 and an additional further TWD40,000 from a fund set up by the salt workers.

In 2003, salt workers were no longer the majority and, therefore, no longer held the same degree of control over the trade union. Upon privatization the remaining 184 salt workers were forced to accept the TWD1,600,000 and retire.

After privatization the character of the trade union changed. Though a relatively small company, TSIC was located in a number of different places. To that end, the union had an unusual structure. The "local" trade union took care of general disputes. It also provided an employment bank. If TSIC needed part-time workers, the trade union would endeavor to find someone connected to a TSIC employee—family members or friends—and offer them work. The local trade union also bought necessary goods in bulk and re-sold them to members more cheaply than the local market price. Not only was the trade union able to care for its members in this way, but it also earned some income.

The "united" trade union dealt with more serious matters between employees and management. Perhaps its greatest achievement was the "Block Contract," in which the trade union stipulated many work conditions. Overall the Block Contract stated conditions that were just as good, if not better than, the conditions afforded to employees of SOEs.

The Block Contract safeguarded employees' working hours, holiday time, salaries, bonuses, welfare benefits, training, work safety standards, method of conflict resolution, retirement, and severance conditions. Regarding some of the above points, the trade union asked TSIC to give a certain percentage of the company's profit to employees as an additional bonus. Additionally, every month a percentage of revenue (0.15%) was to be given to the union to be placed into a welfare benefits fund. Furthermore, the company was obliged to provide a fund for labor training. Also, if employees were harmed at work TSIC was required to pay the balance of any medical cost not covered by insurance. If the government raised the salaries of public servants, the trade union had the right to enforce a similar adjustment to TSIC employees' salaries. In addition, trade union executives were given a maximum of 50 hours/month to attend to the business of the union.

In the eight years leading up to privatization the TSIC trade union aggressively developed and fought for the aforementioned contract. This contract was accepted in 2003. Since then the Trade Union, the Board of Directors, and employees have coexisted fairly harmoniously.

Not only did TSIC treat its employees with the utmost consideration, it also responded to a changing environment. The expression *Suei Ji Ying Bian* 隨機應變, meaning to follow opportunity and respond to change, is suitable for the case of TSIC. As a small SOE with a limited role and a market it was likely to lose, TSIC could not offer to remain unchanged. It observed the process of privatization in other SOEs and learned from others' mistakes. It looked into the future and boldly stepped into unknown territory. In this way, Taiyen was born.

Footnote: 24 July 2006, 9:00 a.m.–12:00 noon, Hu Grong Liu, President of the Trade Union; Ping Nan Lai, CEO of United Trade Union, Director of Public Relations Officer; Ju-Hao Chiang, Instructor of Planning Department.

CONCLUSION

In the last fifty years, the Republic of China has experienced massive change in both society and economy. From a social perspective the country has moved from a culture of obedience to an authoritative father-figure government to a democratic society. Economically it has changed from being strictly controlled to being liberal and open. The year 1987 marked the beginning of this change, which took place rapidly and dynamically, as if the country were just waiting for the opportunity to show its creativity and competitiveness.

The KMT had spent almost 40 years strictly and carefully controlling the economy in order to create a stable and financially sound market. Many monopolies were held by SOEs in traditional sectors of industry, and the government fiercely protected the domestic marketplace. To join the international community, the country's market had to be opened. This required massive change, and SOEs had to bear the brunt of the upheaval.

SSER was a vital factor in this change for a number of reasons. Not the least important was that, as employees of SOEs, some 400,000 people had guaranteed work conditions and salary until they reached retirement age. In the process of liberalizing the market, the government would no longer guarantee this. However, it could do all that was possible to ensure that these employees were treated fairly and justly. Additionally, the role of SOEs in the country's transformation was crucial. SOEs were needed to provide stability to the marketplace even as they themselves changed. By showing care and responsibility towards SOE employees, the government was rewarded with cooperative behavior, an important factor in maintaining a stable economic environment.

In this work, we have illustrated the stories of three companies in three distinct situations. We have shown a powerful company that maintained its social integrity, a company whose management and employees created a gem from dross, and a company that looked to the future. In the three cases we have examined, communication has been crucial. Among all levels of a company, awareness of the situation has eased transition.

Every company must deal with its own unique situation. Therefore, rather than provide a business model, we hope to have provided some insight and inspiration that will promote creative and innovative socially sensitive enterprise restructuring, and lead to a win-win-win situation (the public-employees-stockholders).

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REPUBLIC OF KOREA

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DEMOGRAPHICS

The Republic of Korea (ROK) occupies 37,300 square miles (99,400 square kilometers) of the southern portion of the Korean peninsula. Communist-ruled North Korea occupies 47,300 square miles (122,400 square kilometers) of the northern portion. The Korean peninsula extends southward from the eastern end of the Asian continent. The peninsula is roughly 1,030 km (612 miles) long and 175 km (105 miles) wide at its narrowest point. Mountains cover 70% of Korea's land area, making it one of the most mountainous regions in the world. The lifting and folding of Korea's granite and limestone base has created breathtaking landscapes of scenic hills and valleys. The mountain range that stretches the length of the east coast plunges steeply into the East China Sea, while along the southern and western coasts the mountains descend gradually to the coastal plains that produce the bulk of Korea's agricultural crops, especially rice. The Korean peninsula is divided just slightly north of the 38th parallel. The democratic Republic of Korea in the south and communist North Korea are separated by a demilitarized zone. South Korea's 99,400 square kilometers is populated by 47.9 million people (2003). Administratively, the Republic of Korea consists of nine provinces; the capital, Seoul; and the six metropolitan cities of Busan, Daegu, Incheon, Gwangju, Daejeon, and Ulsan. In total, there are 77 cities and 88 counties.

The Korean climate has four distinct seasons: spring and fall are very pleasant, with temperatures averaging 50° to 55°F (10° to 13°C); in summer, temperatures reach the 95° to 100°F (35° to 38°C) range. Winter temperatures average 18° to 34°F (-7° to 1°C) with moderate snowfall. Average and annual rainfall is 45 to 50 inches (115 to 125 centimeters), of which almost one-half occurs during the months of July and August. The Korean peninsula is generally protected from Southeast Asia's fall typhoons by the Japanese archipelago, and earthquakes are rarely experienced.

The ROK is divided into nine provinces and six main cities—Seoul, Pusan, Kwangju, Taejon, Taegu, and Incheon—which have provincial status.

HISTORY OF KOREA

Three rival kingdoms, Silla, Gokuryo, and Baekjae, with similar ethnic and linguistic backgrounds, existed on the Korean peninsula from early historic times to the seventh century C.E., at which time the kingdom of Silla unified the country within approximately the same boundaries as those of today. The succeeding Goryo dynasty lasted from the 10th to the 14th centuries. During this dynasty, laws were codified and a civil system was introduced. In 1392, the Goryo general Yi Sung-gye overthrew the Goryo king and established the Joseon Dynasty, which lasted from 1392 until 1910, when the Japanese colonized and annexed the country and abolished the Korean monarchy. Japanese rule lasted until the end of World War II. Following liberation from Japan in 1945, the Korean peninsula was divided into two occupation zones beginning on 8 September 1945, with the United States administering the southern half of the peninsula and the Soviet Union taking over the area north of the 38th parallel, leading to the establishment of a Communist regime. A temporary American military government ruled in the south until the constitutional First Korean Republic was founded in 1948.

North Korea invaded the ROK in June 1950, starting the Korean War. Since the signing of an armistice in 1953 the Republic of Korea has been separated from the north by a demilitarized zone.

Since the 1960s the Republic of Korea has become progressively modernized, industrialized and economically and militarily independent. It is considered one of the more advanced of the developing countries.

POLITICAL AND LEGAL SYSTEM

Executive authority in the ROK is centered in the presidency. The constitution provides that the president (chief of state and head of the government) be directly elected by the people to a single five-year term. The president is chairman of the State Council (cabinet); the prime minister, by order of the president, is responsible for the overall coordination of the various ministries and agencies. The unicameral National Assembly has legislative authority. Supreme judicial authority in the ROK is shared by the Constitutional Court (which has exclusive jurisdiction over constitutional issues) and a Supreme Court.

Governors and mayors had been appointed by the president, but since 1995 they have been directly elected by the regional residents. Currently, the country has 247 electoral districts.

The basic laws of the ROK combine elements of continental European civil law systems, Anglo-American law, and Chinese classical thought. Present commercial and political legislation has been increasingly influenced by laws prevailing in the United States.

POPULATION

With a population of over 47 million people (including foreigners), the ROK is one of the most densely populated countries in the world. About 48% of the population lives in the six major cities; 11 million people live in Seoul, the capital and the largest city. Since 1960 the population of Seoul has increased from 10% to almost 23% of the total ROK population.

However, the Republic of Korea recently has gone through demographic changes at a pace that has dazzled many population scientists. Fertility has declined to a level far below the replacement level within the short span of two and half decades. Concerted government policies and family planning programs played a major role in achieving this momentous transition. The total fertility rate in Korea rapidly decreased from 6.0 in 1960 to 1.6 in 1987. Thereafter, the total fertility rate fluctuated between 1.7 and 1.8, but has recently decreased further, to 1.48 in 1998 (NSO, 1999a). It is estimated that if the current low fertility continues, the population in Korea will stabilize at around 52.8 million people by the year 2028 and will begin to decrease thereafter. The rapid decrease of fertility will result in shrinking of the labor force and growth of the elderly population. A range of policy options and measures are being considered in response to labor supply problems. Concentration on capital-intensive production, raising retirement ages, and greater labor force participation by women are among the obvious choices.¹

LANGUAGE

Korean is the official language and is spoken throughout the country. Korean is actually a distinct language belonging to the Ural-Altaic group. The Korean system of writing, called Hangul, was invented by King Sejong's scholars during the Choseon dynasty to replace the widely used but complex Chinese characters. It differs from other Eastern writing systems in that it is phonetic and contains relatively few characters. English is a common second language and is taught in middle and high schools.²

¹ Namhoon Cho, Policy Responses to Population Aging and Population Decline in Korea, Expert Group Meeting on Policy Response To Population Aging and Population Decline, October 2000.

² Doing Business and Investing in the Republic of Korea, *PRICEWATERHOUSECOOPERS*, 2001.

EDUCATION

Korea has one of the most literate populations in the world. The literacy rate of Korea has reached over 90%. The school system is modeled after the U.S. educational system; six years of elementary education are free and compulsory. Subsequent levels include three-year middle (secondary) schools and three-year high schools. There are approximately 200 universities in Korea, along with an extensive vocational training school system. Many students attend universities in the United States and in other advanced nations. Most Koreans spend their entire high school life preparing for the all-important college entrance examination. After classes, most children attend foreign language classes or other private classes to try to get an edge over their classmates. Some parents even get private tutors for their children as early as primary school, even though this practice was illegal for years. The Korean government has been trying to improve the education system by stressing quality over quantity, extending compulsory education, popularizing secondary education, and increasing opportunities for post-secondary education.

EMPLOYMENT AND STANDARD OF LIVING

Approximately 61% of the population 15 years old and over participates in full-time economic activities. Because of the wide availability of education in the ROK, the majority of new entrants into the manufacturing sector have at least a middle school education. In 2003 the workforce was about 22 million and unemployment was at 3.5%, a decrease over the unemployment levels prior to the 1997 Asian financial crisis. Considering that the unemployment rate was 6.7% in 1999, it was a substantial improvement. Unemployment trends for the years 2001 to 2005 are shown in Table 1.

Table 1: Unemployment Rates, 2001–05 (%)

	2001	2002	2003	2004	2005
Male	4.5	3.7	3.8	3.9	4.0
Female	3.3	2.8	3.3	3.4	3.4
Total	4.0	3.3	3.6	3.7	3.7

Source: National Statistical Office

Beginning in 1987, legal minimum wage standards were established for certain industries. In January of 1990 the Ministry of Labor expanded the minimum wage system to cover all businesses with five or more employees.

From 1980 to 1999 the average yearly wage paid by companies employing more than 10 people increased from less than USD4,000 to about USD16,800, and per-capita GNP increased from USD1,600 to approximately USD8,581 during the same period. In 2005, per-capita GNP became USD15,000.

TOTAL EMPLOYMENT AND LABOR FORCE

To some extent, the fate of the Korean economy was dictated by politics. When elections approached, so-called economy-boost policies were adopted. The most recent presidential election was held in 2002, and it was not surprising to learn that the Korean economy performed better in 2002 than before. The labor participation rate and the GDP in 2002 went up 0.6% and 4.7%, respectively, over a year earlier. The same thing happened in 1998: although the Korean economy faced a serious financial crisis in 1997, it recovered quickly in 1998. The quick recovery was also largely due to the controversial political decision made by the newly elected president to channel massive amounts of public funds into ailing corporations and banks. The economy rebounded, but it fizzled as soon as the effect of public funds disappeared.

It is true that the Korean economy has gained some degree of competitiveness over the last 10 years. Labor-intensive industries shrank, and corporations competing only on costs migrated to China. Corporations on the Korean peninsula struggled to provide consumers with high-tech and/or high-value-added products. However, the Korean economy was revitalized largely by politically motivated policies. Economic stimuli with political motives did not last long, and their impact on enterprises did more harm than good. Repeated economic ups and downs made it difficult for enterprises to predict the future. Enterprises became cautious and conservative in making investments. Naturally the Korean economy did not achieve stable growth.

In 2005, the labor force was at 2.4 million, about 0.5 million (1.2%) higher than it was a year earlier. By gender, the male workforce rose by 75,000 (0.5%), to 13.8 million, and the female workforce by 196,000 (2.1%), to 9.5 million, during the same period. The data are shown in Tables 2, 3, and 4. The labor force continued to increase in 2006. In first quarter of 2006, the workforce was at 23.5 million, 271,000 (1.2%) higher than it was a year earlier. By gender, the male labor force rose by 75,000 (0.5%) to 13.8 million, and the female labor force by 196,000 (2.1%) to 9.7 million during the same period.

Table 2. Economically Active Population, 2000–05

	Population 15 years and over (1,000 persons)					Participation rate (%)	Employment population rate (%)	Unem- ployment rate (%)
	Economically active population			Not economically active population				
	Employed	Unem- ployed						
2000	36,186	22,134	21,156	979	14,052	61.2	58.5	4.4
2001	36,579	22,471	21,572	899	14,108	61.4	59.0	4.0
2002	36,963	22,921	22,169	752	14,042	62.0	60.0	3.3
2003	37,340	22,957	22,139	818	14,383	61.5	59.3	3.6
2004	37,717	23,417	22,557	860	14,300	62.1	59.8	3.7
2005	38,300	23,743	22,856	887	14,557	62.0	59.7	3.7

Table 3. Economically Active Population, 2000–05 (male)

	Population 15 years and over (1,000 persons)					Participation rate (%)	Employment population rate (%)	Unemployment rate (%)
		Economically active population		Not economically active population				
		Employed	Unemployed					
2000	17,522	13,034	12,387	647	4,488	74.4	70.7	5.0
2001	17,720	13,172	12,581	591	4,548	74.3	71.0	4.5
2002	17,921	13,435	12,944	491	4,486	75.0	72.2	3.7
2003	18,119	13,539	13,031	508	4,580	74.7	71.9	3.8
2004	18,312	13,727	13,193	534	4,584	75.0	72.0	3.9
2005	18,616	13,883	13,330	553	4,734	74.6	71.6	4.0

Table 4. Economically Active Population, 2000–05 (female)

	Population 15 years and over (1,000 persons)					Participation rate (%)	Employment population rate (%)	Unemployment rate (%)
	Economically active population			Not economically active population				
		Employed	Unemployed					
2000	18,664	9,101	8,769	332	9,564	48.8	47.0	3.6
2001	18,859	9,299	8,991	308	9,560	49.3	47.7	3.3
2002	19,042	9,486	9,225	261	9,556	49.8	48.4	2.8
2003	19,220	9,418	9,108	310	9,803	49.0	47.4	3.3
2004	19,405	9,690	9,364	326	9,716	49.9	48.3	3.4
2005	19,683	9,860	9,526	334	9,823	50.1	48.4	3.4

The labor force participation rate stood at 62.0% in 2005, a decrease of 0.1% from a year earlier. In the first quarter of 2006, the labor force participation rate was 60.9%, a 0.2% decrease over the previous year. In 2005, by gender, while the male participation rate fell by 0.4% to 74.6%, and the female participation rate rose by 0.2% points to 50.1%.

Total employment, at 22.8 million in 2005, was 300,000 (1.5%) higher than a year earlier. By gender, male employment rose by 1.4 million (1%) to 13.3 million, and female employment by 162,000 to 9.5 million. By age group, the over-30 group continued its upward trend, and those aged 50–59 (248,000, 7.3%) also continued their sharp upward trend.

Unemployment

In 2005, the unemployment rate remained 3.7%, the same as the previous year. The unemployment rate for males was up slightly, by 0.1% in 2005. The female unemployment rate did not change.

EMPLOYMENT TRENDS BY INDUSTRY

In 2000, the Korean government changed the industry classification system. Tables 5 and 6 compare the old and the new classification systems. Table 6 shows employment by industry according to the new industry classification, while Table 5 includes the data according to the old classification system.

As industry shifts toward less labor-intensive and more high-valued-added sectors, the agriculture, forestry, and fishing sectors continue to shrink. Even manufacturing industry no longer plays a big role in creating job opportunities. The service sectors are creating more jobs (see Table 6). However, wholesale/retail trade and hotels/restaurants did not perform well. One reason for the sluggish performance is that many unemployed people jumped into the sector and opened shops and restaurants. The supply of services in this sector well exceeded the demand. As a result, many of the new enterprises went bankrupt. Knowing that not many alternatives were available with small capital, unemployed people still ventured to open new shops and restaurants. The poor performance may be also partly due to the restrictions imposed on credit card use. Whenever enterprises spent more than USD500 with credit cards, they were responsible for reporting the details of the spending to the tax authority. This tax regulation was introduced in 2004.

The trend of employment by industry did not change much in 2006. In the first quarter 2006, employment rose in such industries as business, personal, and public services (342,000 or 5.0%); construction (34,000 or 2.0%); and electricity, transportation, communications, and finance (97,000 or 4.4%). However, employment fell in wholesale/retail trade and hotels/

restaurants (-35,000 or -0.6%); agriculture, forestry, and fishing (-33,000 or -2.2%); and manufacturing (-71,000 or -1.7%).

Since the first quarter of 2005, employment has continued to decrease in manufacturing and wholesale/retail trade and hotels/restaurants.

Table 5. Employment by Industry in Accordance with Old Industry Classification 1992–2000 (%)

Year	Total	Agriculture, forestry, fishing		Mining and manufacturing		Social overhead capital and other services				
		Agriculture, forestry			Manufacturing		Construction	1)	2)	3)
1992	100.0	14.0	13.4	26.5	26.2	59.5	8.9	23.6	8.9	18.1
1993	100.0	13.5	12.9	24.8	24.5	61.7	8.9	25.4	9.0	18.4
1994	100.0	12.6	12.0	24.2	24.0	63.3	9.1	26.5	9.0	18.7
1995	100.0	11.8	11.2	23.7	23.6	64.5	9.4	26.5	9.2	19.4
1996	100.0	11.1	10.6	22.8	22.7	66.1	9.5	27.3	9.4	19.9
1997	100.0	10.8	10.3	21.5	21.4	67.7	9.6	27.7	9.6	20.9
1998	100.0	12.0	11.6	19.7	19.6	68.2	7.9	27.9	10.0	22.3
1999	100.0	11.3	10.9	19.9	19.8	68.7	7.3	28.3	9.9	23.3
2000	100.0	10.6	10.2	20.4	20.3	69.0	7.5	28.2	9.8	23.5

1) Wholesale and retail trade, restaurants and hotels

2) Electricity, transport, storage, and finance

3) Business, personal, public service, and other

Table 6. Employment by Industry in Accordance with New Industry Classification, 2000–05 (1,000 persons)

Year	Total	Agriculture, forestry, fishing		Mining and manufacturing		Social overhead capital and other services				
		Agriculture, forestry			Manufacturing		Construction	1)	2)	3)
2000	21,156	2,243	2,162	4,310	4,293	14,603	1,580	5,752	2,076	5,195
2001	21,572	2,148	2,065	4,285	4,267	15,139	1,585	5,874	2,141	5,540
2002	22,169	2,069	1,999	4,259	4,241	15,841	1,746	5,998	2,157	5,940
2003	22,139	1,950	1,877	4,222	4,205	15,967	1,816	5,852	2,160	6,139
2004	22,557	1,825	1,749	4,306	4,290	16,427	1,820	5,862	2,187	6,558
2005	22,856	1,815	1,747	4,251	4,234	16,789	1,814	5,806	2,246	6,923

1) Wholesale and retail trade, restaurants and hotels

2) Electricity, transport, storage, and finance

3) Business, personal, public service, and other

JOB GROWTH BY EMPLOYMENT STATUS

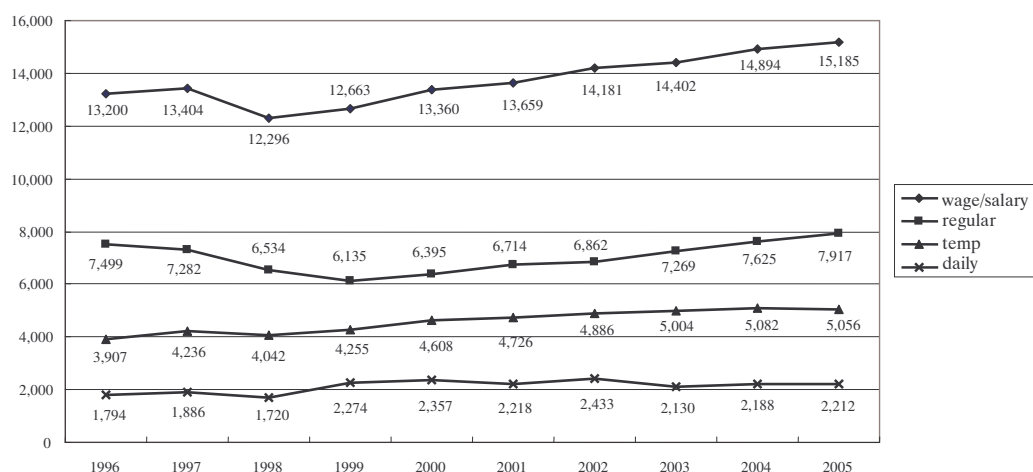
In the last several years, Korean enterprises have had to compete with cheap products imported from China. To maintain competitiveness, some enterprises built factories in China and exported to Korea. Others struggled to cut costs in order to retain the cost competitiveness of local products. To cut costs, they hired temporary workers instead of regular workers and out-

sourced products and services. The number of temporary workers has been steadily increasing since 1998 (see Tables 7 and 8). The trade unions have resisted the labor practices of Korean enterprises. They claim that the extensive use of temporary workers will harm job security and widen the wage disparity among workers. To cope with the problem, the current regime is pushing legislation to restrict the use of temporary workers. The legislation drew much debate over its benefits and drawbacks. Corporations have vehemently opposed it, and the trade unions criticized it as well for its leniency. If the legislation were passed in the congress, temporary workers would automatically become regular workers after two-year employment.

Table 7. Employment by Status, 1996–2005 (1,000 persons)

Year	Total							Male	
		Self-employed	Unpaid family workers	Wage/salary workers	Regular employees	Temporary employees	Daily workers		Self-employed
1996	20,853	5,710	1,943	13,200	7,499	3,907	1,794	12,351	4,041
1997	21,214	5,901	1,908	13,404	7,282	4,236	1,886	12,483	4,142
1998	19,938	5,616	2,025	12,296	6,534	4,042	1,720	11,847	4,069
1999	20,291	5,703	1,925	12,663	6,135	4,255	2,274	11,954	4,066
2000	21,156	5,864	1,931	13,360	6,395	4,608	2,357	12,387	4,181
2001	21,572	6,051	1,863	13,659	6,714	4,726	2,218	12,581	4,298
2002	22,169	6,190	1,797	14,181	6,862	4,886	2,433	12,944	4,404
2003	22,139	6,043	1,694	14,402	7,269	5,004	2,130	13,031	4,424
2004	22,557	6,110	1,553	14,894	7,625	5,082	2,188	13,193	4,369
2005	22,856	6,172	1,499	15,185	7,917	5,056	2,212	13,330	4,366

Table 8. Employment by Status: Trend



CULTURAL AND SOCIAL LIFE

Growing affluence has led to increased time for and expenditure on leisure activities, including local and overseas travel and sports. During the last 10 years household leisure expenditure has increased from 10% to 25% of household expendable income.³ Contemporary urban family and social life in South Korea at the start of the 1990s began to exhibit a number of departures from traditional family and kinship institutions. One example is the tendency for complex kinship and family structures to weaken or break down and be replaced by structurally simpler two-generation nuclear families. Another closely related trend is the movement toward equality in family relations and the resulting improvement in the status of women.

THE ECONOMY

General Description

Korea had been a feudal society based on Confucianism. Under Confucianism, commerce was regarded as a greedy activity, and the merchants were given the lowest place in society. The Korean culture and social norms had been a deterring factor for economic development. Everything changed in 1962, when General Jung Hee Park staged a military coup and became president. He launched a series of five-year economic plans that provided a framework for the country's development. The strong leadership of President Park combined with hard work ethics to allow Korea to achieve a remarkable rate of economic growth during the last three decades. These five-year plans were instrumental in bringing about a significant shift in the industrial origin of the ROK's gross domestic product (GDP). Manufacturing activity provided approximately 10% of GDP in 1965 and over 33% in 2005. Today roughly 44% of the ROK's GDP arises from industrial activities, which include mining, electricity, gas and water, and construction. In 1965 agriculture (including forestry and fishing) accounted for almost 50% of GDP, and in 1999 about 5%; rice, barley, vegetables, fish, and timber were the major products. Beginning in 1960 the ROK's annual GDP grew at an average rate of over 9%. In 1998 GDP registered a negative growth rate of 8.8% because of the Asian financial crisis; however, the ROK made a remarkable recovery. Now the economy remains stable as the GDP growth rate hovers around 4% in 2005 (see Figure 1).

	Agriculture	Mining	Manufacturing	Energy	Construction	Distribution/restmt.	Logistics/comm.	Banking/insurance	Real estate	Defense/social sec.	Education	Public health	Other services
Empl.	6.9	0.1	19.1	0.3	7.6	26.2	6.3	3.3	8.8	3.4	6.7	2.8	8.4
Prod.	1.5	0.3	33.6	3.5	6.3	9.7	8.6	7.2	12.9	5.6	5.0	2.3	3.5

Note: Production ratio represents each industry portion of total value added production.

Employment ratio is each industry's percentage of total employment

Source: National Statistics Office

Figure 1. GDP Contributions and Employment by Industry, First Quarter of 2005 (%)

The ROK's five-year plans also emphasize an increasing dependence on exports to fuel the country's economic growth. Despite heavy dependence on foreign imports of crude oil and raw materials, exports grew from about USD33 million in 1960 to USD144 billion in 1999. Thus, the growing importance of foreign trade is evident.

³ *Ibid.*

Tight anti-inflation policies have enabled the ROK government to contain inflation in recent years. According to the central bank, the annual inflation rate as measured by the consumer price index has been approximately 4% since 1982. In 1999 the inflation rate was kept below 1%.

The ROK government participates in several sectors of the economy, particularly mining, industries requiring heavy capital investment, utilities, and public services. Until the early 1980s banks were completely controlled by the government; however, this policy has been relaxed, and many banks are now privately owned.

Table 9 shows the growth of both gross domestic product (GDP) and gross national income (GNI) for the five years through 2005.

Table 9. GDP and GNI, 2001–05 (%)

	2001	2002	2003	2004	2005
Gross Domestic Product	3.8	7.0	3.1	4.7	4.0
Agriculture, forestry, and fishing	1.1	-3.5	-5.3	9.2	-0.1
Mining, quarrying, and manufacturing	2.1	7.4	5.5	11.0	6.9
Manufacturing	2.2	7.6	5.5	11.1	7.0
Electricity, gas, water	7.2	7.7	4.7	6.6	8.0
Construction	5.5	2.8	8.6	1.8	0.1
Services	4.8	7.8	1.6	1.9	3.0
Taxes less subsidies on products	2.8	8.8	3.3	2.1	3.4
Real GNI	2.8	7.0	1.9	3.9	0.5

Source: National Statistical Office

Basic Resources

Though the Republic of Korea's principal resource was an abundant supply of trainable labor, the decreasing fertility rate makes the country an aging society. Its mineral resources are limited. There are no known petroleum resources. About one third of the country is forested, providing some timber, and a wide variety of marine life is present in waters surrounding the peninsula.

Table 10 reflects the growth over the same five-year period for various expenditures on GDP.

Table 10. Expenditure on GDP, 2001–05 (%)

	2001	2002	2003	2004	2005
Final consumption expenditure	4.9	7.6	-0.3	0.4	3.4
Private	4.9	7.9	-1.2	-0.3	3.2
Government	4.9	6.0	3.8	3.7	4.3
Gross fixed capital formation	-0.2	6.6	4.0	2.1	2.3
Construction	6.0	5.3	7.9	1.1	0.4
Facilities investment	-9.0	7.5	-1.2	3.8	5.1
Intangible fixed assets	6.4	14.2	-0.9	0.9	3.9
Exports of goods and services	-2.7	13.3	15.6	19.6	8.5
Imports of goods and services	-4.2	15.2	10.1	13.9	6.9

Source: National Statistical Office

Mineral Resources and Energy

Anthracite coal, iron ore, zinc ore, and various types of nonmetallic minerals are primary natural resources. Production of coal and other major mineral products for the five years through 2004 is shown in Table 11.

Table 11. Production of Major Mineral Products, 2000–2004 (1,000 metric tons)

	2000	2001	2002	2003	2004
Anthracite coal	4,150	3,817	3,318	3,298	3,191
Iron ore	163	23	157	174	226

Source: National Statistical Office

Korea's energy consumption has risen sharply as its economy has grown rapidly. The lack of natural resources forced Korea to become dependent on energy imports. Its dependence on overseas imports accounts for more than 97% of its total primary energy consumption.

Depending heavily on imported petroleum for its basic energy supply, since the 1970s the ROK has implemented an energy diversification program. This program places significant emphasis on nuclear energy. In 1999 four nuclear power plants accounted for approximately 43.1% of the nation's electricity output. Thermal and hydroelectric power plants accounted for 54.4% and 2.5% of total electricity output, respectively. The government's 15-year Long-Term Power Development Plan, spanning 1999 to 2015, was announced in 2000, with emphasis on the privatization of the power industry and ever-tightening international environment regulations.⁴

Table 12 reflects the growth of electric power generated over the last five years.

Table 12. Electric Power Generated, 2001–05 (MW)

	2001	2002	2003	2004	2005
Hydro	3,876	3,876	3,877	3,829	3,829
Thermal	33,267	34,209	36,460	39,259	40,503
Nuclear	13,716	15,716	15,716	16,716	17,716
Alternative	–	–	–	158	210
Total	50,859	53,801	56,053	59,961	62,258

Source: Korea Electric Power Company

Manufacturing

Export has been the driving force behind the Republic of Korea's economic growth. Accordingly, most major industries are export-oriented or are suppliers for export industries. With the appreciating value of the Korean won and increasing wage costs, labor-intensive industries, including the garment, textile, shoe, toy, and sundry goods industries, are facing fierce competition from neighboring lower-cost countries. Labor-intensive industries have been migrating to neighboring countries, particularly China. Korea is increasingly focusing on higher-value quality products and on higher-technology industries. The service sector has represented approximately 50% of gross domestic product in recent years. It is expected that the service industries will grow at an increasing rate in the future.

The government has encouraged foreign service-sector companies to invest in Korea. Several international advertising agencies, more than 50 foreign banks, five foreign life insurance companies, and six Korean–foreign joint venture life insurance companies are operating in Korea. Foreign service-sector companies should be alert to the opportunities in the ROK in the coming years as the service sector develops to match the pace of industrial growth.

⁴ *Ibid.*

High-tech Industries

In recent years the high-technology industries have experienced rapid growth. The major factors contributing to this growth include the plentiful supply of capable engineering graduates and the granting of a variety of tax and other investment incentives. Foreign participation in high-technology industries is strongly encouraged.

Transportation and Communications

The Republic of Korea has excellent modern expressways connecting all major cities. Almost all districts and population centers of at least 50,000 people are served by a system of paved roads. Major ports like Busan and Incheon are connected to Seoul by highways and double-track railroad lines. Between Seoul and Busan, a new bullet train, KTX, has been built. Seoul has a dependable and effective mass transit system of subways, buses, and taxis.

Seoul's Incheon and Kimpo International Airports are served by 36 international carriers. Pusan and Cheju also have limited international air service. Domestic airlines provide daily service to the major cities and industrial areas.

Until the late 1990s, individual home users of the Internet had a maximum connection speed of only 64 Kbps with dialup service. However, this changed when Thrunet began to provide broadband Internet services in July 1998 with approximately 1Mbps connection speed using cable TV networks, and Hanaro Telecom and KT joined in the broadband Internet provider race through the use of ADSL (Asymmetric Digital Subscriber Line) technology. In 2004 the number of home users with broadband Internet access exceeded 11 million, which covers over 70% of the households in Korea. The widespread availability of broadband Internet services provided the impetus for Korea to become the leading Internet stronghold nation of the world. This leap in the development of broadband Internet stimulated the expansion of various multimedia services and provided the foundation for an evolution into a ubiquitous networking made possible by a convergence of broadcasting and telecommunication and wireless Internet services provided by mobile phones as well as broadband Internet.

Major Korean broadcasting companies began land-based mobile television services along with satellite DMB in December 2005, allowing people on the move to view multimedia broadcasting programs any time and anywhere via cell phones and other communication devices.

Mail service is generally reliable. International courier service is also available.

Foreign Trade and Balance of Payments

Until 1985 the ROK consistently had an overall unfavorable international trade balance. Domestic and international concern about the ROK's large foreign debt and balance of payments position has caused the government to implement programs to improve the trade imbalance by promoting energy conservation measures, encouraging selective import substitution of semi-finished and capital goods, controlling the level of foreign debt, encouraging domestic savings, and supporting efforts to achieve domestic self-sufficiency in rice and other grains.

As a result, the ROK experienced its first significant overall favorable international trade balance in 1986 and continued to post increasing surpluses. However, since the latter part of 1989, signs of an economic slowdown have emerged, as evidenced by a sluggishness in exports of goods, which resulted from a rapid appreciation of the Korean currency and frequent labor disputes in many workplaces. The ROK again experienced an overall unfavorable international trade balance. Since 1998 the current account has registered a large surplus, mainly due to the sharp decline of imports. In response domestic trade partners have been increasing pressure on the ROK government to open domestic markets. The government is continuing a program of gradually expanding the list of products eligible for import as part of negotiated agreements with major trading partners.

The trend of the balance of payments position is shown in Table 13. Tables 14 and 15 summarize exports and imports by commodity groups. Exports surged in 2004 due to the favor-

able exchange rate. As the value of the dollar is dropping, it is anticipated that exports will continue to slide downward in coming years.

Table 13. Balance of Payments, 2001–05 (USD billions)

	2001	2002	2003	2004	2005
Current account balance	8.0	5.4	12.3	25.6	27.8
Trade balance	13.5	14.8	22.2	34.4	36.7
Exports	151.5	163.4	197.6	250.6	275.1
Imports	138.0	148.6	175.5	216.2	238.4
Services	-3.9	-8.2	-7.6	-6.6	-6.7
Income	-1.2	0.4	0.6	0.7	0.7
Current transfers	-0.4	-1.6	-2.8	-2.9	-2.9

Source: National Statistical Office

Table 14. Exports by Commodity Groups, 2001–05 (USD1,000)

	2001	2002	2003	2004	2005
Beverages and tobacco	261,933	346,225	446,696	490,448	520,849
Crude materials, inedible, except fuels	1,585,782	1,634,445	2,000,609	2,492,273	2,839,433
Mineral fuels, lubricants, and related materials	8,009,138	6,551,554	6,901,953	10,531,441	15,709,419
Animal and vegetable oils, fats, and waxes	17,233	21,202	23,258	23,462	19,017
Chemicals and related products	12,518,955	13,762,017	16,935,642	23,125,681	27,745,199
Manufactured goods classified chiefly by material	26,789,501	26,993,020	30,129,622	36,953,954	41,023,218
Machinery and transport equipment	86,694,836	99,597,784	121,142,152	159,991,164	173,491,587
Miscellaneous manufactured articles	11,247,013	10,466,042	12,063,351	14,765,776	20,292,027
Commodities and trans. not classified elsewhere in the SKTC*	1,109,412 ¹⁾	983,600 ¹⁾	2,009,673 ¹⁾	3,024,610 ¹⁾	309,849 ¹⁾
Food and live animals	2,205,342	2,114,638	2,164,487	2,445,862	2,468,144
Total	150,439,144	162,470,528	193,817,443	253,844,672	284,418,743

¹⁾ Includes monetary gold, coins, and current coins

* Standard Korean Trade Classification

Source: National Statistical Office

Table 15. Imports by Commodity Groups, 2001–2005 (USD1,000)

	2001	2002	2003	2004	2005
Beverages and tobacco	563,971	693,927	629,553	553,035	540,290
Crude materials, inedible, except fuels	9,052,319	9,178,505	10,146,529	13,535,289	15,353,831
Mineral fuels, lubricants, and related materials	34,069,283	32,431,151	38,629,653	50,278,545	67,500,930
Animal and vegetable oils, fats, and waxes	269,326	339,257	389,330	543,543	618,881
Chemicals and related products	12,921,266	14,156,258	16,482,032	20,654,513	24,502,401
Manufactured goods classified chiefly by material	16,683,839	19,241,503	22,369,584	30,825,223	35,849,410
Machinery and transport equipment	47,911,009	53,307,689	62,655,141	75,361,574	82,533,394
Miscellaneous manufactured articles	11,166,620	13,358,580	16,234,036	19,852,918	23,434,342
Commodities and trans. not classified elsewhere in the SKTC*	1,670,920 ¹⁾	1,798,999 ¹⁾	2,959,747 ¹⁾	3,577,640 ¹⁾	948,811 ¹⁾
Food and live animals	6,789,267	7,620,284	8,331,050	9,280,408	9,955,973
Total	141,097,821	152,126,153	178,826,657	224,462,687	261,238,264

¹⁾ Includes monetary gold, gold coins and current coins

* Standard Korean Trade Classification

Source: National Statistical Office

Looking at Table 14, it is clear that the Korean economy transitioned successfully from labor-intensive industries to high-value-added industries. Exports of chemicals and related products jumped 122% between 2001 and 2005. For the same period, machinery and transport equipment exports leaped 100%. Manufactured goods exports also increased 53%.

However, Korean enterprises still depend on Japan, Europe, and the United States for core components and advanced machinery. Imports of the same categories of goods listed above also surged along with exports. As Korea exports more products, it also imports more machines and petrochemicals to make them. Table 15 shows the imports by commodity groups.

The ROK is attempting to reduce its traditional reliance on the United States and Japan (which accounted for approximately 20% and 16%, respectively, of ROK exports) through diversification programs focusing on the Middle East, Europe, and Southeast Asia. ROK products are also exported to Australia, Canada, China, France, Germany, Hong Kong, the Netherlands, Saudi Arabia, Singapore, and the United Kingdom. Total exports have grown from 14% of Gross National Income (GNI) in 1970 to approximately 37.7% of GNI in 2004.

Japan and the United States combined provide roughly 41% of the ROK's total imports. No other individual country accounts for more than 8%. Table 16 summarizes major trading partners.

Table 16. Major Trading Partners, 2004 (USD millions)

	Export	Import	Trade size
China, P.R.	49,763	29,585	20,178
United States	42,849	28,783	14,067
Japan	21,701	46,144	-24,443
Hong Kong	18,127	3,268	14,859
Taiwan	9,844	7,312	2,532
Germany	8,334	8,486	-151
Saudi Arabia	1,708	11,800	-10,091
Australia	3,378	7,438	-4,059
Malaysia	4,480	5,679	-1,198
Singapore	5,654	4,461	1,193

Source: Korea Foreign Trade Association

BUSINESS ENVIRONMENT

Industrial Climate

The ROK has achieved a remarkable rate of economic growth, primarily as the result of hard work, careful planning, and cohesive individual, business, and national economic goals. The government emphasizes an increasing dependence on exports to continue economic growth. Roughly 44% of Korea's GNP of 2005 arises from industrial activities, which include light industrial manufacturing, textiles, clothing, electronics, shipbuilding, machinery, and motor vehicles.

Amid concerns that increasing labor costs and imports of low-priced articles from underdeveloped countries in Asia are making Korea less competitive in lower-quality and labor-intensive products, there is a trend to move into higher-quality and value-added products, including the high-technology sector. High-technology products such as semiconductors, computers, and automobiles accounted for 30% of the nation's total exports in 2004. Government policy now also encourages the development of the service sector.

Framework of Industry

Most companies are small and closely held by a controlling family. However, the octopus-like conglomerates known as *Chaebol* are an indispensable part of the Korean economy. They have played a pivotal role in the nation's industrialization over the last four decades. In recent years the *Chaebol* have been under intense pressure to implement real operational restructuring with improvements in corporate governance, management transparency, and capital structure.

The top five *Chaebol* have agreed to implement in-house restructuring plans aimed at reducing debt-equity ratios and cutting over-capacity. Subsidiary business swaps and capital structure improvement plans are expected to progress well. After the restructuring of the *Chaebol*, they should be more focused on their core businesses, have much sounder balance sheets, and have much more transparent managements and improved governance structures.

The Korea Stock Exchange lists some 683 companies, and the KOSDAQ exchange lists about 920 companies as of 2003. The government encourages larger privately held companies to go public. The government controls or dominates certain major industries, including tobacco, ginseng, mining, utilities, public services, and industries requiring heavy capital investment.

Corporate and Financial Restructuring

Since the onset of the foreign currency crisis in November 1997, the Korean economy has continued to undergo a comprehensive reform and restructuring process in the financial, cor-

porate, public, and labor sectors. Corporations have had to scuttle poorly performing sectors and pay off huge loans to become more competitive. Many domestic companies are in need of infusions of capital to become structurally sound. Many public enterprises will be privatized.

AIMS OF GOVERNMENT POLICY

Economic Development Plans

Korea's economic development has been among the most rapid and sustained in the world. The success of a series of five-year plans since 1962 has transformed Korea from a largely agricultural subsistence economy into a newly industrialized economy, despite the lack of significant natural resources and the burden of high national defense expenditures. While the government has been pursuing the ultimate goals of the Korean economy, it will have to struggle with growing challenges to its market expansion policies. At the same time the government must also satisfy growing political and social demands for welfare programs and development of low-income rural areas.

The government encourages local manufacturers to produce higher-quality products. Also, rather than give up their lower-cost products in the market, the government is making it easier for entrepreneurs to move funds or equipment to neighboring countries in southeast Asia for the purpose of setting up plants in which to carry out their more labor-intensive activities.

Korea's OECD Entry

Korea's entry into the Organization for Economic Cooperation and Development (OECD) in 1996 raised the incentives for reform policies to raise the nation's regulations to the level of other advanced nations and to undertake institutional reforms for further liberalization. By becoming an OECD member Korea has been given the opportunity to participate in decision-making processes that impact the global market.

Free-trade Zones

The ROK has established two free-export zones, at Masan and Iri, to encourage direct foreign investment and export. Another free-export zone will be established at Kunsan in three years. Foreign investment in these zones is eligible for various tax and non-tax incentives.

Financial Services

There is an awareness that financial services have not kept pace with industrial development. Policy changes have enlarged the financial markets to permit business activities for foreign banks and allow some foreign participation in the insurance industry. In accordance with the capital liberalization plan, the stock market has been open to foreign investors since January 1992, with some restrictions, which are gradually being removed each year.

Public-Private Sector Cooperation

The government encourages private-sector initiative and minimizes bureaucratic interference by government agencies. In carrying out their regulatory functions, government agencies maintain a close rapport with the private sector.

Labor-Management Relations

The labor force of Korea has been a major success factor in the Republic of Korea's economic development. It has been generally regarded as highly literate, motivated, and hard-working. The number of skilled workers and technicians had been steadily increasing as a result of increases in the number of vocational and technical training programs. This is no longer the case.

The labor force continues to dwindle and the trade unions have become increasingly hostile and combative.

Traditionally, organized labor has not been considered a dominant force in the ROK. During the years 1988 through 1992, however, the number of labor unions increased considerably. Unions became more organized, and strikes became common as labor unrest continued to increase and workers demanded substantial pay increases. Employer–employee relations have been going through a period of significant readjustment, often causing major disruption in both domestic and foreign-invested companies' operations.

The numbers of labor disputes accompanied by work stoppages were fewer than 300 annually before 1987 but increased sharply to more than 3,700 in that year. However, as the nature of industrial relations changed from one of confrontation and conflict to participation, labor and management sought resolutions through dialogue and negotiation. As a result, industrial relations stabilized, and the number of work stoppages dropped to 78 in 1997. However, the number of disputes increased to 129 in 1998 as industrial relations were aggravated due to corporate restructuring and layoffs. Stoppages showed another downward trend in 1999.

Following the presidential election of late 1997, President Kim Dae-jung has endeavored to bring about new industrial relations based on cooperation, participation, and democracy. These endeavors are centered on establishing and operating the Tripartite Commission, composed of representatives from worker, employer, and governmental organizations, and others representing the public interest.

The Tripartite Commission has been criticized as ineffective by both management and labor. Disputes between unions and management continue without the mediating systems. The government is reluctant to get involved in labor disputes due to their sensitive nature. The union movement is increasingly becoming political. The biggest challenge for the Republic of Korea is how to turn the uncooperative relationship between management and unions into a more collaborative one.

Membership in Trade Blocs

The ROK is an active member of the Economic and Social Commission for Asia and the Pacific. The ROK encourages trade with almost all nations willing to reciprocate. It is a member of the Bangkok Agreement (along with Bangladesh, India, Laos, and Sri Lanka), which calls for reduced tariffs on certain items traded among members, and is a member of the World Trade Organization (WTO). Although not a member of the Association of South East Asian Nations (ASEAN), the ROK is making efforts toward establishing preferential trade agreements with member countries of this association.

EXAMPLES OF SSER

This report compiles selected cases of Korean corporations that successfully introduced labor policies to avoid massive layoffs. Many corporations had no choice but to undertake layoffs. Among them, several corporations took measures to look after fired employees. Here the case of Daewoo Motor is included. Studying the restructuring incidents that occurred in 1998 is worthwhile since they taught many lessons that current corporations must learn and remember.

The ultimate goal of corporations in a capitalist society is to increase the wealth of stockholders. To move closer to the goal, it is imperative to earn the trust of labor. The cases presented herewith underline the importance of trust-building. For that cause, the role of management cannot be too strongly emphasized.

Background of the Korean Financial Crisis in 1998

After the Korean War, Korea could not sustain itself without the foreign aid until the 1960s. In the 1970s, the Korean government fostered and inspired Korean enterprises to invest in heavy

industries like machinery and shipbuilding. Due to lack of natural resources and a weak domestic market, the Korean government had to take initiatives to launch an export-oriented economic policy. The construction of roads and ports was financed by foreign loans. The Korean economy recorded unprecedented growth during the 1970s and 1980s as the export-driven economic policy came into effect. But the government-led economic growth did not come without side effects. Inflation was rampant. Real estate prices in particular rose sharply. Realizing that investing in real estate was a good hedge, many enterprises were obsessed with expanding their fixed assets; even though their debt ratios were already high, they increased property shares in their asset portfolio by borrowing more from banks. Obsessed with the expansion and growth, Korean enterprises ignored the danger of decreasing liquidity. The vulnerable financial structure of ROK enterprises finally crumbled in 1987.

The Asian financial crisis began in Japan. As the real estate market in Japan collapsed, its impact hit every corner of Asia. On the verge of declaring a moratorium on payment, the Republic of Korea government had to ask the International Monetary Fund for an emergency loan. While it provided the rescue funds, the IMF urged the Korean government to adopt a tight-monetary policy. Due to the restrictive monetary policy, interest rates surged. The high interest rates delivered a fatal blow to enterprises with precarious financial structures. Many enterprises, including the Daewoo Group, went bankrupt. Those enterprises that survived launched massive layoffs. That was how the IMF crisis started.

Case 1: Yuhan–Kimberly Corporation

Manufacture of Sanitary Paper Articles

The Korea National Statistical Office, the government unit in charge of compiling national statistics, classifies industries based on a classification called the Korean Standard Industrial Classification, which is based on United Nations Standard Industrial Classification.

Yuhan–Kimberly Corporation, the subject of the case study, is classified as a Manufacturer of Sanitary Paper Articles. This classification is under the broad classification of Manufacturing. Manufacturing is further classified into Manufacture of Pulp, Paper and Paper Products (21), Manufacture of Articles of Paper and Paperboard (212), Manufacture of Corrugated Paper and Paperboard and of Containers of Paper and Paperboard (2121), and Manufacture of Sanitary Paper Products (21292). The numbers in parentheses are the industry codes.

Manufacturing sanitary paper does not account for much of the Korean economy. But the industry was hit hard during the IMF crisis and experienced the major restructuring. There are many corporations in the industry that could refer to the case of Yuhan–Kimberly Corporation and ponder on how to apply the Yuhan–Kimberly practice to their own systems. The sales of sanitary paper industry reached KRW63.5 billion (USD63.5 million) in 2004. Knowing that the sale volume of the industry was KRW64.7 billion in 2003, the industry was not doing as well as desired.

Background Information on Yuhan–Kimberly Corporation

Yuhan–Kimberly (YK) was founded in 1971 jointly by Yuhan Corporation and Kimberly Clark Corporation. YK is classified as a large corporation. According to the tax law in the Republic of Korea, small and medium-sized enterprises (SMEs) in manufacturing industry are defined as corporations with less than 300 full-time employees or less than KRW8 billion (USD8 million) of net capital. Corporations with more than 1,000 full-time employees, KRW100 billion (USD100 million) of net capital, or KRW100 billion in sales turnover are not recognized as SMEs.

The number of full-time employees in YK is 1,601 in 2004, which classifies it as a large corporation. The sales volume of YK reached KRW722 billion (USD722 million) in 2004. Its product range includes the consumer product line, an industry product line, and a hospital product line. The consumer product line consists of diapers, sanitary napkins, toilet tissue, paper

towels, facial tissue, etc. The industry product line includes hand towels, water soap, protective suits, etc. YK supplies hospitals with gloves, surgical masks, gowns, and other medical accessories.

YK is the leading corporation in the lavatory tissue market, with a 37.8% share; it is followed by P&G. It is also the commanding leader in seven other markets in which YK is operating (see Figure 2).

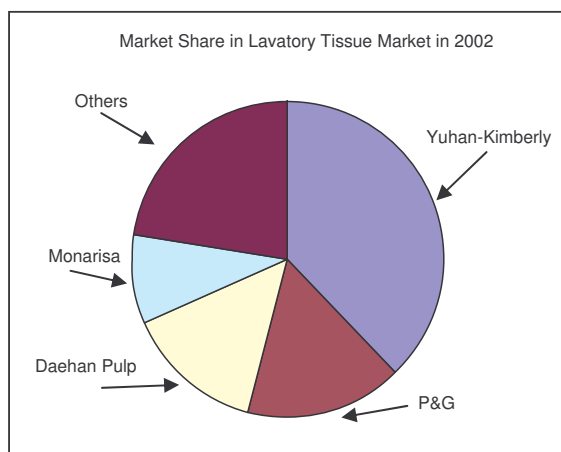


Figure 2. Yuhan–Kimberly Market Share, 2002

The current strategic focus of Yuhan–Kimberly is to produce and export high-end items to China. Mr. Kook Hyun Moon, the CEO of YK, is also in charge of the Far East Asian operations for Kimberly Clark Corporation. He mapped out the strategy to coordinate the various operations among corporations in Far East Asia. Under this new strategy, YK in Korea is responsible for producing high-end products while other corporations in Far East Asia continue to produce medium or low-end products. The company's exports currently account for 6% of total sales, but YK plans to boost exports to half of total sales. China is considered the major market for exports. The Huggies diaper was exported to China starting in 2004, and it soon became the top selling product in Beijing and Shanghai. YK in Korea is aiming to be the R&D center and the high-end product manufacturer for the Asian market.

Sharing Pain through Adjusting Working Hours

In 1993, Mr. Moon, then the Executive Vice President, introduced a new four-team–three-shift system to one factory. Workers initially opposed the new system, fearing less income for them. But it turned out the new system did not cause any income cutback. In 1995, Mr. Moon, who had become the CEO, again tried to expand the four-team–three-shift system to other factories. Workers were usually working 52 hours per week under the three-team three-shift system. The new system could cut back working hours to 42 hours per week. Mr. Moon believed that fewer working hours per worker could lead to better quality and productivity. Workers, however, again resisted Mr. Moon's suggestion, fearing that they would get less income. Income from overtime accounted at that time for more than 20% of workers' total pay. The new system could cut their overtime hours, resulting in lower earnings.

It was the financial crisis in 1998 that moved Moon's system into high gear. Capacity utilization fell by 50%, and the corporation was facing massive layoffs. The trade union realized the crisis and suggested an even more radical system than Mr. Moon's. It was a four-team–two-shift system. Under the system, workers would work four days and have next four days off. The

net working hours were 42 per week. The new system spread to all factories by 1999. While other corporations had to undertake massive layoffs during the financial crisis of Korea, YK did not fire a single worker.

Four-team–Two-shift System

One of problems that shift workers face is irregular working hours, which cause inadequate social life, fatigue, and danger of accidents. The shift system is an inevitable tool to maintain profitable output from an invested facility. The challenge is how to maintain corporate profitability and the welfare of workers at the same time. The typical shift system in Korea, called three-team–two-shift, has 11 to 12 working hours per shift. However, as long production hours were no longer needed on account of decreasing demand in 1998, the shift systems could not be maintained. Other corporations began to lay off workers. Yuhan–Kimberly had to fire workers or to reduce working hours, and the company decided to have shorter working hours to avoid the layoffs. So the four-team–two-shift system was born. Some YK plants adopted a four-team–three-shift system. Under the four-team–two-shift system, one team works for 12 hours per day for four days and takes a break for the next four days. While they are not on duty, workers must take training classes for one day out of every eight days. If they are working under a three-team–two-shift system, workers work only 42 hours per week instead of 48.5 hours. By adopting this system, Yuhan–Kimberly could avoid any layoffs. The advantage of this system is not confined to job security. Since the system was introduced, job satisfaction and product quality have been improved. The net profit soared from KRW10.5 billion (USD10.5 million) in 1995 to KRW90 billion (USD90 million) in 2004. The market share has also risen from 18% to 60% over the same period. Due to the growth in profits, the corporation has few loans and capital reserves of KRW200 billion (USD200 million) in its retirement fund. Workers' incomes remain the same despite the shorter working hours. The company boasts a zero workers' accident rate.

Trust

How could Yuhan–Kimberly in 1998 avoid mass layoffs, unlike other corporations? It was possible because of the trust deeply rooted in Yuhan–Kimberly. YK was affiliated with Yuhan Corporation and inherited its legacy. Yuhan Corporation was founded by Han Il Yu, one of the most respected businessmen in Korea. Yuhan Corporation is the model corporation in Korea. It has a high reputation for its transparency and business ethics. The trust between labor and management of Yuhan Corporation is well respected and admired in the Korean business community. The trade union of Yuhan Corporation waives its right of wage negotiation with management. The legacy of Yuhan Corporation continues to thrive in Yuhan–Kimberly. Yuhan–Kimberly factories have no punch clocks. The management trusts employees and respects their privacy. The mutual trust between management and employees is a key underlying foundation for the company. This trust made it possible for Yuhan–Kimberly to avoid massive layoffs and to adopt management practices that other corporations deemed impossible to adopt. Mr. Moon's motto is "You fire employees, you lose their trust." This motto makes Yuhan–Kimberly one of the most respected corporations in Korea.

Management Practices

In most cases, decisions in Yuhan–Kimberly are reached through consensus. Consensus-centered decision-making can be inefficient. However, the process is believed to create teamwork in the long run—teamwork that will eventually make up for the slow decision-making. To avoid inefficiencies, whenever the situation calls for it, the team leader makes the final decision after he or she asks for the opinions of team members. A set of criteria is chosen to ensure impartial decision-making. The decision-making criteria take the form of a checklist:

- Is the decision good for the company and its business?
- Is the decision good also for employees?
- Does the decision create and increase value in terms of quality, service, etc., for customers?
- Is the decision in line with the corporate vision and management strategy?
- Is the decision sound from a legal, social, environmental, and ethical perspective?

The scope of various jobs is described to clarify the accountability of team members.

Roles and duties of teams

- Manufacturing: producing products
- Quality Control: in-line inspection and assurance of high quality
- Maintenance: housekeeping and pre-maintenance
- Safety: ensuring safe execution of jobs and recording problems
- Problem-shooting: diagnosis and survey of problems
- Education: on-the-job training
- Performance measurement: measurement of production, quality, safety, cost, machine efficiency
- Work scheduling: scheduling of shifts
- Job rotation: job rotation and job enlargement
- Recruiting: conducting interviews for new recruits

Roles and duties of employees

- Carrying out jobs in accordance with job descriptions

Positive Effects of New System

There have been several positive impacts of the new system.

Company and worker perspective

- Improvement of quality of life: Due to more free time, workers are able to maintain the balance of life between work and home.
- Nurturing knowledgeable workers: More training and education allow workers to absorb new technology and knowledge. Workers become more competent.
- Workers have less physical strain; accidents occur less often.
- The company enjoys the reduction in accidents and defect rates and the increase in productivity after the introduction of the new system.

Some challenges still remain to be overcome.

- The adoption of the new system could mean that workers earn less. It is key for corporations to earn more profit from increased production.
- The company has to bear higher labor costs by having workers on one more shift. More production should be able to absorb the increased labor cost in order to ensure the success of the new system.

Transferability

Not every corporation could copy the practices of Yuhan–Kimberly. As in other cases, several prerequisites must be met to import the successful practices of other corporations. Some conditions must be fulfilled in the introduction stage; others should be met in the implementation and containment stages of the practice. These conditions and requirements are summed up herewith.

First, when the corporations face a state of crisis, it is rather easy to build consensus among employees to make a drastic change. In 1998, the nation's economy came to the brink of collapse; Yuhan–Kimberly was able to turn the predicament into an opportunity. Yuhan–Kimberly was able to adopt the new shift system on account of the crisis, but other corporations

cannot expect the same environment. The Yuhan–Kimberly case does not tell us how to overcome the fears of workers about the possibility of reduced working hours. Despite this limitation, the Yuhan–Kimberly case reminds us of the importance of the fundamental principles of management. The foundation of labor relations is trust. Trust enables corporations to adopt the practices of growth and prosperity that will benefit both labor and management.

Second, to have the shift system to put down roots in a corporation, the increase in production hours and output should lead to growth in sales volume and operating margins. The profit gain must be large enough to absorb the extra labor cost of the new shift system. Otherwise the system will not last long. If the market slows down, corporations will have financial difficulties due to added labor and inventory costs. In the case of Yuhan–Kimberly, the number of working days under the three-team system was 260 days. This was extended to 350 days with the new four-team system. The output was multiplied fourfold, and the gain from output and sales exceeded the additional labor cost.

When these two conditions are met, the new shift system will bring about the desired effects. When the system is under consideration, the conditions should be reviewed first.

Adoption of Japanese Pay Concession Plan

Background of Pay Concession Plan

As Korean enterprises were struggling to save labor costs, aging employees were increasingly becoming victims of this effort. At the same time, Korea was becoming an aging society, and enterprises were increasingly concerned with serious labor shortages in the near future.

Japan became an aging society in 1996, much earlier than Korea. An aging population and low birth rate put the pension system in danger of insolvency. To cope with this problem, the Japanese government in 1994 introduced a new policy: the pension entitlement age was raised from 60 to 65, starting in 2001 for male retirees and in 2006 for female retirees. The entitlement age was delayed by one year every three years. With the delay of pension payments, the pension problem was solved. Retirees, however, had to live without their pensions until they reached the age of 65, so the government enacted new legislation to mandate enterprises to exert maximum effort to extend employment until the age of 65.

In the 2000 *Shuntou* (Japanese Trade Union campaign), extended employment became the first item on the labor negotiation agenda. Many electricity-related corporations adopted the re-hiring policy, which later became known as the Pay Concession Plan.

Based on the Japanese experience, a few Korean enterprises are considering the adoption of the Pay Concession Plan, and the ROK government also took the initiative to help enterprises adopt the plan. Under this system, a worker's salary begins to dwindle when he or she reaches certain age. This system allows an enterprise to reduce the burden of maintaining aging and high-salaried workers.

The Ministry of Labor of the ROK plans to support enterprises adopting the Pay Concession Plan. In Korea, it is also called the Salary Peak System. No matter what terms are used, the plan is to extend employment with less payment. Under this plan, the total labor cost for corporations does not increase much and employees can enjoy longer periods of employment.

Description of Japanese Pay Concession Plan

Sanyo Denki of Japan was one of the first corporations to adopt the Pay Concession Plan. The Plan was applied to all employees other than executives starting in April 2000. Employees could work until they hit the retirement age of 65. They could choose to retire at the age of 60 or to continue to work five more years. If one chose to work until the retirement age of 65, the Pay Concession Plan came into effect at the age of 55. In other words, his or her pay would reach its peak at the age of 55, and afterwards gradually decline. Between 55 and 60, he or she would get 70%–75% of peak pay. After 60, he or she would receive JPY150,000 a month along with a

little more than JPY200,000 as a bonus. So the employee's monthly pay would be a little more than JPY350,000 until the age of 65 (see Figure 3).

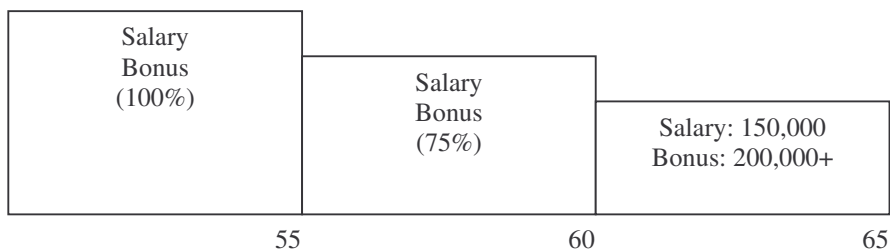


Figure 3. Remuneration under Sanyo Denki's Pay Concession Plan (Japan)

Mitsubishi Denki of Japan also adopted a similar plan, but with a different feature in the practice of early retirement and re-hiring. The retirement age at this corporation was 60. An employee who wanted to extend his or her employment beyond the retirement age was expected to retire early by the same number of years as the extended period. For example, an employee who wanted to work until age 63 would retire at the age of 58. Then he/she would be rehired and would receive 80% of his/her pay at retirement for the next 2.5 years and 50% of pre-retirement pay until age 63 (see Figure 4).

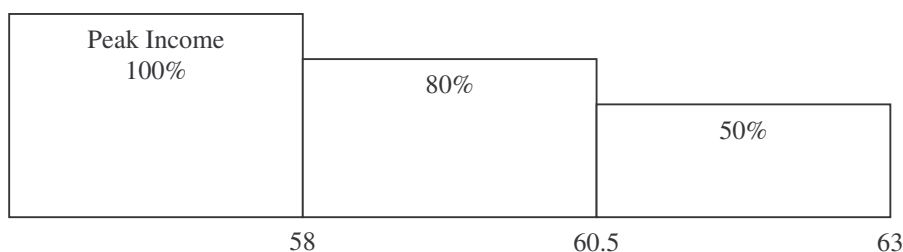


Figure 4. Remuneration under Mitsubishi Denki's Pay Concession Plan (Japan)

Unlike the Japanese Pay Concession Plan, the Korean Plan was linked to a voluntary retirement plan, although the term "voluntary retirement plan" was somewhat misleading. In the Korean context, even though the term indicates it was voluntary, the candidates for the plan were under pressure to resign. The retirement age in the banking and finance sector had been set at 58. Due to intensifying competition, however, banks were forced to reduce their staffs, and were contemplating ways to select employees to retire. Many of the banks thought that length of service, age, and gender would be criteria meeting the least resistance from employees. According to a survey conducted by the Korea Labor Institute in 2002, the criterion most used for selecting the "voluntary" retirees was the length of service. Other criteria used were age and gender. Banks asked employees who met the criteria to resign. Employees who resisted the request to resign were relegated to unimportant posts. Some humiliating and inhumane practices were also undertaken to force employees to resign. These discriminatory criteria and unjust practices led to lawsuits. In 2003, the Seoul District Court ruled that the current retirement practices of banks were illegal and ordered the defendant banks to pay recompense to plaintiffs. Facing repercussions from employees against the forced retirement, banks began to propose the extended employment with pay cuts.

The Korean pay curve plan is based on the Japanese one, though the two differ some in their contexts. While Japanese corporations adopted the pay curve plan to cope with shrinking pension funds, Korean corporations chose the plan in order to avoid layoffs. In other words, Japanese corporations took initiatives to redress problems caused by government pension policies while Korean motivations were intra-corporate. The two differ also in how the plan was first adopted. In Japan's case, the manufacturing sector started the plan, while in Korea the banking sector did. The pay curve plan is also being adopted by Korean public corporations.

At the Standard Chartered First Bank in Korea, when employees reached the age of 55, they could continue to work in the area of after-sales services or education for another three years. Their salaries were reduced step by step over this time. For the first year of extended employment, employees would receive 80% of their pre-retirement salaries; they would get 60% and 40% of the salaries for the second and the third year, respectively (see Figure 6).

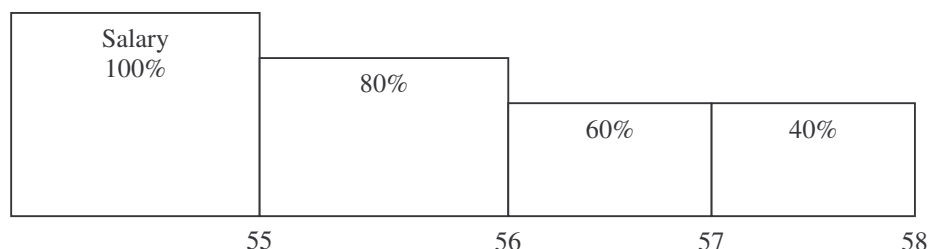


Figure 5. Remuneration under Chartered First Bank's Pay Curve Plan (ROK)

Other banking and financing corporations like Korea Credit Guarantee Fund and Korea Development Bank also adopted similar plans in 2003; but the plan is no longer confined to the financial sector. The public sector began to follow suit when the Korea Container Terminal Authority took up the plan.

Case 2: Korea Credit Guarantee Fund

Nature of Business

We will describe the details of the Pay Concession Plan at the Korea Credit Guarantee Fund. Korea Credit Guarantee Fund (KCGF) is a public financial institution established on 1 June 1976 under the provisions of the Korea Credit Guarantee Fund Act. As stipulated in Article 1 of the Act, the objective of KCGF is to extend credit guarantee services to enterprises without tangible collateral. It also put greater emphasis on network loan guarantee services and electronic commerce guarantee services in order to lessen the economic gap between large enterprises and SMEs.

Outstanding guarantees reached KRW33.5 trillion (USD33.5 billion) at the end of 2004. In March 2004, KCGF launched credit insurance services for accounts receivable and provided these services to over 7,100 companies. The amount it underwrote reached KRW1.3 trillion (USD1.3 billion), and infrastructure credit guarantee services reached over KRW1 trillion (USD1 billion) in 2004. KCGF manages three different types of capital funds, which constitute the capital resources KCGF requires for its services. Capital funds for credit guarantees consist of contributions from the government and financial institutions. Contributions from the government are subject to change each year in line with the government's annual budget, while contributions from financial institutions have a fixed ratio, which is 0.2% per annum of the loans extended in certain categories. In 2004, contributions from the government and financial institutions were KRW521 billion (USD521 million) and KRW456 billion (USD456 million), respectively.

According to Article 25 of the Korea Credit Guarantee Fund Act, KCGF may provide credit guarantees up to 20 times its capital funds. However, KCGF tries to maintain the total amount of credit guarantees around 10 times the capital funds in order to manage the funds soundly and to ensure payment ability. As of the end of 2004, the capital funds totaled KRW 3.2 trillion (\$3.2 billion), with total outstanding credit guarantees amounting to KRW 33.5 trillion (\$33.5 billion). The ratio of total outstanding credit guarantees to capital funds was 10.5:1.

Capital funds for credit insurance consist of contributions from the government and insurance premiums. The maximum amount for underwriting by KCGF should be less than 17 times the capital funds for credit insurance. The leverage ratio in credit insurance was 7.1:1.*

Capital funds for infrastructure credit guarantees are collectively called the Korea Infrastructure Credit Guarantee Fund (KICGF). KICGF is composed of contributions from the government and surplus earnings. KICGF reached KRW181 billion as of the end of 2004. The ceiling amount of total infrastructure credit guarantees should be less than 20 times the KICGF. The ratio of total outstanding infrastructure credit guarantees to KICGF was 9.73:1.

Job Transfer and Pay Concession Plan at Korea Credit Guarantee Fund

Faced with lawsuits and protests from forcibly retired ex-employees, the KICGF decided to adopt the job-transfer practice along with the Pay Concession Plan. In KCGF, employees when they reach age 55 are transferred to management-supporting posts, performing jobs such as bill collection, small-sum civil suits, management consulting, supervising credit information updating, credit checking, etc., depending on their desires, experiences, and careers. Retirement pay up to that point is paid to employees under the Plan. The new retirement plan is based on a new system of reduced pay.

The pay scheme in KCFF was designed in such a way that salary increases were directly proportional to years of service. The Plan abolished the old pay scheme and ties pay to productivity. The Plan assumes that productivity peaks at the age 54 and goes down afterwards. The employee's salary is determined based on this assumption: employees receive the largest sum of pay at the age of 54 and less afterwards (see Figure 7).

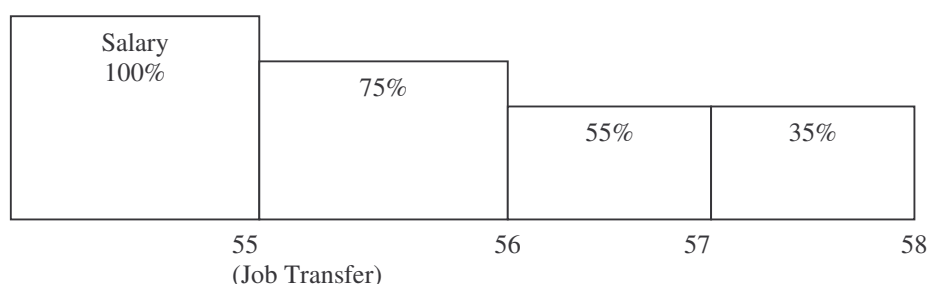


Figure 6. Remuneration under Korea Guarantee Credit Fund's Pay Concession Plan (ROK)

Implications

The Pay Concession Plan was adopted in Japan and Korea for different reasons. In Japan, it was adopted in order to fill in retirees' payless period after the government's postponement of pension payments. Korean corporations chose it to ensure job security. Under this Plan, employees have extended employment while employers do not have additional labor costs. The Plan was implemented only when the trade union agreed. It is essential for management to design a plan that will win approval from the trade unions.

Though the Plan was hailed by some employees and managers, it was not welcomed by everyone. Apex trade organizations like the Federation of Korean Trade Unions and the Korean

Confederation of Trade Unions opposed it, saying that the Plan was actually reducing the incomes of employees. At the other end of the spectrum, some corporations that adopted it were criticized for having to resort to such a Plan because they had neglected to develop fair and just personnel evaluation systems. Extending the services of incompetent employees was criticized as the manifestation of inept human resource systems.

Supporting System for Outplacement

Background

A number of enterprises have developed programs designed to train, coach, counsel, and empower former employees to succeed in their career transitions. The Ministry of Labor in the Republic of Korea defined outplacement assistance programs as programs helping laid-off employees find new jobs. DBM Korea, the first consulting corporation in Korea to specialize outplacement services, defines the programs as services that provide retirees with office space and other facilities for mitigating psychological trauma; analyze retirees' skills and preferences; and helps retirees pioneer new career paths. The need for this program has arisen since the massive layoffs in 1997. According to the labor law in Korea, layoffs should be announced one month ahead of time; if they are not notified, the employer owes the retrenched workers one month of pay. Some American corporations operating in the Republic of Korea, like Korea Agilent and Korea P&G, announced layoff plans six months in advance and provided training to the targeted workers. The move was well accepted by employees. Other Korean corporations contemplating layoffs have followed suit.

Case 3: Daewoo Motor Corporation

History of Daewoo Motor Corporation

Daewoo Motor Corporation originated as Shin Jin Motor Corporation, which sold rebuilt American Jeeps in the 1950s. Shin Jin Motor Corporation acquired Sanara Motor, the assembler of the Toyota Corona, and became the leading auto producer in Korea in the early 1970s. After the withdrawal of Toyota, Shin Jin Motor joined forces with General Motors as a business partner and changed the company name to GM Korea Corporation. Owned equally by each partner, GM Korea was still a mere assembler of GM's products. During the oil crisis of the mid-1970s, the management was forced to yield control to the biggest lender, the Korea Development Bank. In 1976, the corporation's name was changed to Saehan. When Daewoo Group took over the stakes owned by the Korea Development Bank in 1982, it changed the name to Daewoo Motor Corporation.

Realizing that the Korean automobile industry was collapsing due to excessive production capacity, the government introduced a policy of "industry rationalization." Under this policy, automakers were asked to specialize in certain products. Kia Motor was directed to produce only small and medium-sized commercial vehicles. Hyundai Motor and Daewoo Motor were allowed to produce passenger cars. Thanks to the oligopoly-supporting policy, Daewoo Motor was able to make a profit. But, unlike Hyundai Motor, Daewoo did not develop its own automobile models. Daewoo tried to capture the market with Opel models but failed. In 1991, it again faced financial trouble. Disagreements over investments made Daewoo Motor discontinue its partnership with GM. To overcome its difficulties, Daewoo introduced a number of models simultaneously into the domestic market and expanded its international operations quickly. The bold and aggressive management seemed to be working. In 1998, the productivity of the Changwon plant matched that of Japanese automakers. However, reckless interest-free sales in the domestic market and astronomical amounts of loans to finance the overseas expansion began to wreak havoc on the corporation. Despite its anticipated downfall, Daewoo Motor took even more risk by taking over Ssang Yong Motor. In August of 1999, Daewoo Motor finally gave in and agreed to cooperate with bankers to rebuild its corporations. But in 2000 it declared bankruptcy. Daewoo Motor laid off 7,300 employees. In September 2001, GM took over Daewoo Motor.

Outplacement Assistance Center in DMC

Daewoo Motor set up an Outplacement Assistance Center in November 2000 to help voluntary retirees locate new jobs. Daewoo outsourced the outplacement service to a career-transition consulting corporation in February 2001. Facing the layoff of 1,727 employees, it expanded the Outplacement Assistance Center and changed its name to the Daewoo Hope Center. At first, not many people submitted applications to the Hope Center. But as the value of its assistance became known, many people came to the Center to seek help. The Center provided applicants with information on outplacement, new employment opportunities, retraining programs, government support programs, etc.

The outplacement services began with a psychological consulting that was followed by three stages of services: assessment, preparation, and implementation. The psychological consulting is intended to help applicants face reality and overcome frustration. The assessment stage evaluated the core competence, psychology, value, experience, and needs of applicants. Based on the evaluation, a process of matching the application profile with career opportunities was undertaken. The preparation stage was to map out a plan to achieve the target set during the assessment stage. At this stage, the applicants were assisted in preparing resumes, formulating self-promotion strategies, and seeking new job opportunities through personal networks, etc. In the last stage, actual activities were carried out to get new jobs. Job seekers' plans were reviewed and customized interview rehearsals were undertaken. Those who wanted to start new businesses were helped to formulate business plans.

Besides the assistance program for job seekers, a new job development program was provided as well. To find new job opportunities, various efforts were made. Extensive Internet searches were conducted to gather information on job openings. Information on job seekers was sent to possible target enterprises. Strategic alliances with outplacement consulting firms were made to exchange information.

Another service of the Daewoo Hope Center was to enhance retirees' competence through retraining and to facilitate re-employment accordingly. The retraining program began with assessing the employee's experience and determining his or her education needs. Based on the assessment, the applicant could formulate his/her own self-development program. The Center also provided the applicants with equipment like telephones, fax machines, and computers.

The Daewoo Hope Center offered comprehensive services including an outplacement service, job search assistance, retraining programs, and government support programs in one place. This one-stop service for the jobless people was found to be a convenient feature.

Contributions of Daewoo Hope Center

Applicants to Daewoo Hope Center received services for about 2.5 months on average. The DHC was able to help many applicants locate new jobs or set up new businesses. The relocation rate was 33.3%. Among 4,509 retirees-to-be, 1,546 people found new jobs or began new businesses. But the DHC should not be evaluated only based on numbers. The DHC contributed a great deal in placating applicants and stabilizing them psychologically. The Center paid particular attention to appeasing applicants' feelings of betrayal, resentment, and bitterness. The DHC was an instrumental in giving retirees-to-be hope and expectations of finding new jobs. The biggest contribution of the DHC was showing retirees that the Daewoo Motor Corporation cared about people. Through the program, DMC regained the trust of the public.

SUMMARY

The Korean economy went through tremendous changes after the IMF crisis. The crisis did not bring only pain. It became a chance for Korean enterprises to abandon irrational management practices, to increase transparency and financial stability, and to adopt profit-conscious

strategies. At the same time, it did bring about massive restructuring of corporate business portfolios. Some corporations found ways to avoid layoffs, but others failed.

Yuhan-Kimberly took the approach of avoiding layoffs and extending total working hours but reducing individual working hours. It was a big risk both for management and for labor. Management could have feared the rising labor cost, while labor could have been concerned about dwindling incomes for employees working fewer hours. Despite the risks, however, both parties agreed to cooperate and adopt the new system. The agreement was a manifestation of trust nurtured between management and labor in Yuhan-Kimberly. Even with the national financial emergency, not many corporations were able to persuade their labor unions to cooperate in similar ways.

We should not disregard the leadership of Kook Hyun Moon, the CEO of Yuhan-Kimberly. His leadership epitomizes the principle-centered leadership advocated by Steven Covey. He lives frugally. His simple lifestyle and exemplary behavior has been respected within and outside the company. His leadership was instrumental for management to earn the trust of the labor union.

The wage concession plan introduced at Korea Credit Guarantee Fund (KCGF) is another example of management and labor union cooperating to minimize the impact of layoffs. It was not possible for a service corporation like KCGF to extend working hours. Instead, it adopted the Wage Concession Plan pioneered in Japan. The plan allows employees to stay longer in corporations as their income is spread over an extended number of years.

Daewoo Motor is an example of a case where both employees and management suffered by undertaking massive layoffs. Management employed several measures to mitigate the pain of fired employees. Daewoo Motor seems to have succeeded in regaining the trust of its former employees. The efforts of management showed that the corporation cared about its own people. In 2004, GM Daewoo Motor rehired all the fired employees.

These cases show again that management should take an active role in building trust in corporations.

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COUNTRY BACKGROUND

Malaysia, home to about 26.6 million people, is situated in the Southeast Asian region, sandwiched between Thailand in the north and Singapore in the south. The Federation of Malaysia comprises peninsular Malaysia and the states of Sabah and Sarawak on the island of Borneo, with Kuala Lumpur as the capital and Putrajaya as the government administrative centre. The country's ruling system is based upon a parliamentary democracy with a bicameral legislative system. The head of state is a monarch, currently Yang Diptuan Agong, selected every five years from a pool of Sultans from nine states. The head of the government is the Prime Minister, representing the majority party elected representatives in the Parliament.

The colonial legacy of the past had changed the country's racial composition, which now stands at 55% Malay, 25% Chinese, 10% Indian, and the remaining 10% other races. British colonialism contributed to the ethnically heterogeneous population by allowing, even encouraging, Chinese and Javanese immigration, and organizing Indian immigrants to work in the nascent public and plantation sectors, resulting in a close identification between race and economic function (Gomez and Jomo, 1997). With Islam as the official religion, freedom of worship for other religions such as Hinduism, Buddhism, Christianity, and Sikhism is granted under the Federal Constitution. Out of this multitude of races and religions, Malaysia celebrates throughout the year nationwide various festivals such as Eid-ul Fitri, Eid-ul Adha, Chinese New Year, Deepavali, Vesak Day, and Christmas.

Internationally, Malaysia is one of the founding members of the Association of Southeast Asian Nations (ASEAN), whose members include, among others, Singapore, the Philippines, Vietnam, and Thailand. ASEAN was formed with the aim of promoting the economic interests as well as the social and cultural progress of the member nations. Malaysia also currently holds the position of head of the Organization of the Islamic Conference (OIC) and the Non-Aligned Movement (NAM). As a former colony of the British Empire, the country is one of the group of Commonwealth nations; Malaysia hosted the Commonwealth Head of Government Meeting (CHOGM) in 1989 and the Commonwealth Games in 1998. Malaysia is also a member of the United Nations, the World Trade Organisation (WTO), the International Labour Organisation (ILO), and Asia Pacific Economic Cooperation (APEC).

Economic Development

Malaysia's economic landscape has evolved from being agriculture- and mining-dependent to being characterized by high-end manufacturing and service industries. The development occurred in stages: an initial stage concentrated on import substitution industries (ISI) in the 1960s; an emphasis on export-oriented industries (EOI) in the 1970s saw the establishment of Free Trade Zones (FTZs), while in the 1980s heavy industries dominated, with an emphasis on steel, automobiles, and heavy machinery manufacturing via government-linked corporations such as PROTON, PERWAJA, and HICOM.

Today, many multinational companies have set up bases in Malaysia. This has been the result of conscious and deliberate policies of the government to diversify the economy over the years. Companies from the U.S., Europe, Japan, the Republic of Korea, and China, which are among the most discerning in their choice of locations, have put their faith in Malaysia, its labor force, and its rule of law, among other factors.

Malaysia, which offered incentives for labor-intensive industries in the 1970s, has moved on with the times, offering incentives to attract the industries that it wanted and, as labor short-

ages appeared, moving away from labor-intensive sectors to high-end products such as those produced by high-tech and capital-intensive industries.

Beginning in 1970, Malaysia actively restructured its economy in order to give every ethnic community a fair share in the wealth of the country. The New Economic Policy (NEP) was adopted in 1970, and it was followed by the National Development Policy (NDP). The NDP was intended to further balance the economic well-being of the different communities, this time with emphasis more on quality than on quantity. The privatization policy resulted in catapulting a core of Bumiputera, or indigenous people, into the realm of big business.

At a glance, Malaysia's industrial development stage can be evaluated in distinct phases (Jomo, 1994):

- The industrialization during British colonial rule was largely limited to export and import processing and packaging of food and simple consumer items, especially when encouraged by transport cost considerations. Much of this manufacturing activity was located in Singapore, Malaya's commercial center during the British colonial period, and dominated by British and, to a lesser extent, local Chinese interests.
- The post-independence development saw the growth of import-substituting manufacturing on industrial estates protected by high tariffs. Generally quite capital-intensive, such industrialization generated relatively little new employment and soon reached its limits in the small domestic market.
- The transition to the next phase, export-oriented industrialization, began in the late 1960s as the limits of import substitution became apparent and a new international division of labor emerged, particularly involving manufacturing. Legal and policy reforms paved the way for accelerated industrialization involving electronic components, electrical goods, textiles, and other manufactured exports. The new labor-intensive industries generated much new employment, though at generally lower wage levels. However, the decline in unemployment coupled with the rise in productivity drove up the wage level until the early 1980s.
- The next phase, which began in the early 1980s, was less distinct as it did not involve explicit abandonment of export-oriented industrialization, but only the promotion of selected heavy industries, which some believe to be part of a second round of import substitution. The global economic crisis of this period and its ramifications for Malaysia impacted the national economy generally. Meanwhile, new private investments in manufacturing fell, compounding problems related to fiscal and debt crises, slow growth, and rising unemployment that culminated in the mid-1980s.

The current phase of industrial development is geared towards Vision 2020. The country has just completed the first 15-year phase of the Vision, while facing a multitude of obstacles and challenges. The strong growth of the 1990s was interrupted by the Asian financial crisis. Malaysia was in the process of recovering by the year 2000, but the events of 11 September 2001 presented the country with fresh challenges. Various other events have affected the country and the region, including the outbreak of SARS and avian flu, earthquakes, and the 26 December 2004 tsunami.

Despite the various challenges faced in the last 15 years, the country generated an average GDP growth of 6.2% per annum from 1991 to 2005. This growth more than doubled average household income, from MYR1,169 per month in 1990 to MYR3,249 per month in 2004. All economic sectors showed strong growth, including the germination of new economic sectors such as the information and communications technology (ICT) sector. As a result of this growth, the country's exports grew at a rate of 13.5% a year in the period 1991–2005, making the country the 18th-biggest trading nation in the world.

From the perspective of social welfare, the poverty rate declined from 22.8% in 1990 to 5.7% in 2004, and life expectancy at birth improved for both males and females, to 71 and 76

years, respectively, in 2004. The provision of basic amenities such as health services, education, and housing increased, as did the provision of other infrastructure and utilities.

The Third Outline Perspective Plan (OPP3), 2001–2010

The Third Outline Perspective Plan (OPP3) constitutes the second decade of development under Vision 2020, which focuses on building a resilient and competitive nation. The formulation of this Plan incorporates a review of the progress made during the Second Outline Perspective Plan (OPP2), as well as lessons learned from the 1997–98 Asian financial crisis.

Human resource development is of paramount importance in the government's agenda as reflected in the OPP3. The thrust of human resources development in the OPP3 will be to prepare a workforce that is capable of meeting the challenges of a knowledge-based economy so as to enhance economic productivity and competitiveness.

The economic transformation will aim to increase demand for technological skills and expertise and to develop a labor force equipped with tacit knowledge and a high level of thinking skills. Efforts are being made to ensure the education and training system has the capacity to enhance the quality of intellectual capital as well as expand the human resources base.

The pervasiveness of information technology and the increasing knowledge-intensity of the economy will create new employment opportunities but will also result in skill redundancies and job displacements. It is critical that workers possess the ability to adapt and adjust to the changing demands of technological advances in the knowledge-based economy by acquiring new knowledge to upgrade their skill base.

Efforts will also be undertaken to re-train and re-skill the labor force to minimize the effects of structural unemployment as well as to meet the new skill requirements of the knowledge-based economy. Priority will be given to improving the quality of education in rural and remote areas with educational facilities expanded and upgraded to reduce the performance gap between schools in urban, rural, and remote areas.

With increased use of information and communications technology (ICT), work organization is expected to become less hierarchical and management structures flatter, resulting in some structural unemployment and job displacements. Efforts will be undertaken to minimize the problems arising from structural unemployment through more innovative human resources development and labor market strategies that minimize skill mismatches and facilitate labor mobility.

Measures will also be taken to ensure that Malaysia continues to be competitive and that wage increases are commensurate with enhancements in productivity brought about by improvements in the quality of the labor force.

Targets for OPP3—1. Labor Force. The size of the labor force is expected to increase by 3.1% per annum, or an additional 3.3 million workers, during the OPP3 period, to reach 12.9 million in 2010. The labor force growth is attributed to increases in the size of the working-age population and in the labor force participation rate (LFPR) from 65.5% in 2000 to 68.1% in 2010.

The labor force will be better educated, with an increased proportion of 35% attaining tertiary-level education. The expansion in education, training, and growth in virtual learning will provide more opportunities for Malaysians to pursue tertiary education.

Female labor force participation is expected to increase from 44.5% in 2000 to 49.0% in 2010. As more women attain higher levels of education, they are expected to increase their participation rate in the professional and technical sectors. The increase in the female LFPR will increase the labor supply and reduce the need for foreign workers and professionals.

Targets for OPP3—2. Employment. During the OPP3 period, the demand for labor will increase at an average rate of 3.1% per annum with the expected rapid Gross Domestic Product growth. This will result in an increase in employment from 9.3 million in 2000 to 12.6 million in

2010. With an average labor force growth of 3.1% per annum during the period, the unemployment rate will be 2.5% in 2010 as compared with 3.1% in 2000. The challenge in the development of a knowledge-based economy will be to ensure that structural unemployment is minimized through retraining and reskilling.

The service sector will continue to have the largest share of total employment. By 2010, the share of employment in the services sector will increase to 51.5%, accounting for 59.4% of total employment creation.

Improved capital–labor ratios and efficiency in the production process will lead to lower employment growth in the manufacturing sector. Employment growth in the sector is expected to average 4.1% per annum, increasing from 2.6 million in 2000 to 3.8 million in 2010, which will account for 38.2% of total employment generated in 2010.

The agriculture sector's share of employment is expected to be 9.8% by 2010, compared with 15.2% in 2000.

Targets for OPP3—3. Wages and Productivity. It is critical that wage increases be commensurate with increases in productivity so that the competitiveness of the economy is further enhanced during the OPP3 period. Wage increases that reflect productivity gains will ensure that there is no undue pressure on prices or erosion of real income. In this regard, the process of adoption of the Guidelines for a Productivity-Linked Wage Reform System, established in 1996 to ensure a closer link between wages and productivity performance, will be intensified. Labor productivity growth during the OPP3 period is expected to increase by 4.2% per annum for all sectors, in line with the shift towards the knowledge-based economy.

Targets for OPP3—4. Education and Training Priorities. Globalization and rapid technological advances during the OPP3 period will intensify the demand for a quality labor force that is knowledge-rich and has superior cognitive skills and the capability to optimize the use of new technologies and materials and to combine them effectively with creativity and innovation.

Targets for OPP3—5. Forging a New Approach to Training and Retraining. Increasing investment in capital-intensive and knowledge-based industries will increase the demand for highly skilled manpower as the utilization of new technology creates more jobs with high skills content. In this regard, training and retraining—the critical enablers in equipping the future workforce with appropriate skills and assisting the present workforce in adjusting and adapting to a knowledge-driven economy—will continue to be given priority.

More investment in human capital, especially in training and retraining, will also be undertaken to enhance Malaysia's competitiveness in the international market. Rapid changes in technology will affect work organization and increase the demand for multi-skilled manpower with strong academic foundations, knowledge capabilities, and extra-functional skills.

To further enhance the quality of skills training, the National Occupational Skills Standards, currently based on job or occupation, will be restructured towards work processes that are in line with the changing needs of employers. A dual training approach using apprenticeship schemes will be emphasized during this period: more training institutions will be encouraged to adopt this approach in collaboration with industry to enhance the effectiveness of their training programs. This approach is a combination of work-based training and part-time vocational training.

The Ninth Malaysia Plan (9MP), 2006–2010

The Ninth Malaysia Plan (9MP) is the first of three Malaysia Plans that form the National Mission to Achieve Vision 2020. As such, 9MP is consistent with the ambition to build a country with an advanced economy, balanced social development, and a population that is united, cultured, honorable, skilled, progressive, and farsighted.

Among the economic achievements targeted during this Plan period, domestic consumption and private investment are expected to drive growth. Private investment is expected to expand at an average rate of 11.2% a year, exceeding public investment for the first time since the Asian

financial crisis. At the same time, total factor productivity is expected to increase from 29% to 35.8%, in line with the evolution into a more knowledge- and productivity-based economy.

Malaysian exports are expected to grow at a healthy rate in the next five years: 8.5% a year. Total trade is expected to exceed the MYR1 trillion mark for the first time. The Plan is also aimed at achieving average real GDP growth of 6.0% per annum. Based on this growth, GNP per capita is expected to increase at an average rate of 5.9% per annum to reach MYR23,573 by the year 2010. Per-capita GNP adjusted for purchasing parity is expected to increase to USD13,878 in 2010.

In terms of development allocation, the federal government will allocate a total of MYR200 billion for development expenditure, an increase of MYR30 billion from the Eighth Malaysia Plan. Out of the total allocation, the subsectors education and training receive the biggest percentage of the allocation, at 20.6%, in line with the government's resolve to enhance the human capital quality.

To this end, 9MP is built upon five thrusts. The three that relate to enhancing the well-being of the workforce are:

Move the economy up the value chain. The government aims to increase the value of existing economic sectors as well as generate new knowledge-intensive activities and employment in informations and communications technology (ICT), biotechnology, and services. In this regard, enhancing job creation is emphasized to sustain economic growth so as to ensure that graduates and skilled workers are able to obtain employment suitable to their qualifications. The previous Eighth Malaysia Plan saw a total of 1.6 million new jobs created. For this purpose, functional training will be provided to ensure that the workforce has the specific skills required by industry; it is estimated that 220,000 people will join the labor force annually, of whom 44,000 will possess tertiary qualifications.

Raise the country's capacity for knowledge, creativity, and innovation; nurture a "first-class mentality." The development of human capital, the upgrading of the mentality and intellectual capacity of a nation, is one of the biggest challenges and a priority under 9MP. In the context of globalization, high-quality human capital has become a necessity. In the context of increasing the added value of the labor force, the capacity and effectiveness of training will be enhanced by increasing the number of public training institutions, adding further courses in technical fields, strengthening the certification/accreditation systems and the quality of technical education, and encouraging private sector participation in the field of technical training. Under the national dual-training system, the intake of technical trainees will be doubled. The technical curriculum will be enhanced with the cooperation and input of industry.

Address persistent socioeconomic inequalities constructively and productively by restructuring employment patterns. Endowed with a multiracial background, the government economic enhancement initiatives aim to maintain racial harmony through equitable distribution of wealth. In the five-year period of the Plan, the government will strive to ensure that the employment pattern in all sectors of the economy truly mirrors the racial composition of Malaysian society. The private sector is expected to play its role in enhancing the participation of Bumiputera (indigenous people) in sectors where they are underrepresented. Efforts will also be intensified to ensure increased participation of non-Bumiputera in the public sector and in sectors where they lack equitable representation.

Economic Performance

After the Crisis ...

Since the 1997–98 economic crisis, the nation's economic recovery has strengthened and become more broad-based, with the annual rate of growth in real gross domestic product (GDP) increasing from 4.1% in the second quarter of 1999 to 8.2% in the third quarter and 10.6% in the fourth quarter. This represents a significant recovery, given the five consecutive quarters of contraction that began with the first quarter of 1998.

This strong recovery is supported by the rapid expansion in output and export of manufactured goods, in addition to the recovery in the construction sector. At the same time, domestic demand is on the increase, supported by both public and private expenditure. The rapid pace of economic growth was supported by stronger economic fundamentals. The nation's external trade position continued to register surpluses for 26 consecutive months, from November 1997 to December 1999. For the year 1999, the trade surplus amounted to MYR72.3 billion—the largest surplus ever recorded.

Consequently, the current account of the nation's balance of payments is now estimated to register a surplus of MYR47.4 billion. This surplus has enabled external reserves to increase from USD20.2 billion at the end of August 1998 to USD33.8 billion on 24 February 2000, sufficient to finance 6.4 months of retained imports. At the same time, the rate of inflation declined from 5.3% in 1998 to 2.8% in 1999.

The performance of the financial and corporate sectors continues to strengthen. Malaysia is among the countries which have successfully managed the problem of non-performing loans (NPLs), increased capital injection in the banking system, and encouraged corporate restructuring. As of 31 December 1999, Danaharta has taken over NPLs amounting to MYR45.5 billion. Of this total, Danaharta has already resolved or is in the final stages of resolving NPLs amounting to MYR17.6 billion at gross value.

Danamodal has injected capital totalling MYR7.59 billion into 10 banking institutions. Up to 9 February 2000, the Corporate Debt Restructuring Committee (CDRC) had received 67 applications with debts totaling MYR36.3 billion. Of these, 19 debt restructuring schemes involving MYR14.1 billion have been resolved.

The improved performance in the economic and financial sectors and in government expenditure has had a positive impact on the social sector. Average household income increased by 3.7% from MYR2,392 in 1998 to MYR2,480 in 1999. The poverty level declined from 8.5% to 6.9% during the same period. The hardcore poverty level decreased from 1.9% to 1.4%. The rate of unemployment decreased from 3.2% to 3.0%.

The 2000 Budget Strategy to reenergize the country's economy is aimed at laying the foundation to face challenges and take advantage of opportunities in the new millennium. This will be achieved through strategies to revitalize economic growth and strengthen the nation's competitiveness and resilience as well as by transforming the services sector as the stimulus of growth, strengthening the agricultural sector, developing human resources to meet the nation's requirements, and continuing to pursue the nation's social agenda and develop programs for environmental preservation.

In 2002, the economy is well on its way to recouping its strength and momentum, as can be seen in the following areas (Shanmugam and Ngui, 2002):

- Increased reserves—The country's reserves have been building up again since June 2001, due to improved exports and reduced outflow of portfolio capital.
- Strong domestic demand—Private consumption and public expenditure have been on the rise, as evidenced in increased car and house sales. Though unemployment is higher due to layoffs in the manufacturing and banking sectors, per-capita income is higher due to increases in salaries.
- Sound financial system—The banking system is sound, as the number of non-performing loans (NPLs) has tapered off. The NPLs were expected to peak by June/July 2003. Growth in lending was also expected to improve significantly in 2003.
- Economic fundamentals intact—Low inflation rate of 1.4%; high national savings rate of 34% of GNP; current account surplus of 8.9% of GNP; and improved profile of external debt.

However, the economy has yet to show recovery in the following areas:

- Foreign direct investments—With the opening of China, the flow of international investments into the region has diminished. Most new investments are heading towards China. In the past, investments from foreign companies played a major role in fuelling growth.
- Sustainability—Manufacturing, led by the electrical and electronics sector, is the main source of exports and growth of the economy. The construction sector is still lagging; hence there is no new investment in domestic-oriented industries. What will fuel economic growth when the cyclical electronics sector slows down again is still not clear.
- Corporate restructuring—More than 90 companies have negative shareholders' funds and have yet to regularize their financial positions. Many more companies have plans to raise capital, but they mainly involve raising money on the stock market.
- External pressures—The fear is that the United States economy may not turn around as fast as expected. Apprehension also remains over the Japanese economy. A change in economic fundamentals in these countries might exert pressure on the Ringgit peg.

Then Came SARS ...

In 2003, with the country still rebuilding its economy, the spread of SARS slowed down the recovery process. Fortunately, unlike some other SARS-afflicted countries, Malaysia posted a surprisingly strong growth of 4.5% in the second quarter of 2003. This was nearly as strong as the 4.6% reported in the previous quarter.

Bank Negara's data on GDP numbers reported that the strong private sector response to the proactive government measures, in a low-interest-rate environment, strengthened the economy's growth momentum. This allowed the economy to gain further momentum to expand by 5.1% in the third quarter of 2003.

Furthermore, visitor arrivals have almost gone back to their pre-SARS levels. As a result, the tourism and hotel subsectors are again looking busy following sharp rises in occupancy rates and bookings for tour packages. Buoyed by an excess liquidity environment, local and, to a lesser extent, foreign funds have capitalized on Malaysia's recovery story by pushing the stock market up in excess of 20%. The wealth effect from financial price appreciation, in turn, has provided further impetus to consumption spending and fueled the increase in demand for residential property.

More importantly, foreign direct investment (FDI) flows, as indicated by foreign investment applications in manufacturing projects, have revived. Foreign applications reached MYR10 billion during the first three quarters of 2003, a level that is within striking distance of the MYR11.7 billion reported for 2002. Ironically, China's initial mishandling of the SARS outbreak could well be part of the reason for the recovery.

STRATEGY TOWARDS STEADY GROWTH

Productivity-Driven Growth

... if ever there is an issue that we must be single-minded about, it must be improving, and **continuously improving**, our **national competitiveness**; all our strategies, plans, programs and policies must be directed towards **raising our productivity**...

Dato' Seri Abdullah Ahmad Badawi
Prime Minister of Malaysia

The Seventh Malaysia Plan (7MP) and Eighth Malaysia Plan (8MP) emphasized the shift from input or investment growth to productivity-driven growth strategy through the increased contribution of Total Factor Productivity (TFP). Malaysia has to move towards improving TFP

as a new source of growth apart from relying on factor inputs. Additional output can be generated through the enhancement of skilled labor with technology capabilities and the resulting high efficiency when these two inputs worked together.

Productivity-driven growth strategies will enable the economy to achieve sustainable growth, with low inflation and price stability. The shift from input-driven growth to productivity-driven growth through the enhancement of TFP must be accelerated. Productivity enhancement initiatives such as productivity and quality (P&Q) management systems, application of ICT, human resource development, and research and development are crucial and should be undertaken. Higher information and communications technology (ICT) and capital utilization in manufacturing processes will ensure the production of higher-value-added products that are competitively priced.

The Total Factor Productivity framework, shown in Figure 1, mediates between the qualitative inputs of labor and capital. These factors will bring forth higher productivity growth and increase GDP (output) growth, with the result being a higher living standard of living leading to better quality of life.

The interactive relationship among employment, capital intensity, productivity, and total factor productivity that leads to improvement in GDP and the standard of living in an economy is shown in the productivity framework. However, long-term economic growth is difficult to sustain by depending solely on employment growth, as ultimately diminishing returns will set in. In the long run, the driver of economic growth is productivity. Productivity growth depends on factors such as the quantitative expansion of physical capital per worker (capital intensity) and TFP.

Productivity-driven initiatives are of utmost importance in the knowledge-based economy, as the emphasis is on technical change, diffusion of knowledge, organization restructuring, networking, and new business models that can contribute to market efficiency and overall productivity. For Malaysia to attain higher productivity levels, there is a need to produce higher-value-added output that is achieved through managing the inputs (resources) and the outputs in terms of new products that are knowledge-based and further supported by R&D initiatives.

Productivity Scenario

Since the Seventh Malaysia Plan (7MP) 1996–2000 and Eighth Malaysia Plan (8MP) 2000–2006, the emphasis has shifted from input or investment growth to productivity-driven growth through the increased contribution of TFP. Malaysia has to move towards improving TFP as a new source of growth rather than relying on factor inputs. Additional output can be generated through the efficiency that results from enhancing skilled labor with technology capabilities.

In 2005, Malaysia's economic growth—5.3%—was supported by favorable performances in both the domestic and external sectors. The economy registered a productivity growth of 3.0%, to MYR26,255 from MYR25,495 in 2004. In the domestic sector, high capacity utilization was registered in the economy, as industries increased production to fulfill demand from both domestic and exports markets. Among the economic sectors that recorded high productivity growth were utilities (4.9%), transport (4.0%), finance (3.9%), and manufacturing (3.8%). In terms of productivity level, the manufacturing sector's productivity was MYR31,681, transport was MYR41,601, trade was MYR23,098, agriculture was MYR14,193, and construction was MYR9,875.

As the economy progresses towards becoming more knowledge-based, productivity and efficiency have further improved. As can be seen in Table 1, during the Eighth Plan period, the total factor productivity (TFP) contribution to GDP increased to 29.0%, compared with the 24.0% achieved during the Seventh Plan period. The contribution of labor to GDP was also higher, at 33.2%. However, the capital-to-GDP ratio, at 37.8%, was lower than the 45.2%

achieved during the Seventh Plan period, indicating that the economy was gradually shifting towards productivity-driven growth.

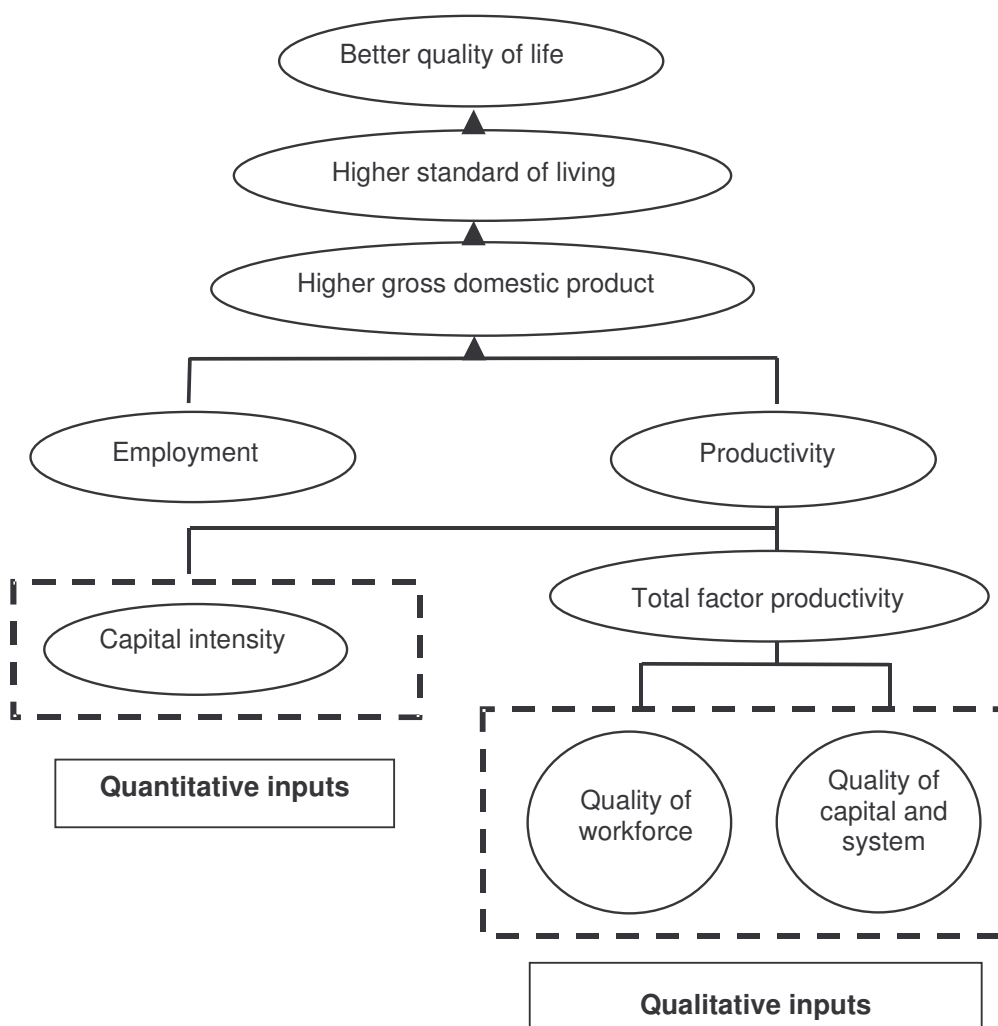


Figure 1. Total Factor Productivity Framework

The latest Malaysia Plan, the Ninth Malaysia Plan (9MP) 2006–2010, further emphasizes the significance of TFP in driving the economy towards more knowledge-based productivity and efficiency. The economy is projected to grow at an average rate of 6.0% per annum for the period 2006–2010 and 6.5% in the period 2011–2020. TFP is expected to exceed capital and labor to become the main factor of production, growing to 41% of GDP by 2020. The economy is projected to become even stronger in the services sector, with at least 5.0 % GDP contribution from technology-intensive subsectors.

Table 1. Contributions to GDP, 7MP–9MP

Factor	7MP		8MP		Target 9MP	
	% contribution to GDP	% of GDP	% contribution to GDP	% of GDP	% contribution to GDP	% of GDP
GDP	4.8	100.0	4.5	100.0	6.0	100.0
Labour	1.5	30.8	1.5	33.2	1.8	29.9
Capital	2.2	45.2	1.7	37.8	2.0	34.3
TFP*	1.1	24.0	1.3	29.0	2.2	35.8

*Total Factor Productivity (TFP) is estimated using the Cobb-Douglas production function by subtracting from total growth the portion which is accounted for by increases in labour and capital

Source: Economic Planning Unit

The government continues to implement quality management initiatives under the total quality management program. Apart from ongoing quality management efforts such as quality control circles (QCC), innovations, and benchmarking, a major focus during the Plan period is the implementation of the MS ISO 9000 standard and recognizing organizational excellence in providing customer-oriented services.

International Productivity Comparison

Internationally, Malaysia's productivity growth of 3.0% compared favorably with selected countries of the Organisation for Economic Cooperation and Development (OECD) as well as selected Asian countries. Malaysia's productivity growth exceeded that of the Republic of Korea (2.6%), Japan (1.9%), the United States (1.8%), Ireland (1.0%), the United Kingdom (0.9%), and Finland (0.1%). Among Asian economies, China registered a growth of 7.1%, while India, Thailand, and Taiwan recorded a growth of 6.6%, 3.0%, and 2.7%, respectively. Malaysia's productivity level, at USD11,300, was higher than that of emerging economies such as China, India, and Thailand.

With the economy becoming knowledge-based, TFP contribution to GDP is projected to be higher, at 35.8%, in line with the strategy to promote productivity-driven growth. The enhancement of TFP's contribution will be undertaken through programs to upgrade skills and management capabilities, develop a more creative and skilled workforce, improve the level of educational attainment, intensify R&D and innovation activities, and increase utilization of technology and ICT in all sectors of the economy. In this regard, the private sector will be encouraged to assume a leading role.

Labor productivity, as measured by value added per employee, is expected to increase at an average of 3.8% per annum, largely due to the wider applications of knowledge-intensive and labor-saving technologies and quality improvement programs. Private training institutions will continue to provide management and other specialized training to meet the demand for highly competent managers to ensure that industries become resilient and competitive in the global market. In this regard, institutions like the Malaysian Institute of Management and the Institute of Human Resource Management will be encouraged to expand and strengthen their training programs. The National Productivity Corporation will also expand training capacity.

Sectoral Productivity Performance

The manufacturing sector's performance improved in 2005, registering a productivity growth of 3.8% to MYR30,533. The performance was attributed to a favorable external environment with sustained domestic demand. Industries that registered productivity growth higher than the manufacturing average were iron and steel, chemicals and chemical products, and petroleum

products. Both domestic and export-oriented industries registered a high-capacity utilization rate of 82.5%. To sustain its competitiveness in the global market, the manufacturing sector needs to continuously invest in human capital development and upgrade its technological capacities and capabilities towards more efficient production processes.

Finance sector productivity grew by 3.9% to MYR60,544, while the trade sector posted a productivity growth of 2.7% to MYR23,098. These sectors benefited from low interest and ample liquidity in the market, while improvement in the overall business environment and increased customer confidence provided further impetus. The transport sector registered productivity growth of 4.0% to MYR41,601, attributed to general improvement in business conditions. The introduction of value-added services by port operators and the arrival of major shipping lines had a positive impact on the productivity of the sector.

The agriculture sector posted productivity growth of 2.6% to MYR14,193. The improvement in productivity was attributed to good agricultural practices, such as the use of better clones and systematic application of fertilizers that produce higher yields. The sector also benefited from continuous adoption of labor-saving technologies such as mechanized fertilizer application. Investments in technology such as precision farming, which involves the use of both geographical information systems (GIS) and global positioning systems (GPS) to match crops with suitable soil conditions will further enhance farm productivity. The continuous usage of biotechnology must be applied in both the livestock and crop subsectors for better breeds and higher-quality agricultural products.

Total Factor Productivity (TFP)

Malaysia needs to continually strive for higher output per employee by enhancing its TFP. At the macro level, the nation's wealth is created through the careful management of the human and natural resources of the country and the wise utilization of capital. The efficiency and effectiveness of the management of human resources and capital is the fundamental key to productivity, and this is determined by TFP.

Sustained TFP growth involves the efficient utilization and management of resources—materials and inputs necessary for the production of value in goods and services. TFP measures the additional output value generated through the enhancements in efficiency arising from advancement in worker competencies, efficient management know-how, organizational best practices, effective utilization of technology, and the ability to manage external environmental influences.

As shown in Table 2, for the period 1996–2005 the economy registered a TFP growth of 1.6% and an average GDP growth of 5.5%. This growth was attributed to education and training (30.6%), demand intensity (29.6%), capital structure (17.4%), economic restructuring (12.2%), and technical progress (10.2%). During the period, capital and labor grew by 2.2% and 1.7%, respectively. The TFP growth was higher than the targeted growth of the Seventh Malaysia Plan (1.2%) and Eighth Malaysia Plan (1.1%). TFP contributed 28.5% to GDP growth, while capital and labor contributed 40.0% and 31.5%, respectively.

Table 2. Contribution to GDP Growth

Factor	7MP 1996–2000		8MP 2001–2005*		Achievement 2001–2005		Achievement 1996–2005	
	%	% of total	%	% of total	%	% of total	%	% of total
GDP	4.7	100.0	4.2	100.0	4.5	100.0	5.5	100.0
Labor	1.2	25.0	1.4	32.6	1.4	31.0	1.7	31.5
Capital	2.3	50.2	1.7	40.0	1.8	40.0	2.2	40.0
TFP	1.2	24.8	1.1	27.4	1.3	29.0	1.6	28.5

*revised target

Competitiveness of the economy can be further improved through TFP initiatives. At the industry level, industries must rationalize costs and integrate work processes, utilize higher-level technology, intensify R&D activities, and improve management systems. Human capital development with an emphasis on strengthening human resource capabilities, nurturing creativity and innovativeness, and bridging the gap between industry needs and skills availability remains crucial for TFP enhancement.

At the macro level, TFP can be categorized into five major determinants: demand intensity, education and training, economic restructuring, capital structure, and technical progress. Of interest with respect to labor relation are the following three factors:

- **Education and training**—Investment in human capital increases the capacity and the capabilities of the workforce. Generally, better-trained workers are more productive and produce more of the high-quality products and services that are the driving force for TFP growth. Educated and skilled workers are more adaptable and will shorten the learning curve in operating advanced technologies. Education and training make possible skills upgrades and knowledge enhancement, which ultimately increase TFP growth. The contribution of education and training of 30.6% to TFP growth reflected that continuous education and training of the workforce has shifted skills and knowledge to a higher level. Tertiary enrolment increased to 731,000 students in 2005 from 574,400 in 2000. Training under HRDF increased to 537,040 employees in 2005 from 301,732 in 2000.
- **Economic restructuring**—Economic restructuring involves inter and intra movement of resources among economic sectors and industries. The reallocation of resources to more productive industries or sectors will lead to efficient and effective utilisation of resources and hence contribute to higher TFP growth. Economic restructuring, which contributed 12.2% to TFP growth, reflected the movement of workers among sectors. The economy has been successful in reallocating the workforce from the low value-added activities of traditional sectors to modern economic sectors. As shown in Table 3, the share of employment in the manufacturing sector rose to 28.4% in 2005 as compared with 27.3% in 2000. In comparison, the share of employment in the agriculture sector declined to 13.1% in 2005 as compared with 15.7% in 2000.

Table 3. Employment Share of Economic Sectors

Year	Agriculture sector	Manufacturing sector	Services sector
1995	18.0%	26.0%	35.5%
2000	15.7%	27.3%	38.5%
2005	13.1%	28.4%	40.8%

Source: Economic Planning Unit, Malaysia

- **Technical progress**—Technical progress involves the effective and efficient utilization of appropriate technologies, innovation, R&D, positive work attitudes, good management and organizational systems, supply chain management, and best practices. Technical progress will create higher-value-added products and services. Technical progress contributed 10.2% to TFP growth was attributed to the implementation of P&Q initiatives such as quality assurance, standardization, Total Quality Management, benchmarking, and best practices. Good management practices coupled with creative, innovative, and positive mindsets are crucial for creating high-value-added products and services that will contribute to enhanced TFP growth.

Human Resource Development

A strong human resource base to support the development of a knowledge-based economy and enhance productivity and competitiveness is one of the key strategies in ensuring that the country is able to face the challenges of globalization and sustain economic growth. In this respect, efforts need to be intensified to increase the pace of human capital accumulation in order to meet the changing demands of the economy.

As such, human resource development (HRD) policy in Malaysia became a crucial part of economic planning in the 1980s. The main thrust of HRD then was the enhancement of the productivity and quality of the workforce to meet the skill requirements of the economy. Education and training programs were restructured and expanded consistent with the demand for manpower arising from structural changes occurring in the manufacturing, agriculture, and services sectors. Tertiary education and training were expanded rapidly, particularly at the high- and middle-levels, to meet the increasing demand for professional and technical manpower to support industrialization (Mei and Ng, 1996).

The corporatization of the ministry's training arm, the Human Resource Development Council, is part of the government's efforts to improve manpower training. The new entity, known as *Pembangunan Sumber Manusia Bhd (PSMB)*, is empowered with greater autonomy in making decisions regarding workers' training and in taking enforcement actions against errant employers. PSMB, in cooperation with employers, plays a vital role in enhancing the skills of local workforces.

Among other activities, PSMB offers training for retrenched and unemployed workers and runs an apprenticeship program for those who have left school. Given the increasing importance of the services sector in terms of its contribution to the economy and its need for knowledge workers, the scope of the PSMB Act of 2001 was expanded to include more services industries such as port services, R&D, private hospitals, and warehousing services.

Reorientation in education and improvement in the training and retraining delivery systems are important in building a critical mass of skilled and knowledgeable workers. A competent, disciplined, and highly trained workforce, with strong ethical and moral values and committed to excellence, must be developed. This can be achieved, among other ways, through lifelong learning to ensure a resilient workforce.

Strategies for human resource development must focus on pre-employment training, support during employment, and lifelong learning for workers. From the employability perspective, efforts must include such programs as multi-skilling, to create flexibility in the form of job enlargement, enrichment, and rotation. It is necessary to review and revise national policies, laws, and regulations regarding education and labor in order to be able to face new challenges. This will include issues of women in employment, productivity-linked compensation schemes, industrial relations, and employment policies.

It is vital to equip Malaysians with a strong base in education and continuous learning as well as to provide a wide range of generic skills, including communication and linguistic abilities, and an emphasis on innovation and intellectual creativity. The public and private sectors, as well as academia, must collaborate on matching the skills requirements of industry with education and training in order to enhance the employability and productivity of the Malaysian workforce.

Investment in human capital and increasing the knowledge and skills capabilities of the country's human resources are prerequisites to improving economic resilience and competitiveness. These elements will help the economy to strive for productivity enhancement, cost reduction, and improvement in the quality of products and services. As shown in Table 4, more than 2.5 million employees were trained between 2000 and 2005, with disbursements totaling over MYR 1.2 billion. Over 530,000 employees were trained in 2005 alone, primarily in the areas of productivity and quality (25.7%), computer-related skills (9.4%), management (9.3%), and technical skills (8.7%), with financial assistance of MYR240 million (NPC, 2006).

Table 4. Manpower Training

Year	Levy dontribution (MYR million)	Financial assistance approved (MYR million)	No. of employees trained
2000	177.27	113.18	301,732
2001	193.83	158.52	394,638
2002	121.21	189.01	420,008
2003	210.02	271.64	449,497
2004	231.06	243.44	465,124
2005	262.92	240.59	537,040
Total	1,196.31	1,216.38	2,568,039

Productivity-Linked Wage System (PLWS)

Motivating employees through productivity-linked wages ensures that wage increases are commensurate with higher increase in productivity so as to sustain labor cost competitiveness. Towards this end, industries should rationalize costs through higher productivity and strategize to address the twin issues of wages and productivity. Wages may increase as long as an increase is supported by a higher increase in productivity. Measures should therefore target increasing productivity, which will ultimately create a bigger pie for sharing.

A productivity-linked wage system (PLWS), which establishes a closer link between wages and productivity, has been recognized as one of the measures to enhance Malaysia's competitiveness. This system takes into account workers' basic needs and recommends that those who perform well in their jobs be rewarded for their efforts. Through the implementation of a PLWS, employers will be able to develop performance measurements for improving productivity and restraining wages. Employees will be able to obtain a fair share of gains that arise from productivity growth and performance improvement, thereby promoting equity and social cohesion and enhancing the quality of life.

The following are initiatives that can be undertaken to encourage PLWS:

- promote the system to both employers and employees to create awareness and enhance the adoption at the firm level;
- review the Employment Act and Industrial Relations Act to facilitate the implementation of the system among unionized companies;
- establish a data bank on wages and productivity and develop benchmarks for industry to develop appropriate systems for their respective companies;
- identify and disseminate best practices on PLWS at national, international, industry, and firm levels for firms to adopt and adapt;
- collaborate with industry and employer associations and institutes of higher learning to enhance implementation at the firm level.

Inclusion of PLWS elements in the Collective Agreements (CAs) is constantly monitored to gauge companies' efforts in implementing performance-based remuneration. Based on the 2005 CAs deposited and taken cognizance of by the Industrial Court, a total of 14 companies had incorporated PLWS. These involved full systems in which fixed and variable components are present. Among the models used are Performance-based Incentive Systems, Performance Merit Schemes, Performance-based Increment Schemes, and Performance Bonus Systems. In 2005, a total of 239 CAs had been deposited with the Industrial Court. These include 130 agreements from the manufacturing sector, 101 agreements from the services sector, and eight agreements from the agriculture sector. Out of these, about 53% had components of PLWS, as compared to 62% in 2004 (out of 322 CAs).

Labor Market Development

Post Crisis Recovery

Ever since the economic crisis that hit the region in mid-1997, workers and their trade unions have cooperated with the government and their employers to ensure that measures for economic recovery meet with no obstacles. Despite almost two years of harsh economic conditions, industrial relations in Malaysia have remained harmonious, unlike several other countries which were also hit by the economic crisis. In Malaysia the number of retrenched workers, about 84,000, is still manageable. Most of them found alternative jobs within a short period, while almost all of those retrenched received benefits due to them.

The government, for its part, has gone out of its way to get retrenched workers re-employed. The Human Resources Ministry's tripartite committee monitors retrenched workers to guarantee their welfare. Employers facing problems with their businesses have been asked to study alternatives other than retrenchment. These include salary cuts, part-time retrenchment, and voluntary retrenchment. Figures from the ministry show that between August and December 1998 more employers chose to cut salaries rather than retrench their workers. For the first quarter of 1999 the number of retrenched workers already showed a drastic reduction: down 45% to 11,454 from 20,818 in the first quarter of 1998 and 18,116 in the fourth quarter of 1998. This shows that employers value their workers' contributions and are prepared to exhaust other avenues besides retrenchment.

In 2002, a survey by Malaysian Institute of Economic Research (MIER) found that despite improving sales orders and higher production levels for electrical and electronic products, about 50% of employers in the sector have ruled out recruitment. The consolidation of companies, involving manpower rationalization as well as mergers and acquisitions in the financial services sector, has resulted in more workers being made jobless.

Statistics indicate that large retrenchment exercises are still ongoing, albeit at a slower pace and more sporadic. About 70 % of the layoffs were in the manufacturing sector. At the same time, it is the manufacturing sector that offers most job openings, especially for production-related jobs. Analysts attributed this to changes taking place in the country's industrial sector, where some firms in labor-intensive industries closed and relocated to countries with cheaper labor like China and Thailand. At the same time, new companies have been set up, particularly capital-intensive ones, to capitalize on the country's skilled workforce.

The government, which had come out with fiscal packages in 1998 to stimulate the domestic economy, has not forgotten wage earners who fell victims to the economic slowdown. A total of MYR300 million was allocated by the government under the stimulus package announced in September of 2004 for the retraining of retrenched workers and new entrants to the labor market' like unemployed graduates and those who have left school.

However, despite signs of the economy bottoming out, the situation on the employment front is still bleak as firms continue to retrench. Sony announced that it is offering voluntary separation to some 3,500 employees in Penang. Perwaja Steel has also announced that it is closing its manufacturing plant for a month and offering voluntary retirement to more than 1,600 workers. UOB Malaysia also plans to cut one-fifth of its 2,580 employees.

Compared with the same period a year earlier, the number of workers retrenched during the first two months of 2002 continued to surge upward, marked by an increase of over one 100% to a total of 6,123 persons, with the manufacturing sector hit hardest.

Historically, unemployment has lagged behind the rest of the economy as jobless rates normally continue to increase for a while even after an economic recovery takes hold. In the period from 1970 to 2000, the Malaysian economy suffered three major setbacks. Except for the period 1975–76, the norm in past recoveries was that the growth performance would typically come in below its long-term trend, estimated to be about 7.0%. This happened during the 1985–86 recession and the 1998–99 Asian financial crisis. During these periods, the unemployment rate only improved a year after economic recovery had taken hold. The only time in which the im-

provement in the unemployment rate occurred the same year the economy improved was in 1975–76. Unlike the other two slowdowns, economic growth during 1976 exceeded its long-term trend, with a strong upward bounce of 11.6% from 0.8% in 1975. This consequently brought the unemployment rate down to 6.1% from 6.9%.

This analysis provides a vital clue that in order for idle workers and machines to fully re-join the workforce, the prerequisite is that the growth recovery should exceed its potential long-term trend (Chew, 2002).

Performance in 2005

Despite uncertainties in the global economy, Malaysia's GDP expanded by 5.3% in 2005. Growth was private-sector-driven, supported by conducive macroeconomic policies and favorable market conditions. The growth was spread out throughout most of the economic sectors, with the exception of the construction sector. The growth in the manufacturing sector was driven by the cyclical turns in the global electronics industry, while that of the services sector was attributed to strong private consumption and increased tourism as well as more business activities.

Endowed with strong economic fundamentals, Malaysia was able to maintain a healthy employment level at 3.5% in 2005, as both total employment and labor force participation increased by 4.1%, to 10.9 million and 11.3 million respectively (see Table 5). Total retrenchments declined by 19%, reflecting the recovery in economic activities in the second half of the year following slower growth in the second quarter as well as the flexibility accorded to employers to take alternative measures such as temporary layoffs and instituting pay cuts.

The retrenchment level dropped to 16,109 persons from 19,956 persons in 2004, with the bulk occurring in the manufacturing and selected services sectors, in particular the wholesale and retail trade. Most of the retrenched workers were production-related workers (53%), workers in professional and technical positions (17%), and sales and service workers (11%). Among key reasons cited for retrenchments during the year were high costs of production, reduction in demand for products, and sale of companies.

Table 5. Labor Force Participation and Unemployment

Year	GDP growth rate (%)	Labor force participation rates (%)	Unemployment rates (%)
2000	8.3	65.7	3.1
2001	0.3	64.7	3.6
2002	4.1	64.3	3.5
2003	5.3	64.9	3.6
2004	7.1	65.5	3.5
2005	5.3	66.0	3.5

Source: Economic Planning Unit, Malaysia

In terms of job vacancies, as the economy gained momentum the number increased to 304,500 positions (2004: 49,975) due in part to a new ruling that requires employers to report job vacancies to the Electronic Labour Exchange, which is under the purview of the Ministry of Human Resources, before they can apply to hire foreign workers. The bulk of vacancies were for elementary occupations, plant and machine operators, and assemblers, as well as for clerical, managerial, and professional positions.

Under the revised definition of unplaced job seekers, in which the period of time job seekers are deemed to be actively seeking employment was extended from three months to six months, the figure stood at 104,714 persons in August 2005 compared to 78,546 in May. Job placements also increased, rising to 17,459 persons from 6,192 persons in 2004. This favorable

situation reflected in part an improved labor-matching process, as well as the government's initiatives to increase the employability and marketability of job seekers via skills retraining programs and nationwide job fairs to raise awareness regarding job opportunities.

The impact can be seen in sectors such as manufacturing (38%) and services (30%). The services sector continued to be the largest employer, engaging slightly more than 50% of total workers, particularly in the wholesale and retail trade, as well as hotels and restaurants (18%).

In 2005 the government intensified efforts to address the rising number of unemployed university graduates. Based on a survey conducted by the Economic Planning Unit, about 60,000 graduates were without jobs, with most being unemployed for more than one year. The large number of unemployed graduates is a concern, as it could hamper the country's aim to be a knowledge-based economy. In this respect the government embarked on various programs to address the issue of mismatch of skills between unemployed graduates and market requirements. The programs are as follows:

Graduate Training Scheme III. The program, launched in August 2005, aims to equip local graduates who have been unemployed since 2003 with specialized skills such as web publishing, tourism and event management, and ICT. With about MYR100 million allocation, the program thus far has attracted about 8,000 unemployed graduates enrolled in programs like English language courses, executive development, and web-based courses.

Graduate Re-Skilling Scheme. This program targets engineering and selected technical graduates with no previous employment history. Its objective is to upgrade the skills and knowledge of graduates in technical fields, such as manufacturing-plant operation and maintenance in the automotive industry and supply chain management. As of the end of 2005, a total of 2,370 graduates had participated in the courses.

Graduate Apprenticeship Program. Initiated in 2005 and managed by the Ministry of Higher Education, a total of 79 skill-related courses are offered in various public universities, with apprenticeships in selected companies. As of mid-September, a total of 9,225 graduates had benefited from the program.

National Dual Training Scheme. The program's objective is to produce knowledge workers who will match industry needs. The two-year training program, similar to those in European countries, consists of two components: a theoretical component that makes up about 20–30%, conducted in selected National Vocational Training Councils, and practical training in various companies. Areas of training are automotive mechatronics, plant operation in the petrochemical, oil, and gas industry, process automation in the industrial electronics industry, and tool making (mold and dye). The first intake has benefited about 71 people who have left school, university graduates, and employed workers.

Attachment and Training Scheme. Introduced in 2001, this program seeks to provide unemployed diploma and degree graduates with work experience, thereby improving their chances of getting jobs. Trainees are attached to government departments and agencies and exposed to ICT, English language, and statistics or research methodologies courses. As of the end of 2005, seven out of eight programs under this plan were completed, benefiting about 38,210 graduates.

THE OUTLOOK FOR MALAYSIA

The country's economy is expected to strengthen further, with GDP expected to grow by 6% and productivity to expand more than 3.3% in 2006 as both the public and private sector strive to sustain competitiveness. This growth will be led by the private sector, while the public sector will continue to assume the supporting role in productivity improvement. Domestic demand is expected to be sustained, while external trade is expected to expand, with an upturn in the demand for electrical and electronic products. The expected economic growth of Malaysia's main trading partners, particularly the United States, Japan, and China, will provide further impetus to Malaysia's economic growth.

Sustained improvements in productivity at the industry level are crucial to enhance the competitiveness of the economy. This requires industries to improve their ability to rationalize costs and integrate work processes, utilize higher-level technology, and improve management systems. Human capital development, with emphasis on strengthening human resource capabilities, nurturing creativity and innovativeness, and bridging the gap between industry needs and skills availability, remains crucial for productivity improvement.

Productivity in the manufacturing sector is projected to grow by more than 3.4%. Sustained domestic and external demand will provide further impetus for growth. The industries that are expected to register high growth are fabricated metals, electrical and electronic products, machinery and equipment, industrial chemicals, plastics, and food manufacturing.

The services sector, comprising the trade, transport, and finance sectors, is expected to continue its growth momentum. The expansion of the sector will be driven by financial and business services, tourism, and ICT services. The productivity of the transport sector is expected to grow by more than 4.2%, while the finance and trade sectors are expected to grow by more than 4.9% and 2.3%, respectively.

The agriculture sector is expected to expand further, driven by higher commodities prices and an increase in the production of crude palm oil. Continuous activities in biotechnology, live-stock breeding programs, aquaculture development, and intensive fruit and vegetable farming will provide further impetus to the sector's expansion. The sector is expected to register productivity growth of more than 2.8%.

The mining sector is estimated to post a productivity growth of more than 2.0%. The growth is expected to be driven by strong demand and high prices, new capacity expansion, and higher output from petroleum and natural gas. The construction sector is estimated to register a productivity growth of 1.0%. This sector is expected to benefit from provisions for low-cost housing, maintenance of public facilities, rural development, and new infrastructure projects.

TFP is targeted to grow by 2.6% and contribute 41.0% to GDP growth in 2020. To achieve the targets set, the challenge is for Malaysia to enhance the country's competitiveness through higher productivity levels. It is imperative for Malaysia to continually strive for higher output per employee. One of the strategies is to enhance TFP growth, which can be achieved through efficient utilization of capital and labour. Among the TFP enhancement initiatives recommended are a higher degree of capital and technological utilization; adding value to existing activities; and continuous investment in human capital development to enhance innovative capabilities and ensure a more creative and skilled workforce. R&D is essential for the production of new and more innovative products and services, while the implementation of P&Q management systems is crucial for achieving a higher level of competency and professionalism.

The development of human capital will be emphasized further through education and training to produce skilled and knowledgeable workers. A substantial increase of 20.5% in funding is allocated for upgrading training facilities as well as to provide training in tandem with the needs of industry. Human resource development will also incorporate the development of soft skills such as proficiency in the English language and enhancing communication skills.

In tandem with the stronger growth of the domestic economy in 2006, growth in employment is expected to increase, with more job opportunities in most sectors of the economy and unemployment expected to remain low at 3.5%. In addition to the ongoing efforts to improve the productivity of the workforce, the government should also continue reviewing its policy on labor, with a view to reducing the shortage of skilled workers and closing the gap between the output of the educational system and the requirements of the job market.

PROMOTING A CULTURE OF EXCELLENCE

In new production structures that have been set up and which are emerging, knowledge is replacing physical capital as the main driver of growth. Productivity gains from conventional

inputs (labor and capital) have resulted in marginal increases in value along the value-chain, whereas knowledge has enabled the creation of higher value-added products. In this context, organizations have the responsibility of identifying and adapting organizational, management, and production processes that will ensure that there is absorptive capacity to adopt and internalize changes through knowledge. In this quest, organizations will be supported by the public sector through policies which are designed to facilitate productivity efforts by the progressive removal of economic and business growth impediments, the speeding up of adoption of best-practices techniques and technologies, and the provision of critical infrastructure.

In the past, when Malaysia's growth was basically investment-driven, the promotion of productivity was focused on positive work attitudes such as teamwork, skills upgrading, and quality. While these qualities remain important, they need to be intensified and enhanced in view of the rapidly changing environment. There is a need to establish human connections and networks to advance together and to ensure proactive information sharing and a culture of continuous learning, unlearning, and relearning to generate knowledge for advancement. Thus, creativity and innovation are among the key qualities required for the new environment. A productivity mindset that is oriented towards the accumulation, dissemination, and utilization of knowledge to enhance productivity needs to be inculcated. The productivity mindset is an attitude that strives for and acquires the culture for continuous improvement at both the personal and the organizational levels. Through an individual's attitude and actions, commitment to productivity improvement is enhanced.

The continuous promotion of productivity and quality is to ensure the development of a P&Q culture for organizational excellence. This includes sharing of best practices for enhanced productivity and competitiveness by means of, among others:

- awards and recognitions such as the Prime Minister Quality Award, Quality Management Excellence Awards, and Productivity Awards;
- networking and partnerships with international institutions such as the Institute for Management Development (IMD), World Economic Forum (WEF), and INSEAD;
- publication of P&Q materials such as productivity journals, productivity primers, benchmarking handbooks, Best Practices Digests, and TQM (Total Quality Management) Casebooks.

ENTERPRISE RESTRUCTURING

Retrenchment is not always the most preferred means of adapting to adverse labor market conditions; it is not usually the desirable option from the perspective of worker welfare. Other options for employers to cut labor costs include pay cuts, voluntary layoffs, and voluntary separation schemes. Beginning 1 August 1998, pay cuts, layoffs, and voluntary separations also became subject to mandatory reporting. The government amended the Employment Act of 1955 and introduced guidelines on alternatives to retrenchments, such as pay cuts and work hour reductions. Employers were also encouraged to provide for part-time employment and flexible working hours and to raise wages in line with productivity (Jomo, 2001).

The Case against Restructuring

Kamalanathan (1999) opined that corporate policy need not undermine social policy. Corporate policy is meant to improve the performance of the firm, whereas social policy is intended to develop society as a whole. In recent times, mergers and privatizations of both corporations and government bodies have had a serious impact on social policy, leading to the retrenchment of thousands of workers.

He cited the example of the Malaysian Rubber Board (MRB). After four years of negotiations, the MRB was corporatized in 1998 following the merger of the Rubber Research In-

stitute, the Malaysian Rubber Research and Development Board, and the Malaysian Rubber Exchange Licensing Board. The government ordered the MRB to trim its staff by 48%. This meant removing 1,236 established positions, out of which 610 would be through retrenchment. Previously, the government had maintained a policy of not allowing retrenchment for five years. But this time it set a new trend in labor policy.

In a statement on 12 July 1997, the Malaysian Trades Union Congress (MTUC) had condemned the government's labor policy vis-à-vis migrant labor, saying that the trend towards hiring migrant workers had resulted in increasing unemployment, lower wages for local workers, and a higher remittance of income. It was gravely concerned, it said, that employers were saving or making profits by hiring migrant workers at the expense of Malaysians. Soon Bao Corp (M) Sdn Bhd retrenched 70 Malaysian workers in July 1997 but retained 48 migrant workers, after the local workers had attempted to form a trade union. Another company, KL Glass, did much the same, which lead to picketing by workers and members of the Non-Metallic Employees Union. The MTUC condemned the two companies' actions as exploitation of workers. It alleged that employers wanted to hire migrant workers because they are easily available at very much lower wages; Malaysian workers may demand to be paid 100% or 200 % more for the same jobs. Viewing the situation from the viewpoint of corporate policy, however, it appears logical that an employer would always prefer to hire the cheaper worker with the same skills.

On 5 April 1999, the Nouveau Tech electronic parts assembly plant in Klang retrenched 840 employees. The workers were surprised that all of them were dismissed when they reported for work. The termination letters were issued by Arthur Andersen & Co. Nouveau Tech had paid 60%–80% of their wages on 26 March. Since then, the company has been put under receivership.

Responding to the retrenchment, the then-Human Resources Minister said workers must be consulted before they are laid off. He cited the case of a mattress manufacturing company that had given away mattresses as compensation to its workers who were retrenched. This is social responsibility: the workers have a right to know. He said Arthur Andersen & Co. had told him they were negotiating with the workers of Nouveau Tech on the payment of benefits.

In another case, 100 staff members of the Ming Court Vista Hotel were retrenched on 27 April 1999. Workers were caught off-guard when they reported to work. The MUI group, the owners, said the hotel had been shut because of renovation and redevelopment plans, but they also argued that retrenchment is a legal action that they have every right to resort to. The hotel will be closed for an indefinite period.

Gomez (1998) believes that retrenchment means an act of reducing staff and should apply to those employees who are declared redundant by an employer, i.e., whose services are surplus to the employer's requirements, and should not apply to dismissal for proven disciplinary reasons or for inefficiency, resignation, or retirement. He further reviews the scope of retrenchment that is provided for under the Retrenchment Provision of the Employment Act of 1955 Section 12(3), which describes the termination of employment in the grounds of redundancy as follows (taking effect from 1 October 1980 for employees receiving wages not exceeding MYR1,250 per month):

- the employer has ceased or intends to cease to carry on business
 - i) for the purposes for which the employee was employed, or
 - ii) in the place in which the employee was contracted to work;
- the requirements of the business for which the employee was hired to carry out work of a particular kind
 - i) have ceased or diminished or are expected to cease or diminish, or
 - ii) have ceased or diminished, or are expected to cease or diminish, in the place in which the employee was contracted to work;

- the employee has refused to accept a transfer to any other place of employment, unless the contract of service requires acceptance such a transfer;
- a change has occurred in the ownership of the business for the purpose of which an employee is employed or of part of such business, regardless of whether the change occurs by virtue of a sale or other disposition or by operation of law.

The Case for Restructuring

Case studies presented below will give a better perspective on how an effective restructuring exercise can benefit both employees and management. The case studies are based on a combination of personal interviews (for Cases 1 and 2) and feedback from a questionnaire (see Appendix), as well as media stories relating to the companies. For Case 1, the interview was carried out with the General Manager of Operations, Yunus Idris, who was one of the three players responsible for turning MASKargo around from a loss-making venture into the golden goose of its parent company. For Case 2, the researcher met with the General Manager of Corporate Communications, Nasir Khan, and the Assistant General Manager of Factory Engineering, Azhar Adnan, who were personally involved in spearheading the company towards higher productivity after a massive separation scheme in 2002. For Case 3, the researcher gathered feedback via a questionnaire and email from the company's employees.

CASE STUDIES

Case 1: MASKargo (Malaysia Airlines (Cargo) Sdn Bhd)

MASKargo, the cargo arm of Malaysia Airlines (MAS), was established in 1972 to handle the delivery of cargo around the world via the MAS global network of routes. Its vision is to become the most preferred air cargo partner, supported by its mission of ensuring timely and cost-effective transport of cargo from the point of acceptance to the point of delivery. With about 1,330 employees, MASKargo is leading the way in introducing new products or initiatives that contribute to greater efficiency along the logistics chain for business sectors and thus enhance national competitiveness.

The top management of MASKargo emphasizes human resource development and is task-oriented towards the career growth of the firm's employees. As a mature and stable company, it adopts a structured business model as well as comprehensive competitive strategies to gain market acceptance for its long-term survival.

The role of the HR Department is to provide comprehensive HR services for MASKargo, and it has the authority in HR decision-making. The HR Department is also accorded a similar status to other functional departments within the company and is well integrated and coordinated with other functional departments on matters pertaining to HR planning. It also plays an important role in drawing up HR and organizational strategies with MASKargo's top management team.

Employees are hired through advertisement on a needs basis, regulated by both government and union guidelines. MASKargo also employs part-time, temporary, and contract workers, local and foreign alike, to meet its HR needs. In certain areas, the company outsources workers for specific jobs. In terms of career development, employees are promoted from within the company primarily based on performance rather than seniority. There is a system of succession planning in the company such that the management will groom potential employees to take the lead in the future. The company practices job rotation among its employees, involving cross-business functions, to expose them to various experiences and build skills.

MASKargo provides the avenue for any employees who wish to transfer to other firms, although job-hopping is highly discouraged. As it is closely linked with both the government and the union, the company does not exercise its own decision to lay off workers but consults these

parties on matters relating to staff reduction. It has a specified mandatory retirement age and benefits and adopts a fair and just internal termination policy. The company complies with legal requirements in its termination policy.

The company selection process for new employees encompasses both primary and secondary education but does not require a higher education in candidates to fill executive and managerial positions. Training provided is relevant to the job function and deemed useful and effective to perform the necessary task. However, the company does not provide training for non-degree-holders, and neither is the training designed for a specific role for employees.

As the basic premise of a training program is to enhance employees' technical and managerial skills as well as to broaden knowledge, MASkargo not only undertakes on-the-job training but also arranges for employees to take advanced courses as part of its external training program. The purpose of the training program is mainly to inculcate commitment towards the company as well as to serve as a transition phase prior to layoffs.

The salary structure is based primarily upon job scope and job knowledge and skills and less on the level of education of the employees. In comparison, there is no significant disparity between the lowest and the highest pay of its employees within similar category. Bonuses are given out on an annual basis at the discretion of the management. However, seniority is not a factor in determining bonus rates, which are based more on performance elements. The fringe benefits available are health insurance coverage and a compensation scheme, but there is no pension scheme or unemployment insurance coverage. The company adheres to government-based benefits instead of having its own employee benefits.

MASkargo work schedules and overtime rates are based on the labor law but do not include the flexible workweek. The company does practice paid time off and encourages work sharing among its employees. Regular employees are given fixed monthly salaries and receive benefits as per the labor law guidelines; contract employees are paid by the number of hours worked and do not enjoy any benefits.

In determining salary increments and promoting employees, performance appraisal is carried out on an annual basis. The evaluation is objective, based on a standard guideline and procedure that eliminates any probability of subjectivity. The employee's immediate superior is responsible for performing the appraisal without the involvement of the HR department.

MASkargo's employees are very much involved in the decision-making process: the company provides board representation as well as an employee ownership scheme. On operational matters, management consults its employees but makes unilateral decisions. Communication and information-sharing are highly visible in the company. Union presence is very much felt, as it is involved in collective bargaining for its members, while the government exerts a certain degree of influence in the company's employment policy.

Both management and the union are involved in deciding on the practices to use to mitigate the negative impact of a reduction. The HR manager, the CEO, and other managers play the role of strategists who look at the bigger picture while relating the restructuring exercise to the company's vision, mission, objectives, and corporate values. Top management tackles head-on any issues related to the company's nationally affiliated union, with the aim of restoring the company to profitability. As MASkargo practices transparency, its employees' representatives are involved in the restructuring exercise, with a significant level of participation that results in a win-win arrangement between the two factions.

Tasks performed are based on individual craftsman skills instead of mass production with massive socio-technical work operations. Implementing a lean staffing system, the company provides the platform for employees to rotate jobs and empowers them to make decisions in relation to their tasks. Tasks are horizontally specialized and done either individually or by a team of workers. The end results are evaluated based upon both quality and quantity.

Employees' competence is evaluated based on skills, abilities, adaptability, and learning ability. There is external numerical flexibility for employees to move in and out of the company,

while internally the work hours are adjustable and flexible to suit the needs of the employees. The spirit of teamwork is strongly inculcated: the employees treat their peers as internal customers and thus have practice in rendering friendly and courteous service to external customers. Employees' motivations are towards performance and commitment to organizational citizenship, but are somewhat low on attendance and retention factors.

As changes take shape, the management has also concentrated on increasing the value of human resources by recognizing employees who have performed well. Several HR-related activities are held, such as the "Employee of the Month" and "Employee of the Year" competitions, with the winners' names and photographs published in the newspapers. The employees have improved their performance through the Cargo Staff Testimonial And Recognition scheme, or C-Star Award, and with the introduction of C-Star MINDS (My Ideas and Dedication Scheme) the employees will continue their efforts to improve the company's performance further.

From the perspective of its multiple stakeholders, the performance of MASkargo is evaluated based on return on investment (ROI), market capitalization, and growth rates. On the part of its customers, the company's services are purchased based on quality of service, price, and value for money. Its employees receive fair treatment from the company coupled with a feeling of security working with the company. Empowerment is prevalent in MASkargo: employees learn to make decisions as well as to be more responsible and accountable, giving them a feeling of satisfaction to be working for the company.

With adaptability and high productivity as its agenda, the organization tries to maintain a competitive advantage over its competitors and maps out a long-term strategy to ensure its survival for years to come. In addressing the issue of corporate social responsibility (CSR), MASkargo has a strong commitment to legal compliance, social responsibility, ethical behavior, and environmental sustainability. Furthermore, the company is strategically linked with the union, its suppliers, and its alliance partners.

MASkargo's strategic business issues (SBIs) and strategic business objectives (SBOs) are aligned to the needs of the company through a horizontal alignment of systems and knowledge. The company is adapting to the external local environment as well as to a balance of local, global, and regional needs.

Restructuring

Prior to 2001, MASkargo was operating dismally in terms of its products and services, with many complaints received arising from lost and mishandled cargo. Due to these inefficiencies in operations, the company suffered a total loss of MYR200million. As a result, in 2001, a new management team, comprised of Dato JJ Ong, Senior General Manager/ CEO of MASkargo, and two assistants, General Manager of Operations Yunus and General Manager of Sales and Business Development Shahari, was given the task of turning the company around in two years from an accumulated loss of MYR200 million to a break-even level by 2003. The ultimatum to the newly-appointed top management team was twofold: make it work or leave the company.

Strategies

Globalization, high operating costs, and stiff competition have changed the landscape of the airfreight business and forced the industry to look at the business from a different perspective. As indicated by its CEO, the overall MASkargo strategy should focus on both domestic and international market growth, increased yield per kilogram air-freighted, improved utilization of aircraft, improved ground handling services, customer retention, and operating cost reduction.

Sales and Marketing

In developing sales and marketing business turnaround plans or restructuring, MASkargo needed to take into account several issues confronting the industry: cost pressure, short-term

business cycles, future trends, declining yields (with the introduction of additional capacity), global alliances, changing traffic flows, and more cost-effective distribution channels.

A network strategy must be formulated based on the assumption that world GDP will grow at an average of 3.2% per annum over the next 10 years, with East Asia-Pacific and South Asia forecast to register higher growth rates of 6.2% and 5.4% respectively. Air freight represents a significant percentage of international world trade by value: its volume reached 34.4 million tons in 2001. The demand for air freight will remain strong. The forecast world average cargo traffic annual growth rate for the next 10 years is 5.5% (Airbus Air Cargo forecast, December 2001), nearly double the world's GDP. Asia will lead the growth in air freight demand. The fastest growing air freight markets have been, and will remain, those linking the Asia-Pacific region to Europe and North America. Seven of the top ten routes serve this region. In 10 years these markets are expected to represent 40% of global airfreight. Intra-Asia trade growth (7.0%), China-Europe trade growth (6.9%), and Asia-Europe trade growth (6.6%) are predicted to sustain the highest percentile growth, even though their percentage market shares are just 2.4%, 3.2%, and 6.7% respectively (Airbus Air Cargo forecast December 2001).

To achieve the network objectives of building a viable and sustainable network and increasing targeted market share, MASkargo has adopted various strategies:

- The freighter network must be further aligned to complement and enhance the revenue of the passenger network. The freighters provide the onward connection out of Kuala Lumpur International Airport (KLIA), mainly to Europe, to support the belly capacity from the Regional, Orient, Indian-subcontinent and Australian passenger sectors. Indirectly, these alignments will develop KLIA into a transshipment hub. For the past three years, the country's export and imports via air have been constant at an average of 31% and 25% annually. With other modes of transportation becoming popular and posing a threat, MASkargo has to look elsewhere for business for growth. MASkargo should focus on developing KLIA as transshipment hub.
- The change in freighter aircraft type from 747F-200 to 747F-400 will greatly improve profitability with greater payload capability and lower operating cost. The 747F-400 can overcome the current payload restrictions in the Shanghai-to-Dubai sector with an additional uplift capability of more than 25 tons with a substantial reduction in operating cost. The approximately 8% lower fuel consumption benefits will be more prevalent if the fuel cost remains at the existing 2001 level. Sourcing of the 747F-400 for lease must be planned for introduction in mid-2002. The current aircraft lease cost must be renegotiated with possibilities of termination.
- The network plan will further refine freighter operations in Malaysia to complement the belly capacity and optimize revenue. The main area of growth must come from the expansion of freighter services from Shanghai through other airports in China. Expansion of the network must also be developed through joint ventures with other carriers to add capacity into the United States, Europe, Korea, the Philippines, and other domestic points in China.
- Mid-sized freighters will provide an alternative to improve loads on weak directional traffic. Having mid-sized freighters on Indian routes through Dubai to Europe can help improve loads and revenue considerably. It is proposed to introduce the mid-sized freighters in the last quarter of 2002. Due to the payload restriction out of Shanghai into Dubai, these mid-sized freighters can feed cargo from India into Europe via Dubai to maximize the space utilization out of Dubai. These freighters will allow MASkargo to offer more destinations out of Dubai for Europe-originating freight with the aim of increasing the load factors out of Europe. These freighters will allow more frequencies on lean sectors without the burden of operating the 747F freighters. A separate evaluation must be conducted on the Airbus A300-600F to determine its suitability for the MASkargo network. This airplane has a 15% higher capacity in its range of aircraft.

Revenue Enhancement

MASKargo's yields are 21% lower than the market average. However, out of China into Europe, MASKargo's rates are among the highest compared to other carriers. Hence, as part of revenue enhancement, MASKargo will have to increase rates by 7% on high-demand sectors in immediate terms. Transmile Air and Air Asia are two other airlines that have their operating base in Malaysia; however, due to their operating patterns and market concentrations, they do not pose significant threats to MASKargo. It is strongly proposed that the domestic airfreight rate be increased by 7%.

Ground Handling Services

MASKargo may have resourceful sales and marketing strategies, but without reliable ground handling services at its base station, KLIA, the total business turnaround plan will fail. Ground handling services are composed of a set of processes. The strategy recommended for MASKargo in general is the total redesign of its cargo ground handling process to achieve dramatic improvements in freight service speed, quality, service, and cost.

For customers, a Key Account Program needs to be launched for selected clients, giving them priority status in loading bays and gates, shorter cut-off time, shorter delivery time, and scheduled periodic meetings where operation issues and business plans can be formalized and agreed upon. Membership in this program would be by invitation and should include only the top agents who contribute up to 70% of MASKargo's total revenue. The focus of the program is to improve customer satisfaction through proactive engagement. The periodic meetings will provide an avenue for engagement and problem-solving.

Customer Handling

Customer front desk handling and encounters are currently spread out among different sites in the Advanced Cargo Centre (ACC). In conducting their business at the ACC, customers are required to visit different locations. Thus, the creation of a one-stop center where all encounters between MASKargo and the clients take place must be a top priority. The concept behind this proposal is a user-friendly and seamless process in a single facility. An extension to the key account program is the formation of a one-stop Priority Business Centre, like that at some banks, where the agents contributing 70% of the revenue are seamlessly handled. MASKargo must identify these key clients. At the same time, MASKargo must improve its relationship with their representatives, as this is vital in raising performance standards.

As service is the core business for MASKargo, customer service centers must be considered an important element in the complaint handling process. These requirements emphasize the need for the establishment of customer service center. Not only must the supporting structure and response standards be seamless, but the technology used must respond to the changing needs of the online customer.

The company will also focus on developing and expanding new initiatives, including expanding its transshipment growth, re-branding its sea program as i-Port Transshipment, improving its handling processes, introducing new equipment, and reducing cycle time (*New Straits Times*, 2004). The i-Port, jointly promoted by MASKargo and Malaysian ports, provides cheaper and faster cargo delivery to Europe, Australasia, Eastern Asia, and North America through MASKargo's home base at KLIA. The i-Port is a multi-model transshipment mode involving the use of land, sea, and air to move cargo from one destination to another. The i-Port program began with Port Klang's Northport on 20 December 2002 and was expanded to Johore's Port of Tanjung Pelepas (PTP) on 26 May 2003. The International Air Transport Association (IATA) has awarded the three-letter code XPQ to Port Klang and the code ZJT to PTP, recognizing both ports as "airports" operation within seaports. Companies delivering cargo need only send their cargo by sea to Malaysian ports; it will then be transported by road to

MASKargo's Advanced Cargo Centre (ACC) at KLIA, then by air to its destination. Shippers using this service can expect cost savings of up to 40%.

Thus far, transshipment has contributed about 60% to MASKargo business activity, but this mode of cargo shipment was not envisioned when the ACC facility was designed. In order to accommodate the growth of transshipment, the company is planning a second phase of the warehouse to incorporate transshipment activities. The development of transshipment is largely driven by the overall trend in globalization coupled with the Malaysian government's effort to attract high-end technology products rather than mass-produced consumer goods, as well as the relocation of factories to other countries because of better incentives from other governments (van Fenema, 2005).

Outsourcing

Outsourcing is a tactic that MASKargo must embrace if it is to survive in an environment of low yields and rising costs. The rising costs include jet fuel (which is seeing increases up to 88%), security costs, and environment-related expenses. Although MASKargo adopted the outsourcing strategy, its implementation has been weak and ineffective. Based on labor supply specifications, productivity and supervision requirements are loosely defined. Specifically, the contracts that have been developed so far are for "managing manpower." However, it is proposed that outsourcing be redefined as "managing performance." This entails rigid specifications, service level agreements, performance level specifications, penalties, and rewards. The vendor will be paid in accordance with the level of performance successfully achieved. All gross negligence, in term of mishandling, will be penalized.

As a result, outsourcing has reduced the company's payroll by about 800 contact workers and has increased its productivity. Other benefits are less mishandling and damage of cargo and a reduction in the number of claims by 85% despite the growth in cargo volume. At the company level, MASKargo is able to concentrate more on managing performance of its core business rather than on troubleshooting the human factor.

This outsourcing exercise has also led to new business opportunities for the shippers and forwarders who supply MASKargo with ready-built pallets paid for by the company. This is cost-saving for MASKargo as it reduces claims because the company is now able to prove that cargo is intact in transit based on photo evidence. Furthermore, the management is planning to apply outsourcing in labor-intensive areas such as security and IT. Taking the lead from the United Arab Emirates and its Mercator system, the company is considering networking with other carriers to develop collaborative IT solutions that would help to defray some of the investment costs. MASKargo believes that airlines should concentrate on accessing technology rather than owning it, as ownership of IT is not a business advantage.

Quality Practices

Embracing quality strategy should be the fundamental principle of service improvement. The culture of excellence is inculcated from the beginning when a new management relates the actions of each individual to the results and the employees then begin to see the consequences of their actions and their cost implications for the company. The change of mindset is vital to the operation of the company, as the cargo industry is very dynamic and requires continuous improvement and innovative effort.

MASKargo's working strategies include the following:

- Formation and establishment of quality assurance departments whose functions include publishing new Standard Operating Manuals, process and time motion studies to determine the performance operating standards, compliance audit functions, and, ultimately, successful accreditation from the International Standards Organization (ISO). As MASKargo is global in business scope, ISO certification has normally been the means to

gauge the service standards offered to any global companies who wish to engage in business with the firm.

- To manage quality, employee performance must be effectively measured using quality data, in a timely manner, and employees need to be trained in quality improvement tools. MASKargo must evaluate and subscribe to quality improvement tools/programs that focus on problem-solving and improve productivity. It is suggested that the Six Sigma be adopted as the total quality management program. Six Sigma is a highly disciplined process that helps MASKargo focus on developing and delivering near-perfect services.
- Technical skills, supervisory skills, and refresher training should be the main focus and should be implemented on an urgent basis. This will assist floor personnel in preparing for changes to come. For a start, the standard set for technical and supervisory training is to be 3 days per year per staff member.
- Employee relations encompass a variety of organizational development techniques to facilitate changes for employees participating in decision-making: employee recognition, teamwork, effective use of communication, and continuous awareness of quality-related issues. Techniques can include monthly briefings, reward programs, employee-of-the-month programs, and lunches with the boss.
- Production of quality services depends on timely delivery of quality material, quality contract with suppliers, and dependable vendors. The material handling system (MHS) in the ACC needs to be reevaluated and a reliable maintenance supplier must be secured. It is therefore proposed that the original equipment manufacturer (OEM) be invited to undertake comprehensive maintenance. New maintenance contracts that include warranties and guarantees, scheduled preventive maintenance, and audits of parts supplied must be emphasized, in order to ensure system integrity and to avoid instability which leads to disruption of service.
- A customer orientation emphasizes an organization's ability to attain customer information, analyze it to set priorities for improvement, and use these priorities to drive product and process change. MASKargo must define clearly the factors creating customer satisfaction, set systematic goals for customer satisfaction (e.g., great loyalty and fewer complaints), systematically and regularly measure customer satisfaction, and work to follow up the results with continuous improvement. Periodic customer surveys must be planned and carried out.

These continuous improvement efforts that started in 2001 have had an impact at both the local and international level. MASKargo has been recognized as one of Asia's Top 3 Air Cargo Carriers by the Asian Freight & Supply Chain Awards from 2003 to 2005. MASKargo is also the first airline to receive the OHSAS 18001:1999 certification for its Advanced Cargo Centre (ACC) in KLIA. MASKargo was awarded the ISO 9001:200 for its Express Handling and the Charter and Planning units, while the Animal Hotel was awarded the ISO 14001 and the ISO 9001:2000 certification for its Penang Cargo Centre (PCC) facility in Penang.

On the commercial level, the company has increased the frequency of deliveries to Amsterdam, the Netherlands, and Frankfurt, Germany; has extended its network to Basel, Switzerland, and Manchester, U.K.; and has expanded its secondary hubs by such measures as opening a cargo warehouse in Hangzhou, China, and designating Shanghai as its number one station for MASKargo worldwide.

Cost Saving

MASKargo must undertake an immediate study to identify alternative technical stops besides Dubai en route to Europe from Asia. Some of the proposed destinations to be considered include Baku (Azerbaijan) and Bishkek (Kyrgyzstan). Stopping at these stations could cut the sector flying hours by approximately 4 hours as compared with flying via Dubai. The re-routing

will result in huge fuel savings. Total saving is estimated at MYR35,000 per hour. Other cost-saving measures include:

- reducing contingency fuel from 5% to 3%, which translates into removing 2 tons of redundant fuel per flight;
- reviewing transit/alternate airports; for example, by changing Sydney's alternate airport from Melbourne to Canberra, an additional 8 tons of cargo can be transported;
- terminating one dry-lease 747F-200 freighter, giving an expected saving of MYR20 million per annum.

To deal with ever-increasing fuel prices, hedging must be considered as one of the important strategies. To reap the benefit in economies of bulk purchase, MASKargo should utilize the incentives and benefits realized by the total Malaysian Airlines group.

Technologies

Business success comes from understanding opportunities and exploiting them to provide services or products that turn a profit. From this perspective, using technology is one way to enlarge the opportunities. Technology enlarges opportunities in many different ways, but primarily through access to information.

Based on the global nature of market coverage, MASKargo has invested substantially in information technologies capabilities. Its global e-commerce program has moved up with the launch of three more initiatives: the revamped MASKargo website, an e-Sales facility, and the Electronic Billing, Presentment and Payment (EBPP) system. From e-booking services for freight forwarders in the country in June 2000, MASKargo has moved on to offer online booking, e-air waybills, e-scheduling, and e-tracking. Freight forwarders using the EBPP can, among other things, retrieve and print invoices from MASKargo, reconcile invoices against air waybill records, dispute or make claims, and view summaries of bills. The EBPP system supports seamless inter-bank fund transfer using Bank Negara Malaysia's Financial Processing Exchange (FPX). The FPX is the national Internet-based payment gateway managed by the Malaysian Electronic Payment System (MEPS) to manage and facilitate online payments for e-commerce transactions on a secure and multi-bank platform.

Looking Ahead

MASKargo is proving to be the savior for its financially ailing parent Malaysia Airlines (MAS). Since its revamping exercise in 2001, MASKargo has realized a profit growth of 40% for the past four years. As of first quarter 2006, it has achieved about 41% of its profit target of MYR150 million. Moreover, the freighter arm of 60% state-owned MAS is maintaining its global freighter service and continuing to churn out a profit for its parent. The turnaround blueprint will include, besides reducing staff, include shrinking the fleet through aircraft sales and abandoning routes that bring in little or no profit (Cargo News Asia, 2006). This rationalization of the loss-making routes by Malaysia Airlines (MAS) will result in cargo subsidiary Malaysia Airlines Cargo Sdn Bhd (MASKargo) losing some MYR50 million in yearly revenue.

Nonetheless, MASKargo is confident that the revenue shortfall will not derail its target of turning a MYR107 million operating profit for 2006. As of the first half of 2006, the company has achieved more than 60% of the targeted figure (Starbiz, 2006). The management is acknowledging the fact that staff of MASKargo will be affected by the rationalization, but the extent of it is not known yet. The parent company, MAS, has said that the rationalization will result in the national carrier reducing its manpower by 6,500 from the existing staff strength of 23,000 (Business Times, 2006).

The proposed MASKargo turnaround strategies or restructuring undertaken since 2001 can be categorized into immediate "quick-hit" solutions, three-year medium-term measures, and six-year-or-more long-term plans. The best practice out of the restructuring exercise can be seen in

areas such as customers focus, performance measurement, rewards to the best personnel, improved horizontal and vertical internal communication, innovation, and risk-taking to sustain the competitiveness of MASKargo.

Case 2: Panasonic HA (Malaysia) Sdn Bhd

Panasonic HA Air-Conditioning (M) Sdn Bhd (PHAAM), a large foreign-owned company, has been principally engaged in the manufacturing of room air-conditioners (AC) for both the local and export markets since its establishment in 1972. With about 50% of the local AC market share, Panasonic is the market leader in terms of supplying innovative products such as Puritee R2 and Auto Cleaning Robot to 120 countries in Europe, Asia, and North America. In order to sustain its competitiveness, the organization has undergone several significant changes, including two phases of management restructuring in lieu of consolidating PHAAM into a single business entity, resulting in a trimmer workforce of about 1,530 employees.

The top management values at PHAAM are focused on seeing people as an important asset, lowering the cost of production, and being task-oriented. The company is stable and mature, and it adopts a structured business model as well as comprehensive strategies to gain market acceptance for its long-term survival. The role of the HR Department is to provide comprehensive HR services for the company, and it is empowered with making decisions pertaining to HR. Human resources staff members are professionally trained with ample exposure to education and training related to HR functions. The activities and relationships between line managers, employees, and the HR department are mutually supportive so that employees can work cross-functionally with other business units in the form of job rotation to enlarge their skills and experience. The HR Department is well integrated and coordinated with other departments on matters pertaining to HR planning. It also plays an important role in drawing up HR and organizational strategies with the HAAM top management team.

Employees are hired through advertisement based on need; hiring is regulated by both government and union guidelines. PHAAM also employs part-time, temporary, and contract workers, local and foreign alike, to meet its HR needs. In certain areas, the company outsources workers for specific jobs. In terms of career development, employees are promoted from within the company, where performance is primarily considered rather than seniority. There is succession planning in the company: management will groom potential leaders.

As it is closely linked with both the government and the union, the company does not exercise its own decision to lay off workers but consults these parties on matters related to employee reduction. It has a specified mandatory retirement age and benefits and adopts a fair and just internal termination policy. The company complies with legal requirements in its termination policy.

The objectives of the training program at PHAAM are to enhance managerial and technical skills, broaden knowledge, and inculcate commitment to the company. The training approach is mainly on-the-job, but external training programs are also offered in the form of advanced courses plus transitional training prior to layoffs.

The salary scheme at PHAAM is based upon job scope and job knowledge and skills, and there is a significant disparity between the lowest and the highest pay of its employees within the same category. Bonuses are given on an annual basis that emphasize performance-based elements rather than length of service. Fringe benefits include health insurance coverage, with the company having its own employee benefits.

In determining salary increments and promoting employees, performance appraisal is carried out on an annual basis. The evaluation undertaken is objective, based on standard guidelines and procedures that eliminate any probability of subjectivity. The employee's immediate superior is responsible for performing the appraisal, based on the company's standard performance appraisal, without the involvement of the HR department.

PHAAM employees are very much involved in the decision-making process, as the company provides board representation for employees. On operational matters, management consults employees, which creates a high degree of communication and information sharing. The union's presence is very much felt as it is involved in collective bargaining for its members, while the government also exerts a certain degree of influence in the company's employment policy.

Tasks performed are based on individual craftsman skills as well as mass production with massive socio-technical work operations. Having implemented a lean staffing system, the company provides the platform for employees to rotate jobs and empowers them to make decisions in relation to their tasks. The end results are evaluated by the quality of the output.

Employees' competence is evaluated based on skills, abilities, adaptability, and learning ability. There is external numerical flexibility for employees to move in and out of the company, while internally work hours are adjustable and flexible to suit the needs of the employees. The teamwork spirit is strongly inculcated: the employees treat their peers as internal customers and thus practice rendering friendly and courteous service to external customers. Employees' motivations are strongest to improve performance and demonstrate commitment to the organization, but somewhat low on attendance and retention factors.

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With adaptability and high productivity as its agenda, the organization seeks a competitive advantage over its competitors and maps out a long-term strategy to ensure its survival for years to come. In addressing the issue of corporate social responsibility (CSR), MASkargo has a strong commitment to legal compliance, social responsibility, and ethical behavior as well as to environmental sustainability. Furthermore, the company is strategically linked with the union, its suppliers, and its alliance partners.

The strategic business issues (SBIs) and objectives (SBOs) are aligned to the needs of the company with a horizontal alignment of systems and knowledge. The company is adapting to the external local environment as well as adopting a balance of local, global, and regional needs.

Restructuring through Job Reduction

Around 2002 there was rising competition from Korean and Chinese brands of window air-conditioning (AC) products. These countries were producing low-end AC units in high volumes at low prices to capture as big a market share as possible, especially in the United States. The emergence of China in particular, with its low-cost production, compounded the problem further. These developments impacted PHAAM to the point that the company was realizing a lesser margin as it was unable to compete on the basis of price. The approach taken then was to enhance the value-added of product features of split-type ACs and big RACs in terms of product differentiation and uniqueness so as to create a strong niche product to cater to a higher-end market segment. This would promote one-to-one marketing and reduce development lead-time and development cost. The window AC business, which was not profitable, was spun off to a sister manufacturing company in the Philippines, which was able to produce at competitive cost.

Effective 1 April 2002, the company consolidated its two manufacturing outfits, namely Matsushita Industrial Corporation Sdn Bhd (MAICO) and Matsushita Air-Conditioning (MACC), into a single entity so as to move forward competitively, creating a new tree structure in tandem with the merger. As a result of this exercise, the new entity, now known as Panasonic HA Air-Conditioning (M) Sdn Bhd (PHAAM), was better able to face tougher competition with the introduction of ASEAN Free Trade Agreement (AFTA) in 2003. PHAAM is re-strategizing its domestic sales in line with the ASEAN borderless market by being a strong and lean organization. Adding to this was the target to improve its manufacturing efficiency as well as to realize

supply chain management in order to reduce its manufacturing lead-time to re-emerge as a strong and competent manufacturer.

PHAAM had to reduce its workforce of about 4,000 employees by about 50% in two stages at six-month intervals, with a target of maintaining about 1,300 direct employees. This was a bold move by a Japanese company, as the Japanese people are famously known for loyalty towards their companies and restructuring is considered a taboo in the Japanese culture. The top management decided that the best approach to change and improvement was letting employees go by adapting the practices of their U.S. counterpart, albeit with fitting compensations, etc. The payout given under the Voluntary Separation Scheme (VSS) was 2.2 months' pay multiplied by the number of years of service of each employee.

Although the top management played a major role, the reduction exercise also saw the involvement of PHAAM's Work Committee, which is affiliated with the national union, in terms of exchanging ideas to improve the process further. The company also liaised with the Ministry of Human Resource (MoHR) as well as the Ministry of International Trade & Industry (MITI) to explain the restructuring process undertaken. On the part of MoHR, the Ministry offered an entrepreneurship program for those who were leaving. Talks on this subject were held to advise those leaving on how best to use the compensation received, and to create the sense that there is still hope after being axed. Motivational talks were also held, as undoubtedly morale was low among both the workers who left and those who stayed.

At the company level, the recovery process, in terms of cost per set reduction and productivity growth, takes about four years. Taking 2001 as a base year, with 100% cost incurred, PHAAM has managed to reduce its production cost by about 40% over the span of four years (see Table 6). Looking at productivity growth, with 2002 as the base year at 100%, the company has increased productivity by about 77% in three years' time, in tandem with the cost reduction. This V-shaped recovery earned PHAAM a Presidential Award in 2005 in recognition of this remarkable improvement.

Table 6. Recovery at PHAAM, 2002–05

Year	Reduction in cost per set produced	Productivity growth
2001	100%	—
2002	95%	100%
2003	81%	43%
2004	76%	—
2005	70%	77%
2006	65%	—

The impact of reductions in 2003, after the second stage, included the introduction of a manufacturing innovation program that promoted multi-skilling as a measure to counter increased manufacturing costs due to increases in the price of raw materials. The approach is to lessen manufacturing cost by a reduction in inventory. The manufacturing innovation program is aimed at encouraging employees to offer new and creative ideas for improving the process flow, the positioning of workstations, and work layout through Kaizen and Suggestion Scheme programs.

Learning from the Toyota production system, PHAAM has innovated its conveyor belt production system of five lines to that of a single workstation, called the block cell production system (CPS), identified by different colors for each line. The CPS synchronizes production processes between plastic and metal parts into a single assembly work area based on an integrated manufacturing system approach. The new production lines now consist of 150m-long conveyor belts replacing the conventional 300m-long belts. Furthermore, the CPS allows for

flexibility in the production lines such that any model components can be produced in any work shift. This flexibility helps to reduce transition in inventory to zero as components produced from each cell are directly routed to the appropriate model lines. Table 7 shows the results of these innovations.

Table 7. Result of PHAAM Labor Innovations

	Before		After
Capacity	1,300 sets/shift	➡	2,200 sets/shift
Manpower	77	➡	72
Operation ratio	68%	➡	78%
Output/head	17 set/head	➡	31 set/head

The impact of this program since its introduction about two years ago is substantial. The most obvious change is the increase in production capacity of about 69%, from 1,300 sets per shift to 2,200 sets per shift. This translates to an increase of 182% of output per worker, from 17 sets per person to 31 sets per person even with less manpower. The production lines now occupy less space than before due to shorter conveyor belt lines, with operation ratio increased to 78%.

Another benefit is the flexibility to maneuver manpower and process lines to accommodate different AC models to be produced. Time loss is reduced to zero as the cell system is designed to smooth out manpower variations during transitions in production such as model changes or process line reductions. With the introduction of the CPS approach, PHAAM aims to continue to reduce its inventory, material costs, and manufacturing costs.

As of 2005, elements of the multi-skills program are also incorporated into the Productivity-Linked Wage System (PLWS), which uses a revision of the salary and job structure to develop and synergize the potential of employees. This is deemed crucial: as PHAAM is moving to produce added-value features on new products, it needs skilled as well as more efficient employees to be able to produce these new product lines. The appraisal system is coupled with concurrent engineering as well as with the evolutionary process of multi-skill building. With the implementation of job flexibility in the form of job enlargement and job rotation, the company is not only able to provide a flexible workweek to its operators but also encourages work sharing to maximize output.

As PHAAM moves further to achieve a spot in the AC market globally, it is introducing the “next cell” that will link the skills of its employees with performance incentives. PHAAM’s top management is transparent about the company’s achievement through its monthly assembly. Its Managing Director shares sales and profit figures with his 1,610 employees during his monthly briefing. He further reinforces the importance of multi-skill building in order to compete with foreign manufacturers by developing an even more efficient and productive workforce. He also emphasizes the need for all employees to be continuously innovative in their work practices, given the company’s target to become the top global AC producer by 2010.

Case 3: Company 3

Company 3 (C3), a Development Financial Institution (DFI), was established in 1972 with Bank Negara Malaysia and all the country’s commercial banks as its shareholders. The current shareholders are Bank Negara Malaysia (79.3%) and all the commercial banks and finance companies (20.7%) operating with a total of more than 2,600 branches in the country. Its main objective is to assist small and medium-sized enterprises (SMEs), particularly those without collateral or with inadequate collateral to obtain credit facilities from financial institutions, by providing guarantee cover on such facilities. With a staff of 375 people, C3 is working in collaboration with lending institutions to formulate as well as manage viable credit guarantee schemes for those in the SME category.

The top management value is focused on recognizing people as its important asset, maintaining cost-effectiveness, and being task-oriented. The organization adopts a structured business model with comprehensive competitive strategies to gain market acceptance for its long-term survival as a mature and stable company.

The role of the HR Department is confined to serving as a personnel administrative center for the company; it does not have any significant role in deciding matters pertaining to HR. This is further evident in terms of HR planning: the HR Department is not integrated and coordinated with other functional departments. Neither is the department involved with the top management team in drawing up HR or organizational strategies.

Although the company exercises its own decisions to lay off workers, it adopts a fair and just internal termination policy and complies with legal requirements in its terminating employees. Employees are not given transitional training prior to layoffs.

The company recruits employees with both primary and secondary educations and fills executive and managerial positions with university graduates. The company's training program is generic, with on-the-job training provided. However, the company does not arrange advanced courses for employees to attend as part of an external training program. The training program conducted is mainly targeting to broadening the employees' knowledge and technical skills.

The salary scheme is based on job scope, knowledge, possession of the skills required to perform the job, and the level of education of its employees. This results in significant disparities between the lowest and highest pay of the employees in the same category. Bonuses given out annually, discounting the seniority factor, are at the discretion of the management. Fringe benefits offered by C3 are in the form health insurance coverage, workers' compensation, and employee benefits.

C3's performance appraisal system is carried out yearly to determine salary increments and for career advancement as well. Using a standard appraisal form, the performance appraisal is conducted by both the employee's immediate superior and the HR Department, using subjective and objective approaches.

The company values employee involvement in decision-making, allowing a degree of empowerment, and it provides board representation for workers as well. However, the management makes unilateral decisions on operational matters. Communication and information-sharing are lacking in the company, with the union not involved in collective bargaining.

As the company is a DFI, the government has some influence on its employment policy. At the employees' level, the task assigned is based on individual craft skills, and mass production is based on "lean staffing" principles. Jobs are vertically specialized and performed individually with not much opportunity to establish work teams; job rotation is not part of the governance system. Evaluation of job performance is both quantitative and qualitative in nature.

Employees' competence in C3 is evaluated based on skill, abilities, adaptability, and learning potential. External customers are treated with friendly and courteous service, although there is lack of camaraderie among employees in the company. Motivation is on the high side, as employees are driven towards performance, attendance, being retained by the company, and commitment to achieving the organizational vision and mission.

From the perspective of the stakeholders, the stockholders and investors evaluate the performance of the company based on ROI, market capitalization, and growth rates. The customers view the company's products favorably in terms of quality, price, and value. Employees are treated fairly by the company, have a sense of security working with the company, and are given the opportunity to learn. C3 has a competitive advantage over its competitors with a long-term strategy to ensure its survival coupled with high productivity and adaptability. Furthermore, the company has a strong commitment to full legal compliance, social responsibility, environmental sustainability, and ethical behavior. The company has a good working relationship with its suppliers and other alliance partners.

Strategic business issues and objectives are aligned to the needs of the firm where there is a horizontal alignment of systematic and knowledgeable applications. The company is adaptable to the external local environment and able to adopt a balance of local, global, and regional needs.

C3 was reorganized in order to enhance its efficiency and effectiveness and to enable it to provide financing to small and medium-scale industries. Emphasis is given to SMIs as they provide the base for industrial development in the country. For this purpose, C3 is classified as a financial development institution (DFI) under the supervision of Bank Negara Malaysia and will be provided with additional capital totaling MYR1 billion. In addition, all SMI funds under BNM will be placed under the supervision of C3. Being a new entity as a non-governmental agency, the company is aiming to achieve financial sustainability by assisting SME's in this country. The organization has changed its focus from "social obligation" to becoming a more profit-oriented company that is able to compete with other financial institutions.

C3 is undergoing a restructuring exercise as a new management team comes in and considers various options for restructuring. The restructuring process at C3 is related to the process by which the organization is expanding into a more businesslike entity and evolving from a government entity into a full-scale financial institution. The management is primarily involved in deciding on the practices it will use to mitigate the negative impact of the reduction. There is no immediate plan to reduce staff; rather the plan is to equip all staff members with new skills and knowledge in line with the new system and technology that has been invested in by the company. The expansion plan is part of the company's plan to achieve financial sustainability and to be able to compete with other financial institutions. However, as there is no union in this organization, there is no significant involvement of the union with regard to the restructuring exercise. The impact of this restructuring exercise is to change management, knowledge management, and adaptability to a new environment or culture.

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APPENDIX

Joint APO/ILO Survey Socially Sensitive Restructuring: Asian Experiences

This survey is intended to complement the work of the APO and ILO, with emphasis on Asian experiences.

Your candid responses to the questions in each of the areas are very much appreciated. There are no right or wrong answers. All of your responses will be treated in strictest confidence. This questionnaire is divided into three sections. Please answer all questions.

A. COMPANY PROFILE

1.	Name of company		
2.	Shareholders		
3.	Date of incorporation		
4.	Start of operation		
5.	Type of industry		
6.	Product range		
7.	Product destination		
8.	Customer		
9.	Total no. of employees	Top management <input type="checkbox"/>	Operations <input type="checkbox"/> Middle management <input type="checkbox"/>
10.	Recognition/award		
11.	Category of company	Large domestic company	
		Small & medium-sized domestic company	
		Large foreign-owned company	
		Small & medium-sized foreign-owned company	
		Government/statutory bodies	
		NGO/non-profit organisation	

On the following questionnaires, check “√” the appropriate box to indicate how you feel about the statement pertaining to the company according to the scale below.

1 = fully disagree • 2 = disagree • 3 = quite disagree
4 = neither disagree nor agree
5 = quite agree • 6 = agree • 7 = fully agree

Thank you for your participation

B. COMPANY HISTORY

1.0 Internal Factors

#	Description	1	2	3	4	5	6	7
1a	Top management values are focused on people as an important asset							
1b	Top management values are focused on lower cost of production							
1c	Top management values are focused on task							
2a	The company adopts a structured business model							
2b	The company adopts a family business model							
3a	The company is at a start-up stage—young company							
3b	The company is at development stage—growing company							
3c	The company is at a matured stage—stable company							
3d	The company is at a decline stage—unstable and declining							
4	The company adopts comprehensive competitive strategies to gain market acceptance for its long-term survival							

2.0 Characteristics of the HR Function, Department and TRIAD Relationships

#	Description	1	2	3	4	5	6	7
1a	The role of the HR department is to provide comprehensive HR services for the company							
1b	The role of the HR department is limited to personnel administration for the company							
1c	The role of the HR department is limited as personnel administrative center of the company							
2	Employees are given job rotation with other business functions to enlarge their experiences and skills							
3	The HR Department has authority in HR decision making							
4	The staff in the HR Department are professionally trained in HR functions							
5a	The senior staff in the HR Department possess relevant tertiary education							
5b	The staff in the HR Department attend special courses related to HR functions							
5c	The staff in the HR Department attend seminars and/or workshop related to HR functions							
6	The activities and relationships between line managers, employees, and HR Departments are mutually supportive							
7	The HR Department is accorded similar status to other functional departments within the company							
8	The HR Department is well integrated and coordinated with other functional departments on matters of HR planning							
9a	The HR Department is closely involved with the top management team when drawing up HR strategies							
9b	The HR Department is closely involved with the top management team when drawing up organizational strategies							

3.0 Human Resources Policies and Practices (Activities)

3.1 Staffing Systems

3.1.1 Inflow

#	Description	1	2	3	4	5	6	7
1	Employees are hired through proper advertisement							
2	Part-time, temporary, and contract workers are common							
3a	The company can hire workers according to its needs							
3b	The company is restricted by the government and/or unions when hiring workers							

3.1.2 Internal flow

#	Description	1	2	3	4	5	6	7
1a	Promotions are often from within the company							
1b	Promotions are based on merit instead of seniority							
1c	Succession plan for staff exists in company							
2	The company practices job-rotation among employees							
3	The company subcontracts (outsources) workers for specific jobs							
4	The company is open to immigrant workers/employees							

3.1.3 Outflow

#	Description	1	2	3	4	5	6	7
1	The company has a lifetime employment policy							
2a	The company assists workers who want to transfer to other firms							
2b	The company allows workers who job-hop							
3a	The company exercises its own decision to layoff workers							

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3b	The company consults the union/government when laying off workers							
4	The company has a specified mandatory retirement age and benefits							
5a	The company has adopted a fair and just internal termination policy							
5b	The company complies with legal requirement in its termination policy							

3.2.2 Organizational level system

#	Description	1	2	3	4	5	6	7
1	Training is provided internally (on the job training)							
2	The company arranges for employees to take advanced courses as part of the external training program							
3a	The training program is mainly focused towards inculcating commitment to the company							
3b	The training program is mainly focused towards enhancing specific skills							
3c	The training program is mainly focused towards broad knowledge							
3d	The training program is mainly focused towards technical skills							
4	Employees are given transitional training prior to layoffs							

3.3 Reward Systems

3.3.1 Basis of payment

#	Description	1	2	3	4	5	6	7
1a	Salaries are often based on job scope (type of job)							
1b	Salaries are often based on job knowledge/skills							
1c	Salaries are often based on the level of education							
2a	The company awards annual bonuses							
2b	Bonuses are at the discretion of the management							
3	Bonus rates are differentiated according to seniority							
4	There is significant disparity between the lowest and highest pay of the employees within similar categories							

3.3.2 Type of fringe benefits

#	Description	1	2	3	4	5	6	7
1	The company provides health insurance coverage for the employees							
2	The company provides a pension plan							
3	The company provides unemployment insurance coverage							
4	The company provides a workers compensation plan							
5a	The company has its own employee benefits							
5b	The company's employee benefits are based on government guidelines							

3.3.3 Work schedules

#	Description	1	2	3	4	5	6	7
1	The company's workweek is based on the labour work							
2	The overtime rate is based on labour law							
3	The company provides a flexible workweek							
4	The company practices paid time off							
5	The company encourages work sharing							

3.3.4 Status differentials

#	Description	1	2	3	4	5	6	7
1a	Workers are paid a fixed monthly salary							
1b	Contract workers are paid by the hour							
2a	Workers benefits are based on labour law							
2b	Contract workers do not enjoy any benefits							

3.3.5 Performance appraisal systems

#	Description	1	2	3	4	5	6	7
1a	A performance appraisal system is used to determine pay increases							
1b	A performance appraisal system is used to determine promotions							
2	A performance appraisal is carried out annually							
3a	The performance system is subjective (or discretionary)							
3b	The performance system is objective (or based on standard guidelines)							
4a	Performance appraisal is conducted by one's immediate superior							
4b	Performance appraisal is conducted by the HR department							
5	The company has a standard performance appraisal form							

3.3.6 Employee governance systems

#	Description	1	2	3	4	5	6	7
1a	The company adopts worker participation in decision making							
1b	The company provide board representation for the workers							
1c	The company provide an employee ownership scheme							
2a	The management makes unilateral decision on operational matters							
2b	The management consults the employee on operational matters							
3	There is a high degree of communication and information sharing within the organization							
4	The union is involved in collective bargaining							
5	The government has some influence in the company's employment policy							
6a	Work is conducted based on individual craftsman skills							
6b	Work is conducted based on mass production							
6c	There is lean staffing for the organization							
6d	The company has a massive socio-technical work operation							
7a	Jobs are vertically specialized							
7b	Jobs are horizontally specialized							
8	Job rotation is common in the work system							
9a	Jobs are done individually by workers							
9b	Jobs are done by teams or workers							
10a	Jobs are evaluated based on quantity of output							
10b	Jobs are evaluated based on quality of output							
11	Employees are empowered to make decisions related to their work							

4.0 HR Policy and Practice Effects

#	Description	1	2	3	4	5	6	7
1a	Employee competence is evaluated based on skills							
1b	Employee competence is evaluated based on abilities							
1c	Employee competence is evaluated based on adaptability							

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1d	Employee competence is evaluated based on learning ability							
2	There is flexibility for employees to move in and out of the company							
3	There are adjustable and flexible work hours for the employees							
4a	Employees treat their peer as internal customers (teamwork spirit)							
4b	Employees treat external customer with friendly and courteous service							
5a	Employees are motivated towards performance							
5b	Employees are motivated towards attendance							
5c	Employees are motivated towards being retained by the company							
5d	Employees are motivated towards commitment to the organization							
6	The motivational policy is beneficial to the organization							

5.0 Ultimate Impact: Multiple Stakeholder Perspectives and Objectives

#	Description	1	2	3	4	5	6	7
1a	Stockholders and investors evaluate the performance of the company based on ROI							
1b	Stockholders and investors evaluate the performance of the company based on market capitalization							
1c	Stockholders and investors evaluate the performance of the company based on growth rates							
2a	Customers purchase the company's products based on quality							
2b	Customers purchase the company's products based on price							
2c	Customers purchase the company's products based on value							
3a	Employees receive fair treatment from the company							
3b	Employees have a feel of security working with the company							
3c	Employees are empowered by the company							
3d	Employees are given the opportunity to learn							
3e	Employees are satisfied with the company							
4a	The company has a competitive advantage over its competitors							
4b	The company has a long-term strategy for its survival							
4c	The company has a high productivity							
4d	The company is adaptable							
5a	The company has a strong commitment to all legal compliance							
5b	The company has a strong commitment towards social responsibility							
5c	The company has a strong commitment towards environmental sustainability							
5d	The company has a strong commitment towards ethical behaviors							
6a	The company has a good working relationship with the union							
6b	The company has a good working relationship with the supplier							
6c	The company has a good working relationship with other alliance partner							

6.0 Linkages to the Business

#	Description	1	2	3	4	5	6	7
1	Strategic business issues and objectives are aligned to the needs of the firm							
2	There is horizontal alignment of systematic and knowledgeable application							
3	The company is adaptable to the external local environment							
4	The company adopts a balance of local and global and regional needs							

C. COMPANY RESTRUCTURING EXERCISE

#	Question	Response
1	Have you gone through a restructuring exercise in the form of reduction?	Yes ___ No ___
2a	What is the size or magnitude of the reduction?	<10% ___ 10-20% ___ 20-30% ___ >40% ___
2b	How impactful is the reduction?	Beneficial ___ Detrimental ___
3a	What is the cause of or need for the reduction?	Yes ___ No ___
3b	Are other options being explored prior to the reduction?	Yes ___ No ___
4	Indicate if any of the following practices were used to help reduce the negative impact of job reductions:	
4a	Outplacement assistance, help in job searches	Yes ___ No ___
4b	Psychological counseling	Yes ___ No ___
4c	Voluntary redundancies	Yes ___ No ___
4d	Attrition	Yes ___ No ___
4e	Early retirement benefits	Yes ___ No ___
4f	Change in legislation	Yes ___ No ___
4g	Retraining assistance	Yes ___ No ___
4h	Relocation support	Yes ___ No ___
4i	Government support for new job creation	Yes ___ No ___
4j	Others, please describe	Yes ___ No ___
5a	Why was the particular practice chosen?	
5b	Were others considered?	Yes ___ No ___
5c	How did it work?	Beneficial ___ Detrimental ___
6a	Who were the primary individuals involved in deciding on the practice to use to mitigate the negative impact of the reduction?	
6b	What are the roles of HR, CEO, managers?	
6c	What are the criteria used?	
7a	Were the workers' representatives involved in the restructuring exercise?	Yes ___ No ___
7b	What is the level of participation of unions, labour-management committee, etc?	Significant ___ Not significant ___
8	Was any assistance provided by the local or national government in terms of retraining, access to financial resources, or psychological help?	Yes ___ No ___
9a	What makes the practice exemplary, in your opinion, with emphasis on business and human factor/case?	
9b	Illustrate in terms of cost-benefit analysis	
9c	Did it receive favourable coverage in the press or television at the local and national levels?	Yes ___ No ___
10a	Could other enterprises do the same thing, that is, use the same practice?	Yes ___ No ___
10b	Why or why not?	
10c	How would it have to be modified?	

PHILIPPINES

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INTRODUCTION

The Philippines is an archipelago of more than 7,100 islands with 87.8 million people of predominantly Malay race. Compared to other Asian countries, the Philippines is young, having been “discovered” in 1521 and colonized during the 16th century by the Spaniards. Its name was given in honor of King Philip of Spain.

The country proclaimed itself as an independent Republic on 12 June 1898 after more than 400 years of Spanish colonial rule. It was a short-lived independence, as the United States, a rising industrial power outside the European powers, colonized the archipelago in the 1900s. The American colonial government granted the Filipinos independence after the World War II, when the Japanese colonizers were defeated by the combined American and Filipino liberation forces. On 4 July 1946, the Philippines became politically independent from the United States, but its economic policies remained under the tutelage of the American policymakers and enterprises, which were given parity rights with the Filipinos.

SOCIAL AND CULTURAL CONTEXT

Aside from being a young nation, the Philippines identifies itself as predominantly Catholic (81%). The other religions represented are Evangelical (2.8%), Iglesia ni Kristo (2.3%), Aglipayan (2%), other Christian (4.5%), Muslim (5%), other (1.8%), and unspecified (0.6%) (2000 census, World Factbook, CIA).¹ The Filipino culture is generally heterogeneous, with its predominantly Malay migrants having intermarried with the native peoples, and having also been influenced by Chinese, Indian, Spanish, American, and Japanese migrants and colonizers. The country has one of the most Westernized cultures in Asia, similar to Hong Kong or Singapore, with English widely understood, if not spoken.

Philippine society is characterized by high inequality in terms of power and wealth, but there is a strong democratic tradition. The country has strong tolerance for a variety of opinions.² Among the ethnic groups are: Tagalog, 28%; Cebuano, 13%; Bisaya/Binisaya, 7.6%; Ilongo, 7.5%; Bikol, 6%; Waray, 3.4%; and others, 25% (2000 census, CIA World Factbook). The nation was not unified by its own native king or emperor prior to its colonization by the Spaniards, Americans, and Japanese. The people are friendly and hospitable and can easily integrate with other cultures and races.

THE PHILIPPINE ECONOMY IN TRANSITION

The Philippines went through the following stages of economic development:

1946–59: Postwar rehabilitation and import substitution period—the setting up of tertiary assembly-line production industries with state protection.

1960–71: Decontrol and limited trade liberalization period—the country availed itself of the IMF standby loan facilities to shore up the foreign exchange crisis brought about by the shortcomings of the import substitution period.

1972–85: Martial law and post-martial law period—high debt-driven industries, trade liberalization, and economic slowdown.

¹ www.cia.gov/cia/publications/factbook/geos/rp.html (viewed 1.10.06).

² Geert Hofstede, Cultural Dimensions, ITIM International. www.geert-hofstede.com/hofstede_philippines.shtml (viewed 12.30.05).

1986–present: Globalization, trade liberalization, and privatization of state enterprises—economic restructuring at the national and firm levels for survival, growth, and competitiveness of local and multinational enterprises.

Transition to a More Liberalized Economy

Philippine industries, including subsidiaries and joint ventures with foreign companies, were nurtured under protectionist import-substitution policies from 1950–1960. This laid the foundation for manufacturing and services industries in the country. Technological innovations, however, were not extensively developed, as most of these industries linked up with politicians and bureaucrats to assure their business survival. Called “utang na loob” (debt of gratitude), this patronage system, in which favors are granted in exchange for other favors, has been entrenched in the country’s political governance (Economist.com, 2005).

Chronic foreign exchange and debt crises resulted in this bureaucrat–capitalist tie-up. Globalization through trade liberalization policies exposed Philippine industries (run by multinationals and local elites) to competition from imported products and foreign competitors. They needed to adjust and streamline in order to survive and grow.

Lloyd and Salter (1999) observed that many enterprises “divided their workforce into a small group of professionals and technical staff and a large group of casual workers.” The former received a wide range of benefits and training, making them highly skilled knowledge workers, and the latter received the minimum wages and benefits mandated by the Labor Code, which resulted in relatively high wages despite their low level of skills.

This has resulted in a dual skills level among the labor force. On the one hand, the country has gained a competitive advantage in the category of knowledge workers. It has supplied USD1.7 billion worth of offshore services to the world economy. At present, around 100,000 workers are employed in call centers. Among the top 10 countries supplying offshore services, the Philippines has the second-lowest hourly wage at 13% of the U.S. level, following India at 12% (Beshouri, Farrell, and Umezawa, 2005).

On the other hand, the greater bulk of the labor force has low skill levels, low productivity, and relatively high wages, and it is absorbed primarily by the informal sector in the service and agriculture industries. The country’s unemployment and underemployment rates are quite high at 10% and 20% respectively. The trend in unemployment and underemployment from 1975 to 2004 will be further discussed below and shown in Table 5.

Effects of Globalization on the Labor Market Situation

The effects of globalization (specifically the structural adjustment program of the World Bank and IMF in 1987) on the Philippine economy and the labor market situation have been explained by Macaraya (2004: 5–6) and Macaraya and Ofreneo (1993) as follows:

- The lowering of tariffs and other protective measures facilitated the entry of imported goods and caused stiff competition. Domestic industries were forced to export and implement reforms to make their operations efficient. Among these reforms was the reengineering of operations. Initially, such reengineering resulted in massive layoffs of workers, particularly in protected industries. Others who could no longer compete were forced to close shop.
- The reorientation of the labor process into core and non-core activities gave rise to the contractualization of the non-core enterprise activities.
- The international subcontracting technologies introduced by multinational corporations were mostly in the services and manufacturing sectors: electronics, call centers, etc.

Globalization brought “jobless growth” in the formal industrial sector of the economy, since global enterprises invested in capital-intensive tertiary manufacturing processes or outsourced marketing operations moved to take advantage of the country’s export quotas, local

markets, cheap labor, ports, telecommunications, etc. This trend jibed with the 2005 ILO study on the Key Indicators of the Labor Market (KILM) that “globalization so far has not led to the creation of sufficient and sustainable decent job opportunities around the world.”³

Local employers were exposed to intense competition from global producers and importers of finished goods that included smuggled items. Technological innovation and enterprise restructuring that featured investments in HRD and labor flexibility became a must in order to survive. Most of the big enterprises were able to adjust by increasing labor productivity and competitiveness.

The Positive Side of Economic Liberalization

The World Bank has noted that the economic growth of 6% in 2004, the most rapid in 16 years, may lead to sustained growth and poverty reduction. The positive external and internal factors for the Philippines are a well-positioned electronics industry and offshore IT, human resource skills and English language proficiency, an inflow of earnings of overseas Filipino workers, healthy gross international reserves (USD\$20.58 billion in 2006), and the untapped potential of mineral, geothermal, and natural resources.

While the overall contribution of industry and manufacturing declined, the notable exceptions were the export industries, led by electronics, which accounted for 75% of total exports. These non-traditional export industries have picked up from a very low base in the 1990s. Even during the 1997–98 Asian financial crisis, the country’s export industries performed quite well. These industries have become globally competitive as a result of organizational restructuring. They are, however, import-dependent, especially the electronics industry, which must increase its domestic value content in order to lead industrial growth (Ofreneo, 2002; Lim and Montes).

As shown in Figure 1 below, the contribution of electronics to the manufacturing value added increased from a low 4.4% in 1970 to 11.6% in 2000. Food, beverages and tobacco, garments, textiles, and other traditional industries declined moderately. Wood products and furniture declined from 7.8% in 1970 to 2.4% in 2000.

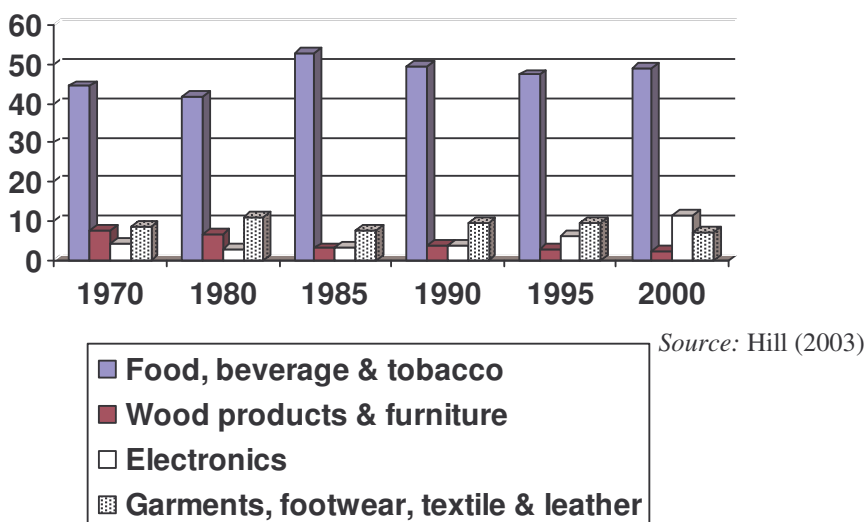


Figure 1. Structure of Manufacturing Output, 1970–2000 (% of total manufacturing value added)

³ ILO Director General Juan Somavia’s ILO report sees wide gaps in wages, productivity gains. ILO Dept. of Communication, 9 December 2005. www.ilo.org/public/english/bureau/inf/2005/48.htm (viewed 1.11.06).

Asian Development Bank economist Jesus Felipe has suggested that the Philippines differ from most of the Asian countries, where domestic demand, instead of exports, contributed more to economic growth. Considering this a weakness rather than a strength, Felipe explained that it was consumer spending from overseas workers' dollar remittances which spurred an economy that failed to "grow fast enough to provide jobs for them" (*Economist.com*, 2005).⁴

The country sends both highly-skilled and low-skilled workers overseas. More than 8 million Filipinos work abroad in land- and sea-based jobs, about 10% of the population (of whom 3 million are permanent residents); in 2003, these overseas Filipino workers (OFW) remitted earnings equal to 8.8% of the gross national product (GNP) or 10.5% of the gross domestic product (GDP). This is augmented by local employment from offshore IT jobs, which is expected to generate more than USD2 billion in 2006.⁵

With USD10.7 billion OFW earnings in 2005 remitted through the banking system and an undetermined amount through informal channels, the country is experiencing a consumption-led economic growth that has spurred urban growth in real estate, shopping malls, and other services. These inflows have boosted state funds for social and economic services that may help reduce poverty. They have at the same time contributed to the strengthening of the currency against the U.S. dollar.⁶

The local conglomerates owned by multinationals, as well as those owned by ethnic and Chinese Filipinos, have taken advantage of this increased consumer spending brought about by the increased earnings of OFWs and employment in offshore IT services and non-traditional exports. Among these were San Miguel Corporation, United Laboratories, Jollibee Foods Corporation, and Splash Corporation, which have expanded operations locally and abroad, particularly in other Asian countries. Privatization and build-operate-transfer (BOT) projects gave them the opportunity to expand their business operations to vital industries and infrastructure sectors that were previously monopolized by the state. This further strengthened the operations of big business conglomerates.

The economy is spurred more by increased domestic consumption and less by exports. Hence, the small and micro enterprises that account for 98% of enterprises and 65% of local employment are not very dependent on the international value chain. They are, however, constantly threatened by cheap imports, including those smuggled into the country. According to the Federation of Filipino Industries (FPI), the government loses PHP174 billion in revenues a year from smuggling. The medium and large enterprises are the ones adversely affected by the international value chain, since many of their inputs—raw materials, electricity, and parts—are dependent on imports.

The Negative Side of Liberalization

On the negative side are the huge deficit in fiscal spending, leakages in the delivery of social programs, poor infrastructure, political threats from armed communist insurgents and Muslim separatists in the poorest areas of the country, and political instability, especially in the present political leadership. Taking a longer perspective, the World Bank Report (2005) observed that the country's performance is not encouraging in terms of productivity, which has increased only at 1% per year on the average, in contrast with a 4.4% average for the neighboring countries (China, Indonesia, Korea, Malaysia, Singapore, Taiwan, and Thailand) or with a 1.4% average for all developing countries. For four decades, output per worker in the Philippines increased by only 50%, while that of other East Asian countries increased by 450%.

⁴ In search of elusive domestic demand, *Economist.com* (Bangkok), 13 October 2005. www.economist.com/PrinterFriendly.cfm?story_id=5025883 (viewed 1.11.06).

⁵ Domingo, R., Outsource industry seen growing, *Philippine Daily Inquirer*, 17 February 2006; B6.

⁶ Dumlao, D., OFW remittances surge 16.5% to P977 M, *Philippine Daily Inquirer*, 16 March 2006; B1.

Another weakness of the economy was the inability to address the increasing income inequality among classes and among regions (Sibal, 2002). According to a 2004 ADB study, 40% of Filipinos are living on USD2 or less a day.⁷ The latest survey of the Social Weather Station (SWS), for the last quarter of 2005, reported that the poverty situation has worsened since it started surveying in mid-1998, with 17% of the people saying they “they had nothing to eat at least once over a three-month period.”⁸ This is because of the failure to develop the agro-industrial base and because not enough jobs were created to absorb the unemployed and the new entrants to the labor force. The trickle-down effect to the poor did not materialize.

The *Economist* (2005) noted the great disparities: in ownership of assets, in income, in levels of technology, in production, and in the geographical concentration of activity. The National Capital Region (NCR) produced one-third of GDP. As the richest region, income per head in the NCR was nine times that in the poorest region in 2001. Disparity is evident between the richest and poorest households. In 2000, the richest 10% of the population had an income 23 times that of the poorest 10%. Those living in poverty were estimated at 39.4% of the population in the same year, with the rate in rural areas put at 46.9%, whereas the poverty rate in the NCR was only 12.7%.

The World Bank, however, reported a different trend when it cited the decline of the incidence of poverty between 2000 and 2003. The number of poor declined from 25.4 million in 2000 to 23.5 million in 2003, or from 33% to 30.4% of the population. The World Bank report did, however, include certain caveats (World Bank Report, 2005).

Sectors of the Economy That Have Been Affected Most by Economic Liberalization

Filipino employers, especially those in micro and small enterprises (in the informal sector) and in medium-sized enterprises in agriculture and protected industries, suffered most. These labor-intensive firms were not prepared for liberalization and globalization (ECOP, 2004; FTA, 2003). Some of these enterprises are in the garment and apparel industry, car parts manufacturing businesses, agriculture (vegetables, palay, corn, poultry), etc. They were not able to upgrade their technologies or to restructure in order to enhance their productivity. They may not survive competition and will continue to operate marginally or be absorbed by competitive firms that are growing due to globalization.

Padilla described the local enterprises that suffered most from liberalization (see Table 1):

The government’s program of trade liberalization continues to weigh down on many local producers, particularly the small and medium enterprises (SMEs). Establishments that are going bankrupt or retrenching workers to cope with a highly globalized environment continue to grow in number. In the first six months of 2002, almost 12 firms were closing shop or displacing workers every day due to economic reasons, compared to nine establishments daily during the same period in 2001. Almost three out of 10 firms that either went bankrupt or retrenched were employing fewer than 20 workers, while four out of 10 were employing 20 to 99 workers. But it is also important to note that the rate of increase in the number of firms reporting permanent closure or retrenchment and the number of displaced workers were much higher among bigger establishments. This trend suggests that even the bigger companies operating in the country could not stand the intense competition brought about by globalization. (2003: 7–8)

⁷ Asian Development Bank (2004) study on the economic status of the country under the Arroyo administration (www.adb.org)

⁸ Cabacungan, Jr., G., Number of hungry Pinoys hits new high, says survey, *Philippine Daily Inquirer*, 7 January 2005; A1, A4.

Table 1. Establishments Resorting to Permanent Closure/
Retrenchment for Economic Reasons and Numbers of
Workers Displaced, January to July 2001, 2002

Indicator	2001	2002	Growth
Establishments reporting	1,606	2,173	35.3%
Fewer than 20 workers	502	624	24.3%
20-99 workers	597	829	38.9%
100-299 workers	282	394	39.7%
300 + workers	225	326	44.9%
Workers displaced	38,030	51,895	36.5%
Fewer than 20 workers	2,730	3,458	26.7%
20-99 workers	9,114	10,877	19.3%
100-299 workers	10,400	14,362	38.1%
300 + workers	15,786	23,108	46.4%

Source: DOLE BLES, published in Birdtalk, 16 January 2003

The government bureaucracy itself is also affected by globalization. In order to attract and maintain local and foreign investments as result of liberalization, it must drastically curb graft and corruption, offer better public services through efficient and lean state structures, and level the business playing field. The major reforms initiated by the government are privatization of state enterprises (principally the EPIRA Law) and the rationalization program (Executive Order 180 signed by former President Corazon Aquino on 1 June 1987 and Executive Order 366 signed by President Gloria Arroyo in October 2005).

The government's objective is to reduce fiscal deficits resulting from inefficient operations of state-owned enterprises and assets. It has so far privatized the Metropolitan Water and Sewerage System (MWSS), in what was reputed to be one of the largest privatization projects in the world, sold the Fort Bonifacio properties (a huge military camp) under former President Fidel Ramos, and awarded build-operate-transfer (BOT) projects like the North and South Luzon expressways, the light railway transport systems, and the new Ninoy Aquino International Airport 3, among others.

Among the major state corporations targeted to be privatized in 2006 are the Philippine Postal Corporation, RPN Channel 9, IBC Channel 13, and the Philippine National Oil Corporation-Energy Development Corporation. The government expects to generate at least PHP500 million (USD9.7 million) from the sale of these government assets.⁹

Through the Electricity Power Industry Reform Act (EPIRA Law under R.A. No. 9136), the government has privatized six generating plants with a total installed capacity of 608.5 megawatts (MW), amounting to USD567 million (or 11% of the total generating capacity of the National Power Corporation), and the sale of the high-capacity Masinloc coal plant is in process.¹⁰ Local and foreign businessmen operating in the country¹¹ have commented on the slow implementation of the EPIRA Law, which they hoped might lower the cost of electricity in

⁹ Remo, M., Government to privatize postal services in '06, *Philippine Daily Inquirer*, 12 December 2005; B1, B12.

¹⁰ Mcdo owner voices concern over rising electricity costs, *Philippine Daily Inquirer*, 16 January 2006; B3-2-3.

¹¹ These concerns were voiced by the Employers Confederation of the Philippines (ECOP), Philippine Chamber of Commerce and Industry (PCCI), Federation of Filipino-Chinese Chamber of Commerce and Industry (PFCCI), Federation of Philippine Industries (FPI), Fair Trade Alliance (FTA), and the Joint Foreign Chamber (JFC) composed of the American, Australian-New Zealand, Japanese, Korean Chambers of Commerce of the Philippines and the Philippine Association of Multinational Companies Regional Headquarters, Inc.

the country. The cost of Philippine electricity ranks second to Japan, among the highest in Asia. This makes the Philippines less attractive as a site for local and foreign investments.

The Department of Budget and Management (DBM) is the lead implementer of the government rationalization program under EO No. 366. Its main objective is to improve government service delivery and productivity by eliminating irrelevant and redundant jobs like those that compete directly with private business and those already devolved to the local government units (LGUs). This rationalization program is voluntary and offers affected employees two options: to be transferred to front line agencies such as schools, hospitals, and regulatory bodies like the Land Transportation Office, or to accept a compensation package for early retirement. It has been allotted a PHP10 billion (USD193 million) budget for 2006.

Impact on the Economy and Labor Situation

Since 1980, the share of manufacturing has continued to decline, as shown in Table 2. Agriculture's contribution to GDP continued to decline, from 33.3% in 1967 to 20.0% in 2000. Although declining, this sector is very stable, since its average annual growth rate is steady in a range of 2%–4%. What increased significantly was the service sector, from 36% in 1980 to 45.6% in 2000. Hence, the Philippine growth pattern was characterized by an increase in services, with agricultural and industrial sectors declining.¹²

Table 2. % Share of Manufacturing, Agriculture, and Services in Gross Domestic Product (GDP) (million PHP)

Sector	1967	1970	1980	1990	2000
Agriculture	33.3%	27.8%	23.5%	22.4%	20.0%
Industry					
Manufacturing	18.3%	22.5%	27.6%	25.6%	24.8%
Other industries	5.2%	7.1%	12.9%	10.0%	9.6%
Services	43.2%	42.6%	36.0%	42.0%	45.6%

Source: National Statistics Coordination Board, Philippine Statistical Yearbook. Other industries include mining and quarrying, construction, electricity, gas, and water.

Labor was absorbed not by industry but by the service sector. As of 2000, as shown in Table 3, more than half of the country's employed workers who used to be in agriculture were absorbed by the service sector. In recent years, industry's labor productivity has declined. The manufacturing-to-employment ratio over the last two decades has not changed, remaining at about 4% (Felipe and Lanzona, 2005, citing Balicasan).

Table 3. Labor Absorption of Agriculture, Manufacturing, and Services

Sector	1971	1981	1991	2000
Agriculture	50.4%	51.4%	45.2%	37.0%
Manufacturing	12.0%	10.5%	11.0%	10.3%
Services	37.6%	38.1%	43.8%	52.7%
Totals	100.0%	100.0%	100.0%	100.0%

Source: Phil. Statistical Yearbook, National Statistics Coordination Board

¹² Structural changes in the economy (or growth of industry and the decline in agriculture share of GDP) are also measures of economic development. The transformation of an economy from agricultural to industrial is an indication of successful economic development.

There are in practice very few safety nets for the vulnerable informal sector enterprises and sunset industries. Labor laws and social standards cover workers and employers in the shrinking formal sector. Only around 52% of the labor force is wage and salaried workers. The rest in the increasing informal sector are composed of unpaid family workers, self-employed or own-account workers, piece-rate workers, and local and overseas contractual workers, who have very little social protection.

The workers in the formal sector covered by the labor standards of 1999 and 2003 comprise only 21.68% and 18.63%, respectively, of the total employed workforce. During the same period, the number of formal sector workers declined by 307,228 as globalization deepened. These trends are shown in Table 4. The number of workers in the informal sector, which accounted for 65% of the employed labor force, grew by 1,944,213. These are the workers not covered by safety nets (Macaraya, 2005; Leogardo, 2005).

Table 4. Comparative Sizes of Formal and Informal Sectors, 1999 and 2003^a

	1999		2003		Difference
	No. of workers	% to total employed	No. of workers	% of total employed	
Labor force	30,758,000	90.19 (9.8) ^b	34,571,000	88.61(11.4) ^b	+3,813,100
Total employed	27,742,000		30,635,000		+2893,000
Formal sector	6,013,688	21.68	5,706,460	18.63	-307,228
Informal sector	18,069,322	65.13	20,013,540	65.32	+1,944,218
Wage/salary	3,932,312	14.17	4,868,540	15.89	
Self-employed	8,864,000	31.95	9,912,000	32.35	
Domestic	1,498,000	5.40	1,486,000	4.85	
Unpaid workers	3,775,000	13.61	3,765,000	12.28	

^a Determined through residual methodology, using NSO Labor Force Surveys and Annual Survey of Philippine Business and Industry.

^b % unemployed.

Source: Leogardo, V. J. (2004)

Unemployment and Underemployment

The Philippine economy suffers from high unemployment and underemployment, the highest among countries in the Association of South East Asian Nations (ASEAN). Table 5 indicates the trends in unemployment and underemployment. This phenomenon is caused by two major factors: the high birth rate, 2.36%,¹³ and insufficient job creation and preservation as illustrated in Figure 2. The majority of the jobs created are of low quality and insufficient to meet the high number of entrants into the labor force.

Table 5. Unemployment and Underemployment (five-year averages) 1975–2004

Years	Unemployment	Underemployment
1975–1980	5.40%	12.68%
1981–1985	9.93%	24.88%
1985–1990	10.48%	21.88%
1991–1994	9.50%	20.00%
1995–1999*	9.32%	20.82%
2000–2004	11.40%	18.10%
2004	10.80%	17.60%

*1998 figures based on NSO April rounds statistics, 2004 based on BLES statistics

¹³ Also one of the highest rates in the ASEAN.

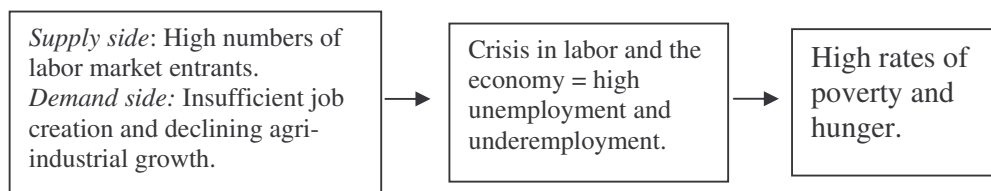


Figure 1: Causes of High Unemployment and Underemployment

Felipe and Lanzona (2005) have summarized the problems of the labor market as follows:

- the number of entrants in the labor force exceeded the number of jobs created;
- the jobs created were mostly low-quality jobs in the services sector (67%), and the rest were divided equally among industry and agriculture, which contributed very little to economic growth.

In 2004, the unemployment rate increased further to 10.8%¹⁴ (Table 5) because the increase in the labor force at 1.4% was larger than the growth of employment at 0.6%. Unemployment among the young (15–24 years of age) was high at 21.7%. There was also high unemployment among the schooled: 29.3% among high school graduates, 16.8% among college undergraduates, and 17.3% among college graduates (BLES, 2005).

In 2004, the 18.4% unemployment rate in the National Capital Region (NCR) was higher than the national average. There were more unemployed females at 11.7% than males at 10.4%.

As shown in Table 6, addition to the labor force from 1996–2004 exceeded job creation. A total of 1.5 million workers were added to the unemployed labor force during the last eight years.

Table 6. Addition to the Labor Force versus Job Creation (000s)
(1996–2004)

Year	Addition to the labor force	Job creation	Addition to unemployment
1996	1,353	1,510	157
1997	621	530	(91)
1998	700	196	(504)
1999	(295)	(170)	(442)
2000	152	(290)	(442)
2001	1,903	1,704	(199)
2002	1,122	906	(216)
2003	635	566	(69)
2004	1,289	976	(313)
1996–2004	7,480	5,928	(1,552)

Source: Soriano, R. (2005)

Employment

From 1980 to 2003, the economy generated 14.7 million new jobs (or around 640,000 annual average). The distribution is shown in Table 7. It should be noted that manufacturing, the

¹⁴ Unemployment was redefined in accordance with the ILO definition which excluded those not looking for work although not working and those waiting for work from the unemployed labor force. The 10.8% unemployment rate was reduced from 13% based on the new definition.

sector that has thrived in other Southeast Asian countries and is the source of quality decent jobs, has created only 1 million jobs in 22 years.

The biggest absorber of labor in 2004 was the services sector at 48%. It has surpassed agriculture at only 36%. Manufacturing, on the other hand remained low at 9.7% in 2004, having declined further from 10.6% in 1992. Most of the jobs created in agriculture and the services sectors were low-quality jobs. These trends are shown in Table 8.

Despite the unfavorable business environment, the Philippine economy was able to survive because of the following coping mechanisms:

- Industries in the formal sector adjusted by increasing labor productivity and competitiveness. In 1998, for example, more large enterprises survived by resorting to worker reduction while more small-sized enterprises closed (Laopao, 1998).
- The excess labor force not employed in the formal sector was absorbed by the service industries, mostly in the informal sector.
- The rest sought employment abroad as overseas Filipino workers (OFWs). More than eight million Filipinos work abroad in land- and sea-based jobs.

Table 7. Employment Generated by Sector and Number of Unemployed

Sector	Number	%
Agriculture	6,039,000	41.0
Services	5,501,000	37.3
Industry [includes manufacturing]	3,196,000 [1,142,000]	21.7 [7.7]
Total	14,736,000	100.0
New labor entrants	17,705,000	
Unemployment	2,567,000	

Source: Felipe & Lanzona (2005)

Table 8. Employment by Major Industry Group, 1992 and 2004

	Number in millions		%	
	1992	2004	1992	2004
Total employed	23.69	31.61	100.0%	100.0%
Agriculture, fishery and forestry	10.75	11.37	45.3	36.0
Services	9.07	15.24	38.5	48.3
Industry (including manufacturing)	3.87	5.00	16.7	15.7
[Manufacturing]	[2.52]	[3.06]	[10.6]	[9.7]

Source: DOLE BLES

Jobs Lost in the Vulnerable Sectors and the 1997–98 Asian Financial Crisis

Compared to Thailand and Korea, the Philippines was a “late bloomer” which had achieved a moderate growth rate when the Asian financial crisis occurred in 1997–98. There was less capital flight, but layoffs and retrenchments almost tripled, from 59,861 in 1997 to 155,198 in 1998. Establishment closures increased from 1,103 to 3,776. The crisis was exacerbated by an El Nino drought (Aldaba, 2000; Tuano, 2002; Lim, 1998).

Of the 1998 layoffs, 51% (76,700 workers) were permanent and 33% (50,700) temporary, while 16% of workers (27,700) were subjected to job rotations or reduction in the number of work hours. Thirty percent of the retrenchments were due to lack of market demand. More than 55% of the retrenched firms were in the National Capital Region (NCR), and the others were

mostly in regions near the NCR. One third of the firms that retrenched were in manufacturing. Most of these firms were small and medium-sized firms rather than big firms (more than 100 workers). The majority of the laid-off workers were 30 years of age or younger and held permanent jobs. Two thirds were males, and more than 21% had completed college or postgraduate studies (Tuano, 2002).

Responses of the Social Actors

Suffering from a lingering fiscal crisis, the governments of Presidents Corazon Aquino and Fidel Ramos were handicapped in softening the bad effects of the massive layoffs. Aldaba (2000) observed that the Ramos administration seemed to have paid “little attention to the implementation of safety nets to cushion the social impact of the crisis.” It was only when the crisis deepened early in 1998 that the government called a summit to discuss the appropriate safety nets to be implemented.

The February 1998 multi-sectoral summit proposed the following interventions to cope with the mandatory 25% cut in all government expenditures:

- activation of the Public Employment Service Offices (PESO) to provide job placements and implement training and credit programs for the unemployed;
- a PHP200 million (USD3.8 million) emergency loan from the Social Security System for displaced workers for setting up small businesses;
- price monitoring of basic commodities by the Department of Trade and Industry to check unscrupulous food dealers and suppliers;
- increased supply of rice to assist drought-infested areas, especially in Mindanao;
- a PHP4 billion (USD77.5 million) Enterprise Stabilization Guarantee Fund to help small and medium-sized distressed enterprises with their liquidity problems.

Specific projects initiated by the DOLE in 1998, aside from the PESO, included:

- the Phil-JobNet, an internet-based system of employment facilitation;
- an Integrated Entrepreneurship Development Programme (IEDP) for vocational training for micro-enterprises;
- social accords between labor and management to minimize strikes and lay-offs;
- the Special Project for the Employment of Students (SPES) for children of displaced workers;
- rural works projects like construction of feeder roads, canals, etc.;
- a Work Improvement to Improve Productivity (WISE) program to assist small enterprises and workers in increasing their productivity; and
- an Industrious, Systematic, Time-Conscious and Innovative (ISTIV) project to instill productivity consciousness among workers and employers;

With the government taking the lead in the safety net programs, the Personnel Management Association of the Philippines (PMAP) revealed in its survey the following coping mechanisms of employers:

- subcontracting and strategies for greater labor flexibility;
- freezes on hiring;
- cuts in training activities;
- retrenchments and downsizing;
- minimal salary increases;
- multi-skilling of workers (Lim, 1998).

The Employers' Confederation of the Philippines (ECOP) organized two conferences in August 1998 and February 1999 calling for the following measures, which the government implemented:

- improving access to the PHP5 billion (USD96.9 million) “Special Financing Program” of the Social Security System and the Government Service Insurance System, for low-interest loans to distressed firms;
- establishment of a PHP200 million (USD3.8 million) “Enterprise Stabilization Guarantee Fund” to be implemented by the semi-public Small Business Guarantee and Finance Corporation, which would secure up to 50% of loans made by small and medium-sized companies;
- establishment of a PHP500 million (USD9.7 million) guarantee fund by the Trade and Investment Development Corporation, a public company dealing with the improvement of the country’s export capacity, in order to assist with improving the access of export-oriented firms to bank loans;
- simplification of inter-island trade inspection and monitoring procedures;
- reduction of power rates by an average of 55 centavos (US 0.017 cents) per kilowatt-hour for energy purchased directly from the National Power Corporation, the state agency in charge of power distribution, by firms affected by the crisis (Tuano, 2002).

Trade unions, NGOs, and peoples’ organizations (POs¹⁵), on the other hand, adjusted their activities with emphasis on job preservation and creation, cost savings and restraint in conducting strikes. Some unions even devised livelihood and training programs for dismissed or retrenched workers, along with job placement and labor contracting for members. NGOs and POs intensified their micro-credit, health, and livelihood programs for their communities.

The Crisis Continues in 2000

The crisis continued with Presidents Joseph Estrada and Gloria Macapagal Arroyo at the helm. This continuing crisis and retrenchments was explained by Guzman in her economic and political briefing (see also Table 9):

Uninspired business activity and closure of farms have resulted in mass unemployment. For instance, factory output went down in the first quarter of the year for the eight consecutive months. Only 8 out of 20 factories increased production, while only 13 out of 100 operated at full capacity. Every day for the past four years, eight establishments retrenched their workers or closed down due to economic liberalization; 196 workers are being displaced every day as a result. Each year during the past 11 years, around 9,900 farms are being eliminated.

Globalization as the cause of industrial stagnation and agricultural bankruptcy is now common knowledge. Stiff competition and an unresponsive market have hastened the erosion of the manufacturing sector, which has simply lost the capacity to create jobs. On the other hand, the influx of imported agricultural products has killed small farms which comprise 75% of Philippine farms. This is no longer the anguish of palay and corn farmers alone, since they have been recently joined by poultry raisers and vegetable farmers. (2005: 14–15)

Agriculture is threatened by globalization not only because of lack of safety nets but also due to lack of government support. According to the Department of Agriculture, the state support to the Filipino farmer was USD13, while Thailand and Malaysia are given by their respective governments subsidies of USD900 and USD1,800, respectively. The U.S. provides annual subsidies of USD50,000 to USD100,000 to American farmers (Padilla 2004). The Federation of Philippine Industries (FPI) has stated that the country’s average tariff of 6.7% was

¹⁵ Peoples’ organizations (POs) are organizations of citizens based in communities like a neighborhood association in a village (Barangay), municipality, city, or province, or based in sectors like farmers, drivers, women, indigenous peoples, etc. NGOs usually partner with POs and other community-based groups, entities, or agencies in implementing their projects.

much lower than its counterparts in the region: Indonesia, 10%; India, 32%; Pakistan, 20.4%, and Malaysia, 9.2%.¹⁶

Table 9. Establishments Resorting to Permanent Closure/Retrenchment Due to Economic Reasons and Workers Displaced (2000–03)

	2000	2001	2002	2003
Establishments reporting ^a	2,258	2,589	3,403	3,262
Closure	494	617	762	577
Reduction of workforce	1,788	2,276	2,702	2,710
Workers displaced	67,624	71,864	80,091	67,977
Closure	21,367	25,468	25,240	24,638
Reduction of workforce	46,257	46,396	54,851	43,339

^a Details may not add up due to multiple reporting

Source: Department of Labor and Employment and published in *Birdtalk*, 15 July 2004

In the Bicol Region in Southern Luzon (Region 5), the DOLE reported that 1,292 jobs were lost due to retrenchment in 29 establishments. Industry had the largest retrenchments at 902 layoffs. No details were reported on how these-laid off workers were assisted by the government agencies.¹⁷

There is no comprehensive study on the projected number of jobs that may be lost in the future. In the garment industry, for example, there were 945 garment manufacturers, 845 sub-contractors, 106 traders, and 311,200 workers (excluding outsourced workers), according to Rene Ofreneo of the Fair Trade Alliance (FTA), a multi-sectoral alliance of manufacturers, trade unions, youth, professionals, and NGOs (De la Cruz, 2005). Of the total 500,000 workers in the garment industry, it was projected in a study that around 50% of the workforce would have lost their jobs after the end of the quota system under the multi-fiber agreement at the end of 2004.

In the automotive industry, the Fair Trade Alliance reported that smuggling and used car importation has caused worker layoffs of 7,000 in 1997–99 and 2,800 in 2000–02. It was predicted that continuous secondhand car parts smuggling and used car importation threatens the jobs of 10,000 workers in the industry.¹⁸ Other industries threatened, as reported by the FTA, were steel, agricultural crops (sugar, rice, corn, and vegetables, etc.), rubber, shoes, tiles, batteries, coal mining, pharmaceuticals, cement, and others.¹⁹

In the aviation industry, Philippine Airlines entered into a 10-year rehabilitation plan after defaulting on USD2.2 billion worth of debt in 1999, a situation which was exacerbated by pilot and ground staff strikes. The restructuring process has seen the loss of 6,000 jobs and 35 aircraft, as reported by the AFP. Jaime Bautista has stated that the restructuring process was expected to end by 2004 or early 2005, five years ahead of schedule.²⁰ A precedent was set when the airline unions concluded a deal with management to drop bargaining rights and effectively freeze the wages and conditions of workers for 10 years.²¹

¹⁶ Remo, M., Government should push for removal of farm subsidies, *FPI, Inquirer News Service*, 15 August 2003. http://money.inq7.net/topstories/printable_topstories.php?yyyy=2003&mon=08&dd=16&file=8 (viewed 1.11.06).

¹⁷ Ganace, L.M., More than 1,200 lose jobs in Bicol, *Philippine Daily Inquirer*, 9 January 2006; A15.

¹⁸ One-fifth of auto industry jobs lost—FTA, *Manila Times*, 10 March 2005; B2.

¹⁹ Fair Trade Alliance, A call for a united front against the scourges of globalization, 11–12 September 2001.

²⁰ Airline Industry Information, Philippine Airlines set to exit restructuring early, 14 September 2004. www.findarticles.com/p/articles/mi_m0CWU/is_2004_Sept_13/ai_n6191474 (viewed 1.11.06).

²¹ World Socialist website, Workers' struggles around the world, 7 November 1998. www.wsws.org/workers/1998/nov1998/lab-n07.shtml (viewed 1.11.06).

In the government rationalization program under EO No. 366, currently being implemented with a PHP10 billion (USD193 million) budget for 2006, one study predicted that around 420,000 jobs (or 30% of jobs occupied by 1.2 million public sector employees) will be lost.²² The Department of Budget and Management (DBM), which is charge of the rationalization program, reported that it has so far completed the implementation in two government agencies: the Technology and Livelihood Resource Center (TLRC) and the Civil Service Commission (CSC). It noted that the results have been positive. The TLRC's workforce has been reduced to "161 employees from 699 and its operating costs have shrunk to PHP121 million (USD2.3 million) from PHP250 million (USD4.8 million) (salaries dropped from PHP73 million to PHP25 million or from USD1.4 million to USD500,000). It paid PHP65 million (USD1.2 million) in compensation packages to employees who opted to retire." The DBM reported that the reorganization is ongoing in 14 agencies and six corporations. The remaining 70% of the executive branch will submit their plans in the first half of 2006.²³

Present Actions by the Government and the Social Partners

During the first half of the administration of President Gloria Macapagal-Arroyo, the government's eight-point action plan focused on the following microeconomic structural reforms²⁴:

- jump-start housing;
- reduce the cost of transport from Mindanao to Luzon;
- build infrastructure to decongest Metro Manila;
- promote micro, small, and medium enterprises;
- increase fiscal resources;
- make Makati a tourism destination;
- develop Bagong Nayong Pilipino Tourism Estate along Roxas Boulevard;
- stimulate investments in agriculture.

Most of these action plans were intended to preserve and generate jobs. There were several factors that hampered satisfactory accomplishment of the above goals. Among these were the crisis-level fiscal deficits and the perceived rampant graft and corruption in the government. Hence, as was discussed previously, the economy's modest growth was insufficient to provide jobs for the unemployed and the underemployed.

When reelected as President in 2004 against a very popular opposition candidate, President Arroyo's leadership was rocked by serious accusations of electoral fraud (the "Hello Garci" scandal) and graft and corruption. In the midst of these controversies, President Arroyo unveiled in 2005 the following four-point macroeconomic program of government²⁵:

1. Macroeconomic stability and equitable growth:

- reduce budget deficits via increased value-added taxes and inflation targeting;
- implement skill-building and education programs to promote full, decent, and productive employment;
- maintain a flexible exchange-rate system;
- promote competitiveness of industry and services through deregulation, privatization, and liberalization of foreign trade;

²² Serrano, M., Marasigan M.L., Issues and concerns facing public sector unions in the Philippines: A Preliminary Review, National Dialogue on Government Rationalization: Addressing Implementation and Transition Issues, UP SOLAIR, 6 July 2005.

²³ Cabacungan, Jr., G., Under government rationalization program, lazy employees will remain, *Philippine Daily Inquirer*, 16 January 2006; B3-1-2.

²⁴ Neri, R., Socio-economic Planning Secretary, 2002 Economic Performance and Prospects for the Next 18 Months. www.neda.gov.ph.

²⁵ 2005 Statement of Nation Address (SONA).

- improve legal, judicial, and administrative frameworks for internet security and privacy, multi-media convergence, and high-speed connectivity to encourage knowledge and software development and e-service centers;
 - develop infrastructure to support tourism and transportation industries like the roll-in–roll-out nautical highway.
2. Agriculture and fisheries modernization with social equity:
- step up agricultural support services such as irrigation, training, and credit and technology extension systems;
 - promote environment-friendly technologies and sustainable farming practices that conserve natural resources;
 - Continue the total ban on logging in key areas.
3. Comprehensive human development and protecting the vulnerable:
- sustain investments in education and health to improve the social and economic mobility of individuals and households;
 - partner with the private sector in providing school buildings;
 - review the compensation and incentive structure for public school teachers;
 - increase textbook ratios in public schools;
 - pursue reforms in improving math, science, English, and computer skills;
 - assist local governments in improving their capabilities to deliver basic health care;
 - expand the coverage of the national health insurance program;
 - make more affordable medicines available to the masses;
 - address unmet needs for family planning services;
 - expand social security coverage and social safety nets to low-income informal sector workers;
 - provide welfare programs for Filipino migrant workers and their families through the Philippine Overseas Employment Agency (POEA) and the Overseas Workers Welfare Fund (OWWA).
4. Good governance and the rule of law:
- engage civil society “watchdogs” to promote good governance and fight graft and corruption;
 - strengthen the criminal justice system including law enforcement and policing;
 - professionalize the Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP);
 - maintain or forge new agreements with the rebel groups (National Democratic Front–NDF and MILF).

Except for the increase in value-added taxes and the program on deregulation, privatization, and liberalization of foreign trade, which are typical World Bank–IMF and World Trade Organization advocacy programs, most of the government programs are populist enough to attract cooperation and partnership with vital social partners like the employers, professionals, labor and trade unions, political groups and party list organizations, NGOs, cooperatives, peoples’ organizations (POs), the media, academe, the military and police, church leaders, etc.

As a result of the political crisis currently hounding President Arroyo, the various social partners are split, with the more radical groups like the communist- and socialist-leaning party-list groups, the followers of former President Joseph Estrada, the moderate Black and White Movement, and some segments of the church and military opposing the administration. The more conservative groups like the big employers, the ruling Lakas–NUCD party and their allied trade unions, NGOs and cooperatives, the military and police forces, and the mainstream churches are aligned with the President and cooperating with her program of government.

What Are the Social Partners Doing?

The most common denominators among all the social partners are labor law reforms (amending the Labor Code of the Philippines) and job preservation and expansion.

Those opposing the President view labor law reforms as strengthening unionism and labor rights and weakening management and state prerogatives. Their concept of job preservation and creation is to reverse the World Trade Organization's policies on deregulation, privatization, and trade and investment liberalization. Their common agenda is to demand President's Arroyo's resignation and push through with their reforms under the next Presidential successor.

The moderate to conservative social partners cooperating with President Arroyo's program of government view labor law reforms in favor of responsible and cooperative unionism and more management and state prerogatives. They view President Arroyo's continuation as President as less risky in terms of investor-friendly business climate. They are however, concerned about the perceived high graft and corruption in the government.

Another common denominator among the social partners, whether they are for or against President Arroyo, is the promotion of decent work, compliance with international labor standards (ILS), and corporate social responsibility (CSR). These programs incorporate the notion of promoting full employment (job creation and preservation), socially sensitive enterprise restructuring (SSER), global competitiveness, and social protection and welfare of workers.

Among the accords among employer groups, trade unions, NGOs, and government agencies (GAs) are:

1. The "Social Accord for Industrial Peace and Stability" signed 4 October 2004 by ECOP, various trade union federations (TUCP, FFW, and TUPAS), and DOLE (Amante, 2005).
2. The Tripartite Industrial Peace Council (TIPC) signed by the representatives of labor, employers, and government agencies (DOLE, DTI, DILG, NEDA, CSC, CHED, DENR, TESDA, and DOLE agencies NLRC, NCMB, NWPC, BLR, BWC, and BLE). Policy issues are discussed at the TIPC, "which are promulgated as DOLE department orders and other policy issuances such as those on contracting, implementation of Book V (Labor Relations) of the Labor Code, security guards, labor enforcement framework, the worst form of child labor, drug free workplace, and the like" (Amante, 2005).
3. Promotion of corporate social responsibility (CSR) and the UN Global Compact Initiatives among firms, and the "Big Brother, Small Brother" partnership in job preservation and job creation. Under the "Big Brother, Small Brother" program, big enterprises are encouraged to maximize business partnerships through measures like outsourcing activities with local small, medium, and even micro enterprises. This will encourage them to assist smaller enterprises through technology transfers and social compliance standards.

An example of this project is San Miguel Corporation's contract with the local government of Oriental Mindoro for the purchase of PHP500 million (USD9.7 million) worth of cassava from farmers' cooperatives. The local government will initially develop 10,000 hectares of land for cassava plantation, which will be doubled in the future to earn a total of PHP1 billion (USD18.4 million) in income.²⁶

Another example is the Shoe Mart (SM) stores, whose founder Henry Sy was recently given a "Big Brother of Filipino Entrepreneur's Award." Through partnership with SM, struggling cottage entrepreneurs like Ben Chan of Bench and Jonlu Koa of French Baker were able to expand their markets not only nationally but also internationally.²⁷

²⁶ Remo, M., SMC to buy P500 million worth of cassava from Mindoro yearly, *Philippine Daily Inquirer*, 24 March 2006; B-8.

²⁷ Henry Sy: Big Brother of Filipino, *Philippine Daily Inquirer*, 24 March 2006; B2-2.

4. Campaign against smuggling by the Fair Trade Alliance, an alliance of manufacturers, employers, labor unions, NGOs, church groups, and academe. Annually, the government loses more than PHP175 billion (USD3.4 billion) in tax revenues due to smuggling.

Socially Sensitive Enterprise Restructuring at the Firm Level

The practice of enterprise restructuring at the firm level in the Philippines can be categorized into three types:

1. Irresponsible enterprise restructuring and noncompliance with the legal standards. This is irresponsible because employees are dismissed illegally.
2. Implementing enterprise restructuring just within the requirements of the law.
3. Proactive enterprise restructuring that may even go beyond what is required by the law.

Socially sensitive enterprise restructuring (SSER) may be considered to fall under the second and third categories above. Others may argue that enterprise restructuring within the legal requirements is not socially sensitive if it does not fulfill the principles of SSER. These principles are as follows:

- healthy industrial relations (IR) and social partnerships;
- transparent and participative management practices;
- open communications, fair and mutual empowerment among the IR actors;
- strategic thinking and scientific approaches in enterprise productivity and competitiveness.

Layoffs and Retirements

Enterprise restructuring in the Philippines is usually accompanied by layoffs (or termination based on authorized causes) and retirements.

Layoffs

Layoffs—or employee dismissals based on the authorized causes identified below—are governed by Article 283 of the *Labor Code of the Philippines* (Azucena, 1997):

- installation of labor-saving devices;
- redundancy;
- retrenchment to prevent losses; or
- closure of business due to grave financial losses.

In cases of such dismissals of employees, the company shall provide separation pay of one month's pay per year of service for cases 1–3, and two weeks' pay per year for business closure.

Retirements

Retirements are more predictable than layoffs. All employees upon reaching age 60 are given the option to retire. The compulsory retirement age is 65. All employees in the private sector are covered by the Social Security System (SSS) retirement program. Public sector employees are covered by the Government Service Insurance System (GSIS) retirement program (Azanza, 2000) and military personnel by the AFP Retirement Separation and Benefits System (RSBS). In addition to mandatory coverage by the SSS, GSIS, or RSBS, there are also voluntary private retirement funds and pension programs.

SSS retirement plan. Article 287 of the *Labor Code* states that an employee who has reached the age of 60–65 and who has served the company for at least five years may retire and be entitled to retirement pay equaling two weeks' pay for every year of service. Employees who have paid at least 120 monthly contributions to the Social Security System (SSS) are provided monthly pensions, while those with fewer than 120 contributions will be paid a lump sum equal to the employee and employer contributions plus interest.

The monthly pension will depend on the total monthly contributions paid by the employee, the years of credited membership, and the number of dependent children. A member who has paid at least 240 monthly contributions is entitled to a minimum monthly pension of PHP1,200 (USD22.00), while a member with a minimum of 120 monthly contributions is entitled to PHP1,000 (USD18.35) monthly. In addition, there is a 13th month pension every December. Dependents of the member younger than 21 years of age are also entitled to 10% of the retiree's pension or PHP150 (USD2.75), whichever is higher (Azanza, 2000).

GSIS retirement plan. The government employee pays the Government Service Insurance System (GSIS) a retirement premium of 5.5% of his basic salary as a retirement premium, with the government adding in a counterpart premium at 6.5%. At age 65, if the employee has rendered at least 15 years of service, he is automatically retired. If he is below 60, he may opt to retire and be paid a retirement benefit of one month's salary for every year of service for the first 20 years, one and a half months' salary for every year of service in excess of 20 up to 30 years, and two months' salary over 30 years. This will be based on the highest salary received.

Those with a combined total of 87 for age and service may also qualify, as shown below (Azanza, 2000):

Age	52	53	54	55	56	57	58
Service	35	34	33	32	31	30	29

AFP RSBS. Established in 1973, the Armed Forces of the Philippines Retirement and Separation Benefits System (RSBS) manages a tax-exempt retirement fund for military personnel in accordance with RA No. 340. The RSBS is funded by congressional appropriations, compulsory 5% members' salary contributions, and donations, gifts, legacies, bequests etc.²⁸ A government-owned or -controlled corporation (GOCC), RSBS is administered by the Chief of Staff of the AFP through a Board of Trustees and Management Group.

Compared to SSS and GSIS, RSBS retirement benefits are so generous that there is a fundamental imbalance between the benefits and the resource contributions. This has placed the RSBS in the critical situation of not being able to pay the obligated pensions or lump-sum refunds of contributions to the retired or resigned soldiers.²⁹ The government at present is enacting reforms to make RSBS financially viable.

Private pension plans. Private pension plans are designed to supplement the compulsory social security benefits. They are usually tax-deductible. Some are insurance plans, where the pension fund is packaged and managed by an insurance company or cooperative. Some are profit-sharing pension or provident funds where the funds are taken as a percentage of the profits, surpluses, or savings of the organization. There are usually two ways of financing these plans: a contributory plan, where the employer and the employees share the cost of the plan, and a non-contributory plan financed entirely by the employer (Carrell, Elbert, and Hatfield, 2000).

Proactive SSER HR programs. Proactive SSER HR programs should be a regular feature of a firm's operations, since layoffs and retirements are unavoidable and predictable. Among these are:

- outplacement counseling services, where a terminated employee is trained and counseled in the techniques of self-appraisal and in securing a new job or other forms of earning a living;
- skills-building for post-employment including entrepreneurship;
- knowledge about investing money in banks, quasi-banks, and corporations/cooperatives;

²⁸ Based on Supreme Court Decision, G.R. Nos. 140576-99. 13 December 2004, Jose Ramiscal, Jr., petitioner, vs. Hon. Sandiganbayan.

²⁹ Landingin, R., RSBS Blues: Up for Retirement, ABS-CBN DYAB Cebu, 15 June 2005. http://dyab-business.blogspot.com/2005_06_15_dyab-business_archive.html (viewed 1.20.06).

- travel information and advising services for retirees, especially those desiring to travel locally or abroad and those with children residing abroad;
- private pension funds such as provident funds, employee stock option plans (ESOP), etc.;
- retirement benefits under SSS or GSIS;
- unemployment benefits (which are not very common) such as unemployment insurance, medical benefits after employment, etc.;
- employment recall systems under which laid-off employees are given priority in future hiring should vacancies occur.

EXAMPLES OF SOCIALLY RESPONSIBLE ENTERPRISE RESTRUCTURING

Case Study 1: Manila Electric Company (MERALCO)

Workforce Reduction Without Retrenchment

Manila Electric Company (Meralco) is the largest electric distributor in the Philippines, with a franchise area serving 71.8 million people, or a quarter of the country's population. In terms of gross sales, it is the second largest in the country at PHP148.3 billion in 2004. A wholly-owned Filipino company, Meralco had total assets of PHP79 billion (USD1.4 billion) in 1997 and manpower of 5,826 in June 2003. Being a handler of a vital industry, Meralco has been upgrading in two ways: by constantly modernizing and improving its technologies and by constantly upgrading its human resources capabilities (Paterno, 1998).

In 1994, Meralco underwent a seven-year "integrated organizational transformation" to maximize the use of its assets and minimize costs. It started with process reengineering, followed by organizational restructuring and the redesign of its human resources information system. The processes involved streamlining and reduction of the workforce, a problematic area that had to be handled with extra care and sensitivity.

Meralco tapped Union Fenosa of Spain as a consultant to help in its transformation process. This resulted in a partnership that led to the creation of Iberpacific Corporation, a service provider of Meralco specializing in the area of Information System/IT business solutions. Together with other affiliate companies and subcontractors like Meralco Electrical and Industrial Services Corporation (MIESCOR) and Corporate Information Solutions, Inc. (CIS), Iberpacific subcontracted from Meralco such jobs as computer engineering, industrial services, information technology, and building and ground maintenance. The affiliated companies also contracted with other companies needing these services.

Manpower Reduction Program

The company's thrust to reduce manpower in the years 1993–99 was realized through induced separation programs. These programs included reduction through natural attrition, or "no one-to-one replacement," maximized usage of outsourcing as a staffing strategy, special separation packages for poor performers, and enhanced retirement for non-performing managers.

The transformation process facilitated the streamlining of the organization. The result was that some organizations and positions became redundant, which eventually led to the displacement of employees. Before an employee is offered a separation package, he/she is given an option to shift to a different career that has a legitimate vacancy in the organization.

Meralco reduced its workforce from 7,793 to 7,592 in 1997. In 2000, a new scheme called the Voluntary Separation Plan (VSP) was offered to superintendents and higher-level managers between 50 and 58 years old. Of the 222 qualified employees, 133 availed themselves of the VSP and received separation packages of 2.75 to 3 months' salary per year of service.

Another VSP, called the Special Retirement and Separation Plan, was offered in April 2003 to all levels of employees, with emphasis on those eligible for retirement with tenures of 17.5 to 18 years of service. Of the 1,400 who applied, 254 were granted separation packages of 2.5 months' salary per year of service.

It is a practice of Meralco to give reemployment opportunities to displaced employees. This happened twice, during the outsourcing of building facility maintenance and IT support. Displaced employees were given the option to be reemployed by Meralco subsidiaries and service providers.

Meralco also helped other separated employees establish their own firms that could cater to the company's needs. In 1993, when meter reading was outsourced, Meralco extended soft loans and expertise to retired and separated employees in organizing their own meter-reading companies. Others organized construction firms that bid for Meralco's construction projects. As of 2003, 78 of Meralco's 671 accredited subcontractors are owned by former employees.

Savings and Loan Association and Multi-purpose Cooperatives

Another post-employment program of the company is the Meralco Employees Savings and Loans Association (Mesala). This association has benefited both present and retired employees. Even after retirement, retired employees can continue their membership in the Mesala and enjoy company-subsidized benefits.

Mesala caters to the savings and loan needs of employees and retirees. Both savings and loans are deductible from the salaries and pensions of employees and retirees but should not exceed 60% thereof. Loan facilities include housing, appliances, education expenses, motor vehicles, etc. Mesala sells appliances on easy installment plans in its offices and showroom inside the Meralco compound. It is given free rental assistance by the company. Mesala offers one-stop loan processing and issues dividends twice a year. Mesala is the second largest employees' savings and loans association in the country.

The Meralco Multi-purpose Cooperative was organized in February 2002 to help wives and dependents of employees/retirees. The members are engaged in various livelihood projects ranging from production to marketing of their products and services. Meralco has provided the Cooperative rent-free spaces inside the Meralco compound for offices and stall activities. In addition, the cooperative is also given two store spaces at very low rentals inside a high-class mall in the metropolis and a training center in the suburbs. Coop members are active in stall selling (called "*tiangges*") on paydays. The Cooperative earns 10% of the gross sales of the participating coop members.

Meralco conducts regular training sessions for income-generating activities such as candle making, handicrafts, flower arrangement, baking, meat processing, etc., among employees' dependents and Cooperative members. Products are produced at home with the Cooperative members for quality control. Products of acceptable quality are sold on consignment at the Cooperative store outlets. The Cooperative regularly pays dividends to members.

Health Maintenance Plan and Mutual Benefit Association

Meralco extends assistance to those who availed themselves of the voluntary separation plans by allowing them to be covered by Meralco's Health Maintenance Plan (HMP). They can take advantage of the discounted premiums and are covered by a health maintenance plan of up to PHP100,000 (USD1,801) annual medical expenses. Medical services (including dispensation of medicine, diagnostic tests, and outpatient services) are provided by the John F. Cotton Hospital inside the company compound.

The Meralco Mutual Benefit Aid Association was started in the 1970s to meet contingencies such as the death of employees and retirees. The association enjoys free space inside the company compound. Once a mere social club, it now is managed by a Board of Trustees and a general manager who is seconded from the company. It is supported by employee contributions and has been registered as a legal entity.

Meralco's socially sensitive enterprise restructuring (SSER) programs have positively benefited not only Meralco and its employees but also the society at large. A major component of the SSER was the extensive training program that enhanced employees' attitudes, skills, and

other competencies. This led to the career growth of many employees, especially those in the customer service group. The result was increased productivity, which significantly increased the company's customer satisfaction index (CSI). The CSI improvement is vital to a utility company operating in exclusive franchise areas.

According to Ruben Sapitula, Meralco Senior Assistant Vice President for Human Resource Administration,³⁰ "Meralco's quality of service improved, as indicated by the much improved CSI at the same costs of operations. Thus, the consumers of Meralco were the ultimate beneficiaries of the higher quality of services rendered."

Case Study 2: United Laboratories, Inc. (Unilab)

Retirement Programs in a Pharmaceutical Firm

Started as a small drugstore in 1945, United Laboratories, Inc. (Unilab) has become the leading pharmaceutical and health care company not only in the Philippines but in the whole of Southeast Asia. It is the 28th largest corporation in the Philippines in terms of gross revenues and the largest pharmaceutical company in Southeast Asia, operating not only in the Philippines but also in Hong Kong, Jakarta, Bangkok, Singapore, Kuala Lumpur, and Ho Chi Minh City, and expanding to Pakistan, the Republic of Korea, and China (David and Salter, 1999).

With a portfolio of over 300 brands of prescription and consumer health products, Unilab has manufacturing facilities in the whole region. It has likewise developed technical and marketing alliances with major multinational pharmaceutical companies and research organizations based in the U.S., Europe, and Japan. In the Philippines, it has a 2,763-person workforce and total assets of PHP18 billion (USD324 million).

Unilab is one of the few companies in the country whose post-employment programs were planned within the overall philosophy of "*Bayanihan*" and Employees Councils. *Bayanihan* is a Filipino traditional practice of working together and sharing the fruits of labor. Mr. Jose Y. Campos, the company's founder, looks at Unilab as one big family whose welfare and needs must be cared for not only in the workplace but also in their homes, from the time of their employment with the company until their death. As one Unilab executive puts it, "Once united, always united."

United Bayanihan Foundation

Unilab established the United Bayanihan Foundation (UBF) not in response to layoffs but to act as the company's link to employees after retirement. Part of the corporate philosophy of the company is that "the retired employee is still considered a part of the firm's family" (Amante, 1994). UBF implements socioeconomic projects for retirees and their dependents. Even dependents of deceased employees are still covered by the UBF benefits. The benefits of UBF include health maintenance, educational subsidy, livelihood assistance, special financial assistance, socio-cultural affairs, outreach and communication projects, and donations. UBF provides prompt and adequate medical assistance to retirees, including consultations, periodic physical examinations, laboratory tests, medicines, and hospitalization.

For the retirees' dependents, UBF provides educational financial support covering tuition, monthly allowances, books, and school equipment. Unilab believes in the molding of children, spouses and other dependents of retirees into responsible and productive members of the community. UBF, through a project coordinator, also extends livelihood loans and technical assistance to retirees.

The Quality of Life Improvement Program for retirees and their dependents integrates UBF's various projects and a values formation strategy. Among the socio-cultural activities are regular visits to retirees in their homes to provide emotional and psychological support and the

³⁰ Follow-up interview with Mr. Sapitula on 3 March 2006 at his office in Meralco.

operation of a “retirees lounge” within the company premises, where retirees socialize with fellow retirees.

Unilab’s Retirement Programs

Retirement in Unilab occurs either upon reaching age 60 or after 30 years of service. Optional retirement is available after 20 years of service. Some employees retire at the young age of 47. Unilab maintains two types of retirement trust funds: Trust Fund A and Trust Fund B. Trust Fund A is non-contributory, and all employees are given a retirement benefit of 1.5 basic salary per year of service. Trust Fund B is contributory via salary deduction at 2.5% of monthly salary, and all contributions plus interests are given to the employee upon retirement.

An additional source of funds for retirees comes from the United Employee Savings Plan. In this scheme, an employee voluntarily contributes to a special fund managed by a bank via salary deductions or a single payment.

Unilab’s pre-retirement programs are conducted regularly with three major components: financial, emotional, and health. Under the financial component, prospective and actual retirees are provided continuing training on livelihood, entrepreneurship, financial investments, etc. Loans are extended to those who wish to set up business ventures. This component also includes scholarships for retirees’ dependents.

Under the health component, retirees are provided with free medicines, consultations, and check-ups as well as seminars and reading materials on health. Under the emotional component, retirees are entitled to psychological counseling, especially those who are in distress or experiencing loneliness and idleness. UBF regularly sponsors home visitations, reunions, parties, etc.

Case Study 3: San Miguel Corporation

San Miguel Corporation (SMC) is Southeast Asia’s largest publicly listed food, beverage, and packaging company. It is the country’s top corporation, with PHP176 billion in revenues in 2004 (Top 5 Corporations, 2005 edition).³¹ Founded in 1890 as a brewery, the company had over 26,427 employees in 2004 in more than 100 facilities in the Philippines, Southeast Asia, China, and Australia. It aims to be among the top 10 food companies in Asia by 2007.

SMC is the largest beverage and food firm in the Philippines, with more than 200 product lines. The company brews and distributes beer, including San Miguel Pale Pilsen and Red Horse, and controls more than 90% of the Philippine beer market. It likewise dominates the soft-drink market through 65% ownership of Coca-Cola Philippines and Cosmos Bottling Corporation, which it purchased in 2001. SMC’s other known brands include Magnolia, Purefoods, Ginebra San Miguel, Monterey, B-Meg, and Jellyace. It is also dominant in the can, bottle, and container business.

Its latest acquisition is National Foods of Australia, makers of Pura Milk and Yoplait Yogurt. It is also finalizing a deal to purchase Del Monte Pacific. The conglomerate is managed by Chairman and CEO Eduardo M. Cojuangco Jr.; Vice Chairman, President, and COO Ramon S. Ang; and CFO and Treasurer Ferdinand K. Constantino.³²

Continuing Restructuring Program

As the largest conglomerate corporation in the country, SMC’s dominant market shares in industries where it operates have been the targeted expansion areas of both local and foreign competitors. Adjustments, continuous improvement, and restructuring are common strategies employed by the company in order to maintain its dominant status in the country.

According to Beth Nasol of SMC’s Organization and People Development Corporate Human Resources Department, their company employs various mechanisms in implementing a

³¹ Sanchez, E., Telcos top in profit, SEC says, *Philippine Daily Inquirer*, 10 March 2006; B5.

³² San Miguel Corporation website.

continuing restructuring program aside from training and assisting separated or retired employees in entrepreneurship and cooperative formation. Some employees have set up their own corporations after retirement or involuntary separation as a result of restructuring. They became suppliers of SMC or SMC's suppliers.

Compulsory retirement at SMC is at age 65, while those with at least 15 years of service are eligible for early retirement. Some restructuring programs have resulted in plant closures like that of the carton plant in Parola, Tondo, Manila. Some employees were transferred to other plants, while employees under the involuntary separation program were trained in entrepreneurship. Medical benefits were provided for three years for employees who were involuntarily separated. Side by side with restructuring is a continuing cost reduction program that includes energy conservation measures like turning off lights during lunch breaks, waste management, and recycling.

Ramon Martinez of SMC's labor union Ilaw at Buklod ng Manggagawa-KMU [Light and Unity of the Workers-KMU] says that SMC assisted workers and union members in organizing the San Miguel Brewery Workers Cooperative Credit Union (now San Miguel Group Workers Cooperative) in 1950. The workers were mostly from plants of SMC and its affiliate companies Coca Cola Bottlers and the Philippine Dairy Products Corporation. Aside from assistance in training, SMC gave the cooperative a loan of PHP60,000 in the 1950s, which they were able to immediately pay back.³³ Thereafter, their workers' cooperative was independent of the SMC except for assistance in checking off collections from members.

At present, the San Miguel Group Workers Cooperative has 598 members from 11 SMC plants in Metro Manila, Cavite, Laguna, Pampanga, and other provinces. It has a net worth of PHP26.5 million (USD500,000) as of August 2005.³⁴ The cooperative is affiliated with the Kilusang Mayo Uno (KMU) [May First Movement] and the Anakpawis [Workers] Party List, which are considered radical unions in the country.

Setting Up Workers Cooperatives

In 1992, San Miguel Corporation (SMC) implemented a program to cushion the impact of downsizing among some employees who were retired simultaneously from different SMC plants in Metro Manila, Pampanga, and Laguna. Among the career training options undertaken by the retirees was the setting up of worker cooperatives among them (Lopez, 2000).

Progressive Skills (Proskills) Service Cooperative. One very successful worker cooperative was a group of 40 retirees from the Manila glass plant in Parola, Manila. In 1993, they pooled their cash benefits and organized the Progressive Skills (Proskills) Service Cooperative. They took advantage of SMC's training in "Entrepreneurship and Cooperative Management," which lasted for six months, followed by 18 months of business consultancy. They made businesses out of SMC's warehousing and third-party product distribution operations—their former jobs.

SMC participated actively in outsourcing businesses to their workers' coop by shouldering the development cost of Proskills until they were able to independently operate on their own. Downsizing was humanized, and the mutually beneficial partnership between SMC and its former employees was cemented.

Today, Proskills is able to help more than 300 families. Its projects have expanded to engineering, fabrication, mold repair, brokerage, and manpower services. From capital of PHP900,000 (USD 16,216), they registered a ROI of 110% in their first six months of operations. Their assets grew from PHP5 million (USD 90,090) to PHP28 million (USD 504,504) in the middle of 1996, with a net worth of PHP45 million (USD 810,800). They now have eight ten-

³³ Komite sa Propaganda at Edukasyon [Committee on Propaganda and Education], Praymer hinggil sa [Primer on] San Miguel Brewery Workers Cooperative Credit Union, August 1987.

³⁴ Villamin, C., Ulat ng Tagapangulo sa Pangkalahatang Asembleya ng [Report of the Chairman to the General Assembly of] San Miguel Group Workers' Cooperative, SMGWC General Membership Meeting, 7 August 2005, Quezon City.

wheeler trucks, eight forklifts, several lathe machines, and other equipment, including the maintenance and management of a 2,000-square-meter lot for their future warehouse in Cavite.

SMC Plastic Multi-purpose Cooperative. Another workers' coop organized by SMC was the SMC Plastic Multi-purpose Cooperative, organized in 1995 as a traditional credit cooperative after a series of training programs and consultations. With a successful savings and lending business, the coop expanded to canteen operations and in operating the SMC's plastic crushing project. Today, the coop has expanded to manpower services and is accredited by the Department of Labor and Employment. It provides manpower services to SMC. With a net worth of PHP5 million (USD90,090), the coop employs 102 regular members and 50 workers in operating the non-core functions of SMC.

Excellent Partners Cooperative (EPC). Another workers' cooperative is the Excellent Partners Cooperative (EPC), which was organized in January 1998. It was later joined by early retirees from Coca Cola Bottlers Philippines, Inc. (CCBPI), a subsidiary of San Miguel Corporation. With 60 members, the coop went through a series of training sessions. They were able to initially raise PHP2.8 million (USD50,450) from members' investments and share capital contributions. They started manpower services, engaging in janitorial and messenger services to Philippine Business Bank, and supplying leadsmen and drivers to CCBPI's Manila plant. Eventually, EPC was able to subcontract CCBPI's third-party product distribution operations to wholesalers. EPC's recent acquisitions include seven 12-pallet trucks for Paranaque sales and 24 trucks leased by CCBPI to the coop to handle CCBPI's third-party distribution from the North Bay sales office. EPC employed 37 and 127 workers, respectively, in the two operations. At present, EPC's net worth is PHP6.1 million (USD109,910).

Right Pack Employees Multi-purpose Cooperative (Rempco). The Right Pack Employees Multi-purpose Cooperative (Rempco) of SMC was organized in 1990 by 20 employees with initial capital of PHP40,000 (USD720). It was assisted by both the employees union and SMC management through its "*Hanapbuhay*" (Livelihood) Program in 1991. Three of its members, including the union president, attended a training program where they were accredited as Entrepreneurial Development Officers. In addition to its loan and savings business, Rempco was able to subcontract non-core business activities of Right Pack International Packaging, a SMC subsidiary which includes ground maintenance, waste segregation, incineration of waste products, packing, refillable bottles, and janitorial and shuttle services. With three full-time staff members, two supervisors, and 50 workers, Rempco had grown to a capital net worth of PHP20 million (USD360,360) by the year 2000.

Case Study 4: The Metropolitan Waterworks and Sewerage System, a Water Distribution Company

Founded in Manila in 1878, the Metropolitan Waterworks and Sewerage System (MWSS) is one of the oldest government organizations in the Philippines. This water system was funded by Spanish philanthropist Francisco Carriedo y Peredo. It delivered 16 million liters of water per day (MLD) to 300,000 people.

The Carriedo System was renamed National Waterworks and Sewerage Authority (NAWASA) and, in 1972, again renamed the MWSS. Its task was to provide water to Metro Manila and environs. After 120 years of operation, the MWSS was privatized in March 1996 under Order No. 311 in order to improve water delivery service. In 1997, after an international bidding process, the operations of MWSS was taken over by two private consortia: Maynilad Water Services Inc. (MWSI) for the West Zone and the Manila Water Company, Inc. (MWCI) for the East Zone.

The Manila Water Company is an Ayala-owned firm in joint venture with International Water Ltd (IWL) formed by the US-based Bechtel Overseas Corp. and the UK firm Northeast Water. Maynilad Water Services Inc. is a Lopez-owned firm in joint venture with the French

firm Lyonnaise Des Eaux. The two companies offered the lowest rates of PHP2.32 and PHP4.97 per cubic meter, respectively.

As a result of this privatization, the Department of Budget and Management (DBM) restructured the MWSS into two offices. The Residual Office administered the MWSS loans, managed and disposed of all retained assets, and performed other operational activities. The Regulatory Office took charge of the proper implementation of the Concession Agreements.³⁵

Early Retirement Program (ERP). The privatization of the MWSS, known at the time as the biggest privatization event in the world, was characterized by massive layoffs. In order to achieve financial viability and efficient operations, the MWSS, as recommended by an IFC study in 1995, had to downsize from 8,292 employees to a figure between 3,150 and 5,500 by 1999.

A study by Clarence Pascual (2000) concluded that the MWSS was overstaffed, with 60% of its personnel lacking qualifications. It had a ratio of 1,068 employees per 100,000 connections, which was very high compared to Bangladesh (550), Kuala Lumpur (250), and the U.S. (280 to 330). By 1999, at 4,092 employees, the MWSS ratio had improved to 470, nearing the target ratio of 372 to 424.

Compounding the MWSS problem was its non-revenue water (NRW) record of 56% to 60% of production (Pascual, 2000), mainly due to illegal connections, making it the most inefficient in Asia. It had a record of illegal connections two times higher than the average among other developing countries. In terms of water delivery, the MWSS record was only 69% of its coverage areas; in Singapore and Kuala Lumpur, the records were 100%.

The rightsizing of MWSS was implemented through the Water Crisis Act of 1995. MWSS offered an early retirement incentive package (ERIP) in August 1996. The package consisted of one-and-a-half (1 ½) months' basic salary per year of service, one (1) month's severance pay, one-half (1/2) month's retirement pay, cash value of unused leaves, and cash value of the contributions to the Government Service Insurance System (GSIS) (David, 2000)

By the end of 1996, 2,218 employees had accepted the ERIP. In July 1997, the ERIP was again offered for 18 months, prior to the signing of the Concession Agreement. About 438 employees accepted, which included union members opposed to the MWSS privatization who were not acceptable to the concessionaires. The last offer of ERIP was in June 1999.

All employees who did not avail themselves of the ERIP were terminated first and hired later by the concessionaires on probation. Those who did not become permanent after a six-month probation were given full early retirement benefits. Those retained were given employee stock option plans (ESOP) as annual bonuses. After the privatization, the employees retained were assigned to one of the two concessionaires, with less than 100 remaining at the MWSS corporate office.

After Restructuring Plans

The 1999 Commission of Audit report on MWSS (after the restructuring and retrenchment) mentioned the accomplishment of programs on cost cutting that reportedly did not affect the normal operation of the system. The other accomplishment was the maintenance of employees' morale through various committees that looked into their needs.³⁶

The effects of the privatization and restructuring of the MWSS will be measured against the following service improvement goals standards: the renewal of the sewerage system in the Concession area and the construction of a new infrastructure which will support the expansion of the water and sewerage system, thereby connecting 100% of the urban population of the

³⁵ MWSS 2004. www.mwss.gov.ph/aboutus.asp (viewed 1.20.06).

³⁶ 1999 Annual Audit Report on the Metropolitan Waterworks & Sewerage System. www.coa.gov.ph/coa_html/1999_AAR/GOCCs/MWSS/MWSS99-es.htm (viewed 1.20.06).

Concession area to potable water and 95% of the urban population to the sewerage system, and treating 100% of the sewage produced.

New parameters for evaluation of the MWSS effectiveness were set. These included the percentage of population served, the percentage of wastewater to receive primary and secondary treatment, the percentage of water and sewerage network to be renovated, the maximum percentage of unaccounted-for water, service expansion, and quality of service, i.e., water pressure, continuity of supply, and water quality.

MWSS has invested new funds to accomplish the following:

- overhaul the management and the administration of service providing systems, particularly bill collection and customer relations;
- reduce the response time for repairing water supply leaks and wastewater blockages;
- ensure that the quality of water produced in the treatment plants is in compliance with environmental standards;
- improve business support facilities such as warehouses and branch offices.³⁷

Case Study 5: The University of the Philippines

The University of the Philippines (U.P.) is the top university of the country; it was founded in 1908 during the American colonial period. It is now has seven autonomous constituent universities around the country providing tertiary-level education in almost every field including agriculture, medicine, law, natural and social sciences, engineering, creative writing, fine arts, etc.

A government-owned university, U.P. is the top attraction for college education because of its high academic standards and low tuition fees subsidized by the state. More high school students apply to U.P. than to any other college or university in the country. The University is also noted for academic freedom, gaining its monicker as a “Diliman Republic,” as well as for its highly politicized and activist student organizations and proactive faculty. It is symbolized by the “Oblation, the figure of a naked man, arms outstretched and face pointed upwards, symbolizing selfless dedication and service to the nation.” U.P. has produced some of the country's brightest politicians, economists, lawyers, scientists, engineers, medical doctors, artists, musicians, and entrepreneurs.³⁸

The country provides a free educational system for primary and secondary education. Because of the big budget allocation for basic education, the government has deregulated the tertiary-level educational system. Since tertiary education is dominated by private institutions that rely on tuition fees, U.P. as a national state university serves as a national standard for all academic institutions in the country. Its basic concern is academic excellence. Funding for U.P. is appropriated annually by the government, and the university is also a recipient of land grants and other donations from government and private donors. Because of the continuing fiscal crisis of the government, U.P.'s budget has been at a standstill for the last several decades, despite its continuing expansion and growth to cope with the demands of the changing times.

U.P. today has almost 52,000 students. One fifth are graduate students enrolled in over 600 degree programs. In recent years however, the University, being the premier state university, has been confronted with formidable challenges brought about by globalization in terms of rapid scientific and technological changes, greater demand to contribute to national development goals, and the worldwide trend in reduced government spending for higher education.

Streamlining Policy

The University's rationalization policy was based on the Attrition Law (RA No. 7430) that took effect on May 1997. Section 3 of RA No. 7430 stipulates that no appointment shall be made to fill vacated positions in any government office as a result of resignation, retirement, dismissal,

³⁷ MWSS 2004, www.mwss.gov.ph/aboutus.asp (viewed 1.20.06).

³⁸ University of the Philippines, http://en.wikipedia.org/wiki/University_of_the_Philippines (viewed 1.12.06).

death, or transfer to another office of an officer or employee. To strengthen the Attrition Law, President Macapagal-Arroyo issued, on 31 August 2004, Administrative Order No. 103 directing all government offices to adopt austerity measures which included the following:

- restrictions on foreign and local travel;
- reduction of at least 10% of the cost of consultants, technical assistants, contractual and casual employees; and fuel, water, office supplies, electricity, and other utilities;
- restrictions on overtime work;
- implementation of the Attrition Law.

U.P. Diliman Chancellor Emerlinda R. Roman implemented a voluntary austerity program at U.P.'s main campus on 1 September 2004. Among the measures taken were reduction of overtime and work hours, efficiency in course offerings and class sizes, non-filling of vacant positions, suspension of foreign travel, reduction in expenses for maintenance and operations (electricity, water, telephone, computers, and other facilities), and reduction of expenses for the traditional lantern parade and Christmas parties.

The Department of Budget and Management and the Civil Service Commission issued on 14 January 2005 a joint circular ordering the implementation of AO No. 103. On 7 June 2005, Dr. Emerlinda R. Roman, now U.P. President, approved the continuation of austerity measures in accordance with the DBM and CSC circulars. In her investiture speech in 2005, President Roman reiterated the rationalization program based on attrition (or the non-replacement of non-critical personnel), devolution, and computerization of administrative services.

President Roman emphasized that to maximize limited resources, U.P. has to concentrate only on programs, activities, or services that it can undertake or deliver satisfactorily. She added: "We will rationalize the resource allocation system in order to foster efficiency and responsiveness. In short, we will resolutely pursue administrative reforms to achieve internal efficiency."³⁹

Included in the rationalization program, aside from attrition, are reduction of training activities, energy conservation, a voluntary four-day workweek, forced vacations, gradual phasing out of non-core activities like the University Food Service, renewed resource generation activities, and continuous support for the U.P. Provident Fund.

Under the rationalization policy, all non-academic personnel who retire, resign, or are separated and who perform non-essential tasks are no longer replaced. Positions that are essential but not considered core activities (janitorial and maintenance, canteen operations, etc.) are gradually being filled with contracted agency employees. Those performing vital functions may be replaced subject to approval by the higher authorities.

The University's additional hiring of personnel is centered on academic personnel whose functions will enhance the University's core competencies of teaching, research, and extension. The ideal situation is a one-to-one ratio between permanent administrative and academic personnel. Hence, it has been a practice to replace four vacated administrative positions with one faculty position.

The certified union of the University for non-academic personnel, the All UP Workers Union, complained that they were not consulted by the administration on matters like attrition of personnel. According to Clodualdo Cabrera, president of the All UP Workers Union, an example was the downsizing of the University Food Service (UFS) operations, which resulted in the non-replacement of separated and retired personnel of that unit. Their action was to force the issue by dialoguing with administration officials on drastic personnel actions.

Vice Chancellor for Administration Ernesto Pineda reasoned that the planned downsizing of the UFS was due to its continuing losses of PHP16 million (USD310,000) since 1999 and PHP2 million (USD38760) in 2003. Subsidizing the losses of the UFS would mean reducing

³⁹ Roman, E., The University of the Philippines: a national university in the 21st century. www.up.edu.ph/perr_investiture_speech.htm (viewed 1.13.06).

funds for academic facilities. Hence, Human Resources Director Ferdinand Manegdeg revealed that the 44 rank-and-file employees of UFS could be redeployed to other U.P. units after being retrained by the University, or they could accept an early retirement program.⁴⁰

The rationalization program at the University is being monitored by the Department of Budget and Management and the Civil Service Commission.

Contributory Retirement Fund in a State University

The University of the Philippines Provident Fund, Inc. is a contributory retirement, separation, and death benefit fund established by the state university's Board of Regents on 24 March 1994 pursuant to its Charter and the General Appropriations Act of 1994. It started with an initial seed fund of PHP30 million (USD571,428) appropriated from the University's savings. Both permanent and casual employees can voluntarily become members of the fund.⁴¹ The Fund's guiding principle is to "maximize benefits to the retirees" (UP Provident Fund, Inc., 2001 Annual Report).

As of August 2002, the Fund has 10,124 members from UP Campuses in Manila, Quezon City, Los Banos, Laguna, Visayas, Baguio City, and Davao City. Its total assets in 2004 already reached half a billion pesos and grew at an average annual rate of 16%. Last year, the Fund earned a net income of PHP52 million (USD990,476) with PHP45 million (USD872,010) contributed to members' equity in addition to PHP15 million (USD290,700), amounting to a total of PHP60 million (USD1.16 million) increase in members' share. The return on members' contributions was 47%. The other 2004 benefits include: PHP4.5 million (USD85,714) cash dividends and patronage refund to members who have paid their loans of PHP1.2 million (USD22,857).⁴²

The employer contribution to the fund averaged PHP1,200 (USD22.86) per member from 1999–2001. The employees, on the other hand contributed 1% to 10% of their basic salaries to the Fund. Membership is voluntary and is automatically terminated upon retirement, resignation, or separation from U.P. Upon retirement the employee receives both his or her personal and U.P. contributions and the income of the Fund to which he or she is entitled. If a member resigns or is terminated, the amount due him/her is taxable. The Fund is owned and managed by the employee–members themselves and is exempted from income taxes.

Benefits of the Fund

Among the benefits of the Fund to the members are:

- *Equity loans and multi-purpose loans:* The Fund offers loans at low interest rates of 12% per annum, speedy processing, and very minimal service fees. In 1999, the Fund allocated 70% of net income or PHP33.79 million (USD643,619) to members' equity loans. In addition, the Board also allocated PHP10 million (USD190,000) from un-appropriated surplus reserves. There are two types of loan facilities for members: equity and multi-purpose loans. In 2001, 4,109 members borrowed a total of PHP97.5 million (USD1.8 million). The average loan per member is P15,500 (USD295) for equity loans and PHP46,500 (USD886) for multi-purpose loans (see Table 10).
- *Retirement/resignation/death benefits:* Retirement and resignation benefits are administered by the Fund management itself, while death benefits are handled by Sunlife Group Insurance. There were 252 retirees in 2001, and they received an average of PHP20,300 (USD386). The resigned employees numbered 329, and they were paid an average of

⁴⁰ Tingcungco, A., UP mulls food service privatization, layoffs, food rate hikes feared, *Philippine Collegian*, Quezon City, 2004; 2, 5.

⁴¹ Malawakang Pagbibitiw sa Provident, Pinabulaaan [Widespread resignations from the Provident Fund denied], *Forum*, 28 September 2002, Quezon City: University of the Philippines; 1, 5.

⁴² UP Provident Fund 7th Annual Meeting.

PHP15,900 (USD393) each. There were 29 employees who died, and their families were paid PHP0.7 million (USD13,333) as equity and PHP1.45 million (USD27,619) assistance by Sunlife Insurance.

- *Earnings on members' equity*: In 2001, the total amount of earnings and surpluses transferred to members' equity amounted to PHP43.70 million (USD832,381).

Table 10. Loans Released for 2001 and 2000 (PHP millions)

Year	Equity loan		Multi-purpose loan		Total amount
	No. of borrowers	Amount	No. of borrowers	Amount	
2001	4,109	PHP79.93	380	PHP17.62	PHP97.56
2000	2,793	PHP45.75	97	PHP 3.70	PHP49.45

Administration and Management

The Fund is supervised by a 15-member Board of Trustees chaired by the University President. The other trustees are elected by the members themselves, representing the Chancellors and the employees with salary grades 1–7, 8–15, and 16 and up. Each campus (Diliman, Los Banos, Visayas, Manila, and Baguio–Mindanao) has a trustee representative per salary grade.

The day-to-day affairs of the Fund are managed a team of professional managers composed mostly of active and retired faculty members and professionals. Its officers include an Executive Director, Executive Assistant, Treasurer, Corporate Secretary, Accountant, Cashier/Finance Officer, and Accounting Consultant. They are assisted by a pool of fund managers. The Fund is audited by an external auditing firm. It has been allocated a 2,500-square-meter lot at the corner of CP Garcia and Katipunan Avenues (now called C-5 Highway) by the U.P. Board of Regents for its future headquarters, the PF Building.

Case Study 6: Asian Transmission Corporation (ATC)

Asian Transmission Corporation (ATC) was established in January 1973 by Chrysler Philippines (40% equity share), Mitsubishi Motors (30%), and Nissho Iwai (30%) to produce automobile components with the aim of increasing local content and earning foreign currency in line with the government's policy of promoting localization of the automobile industry.⁴³ After constructing its factory in Canlubang, Laguna, ATC began to produce manual transmissions in July 1974. This was later followed by engine and axle assembly operations in June 1991 and February 1995, respectively.

ATC's products include the machining and assembly of manual transmissions and the assembly of engines and axles fitted to Mitsubishi automobiles. ATC also has exported manual transmissions (finished products and gears) to Thailand since 1982, and gears and other parts to Japan since 1974. ATC manufactured 174,632 transmissions and gears in 1996 and 176,010 in 1997. Due to the growing demand for its products in the Philippines and Asia, ATC constructed a new factory at the Carmelray Industrial Estate near its present factory in 1998. All production was transferred to the new factory, which raised the company's machining capacity from 216,000 to 294,000 units a year.

ATC has a capitalization of PHP350 million (JPY900 million) and had a workforce of 507 in 2000. It was awarded ISO 9002 certification in 1994 and ISO 14001 certification in 2000. The latest certification has been the company's benchmark for environmental management. It also marked an impressive corporate turnaround after overcoming a difficult situation during the

⁴³ The present equity shares are: MMPC 79.4%; MMC 5.3%; Nissho Iwai 5.3% and others 10% (ATC in Philippines holds ceremony to mark completion of new factory and 25th anniversary, *Mitsubishi Motors*, 28 January 1998. <http://media.mitsubishi-motors.com/pressrelease/e/corporate/detail206.html>) (viewed 1.20.06).

Asian financial crisis of 1997–98. According to the *Mitsubishi Monitor* (2001), ATC overcame labor strife and revitalized its business through mutual trust between labor and management.⁴⁴

Reduction of Workdays and Labor–Management Cooperation (LMC)

As the main supplier of transmissions to Mitsubishi Motors, ATC produces car components for the Philippines, Thailand, Japan, Taiwan, and Indonesia. It was, however, hampered by a history of turbulent and adversarial labor relations from the first collective bargaining agreement (CBA) in 1975 to the seventh CBA in 1994. Both management and labor approached their relationship in a very legalistic way; hence, both parties were represented by legal counsel. It took almost a year to conclude a collective bargaining process. Deadlocks, noise barrages, work slowdowns, and notices of strikes were common occurrences.

In fact, one strike notice precipitated by alleged illegal dismissal of union officers resulted in an actual two-month strike in 1986 that paralyzed production (Ofreneo, 2005). The strike was declared “illegal” for not complying with procedures like the cooling-off period and the strike vote. After the strike, management initiated a series of “no-holds-barred” dialogues with all employees called *Tapatan*. *Tapatan* means to be true and honest; hence, the dialogues called for high levels of trust, openness, and understanding.

In 1994, ATC organized labor–management councils to handle the needs of stakeholders: training and education, productivity and quality, employee benefits, canteens, sports and recreation, medical and family welfare, and safety. The President and the CEO of ATC acted as Chair of the LMC central committee. Management and workers were given equal representation on various committees. Through bimonthly meetings, the President and key management officers directly reported on the company’s performance to the workers and directly heard their feedback. The LMC facilitated livelihood projects under the 1997–98 CBA: concessionary loans were used by 52 employees for pig husbandry, video rental, sari stores, poultry raising, and tricycle and jeepney operations projects.

The Asian Financial Crisis

Against this background, ATC was not really prepared for the 1997–98 Asian financial crisis. The automobile market shrunk by more than 50% as consumers postponed their car purchases because of the crisis. Smaller car companies like Kia and Hyundai closed down their Philippine assembly operations. ATC, on the other hand, suffered losses of PHP419 million (USD7.69 million) in 1997 as a result of the peso devaluation. This prompted ATC to launch a survival program in 1998–99. The survival program featured the following elements:

- reduction of manufacturing expenses;
- reduction in cost of direct materials;
- savings on energy and resources;
- “restructuring” of the workforce, which meant optimizing the productivity of each worker.

The survival program included cost-cutting measures introduced during the last quarter of 1997. With a tradition of lifetime employment and to prevent layoffs, ATC adopted measures like phasing out overtime work, forced vacation leaves, lengthened Christmas vacations, use of Saturdays for training and plant maintenance, modest Christmas parties, and reduction of the workweek from six days to three to four days. These measures were undertaken side by side with energy- and cost-saving measures in manufacturing and administration. Two Japanese technical personnel were recalled to Japan.

⁴⁴ *Mitsubishi Monitor* (2001). www.mitsubishi.or.jp/e/monitor/0104/NP.html#m (viewed 1.20.06).

Labor–Management Planning and Implementing the Program

ATC constantly dialogued with its two unions, the Bisig ng Asian Transmission Labor Union (BATLU) for the workers paid by the hour and the Asian Transmission Non-Supervisory Labor Union (ATNLU) for the employees paid monthly. These survival and restructuring programs were discussed with the unions through a series of dialogues and labor–management conferences. The unions were also informed of the declining sales and the various cost-cutting measures undertaken by the company.

These talks resulted in a voluntary layoff scheme under which employees with less than five years of service were given one-month separation pay per year of service (twice as much as the law requires). Employees with 20 or more years of service were given separation pays as high as 215%. As of 30 April 1998, 142 of the 605 employees (about one-fourth) took advantage of the rightsizing package, which was started in the last quarter of 1997. The company survival program continued through 1999.

It was observed that the joint packaging and implementation of the rightsizing program was “not without tensions.” According to Ofreneo (2005), “the unions closely and critically” scrutinized the financial records and claimed losses of the company. “In the end,” Ofreneo noted, “everybody understood that the crisis was real and that everyone had to contribute to the survival of the company. Some of those who availed [themselves] of the rightsizing package said that they [did so] in order to ensure the survival of ATC.”

Results of the Survival Program

Ofreneo (2005) concluded that the efforts of ATC management and its two unions in reducing costs and waste in all areas of operations were very successful. The company saved PHP100.5 million (USD1.9 million) in 1998. These savings further increased in 1999. The survival instincts of the company transformed ATC into a very productive enterprise. Most of these savings were derived from practical suggestions of workers for reducing waste and expenses. Ofreneo added that another important aspect of this success was the strong commitment of the employees to implementing the suggestions which came from their co-employees.

ATC President Seihache Futase emphasized the importance of harmonious labor–management relations in the implementation of any survival and restructuring program.

At the cornerstone of the ATC labor–management relations is a deep and abiding respect for each other’s role. Management recognizes valid issues raised by the employees because we trust the sense of responsibility of our employees. It is this same sense of responsibility and the consciousness of a common destiny that have seen ATYC through all its crises all these years.

ATC received the following awards in 1998: the DTI–PALMCO Pro-Active Model Company Award, the Sikap-Gawa Award for Industrial Peace from the Bishops–Businessmen’s Conference, and the Mitsubishi (Japan) President’s Award. In 1999, the DOLE National Conciliation and Mediation Board (NCMB) and the President of the Republic recognized ATC’s LMC as one of the best in the country. In 2001, the DOLE NCMB again recognized ATC as one of the Outstanding LMCs of the country.

ATC’s experience was honored because of the progress it achieved in reducing the length of time spent on CBA negotiations over months of negotiations. It has done so for the seven past CBAs. Through its *Tapatan II*—a form of LMC—the ninth CBA negotiation period in 1999 was reduced to 17 hours without an attorney’s assistance. Recently, the company received another outstanding LMC award, which elevated the company’s “best practice in labor management cooperation” into the Hall of Fame award category.

SUMMARY

In the past, enterprises were created to last several lifetimes, with jobs and work processes more permanent. This is no longer true today. Jobs and work processes are very flexible and less permanent; hence layoffs and retirements that accompany enterprise restructuring have become very common.

Proactive SSER HR programs are now a must in this era of post-industrialization. If management is not prepared, there are negative consequences, if not company bankruptcies. Investment in SSER HR interventions is sensible and viable, as is illustrated by the good practices of globally competitive companies.

Meralco and Metropolitan Waterworks and Sewerage System (MWSS) operate in exclusive franchise areas, making them very vulnerable to public criticism and customer dissatisfaction, especially if their services are inefficient. In the past, Meralco and MWSS were openly criticized. In the case of the University of the Philippines, proactive SSER programs helped the University maintain its standards of academic excellence and its top university status in the country. Despite severe budget constraints, the University was able to continue its expansion while maintaining high-quality service performance.

Local conglomerates like San Miguel Corporation and United Laboratories, Inc. have tremendously benefited from their investments in proactive SSER programs. Not only were they able to maintain their top positions in the industries in which they operate; they have even expanded both locally and abroad especially in Asia.

Finally, a multinational corporation like the Asian Transmission Corporation was able to weather the 1997–18 Asian financial crises through proactive SSER interventions. The company has reinvented itself into a very productive and globally competitive enterprise by transforming its turbulent union–management relationship into a very harmonious one.

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- Interviews on August 2003 with the following MERALCO personnel: Leonisa C. de la Llana, VP and Head, Human Resources; Ms. Angelita S. Atanacio, Organization Planning and Development; and Ruben Sapitula, Senior Asst. VP for Human Resource Administration. A follow-up interview with Mr. Sapitula was conducted on 3 March 2006 at his office in Meralco.

INTRODUCTION

The first section of this report discusses major trends in Singapore's economic development and how these have impacted the structures of work and employment. The factors accounting for contemporary difficulties confronting the economy are also touched upon. Finally, measures initiated by the state to help moderate the impact of industrial restructuring are outlined.

Details from the first section will provide the background context from which to view the cases presented for study in the second section. Companies chosen as illustrative cases were selected for their novel restructuring strategies. Instead of downsizing and cost-cutting, these companies have intentionally strategized to avoid retrenching their workers. Case details show them taking considerable pains to adopt alternative measures that could help avert mass retrenchment. The outcome was that they were able to recover from the severe downturn following the Asian financial crisis, the Severe Acute Respiratory Syndrome (SARS) epidemic, and the uncertainties caused by terrorist attacks in the U.S. and Southeast Asia.

ECONOMIC GROWTH

The Republic of Singapore is located at the southern tip of the Malay Peninsula. In 2005 it had a labor force of 2.4 million (Statistics Singapore Keystats). Its population is 77% Chinese, 14% Malay, 8% Indian, and about 1% others.

Singapore's impressive economic performance over the last four decades registered an average growth rate of 8.1% GDP per annum from 1960–2000. Per-capita GNP of USD23,000 in 2002 (on a PPP basis) is ranked third highest in Asia by the World Bank (2003). Singapore's PPP-adjusted per-capita income was less than 16% that of the United States in 1965. The comparative figure for 1980 was 50%. By 2002, Singapore's per-capita income had reached 70% that of the U.S. A 2005 estimate of GDP (PPP) is USD131.3 billion (CIA Fact Book).

The rapid growth of the past decades was accompanied by low inflation—about 3.2% per annum. That is to say, since the inception of Singapore's industrial development after achieving political independence in 1965, the economy achieved impressive economic performance up until only very recently. Apart from a short downturn in 1985–86, the economy was able to sustain an even rate of growth until the second half of the 1990s. Singapore was hit negatively by the 2001–03 global recession, the bursting of the technology bubble, and the outbreak of SARS in 2003.

The early years of independence between 1965 and 1970 were characterized by chronic unemployment amongst the majority who were poorly educated. The choice of an export-led industrialization strategy based on primarily foreign investments in labor-intensive industries successfully fuelled enough jobs to absorb the large number of unemployed.

Rapid and sustained annual growth was reflected in the rapidly rising trend in labor force participation figures. The rate of labor force participation for women exceeded 50 by 1990 and has not fallen below that level since, as shown in Table 1. By the 1970s, the tight employment situation caused a re-think, and attention was turned to restructuring the economy towards more capital- and skill-intensive activities.

Table 1: Labor Force Participation Rate, 1978–2005 (%)

Year	Rate	Total	Male	Female
1970		55.3	81.2	28.2 ^a
1978		60.0	79.8	40.1
1980		63.2	81.5	44.3 ^a
1985		62.2	79.9	44.9
1990		66.0	79.0	53.0 ^a
1998		63.9	77.5	51.3
1999		64.7	77.8	52.7
2000		68.6	81.1	55.5 ^a
2001		65.4	77.8	54.3
2002		64.7	77.2	53.4
2003		64.2	75.8	53.9
2004		64.2	75.6	54.2
2005		67.4	78.2	56.6 ^b

^a Census^b General household survey

Source: Singstat Time series online

The move to restructure the economy was timely. Long-term comparison shows that GDP and labor productivity growth were declining. An examination of investment flows in Table 1 show the economy heading downwards since the 1980s, and the 1985–86 recession presaged the state of things to come. Nonetheless, the years 1990–2000 still saw impressive annual growth rates of 6%–10% (with the exception of 0.1% in 1998). Unemployment hovered around 2%, and annual wage increases averaged 6% to 9% (Annual Wages Survey).

From 1998 onwards, the economy was buffeted by multiple shocks, including the Asian currency crisis, a global economic downturn, September 11, 2001, and the SARS outbreak. The first of a series of job contractions after the mid-1980s recession began in 1998 (see Table 2).

Table 2. Singapore's Economy from 1960–2000

Performance indicators	% real growth per annum			
	1960–70	1970–80	1980–90	1990–2000
GDP	8.7	9.4	7.1	7.5
Labor productivity	n.a	4.3	4.8	3.4

The global slump caused by the bursting of the technology bubble in the U.S. combined with the September 11, 2001, terrorist attack added further to dampen an already weakened economy. The impact on employment of the turmoil in manufacturing was aggravated by restructuring in the service sector, as advances in technology and intensified competition drove more companies to take drastic cost-cutting measures.

2003 was another volatile year as uncertainty brought on by SARS was compounded by insecurities and fear of terrorism and the war in Iraq.

Transformation of Sectoral Structures

Since the inception of Singapore's industrialization following political independence, the manufacturing sector has been the main contributor to Singapore's growth. From a meager 9% of the GDP during the colonial period prior to the 1960s, manufacturing's share of the GDP was

sustained at 21% by 1971–73 to peak around 28% for 1980–1990. The strategy of basing manufacturing on the backs of dynamic multinational corporations (MNCs) has been successful in continuously restructuring and upgrading the sector to transform Singapore from an entreport and regional trading center into a global transport/communications hub and leading petroleum refining and electronics manufacturing and international financial services center.

Like Hong Kong, Singapore has maintained an open economic policy and has embraced free trade from the initial stages of industrial development. Merchandise exports had averaged over 130% of GDP since the mid-1980s. But unlike Hong Kong, Singapore's manufacturing sector has not hollowed out. Instead, manufacturing has gained in sophistication to upgrade to higher-value-added activities despite rising costs. "By leveraging on the high concentration of electronics, ICT and chemical manufacturing activities ... the government has succeeded in attracting a significant and growing base of R&D activities by leading global MNCs in these industries" (Wong 2002). Table 3 shows patterns of GDP growth between 1960 and 2002.

Table 3. GDP by Sector 1960–2002 (%)

Industry	1960	1970	1980	1990	1995	2000	2002
Agriculture	3.9	2.7	1.5	0.4	0.2	0.1	0.1
Manufacturing	11.7	20.2	28.1	28.0	26.3	25.9	27.4
Utilities	2.4	2.6	2.1	1.9	1.6	1.7	1.8
Construction	3.5	6.8	6.2	5.4	7.0	6.0	5.6
Commerce	33.0	27.4	20.9	16.3	17.3	19.1	15.5
Transport/communication	13.6	10.7	13.5	12.5	12.4	11.1	11.9
Financial/business services	14.4	16.7	18.9	25.5	25.5	25.3	25.3
Other Services	17.6	12.9	8.7	9.9	9.8	10.9	12.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Wong 2004

At the same time, service exports make up to about 28% of GDP today.

Generally, Singapore's exports have shifted to progressively higher capital- and skill-intensive products. Non-oil exports have moved out of traditional lower value-added products like food and beverages, furniture, and garments to more capital-intensive and higher-value-added products like electronics and chemicals. In the meantime, the composition of electronics exports has changed from lower-end consumer electronics in the 1980s to products like disk drives in the late 1980s and 1990s and semiconductors from the mid-1990s. By 2004, the continued growth in electronics was primarily driven by expansion of the semiconductor, data storage, and electronic modules and components sub-sectors, where Singapore remains competitive as a major global player.

Obvious diversification of the electronics sector is evidenced in Table 4. Singapore started off its industrialization process focusing mainly on consumer electronics, which practically disappeared from the manufacturing scene by 1999 to be replaced by a wider spectrum of products including computer peripherals and telecommunications. Singapore is trying to boost its production of advanced LCDs for PDAs and notebooks as well moving into emerging areas like photonics, MEMs, smart devices, and storage devices.

Details of the gradual diversification and shifting dominance of electronic sub-sectors in Singapore's manufacturing development is shown below in Table 4.

Labor productivity in the electronics sector, as shown in Table 5, is far in excess of the manufacturing sector in general. Comparing labor productivity, it can be seen that labor productivity of manufacturing as a whole has improved tremendously. The value added per worker for

the electronics sector in 1999 was 189.2 compared to 9.4 in 1970 in the early phase of Singapore's industrial development. Comparable figures for manufacturing are 133.1 and 5.2.

Table 4. Sectoral Composition of Singapore's Electronics Industry (%)

Sub-sectors	1970	1975	1980	1990	1999
Consumer electronics	100	30.6	38.8	17.7	3.4
Electronics components	0	69.4	54.4	35.2	29.6
Computers and peripherals	0	0	5.4	42.3	42.1
Telecoms and others	0	0	1.2	4.8	24.9
Total	100	100	100	100	100

Source: Wong 2001; 584

Table 5. Labor Productivity Trends in Singapore's Electronics Sector, 1960–99

Value added per worker	1960	1970	1980	1990	1999
Electronics	6.3	9.4	23.3	62.8	189.2
All manufacturing	5.2	9.1	29.9	61.4	133.1

Seen from another perspective (Table 6), Singapore's development, as reflected by the direction of its technology capability development, has been influential in shaping its employment situation, as outlined below by Wong (2004):

- industrial take-off (1960s to mid-1970s)—characterized by high dependence on technology transfer from foreign MNCs;
- local technological deepening (mid-1970s to late 1980s)—growth of local process technology within MNCs and development of local supporting industries;
- applied R&D expansion (late 1980s to late 1990s)—MNCs and public R&D institutions expand applied R&D, followed later by local firms;
- high-tech entrepreneurship & R&D intensification (late 1990s to present)—shift to high-tech start-ups and technology creation capabilities.

Table 6. Change in Composition of Exports, 1976–99

Composition of exports	1976	1999
Electronics	35	67
Manufactured goods	13	3
Chemicals	6	10
Food	4	1
Other machinery	19	8
Misc. manufacturing	19	8
Others	4	2

Source: Monetary Authority of Singapore, 2005

As a result of Singapore's sustained upgrading of the manufacturing sector, employment in the sector continued to occupy a substantial proportion of Singapore's workforce. However, the manufacturing sector's share of the total workforce declined from 27% in December 1992 to 21% in December 2005, an indication that low-end production had shifted abroad and had begun

to be replaced by higher-value-added manufacturing. For instance, from 2002 to 2003, value added for manufacturing went up by 1.9% despite a decline of 1.7% in employment (Census of Manufacturing Activities 2003, 2004). Value added per worker had expanded by 3.7 % over the same period (Table 7).

Table 7. Growth of Manufacturing 1960–2000

Year	No. of workers (av. growth rate per annum)	Value added/ labor (\$'000)	Av. per annum growth rate	Value added/ output (%)	Capital/ lab output (\$'000)	Av. per annum growth rate
1960	–	5.2	–	30.5	na	–
1970	16.0	9.1	5.8	28.1	8.9	Na
1980	9.0	29.9	12.6	26.9	26.2	11.4
1990	2.1	61.4	7.5	30.3	51.3	7.0
2000	-0.2	113.0	6.3	23.8	122.9	9.1

Besides manufacturing, commerce and community, social and personal services were the other sectors with large employment sizes. Compared with other sectors, employment in the service sector was more promising. In fact, the service sector was leading job creation,, which saw new jobs in a broad range of activities such as business services, commerce, transport, communications, financial services, health care, education, and personal services. The share of jobs in the services sector had expanded from 63% in December 1992 to 69% in December 2003 (see Table 8 for details).

Table 8. Employment Distribution by Major Sectors

Sectors	1992	2000	2005
Service	63	65	69
Manufacturing	27	20	21
Construction	10	14	10

Source: Ministry of Manpower, 2005

The Impact of Technology and Globalization

While we are often inclined to generally lay blame on globalization for its negative impact on the retrenchment of workers, it is seldom that we are able to clearly identify the various causes for the massive unemployment caused by economic crises.

An analysis by MAS (Monetary Authority of Singapore), which attempted to discriminate the differential impact of the two factors, is shown in Table 9. The effect of “globalization” was obtained by measuring the movement of workers between industries while keeping the ratio of higher- to lower-skilled workers constant. On the other hand, the impact of technology was captured by taking changes in higher- to lower-skilled workers within each industry while keeping constant the employment share of the industries. Table 9 shows the differential impact of globalization and technology on employment for the period 1998–2004.

The largest increase in employment, 2.8% since 1998, was recorded by the category labeled PMETs (professional/ managerial/ executive/technical workers). The change registered for PMETs was largely attributed to technological progress. According to MAS, which did the analysis, the largest contribution to this change came from the manufacturing sector, followed by the sales (wholesale and retail) and financial services sectors (*Macro Economic Review* 2005: 28).

Table 9. Percentage Change in Employment Share 1998–2004 (October)

Skill level	Technology effects	Globalization effects	Total
Professional, managerial, technical workers (PMETs)	2.5	0.3	2.8
Clerical, sales and services	-3.9	0.5	-3.4
Production and related	1.4	-0.8	0.6

The calculations made by MAS also indicate that globalization accounted for only 10% of the PMET employment share, and even that was experienced mainly in the business services and CSP and the wholesale/retail sectors.

The falling employment share of clerical, sales, and services workers since 1998 has been attributed chiefly to technology effects. Widespread use of communications and computing technology has rendered conventional layers of administrative/clerical work obsolete.

In general, the decline in the number of manufacturing workers by one-quarter since 1998 can also be attributed to technological factors. The manufacturing sector registered the most impressive contribution to technological upgrading in terms of jobs upgraded, while the sector was able to maintain its output (which more than doubled since 1991).

The Changing Economy and Its Impact on Employment

The recent phenomenon of prolonged unemployment of over 4% is a new experience for many Singaporeans. Unemployment figures from Table 10 confirm that after the initial years of industrial development in the late 1960s, the unemployment rate has rarely touched 4%. The first recession, of 1985–86, lasted barely a year. From then on, the economy managed to maintain annual growth rates of about 8% until the occurrence of the Asian financial crisis of 1997 and a series of unfortunate incidents—SARS and terror events—when unemployment rates crept up to 4.4% in the year 2000. Since, then, they have remained at that level until this year.

Another facet of declining job opportunities is described by the retrenchment figures displayed in Table 11. The number of retrenched workers per 1,000 climbed to a high of 29.0 in 1998 and remained above 15 (except in the year 2000 when it dropped to 11.5) until 2004.

The incidence of retrenchment has become more widespread, as indicated by the increasing number of firms resorting to retrenchment to keep lean. Whereas prior to the Asian financial crisis, the number of firms involved in retrenchment stayed below 400, after the crisis, starting in 1998, the number doubled/tripled to over 700. From 1998 to 2004, the number of firms retrenching exceeded 1,000 in four years out of the seven.

In the same Table 11, re-employment figures disclose that a substantial proportion of the retrenched were not able to get back into the market. Only about two-thirds were able to be re-employed.

Unemployment and Categories of Workers

How does retrenchment impact on various categories of workers?

The 2004 figures show that since most of the low-valued jobs have already been out-sourced or wiped out, the category of PMETs are the ones now experiencing higher retrenchment rates. While only two out of 10 retrenched workers in 1998 were PMETs, the figure has gone up to 3.3 in 2005.

Table 10. Unemployment Rates (%),
1970-2005

Year	Rate	Year	Rate
1970	8.2 ^a	1991	1.9
1973	4.4	1992	2.4
1974	3.9	1993	2.4
1975	4.5	1994	2.2
1976	4.4	1995	2.4
1977	3.9	1996	2.4
1978	3.6	1997	1.9
1979	3.3	1998	2.5
1980	3.5 ^a	1999	3.6
1985	4.1	2000	4.4 ^a
1986	6.5	2001	2.7
1987	4.7	2002	4.2
1988	3.3	2003	4.5
1989	2.2	2004	4.4
1990	1.7 ^a	2005	4.3 ^b

^a Census.

^b General Household Survey.

Source: Statistics Singapore (Key Stats)

Worst hit are those PMETs who are above 30 years of age. This is not surprising, since younger PMETs have fresh skills and are also relatively cheaper. Out of every 10 PMETs laid off in 2004, five were aged 40 and above, compared to only three of 10 in 2001.

Table 11. Number Retrenched Per 1,000 Paid Workers, 1994–2005

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retrenched workers per 1,000	11.6	10.2	11.9	10.1	29.0	15.2	11.5	24.7	18.2	15.8	9.7	9.3
Retrenching establishments	295	351	399	358	1235	781	525	1239	1149	1106	723	609
Re-employment rate			68.6	70.1	61.0	61.9	64.8	60.2	60.8	62.4	58.6	61.1

Source: Labor Market Survey

Correspondingly, PMETs experience more difficulties securing jobs after being laid off. In 2005, 59% of PMETs found jobs within six months, lagging behind clerical, sales, and service workers as well as production and related workers. Since 2002, the re-employment rate of PMETs has been generally below average. Those PMETs aged 30 and below tend to have a higher re-employment rate, reaching 80%, whereas PMETs aged 40 and above have experienced re-employment rates starting at 60%, with the rate of re-employment declining for older PMETs

Unemployment and Sectoral Differences

Re-employment rates can also be differentiated by sector, with the services sector registering the highest retention rate of 87.4% and the construction sector experiencing the lowest retention rate of 48.3% (see Table 12). The sectoral retention rate is related to the employment generated in that sector. As the service sector had registered the highest rate of growth, we should expect a higher retention rate for that sector.

Table 12. Industrial Shift for Re-employed Persons, 2004

Industry prior to retrenchment	After retrenchment		
	Manufacturing	Construction	Services
Manufacturing	61.9	2.5	35.6
Construction	9.0	48.3	41.6
Services	10.3	2.2	87.4
All	32.5	3.6	63.1

New Employment

Figures since 1998 show that overall job creation was largely driven by PMETs. Data from the Ministry of Manpower confirm the trend that the shift towards the knowledge economy has increased the share of PMETs among the locals employed. The figures for re-employment of PMETs rose from 41% in 1998 to 48% in 2004 (Recent Trends in Employment Creation, 2005).

The jobs held by PMETs tend to fetch higher pay, averaging about SGD4,500 in 2004. This wage is about 2.5 times that of the non-PMETs. Rising demand for this category of workers has been skewed towards the professional segment, which accounts for the majority (44%) of the local employment gains between 1998 and 2004. Increasing demand for this category of better-paid, more highly skilled workers is a consequence of the ongoing process of economic transformation and upgrading/restructuring of Singapore's production infrastructure and also of the Singapore workforce.

The services sector accounted for 94% of the increase in PMETs employed during this period. In contrast, the category of clerical, sales, and services workers had declined by 2.9%. In the manufacturing sector, which lost the most jobs, a closer examination of unemployment data shows the share of professional, management, and technical workers increasing from 39% in 1998 to 47% in 2004. In contrast, the share of production workers saw a decline, from 48% to 41%, over the same period (MAS Macroeconomic Review, 2005).

Details on manufacturing output tell the same story. Whereas output in the sector had doubled since 1991, employment had remained relatively flat. Data on the capital-labor ratio in manufacturing shows that it almost tripled, from SGD50,000 per worker in the early 1990s to SGD140,000 in 2003. Both sets of data indicate that manufacturing's experience of productivity gains had been boosted by increases in capital formation.

MITIGATING THE IMPACT OF RESTRUCTURING: MACRO LEVEL

Tripartism

Tripartism is a key competitive edge for Singapore. Since trade unions in Singapore were incorporated to work with the ruling party, tripartism was the platform used to solve employment-related issues. Tripartite task forces, made up of the National Trades Union Congress (NTUC), the Singapore National Employers Federation, and the Ministry of Manpower, are usually convened to discuss, tackle, and submit recommendations for certain labor and manpower issues as and when they arise.

In Singapore's current climate of stable industrial relations, tripartite task forces have recently convened mostly to deal with the issue of wage restructuring and handling of labor issues arising from the demographic transition (Tripartite Committee on Employability of Older Workers). The Tripartite Task Force on Wage Restructuring was formed in July 2003 and its findings and recommendations submitted to the Ministry in January 2004. This task force was formed to find ways to restructure the economy so it can regain its competitive edge in the global economy. In the resulting report, recommendations were made for a flexible wage system

that would see wages rise in sync with company profits in times of prosperity. The process of arriving at a consensus on wage reform is a good example of how tripartism has been deployed to manage difficult employment issues in Singapore. Without tripartite accommodation, Singapore could not have managed to achieve an across-the-board wage cut (via reduction in employers' share of CPF contributions¹) of 15 points in the 1985–86 recession and 10 points in the recent crisis).

Wage Reform

Singapore's industrial relations infrastructure, based on a stable system of tripartite negotiation and accommodation, was successfully established in 1960, when the Industrial Relations Ordinance was passed to provide a basis for collective bargaining, conciliation, and arbitration. In 1968, amendments were made to the Industrial Relations Act that specified management prerogatives as well as curbing the power of trade unions through the tight regulation of strikes. In return, trade unions were able to push for a full-employment economy as a national policy goal. Workers in Singapore were indeed able to enjoy full employment and a wage increase of 8%–10% per annum from 1972 for many years, up to the Asian financial crisis in 1997.

After political independence, the Singapore economy grew very rapidly. In 1972, confronted with the rapid expansion of the economy, the government established the National Wages Council (NWC) to ensure that wage setting would not get out of kilter and that wage increases would be implemented in an orderly manner. The NWC comprises representatives from employers, government, and the trade unions. Their role was to regularly provide non-mandatory national wage guidelines for national and firm-level bargaining. All parties have accepted that wage determination should be based on the principles of employment maximization and sustainable growth.

Despite the best efforts of the NWC, wages escalated until the 1985–86 recession, when Singapore experienced a negative GDP growth rate of 1.8% for the first time since political independence.

The stable employment relations established over the first phase of Singapore's industrialization proved resilient enough that a government-initiated cut of the Central Provident Fund from 25% to 10% in 1986 was successfully implemented without massive expressions of social unrest. Additionally, a wage freeze was declared. Such a drastic cut in labor costs could have contributed partially to the rapid turnaround and a growth rate of 6% in 1987. Trade unions had played a key role in mobilizing workers to accept a new regime of moderate wage rises and a reformed flexible wage system that would be more suitable for the next phase of growth.

A major change after the 1985–86 recession was the beginning of a series of initiatives to reform the existing "rigid" seniority-based wage system. Under the existing wage system, annual wage increases were consolidated into basic wages. In times of economic difficulties, it was not easy to reduce take-home wages as, by and large, workers' commitments were in line with their monthly pay.

The proposed new flexible wage system was to shift the way annual wages grew, with smaller rises in the monthly built-in wage and larger amounts being distributed by way of bonuses, i.e., the variable component of wages, depending on company profitability and individual performance. Income will now be more closely tied to firm and individual productivity.

The NWC had suggested three guiding points that should be followed during wage reform:

¹ The CPF (Central Provident Fund) is a compulsory savings plan into which an employee and employer make monthly contributions that will provide a retirement income. Contribution rates for employers are currently pegged at 13% for employees aged 50 and below, 9% for older employees aged 50–55; 6% for those aged 55–60; and 3.5% for those above 60. Employees aged 50 and below pay 20%, whereas those aged 50–55 pay 18%. Those within wage bands of 55–60 years pay 12.5%, while those above 60–65 pay 7.5%, and those above 65 years of age contribute 5% of their salary (Singapore CPF Online: Introduction).

- Wage components should ideally comprise 70% fixed wages, 10% a monthly variable component, and 20% an annual variable component.
- The difference between the minimum and maximum points of salary scales should be at most 1.5 times.
- Bonus payouts should be linked to the company's and the worker's individual performance. Companies were given assistance to establish more transparent and systematic performance appraisal systems.

Using the example of the domestic banking sector, which went through quite a radical re-organization in the late 1990s, the section below shows how unions were mobilized to help carry through the reforms. The example below details only the reduction of the wage scale ratio to one that does not exceed the recommended average ratio of 1.5.

Between January 1983 and December 1991, there were three collective agreement renewals in the banking sector. In all these agreements, unions and banks agreed to hold the maxima of the ranges while the minima of the ranges were revised upwards. However, irreconcilable differences between the SBEU (Singapore Bank Employees Union) and employers at the negotiating table led to separate negotiations with individual banks.

Within the nine-year period noted above, the maximum salary range for clerks continued to be fixed at SGD1,500, whereas the minimum was moved upwards from SGD450 in 1983 to SGD550 and then to SGD680 in 1991. Banks were experiencing difficulty in recruiting staff at the lower salaries. In 1992, the maximum of the range was raised after being held stagnant at SGD1,680 for a period of 11 years. At the same time, the minimum of the salary range for clerks was raised again to SGD950.

While the maxima of the salary ranges were held stagnant, staff who were at or beyond the maximum of the ranges continued to enjoy annual salary increases in the form of (a) one-time lump sum payments or two lump-sum payments annually and (b) adjustments in any collective agreement, albeit on a lower quantum and on a personal to holder basis. The result of deliberate and cooperative efforts on the part of banks and unions in holding the maxima and gradually shifting the minima of salary ranges upward is to have a trend of declining ratios between min-max. The 1980 min-max ratio of salary range of 3.22 went down to 1.77 by 31 December 2002, as shown in Table 13.

Table 13. Min-max salary ratios at Bank X, 1977-2001

Period	Salary Range for Clerks	Ratio
1.1.1977 – 31.12.1979	250x19–320x20–386x26 –412x24–700x25 –775x30–805	3.22
1.1.1980 – 31.12.1982	330 – 1050	3.18
1.1.1983 – 30.06.1988	450 – 1500	3.33
1.7.1988 – 31.12.1988	550 – 1500	2.73
1.1.1989 – 31.12.1989	550 – 1500	2.73
1.1.1990 – 31.12.1991	680 – 1500	2.21
1.1.1992 – 31.12.1994	800 – 1680	2.10
1.1.1995 – 31.12.1995	900 – 1680	1.87
1.1.1996 – 31.12.1997	900 – 1680	1.77
1.1.1998 – 31.12.2000	900 – 1680	1.77
1.1.2001 – 31.12.2002	900 – 1680	1.77

For the clerk's salary range for 2003 for Bank X, the minimum was increased to SGD950, while the maximum continued to be maintained at SGD1680. The gradual return to booming

conditions for the banking sector after 2002 saw another increase in the minimum of the clerk's starting salary, to SGD1080 in 2004. The maximum was also raised to SGD1,840.

Starting in 2002, banks and unions began negotiating wage increases on an annual basis. This provides the flexibility firms need in order to adjust salary costs in case of a sudden business downturn.

The most recent report on wage restructuring (Ministry of Manpower, 2004) shows that about 63.2% of firms in all industries have implemented some form of wage flexibility. A breakdown by union status shows that a much high majority (91.4%) of unionized firms compared to non-unionized firms (48.3%) have implemented some form of wage flexibility. There is no better evidence to show that the presence of unions make a crucial difference in the introduction of new national measures designed to combat global challenges

As of June 2005, 90% of the workforce in large enterprises and 73% in SMEs were under some form of flexible wage system. In particular, 61% of employees were in establishments that had narrowed or are narrowing their wage ratio to 1.5 or less. This is one way of making our older workers more competitive (Ng E.H., 2006)

Skills Development and Training

Based on a long tradition of tripartite cooperation, Singapore had the training culture firmly established in its national psyche, so that when the recent prolonged recession hit, workers could be channeled to a variety of new training schemes that were designed to help them get back into the workforce.

The Skills Development Fund (SDF) was established in 1979² to support employer-based training. It has become an effective national tool for the nurturance of a training culture among the working population. The SDF provides financial incentives for training on a cost-sharing principle. The SDF is financed by collections from the Skills Development Levy, which is pegged at 1% of wages of workers earning SGD1,000 or less a month. Over the years, training grant commitments from the SDF have grown in step with the pace of training activities and have outstripped SDF collections. In 1998, the SDF committed more than SGD88 million in training grants but collected only SGD20 million, indicating greater willingness to send workers for training and higher commitment of the workforce to go for training. In 2004, the SDF supported over 600,000 training places, compared to just 11,000 in 1980 and 530,000 in 1998.

Skills development under the SDF was expanded and refined for the purpose of skills upgrading and retraining. The Skills Redevelopment Program (SRP) was inaugurated in 1996 as a joint project of the NTUC and the Economic Development Board. The NTUC became the sole SRP program manager in 1998. Its aim was to give employers incentives (by subsidizing course fees and by absentee payroll and wage support) to send employees for certifiable training. The program targets especially company-sponsored workers who are lower-skilled, mature, unemployed, and retrenched (via the Surrogate Employer Scheme). The government's allocation to fund this program amounted up to SGD120 million apart from the SGD50 million sourced from the SDF. To date, the SRP supports more than 1,400 certifiable course modules. The increasing pace of training places provided had surpassed the Prime Minister's target of 100,000 by May 2003 (NTUC Online).

² Under the Skills Development Levy (SDL) Act (Cap. 306), it is a statutory requirement for employers to make SDL contributions on employees who fall within the salary ceiling for levy contributions. Effective 1 September 2005, the salary ceiling for SDL contributions was raised from SGD1,800 to SGD2,000. The levy rate remains at 1%, and a minimum of SGD2 is payable where remuneration is less than SGD200. The SDF is under the administration of the Workforce Development Agency and was established to provide various incentives to companies to upgrade the skills of their employees. The SDL is payable for all employees whose gross remuneration is less than or equal to the salary ceiling. The SDL is also payable for employees such as casual, part-time, temporary, and foreign workers rendering services wholly or partly in Singapore.

The SRP was revised such that co-funding rules could encourage employers to train and recruit workers aged 40 and above. The SRP absentee payroll support was increased from 70% to 85% for mature workers. In other words, employers who send their older workers for SRP training will now save 50% of their absentee payroll (Minister of Manpower Lee B.Y, at official opening ceremony for Adaptec manufacturing Singapore Pte Ltd.).

For example, when car park wardens from the Housing and Development Board and Urban Redevelopment Authority were made redundant by mechanization of car park gantries, something had to be done for these workers who had spent years issuing parking fines and who had no other skills for integration into other jobs. The wage funding component of the SRP served as an incentive for the employer to send these more mature workers for suitable training to equip them for re-employment.

Other measures to enhance employment of more mature workers include the recently established ADVANTAGE! Scheme. The Singapore Workforce Development Agency established the ADVANTAGE! Scheme to encourage companies to employ workers over the age of 40 or to re-employ workers beyond the retirement age of 62 years. The Scheme supports various initiatives, including job redesign and automation projects, wage restructuring, employment and re-employment, and other efforts to retain the services of mature workers. It provides a comprehensive package of up to SGD300,000 in incentives per company. Companies that are registered or are based in Singapore (Economic Survey of Singapore, 2005: 32) are qualified to apply for this program. The ADVANTAGE! Scheme provides four components of assistance:

- Job redesign grants (e.g. to promote automation);
- Training grants;
- Job placement services;
- Retention incentives: RESS (Re-Employment Support Scheme).

An example of a firm using the ADVANTAGE! Scheme successfully is SBS Transit Ltd. This public transport company has tapped the ADVANTAGE! Scheme to re-employ 50 retired Bus Captains to work as mentors to newly recruited Bus Captains. As a result of this move, existing Bus Captains are relieved from the mentoring role to focus on driving. These retired mentors play a useful role in orienting new drivers into their jobs and help stabilize them into their new role.

Cophorne Orchid Hotel and M Hotel are other notable examples of firms that applied for funds to improve the work process for older workers via the ADVANTAGE! Scheme. These companies made the decision to make their work environments more conducive to older workers. Grants from ADVANTAGE! were deployed to retrofit housekeeping trolleys with motors to reduce the level of physical work strain. A consequence of this initiative was that another 13 workers could be employed. In the meantime, 64 other older housekeeping attendants will also benefit from having the physical load of their jobs lightened.

The WDA will set aside SGD30 million over the two years for this scheme (Singapore Budget 2006).

Lifelong Learning Endowment Fund (LLF)

The Lifelong Learning Endowment Fund (LLF) was established on 12 March 2001. Its objective is to enhance the employment and employability of Singaporeans through initiatives that promote and facilitate the acquisition of skills. Being an endowment fund, it was intended that LLF should provide a steady stream of funding for lifelong learning initiatives. LLF is governed by the Lifelong Learning Endowment Fund Act.

The objects for which the income of LLF may be applied are set out in Section Five of the Lifelong Learning Endowment Act. Besides employer-based training, LLF can be used to support individual-based or community-based training. It is meant to complement and supplement existing funds such as the Skills Development Fund (SDF) and Manpower Development

Assistance Scheme (MDAS) and to provide longer-term support in place of funds that could be closed in the future. LLF would focus on initiatives related to employment and employability. It will not be used for supporting other training initiatives, such as the conduct of personal enrichment courses. Programs will be developed in partnership with industry/trade or employer associations, community organizations, self-help groups, etc., and priority will be given to programs targeting those who face greater challenges coping with the structural changes in the economy and labor market. SGD83 million has been set aside to help tackle structural unemployment. Through these efforts, the Work Development Authority (WDA) envisions an economy where manpower will be Singapore's number one advantage.

Job Re-creation Program (JRP)

Another measure to help boost employment and employability while Singapore undergoes economic restructuring is the Job Re-creation Program (JRP) launched on 5 March 2005. The program was aimed at redesigning jobs that had been shunned by Singaporeans and relegated to foreign labor during better times. Low-skilled foreign workers were attracted to these jobs, which to them were relatively attractive even though these difficult and stigmatized jobs were considered poorly paid by Singapore's working poor.

After the downturn that followed the Asian financial crisis, SARS, and the terrorist attacks, massive job losses had pushed Singaporeans to look for re-employment in jobs lower down the pay scale. The JRP hopes to redesign these jobs to improve the working conditions, work process, and productivity so that pay levels can be enhanced and Singaporeans will be more willing to take them.

In 2005, 7,221 vacancies scattered over 12 sectors (Childcare, Education, Retail, Hospitality, Landscape, Security, Public Transport, Marine, Healthcare, Construction, Environment, and Marine) were identified and 4,651 job seekers were found to fill these vacancies under the JRP. The program has benefited predominantly lower-educated and older workers who were most likely victims of mass retrenchment. 78% of the program beneficiaries had less than secondary-level education, and about 56% were above 40 years of age.

The program proves that if poorly paid jobs could be made to fetch higher pay via a process of redesign to make them more professional and attractive, local workers will be willing to take them. Singapore Budget 2006 says that JRP will be ramped up to create 10,000 jobs a year. SGD40 million will be allocated to support these efforts over three years

Job Redesign

One way of making jobs more attractive in terms of pay is through job enlargement. For instance, in one hotel, the job of Waiter/Waitress was enlarged to that of Server, who is trained not only to serve food and beverages but also to do cashiering, room service, and guest checkout. With this redesign of the job, the Server now earns an extra \$100. Another example of job redesign is that of the bus driver. Working conditions were improved (by providing rest areas at interchanges and acquiring better equipped buses), and pay packages were restructured to better reflect the drivers' wider responsibilities.

Creation of New Job Opportunities

Tripartite partners are also working together to back-source some jobs that had previously been outsourced to external contractors, who invariably import low-paid unskilled foreigners for such work. One example of a job created under this program is that of the Health Attendant. Many odd jobs done by porters, attendants, and housekeepers in the healthcare sector have been outsourced to contractors; and 46% of the staff contracted have been foreigners. One hospital had consolidated such odd jobs in wards into the single job position of Health Attendant. It is hoped that this measure will make the job attractive enough for Singaporean workers.

A more elaborate example is the approval by the Singapore Teachers' Union (STU) of the position of Teacher-Assistant (TA). TAs could provide valuable help to teachers who are currently bogged down by performing a number of petty non-professional/administrative chores. With the assistance of TAs, teachers can concentrate better on enhancing the quality of teaching. The Educare Schools Services Pte Ltd, a subsidiary of STU's Cooperative, was established to provide TA services to schools. Schools were given the flexibility by the Ministry of Education to hire TAs through their manpower grants. STU provided the training to prospective TAs with funding from the WDA. The project was started in January 2005. The TA does not teach but provides logistical support, which includes the preparation of class materials, facilitating class group-work, and helping out in co-curricular activities. They can also help coach weaker students. Fifty-five principals were involved in the initial pilot phase.

Re-employment via Training

The National Trades Union Congress (NTUC) initiated the STEER program (Skills Training and Employability Enhancement for Retrenched and unemployed workers), which is an extension of the SRP that links full-time SRP training to job placement. The program was set up to help laid-off workers to take on new jobs (NTUC Online). Companies looking to hire the retrenched/unemployed can seek monthly wage support funding of up to 50%, along with attractive absentee payroll and course fees funding.

Existing programs include courses for Bus Captains, Trainee Project Supervisors, Health-care Attendants, Patient Care/Service Assistants, Enrolled Nurse, Commissary Cooks, Teacher-Assistants and Landscape Technicians. Employability Camps, a kind of "boot camp," were launched to give participants a feel for work in the new sectors they will be heading for in their next jobs.

Foreign Workers

Singapore's liberal use of foreign workers has hugely benefited the economy. An AFP report on 31 October 2001 quoted a government release from the Ministry of Trade and Industry showing that foreign workers' contributed one-third of the total growth of Singapore's GDP. Higher skilled foreign workers' contribution was estimated at 2.87% (or 36.9% of the city's total growth rate of 7.79%), whereas lower-skilled foreign labors' contribution was 3.8% of total GDP growth.

Precise figures on the total foreign labor presence in Singapore are difficult to determine, but according to one estimate, out of a labor market of 2.1 million, nearly 100,000 are foreign professionals and 500,000 are unskilled and semi-skilled foreign workers (U.S. Labor Bureau, 2003). The government places a ceiling on the ratio of foreign workers that a company can employ for different sectors. It also charges a levy for each of the unskilled and semi-skilled workers brought in by employers. Additionally, foreign workers act as a useful buffer that can be regulated over economic cycles to ameliorate the unemployment of Singaporeans and to help stabilize the labor force.

In effect, the presence of unskilled and semi-skilled foreign workers is a draw for multinational corporations to help them reduce their labor costs so they can continue operating in Singapore instead of having to shift to cheaper locations. Our case study attests to this logic. By staggering the contracts of foreign workers, companies have been able to use attrition of foreign workers to deal with cyclical downturns.

Job Security

In their survey of six Asian countries, Asher and Mukhopadhyaya (2004) alleged that Singapore is the one country where severance payments are not mandatory.³ Although companies are not required by legislation to pay, unions have managed to get compensation for job losses included in their Collective Agreements. Asher and Mukhopadhyaya have suggested that Singapore's undue emphasis on job creation as a major strategy for advancing employee welfare should be tempered with a greater emphasis on job protection and income support. After all, these two aspects are basic to family formation and family stability, key national goals often projected by the government as national security issues.

Since trade union membership covers less than 18% of the workforce, we can say that a great majority of Singapore's non-unionized workers will be left to fend for themselves when they lose their jobs. Although the government has come up with various schemes to help re-trenched workers, these are rather *ad hoc*.

Workfare

Spates of retrenchment in the recent past have raised questions of whether Singapore's stern stand denigrating the welfare state could be moderated to include some scheme for unemployment insurance that could help lessen the traumatic impact of retrenchment on families. The lower wages earned by labor in China, India, and Eastern Europe will continue to pose a challenge to Singapore's low-skilled workers. The government's argument for allowing increasing pay differences to take their course as shaped by the market is that moderating wages of highly-skilled workers will just drive talented Singaporeans to work for higher pay outside of Singapore. On the other hand, if wages of lower-skilled workers are allowed to inflate, investors will pull out of Singapore to more attractive countries such as China and India. The solution seems to be that, to ensure sustainability of Singapore's working poor, both labor and jobs needed to be continuously upgraded

In June 2005, a Ministerial Committee was set up to study ways of how low-wage workers grossing SGD1,200 or less in monthly income (falling below the 20th income percentile) can be helped. The Committee came up with the strategy called "Workfare," which comprise these key thrusts:

- *Make work pay.* Provided that there are budget surpluses, older and low-income workers would qualify for a workfare bonus. The scheme primarily targets those whose income falls within the lowest 20%, i.e., who earn less than SGD1,200 per month. The Committee recommended that those in the lowest 10% and earning less than SGD900 should be given more help. There will also be assistance for low-income families to purchase their first state-subsidized flat. Grants are contingent on a period of employment. The first workfare bonus given out in the 2006 Budget requires a person to have worked for at least six months to be eligible.

A sum of SGD2.6 billion was disbursed to benefit various groups of the needy. For instance, lower-income workers aged 40 and above earning SGD400 and below will receive bonuses of up to three months' pay. While such one-time payouts are appreciated, they are not perceived as "solutions" to the problems of the working poor. An insightful reader of the main daily *Straits Times* (21 February 2006) suggested that "what the government ought to do together with the help of the NTUC is to review the salaries of these groups . . . the cost of living and the wages are not proportionate." If we consider

³ A retrenchment benefit is a lump sum paid to workers who are laid off by employers. The burden of financing is usually borne by the employers. In the absence of any legal requirement or contractual terms compelling an employer to pay retrenchment benefits, the payment of any such benefit is entirely at the discretion of the employer (Asher and Mukhopadhyaya, 2004)

that a simple bowl of noodles with a sprinkling of vegetables or meat costs SGD2.5–3.0, SGD400 per month of wages cannot be a living wage.

- *Provide social support for work.* Organize community-based measures to facilitate people to enter the workforce.
- *Raise productivity, redesign jobs, and train workers to participate in better-paid jobs.* Make skills training funds more accessible and expand training schemes; accelerate job re-creation efforts to target 10,000 jobs for low-wage workers per year; develop more employment opportunities for low-wage workers in the informal sector to supplement their incomes.
- *Ensure support for children's education through community support.* Enhance financial assistance for education of children from the kindergarten level; extend more counseling and social work programs for students and out-of-work youths; enhance vocational opportunities for youths from low-income families. Specific programs supporting this effort can be obtained from the Singapore Budget 2006 Online.
- *During economic expansion, make provisions for times of retraction.* Continue implementing the surplus sharing scheme even when the economy recovers (Ministry of Manpower Press Release, 12 January 2006).

Singapore's per-capita income was USD26,800 in 2004 (IMF World Economic Outlook database), one of the highest in Asia (*Financial Times*, 21 April 2006). But "the city state ranks only 77th in terms of income inequality according to the United Nations." The retrenchments suffered at the end of the 1990s and between 2001–03 have shaken the working community: according to AC Nielsen Research surveys, among Asia-Pacific countries polled, the largest number of people in Singapore (almost 50%) thought their working hours were too long, and more than 70% felt that little value was placed on staff loyalty, even as the survey placed Singapore in the 6th position in terms of staff loyalty worldwide and second in the Asia-Pacific region (Channelnewsasia.com, 17 April 2006).

CASE STUDIES

The terms "globalization" and "restructuring" are by now associated with negative connotations due to common occurrences of downsizing and the attendant experiences of job loss, work insecurity, organizational transformation, and work intensification. However, companies that have adopted a longer-term perspective on global competition and understand the nature of capitalist business cycles know that there is a continuous need for constant re-investment in process technology and R&D for new products. Moreover, to survive, more and more companies are now recognizing that they need leverage on HRM practices to tide them over periods of uncertain market conditions.

The cases selected for this report have diligently invested in R&D and have leveraged their business strategies and HRM to help them restructure without having to retrench their workers to survive the ravages of business cycles.

Manufacturing Employment

Singapore's manufacturing sector in 2005 created 42% more jobs than in the previous year (*Straits Times*, 25 Jan 2006). Manufacturing contributed to 28% of the GDP. The electronics sub-sector generated the major share of this new employment, followed by the logistics and transport engineering. Singapore's strong infrastructure and base of service companies that support the manufacturing sector has given it an edge over lower-cost rivals (*Straits Times*, 25 Jan 2006; Labor Market 2005).

Electronics Sector

The electronics sector has formed the backbone of Singapore's industrialization progress over the past 40 years. Since 1969, when the first assembly and test plant was set up (as discussed in a preceding section, with details displayed in Table 4), the electronics sector has evolved to become more sturdy and vibrant. All parts of the semiconductor value chain, including research and development, manufacturing, and HQ activities, can be found in Singapore (EDB Newsroom, 7 February 2006).

Singapore is home to 14 wafer fabricators, including the world's top three wafer foundries. In 2004, Singapore accounted for 10% of the world's wafer foundry output. Forty IC design companies have set up business here. In the area of assembly and testing, there are 20 chip assembly and test operations here, including the top three assembly and test subcontractors. In 2004, the semiconductor industry accounted for 39% of the total electronics output in Singapore. By careful nurturing, Singapore has managed to move its electronics sector from one producing mainly consumer electronics to one that is more diversified to produce a broader range of products, from electronic components to computers and peripherals and telecommunications and related products.

Singapore's aim is to keep the manufacturing sector's share of the GDP at a quarter of the GDP. It has set itself some targets for the electronics sector (EDB Industrial Briefing, 2001):

- to become an equipment manufacturing and related services hub focusing on production equipment used in the semiconductor, storage, photonics, and electronics assembly industries and offering equipment services such as process development, engineering support, and refurbishment services;
- to achieve the status of leading photonics hub, providing value-added services such as photonics packaging and manufacturing of high-value-added devices and components to serve the emerging optical device manufacturers;
- to produce smart devices such as systems-on-chip, wireless communication modules, and related software;
- to build its network storage and cement Singapore's status as the world's leading hard-disk-drive manufacturer as well as IT hub.

The process of shifting the electronics sector up the technology ladder has not been an easy journey for workers and their companies. Figures provided in the main section of this report can only trace the trends and developmental themes; they do not tell us how companies had to make adroit moves to stay ahead of the competition. Companies that have been able to successfully ride the receding tides and come out unscathed would have brought their workers up with them to a higher phase of development.

The two companies that have been selected as our case studies exemplify sturdy companies that had expanded value without having to lay off their workers. These two case studies examine how these companies averted mass retrenchment of their longstanding employees because they had long-term strategies of investing in their plants, products, and workers. By continuously upgrading process technology, products, and workforce quality, these companies did more than survive past recessions. Unlike other companies, they were also able to avert massive downsizing.

Case 1: Murata Electronics Singapore (PTE) Ltd.

Introduction

Murata is considered a pioneer Japanese investor in Singapore, as its relationship with the Republic dates back to 1972 (factory established in 1973), when Singapore first started on the initial phase of its industrial development. Murata came with a group of Japanese companies that were involved in audio production (such as Hitachi) and needed suppliers to support them. At the same time, Murata headquarters in Kyoto was also interested in expanding its overseas

operations. Murata Singapore became a base for the development of operations in Asia. Each of the factories in Asia, including Japan, China, and Singapore, was focused on selected lines of products. Murata Singapore today is the largest chip capacitor manufacturer in Asia.

The company itself, Murata Manufacturing Company Ltd., was established in October 1944 and incorporated on 23 December 1950. The company is listed in Tokyo, Osaka, and Singapore. It has been engaged in the development, manufacture, and distribution of various electronic components and related products such as Chip Monolithic Ceramic Capacitors, Ceramic Filters, microwave devices and modules which integrate thin film forming technology, micro-scale processing technology, and three-dimensional microwave circuit design technology.

To cope with changing market trends towards miniaturization, digitization, and a host of other new technologies such as microwave technologies for electronic equipment around the world, Murata produces a wide variety of original products that provide distinctive features to meet rising market demand (Murata, 2003). The company has pursued R&D into a broad spectrum of functional ceramic materials and their potential applications and has introduced to the market a diverse range of electronic components that effectively exploit the characteristics of ceramic materials. Murata's products can be categorized into three broad categories: functional modules, ASC (application-specific components), and EI (core products for the electronics industry's infrastructure).

The company has 54 subsidiaries (23 in Japan and 31 overseas). The head office is in Kyoto. The total number of employees worldwide is 26,719. The parent company itself has a total of 5,357 employees. The company has about 1,500 employees in Singapore. Murata's three facilities in Singapore manufacture and distribute capacitors for the regional and global markets. Murata Singapore was one of the first factories set up outside of Japan.

During the early phase of the company's history in Singapore, Murata's facility was labor-intensive, employing about 200 workers, most of whom had only primary-school educations. The company was located in Jalan Pemimpin (Thomson Road area), which had a good supply of labor from the adjacent Shufu village. The company was then producing the single disk capacitor, which is considered a low-end product.

The company's development reflected Singapore's own history of growing from primarily a labor intensive industrialization program in the electronics sector to today's dynamic and sophisticated electronics sector still responsible for driving the Republic's industrial growth.

By 1983, the factory was extended to accommodate increasing market demand. In the meantime, the technology of production had changed, causing the company to move to its own building in 1989. In 1993, in response to expanded demand and more technological changes, Murata built another plant (known as the East Building). In 2000, a third factory, referred to as the North Building, was added to Murata Singapore. The company now operates in three buildings and has about 1,500 employees, of whom about 200 are engineers.

Due to the rapid rate of growth of the company, changes that occurred were a bit haphazard. New product lines were added, while older labor-intensive lines were shifted out. Over time, the system became cumbersome and in need of an overhaul. In Singapore's context of acute labor shortage and production of a variety of products, the company had to do a thorough review in 1994 to see how it could streamline its operations and management system. The company was facing a situation of 70% labor turnover (especially in the late 1980s and early 1990s). The company decided to shift the more labor-intensive processes (single disk capacitors) to Thailand. Variable resistor products and semi filters were phased out and monolithic ceramic capacitors were brought in.

Company Evolution

The restructuring would have meant joblessness for some, including Mr. Kang, the Manager. However, in line with the company's policy of keeping employees with the company and doing their best to avoid retrenchment, Mr. Kang was assigned the job of taking charge of

HR, something he had little experience in. His condition for accepting the assignment was that he get top management support for his work of restructuring, especially for drastic trimming of the company's cumbersome staff structure of 241 grades to only 19. Mr. Kang managed to do this within six months. He also was tasked to cut turnover rates from 70% to 20% within two years.

To assist Mr. Kang in realigning the existing HR system into a neater entity, the company brought in an external consultant. However, they found that the consultant could not come up with what the company had desired. As a result, Mr. Kang decided to do the job himself. He devised his own unique system of HR. His background in operations helped him do this job because he saw the need to have a more refined system of assessing an employee. He felt workers should be differentiated more finely than what the existing system allowed for.

Position Grade and Job Grade

Based on his experience at Murata, Mr. Kang has a few simple assumptions about designing a successful HR system:

- to have a healthy situation, the company structure must be in the form of a pyramid—that is, hierarchical in form, with a larger base supporting the top leadership;
- an organizational structure should incorporate and also differentiate between positions and jobs. Positions in a company are increased when the company expands due to higher levels of business activities. Or, when a position is vacated, another employee can apply to fill this position. The person selected can come from a job grade nearest (either above or below) to that of the position vacated;
- Every employee has a market value. The individual will be more committed to stay on when the company matches that value in remuneration/respect/career path for the employee concerned.
- A company must be transparent with its expectations of its employees. At Murata, workers are expected to continually upgrade themselves to justify yearly pay increments given. These expectations are laid out and regularly communicated to the workers. The company together with the union communicates with workers twice a year: once to explain the annual increment and bonus and once to discuss changing employment conditions.
- Employers must give employees a sense that they are making a career with the company. An employee should therefore not stay in one position for more than seven years before advancing to the next level.

This company expectation is supposed to motivate the employee to work continuously for self-improvement in terms of skills acquisition and actual performance. This expectation is crafted in the context of increasing global competition, and, as part of the process, the rapid churning of new products and upgrading of the production process.

Employees' expectations of salary increments can only be supported if their labor output corresponds to the demands put on the company in terms of staying abreast of global competition. When buyers expect a price reduction of 10–20% per annum, the company has to have effective cost control by raising productivity and has to better organize the production process. In the meantime, the firm must expect average costs external to the firm to increase by about 7%. In all, the company will have to stay ahead by coping with about 22% cost increases.

Salaries

The company operates on an average annual salary increase of about 7%. The salary range has been fixed at 1.5 maximum, and the current salary range will be adjusted to 1.3. For graduate employees (e.g., engineers), starting salaries are at the same level even though they each have a different market value. For instance, in the 1980s, electrical/electronics engineers were in high

demand. Their differing market value and the functions they perform will contribute to the shaping of their final salary.

Training

During the early phase of the company's history, the production process was simple and labor-intensive. A mere two weeks of orientation was sufficient to get the workers familiarized with the work process. Currently, however, operators' orientation can take from one to three months. A buddy system has been established to help new recruits familiarize themselves with their jobs. When the factory opened, five or six Japanese engineers were on hand to train workers and set up the operations. Currently, one or two Japanese engineers work in Singapore, usually to help translate manuals or instructions. Newly hired engineers were given three months of training by attaching them to a senior engineer. They would then be teamed up in the buddy system for another three months. Due to the fast pace of technological changes, some engineers have been sent to Japan for a longer period of about one year to get them acquainted with the frontier of technology development.

Murata has a certification program that all workers are expected to conform to. When workers fail to achieve the expected standards set, they are helped to catch up with the pre-set standards of competency. The company has its own team of trainers to get workers back into line. Regular certification of skills has the objective of ensuring that a worker's ability will match job requirements at all times, and this in turn should guarantee a minimal standard of product quality.

Performance Appraisal

Workers in Murata undergo three assessments a year. The first is for assessing their ability (Employees Ability Appraisal), while the other two are for the measurement of actual performance (Performance Appraisal). Whether the individual worker gets his annual increment or an upgrade will be based on these appraisals. The aim is to ensure that the abilities of workers match the job they have to do and that the value of their labor matches the standard set by the market. Frequent appraisals are regularly carried out over the year to give workers the chance to improve their performance over the next six months.

Restructuring during the SARS Period

The background knowledge provided above gives an idea of the philosophy and management methodology practiced by Murata. Expectations for continuous improvements to match rising wages (and thus costs) are regularly conveyed to workers while adequate facilities are provided for their improvement. With this strategy, workers are structured to be always on the ball.

During the period of SARS, the company was disabled by falling orders. Not wanting to retrench workers during this downturn, which the company expected not to last very long, the company had to think up ways to keep workers on when orders were on a downward slope.

Training, not Retrenchment. A conjunction of a number of factors combined to shape the decisions the company took to avert retrenchment. First, the company considered that it had invested a great deal in the training and nurturing of their workers and that it would be a "waste" to just terminate their services. Second, the workers, for their part, had worked hard to keep up with company expectations of continuous upgrading of abilities and performance. Also, at that time, the company had a group of workers who had been with the company since its inception. The situation of low demand could be turned into an opportunity to send these workers for some fundamental upgrading of their skills, since they had only a primary-school education. If these workers were sent off for a longer period of training, they would have more market-relevant skills when the economy recovered. The company also aspired to have a workforce of direct operators who are 90% NTC3 certified. The government provides an array of skills development funding that could be tapped into, especially during this dry spell. The Skills Development Fund

(SDF) subsidized 80% of training costs. When this assistance was combined with the Skills Redevelopment Program, (SRP), course fees were almost zero.

To get a group of older workers to go back to school is no easy task. A small willing group was persuaded to volunteer for the course. They became good testimonies for recruitment of the next batch. By this method, nearly all those needing training went through the course. Only a handful did not attend for various reasons (e.g., medical problems or psychological blocks). The latter group were given counseling. Instead of using the SARS incident as an excuse for retrenching older workers who were relatively more expensive, Murata found an alternative way to occupy these experienced workers during the down period.

Flexi-Work, not Termination. Apart from sending older workers for training, Murata also tweaked its shift patterns to cope with the slack in demand. The company used to have a number of shift work patterns—for instance, 8-hour shifts and 12-hour shifts. In the 12-hour shift, workers are on a work schedule of four work days and two rest days. The company uses a rotating team system in which two groups work while the remaining group rests. Employees are given advance notice of their work schedule so they can schedule their personal lives better. Due to the fluctuating market demand at the end of the 1990s, the company had to either consider laying off its workers or take steps to restructure shift patterns to help them stay afloat. The company chose the latter step.

Murata worked with unions to pilot a new work schedule to see if it could avert retrenchment. The company crafted a work pattern that ensures workers a 41-hour work week over a two-month period. Overtime is paid when workers register additional hours within this two-month period. For instance, if there are 8 weeks in January–February, workers whose hours add up to more than 41x8 hours (328 hours) will be paid OT. When business demand drops, off-days are declared. Workers are ensured a minimum sum of wages. This scheme has been in operation for one and a half years. Before the scheme was launched, the company, together with the union, explained the rationale of the scheme to the workers. In the Japanese company culture, preference is given to retaining workers rather than to terminating their services. Termination entails costs, too, because the company will have to rehire after recovery. These new recruits will not be familiar with the work, and there will certainly be productivity losses while they are being oriented to their jobs. Training new recruits entails additional costs.

Transferability of Murata's Policy

In discussing the question of the transferability of Murata's alternative shift and training practices in lieu of retrenchment to other companies, it would appear that state-sponsored skills initiatives and union agreement were crucial. Murata benefited from a combination of schemes picked from the whole selection of skill development initiatives put in place by the government to get older/retrenched workers back into the workforce. Without the backing of these incentives, Murata would not have been able to come up with the more socially sensitive way of restructuring its labor force. It would have been simpler to just retrench the older workers who had started their careers with the company at the time when the majority of Singapore's workforce was poor and had little education.

A significant enabling factor is the company's commitment to investing in R&D to come up with better products and process technology. Engineering teams in various sections are regularly involved in project work to seek improvements and to innovate on both product and process. For instance, for the monolithic chip capacitor, Murata engineers had managed to reduce each of the 20–30 layers from 30 to 3 microns. Engineers have the liberty to come up with their own ideas for improvement or to join other teams working on company-initiated projects.

Conclusions

Companies that have a sustained commitment to building a high-quality workforce will be reluctant to see them go during a sudden downturn. With a bit of help from the state, such companies can be creative in coming up with alternative ways of reorganizing their operations while waiting for demand to pick up. Moreover, companies that prioritize quality should also be more alert to overcoming inherent tendencies toward inertia to put into place structures of innovation for both process and product development. Constant upgrading of employees' skills, operations, and product renewal have succeeded in helping Murata to stay afloat as long as it has without having to terminate its well-trained workforce to save costs. Murata is more than aware that a strategy that relies on retrenchment to stay afloat will bring its own problems

Case 2: A Systems

Company Background

The pedigree of A Systems goes back to a distinguished semiconductor manufacturer from the United States. The Singapore operation became an independent company and a different legal entity in 2001.

The A Systems Singapore office was established in 1985 and employed 1300 workers. It was a leader in the assembly and testing of surface-mounted devices in the Asia-Pacific region. A Systems Inc. is also a world leader in semiconductors for communications applications. Company A Systems offers optoelectronics and integrated circuit solutions to help customers reduce the time and expense of developing new communications equipment. It also provides wireless computer networking solutions through its ORiNOCO product line.

The company's revenue in FY 2005 was USD1.68 billion with a worldwide workforce of 6,200. Its top 10 customers are: Apple, Cisco, Hitachi, Lucent, Maxtor, NEC, Nokia, Samsung Seagate, and Toshiba.

Company A has two operations in APEC countries. The last manufacturing operation was shifted out of the U.S. in September 2005 due to cost concerns. Today, the U.S. still holds all the other functions such as finance. The Director of Operations for the group is located in Singapore and takes care of manufacturing in the region and globally. Company A now has operations only in Singapore and Thailand

The company has established Design and Sales offices in Shanghai, India, and Europe. Its Shanghai office has about 150 employees who are mainly engineers. The design outfit in India employs about 300 engineers, who are paid about one quarter the salary of Singaporean engineers.

Staff Profile

The company has a workforce strength of about 1,000, of whom 400 or so are classified as operators. The company's strength is in its large teams of engineers who are taken in for a variety of jobs. They have various levels of qualification.

- Diploma holders. These become maintenance engineers or Assistant Engineers. The company has about 200 of these diploma holders. They troubleshoot and do repairs, maintenance, and preventive work. They have access through internal promotion to the position of Senior Engineer after they have achieved the various grades of engineer designated by the company, e.g., Engineer 1 and Engineer 2. Most of these engineers are now recruited from the Philippines and India because of their language facility. Moreover, engineers from the Philippines have experience working in MNCs so they have been socialized into the MNC work and organization culture. Both these nationals make well-adjusted workers. The company was reluctant to take in Chinese nationals at this level because they would have problems communicating with other workers. Moreover, all

maintenance and equipment manuals are in English. The company used to be able to recruit more Malaysian Diploma holders. Lately, however, this has become more difficult.

- Most Malaysians who join the company are graduate engineers. They have been trained in Singapore, Malaysia, the United States, or Australia.
- The third level of the workforce comprises the 400 or so operators. Company A has employed about 100 operators from China. They often have some problems when communicating with Malay/Indian supervisors because of the language barriers. Chinese colleagues are brought in to help translate when this happens. More than 200 operators are Malaysians. Only about 100 locals are employed as operators.

R&D

A's R&D design centre in Singapore was started in 1985. The top managers of Company A are Singaporeans. The R&D center has about 20 engineers. A handful of these design engineers have masters or Ph.D degrees.

Company A's research focuses more on applications, improving process technology, and coming up with more features demanded by customers. For instance, if a customer like Samsung asks Company A to come up with more attractive features for its products, the company must respond. To remain competitive, the company must have the capability to fill multiple requests from customers. Otherwise, the customers may search elsewhere for what they need.

Training

After recruitment, young engineers go through a number of familiarization paces:

- they are put to work with experienced senior engineers;
- they are also sent to vendors for a week of familiarization with equipment and learn to troubleshoot;
- some may be sent to the U.S. for periods ranging from two weeks to three months. Some others may even go for a one-year stint of training, especially if they are responsible for implementation of new products.

Trainees who have worked with the company for 10 years and above will not be bonded. This is because the company assumes that they have stayed long enough not to want to leave after completion of training. Others who have worked less than 10 years for the company have to pay bonds of various amounts if they want to leave after training, with the amount depending on monies invested in various types of training. Up until now, no one has rejected training offers on account of having to sign a bond.

Company A does not receive much subsidy from the government for its investments in training. For instance, when the company spent about SGD100,000 on training, it managed only to get a rebate of about SGD20,000–40,000 from the training funds organized via the state. This is due to the fact that A employs a relatively large numbers of foreign workers.

The company has an average training requirement of about 5 days (or 40 hours) per year.

Evaluation of Training Effectiveness

External training: One month after completion of training, a survey form will be sent to the supervisor of the trainee concerned to assess whether the trainee had the opportunity to apply the training he/she had received. A further evaluation will be carried out on the outcome of training in about another three months' time. The company is convinced that training is a necessity and that it is essential to regularly upgrade the skills of a worker. In cases of transfer of product, it may even be necessary to bring in a foreign expert to oversee the initial period of implementation. Such costs are usually borne by the HQ.

Restructuring

Decisions about restructuring are communicated from the HQ to the Singapore operations. For instance, headquarters passes on decisions regarding reduction of staff when a downturn is expected. However, at the level of the company in Singapore, due to regular numbers leaving (1.5%–2 %) for family and other personal reasons, the company has been able to rely chiefly on attrition to reduce workforce numbers. The managers simply do not fill vacancies left by vacating staff. The many reasons given for regular turnover could be because the company has an older workforce. These older workers tend to have good reasons to leave as their adult children begin working. Moreover, terminating operators does not really solve the problem of cost, as their wages are only about SGD600 per month, much lower than the pay of higher-level engineers.

The other strategy available for combating downturns is outsourcing to reduce costs. The company's subcontractors, including Chartered, TSMC, and Amcor, act as buffers as the responsibility of squeezing prices is then passed on to them.

Regular shifting of production to cheaper sites has also proved to be an effective strategy for combatting price competition. For this reason, A's manufacturing function was shifted to the APEC region from the U.S. Employing an engineer in the U.S. would cost about USD5,000 to USD7,000 monthly. Converting this would amount to SGD8,000, which can pay the wages for two or three engineers in Singapore. Consequently, all manufacturing is now done outside the U.S.

The company also squeezes its suppliers, just as its own customers put the squeeze on them: for example, Seagate had demanded that Company A produce a quarterly schedule for price reductions.

With these alternative relatively long-term strategies in place, the company has been able to avoid mass retrenchment of its workforce whenever the question of downsizing comes up. Mass retrenchment has an impact on the remaining workers and may ultimately turn out to be a less cost effective measure.

The Logistics Industry

The next two cases were chosen from the logistics industry because this is an industry in great turmoil as it struggles with integrating into its production process the very expensive technology now available. In this struggle, companies with capital and resources will tend to overcome the competition, while weaker companies that are less agile will go under. The two companies portrayed here have similar philosophies, yet they resorted to different strategies to survive without having to downsize their workers in the process. The unique combination of their strengths and weaknesses played a major role in the constitution of their restructuring.

Singapore's strategic location between China, the Far East and India, and the rest of the world has given it the natural advantage to act as a global logistics hub and supply chain management nerve center. Years of careful development of its infrastructure have contributed to Singapore's emergence as a safe, efficient, and business-friendly center. In other words, its position as regional financial center, its IT infrastructures, well-developed telecommunication network, excellent global sea and air transport connectivity, and sophisticated logistics services and facilities all work towards making it the ideal logistics hub for the region.

The ports of Singapore form the focal point for 400 shipping lines encompassing a wide range of shipping activities such as ship management, ship brokering and chartering, cargo shipping, and marine insurance. In 2003, Singapore's ports handled 18.4 million TEUs (Twenty-foot Equivalent Units) of containerized cargo.

Singapore's Changi international airport serves 64 international airlines and is the most air-linked in the Asia Pacific. The Changi Airfreight Center (a free-trade zone) operates a 24-hour air cargo handling service that handles more than 1.68 million tons of airfreight.

More specifically, Singapore's manufacturing multinationals, with their production and supply chain networks, need an efficient logistics support infrastructure to help them run efficiently. Their need for logistic services led to the development of a platform from which other services and markets could be built and developed. Over 7,000 multinational operations from 50% of Fortune 500 companies have operations here. Singapore is today home to more than 30 world-class third-party logistics providers as well as to leading SCM software firms SAP, EXE, i2, etc.

Singapore's Airport Logistics Park was established as a free-trade zone consisting of 26 hectares of land to promote integrated logistics with quick turnaround and value-added activities. The Chemical Logistics Hub adjacent to the petrochemical complex surrounding Jurong Island was established to service the rapidly growing petrochemical industry, which now comprises about 55 petroleum and chemical companies with fixed assets of SGD21 billion.

The logistics industry has been transformed from conventional warehouses using manual forklift stacking and software MRP (material requirements planning) to refrigerated warehouses to web-based tracking (OMS, WMS, TMS), radio frequency technology, and integrated end-to-end pipeline solutions. The sector provided employment for 167,828 in 2000, bringing in about 8% of GDP.

The rapid integration of ICT into the logistics sector has reduced costs drastically and enhanced efficiency. The industry has become so competitive that small players are increasingly edged out to give way to the evolution of highly capitalized and sophisticated companies. Companies are therefore frantically restructuring to remain viable.

The selection of the two cases from the logistics sector is timely, as they reflect the ongoing restructuring taking place when companies struggle with a variety of strategies to stay afloat/expand/consolidate/upgrade. Details from the two cases selected show a large number of activities and functions being targeted to help improve the companies' competitive positions. By providing value-added services and by cutting waste and improving efficiency, these companies succeeded in making their operations leaner and more productive. As a result, the same but more productive workers could continue to keep their jobs, which are now done more proficiently.

Case 3: M. Pte Ltd. Singapore

The company was founded as a freight-forwarding firm in the nineteenth century in Germany's largest port. Today, the group's head office is still located there. Currently, the company is in the logistics business as a provider of global logistics and transportation solutions. It is involved in logistics planning, warehousing, and distribution, offering sea-freight, airfreight, and special services. The group has companies operating worldwide in Germany, Belgium, the U.S., Hong Kong, Japan, Korea, Thailand, Malaysia, Vietnam, Indonesia, Israel, Brazil, and South Africa. Singapore serves as the group's regional HQ for Asia-Pacific, as well as the financial hub and transshipment center. M Pte Ltd. Singapore was incorporated in the early part of the 1990s.

Rationalization

During the Asian financial crisis at the end of the 1990s, the company went through a wrenching time when the market was slow and uncertain. The management's decision was to first rationalize operations and administration to bring costs down. Alternatives to retrenchment were considered first. Measures such as freezing recruitment of expatriates and redesigning expatriate benefits and compensation packages were included as part of cost-saving reforms. Overtime was also reduced. Training came under closer scrutiny. Unnecessary fixed costs were re-evaluated. Expatriates who reached the end of their contracts were not offered a renewal unless performance records showed exceptional contributions by the staff members concerned. The renewal of expatriate staff contracts, if done, was financially supported by the headquarters in Germany (as a kind of subsidy).

In view of the many state-based subsidies for *training* (for example, the Skills Redevelopment Program and the NTUC Education and Training Fund) and the positive responses of its own workers towards learning, Company M resorted to using these training subsidies to upgrade and/or retrain its staff members to enable both managerial and operational staff to work with the new software systems it had acquired as a step to improving the efficiency of its services. The training will ensure that staff skills can keep up with the rapidly changing technology.

As the company is committed to ISO 9001 certification for quality, it has to maintain a quality management system that includes regular auditing of skills. For instance, as its staff has to be proficient in the handling of dangerous cargo which may include shipments of toxic and inflammable chemicals/materials, they have to undergo regular (every two years) multiple technical skills audits.

More reliance was put on *IT solutions* such as electronic data interchange (EDI). EDI had allowed firms to use electronic transmission instead of paper-based documents for purchase orders, invoices, consignment notes, and remittance advices,

The company directed its restructuring efforts towards improving its financial cash flow so that cash-to-cash cycles could be shortened. Efforts were made to lessen the disparity and lack of integration in the way the services were supplied and the collection of payments made. Increased transparency of this aspect of the financial process will clear up the opaqueness in the system so that precise data—e.g., on money available, time of payment, etc.—can be made available and follow-up action can be taken to lessen the use of expensive working capital.

Besides focusing on cost-cutting, the company geared its efforts to offering better order cycle times, transit times, JIT information, condition of delivery dates, etc. The company is also seeking cooperation from partners so it can represent a single service provider for multiple logistics services. As competition intensifies, customers will roam the world to source for wider markets and cheaper sources of raw materials and components. As a result, a customer may end up having to work with a variety of logistics providers for different logistics activities. Company M aspires to be an integrated provider of multiple services by entering into alliances and partnerships with other companies.

Case 4: Company Ne (Singapore) Pte Ltd.

Ne Company Ltd. was founded at the end of the nineteenth century. It was restructured in 1937 as a semi-government-run transportation enterprise. It became a public corporation in 1950. By 2004, its operations as a global transport and logistics company spanned 90 countries with over 50 companies and subsidiaries worldwide. Company Ne is the world's second-largest international airfreight forwarder and the world's seventh-largest comprehensive distribution company.

In 1970, Company Ne opened a Representative Office in Singapore. Ne (Singapore) Pte Ltd. was established at the end of the 1970s. In early 1980s, the company received approval as an agent of the International Air Transport Association. The company has been in operation in Singapore for more than 30 years. It has a workforce numbering about 500. The company offers a wide variety of services under its six branches: Air Cargo branch, Air Cargo Logistics branch, Ocean Cargo branch, Removal Services branch (personal moving services), Heavy Haulage and Construction branch, and Tour and Travel Branch. Ne provides significant services to regular customers in the high-tech industries, including component manufacturers and electronic consumer goods brand owners.

Restructuring

To survive in the increasingly competitive environment, especially during the downturn of 2003, the company re-strategized the operations of various functions and thereby was able to avoid having to retrench its workers.

Human Resources Management (HRM). Ne can be considered a welfare-oriented company. The company has adopted a variety of allowances and awards to motivate its workforce. Included are attendance allowances given to workers who report to work punctually every day. Long Service Awards were given as a reward for loyalty to those who had worked in the company for more than five years.

Some of these allowances were cut as they were deemed outdated. For instance, the company did away with the attendance allowance in 2003 as it was deemed a part of normal work behavior that workers should turn up for work punctually every day. Additionally, in 2004, the Long Service Award was changed to the “Good Performance Award” as the company shifted its emphasis from lifetime employment to focus on merit as evaluated by the performance appraisal. The company also took seriously the state’s recommendation that companies adopt a more flexible wage system to link individual productivity and company performance with bonuses and annual wage increments. The company also incorporated the monthly variable component into workers’ pay to enable the company to post an immediate response by shaving off this component whenever the company’s profits drop suddenly.

Streamlining Other Functions. Other strategies to improve competitiveness include centralizing the company’s *Procurement* Unit to improve efficiency and to cut down on waste. By centralizing procurement from branches to headquarters, the company could leverage greater economies of scale to achieve better pricing and negotiating power. *Financial analysis* was also improved by ensuring that better and more holistic data systems (e.g., for storage costs and information systems costs) are made available for decision-making; and data depots are now made accessible for more efficient integration of information for total cost analysis. Efforts are being made for better debt management. This entails persistence in making calls for collection of payments and the sending of reminder letters. Sales personnel have to make clear to customers the exact terms of credit and get written acknowledgement of these terms. The total combined impact of all these changes in operations has made it unnecessary to retrench workers, with the exception of one or two who have been found to be non-performing.

New Facilities. As part of its restructuring efforts, the company decided to build its Southeast Asia hub as a one-stop logistics services more conveniently at the state-managed Airport Logistics Park, which operates as a Free Trade Zone next to the Changi International Airport. The new center will allow for better integration of air- and ocean-related services. The company hopes that by consolidating its services in one location instead of having them separated physically and scattered in a number of leased spaces will help enhance its competitiveness and capture at least a further 5% of the market.

Lessons learned from comparative study of the two companies (M and Ne):

- MNCs of German and Japanese nationality are known for their commitment to labor stability. In this comparative study of two companies in the logistics sector, what comes out clearly is that even as the two companies espouse the ideals of labor stability and employee welfare, the peculiar features of the two enterprises shape the outcome of restructuring when faced with the downturn end of 1990s.
- Both companies kept downsizing to a minimum. Company M did not renew the contracts of expensive expatriate employees who did not get credible appraisals, and Company Ne only terminated a handful of non-performers.
- As Ne had not taken performance appraisal seriously in the past, this was introduced to make more stringent demands on workers. It took up recommendations of the state to make wages more variable. Company M already had an appraisal system in place, so they capitalized on their strength of acquiring more comprehensive data systems and sending their workforce for training to enable them to operate these new systems. Since the state and the unions have made accessible a large variety of training schemes and subsidies, training became a logical choice strategy used in times of restructuring.

- Ne had more welfare benefits, some of which (such as attendance awards) are outmoded. As Company M was already operating a leaner system, it undertook new initiatives to offer better services, like reorganizing deliveries in a more timely manner and offering better quality services by reducing the number of complaints from customers on the condition of goods when delivered. Company Ne combined this aspiration with more training for staff in quality assurance. Company M also cooperated and made strategic alliances with other companies to offer more integrated and multiple logistics services for the convenience for their customers.
- Ne, on the other hand, made additional capital investments to gather its branches in Singapore under one roof and to centralize some other functions for synergy and economies of scale.

Inferences from the Case Studies

Investing in R&D and Training

Case 1, Murata, has a clear vision of how it should compete globally. It ensures that new products will always form a substantial proportion of its array of products. Currently, new products make up at least 75% of its revenue. It therefore pays a great deal of attention to R&D for both product and process technology.

Apart from this, Murata espouses a vision of having a workforce that is highly competent at all times and all levels. Consequently, it has come up with an elaborate system of training and regular auditing of skills. The company is ambitious to aspire to having all its workers hold at least a technical certificate. For these reasons, when the recession hit, Murata's decision was not that difficult. It selected to opt for training of those who joined the company during its infancy and had therefore lower levels of education. This choice was facilitated by the Singapore government's own intricate and complex schemes of subsidies for training various types of workers affected by the downturn, re-training older workers, re-designing work, etc.

The factors shaping Murata's path of action during the downturn appeared to be based on company business and HR strategy. The company's cultural affiliation with the Japanese management ethos of lifetime employment could be an added contributory factor. After nurturing its workforce so carefully, the company considered it would be wasteful to dump employees during the recent downturn. As a mature company that had stayed with Singapore since its early industrialization, it believed that the lows of a business cycle are only short-term. It did not give in to panic but did some long-term calculations and reflection that highlighted the downside of mass retrenchment, which may end up being more costly. During the next recovery, the company will have to spend money, time, and effort on recruitment and training when it rehires after the downturn. If it had used the short recession to upgrade the older workers who had stayed with the company since its inception, it could meet demand immediately and in a more competent manner, as the workers would have undergone more training while waiting for the next bright cycle to return.

Local Autonomy

Crucial to the decision not to retrench is the autonomy typically enjoyed by local subsidiaries of Japanese companies. The company had entrusted the HRM function to a long-time employee who had worked with the company from the time of its inception. He is currently the HRM VP who was previously also an operations manager. His imprint is large on the HRM system of the company, and it is his vision that the company become technically superior in terms of product quality and labor capability. He sees this as the strategic edge that can see the company through erratic cycles and enable it to avoid mass retrenchment during downturns.

Leadership

Though Case 2, Company A, is typical of American multinationals, which have a local reputation for proactively cutting their workforces at the mere whiff of a downturn, Company A exhibited some unusual features which allowed it to maneuver around demands from HQ that it reduce its headcount during the last downturn. Despite the fact that A, as a local subsidiary of a U.S. MNC, enjoys less autonomy than Murata on headcount decisions, Company A in Singapore has succeeded in heading off massive retrenchment. The VP for HR played a key role in strategizing recovery without resort to retrenching its workers. A's main strategy is not to be too enthusiastic in hiring replacements when jobs fall vacant. Turnover rate at A has averaged 1.5% to 2%. The company also relied on a heavy proportion of cheaper and lower-level foreign workers to carry out the bulk of manufacturing operations. As these workers were hired in small numbers at various times, their fixed contracts could be allowed to lapse if workers are no longer needed due to temporary market conditions.

These HR strategies were cleverly complemented by various other business strategies that helped the company maintain flexibility to combat the next downturn. The company's reliance on outsourcing as a cost-cutting measure has succeeded in holding reductions to a mere trickle of 10–20 workers between 2001 and 2004 when Singapore was experiencing its worst recession since 1985. Those let off were mainly the non-performers, and the termination was done with a view to gradually upgrading the workforce so that the average level of education is pitched at secondary school level (its operators had mainly primary education when recruited during the early days of the company's establishment).

An interesting point to note for this case is the fact that the HRM VP does not believe in retrenchment. He makes it a point to maneuver around redundancy requests from HQ to minimize the number of workers retrenched. Our interviews with several companies resulted in the conclusion that commitment of top management is crucial in the shaping of welfare and personnel policies. HR managers have observed that once the CEO changes, the impact on the welfare of HR is noticeable.

State Role

Additionally, local strategy of encouraging training as a collective effort and generous provision of training subsidies had a role in shaping Murata's decision not to retrench workers during downturn but instead to train those who are more mature and less skillful. As the workers concerned were older workers, they could be trained at a substantial discount due to the very special provisions made by state/NTUC schemes to assist older workers get back into the workforce. Recent state initiatives to restructure wages had also given companies another way of cost savings without having to retrench their workers.

Comparative Study

Cases 3 and 4 have been included to give a comparative perspective on the lessons derived from that of the single case studies. Both logistics MNCs. One is German, the other Japanese. Both systems of management are known for their welfare orientation and concern for the long-term stability of the workforce.

Even as the German parent company continues to show losses, subsidies from HQ have allowed its Singapore affiliate to function without retrenching its workers. Other cost-saving measures taken include leaving expatriate staff vacancies unfilled, more widespread use of IT in its operations, and striking up alliances with others as platforms to provide multiple services which are more in demand from their clients.

The Japanese-affiliated company had no such financial backing, so it tried various other strategies to reduce costs. Among the cost-saving measures taken are more transparent communication with clients concerning payments, tightening the relevant financial procedures to ensure better collection of payments, and physical integration of its business activities under one

roof to save costs. As Japanese expatriate staff did not incur heavy costs, the company could not use expatriate attrition to cut costs. The company did, however, resort to restructuring its benefits by canceling those that were outmoded (such as attendance awards) and instead emphasizing the government-initiated practice of performance pay. Wage restructuring at the level of the firm was made that much easier due to the national initiative taken by the government to make variable pay the standard wage form in Singapore. As a result of the commitment to avert retrenchment and the resort to other measures of cost-cutting, the Japanese company could avoid retrenchment with the exception of one or two non-performing staff members.

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EXTERNAL ENVIRONMENT CONTEXT

The Socialist of Republic of Vietnam is located in the eastern Indochina peninsula, in the center of Southeast Asia. Its area is 331,689 square kilometers, and its coastline 3,260 km. Vietnam lies wholly in the monsoon tropics. The weather is hot and humid; annual average temperature is about 23–27°C. Vietnam is a socialist republic: one party leads the country's activities. The environment of Vietnam, especially the business environment, has known stability for years.

MAJOR ECONOMIC INDICES

After a period of suffering in 2001–05, during the Asian financial crisis, Vietnam's economy maintained a rapid and quite stable growth rate. The estimated annual average GDP growth rate was approximately 7.5%, nearly reaching the targets set out for the five-year plan of 2001–05. Despite highly difficult circumstances, both internally and externally, the fact that the economy grew continuously in those five years, meeting the planned targets, with its annual average growth rate 0.6% higher than that of the previous five-year plan, can be assessed as a great achievement (see Table 1). Moreover, the economy's growth rate was quite good in comparison with other countries both regionally and globally.¹

Table 1. Some Macroeconomic Indicators of Vietnam (%)

Figure	1996–2000	2001–2005
1. GDP growth rate	6.9	7.5
of which:		
• Agriculture, forestry, fishery	4.4	3.6
• Industry and construction	10.6	10.3
• Services	5.7	7.0
2. Growth rate in production value		
• Agriculture, forestry, fishery	5.8	5.4
• Industry	13.9	15.7
• Services	6.8	7.6
3. National budget revenue in comparison with GDP	20.7	23.3
4. Budget over-expenditure in comparison with GDP	3.9	4.9
5. CPI and Services	3.3	4.7

Source: Vietnam's Economy in 2005, CIEM

At the start of the 2001–05 Five-year Plan, although the economy faced many difficulties,² economic growth was quite high and increased from year to year. In 2001, the GDP growth rate attained 6.9 %, opening a period of rapid growth.

In 2002, Vietnam concentrated on bringing into full play its internal resources, solving various obstacles in production and trade, etc. Therefore, the socioeconomic situation improved

¹ ESCAP assessment shows that from 2001–03, on average, the Chinese economy grew by 8.1%, South Korea 4.1%, Indonesia 3.7%, Malaysia 3.2%, the Philippines 4%, Singapore 0.3%, and Thailand 4.6%

² In the three years 1998–2000, the growth rate only reached 5.8% on the average.

from month to month, particularly during the later months of the year; the annual economic growth rate reached 7.08%.

In 2003, the economy faced serious difficulties and challenges caused by a long-lasting drought and SARS disease. However, thanks to quick and timely guidance from the State, and immense efforts made by all sectors and levels, Vietnam still attained an economic growth rate of 7.34%.³

In 2004, although the economy experienced numerous complicated changes,⁴ the government, ministries, sectors, and local authorities deployed many effective measures with the goal of trying to get better results from month to month, from quarter to quarter. Thus, the estimated economic growth rate in 2004 reached 7.7%.

The year 2005 was expected to see the beginning of overall changes in the entire economy; the realization of major policies approved by the 9th Congress of the Communist Party of Vietnam were to create new driving forces to encourage all economic sectors to invest in and promote production and trade. The growth rate is estimated to exceed 8% (see Figure 1).

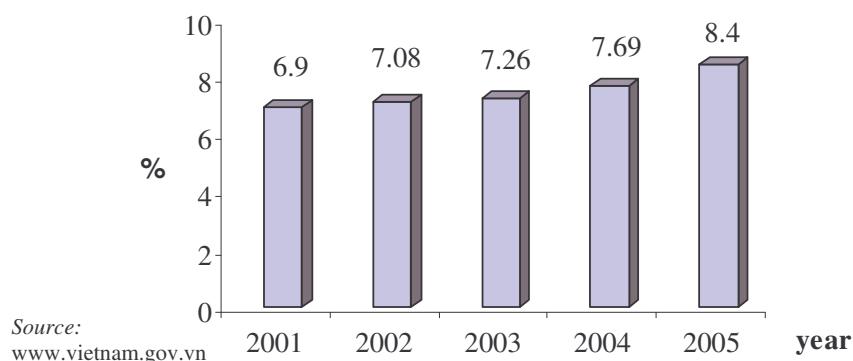


Figure 1. Vietnam's GDP Growth Rate, 2001–05

Table 2: GDP Growth Rate and Share in Growth Rate of GDP by sector, 2001–05

	2001	2002	2003	2004	2005
GDP growth rate (the 1994 price)					
GDP	6.89	7.08	7.34	7.69	8.40
Agriculture, forestry, fisheries	2.98	4.17	3.62	3.5	4.0
Industry and construction	10.39	9.48	10.48	10.2	10.6
Services	6.10	6.54	6.45	7.47	8.5
Share in GDP growth rate (%)					
GDP	6.89	7.08	7.34	7.69	8.40
Agriculture, forestry, fisheries	0.69	0.93	0.79	0.74	0.8
Industry and construction	3.68	3.47	3.92	3.93	4.2
Services	2.52	2.68	2.63	3.02	3.4
(continued on next page)					

³ In the three years 2001–03, the growth rate reached only 7.1% on average, higher than the 5.8% of 1998–2000.

⁴ The avian flu broke out and spread to numerous provinces and cities, with an impact on agricultural production and considerably influencing tourism, services, and people's lives. Prolonged severe cold weather and serious droughts caused damage to agricultural production as well. Prices of several items, particularly raw materials and fuel such as steel, petroleum, gasoline, and fertilizers, sharply increased, with negative impacts on production and business, slowing down the implementation of various major construction projects.

Share in GDP growth rate (%)					
GDP	100.00	100.00	100.00	100.00	100.00
Agriculture, forestry, fisheries	10.08	13.2	10.76	9.60	9.5
Industry and construction	53.38	48.96	53.37	51.07	50
Services	36.54	37.84	35.86	39.33	40.5

Source: Vietnam's Economy in 2005, CIEM

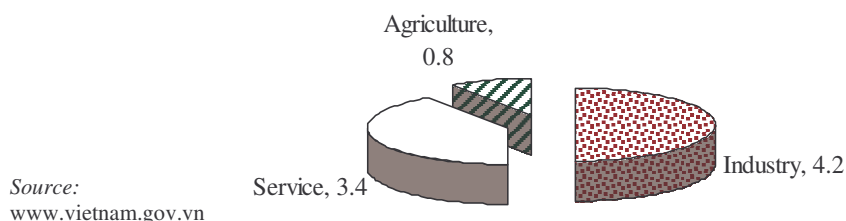


Figure 2. Contribution to GDP growth rate (percentage point) in 2005

Table 2 and Figure 2 show the sectoral contributions to GDP growth. The industry sector contributed about 50% to the GDP growth rate in 2005. The contribution of the agriculture sector is very small at 9.5%. The rest is from the service sector. Table 2 shows that the contribution of this sector has been continuously increasing.

The structure of GDP lightly changed from 2001–05; see Figures 3 and 4 for the structure of GDP at current prices. This change did not satisfy the Vietnamese government, since the proportion of the service sector had been expected to increase to 40%. In fact, using current prices, this proportion even decreased, from 38.63% to 38.08%.

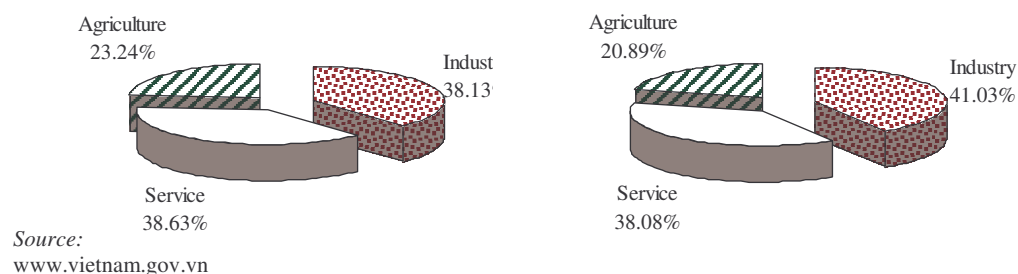


Figure 3. Structure of GDP in 2001 (left) and 2005 (right)

However, on average, the annual economic growth rate for the five years 2001–2005 reached nearly 7.5%, which is 0.6% higher than that for the previous five-year period. The growth rate for each sector from 2001–2005 was 3.6% in agriculture, forestry, and fisheries; 10.3% in industry and construction, and 7.0% in services.

In 2005, Vietnam's GDP doubled that of 1995, making the annual economic growth rate during the last ten years about 7.2%. In 2005, the estimated GDP was VND815 thousand billion [815 trillion] and GDP per capita is VND9.8 million (equal to USD 600).⁵

⁵ Due to the correlation among the three factors of real growth, inflation, and exchange rate, economic growth rate in USD reached 10% per annum, and as high as 15% in 2004 alone.

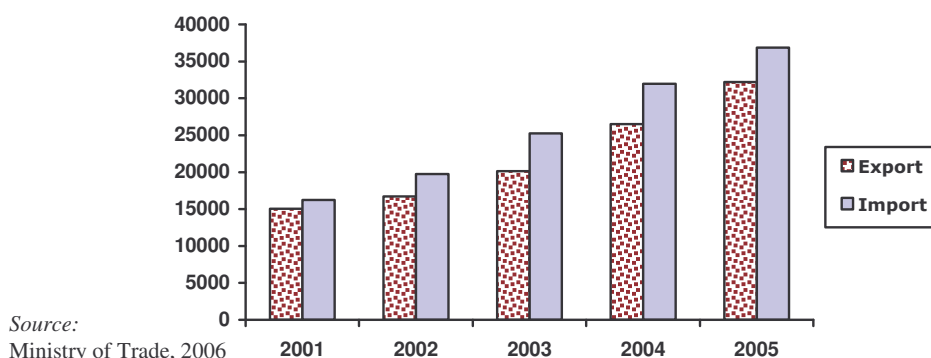


Figure 4. Value of Exported and Imported Commodities (USD million)

Along with economic growth, Vietnam has maintained macroeconomic stability; ensured socio-political stability, national security, and defense; begun to bring into play advantages of the whole country, of each sector, and of each territorial region; reformed economic institutions; gradually improved management policies and monitoring systems; reformed and boosted the effectiveness of the financial–monetary sector; promoted the development of and upgraded the quality of human resources; strengthened science and technology, etc.

Many Vietnamese products and services have shown quite good competitiveness; these include specialty fruits, cashews, pepper, rice, coffee,⁶ drinks, arts and crafts, woodwork, low-capacity diesel engines, car tubes and tires, motorbike tires, batteries, washing chemicals, voltage transformers, electric cables, construction services, etc. Six products whose export values are more than USD1 billion are oil, textile and garment products, shoes, aquatic products, electronic products, and woodwork.

Vietnam's Integration in the Global and Regional Economy

Vietnam has trading relationships with more than 180 countries and territories and has close relations with many financial organizations such as the International Monetary Fund (IMF), World Bank (WB), and Asian Development Bank (ADB).

On 27 July 1995, Vietnam officially became a full member of the ASEAN and joined the ASEAN Free Trade Agreement (AFTA), a trade pact that calls for the elimination of tariff barriers by 2006.

Vietnam took part in founding the Asia Europe Meeting (ASEM) and participates in the APEC (Asia–Pacific Economic Cooperation) forum. It has signed and acceded to agreements for the promotion and protection investment with 47 countries and territories, agreements on Avoidance of Double Tax with 40 countries and territories, and the ASEAN Framework Agreement on Investment (AIA).

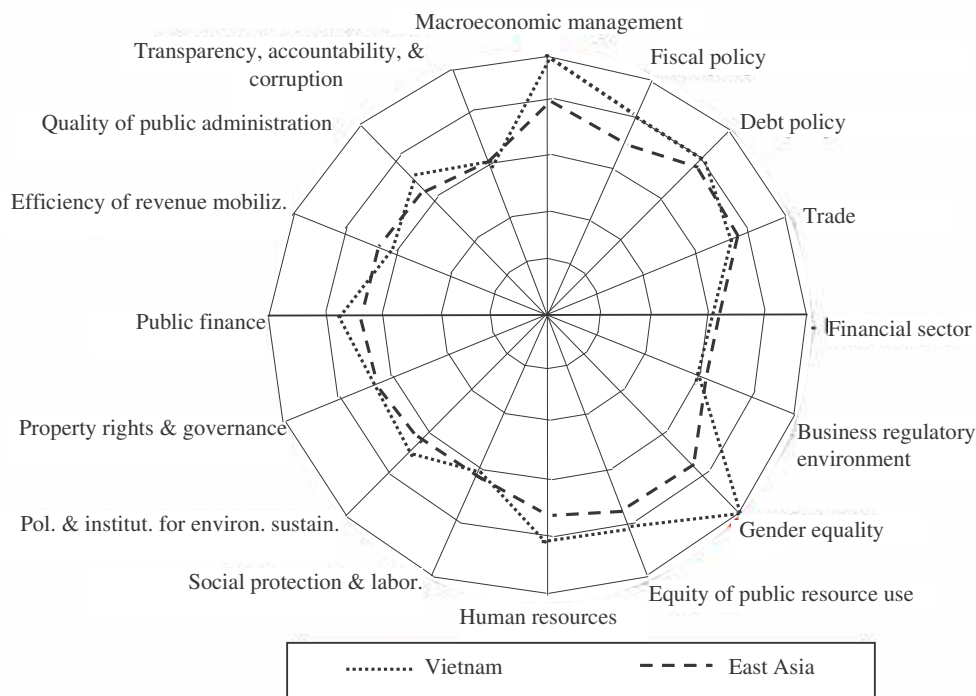
Vietnam is in the process of negotiation for being admitted to the World Trade Organization (WTO), aiming to become a full member by the end of 2006. The economic integration process has contributed to increases in export and import turnover during the past few years (see Figure 4).

Vietnam's Comprehensive Rating

Vietnam's main strengths are in macroeconomic management, fiscal policies, and public financial management; in the social area, its strengths include gender equality and the quality of

⁶ A number of agricultural products assume top-ranking positions in the world in terms of export volume; these include rice, coffee, pepper, and cashews.

its human resources. But it still has important weaknesses related to structural reform (trade policies, the financial sector, and the regulatory environment for businesses in the institutional area), the efficiency of revenue mobilization, transparency, accountability, corruption, and social protection. The graph in Figure 5 illustrates Vietnam's ratings in terms of 16 indicators.

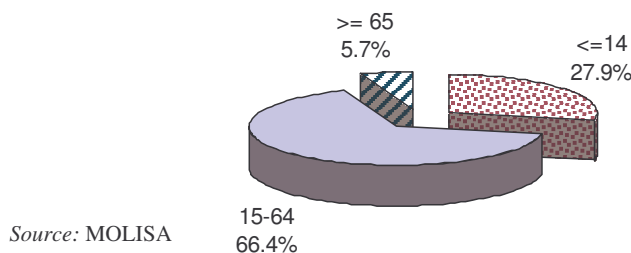


Source: Vietnam Development Report, World Bank (WB), 2006

Figure 5. Vietnam's Strengths and Weaknesses

Labor Market

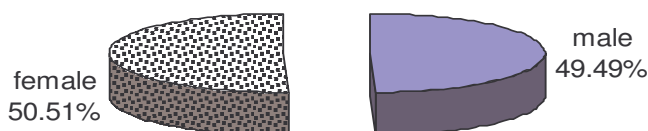
At the close of 2005, the nation had 83.12 million people and 53 ethnic groups. The population has doubled in just over 30 years. Vietnam's population structure is young. People age 14 or younger account for 27.9% of the total population, while those from 15 to 64 years old are 66.4%. Those 65 and older are the smallest group at 5.7% (see Figure 6).



Source: MOLISA

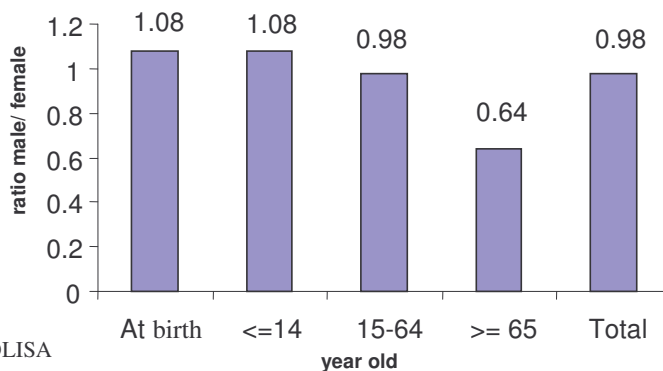
Figure 6. Population Structure of Vietnam in Terms of Age

The population growth rate for 2005 was 1.04%, whereas the birth rate in the same year was 17.07 births per 1,000. Life expectancy at birth on average is 70.61 years for the total population: this number for males is 67.82 years and that for females is 73.6 years. The male-to-female ratio for the total population was 0.98 in 2005 (see Figures 7 and 8). This ratio slightly varies from year to year.



Source: MOLISA

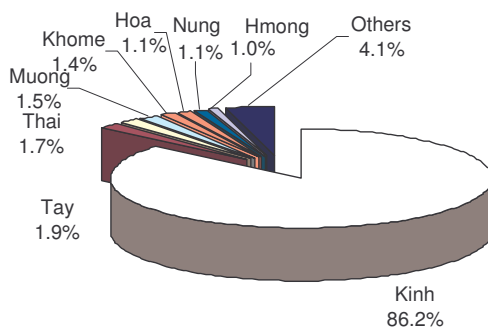
Figure 7. Population Structure of Vietnam by Gender



Source: MOLISA

Figure 8. Population Structure of Vietnam by Age

Of the 53 ethnic groups, the Kinh people (Viet people) account for the largest portion, 86.2%, with the remainder divided among a number of other groups (see Figure 9). 80.8% of the population of Vietnam is non-religious. The most common religions are Buddhist, Catholic, Hoa Hao, Cao Dai, Protestant, and Muslim (see Figure 10).



Source: MOLISA

Figure 9. Population Structure of Vietnam in Terms of Ethnicity

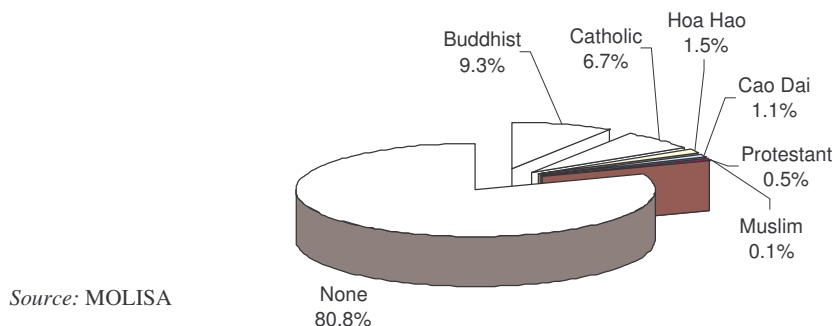


Figure 10. Population Structure of Vietnam in Terms of Religion

The Vietnamese people have been known for years for their ability to learn fast, work hard, and strictly follow the working rules. These valuable characteristics, combined with low wages, make Vietnamese labor one of the country's most valuable assets and the source of its competitiveness. Thus it is no surprise when the growth of business activities along with economic renovation leads to a sharp increase in labor demand. The rise in demand for labor creates dual movements. The first is movement across occupations, with a large number of workers moving from agricultural to non-agricultural jobs. The second is geographical movement, with many workers shifting from rural to urban areas.

Wage level varies from area to area, industry to industry, and sector to sector in the country. The gap between wages of men and women declines when the economy grows, but that between workers with different qualifications has been increasing and seems to be leading to inequality.

Strikes are not common, and there is little use of the official labor relations system. Unemployment is not a big problem, as most unemployed people are young and rather qualified in the labor market. Work stability still characterizes government organizations, while there is a high rotation rate of qualified labor in non-government organizations, especial foreign direct investment enterprises. The shortcoming of Vietnam's labor market is that the social benefit system for labor so far has been considered for state sectors only. Vietnamese people need to be familiar with the thinking that even people in the non-government sector can receive social benefits.

Labor and Employment

In 2004, there were notable changes in the scale and structure of the total labor force in Vietnam in terms of geography, gender, age, economy sector, and wages. At the close of 2004, there were 43,255,259 people (including both within and above the working age) in the labor force in the country.

Geographically, there were 10,549,249 people in the labor force in urban areas and 32,706,010 in rural areas, accounting for 24.4% and 75.6% of the workforce, respectively. The labor force was still mainly concentrated in rural areas despite ongoing rises in urban areas.

In terms of gender, men and women accounted for 51% and 49% of the labor force, respectively. The non-government economic sector created the most employment (accounting for 88.2% of the total employment in the economy), followed by the State-owned sector (10.3%) and the foreign-direct investment (FDI) sector (1.5%).

Sectorally, in 2004, out of the 42,329,000 jobs in Vietnam, 57.9% worked in sector I (agriculture–forestry–fisheries), 17.4%, in sector II (industry and construction) and 24.7% in sector III (services).

The wage labor force made up to 25.6% of the total working labor force. Among the eight regions, the highest percentages of wage labor are in the South East Region (44.2%), the

Mekong River Delta (028.1%), the South Central Coastal Region (27.5%), and the Red River Delta (26.2%). The North West Region had the lowest rate at 9.8%; the other regions have shares ranging from 15 to 16.4%.

The labor force participation rate in Vietnam is very high for both men and women, and unemployment rates are very low. This feature makes Vietnam's labor market different from those in some other Asian countries where there are low labor force participation rates and high unemployment rates. In Vietnam, most members of the working-age population work and have jobs (see Table 3).

Table 3. Structure of Labor Force

	1993	1998	2002	2004
Do not work	19.42	15.32	16.69	17.17
Work	80.58	84.68	83.31	82.83
Employment				
Government	3.08	3.55	4.44	5.25
State-owned enterprises	2.50	2.57	3.30	3.14
Private enterprises	10.78	10.14	15.71	16.99
FDI enterprises	0.10	1.12	0.80	1.33
Non-agricultural jobs	14.67	16.52	19.05	16.52
Agriculture sector	49.46	50.15	38.20	38.77
Unemployment		0.63	1.80	0.83
Total unemployment rate		0.74	2.16	1.00
Unemployment rate in urban areas *		1.44	3.31	1.96
Unemployment rate in urban areas **		6.85	6.01	5.60

* According to GSO

** According to MOLISA

Out of the eight regions, decreases were observed in the unemployment rate of the urban working-age labor force in five regions: the Red River Delta, the North East region, the North Central region, the South East region, and the Mekong River Delta. Increases were seen in the other three regions (see Table 4).

Table 4. Unemployment Rates of the Urban Working-age Labor Force by Region, 2001–04 (%)

	2001	2002	2003	2004
Whole country	6.28	6.01	5.78	5.6
Red River Delta	7.07	6.64	6.37	6.03
North East	6.73	6.1	5.94	5.45
North West	5.62	5.11	5.1	5.3
North Central	6.72	5.82	5.45	5.35
Coastal South	6.2	5.5	5.46	5.7
Central Highlands	5.6	4.9	4.39	4.53
South East	5.9	6.3	6.08	5.92
Mekong River Delta	6.1	5.5	5.26	5.03

Source: MOLISA

However, labor and employment surveys conducted by the Ministry of Labor and Social Affairs (MOLISA) showed that unemployment among members of the urban working-age labor

force who have completed the vocational qualification or higher is still relatively high, while the labor market has a serious shortage of highly qualified or skilled workers. (The unemployment rate for those who have completed the vocational qualification is almost 4.4%, and among those who have completed the tertiary qualification it is 3.8%.)

In parallel with the downward trend in the unemployment rate of the urban labor force, the ratio of utilized working time in rural areas continued to increase in all regions throughout the country. In 2004, three out of the eight regions achieved ratios of over 80%; three achieved approximately 79%, and two roughly 77%.

School and Professional Education

School Education

In 2005, 3.67% of the labor force in the country was illiterate; 29.05% had completed primary school, 33.52% had completed secondary school, and 21.60% had completed high school (see Table 5). Data on education of the labor force also reflect the fact that the percentage of the workers who are literate but have only a primary education is still high, accounting for 44.89% of the total labor force; the percentage of literate workers who have relapsed into illiteracy is also considerable (mainly in the North West and in the Central Highlands). There are still relatively significant differences in education levels of the labor force between urban areas and rural areas, as well as between different regions.

Table 5. Ratio of People of Working Age Who Have Work, by Educational Level, 2005

Educational level	%
Illiterate	3.67
In primary school	12.05
Finished primary school	29.17
Finished secondary school	33.52
Finished high school	21.60

Source: MOLISA

Technical and Professional Qualification

The technical skills and qualifications of the labor force have continued to improve. In 2004, 22.5% of the labor force in Vietnam received training (see Table 6): 13.3% received vocational training (both short-term and long-term training and both with and without certification at the skilled or introductory levels), 4.4% completed vocational high school, and 4.8% completed tertiary education. Compared to that of 2003, the rate of untrained labor in the country dropped by 1.5%; that of trained labor rose by 0.8%, that of vocational school graduates by 0.3%, and that of tertiary graduates by 0.4%. In general, the educational and technical and professional qualifications of the labor force continued to improve in both urban and rural areas.

However, there are still substantial differences in technical and professional qualifications of the labor force between urban and rural areas as well as mountainous and remote areas. In 2004, the Red River Delta ranked the first among the regions with the highest percentage of trained labor (31.9%) and the North West last with the lowest percentage (11.3%). Unless there are adequate support mechanisms and measures to overcome re-illiteracy and to provide short-term vocational training, Vietnam will find it hard to fulfill the objectives set out in the socio-economic development strategy for the year 2010.

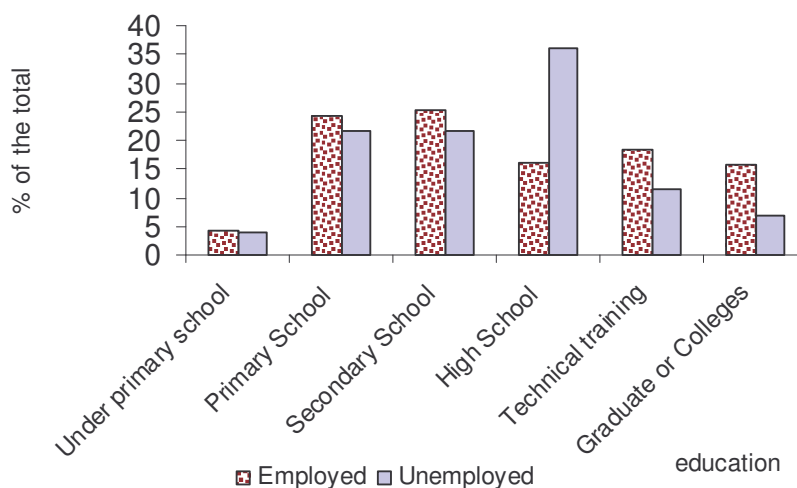
The unemployment rate in Vietnam is lower than the international standard. This is no surprise in an economy where agriculture plays a major role, because unemployment in agriculture is temporary. The rate in urban areas, however, is also rather low, ranging from 2% to 6%; and a survey of households in Vietnam in 2004 revealed that the majority of unemployed people in

Vietnam are young and rather well qualified (see the details in Figures 11 and 12). Unemployment, of course, is an unhappy situation, even when individuals without jobs are supported by their families. Currently, there are a large number of unemployed people around the age of 30, due to lost jobs. However, this situation is not a problem confined to Vietnam.

Table 6. Labor Force Structure by Technical Skills and Qualifications, 2004

	Untrained labor	Trained labor		
		Total labor force	Those with primary, vocational training and skilled workers without certification	Skilled workers with certification
Whole country	77.48	22.52	11.54	10.98
Red River Delta	68.10	31.90	16.80	15.10
North East	81.98	18.02	6.73	11.29
North West	88.70	11.30	2.80	8.50
North Central	83.57	16.43	6.87	9.56
Coastal South	74.56	25.44	14.72	10.72
Central Highlands	84.16	15.84	6.63	9.21
South East	68.19	31.81	17.63	14.18
Mekong River Delta	85.67	14.33	8.37	5.96

Source: MOLISA

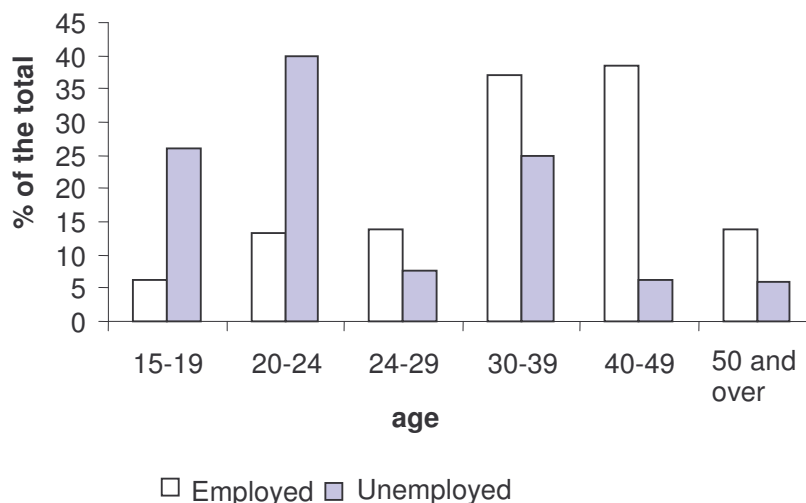


Source: MOLISA

Figure 11. Characteristics of Unemployment by Educational Level

On the other side of the picture, the number of jobs that are not filled is high. The 2004 survey revealed that skills and qualifications of job applicants were limited. When more jobs are available, turnover is higher. Skilled and qualified employees either voluntarily move to other organizations or are recruited to change jobs. One CIEM survey on job rotation in the period 2001–03 revealed that the job rotation rate among the foreign direct investment companies was 43.4%, a very high level. The highest rate exists in the textile and garment and leather and shoes industries. Among the jobs with high turnover rates, 42% required skill and qualification. Data

from companies that lost employees showed that 32% of the workers who left moved to other companies, 23% set up their own businesses, and 18% moved to domestic companies. Information about the rest was unavailable.



Source: MOLISA

Figure 12. Characteristics of Unemployment by Age

The job rotation rate in the South is the highest, in contrast to the North. One three-round survey conducted by the Institute of Social and Labor Science compared Hanoi–Hai Phong with Ho Chi Minh City. In Hanoi, about 10% of the enterprises surveyed reported that they lost employees and had to recruit new ones. In Ho Chi Minh City, however, this rate reached 50%. In most cases, the employees are proactive, leaving in response to promising offers from other organizations.

There still is intangible unemployment in State-owned companies. Two factors account for this situation: the abundant labor available in the central planning mechanism and the free time during office hours that is available to new recruits.

One survey on the investment environment conducted by the World Bank in Vietnam in 2004 revealed an interesting result. When asked about downsizing, the enterprises overall said that they could cut 14% of their labor force; for private enterprises, however, the number was 3%. Managers of State-owned enterprises were not motivated to report on the abundant labor since it reflected shortcomings in their management.

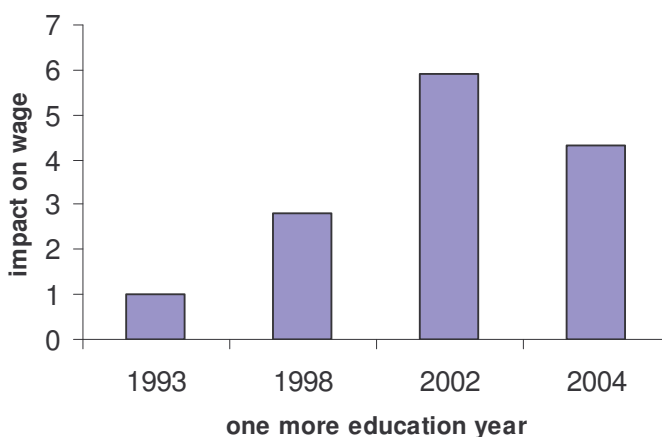
Income of Wage Earners and Labor Cost

In Vietnam, the average monthly income in 2004 was VND845,000; that in urban areas was VND899,000, 1.3 times higher than that in rural areas. Of the eight regions, the South East region has the highest average monthly income for a wage earner (VND935,000). This is 1.2 times higher than that in the Mekong River Delta region, where average monthly income was the lowest. The data show that labor cost in Vietnam is lower than that in neighboring countries. The same thing is true in foreign direct investment enterprises: the average income in this sector is USD75–80 per month for workers, USD220–225 per month for engineers, and nearly USD500

per month for staff. This level is much higher than that in the domestic sector but still low in comparison with the neighboring countries.

There is a significant difference between wage levels among the regions of Vietnam. This may be the motive for labor immigration. The survey conducted in 2004 revealed that the average monthly wage in Ho Chi Minh City is nearly VND1.5 million; that in Hanoi and Quang Ninh is VND1.2 million, whereas that in Hau Giang, Tra Vinh, and Soc Trang provinces is lower than VND500,000. The monthly wage depends not only on the region but also on the characteristics of the worker. Skills, qualifications, and experience are the most important things determining the wage level. Employees with the same skills, qualifications, and experience, however, are not treated equally. There still is a gap between the wage levels of employees with the same characteristics in the State sector and the private sector. Wage levels in the State sector do not follow the rules of the labor market: employees often receive much lower wages than in other sectors. Some of them may receive special benefits, but many do not receive anything except wages. A significant difference exists between rural and urban areas, and women tend to receive lower wages than men.

The relationship between higher wages and higher qualifications has become more striking than ever. In 1993, one learning year was equal to a 1% increase in wages, and 10 learning years were equal to an increase of 6% (see Figure 13). Obviously, this is an insignificant difference if we sum up the learning years. In 1993, a high school graduate earned 10% more than a person with a primary school education. In 2002, this number exceeded 80%.



Source: GSO

Figure 13. Impact of Education on Wages

Women have become less disadvantaged. In 1993, a woman with the same skills, qualifications, and experience as a man often earned 32% less than the man. In 2004, the difference was 16%.

In summary, there have been positive changes in terms of labor, employment, and income in Vietnam. These changes resulted from high levels of economic growth, ongoing development of the private sector, international economic integration, and efforts by the relevant ministries and localities. These important efforts included:

- extending activities to facilitate creation of employment through healthy development of labor markets, enhancing the organization and operation capacity of employment promotion centers, organizing employment fairs, planning and improving promotion center networks;

- conducting vocational training for targeted populations including farmers, people completing their military obligations, and young people of ethnic minorities; supporting vocational training in disadvantaged areas; encouraging all economic sectors to invest in vocational training and improve facilities, equipment, and other resources for vocational training; paying attention to developing key training institutions to train high-level labor to supply human resources for key economic sectors;
- improving the quality of the labor market information system, serving as a bridge between training institutions, trainees, and employers.

In parallel with these achievements, there are still pressing issues calling for attention from the central government and local authorities. First, the numbers and percentages of workers who have undergone training, particularly vocational training, in rural, mountainous, remote, and less developed areas are still low. Second, despite a relatively high percentage of trained labor, there is still a failure to meet demand in the labor market, both domestic and international. Thirdly, the competitiveness of Vietnam's labor force is still weak compared to many other countries in the region.

Labor Migration

In 2004, out of the total working population in Vietnam, 98.5% worked in the province/city of their residence registration; only 1.5% worked outside their place of official residence (for the sake of simplicity, we can call these migrant-laborers). However, in some cities and provinces, the latter constituted a relatively high percentage: for instance, 10.6% in Lai Chau, almost 9% in Quang Ngai, 6.6% in Quang Nam, and 6% in Ha Tay and Tra Vinh. The South Central Coastal region scored the highest percentage, at 29.4% of the country's total number of out-migrant-laborers, followed by the Mekong River Delta with 24.1% the Red River Delta with 22.7%, the North Central Region with 14.6%. The remaining regions had figures less than 1% (see Table 7).

Table 7. Selected Indicators of Interregional Migration as of 1 July 2004 (for working laborers)

	Number of out-migrant-laborers (persons)	Share of out-migrant-laborers (%)	Number of in-migrant-laborers (persons)	Share of in-migrant-laborers (%)	Net number migrant-laborers (persons)	Net share migrant-laborers (persons)
Total	380,962	100	380,962	100	0	0
Red River Delta	86,578	22.7	30,615	8	-55,963	-14.7
North East	23,142	6.1	43,623	11.5	20,481	5.4
North West	273	0.1	6,817	1.8	6,544	1.7
North Central	5,559	14.6	3,725	1	-51,865	-13.6
Coastal South	111,853	29.4	473	0.1	-11,138	-29.6
Central Highlands	3,104	0.7	26,232	6.9	23,128	6.2
South East	8,797	2.3	261,122	68.5	252,325	66.2
Mekong River Delta	91,625	24.1	8,353	2.2	83,272	-21.9

Source: MOLISA

The majority of the country's in-migrant-laborers (68.5%) were attracted to the South East region to work, especially to Ho Chi Minh City. Next on the list were the North East region (11.5%) and the Red River Delta (8%).

The South East region had the largest net share of migrant-laborers (in-migrant-laborers minus out-migrants) at 66%, followed by the Central Highlands and the North East with 6.2%

and 5.4%, respectively. The above-mentioned regions/localities have attracted more labor mainly because of the existence of more employment opportunities and higher incomes and living standards.

Labor Export Market

Labor export plays an important role in creating employment, particularly for young workers—enhancing skills, generating income, and thereby contributing to hunger eradication and poverty reduction.

In recent years, there have been considerable changes in Vietnam's labor exports, in terms of quantity, quality, and market. The number of exported workers increased from 46,112 in 2002 to 75,000 in 2003 and fell to 67,447 in 2004, representing growth rates of 27.5%, 62.5%, and –10.0%, respectively. In 2004, up to 90% of the exported workers were placed in skill-demanding jobs, of whom nearly 50% received training before departure and more than 40% were trained on the job. Up to now, Vietnam has exported more than 400,000 workers to almost 50 countries. Vietnam's key labor export markets are Taiwan, Malaysia, South Korea, Japan, and Lao PDR (see Table 8 for the exact figures). Every year, a remittance of about USD1.6 billion is sent to Vietnam by exported labor.

Table 8. Vietnam's Key Labor Export Markets 2004

Country	Number of exported laborers
Taiwan	37,144
Malaysia	14,567
South Korea	4,779
Japan	2,752
Lao PDR	6,600

Source: MOLISA

POLITICAL ENVIRONMENT

Vietnam is a socialist republic, in which there is only one political party leading the whole country. The environment of Vietnam, especially the business environment, has been stable for a number of years.

Impact on and Involvement of Multiple Stakeholders

Every year, about 1.4 to 1.5 million young people reach the age at which they can work. The country's sustainable development and social stability depend heavily on these people's ability to find jobs, and much effort has been made to support these people (see Table 9 for the number of workers by sector in recent years).

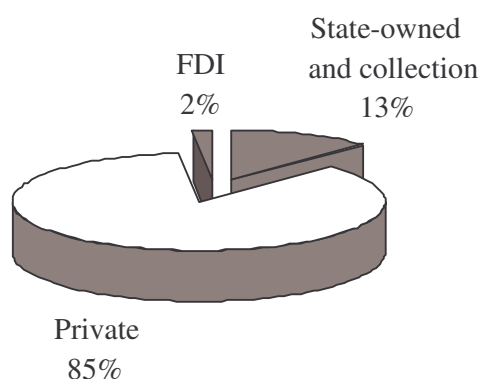
Among the industries, agriculture and forestry account for the largest proportion of people. This industry employed approximately 60% of the total labor of the country in 2000 and 53.6% in 2005. The activities of international organizations and associations amounted to 0.011% in 2005, the smallest proportion.

The private sector is considered a machine that generates jobs in the economy with a high degree of efficiency. In other words, the number of jobs is high (see Figure 14) and the cost of one job is low in this sector. One measurement of cost of creating jobs is average capital investment per employee in each sector. Table 10 shows this figure for the three sectors: state-owned and collective, private, and foreign investment. However, this comparison may not be reasonable since workers in some state-owned enterprises have been employees in other sectors. If the number of workers in this sector is adjusted for the purpose of making a profit, the average capital investment per employee will increase.

Table 9. Number of Workers Classified by Industry

	2000	2005	Fluctuation
Agriculture and forestry	22,598,173	23,284,796	686,623
Fishery	1,049,763	1,369,976	320,213
Mining and quarrying	265,757	404,123	138,366
Manufacturing	3,800,609	5,042,141	1,241,532
Electricity, gas, and water supply	101,768	147,126	45,358
Construction	1,263,842	2,187,459	923,617
Wholesale, retail trade, and repair of motor vehicles	3,937,880	5,017,520	1,079,640
Hotels and restaurants	489,852	701,380	211,528
Transport, storage, and communications	1,153,180	1,395,103	241,923
Finance and credit	117,069	177,389	60,320
Science and technology activities	29,064	20,192	-8,872
Real estate, renting, and business activities	100,337	235,115	134,778
Public administration and defense, compulsory social security	542,845	726,551	183,706
Education and training	1,027,527	1,232,940	205,413
Health and social work	270,645	359,514	88,869
Culture and sport activities	93,954	132,640	38,686
Activities of party and membership organizations	108,457	165,882	57,425
Other community, social, and personal service activities	585,019	652,447	67,428
Private household activities	139,135	195,322	56,187
Activities of international organizations and associations	1,509	4,787	3,278
Total	37,677,429	43,452,403	5,774,974

Source: GSO Vietnam



Source: MOLISA

Figure 14. Rate of Labor by Economic Sector

Table 10. Average Capital per Employee (VND1,000)

No	2000	2003
State	112	150
FDI	362	246
Private	40	54

Source: Vietnam's Economy 2004

At the end of 2005, the Department of Salary and Wages, one unit of MOLISA, conducted a survey on labor, salaries, incomes, and productivity in enterprises for the first time. The sample of the survey included 500 enterprises located in all over the country. The total number of respondents was 5,000, with working time of at least one year. The result revealed that 50.8% of the respondents had passed technical training courses with a certificate whereas 29.6% passed without any certification. The result of the survey showed the average salaries and incomes of employees. Overall, the higher the education degree, the higher the salary (see Table 11).

Table 11. Average Salary and Income of Laborers
Classified by Qualification (VND1,000)

Education	Average salary in 2005	Average income in 2005
University graduate and higher	2,488	2,876
College graduate	1,748	2,027
Professional training	1,427	1,549
Elementary	1,339	1,692
Technical training	1,325	1,575
Untrained employee	1,026	1,215

Source: Department of Salary and Wage, MOLISA

The result of the survey also revealed that managers and supervisors had the highest salaries whereas workers received the lowest. In the state and private sectors, managers and supervisors' salaries are three times higher than the workers'. In the FDI sector, this rate is nine times (see Table 12 for details).

Table 12. Salary classified by position (VND1,000)

Sector	Manager and supervisor	Professional	Worker
State-owned	4,332	1,514	1,418
FDI	12,000	2,232	1,391
Private	3,069	1,422	1,164

Source: Department of Salary and Wages, MOLISA

According to this survey, efficiency in the FDI sector is the highest among the three sectors. One unit of cost of salary generates 1.1 unit of profit, whereas in the non-state sector and the state sector one unit cost of salary generates 0.5 and 0.3 unit of profit, respectively.

Job Fluctuation

Vietnam now is in the development process, with a GDP growth rate of about 7.5% annually in the period 2001–05. The number of laborers in the country, thus, has been increasing over time. However, the structure of labor classified by industry has changed. The reasons for the changes may be as follows:

(1) *To follow the movement for privatization of state-owned enterprises.* In 1992, the Vietnamese government issued a policy that encouraged state-owned enterprises to privatize for the purpose of achieving higher efficiency. Privatization involved the process of assessing the enterprise's assets, issuing shares, selling shares, and restructuring the enterprise into a new organization. Since one of the reasons for privatization is inefficient operation, the restructuring process in most state-owned enterprises revealed the need to lay off large numbers of workers.

(2) *To formulate new strategic movement in an enterprises.* When the macro environment shows new opportunities or threats, enterprises should always be able to adjust their structures for the purpose of increasing their operating efficiency. Some enterprises recruit new employees; some lay off employees; and some recognize their weak competitive position in some area of their business and decide to no longer compete in that area. The enterprise, thus, could think of ways to narrow down its business, and one of aspect of such decisions is reducing the number of employees.

Another example relates to changes in regulations, which might, for example, increase the prices of goods exported from Vietnam to the point where customers stop buying the products and damage Vietnamese enterprises. The impact of this process may result in layoffs of employees in the sector.

Involvement of Multiple Stakeholders in Responding to the Changes

Union Leaders

Union leaders have crucial roles in making decisions on enterprise restructuring. Unions, in all countries, have a similar role—to protect the rights of employees—but the particular responsibilities of labor unions may vary from country to country. In Vietnam, concerning restructuring and retrenchment, the union has the following responsibilities:

- Finding out how employees think about restructuring and retrenchment. Employees are encouraged to generate ideas about how to reduce the negative impact of restructuring on the workforce.
- Making employees aware of the changes and encouraging them to accept them. Employees should not be shocked if they are on the list of people to be laid off. The union understands and shares the worried feelings of employees.
- Reducing the negative impact of restructuring that involves the downsizing by joining in the decision-making process to advocate for a new structure that will minimize the number of layoffs. Some employees may have to change their positions, which requires new knowledge, skills, and attitudes. The union can encourage these employees to be satisfied with their new positions, while at the same time helping them to adapt to the new jobs by training, coaching, etc.
- Working with people who are laid off by providing lump-sum grants for laid-off workers to help them find new jobs, locating new jobs for laid-off employees, or providing retirement benefits and helping those workers who satisfy retirement requirements.

CEOs and HR staff

CEOs play crucial roles in making decisions on restructuring. Often CEOs have the right to determine the new structures, with the support of unions and HR personnel. Unions and HR staff are often involved only in the aspect of workers' rights and benefits when the organization changes. The union is concerned with what the employees receive and how they will be affected

by the changes, and the HR staff are concerned with how to help the employees receive their benefits if they are laid off or change their working positions. The procedures include preparing a plan for changing the workforce, planning supportive activities, and an action plan.

When laying off employees, an enterprise can choose among several options, as follows:

(1) Change the position of employees. If a position is no longer needed and the enterprise does not want to lay off employees, they may find other positions for the workers who are affected. If this course is followed, the enterprise often helps the employee to adapt to the new job by providing consulting, training, and coaching. The enterprise may also create some favorable conditions for the transferred employees, such as lowering the working standards for the first three months, so that the new employee can more easily adapt to the new job.

(2) Early retirement. The enterprise may find a way for employees to retire early. The conditions for retirement are regulated in the Labor Law of Vietnam. Of course, the retirement salary is lower than the working salary, but both the employee and the enterprise may understand this is the best way to proceed. As a result, employees often chose this option if they satisfy the conditions for early retirement.

(3). The enterprise may help employees to find new jobs in other organizations. In addition, if the new job requires new knowledge, skills, and attitudes, some enterprises may grant employees a sum of money for a training course to fill the new requirements. By law, this sum is at least one month's salary. Often, an enterprise also awards an extra month's pay, so most of the time, employees receive at least two months' salary. Before the employees leave, the enterprise gives them psychological consulting. In Vietnam, there is no support for laid-off workers from local organizations.

EXAMPLES OF SSER

Case 1: Aviation Printing Joint Stock Company

Overview of the Company

Aviation Printing Joint Stock Company is a medium-scale company located at No. 200 Nguyen Son Road, Long Bien District, Hanoi. The precursor of the company was Aviation Printing Mill, which was founded on 1 April 1985 under Decision No. 250/TCHK of General Director of General Department of Civil Aviation of Vietnam. In March 1990, it was renamed Aviation Printing Enterprise. On 14 September 1994, the Minister of Transportation signed Decision No. 1481/QD/TCCB-LD to officially reorganize the state-owned enterprise named Aviation Printing Company. Its transaction name is Aviation Printing Company with the abbreviation IHK.

Aviation Printing Company started to implement privatization procedures at the beginning of 2004 and officially changed to its new structure in October 2005. Since then, the name of the Company is Aviation Printing Joint Stock Company.

Aviation Printing Joint Stock Company specializes in printing air tickets, vouchers, labels, wrapping paper and plastics, spongy layers, books, magazines, catalogs, and other products; producing perfumed napkins and toilet paper; and trading of printing machine, equipment, and materials.

The structure of the company is shown in Figure 15.

In 2000, the Company bought a Mark Andef 4150 Flexo press technology system, which gave it new capabilities including online numbering magnetic, stripe application, UV curing, lamination, corona treatment, diecutting, sheeting, slitting, baggage tag production, toll ticket printing, etc. Flexo technology has enabled the company to provide Flexo printing plates to printing enterprises in Northern and Central provinces in Vietnam.

The products of the company have been recognized as "High Quality Products" for many years and awarded gold medals at International and National Trade Fairs. The company's quality

management system was certified to be in accordance with the requirements of the international quality standard ISO 9001:2000 by BVQI in 2004.

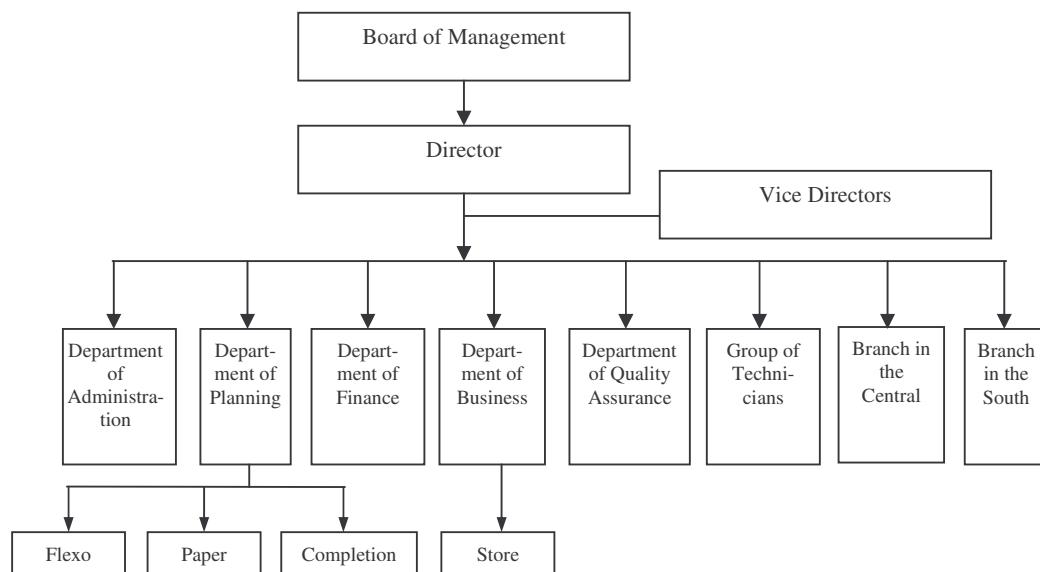
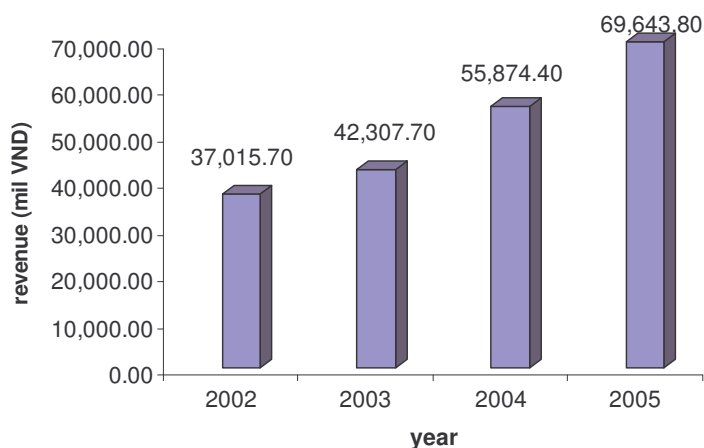


Figure 15. Structure of IHK

Table 13. Some Indicators of IHK

Indicator (Unit)	2002	2003	2004	2005
Revenue (Mil VND)	37,015.7	42,307.7	55,874.4	69,643.8
Profit before tax (Mil VND)	1,034.3	193.9	531.5	590.5
Number of employees	260	281	314	322
Average income per month (VND1,000)	1,442.1	1,014.7	1,623.9	1,821.0

Source: Department of Administration, IHK, 2005



Source: Department of Administration, IHK, 2005

Figure 16. Revenue of IHK in recent years

Figure 16 shows that the company has achieved stable development; revenue has been increasing by 15%–20% annually. The profit before tax significantly declined in 2003 as a result of high depreciation. The position of IHK in the market has been recognized by other companies in the industry. In the year 2000, the Vietnamese government granted a third-ranking labor decoration to the company and many merit records to individuals and units of the company.

Labor Force of the Company

At the moment, there are 322 employees at the company. Among them, 202 are female, accounting for 63% (see Figure 17).

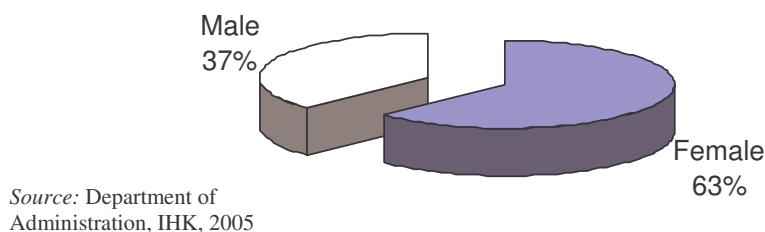


Figure 17. Structure of the Labor Force of IHK by Gender

Restructuring at IHK

State-owned enterprises have long shown number of shortcomings:

- do not play important roles, are inefficient, and have weak competitiveness;
- depend too much on the protection of the State;
- have small-scale and inefficient structures;
- do not belong to key industries of the country;
- have increasing debt loads and overtime pay burdens;
- have out-of-date technology and low speed of technology transfer;
- have too many workers performing some jobs;
- are not proactive in doing business;
- are characterized by ineffective managements, not dynamic and active in reacting to changes in the business environment.

Because of this, the Vietnamese government has decided to change the State-owned enterprises to joint stock companies in order to encourage the role of the workers and shareholders, in promoting productivity and efficiency. Privatization can be implemented in one of three ways:

- keep the existing value of the enterprise and issue shares to increase investment in it;
- measure the enterprise's value and then sell a part of it;
- measure the enterprise's value and then sell all of it to shareholders.

The Aviation Printing Company recognized their benefits of privatization at the beginning of 2004, and the management of the company decided to start privatizing. The company was valued at VND17 billion, equivalent to USD1.069 million. The company issued 1,700,000 shares with the structure shown in Table 14. The value of each share is VND10,000.

Table 14. Structure of Shares at IHK

Type of share	Number of shares
Normal share	1,005,593
Preferential share	207,100
Share for sales	487,307

Source: Department of Administration, IHK, 2005

Changes in the Labor Force of the Company

Even though the company tried to arrange jobs for employees in the new structure, five people were redundant. Table 15 shows the characteristics of these people. In addition, three people had to change to other jobs.

Table 15. Characteristics of Redundant Employees

No.	Sex	Age	Job	Educational level	Years worked	Solution
1	Female	54	Worker	Technical training	34 years 6 months	Early retirement
2	Male	55	Director of Branch	High school	37 years 8 months	Early retirement
3	Male	54	Vice director of Branch	University graduate	37 years 7 months	Laid off
4	Male	31	Worker	Technical training	10 years 6 months	Laid off
5	Male	34	Worker	Technical training	9 years 4 months	Laid off

Source: Department of Administration of IHK, 2005

To help the eight employees change their job situations, the company implemented a number of solutions. Table 16 illustrates how the company solved this problem.

Table 16. Solutions for People Who Had to Change Jobs or Be Laid Off

Consulting with employees	The company conducted a meeting with the laid-off employees and those changing jobs to explain the reasons for the changes. Two persons in the union were available to talk with these employees.
Providing benefits to early retirees	<p>The Labor Law of Vietnam stipulates that a retirement age of 60 for men and 55 for women. However, if workers are made redundant in the privatization process, they can receive the following early retirement benefits:</p> <ul style="list-style-type: none"> • receive a retirement benefit if they have at least 20 working years and fall in the age range of 55–60 for men and 50–55 for women; • enjoy no deduction of money due to early retirement; • receive 3 months' salary for each year of early retirement; • receive 5 months' salary for 20 working years; • receive a half-month's salary for each working year from year 21 to the present. <p>Procedures for receiving these benefits are implemented by the Department of Administration.</p>
Training for those changing to new positions	Three people received training and coaching when moving to new positions.

The management of the company cared a great deal about the changes affecting workers during the privatization process. The Director and Vice-Director of the company participated in the meeting with the employees. Since the process of privatization took a year and a half, the management reviewed the restructuring of the labor force monthly and reminded the Department of Administration to take care of these people.

Both the management and the union chose the above solutions to the problem of changing the labor force. In a state-owned enterprise in Vietnam, the union is the representative of the workers, so not all individual employees affected by the changes participate in the process of solving problems. The one activity that all of them were involved with was discussing their options if they were to be laid off, and the Company tried to meet them halfway.

In the process of privatization, the company received support from two sources. The Ministry of Finance supported the benefits listed above and shown in Table 16 for early retirement and half of the benefits for laid-off workers. The Vietnam Aviation Corporation supported the company in training and in solving problem of redundant employees. In addition, the Vietnam Aviation Corporation promised to remain a customer of the company for two years after privatization. However, the company asked for an extension of this time to five years, and the request was accepted.

Aviation Printing Joint Stock Company is an excellent example of a company that took care of its workers during the privatization process.

Case 2: Business Support Service Company

Overview of the Company

Business Support Service Company (BSS) is located in the fifth floor of Hoang Cau Trading Centre, Dong Da District, Hanoi. BSS was found in 2001 with the purpose of providing support and consultancy services to enterprises. The company specializes in the following services:

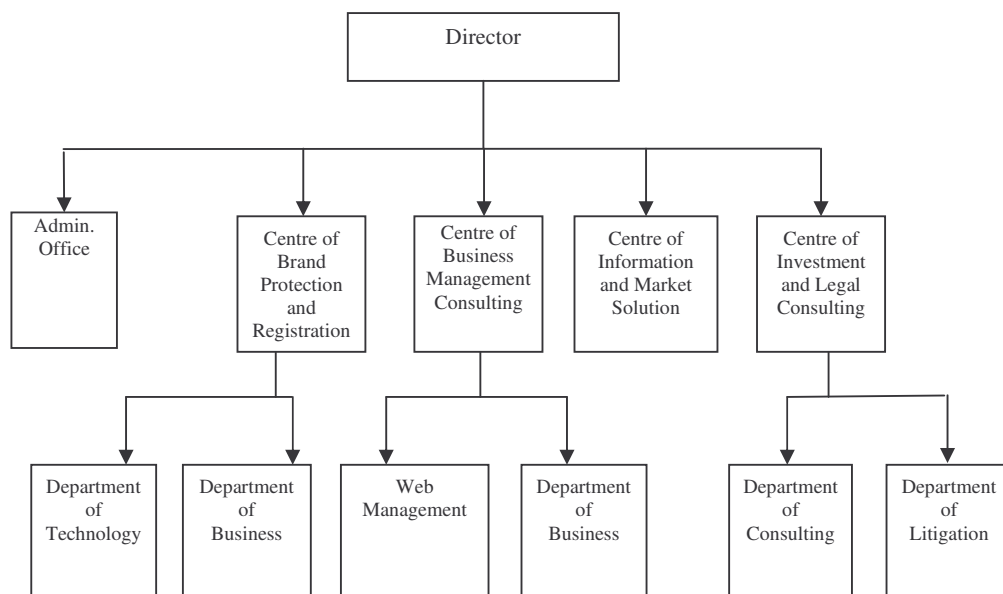
- business management consultancy implemented in cooperation between BSS and Antony Consulting Pte Ltd., one of the leading consulting companies in Singapore. The service focuses on consulting on strategic management, operations management, system management, and customer care management;
- investment and legal consultancy implemented in cooperation between BSS staff and qualified outside experts. It focuses on legal procedures, investments, finding business opportunities, trade promotion, and other legal issues.
- brand protection and registration is provided through BSS in cooperation with Trustcopy (Singapore), 3M (USA), and TSA (Thailand). BSS's brand protection service includes anticounterfeit technology and solutions. BSS also focuses on brand registration and property rights.
- market information and solutions. In cooperation with Vietnam Television and Vietbook Joint Stock Company, BSS has established a system of distributors in Vietnam. The service helps enterprises understand the market and especially customer service and support; at the same time, it helps customers by providing information on which to base their decisions in choosing goods and services.

Some of BSS's customers are Unilever, Viettel Mobile, FPT, Trung Nguyen Café, Samsung, VNPT, and VP Bank.

Figure 18 shows the structure of the company.

Currently, the four centers of the Company operate independently. Each center follows the principles of the company and tries to earn larger revenues than the level the company planned. In the first year of operating, BSS made enough profit enough to cover investment in the second

year. Even though the revenue was not high, it showed the potential of the company (see Table 17).



Source: Administration Office, BSS, 2005

Figure 18. Structure of BSS

Table 17. Revenue of BSS, 2001–05 (VND million)

Year	2001	2002	2003	2004	2005
Revenue	723.2	1113.7	1729.5	2103.4	2195.7

Source: Administration Office, BSS, 2005

Among the four centers, the Centre of Brand Protection and Registration has the largest revenue, accounting for 51.7% of the total revenue of the company.

Labor Force at the Company

Currently, BSS has 25 employees; of them, 88% are university graduates. Among these people, 18.2% are post-graduates. In addition, BSS employs a number of qualified experts, as listed in Table 18.

Table 18. List of Experts of the BSS

Expert area	Number	Country
Brand protection and registration	1	Singapore
Goods anti-counterfeit	2	Singapore
Strategic management and consultancy	4	Singapore
Marketing management	1	Vietnam
Consumer relationship management	1	Singapore
Communication management	1	Vietnam

Source: Administration Office, BSS, 2005

The employees are distributed unequally among the centers. Figure 19 shows the number of people in each center.

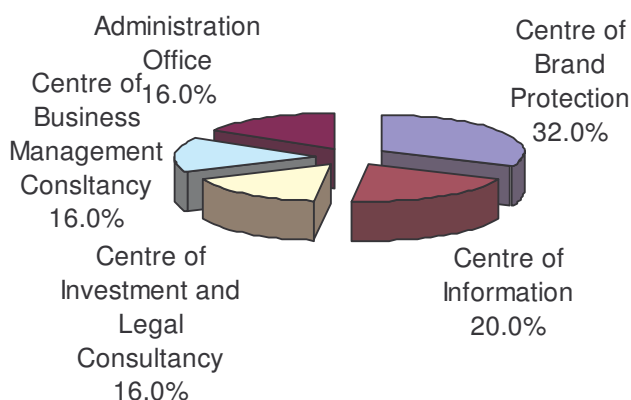


Figure 19. Distribution of People in BSS

Restructuring at the Company

Reasons for the Restructuring. In 2005, BSS planned a strategy to ensure that the operation of the Centre of Information and Marketing would dominate BSS in 2006. The revenue of this Centre was expected to be at least 50% of the company's total revenues. The Centre of Brand Protection and Registration would narrow down the operation and earn about a quarter of the company's revenue.

There were two reasons for this decision. First, BSS recognized the role and importance of information and the potential of online marketing. Based on some existing conditions of the company, such as the websites www.thitruong24g.com.vn and www.baovethuonghieu.com as well as the support of Vietnamese Television, BSS would develop online marketing solutions to help customers obtain information about products and services and enterprises provide precise and sufficient information to clients. Secondly, the Centre of Brand Protection and Registration, with its major role in anticounterfeit activity, has for a long time been known for providing anti-counterfeit stamps to stick on the products, vouchers, or tickets. Even though the center had high revenue in the two most recent years, it is expected that demand for this service will decline in coming years. As a result, BSS decided to cut the Centre's activities down.

After screening the activities of the Centre of Brand Protection and Registration, management decided to reduce the number of employees in that center. Table 19 shows the characteristics of the employees who were laid off.

Table 19. Characteristics of Laid-off Employees

No	Sex	Age	Position	Educational level	Years worked
1	Female	24	Officer	Graduate	2
2	Male	24	Officer	Graduate	2
3	Male	24	Officer	Graduate	2
4	Male	25	Officer	Graduate	2
5	Male	29	Officer	Graduate	0.5
6	Male	29	Officer	Graduate	0.5

Source: Administration Office, BSS, 2005

To reduce the impact on the employees of losing their jobs, BSS implemented a number of solutions, as shown in Table 20.

Table 20. Solutions to Downsizing at BSS

Consult with employees	The Director of BSS and the Director of The Centre of Brand Protection and Registration met with the employees to explain the reasons for changing the business. The decline in demand for anticounterfeit solutions seem to be so advanced in Vietnam that some large enterprises just used the BSS products for trials; others refused to use it. If the Centre keeps on providing this service, the low demand will lead to low revenue and the income of employees at the Centre would be too low to sustain their livelihoods. For this reason, it would be better to reduce number of people in the Centre. Since they are young, they can easily find other, better jobs.
Ask workers to resign	Even though the Centre made a profit in the two previous years, it invested too much in infrastructure, and thus the profit was negative at the time of restructuring. Understanding the financial problem of the Centre, six employees agreed to help the Centre by submitting documents of resignation. In return for doing so, they received one month's salary while they found new jobs.
Find other jobs	Both the Director and the Vice Director of the company tried to find other jobs for laid-off employees, using their contacts at companies that have businesses similar to that of the Centre of Brand Protection and Registration. As a result, one employee moved to Unicom Communication Joint Stock Company and two moved to the Centre of Information and Market Solutions. Others found jobs themselves.
Providing training for new job	For the three employees who moved to the Centre of Information and Market Solutions and to Unicom, BSS provided two training courses. Two employees moving to the Centre of Information and Market Solutions were given priority to receive official salaries instead of trial compensation right from the beginning. The one moving to Unicom was sent to Unicom for two days of job orientation, during which he learned about communication service and PR. He was able to quickly adapt to his work in the first month at the new job.

The most notable thing about BSS is that it does not have a union. A workers' union is not compulsory in every organization. All the activities undertaken to solve the problem of downsizing in BSS were decided on by the management of the company, especially the Director, and were implemented by the Centre of Brand Protection and Registration, not by the Administration Office as would be the case in other companies. Employees were asked for their desires about their work in the future, and the management of the company tried to meet their requirements. The solution was proposed by the Centre of Brand Protection and Registration to the laid-off employees. BSS did not receive any support from any outside organization in solving the problem of downsizing.

Downsizing at BSS is an example of employee layoffs in a non-state company in which a union does not exist. As a result of the management's effort, the employees were happy to leave the company.

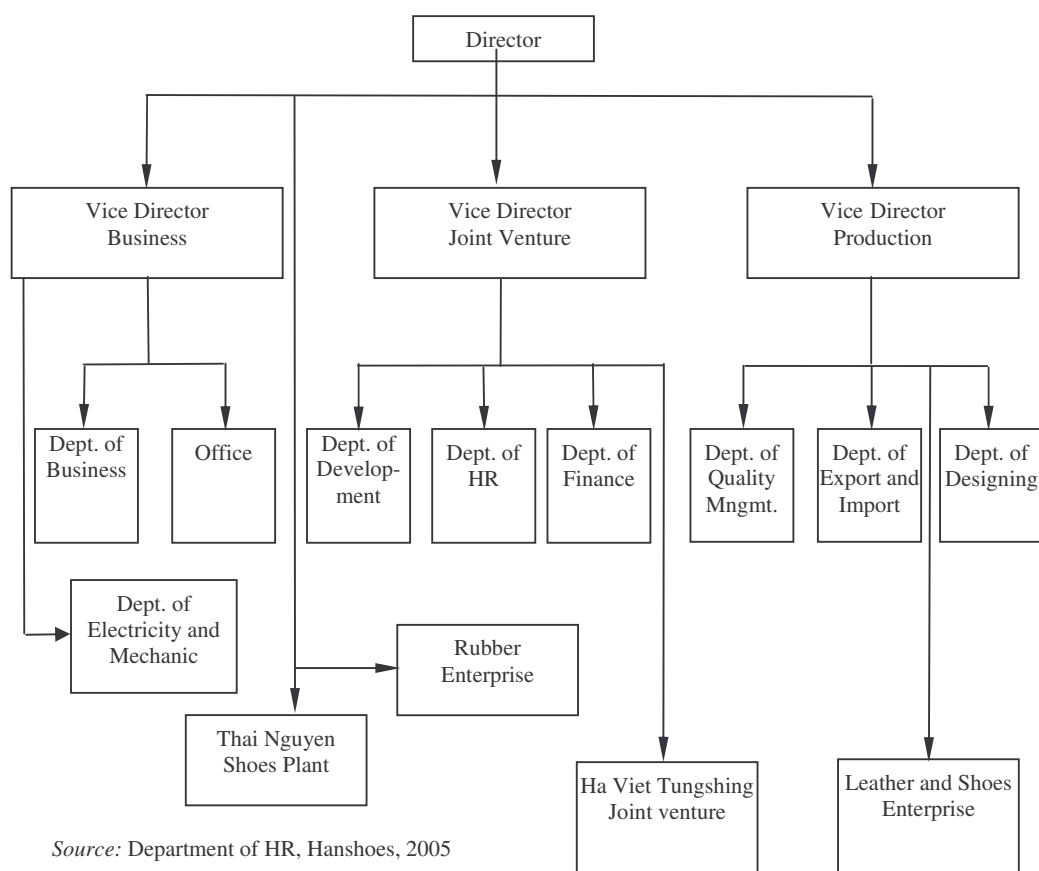
Case 3: Hanoi Leather and Shoes Company

Overview of the Company

Hanoi Leather and Shoes Company (Hanshoes), a joint stock company located in No. 409 Nguyen Tam Trinh Street, Hai Ba Trung District, Hanoi, was established in 1912. Its original name was “Société des tanneries de l’Indochine.” The company has been renamed several times and has been known as Vietnam Leather Company (1912), Thuy Khue Leather Company (1954), and finally Hanoi Leather and Shoes Company (1993).

Hanshoes provided mostly leather and leather shoes until 1998. Since then, Hanshoes has bought a canvas shoe technology system and concurrently moved the leather processing technology system to Vinh Leather Company in Nghe An Province. At present, the capacity of the company is 1.5 million pairs of shoes annually. In 2005, the production volume of the company was 1.263 million pairs of shoes, of which 90% were exported. The main exporting markets are the United Kingdom, France, Germany, Italy, Belgium, Holland, and Spain.

The structure of the company is rather complicated. Figure 20 shows this structure.



Source: Department of HR, Hanshoes, 2005

Figure 20. Organizational Structure of Hanshoes

There are four management forces at the company. The Party leads the thinking of the people; the Board of Management controls all the business activities; and the Union and the Young Association concurrently participate in protecting the right of employees.

Achievement of Hanshoes in Recent Years

Since the middle of 1998, Hanshoes has been in the process of changing from leather processing to shoe production. At the starting point, Hanshoes faced many difficulties and recorded losses in the period of 1998–2000. In 2000, Hanshoes bought a shoes technology system and concurrently opened a design department. This huge effort led to profits in the following years. Production volume was approximately one million pairs annually until 2005 (see Table 21).

Table 21. Production Volume of Hanshoes in Recent Years

Product	Unit	2003	2004	2005
Canvas shoes	Thousand pairs	750	400	440
Leather shoes	Thousand pairs	500	150	128
Sport shoes	Thousand pairs	0	565	695

Source: Department of HR, Hanshoes, 2005

Leather shoe production is an important industry in the economy, since shoes are one of the necessities for consumers. In recent years, due to fundamental changes in investment and production, Hanshoes achieved good results. Table 22 shows some indicators of the company.

Table 22. Some Indicators of Hanshoes

Indicator (unit)	2002	2003	2004
Revenue (Mil VND)	65,000	50,400	82,000
Contribution to state budget (Mil VND)	2,000	2,310	2,500
Export value (1000 USD)	2,000	3,290	3,400
Number of labors (person)	1,050	1,760	1,350
Average income (1000 VND/ month)	700	650	750
Profit (Mil VND)	200	62	350

Source: Department of HR, Hanshoes, 2005

As shown in the table, revenue in 2003 decreased. The reason is changes in the structure of production. The changes seem to have been a right decision, however, because the revenues and profits improved in 2004 and 2005. Annual profit has not been high, but there is growth potential.

The company's contribution to the State budget increased over time. Export value increased also. However, Hanshoes faces difficulties in directly connecting to the export market. Most of the exports are sold through Chinese or Taiwan intermediaries, which has several disadvantages: the company suffers from price pressure, and its name is not known to the ultimate buyers of its products. On the positive side, Hanshoes saves a large amount of money since it does not have to spend on marketing and product research. For the time being, Hanshoes has no choice but to continue using intermediaries to sell its products outside Vietnam. The domestic sales volume accounts for a very small proportion (see Table 23 for details on exports and Table 24 for a breakdown of domestic sales).

Table 23. Structure of Export Market of Hanshoes (USD1,000)

Country	2002	2003	2004	2005
UK	451	242	253	284
France	208.2	218	224	240
Switzerland	377.4	520	173	170
Germany	440.4	500	602	650
Holland	376	966	1,009	1,250
Italy	–	183	203	230
Belgium	–	120	144	164
Mexico	–	127	161	170
Hungary	6	34	192	210
Denmark	20	128	158	175

Source: Department of HR, Hanshoes, 2005

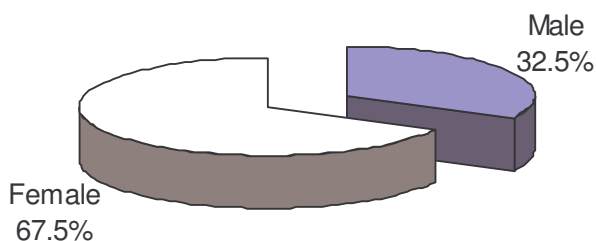
Table 24. Structure of Domestic Sales (pairs of shoes)

Region	2002	2003	2004	2005
Hanoi	52,000	49,000	50,000	56,000
Son Tay	12,000	10,000	8,200	14,000
Bac Giang	2,350	2,300	2,000	2,200
Hai Phong	1,900	1,900	2,000	2,400
Thai Nguyen	3,200	2,800	2,300	2,500
Bac Ninh	2,000	2,200	1,900	1,950
Phu Tho	1,200	900	-	-
Total	7,465	69,100	66,400	79,050

Source: Department of HR, Hanshoes, 2005

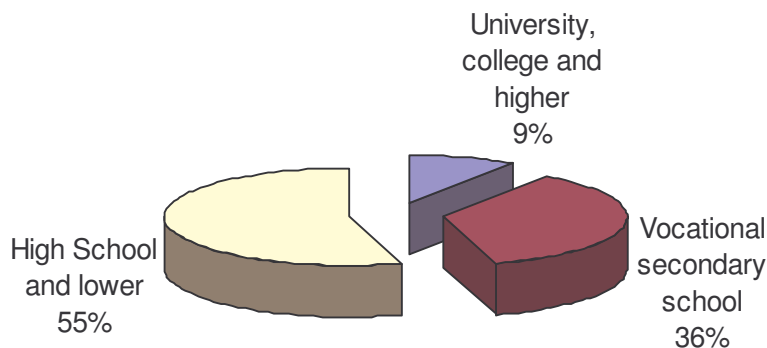
Human Resources at the Company

In 2002, there were 1,050 workers at Hanshoes. This number increased to 1,760 in 2003, then decreased to 1,350 in 2004. The reason for the fall in the number of workers between 2003 and 2004 is privatization. In 2005, the number of employees was 1,378 people. However, in May 2006, the number of employees declined to 975 people due to changes in regulations. The structure of the workforce of the company can be illustrated as Figures 21 and 22.



Source: Department of HR, Hanshoes, 2005

Figure 21. Structure of Labor Force of Hanshoes by Gender



Source: Department of HR, Hanshoes, 2005

Figure 22. Structure of Labor Force of Hanshoes by Educational Level

The average income of employees fluctuated in the period 2002–2005. First it decreased from VND700,000 to 650,000 per month, then increased to VND750,000 and 780,000 in 2005. In July 2006, it decreased to 630,000, a very low level.

In Hanshoes, females account for a very large proportion of the workforce. The low level of wages created a situation where most employees are untrained and have very low skill levels. The number of employees with university, college, and higher degrees are only about 9% of the labor force. Untrained employees who have never passed any training course account for one fifth of the workforce. This is a very high proportion.

Restructuring at Hanshoes

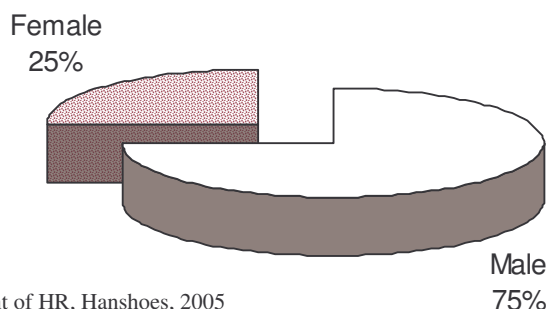
Reasons for restructuring. At the beginning of 2005, there were about 500,000 employees in the leather and shoes manufacturing industry in Vietnam. However, on 30 May 2005, the EU Association of Leather submitted a document to the European Commission (EC) proposing that the Commission research the devaluation of leather shoes from Vietnam. Based on this document, on 7 July 2005 the EC officially informed the Association that they would start to examine the issue. Since then, the European customers of Vietnam leather and shoe companies have been reluctant to place orders. Some have even withdrawn orders that had been placed previously. Many companies have suffered from the lost business. Employees did not have anything to do, and thus received low salaries. As of April 2006, nearly 60,000 employees had lost jobs in this industry. The remaining employees have accepted pay reductions of 20% on average. It is expected that both the numbers of employees losing jobs and the reductions in income for those remaining will increase in the near future.

Hanshoes is no exception. As mentioned previously, nearly 90% of revenue is from exports, with more than 80% of them going to Europe. The new regulations have badly affected the business of the company. As a result, after four months of paying half-salaries to employees without any work, the company could not obtain orders from customers and had to think of ways of downsizing.

Figure 23 and Table 25 show the laid-off employees by gender and by number years worked. The total number of layoffs is 403. Each employee who was laid off received one month's salary for each year worked. The total cost to the company is equal to the total of number of years worked multiplied by one month's salary.

Most of the employees who had worked for the company for many years asked to resign in 2003, when Hanshoes privatized. They had reason to expect to be able to find better jobs in other

industries: salaries in the leather and shoes industry are about 60% of those in other industries in Vietnam.



Source: Department of HR, Hanshoes, 2005

Figure 23. Structure of Layoffs at Hanshoes by Gender of Employees

Table 25. Structure of Layoffs by Number of Years Worked

Number of years worked	Number of employees	%
<= 5	219	54.4
5-10	126	31.2
>=10	58	14.4

Source: Department of HR, Hanshoes, 2006

Table 26 shows the solutions to downsizing at Hanshoes.

Unlike Aviation Printing Joint Stock Company, at Hanshoes all the management forces including the Party, the Board of Management, the union, and the Young Association participated in the process of solving the problem of employee layoffs. Among them, the Board of Management and the Union were the most powerful in coming up with solutions to this problem. In the process of restructuring, the company received support from two sources: the Ministry of Finance, which provided half of the benefits paid to the laid-off workers, and the Vietnam Leather and Shoes Association, which offered training and guided the Human Resource Department in solving the problem of downsizing.

CONCLUSIONS AND RECOMMENDATIONS

The three cases showed three different reasons for restructuring and three situations. The first company restructured proactively during the process of privatization, transforming the enterprise from a state-owned to a joint stock company in order to increase profits. The second had to restructure to react to a change in the business environment. Due to limited demand for one of its products, the operation had to be narrowed down. The third company had to restructure in a reactive way, due to a sudden change in regulation of its exports. In each case, restructuring had bad effects. On the one hand, laid-off employees worried. On the other hand, the companies suffered financially as a result of paying compensation, and their reputations suffered.

This research focused on only three cases of state-owned, limited liability, and joint stock companies. There are several other types of enterprise that may also be affected by downsizing, but these cases have not been explored yet. Quantitative data should be collected to serve as references for future study.

Table 26. Solutions to Downsizing at Hanshooes

Consulting employees	The Board of Management of Hanshooes and representatives of the union met three times with employees to explain the reasons for cutting their salaries as well as the bad situation of the company at the time. Understanding the situation, employees were sad and worried but there was no complaint to the management of the company.
Asking for volunteer resignations	In the three meetings with employees, the Board of Management and the Union asked for employees to volunteer to leave the company. The company could not afford to pay the full salaries for employees for four months, but employees still had to come to work and received half of their normal compensation. It was a very small amount of money and really could not cover their living costs. Many employees thought of leaving their jobs, and more than 400 employees did volunteer to stop working.
Finding jobs in other companies	After looking around, the Board of Management and the union contacted the managements of several leather and shoe manufacturing companies to ask for their help in placing employees. Finally, Thuong Dinh Shoes Company agreed to recruit any employee who would like to continue to work for a shoe production enterprise. Thuong Dinh has also been impacted badly by the anti-devaluating regulations of the EC; however, more than 70% of its total revenue is in domestic sales, and the stability of the domestic market helped the company to withstand the bad export situation. Even so, salaries for Thuong Dinh employees have been reduced to 80% of the previous levels. In the end, considering the situation, no Hanshooes employees moved to Thuong Dinh, even though the company was open to hiring them.

APPENDIX

Table A. Number of People in the Working Population by Gender, Age Group, Educational Level, and Level of Technical Proficiency, 2005

	Total	Female	Urban		Rural	
			Total	Female	Total	Female
Total	52,565,372	25,932,865	14,590,648	7,289,554	37,974,724	18,643,320
By age group =						
15–19	9,665,119	4,685,073	2,074,426	1,007,540	7,590,693	3,677,533
20–24	7,356,112	3,522,336	1,988,093	993,310	5,368,019	2,529,026
25–29	5,487,116	2,710,368	1,628,363	823,459	3,858,753	1,886,909
30–34	6,043,364	3,167,393	1,676,610	879,392	4,366,754	2,288,001
35–39	6,454,233	3,333,931	1,805,749	961,525	4,648,484	2,372,406
40–44	6,443,701	3,303,231	1,874,670	966,910	4,569,031	2,336,321
45–49	5,749,236	3,052,542	1,852,382	980,253	3,896,854	2,072,289
50–54	4,041,995	2,157,991	1,273,595	677,156	2,768,400	1,480,835
55–59	1,324,496		416,760		907,736	
60 +						

By educational level						
Illiterate	1,887,730	1,125,808	208,700	114,864	1,679,030	1,010,944
Did not finish primary school	5,753,954	3,088,527	861,259	485,901	4,892,695	2,602,356
Finished primary school	13,975,172	7,032,179	2,829,716	1,460,022	11,145,456	5,572,157
Finished secondary school	18,534,026	8,912,242	4,300,020	2,119,367	14,234,006	6,792,875
Finished high school	12,414,490	5,774,369	6,390,953	3,109,391	6,023,537	2,664,988
By level of technical proficiency						
Unskilled worker	40,458,875	21,015,404	8,357,778	4,621,686	32,101,097	16,393,718
Skilled worker with no certificate	5,381,088	2,141,726	2,232,971	946,837	3,148,117	1,194,889
Skilled worker with certificate	1,651,765	400,133	931,744	217,484	720,021	182,649
Elementary	418,036	173,803	179,040	94,032	238,996	79,771
Vocational secondary school	2,134,352	1,031,101	1,086,309	580,259	1,048,043	450,842
College, university, and higher	2,521,256	1,170,698	1,802,806	829,247	718,450	341,451

Source: MOLISA, 2005

Table B. Number of People of Working Age Who Have Work by Gender, Economic Branch, Economic Sector, Working Position, 2005

	Total	Female	Urban		Rural	
			Total	Female	Total	Female
Total	40,893,929	19,473,001	10,048,095	4,656,070	30,845,834	14,816,931
By economic branch						
Agriculture, forestry and fishing						
Agriculture and forestry	21,495,320	10,874,280	906,216	432,556	20,589,104	10,441,724
Fishing	1,313,973	319,308	191,390	24,333	1,122,583	294,975
Industry and construction						
Mining and quarrying	391,621	140,224	118,705	35,001	272,916	105,223
Manufacturing	4,905,206	2,508,235	2,029,835	975,759	2,875,371	1,532,476
Electricity, gas, water supply	146,030	26,424	96,638	20,613	49,392	5,811
Construction	2,167,241	289,468	859,358	195,868	1,307,883	93,600
Services						
Wholesale and retail trade; repair of motor vehicles	4,676,805	2,823,259	2,496,143	1,493,696	2,180,662	1,329,563
Hotels and restaurants	645,967	439,206	388,008	260,462	257,959	178,744
Transport, storage, and communications	1,375,224	145,192	823,672	99,753	551,552	45,439
Finance and credit	174,149	88,758	139,355	77,877	34,794	10,881
Science/technology activities	19,666	7,297	17,716	6,459	1,950	838
Real estate, renting, and business activities	230,458	79,031	175,598	62,868	54,860	16,163
Public administration and defense, compulsory social security	709,611	189,354	406,905	138,758	302,706	50,596
Education and training	1,207,247	841,226	586,219	416,480	621,028	424,746
Health and social work	342,011	198,884	212,158	135,864	129,853	63,020
Cultural and sport activities	128,441	44,541	94,927	35,422	33,514	9,119
Activities of Party and membership organizations	152,373	49,449	79,148	30,675	73,225	18,774

Socially Sensitive Enterprise Restructuring in Asia: Country Context and Examples

Other community, social, and personal service activities	624,702	283,622	350,079	161,342	274,623	122,280
Private households activities	183,973	123,427	72,609	50,468	111,364	72,959
Activities of international organizations, associations	3,911	1,816	3,416	1,816	495	
By economic sector						
State	4,345,681	2,018,715	2,636,743	1,236,390	1,708,938	782,325
Collective	940,296	495,924	128,374	55,795	811,922	440,129
Private	2,637,467	963,257	1,115,983	411,165	1,521,484	552,092
Individual	32,272,663	15,580,616	5,837,689	2,777,279	26,434,974	12,803,337
Foreign investment	697,822	414,489	329,306	175,441	168,516	239,048
By working position						
Waged employee	10,963,076	4,426,907	4,986,061	2,105,518	5,977,015	2,321,389
Economic householder	9,963,616	2,339,867	1,125,321	426,616	8,838,295	1,913,251
Employer	166,291	46,569	89,547	24,387	76,744	22,182
Owner	6,278,776	3,288,718	2,620,996	1,356,546	3,657,780	1,932,172
Unpaid activities in household	13,522,170	9,370,940	1,226,170	743,003	12,296,000	8,627,937

Source: MOLISA, 2005

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Part III

Concluding Comments on Socially Sensitive Enterprise Restructuring

CONCLUDING COMMENTS ON SOCIALLY SENSITIVE ENTERPRISE RESTRUCTURING

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We have seen six different stories from six different countries. Each story showed not only some good policies and practices of the Asian companies going through restructuring, but also what policy-makers could do to make sure that restructuring is taking place in a way that allows firms to maximize economic benefits and minimize social and personal costs. Countries are different; cases are coming from the whole spectrum of sectors and regions. However, there are at least some major generally defined commonalities that these country reports highlight:

- Globalization, liberalization of trade, and various other global and regional trends make restructuring inevitable. Each country has experience in restructuring, regardless of the country's economic structure, level of economic development, political and social dimensions, and history.
- Each country has some bad and some good experience in restructuring from the SSER point of view. Both mistakes and good practices are rather common across the borders.
- It is difficult to underestimate the role of social dialogue and social partners in the process of socially sensitive restructuring.
- Quite a number of cases in this book describe restructuring that followed large-scale privatization. These cases show that socially sensitive privatization is not possible without policy interventions, resulting in certain obligations, restrictions, and support mechanisms.
- Socially sensitive restructuring in all countries was a result of both voluntary initiatives of business and policy support. It is clear that successful SSER can not be achieved in the absence of either one of these pillars.

In this chapter we will make an attempt to summarize the tools most commonly used by the enterprise management in cases of restructuring; as well as most commonly used policy instruments aimed at minimizing social costs of restructuring.

Most of the cases presented in this book report a rather uniform set of tools that the companies are using while addressing social dimension of restructuring. These tools were described in the Introduction and could be grouped in the following broadly defined categories:

- anticipation;
 - no-layoff restructuring;
 - placement;
- separation schemes.

Anticipation

As we have already said, restructuring should always be anticipated. Companies that have some sort of contingency plan for “Day X” are usually better prepared for the harsh consequences of restructuring, and are better equipped to address the restructuring challenge in the most efficient way. Anticipation of restructuring should be a part of long-term corporate thinking and planning in general, and HR planning in particular. Ongoing social dialogue at the enterprise level is a key component of such thinking. Continuous training and education, job rotation, and other forms of job redesign are important elements of anticipation. The cases from Singapore (Murata) and Malaysia (MASKargo and PHAAM) provide some interesting examples of anticipation of restructuring.

No-Layoff Restructuring

Restructuring is not necessarily downsizing! There are many options that the companies can explore before considering the option of laying people off. Such no-layoff options could include both policies and practices not affecting labor costs, as well as no-layoff instruments that involve cuts in labor costs but that stop short of firing people. Such no-layoff policies involve cuts in management pay as well as introduction of alternative work schedules. These and other instruments are described in three cases from Singapore (A Systems, M PTE Ltd., and Ne Co., Ltd.). Some interesting tools were used by Yunan–Kimberly (Republic of Korea), as well as by ATC and the University of the Philippines (both from the Philippines).

Placement

This is a broadly defined category of tools that include a wide variety of instruments that the companies were using in order to make sure that displaced workers were able to get new jobs (both within and outside of companies). Such tools include counselling, re-training, direct assistance in job searches, assistance in starting new businesses (including cooperatives and employees' participation in shares of the privatized companies), and mobility assistance. These tools were employed by the majority of companies covered by the current study. Counseling was an important element of restructuring at, among other companies, Daewoo Motor Corporation (Republic of Korea), Aviation Printing Co., and Hanoi Leather and Shoes Co. (both Vietnam). Development of skills (including job search skills) was an integral part of restructuring at Daewoo (Republic of Korea), Murata and M PTE Ltd. (Singapore), Aviation Printing Co. and BSS (Vietnam), and C3 (Malaysia). Job search assistance is well described in the cases of Daewoo (Republic of Korea), as well as BSS and Hanoi Leather and Shoes Co. (both Vietnam). Help in the development of new businesses and employees' financial involvement in the ownership of restructured companies is illustrated by TMTC and CSC (both Republic of China) and San Miguel Corporation (The Philippines). Mobility assistance was provided by Korea Credit Guarantee Fund (Republic of Korea), CSC (Republic of China), and Aviation Printing Co. (Vietnam).

Separation Schemes

This is a group of instruments most commonly used in restructuring process. It includes, first of all, early retirement and severance package schemes. These are perhaps the simplest and at the first sight the cheapest instruments that management can use in case of restructuring. However, as we have discussed above, these methods could lead to some quite negative consequences, such as loss of professionally skilled employees and, what is even more dangerous, loss of institutional knowledge. Moreover, these methods, once applied, could have a damaging effect on the morale and career plans of the whole workforce, including those employees who were not directly affected by restructuring. Separation schemes were used, among others, by Murata (Singapore); TMTC and TSIC (both Republic of China); three Vietnamese companies covered by the current study (Aviation Printing Co., BSS, and Hanoi Leather and Shoes Co.); PHAAM (Malaysia); and Unilab, San Miguel Corporation, ATC, MWSS, and MERALCO (all the Philippines).

Almost all the cases described in this book demonstrate the importance of social dialogue, consultations with stakeholders, and communication. However, companies do not operate in a vacuum. The success of any restructuring effort (especially in cases of privatization) largely depends on support from the governments, local authorities, and social partners. Each of the six national reports provides a comprehensive overview of policies and approaches that made sure that restructuring could be carried out in the socially sensitive way. These policies and approaches could be tentatively divided into the following groups:

- policies aimed at anticipation of restructuring (including policies related to long-term workforce planning and training);
- social dialogue;
- legislation and regulations;
- crisis response policies.

POLICIES AIMED AT ANTICIPATION OF RESTRUCTURING

The examples from Malaysia, Singapore, Republic of Korea, and Vietnam deserve attention here.

In Malaysia, according to Nor Hafizah Mohd, government policy is based on the notion that “increasing investment in capital-intensive and knowledge-based industries will increase the demand for highly skilled manpower as the utilization of new technology creates more jobs with high skills content. In this regard, training and retraining—the critical enablers in equipping the future workforce with appropriate skills and assisting the present workforce in adjusting and adapting to a knowledge driven economy—will continue to be given priority.” The author further emphasizes that “[m]ore investment in human capital, especially in training and retraining, will be also undertaken to enhance Malaysia's competitiveness in the international market. Rapid changes in technology will affect work organization and increase the demand for multi-skilled manpower with strong academic foundations, knowledge capabilities and extra-functional skills.

“To enhance further the quality of skills training, the the National Occupational Skills Standards, currently based on job or occupation, will be restructured towards work processes that are in line with the changing needs of employers. A dual training approach using apprenticeship schemes will be emphasized during this period: more training institutions will be encouraged to adopt this approach in collaboration with industry to enhance the effectiveness of their training programs. This approach is a combination of work-based training and attendance of part-time vocational training.”

Such an approach is reflected in the Ninth Malaysia Plan (9MP) that cover the years 2006–10 and represents the first of three Malaysia Plans that form the National Mission to achieve Vision 2020. Education and training are among the top priorities of this plan, which is reflected in budget allocations.

In addition to investment in training, the government recently intensified efforts to address the rising number of unemployed graduates. According to the author, “the large number of unemployed graduates is a concern, as it could hamper the country’s aim to be a knowledge-based economy. In this respect the government embarked on various programs to address the issue of mismatch of skills between the unemployed graduates and market requirements.” The programs are as follows: graduate training schemes, graduate re-skilling schemes, graduate apprenticeship program, national dual training scheme, and attachment and training scheme.

Singapore presents another interesting example. Hing Ai Yun suggests that, “based on a long tradition of tripartite cooperation, Singapore had successfully had the training culture firmly established in its national psyche, so that when the recent prolonged recession hit, workers could be channelled to a variety of new training schemes that were designed to help them get back into the workforce.”

In particular, the author describes the Skills Development Fund (SDF) that was established to support employer-based training. According to Hing Ai Yun, “it has become an effective national tool for the nurturance of a training culture among the working population. The SDF provides financial incentives for training on a cost-sharing principle. The SDF is financed by collections from the Skills Development Levy, which is pegged at 1% of wages of workers earning SGD1,000 or less a month. Over the years, training grant commitments from the SDF have grown in step with the pace of training activities and have outstripped SDF collections. In 1998, the SDF committed more than SGD88 million in training grants but collected only SGD20

million, indicating greater willingness to send workers for training and higher commitment of the workforce to go for training. In 2004, the SDF supported over 600,000 training places.”

The author continues further: “Skills development under the SDF was expanded and refined for the purpose of skills upgrading and retraining. The Skills Redevelopment Program (SRP) was inaugurated in 1996 as a joint project of the National Trades Union Congress (NTUC) and the Economic Development Board. The NTUC became the sole SRP program manager in 1998. Its aim was to give employers incentives (by subsidizing course fees and absentee payroll and wage support) to send employees for certifiable training. The program targets especially company-sponsored workers who are lower-skilled, mature, unemployed, and re-trenched The government’s allocation to fund this program amounted up to SGD120 million apart from the SGD50 million sourced from the SDF. To date, the SRP supports more than 1,400 certifiable course modules. The increasing pace of training places provided has surpassed the Prime Minister’s target of 100,000 by May 2003.”

At the same time, “the SRP was revised such that co-funding rules could encourage employers to train and recruit workers aged 40 and above. The SRP absentee payroll support was increased from 70% to 85% for mature workers.” The author further documents that “other measures to enhance employment of more mature workers include the recently established ADVANTAGE! Scheme. The Singapore Workforce Development Agency established the ADVANTAGE! Scheme to encourage companies to employ workers over the age of 40 or to re-employ workers beyond the retirement age of 62. The Scheme supports various initiatives, including job redesign and automation projects, wage restructuring, employment and re-employment, and other efforts to retain the services of mature workers.”

At the same time, The Lifelong Learning Endowment Fund (LLF) was established on 12 March 2001. According to the author, “[i]ts objective is to enhance the employment and employability of Singaporeans through initiatives that promote and facilitate the acquisition of skills. Being an endowment fund, it was intended that LLF should provide a steady stream of funding for lifelong learning initiatives The objects for which the income of LLF may be applied are set out in Section Five of the Lifelong Learning Endowment Act. Besides employer-based training, LLF can be used to support individual-based or community-based training. It is meant to complement and supplement existing funds such as the Skills Development Fund (SDF).”

Other measures to help boost employment and employability while Singapore undergoes economic restructuring include the Job Re-Creation Program (JRP). JRP was launched on 5 March 2005. According to the author, “[t]he program was aimed at redesigning jobs that had been shunned by Singaporeans and relegated to foreign workers during better times. Low-skilled foreign workers were attracted to these jobs, which to them were considered relatively more attractive even though these difficult and stigmatized jobs were considered poorly paid by Singapore’s working poor. After the downturn that followed the Asian financial crisis, SARS, and the terrorist attacks, massive job losses had pushed Singaporeans to look for re-employment in jobs lower down the pay scale. The JRP hopes to redesign these jobs to improve the working conditions, work process, and productivity so that pay levels can be enhanced and Singaporeans will be more willing to take them.”

In the case of the Republic of Korea, Jisoo Yu emphasizes that “Korea’s economic development has been among the most rapid and sustained in the world. The success of a series of five-year plans since 1962 has transformed Korea from a largely agricultural subsistence economy into a newly industrialized economy, despite the lack of significant natural resources and the burden of high national defense expenditures.” This success is to a large extent explained by strategic workforce planning.

Finally, Vietnam’s experience in labor export seems to be interesting. As Do Thi Dong documents, “Labor export plays an important role in creating employment, particularly for young workers—enhancing skills, generating income, and thereby contributing to hunger eradication and poverty reduction.

“In recent years, there have been considerable changes in Vietnam’s labor exports, in terms of quantity, quality, and market. The number of exported workers increased from 46,112 in 2002 to ... 67,447 in 2004 In 2004, up to 90% of the exported workers were placed in skill-demanding jobs, of whom nearly 50% received training before departure and more than 40% were trained on the job. Up to now, Vietnam has exported more than 400,000 workers to almost 50 countries. ... Every year, a remittance of about USD1.6 billion is sent to Vietnam by exported labor.”

Social Dialogue

As we discussed above, social dialogue at the enterprise level plays an important role at all stages of restructuring. However, it is also important to emphasize the role of social dialogue at the sectoral and national levels. Examples from Malaysia, Singapore, the Republic of China, and Vietnam are very informative.

In the case of Malaysia, social dialogue, as Nor Hafizah Mohd explains, was among the main reasons why the social consequences of the Asian crisis of the late 1990s were not so dramatic in that country: “Ever since the economic crisis that hit the region in mid-1997, workers and their trade unions have cooperated with the government and their employers to ensure that measures for economic recovery met with no obstacles. Despite almost two years of harsh economic conditions, industrial relations in MalaysiaSSER have remained harmonious, unlike several other countries which were also hit by the economic crisis. In Malaysia the number of retrenched workers, about 84,000, is still manageable. Most of them found alternative jobs within a short period, while almost all those retrenched received retrenchment benefits due to them.”

Singapore has also benefited from productive social dialogue at the times of change. According to Hing Ai Yun, “Tripartism is a key competitive edge for Singapore. ... Tripartite taskforces, made up of the National Trades Union Congress (NTUC), the Singapore National Employers Federation, and the Ministry of Manpower, are usually convened to discuss, tackle, and submit recommendations for certain labor and manpower issues as and when they arise.

“In Singapore’s current climate of stable industrial relations, tripartite taskforces have recently convened mostly to deal with the issue of wage restructuring and handling of labor issues arising from the demographic transition (Tripartite Committee on Employability of Older Workers). The Tripartite Taskforce on Wage Restructuring was formed in July 2003 and its findings and recommendations submitted to the Ministry in January 2004. This taskforce was formed to find ways to restructure the economy so it can regain its competitive edge in the global economy. In the resulting report, recommendations were made for a flexible wage system. ... The process of arriving at a consensus on wage reform is a good example of how tripartism has been deployed to manage difficult employment issues in Singapore.”

In the Republic of China, trade unions also play an important role in the restructuring process. Yue-Shan Chang and Jhih-Sian Sun emphasize the role played by trade unions in the process of privatization in the 1990s: “During the course of its privatization ... trade unions had to accept privatization, but they asked for better compensation and working conditions, job training, and longer transition periods.

“To help members who were new employees of private companies, some trade unions acted as agents by requesting that companies offer part-time positions to members’ families. They also acted as a wholesaler, buying essential goods in bulk and selling them cheaply to members. In this way the trade unions tried to take care of employees who faced the upheaval of privatization. This practice continues today.”

In Vietnam the unions also play an important role in the process of restructuring. Do Thi Dong acknowledges that “[u]nions, in all countries, have a similar role—to protect the rights of employees—but the particular responsibilities of labor unions may vary from country to coun-

try.” The author continues by saying that the Vietnamese model of social dialogue implies that in the case of restructuring and retrenchment, the union has the following responsibilities:

- launching the movement of the “idea generation” on how employees think about the restructuring and retrenchment. Employees are encouraged to generate ideas about how to reduce negative impact of restructuring on labor;
- making employees aware of the changes and encouraging them to accept the changes. Employees should not be shocked if they are on the lists of people to be laid off. Union members understand and share the feeling of worry with the employees;
- reducing the negative impact of downsizing by joining in the decision-making process to prepare for a new structure that can minimize the number of layoffs. Some employees may have to change their positions, which requires new knowledge, skills, and attitudes. The union, on the one hand, encourages these employees to be satisfied with their new positions; on the other hand, it also supports them to adapt to new jobs by training, coaching, etc.;
- resolving the problem of layoffs in several ways:
 - give the laid-off workers money to find new jobs;
 - find new jobs for laid off employees;
 - for those employees who satisfy the conditions of retirement, provide retirement benefits and help others to satisfy retirement requirements.

Legislation and Regulations

Regulatory support for restructuring is perhaps the most traditional type of government policy aimed at minimizing the social and personal costs of restructuring. This study did not pretend to cover the whole spectrum of laws and regulations related to restructuring in each country. However, it is impossible to describe successful cases of restructuring from at least some Asian countries without addressing the legal context in which these cases took place. In particular, one could mention the experience of Malaysia, the Republic of China, the Philippines, and Vietnam.

Very often legal changes can be viewed as a reply to market challenges. For example, in Malaysia certain legal amendments were provoked by the Asian economic crisis of late 1990s. Nor Hafizah Mohd documents: “Beginning 1 August 1998, pay cuts, layoffs and voluntary separation ... became subject to mandatory reporting. The government amended the Employment Act of 1955 and introduced guidelines on alternatives to retrenchments, such as pay cuts and work hour reductions. Employers were also encouraged to provide for part-time employment and flexible working hours and to raise wages in line with productivity.”

At the same time, Yue-Shan Chang and Jhih-Sian Sun present a case of the Government of the Republic of China handling the wide-spread privatization campaign of the 1990s through the revision of the Statute for Privatization of the State-Owned Enterprises, followed by the Enforcement Rules of the Statute for Privatization of the state-owned enterprises (1992). According to the authors, the aforementioned statute protects employees of the state-owned enterprises in the following ways: job reallocation, service seniority, severance pay, insurance pay-out, share reservation, representation.

Jorge Sibal provides a detailed description of how restructuring and retrenchment are regulated by the Labour Code and other pieces of legislation in the Philippines.

Vietnam’s report, submitted by Do Thi Dong, touches upon a number of important provisions of national labor legislation, in particular the ones regulating the process of early retirement.

Crisis Response Policies

Although quite a number of the policy instruments described above were inspired by some dramatic market transformations, still there are some interesting examples of government-driven

holistic, widespread reactions that address the social consequences of some serious market challenges. The following examples come from the Philippines and the Republic of China.

Jorge Sibal describes a comprehensive response to the economic crisis of the 1998. According to the author, the following interventions were used to meet the mandatory 25% cut in all government expenditures:

- activation of the Public Employment Service Offices (PESO) to provide job placements and implement training and credit programs for the unemployed;
- a PHP200 million (USD3.8 million) emergency loan from the Social Security System for displaced workers for the setting up of small businesses;
- price monitoring of basic commodities by the Department of Trade and Industry to check unscrupulous food dealers and suppliers;
- increased supply of rice to assist drought-infested areas, especially in Mindanao;
- a PHP4 billion (USD77.5 million) Enterprise Stabilization Guarantee Fund to help small and medium-sized distressed enterprises with their liquidity problems.

At the same time, “The Employers’ Confederation of the Philippines (ECOP) organized two conferences in August 1998 and February 1999 calling for the following measures, which the government implemented:

- improving access to the PHP5 billion (USD96.9 million) “Special Financing Program” of the Social Security System and the Government Service Insurance System, for low-interest loans to distressed firms;
- establishment of a PHP200 million (USD3.8 million) “Enterprise Stabilization Guarantee Fund” to be implemented by the semi-public Small Business Guarantee and Finance Corporation, which would secure up to 50% of loans made by small and medium-sized companies; ...
- establishment of a PHP500 million (USD9.7 million) guarantee fund by the Trade and Investment Development Corporation, a public company dealing with the improvement of the country’s export capacity, in order to assist with improving the access of export-oriented firms to bank loans;
- simplification of inter-island trade inspection and monitoring procedures;
- reduction of power rates by an average of 55 centavos (US 0.017 cents) per kilowatt-hour for energy purchased directly from the National Power Corporation, the state agency in charge of power distribution, by firms affected by the crisis.”

Sibal further describes the role of the trade unions: “Trade unions, NGOs, and peoples’ organizations (POs) ... adjusted their activities with emphasis on job preservation and creation, cost savings, and restraint in conducting strikes. Some unions even devised livelihood and training programs for dismissed or retrenched workers, along with job placement and labor contracting for members. NGOs and POs intensified their micro-credit, health, and livelihood programs for the communities.”

Hing Ai Yun describes what the Singapore policymakers did to address the challenge of the labor consequences of globalization in a concerted way:

“Spates of retrenchment in the recent past have raised questions of whether Singapore’s stern stand denigrating the welfare state could be moderated to include some scheme for unemployment insurance that could help lessen the traumatic retrenchment impact on families. The lower wages earned by labor in China, India, and Eastern Europe will continue to pose a challenge to Singapore’s low-skilled workers. The government’s argument for allowing increasing pay differences to take their course as shaped by the market is that moderating wages of highly-skilled workers will just drive talented Singaporeans to work for higher pay outside of Singapore. On the other hand, if wages of lower-skilled workers are allowed to inflate, investors will pull out of Singapore to more attractive countries such as China and India. The solution

seems to be that, to ensure sustainability of Singapore's working poor, both labor and jobs need to be continuously upgraded.

"In June 2005, a Ministerial Committee was set up to study ways of how low-waged workers grossing SGD1,200 or less in monthly income (falling below the 20th income percentile) can be helped. The Committee came up with the strategy called "Workfare," which consists of the following key thrusts:

- make work pay; ...
- provide social support for work; ...
- raise productivity, redesign jobs, and train workers ...;
- ensure support for children's education through community support."

Thus, this research project was aimed at exploring two sides of socially sensitive enterprise restructuring—the enterprise side and the policy side. The unique feature of this project is that it not only focused on "good practices," but also tried to understand and identify the components of business environment that allowed these practices to be implemented.

The main conclusion of this project is that socially sensitive enterprise restructuring is increasingly becoming a part of a long-term enterprise strategy and the focus of attention of governments, as well as employers' and workers' representatives. We hope that if enterprises and policy-makers choose to act according to the recommendations presented in this publication, the relations between the enterprise and its environment will become a win-win relationship, focused on long-term success, and will generate a better social climate, favourable to economic growth and peaceful social relations for the advantages of both the enterprise and its environment.

Part IV

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