



**Asia-Pacific
Economic Cooperation**

Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC

Case Book

APEC
Human Resources Development Working Group
Capacity Building Network
December 2012

APEC Project

Produced by

Institute for International Studies and Training (IIST)

Toranomon Jitsugyo Kaikan 2F

1-1-20 Toranomon, Minato-ku, Tokyo, Japan

Tel: (81) 3-3503-6621 **Fax:** (81) 3-3501-0550

Email: info@iist.or.jp

Website: www.iist.or.jp

For

Asia-Pacific Economic Cooperation Secretariat

35 Heng Mui Keng Terrance Singapore

Tel: (65) 6891-9600 **Fax:** (65) 6891-9690

Email: info@apec.org

Website: www.apec.org

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CAPACITY BUILDING NETWORK**

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Disclaimer

The views expressed in this case book are the opinions of the authors and should not be attributed to the APEC. They are not meant to represent the positions or opinions of APEC member economies, of the APEC Secretariat or of Institute for International Studies and Training, and are without prejudice to Members' rights and obligations under the APEC.

Prepared by
Institute for International Studies and Training
Toranomom Jitsugyo Kaikan 2F
1-1-20 Toranomom, Minato-ku, Tokyo, Japan
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Foreword

In 2010, APEC Leaders set forth the Growth Strategy under the Yokohama Vision for further promoting regional growth and economic integration in the Asia-Pacific region. The steps included enhancing the participation of Small & Medium Enterprises (SMEs) in high-growth sectors and their access to global markets. The Leaders reaffirmed their commitment to realize further integration of the region and expansion of trade under the Honolulu declaration in 2011. To pursue these objectives, a stronger emphasis was placed on enhancing SMEs' ability to take advantage of trade opportunities and participate in global production chains.

In alignment with these initiatives, the project "Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC" was proposed by Japan, and implemented by the Institute for International Studies and Training (IIST), under the supervision of the Ministry of Economy, Trade and Industry (METI). The project aims to build the management capacity of SMEs to enter global markets by strengthening their competitiveness through the effective and systematic management of Human Resource, one of the important assets of enterprises.

As the project overseer, I hereby gratefully acknowledge all the individuals who were involved in the project and made tremendous contribution to its successful completion. We hope that the outcomes of the project will support the APEC's primary goal of achieving regional prosperity via trade and investment liberalization.

Ruriko Kawaguchi
Project Overseer
APEC Office
Ministry of Economy, Trade and Industry

December 2012

(Please note that the term "economy" is used to indicate APEC members, instead of "country" or "nation," as an APEC-accepted nomenclature.)

Preface

Since the declaration of the Bogor Goals for achieving free and open trade and investment in the Asia-Pacific region in 1994, impressive progress has been made over the past 15 years in regional economic integration as well as in trade and investment liberalization. However, a number of impediments to open trade still remain, and new challenges have emerged as the region becomes more integrated and interdependent.

In order to address some of these emerging issues, a number of projects have been implemented under the APEC Human Resources Development Working Group Capacity Building Network (HRDWG-CBN)). To prepare SMEs for the changing environment and new challenges brought about by globalization and trade liberalization, the Network promotes human resource development by building the organizational capacity of the enterprise management and policy makers. To name a few, the projects, “Opportunities and Challenges for Foreign Investment in the APEC region” and “Strategic Intellectual Asset Management for Emerging Enterprises,” were implemented by the Institute for International Studies and Training (IIST), a non-profit, non-government organization, under the supervision of the Ministry of Economy, Trade and Industry (METI), Japan. Our initiatives were supported by APEC member economies.

This project entitled “Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC” is one of our recent endeavors to build the capacity of SMEs in human resource management (HRM). Its objective is to raise SMEs’ awareness of human resources as a key intellectual asset for strengthening the competitive advantage of enterprises. The project also aims to help them establish effective HRM systems necessary for recruiting, developing and retaining a talented and highly motivated workforce.

The chosen approach for the project involved the following activities: an expert workshop that identified HRM capacity building needs of SMEs (April 2012); development of case studies focusing on actual business experiences (May-September 2012); and a pilot seminar to evaluate the program design and case materials developed (September 2012). All the activities were joined by the 12 APEC experts who wrote the cases and provided valuable inputs throughout all stages of project implementation.

I would like to take this opportunity to express my deep appreciation to all those who have contributed to the successful completion of the project.

I would like to extend my sincere gratitude to the tremendous cooperation made by Human Resources Development Service of Korea (HRD Korea) headed by Mr Young-Jung Song. HRD Korea co-organized the pilot seminar held from 24 September to 25 September 2012 in Seoul, Korea which was attended by 14 participants, including SME owners, representatives of large companies, public institutions and government agencies in the Korean community. The success of the pilot seminar is largely attributable to significant efforts and professional expertise extended by our colleagues at HRD Korea in organizing the seminar.

I am also grateful to the experts and their nominating organizations, as well as the case proponents in each economy, for their contribution in making the project such a success at various stages of implementation. My special recognition is given to Professor Buenaventura F. Canto and Ms Etsu Inaba, who led the project team by directing the

program design and delivery. Their painstaking advice throughout the case development process inspired the authors in developing and completing their cases. I also gratefully acknowledge Dr Gloria M. De Guzman who imparted her expertise in the program design and analysis of the project outcomes in the synthesis paper, and Ms Lorna Balina, who tirelessly went through and edited the cases for improvement. I am also truly thankful to the financial and technical support provided by the APEC Secretariat for the project. Lastly, I would like to extend my special thanks to my IIST team, led by Etsu Inaba and Reiko Toyoshima, for their dedication and hard work, from the planning and implementation to the successful completion of this undertaking.

This publication is a compilation of ten cases developed by the experts under the project. It showcases a variety of situations including different levels of development, different economic sectors and various cultural backgrounds. I hope that the cases and findings of the project will be widely utilized in the APEC region and will contribute to the further progress of regional integration and growth.

Koichiro Akatsu
Vice President and Managing Director
Institute for International Studies and Training

December 2012

LIST OF CONTRIBUTORS

CASE WRITERS

Economy	Name/Organization	<i>*Listed by Economy Based on APEC Rules</i>
1. Canada	<i>Dr Charles Gastle, Partner</i> Bennett Gastle Professional Corporation Barristers and Solicitors	
2. Indonesia	<i>Dr Putu Saroyini Piartrini, Lecturer of Faculty of Economics</i> University of Udayana	
3. Indonesia	<i>Mrs Ni Putu Sri Harta Mimba, Lecturer</i> Department of Accounting, Faculty of Economics University of Udayana	
4. Japan	<i>Mr Katsunori Nakajima, Senior Expert</i> Management Solution Learning & Training Japan Management Association	
5. Japan	<i>Ms Reiko Toyoshima, Program Officer for APEC HRDWG CBN</i> Human Resource Development Department Institute for International Studies and Training (IIST)	
6. Korea	<i>Dr Jin-Sil Kim, Director</i> Training Quality Improvement Center Human Resources Development Service of Korea	
7. New Zealand	<i>Dr Antonio Díaz Andrade, Senior Lecturer</i> Business Information Systems, Auckland University of Technology	
8. Chinese Taipei	<i>Prof Jin Feng Uen, Professor</i> Human Resource Management National Sun Yat-sen University, Kaohsiung	
9. Thailand	<i>Mr Somwang Boonrakcharoen, Deputy Executive Director</i> Thai-German Institute	
10. Viet Nam	<i>Mr Le Duy Binh, Managing Director</i> Economica Vietnam	

PROGRAM DESIGNERS

Economy	Name/Organization
1. Philippines	<i>Prof Buenaventura F. Canto, Professor</i> Asian Institute of Management (AIM)
2. Philippines	<i>Dr Gloria M de Guzman, Professor</i> Asian Institute of Management (AIM)
3. Japan	<i>Ms Etsu Inaba, Senior Adviser</i> Institute for International Studies and Training (IIST)

PROJECT ORGANIZER

Economy	Name/Organization
1. Japan	<i>Mr Koichiro Akatsu, Vice President & Managing Director</i> Institute for International Studies and Training (IIST)
2. Japan	<i>Ms Etsu Inaba, Senior Adviser</i> Institute for International Studies and Training (IIST)
3. Japan	<i>Ms Reiko Toyoshima, Program Officer for APEC HRDWG CBN</i> Human Resource Development Department Institute for International Studies and Training (IIST)



**Asia-Pacific
Economic Cooperation**

A Synthesis

Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC

Prepared by

Etsu Inaba

Senior Adviser

Institute for International Studies and Training (IIST), Japan

In collaboration with

Buenaventura Canto

Professor

Asian Institute of Management (AIM), Philippines

Gloria M de Guzman, Ph.D.

Professor

Asian Institute of Management (AIM), Philippines

BACKGROUND

The economic integration through trade and investment liberalisation in the Asia-Pacific Economic Cooperation (APEC) region presents tremendous opportunities for enterprises to become players in global supply chains or partners of foreign direct investment (FDI). The APEC Human Resources Development Working Group - Capacity Building Network (HRDWG-CBN) has been implementing various projects in order to prepare enterprises to be effective players in this environment. In the project entitled "Intellectual Property Rights (IPR) Strategies for Emerging Enterprises – Capacity Building for Successful Entry to Global Supply Chain," the importance of human capital was identified as one of the elements in recognizing, utilizing and protecting intellectual assets. The analysis and findings of the IPR project pointed to the strengthening of human resource management (HRM) as a key success factor for the protection and enhancement of the intellectual value of enterprises.

Effective HRM has always been high in the agenda of large multinational companies which invest time, energy and resources in ensuring that they continually attract, develop, motivate and retain the talent they need to support their continued growth and expansion. Small and medium enterprises (SMEs), however, do not have such resources at their disposal. Yet, SMEs constitute over 90% of enterprises in the APEC region. Despite their number, less than 10% of SMEs survive beyond the founder's lifetime. This low survival rate is often attributed to the inadequate HRM systems. Few SMEs have internal HRM systems and structures to cope with various challenges of liberalisation. Strengthening their HRM systems is important to ensure a motivated, high-performing workforce that will, in turn, help the SMEs gain their partners' trust when they enter the global supply chains. On the other hand, ineffective HRM can be viewed by the business partners as a possible source of enterprise vulnerability. Strengthening the human resource management systems of SMEs will thus directly contribute to the facilitation of trade and investment in the region.

With this background, the project entitled "Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC" was implemented for a year, starting in December 2011, under the auspices of the APEC HRDWG-CBN. It aimed to build the management capacity of SMEs through effective HRM to enhance their competitiveness in the global market. It had the following key objectives:

1. To identify issues confronting SMEs in attracting, motivating, developing and retaining their people.
2. To identify common elements and differences of good HRM practices among APEC members.
3. To develop a framework and a prototype capacity building programme with case studies for HRM in SMEs.

Under the project, a total of 10 case studies were prepared involving eight APEC economies. The cases illustrated real life issues and problems, and showcased successful HRM practices as well as commonalities and differences of HRM issues in various APEC economies. A prototype capacity building programme was designed and a pilot seminar was conducted in September 2012 in Seoul, Korea to test the effectiveness of the cases as learning materials and the methods of delivering them.

This synthesis paper summarizes the findings from the process of implementing the project, including developing and teaching the cases by the resource persons as well as sharing their knowledge and experiences with stakeholders.

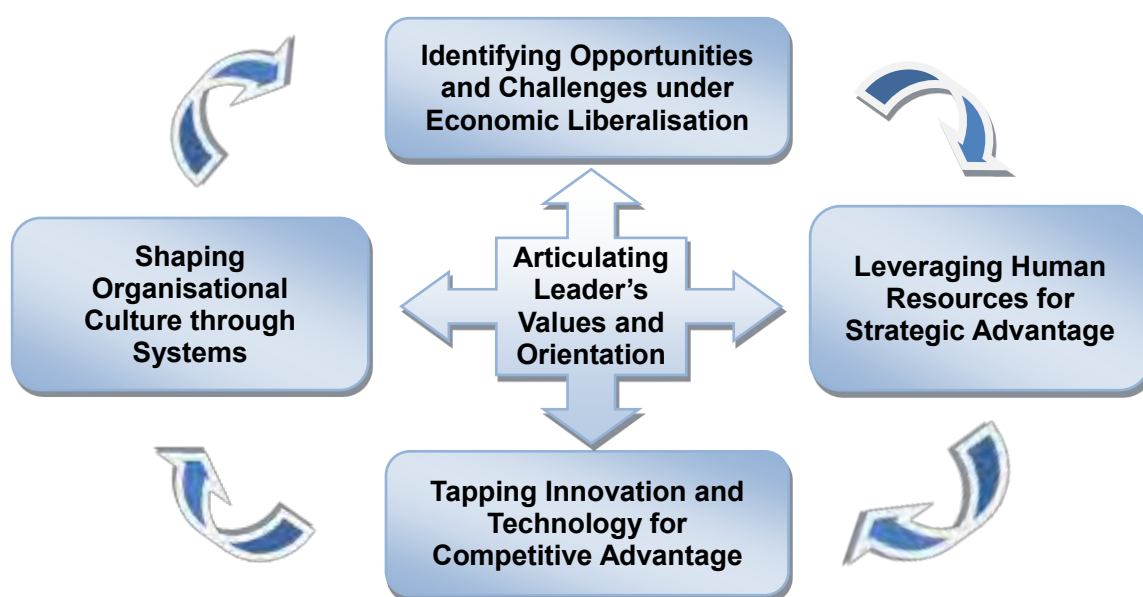
Moving forward, this paper identifies other APEC activities that would enhance the contribution of effective human resource management in improving the performance of SMEs.

FRAMEWORK FOR STRATEGIC HRM

A basic framework for Strategic Human Resource Management (S-HRM) was developed based on discussions during the initial meeting of the resource persons, analysis of the issues identified in the cases written for the project, and further refined with exchanges of ideas during the Pilot Seminar/Workshop held on 23 - 26 September 2012 in Seoul, Korea. The purpose of the S-HRM Framework is to guide SMEs, especially those entering the global supply chain, on the steps to take in order to upgrade their HRM systems for long-term growth and profits.

The S-HRM framework identifies both the process as well as the critical elements impacting on the performance of SMEs. More specifically, the framework involves: 1) identifying opportunities and challenges of economic liberalisation for the enterprise; 2) leveraging the enterprise's own human resources, by clearly establishing its strategy and utilising their human resources effectively; 3) tapping innovation and technology for competitive advantage, and 4) shaping its organisational culture by introducing various management systems and practices in order that the values the management holds (which are a source of the SME's competitive advantage), would be shared and implemented effectively throughout the organisation. It is important that in each of these steps, the leader should articulate or clarify his or her unique vision, values and orientation in initiating and driving each of the steps in the framework (Figure 1).

Figure 1: Strategic Human Resource Management Framework (S-HRM)



1. Identifying Opportunities and Challenges of Economic Liberalisation

The liberalisation of the economy presents great opportunities for growth and expansion, if the enterprise sees and grabs them, making the best out of the situation. On the other hand, some enterprises see greater threats as a result of liberalisation because of imminent competition. Some companies, once they overcome difficulties posed by stringent international market requirements, will become stronger and be ahead of the competition. The leader and his senior management team will have to clearly identify opportunities and challenges as the first step towards grabbing the opportunities and turning the situations around.

2. Leveraging Human Resources for Strategic Advantage

When an enterprise clearly identifies opportunities and challenges, it needs to develop strategies that will give it a unique competitive advantage and position it to capture the opportunities and address any future challenges in the global market. As it develops competitive strategies, the enterprise needs to understand and exploit the strengths of the current human resource complement, and at the same time tries to address any shortcomings of its human resources and its management practices. This is all about building internal capability for competitive advantage, which can be achieved by ensuring that the enterprise has the right number of people with the right skills and motivation for the right jobs. Such capability can be achieved through the recruitment, selection, development and motivation of the needed talent. The HRM policies and practices instituted by the enterprise create this capability.

The process of aligning HRM policies and practices with the enterprise's strategies is in most cases an iterative process. Changes in the current systems and practices may bring about unexpected results. When this happens, the leader and his management team have the responsibility to ensure that an alignment is achieved as they modify the systems and practices.

3. Tapping Innovation and Technology for Competitive Advantage

To be able to compete and survive in the liberalised economic environment, it is imperative that the enterprise continuously innovates and advances its technology ahead of the competition. The innovation in this context is not only in the product and service it provides, but also in its HRM practices. HRM must support and encourage innovation and technological advancement in varying ways, depending on the situation. The leadership team usually paves the way and creates the environment for innovative ideas and technologies to be adopted and implemented.

4. Shaping Organisational Culture through Systems

Organisational culture can be a powerful driver of sustained competitive advantage for SMEs if it is aligned with their strategy. HRM systems can, and should be designed to shape an organisational culture that is aligned with the enterprise's overall strategy. Hence, the leadership team, with effective use of HRM, should be able to create an organisational culture so that members of the organisation would act accordingly without conscious efforts. Various HRM systems and practices are used to inculcate values among the members so that the organisational culture would be created and enforced.

5. Articulating Leaders' Values and Orientation

The leader's vision, values, and orientation permeate all of the steps described in the S-HRM Framework. They drive the company's openness to opportunities and challenges, its capability to innovate and adopt technological advances, its willingness to leverage its human resources for competitive advantage, and its readiness to transform its culture and HRM and management systems for continued growth and expansion.

Studies on successful entrepreneurial companies indicate a connection between the leader's entrepreneurial orientation and the company's performance. Entrepreneurial orientation has variously been defined to include autonomy, a willingness to innovate and take risks, a tendency to be aggressive toward competitors and to be proactive with regard to marketplace opportunities (Lumpkin and Des, 1966).

The cases written for this project have leaders and their leadership team exhibit in varying degrees some of the characteristics described above.

CASES DEVELOPED

Types and Uses

Ten cases were developed under this project. The cases present real-life management situations and the various strategic issues and challenges faced by the entrepreneurs and managers of SMEs. While a number of case types exist, the project focused on "good practice" illustration cases and "issue-based" or "decision-making" cases. The project team decided that the former type would be most useful in understanding the "know-what," while the latter would be more appropriate for learning the "know-how." The cases were written to serve as teaching materials for discussion in a capacity building programme on "Strengthening Human Resources Management in SMEs for Economic Liberalisation". The cases developed and shown here have illustrations of issues; some include successful management practices, and others have decision making aspects. They can be used independently, or with other cases, to draw lessons, depending on the needs of the target audience. Table 1 presents a summary of the 10 cases and their focus in the context of the S-HRM framework.

Table 1: HRM Cases, By Type and Area of Focus

Economy	Case Titles	Opportunities (O) and Challenges (C) of Economic Liberalisation a)	Leveraging HR for Strategic Advantages	Innovation and Technology	Shaping Organisational Culture through Systems	Case Type Decision Making case or Illustration case for Discussion
Canada	Datamineware	C	⊙	⊙	⊙	Decision
Indonesia	Dharma Siaga	C	⊙	△	⊙	Illustration
Indonesia	Wisnu Karya Purtra Internat'l	O	⊙	△	⊙	Illustration
Japan	Edo-kiriko Hanashyo	O	⊙	⊙	△	Decision
Japan	Kowa Tech	O	△	⊙	⊙	Decision
Korea	Dong Yang Machinery Industrial	O	⊙	⊙	⊙	Illustration
New Zealand	2Touch	O	⊙	⊙	⊙	Decision
Chinese Taipei	Pasadena International	O	⊙	⊙	⊙	Decision
Thailand	Global Precision Engineering	C	△	⊙	△	Illustration
Viet Nam	Viet-Software International	O	⊙	⊙	⊙	Illustration

Note a) O indicates that the management sees opportunities open to them as a result of liberalisation, while C indicates the liberalisation presents bigger challenges for them to overcome.

Note b) ⊙ indicates primary focus, △ indicates secondary focus.

Profiles and Highlights of the Cases

Since the definition of SMEs in each of the APEC economies varies widely, the project decided to use a very simple guideline for the case subject, i.e., the number of employees should not be more than 300. The 10 cases represent various industries such as information technology, automobile-related products manufacturing, finance, food service, wood products as well as lifestyle and gift items. The sizes and histories of the small businesses range widely, from a nine-member family corporation with a 65-year history to a fast growing six-year old company with 200 employees. (See Exhibit 1 for profiles of the SMEs).

The enterprises developed strategies, based on their own assessment of the opportunities and challenges they faced in the light of economic liberalisation. Some viewed economic liberalisation as great opportunities and tried to take advantage of them, while others view them as a source of greater challenges to be overcome with the

right business strategy. In either case, the SME leaders took a proactive approach to the situations that confronted their businesses. (See Exhibit 2 for opportunities and challenges.)

Although most of the cases illustrate recruiting, developing, motivating and retaining necessary talents as the main HRM issues, the means of addressing the issues varied depending on the situation. Since SMEs are normally not the preferred employment choice for high achievers, creative approaches have been employed by some of the SMEs to attract them. Many offered training opportunities or even lowered the entry level qualifications. Establishing a “brand” not only in a product market, but also in the recruitment market was also effective.

More effective training methods and schemes as well as varieties of performance evaluation systems were also highlighted in the cases. (See Exhibit 3 for HRM Issues). As the SMEs entered into more competitive environments, more formal performance based evaluation systems were adopted. Since the entrepreneurs or leaders of the organisations had a major influence on the strategy and management practices of the SMEs, they also revealed their personal values. (See Exhibit 4 for Profiles of Leaders.)

Presented below are brief abstracts of the cases developed under the project.

DATAMINEWARE (Canada)

Datamineware (name and situations disguised) was in the information technology industry in North America. It developed and updated software for existing information system in manufacturing companies, incorporating various new elements and functionalities in the existing software. The speed with which Datamineware updated software for customers’ changing needs was considered its competitive advantage. The entrepreneur, John Denning, who was knowledgeable of customer requirements, was capable of orchestrating the development process with the help of software developers. Competent software developers were in demand almost anywhere in the world, thus they tended to be mobile in pursuit of different and challenging experiences.

As the business expanded, John decided to have a Chief Information Officer (CIO) to oversee the development process. John, together with the new CIO, introduced a number of changes, including a formal performance evaluation system and new software development language so that the schedules would be followed. Timely delivery became a primary concern, sacrificing the ability to respond to customer complaints. Although the changes were made to address immediate issues, those changes in work procedure and evaluation appeared to create new problems for the company.

Dharma Siaga (Indonesia)

Dharma Siaga was a small cooperative, trying to serve its members composed primarily of owners of micro-businesses serving foreign tourists. Because of the liberalisation of the economy, including the service sector, the banking industry had become increasingly competitive. The management of Dharma Siaga believed that the only way for them to survive and grow was to serve the existing customers better and increase their transactions with the cooperative by catering to their varied needs. To achieve this

goal, Dharma Siaga needed to strengthen their marketing staff who would deal directly with the customers. In the past, Dharma had difficulty in attracting people to work for them, since the youth did not favor SMEs like Dharma as sources of employment.

Dharma Siaga shifted their recruitment requirements to attract those with lower educational qualifications and offered training programmes to get them interested to work for Dharma. The cooperative also instituted performance based evaluation system, rather than traditional seniority based system, and provided high performing employees an opportunity to obtain higher education.

Wisnu Karya Putra International (WKPI - Indonesia)

The case on WKPI, a producer/exporter of wood products and furniture in Bali, illustrates how the company entered the international supply chain. New stringent international requirements for environment protection and sustainability required exporters to follow strict standards throughout the supply chain. While WKPI was able to secure the government certification, it was necessary to ensure that other parties in its supply chain, including material suppliers, followed the standards and prepared the necessary documentation. It required discipline to follow such standards, especially because instituting discipline in a traditionally "laid-back" Balinese culture required creativity.

Wayan Diana, entrepreneur, used his network in the government and international NGOs to help educate the other players in the industry through participation in the incubation centre programme that helped disseminate know-hows on following international requirements.

EdokirikoHanashyo (Japan)

EdokirikoHanashyo was a small family-owned company manufacturing traditional cut glass products (Edo Kiriko). The company had been in existence over three generations. The second generation owner undertook initiatives to transform the company from being an OEM manufacturer to having its own brand and unique designs and process. The company established its reputation as the source of quality traditional Japanese craft products often given as gifts to state guests.

The founder's son and third generation owner, Takayuki, understood that it would be his role to expand sales channels overseas for growth and for the sake of future generations. However, he was concerned about the lack of skilled craftsmen needed to serve an expanded market. He also realized the constraints and limitations of Hanashyo as a small, family-owned enterprise in developing and retaining the right number of craftsmen with the right skills. He started to consider how much and how fast their business could be expanded and what would be the priority issues in term of their HRM to support the company's growth and expansion.

KOWA TECH (Japan)

When Yuji Oguri, the second generation owner, took over Kowa from his father, the company was a subcontractor of large automakers for their specialty vehicle requirements. The company was also in deep financial trouble and was burdened with an old and highly paid workforce. Yuji instituted various changes, including changing the company name to Kowa Tech, to signify his emphasis on technology. After painstaking efforts to convince the older workforce (over 70 years old) to retire, he started to recruit younger engineers with college degrees. Initially it was not easy for Kowa Tech to attract young graduates. Through the help of engineering school professors, Yuji eventually got younger graduates to work for him, promising challenging and creative work which a company of Kowa Tech's size was in a better position to offer. Yuji also instituted more professional management systems, including clear cost accounting and exploration of new markets.

The major turning point for the company came when they were requested to produce the first domestically developed amphibious vehicle. Despite all odds and objections by the engineers, Yuji decided to take on the challenge. Using his university and other connections, he was able to solicit collaborators, who not only provided technical support, but also made computer simulation facilities available to him. After two years of experiments and clearing cumbersome legal requirements, Kowa Tech was able to successfully develop the first amphibious vehicle in Japan. During the development process, Yuji introduced leadership development and team building programmes, through which people from different sections of the company started to work effectively. Sharing of vision and performance measures also contributed to higher motivation of the staff.

Having fully internalised the production technologies of amphibious vehicles with its 5th unit, Yuji was considering an option to go international and/or develop new amphibious motor cycles in the near future.

Dong Yang Machinery Industrial Co., Ltd (Korea)

The case highlights various support programmes intended to strengthen SMEs to be stable employers, which were offered by the government sponsored programme through HRD Korea. The owner of Dong Yang had managed to provide continuous employment to their employees even during the severe economic conditions, by sharing work among them. As a result of this gesture, employee loyalty to Dong Yang was enhanced. To further strengthen its management capability, Dong Yang sought the support of HRD Korea which provided consultancy services in productivity improvement, building a learning organisation and structured on-the-job training.

Productivity and performance, as well as employees' morale, went up substantially, making the company an even more profitable and stable employer. Dong Yang's achievement as a model employer was highly publicized, raising awareness among other SMEs of the potential benefits of HRD Korea's services.

2Touch (New Zealand)

The case presents the dilemma of Pablo Garcia, a New Zealand entrepreneur, who had to take the lead in two sister organisations in New Zealand, plus one division in Australia. The case illustrates the challenges he faced from the early days back in 1998, when he envisioned the development of a product to assist the interactive learning and teaching process. Since 2Touch adopted a “push” marketing strategy, which required the company to determine unrecognised needs of the customer and offered products which addressed such needs, the company had to develop a culture of creativity and innovation. With an R&D team of diverse backgrounds and culture, 2Touch was able to exploit their employees’ intrinsic motivation to be creative. The company added a new “goal metrics” performance evaluation system, where employees’ own goals were measured against company goals.

While 2Touch had been successful so far, the management was considering expanding its business outside New Zealand and Australia. Pablo was wondering if the same approaches would work in a different environment, as he moved towards realising the possibilities for international expansion.

Pasadena International Group (Chinese Taipei)

Mr Shiu Jeng-Ji was the founder of an OEM of consumer electronic products, with operations overseas. He established Pasadena International Group by providing its customers unique value in its products and customer service that differentiated the company from its competitors. Pasadena had become a well known bakery and restaurant for the past ten years. This case illustrates the key role that human resource management plays in determining the survival, effectiveness and competitiveness of SMEs like Pasadena in the foodservice business in Chinese Taipei.

The case further highlights how effective HRM practices support SME business goals and objectives in the foodservice sector including attracting potential employees (recruiting), choosing employees (selection), teaching employees how to perform their jobs well (training), rewarding employees (compensation), and creating a positive work environment (good employee relations). It also provides an example of how an SME like Pasadena links corporate social responsibility to its brand.

Pasadena has established a clear and trustworthy image to their customer, starting from the introduction of some concepts and products which promoted the importance of environmental protection up to the company’s community involvement.

Global Precision Engineering (Thailand)

In line with the government policy to develop the local mould and die industry, Global Precision Engineering (GPE) was established under the Thai-German Institute’s industry incubation project. GPE upgraded its capabilities to manufacture mould for auto and other industries. However, being a small company, it faced difficulties in attracting, training and retaining most of its workforce. In order to address the issue of employee retention, GPE started to recruit employees with lower educational level qualification, offered monthly salary rather than daily wages and showed clear career paths using

industry standard qualifications. In addition, it introduced the bonus system to reflect the workers' performance. All of these new measures were made with an overall thrust to treat the workforce as family members.

While GPE effectively used various support mechanisms under the Mould and Die Cluster of Thailand, including the use of a common facility, machine time sharing and joint training, more creative efforts may have to be introduced.

VietSoftware International Inc. (Viet Nam)

VietSoftware International Inc. (VSII) operated as a software outsourcing service provider with offshore dedicated centers for clients in Europe, Japan and the United States. The human resource (HR) challenge that it continued to face included the high staff turnover rate, strong competition for qualified and talented staff, qualification of software developers, and the need to introduce an advanced HR system that worked in the Vietnamese context. Lack of professional interpersonal and communication skills of the staff resulted in lower work productivity.

The constraints also deterred VSII from scaling up to compete with other companies that were strong at information technology or business process outsourcing (ITO/BPO). In addition, HR constraints in the Vietnamese labor market, especially in the software industry, were serious hurdles that VSII had to overcome in order to improve its competitiveness and productivity, and its ability to meet the increasingly sophisticated needs of international customers. They also slowed down the integration of VSII into the global supply chain and its efforts to increase revenue.

PILOT SEMINAR

After the cases had been written, a 2-day pilot seminar programme entitled "Strategic Human Resource Management for SME: Winning in the Global Economy" was organized, using the S-HRM framework. The seminar was held on 24-25 September 2012 in Seoul, Korea with a total of 27 participants, including 12 APEC resource persons. The local participants included SME owners, representatives of large companies with SMEs in their supply chain, SME management development institutions and government agencies. The seminar was delivered with all the case authors presenting their cases under the guidance of Professor Buenaventura Canto and Ms Etsu Inaba.

The purpose, process and benefits of the pilot seminar were as follows:

Learning Goals & Objectives

In line with APEC's goals, the pilot seminar was designed to provide a number of competencies or learning outcomes among the participants. At the close of the seminar, it was expected that the participants would be able to:

1. Identify and understand the strategic importance of HRM systems and practices to organisational performance, growth and expansion in global markets.
2. Appreciate common issues and different approaches to addressing HRM issues in SMEs.
3. Identify key success factors for developing appropriate and innovative HRM systems and practices that will facilitate SMEs' participation in the global supply chain.
4. Apply the lessons learned to their own settings.

Seminar Programme & Methodologies

The pilot seminar was designed using the basic framework developed for the project consisting of the following components: 1) identifying opportunities and challenges of economic liberalisation for the company, 2) leveraging human resources, by clearly establishing a unique competitive business strategy and utilising human resources effectively, 3) introducing innovation and technology to advance competitive strength further, and 4) shaping organisational culture by introducing various management systems and practices. The seminar took the participants on a journey through the various areas of knowledge and skills of human resource management in SMEs in "building block" fashion, albeit very rapidly, given the time constraints the group had to work with (See Exhibit 5).

Due to the fact that only a few of the participants understood English, cases were presented on the seminar day, with the assumption that only a few of them would be able to read them ahead of the seminar. Thus the case discussion was somewhat limited in terms of time. All 10 cases developed for the project were presented by the case authors, with time allocated for discussion in small groups as well as by the entire class.

Feedback from Participants and Resource Persons

The participants reported that they learned lessons from the diversity of SME cases with real-life issues presented by resource persons from different APEC economies. They realised that the HRM approaches taken by SMEs in each economy were different, based on the level of development of the economy, size of the economy, as well as cultural factors. It became clearer to them how important the alignment was between the strategies of SMEs and their HRM practices in order to promote the SMEs' growth and sustainability. However, some participants pointed out that more in-depth discussion on implications and implementation of the changes in HRM in each case could have yielded more insights. They also wanted to know the solutions to the wide range of HRM challenges presented, besides thinking of alternative approaches.

The case-based methodology of delivering the seminar was well-received by the participants. They enjoyed being involved in interactive discussions despite the language barrier.

Participating resource persons recommended that the programme should be replicated in other economies with other issues and challenges facing SMEs in the APEC region. They also hoped to have the cases disseminated to other potential users, particularly to business administration or business management schools in APEC member economies.

It was also suggested that issues of the project should be taught in a broader framework; that is, the strategic use and management of intellectual assets with a focus on HRM. Unique, value-adding programmes on HRM for SMEs could be developed by integrating the outputs of past APEC case writing projects.

Lessons Learned from the Seminar

The APEC resource persons, with their different areas of expertise and geographic origins, contributed much to the rich variety of perspectives and ideas in the seminar discussions.

The interactive mode of delivery of the programme was very effective, particularly for the experienced entrepreneurs and executives. The orientation at the beginning of the programme was effective in bringing out this result. Pairing or grouping of some cases made the sessions more interesting to the participants, as they could compare and contrast the situations.

The 2-day format of the seminar was adequate for an introduction to the topic, which was to elicit the interest and appreciation of entrepreneurs and SME owner-managers of the importance of S-HRM. However, more in-depth, follow-up programmes should be offered to equip the participants with actual methods and measures that they could implement in their own organisations.

OBSERVATIONS AND INSIGHTS

The following observations and insights on strategic human resources management by SMEs were drawn from analyses, presentations and discussions of the cases by participants and resource persons during the pilot seminar and workshop held in Seoul, Korea, as well as from subsequent discussions among resource persons.

A .Commonalities

The issues of how fast and how much to grow and how to staff the growth are common to SMEs. The SMEs also recognised the need to shift from an informal to more formal HRM systems and practices at a certain stage of SME development. This shift is accelerated when the SMEs enter the global value chain and have to deal with global suppliers or customers.

In general, SMEs faced limitations in attracting talented people. Their limited resources thus require them to be creative in recruiting, training/developing, compensating and retaining good people.

Alignment of Strategy and HRM Practices

The discussions underscored the importance of developing a clear strategic focus among SMEs which should be the basis for developing an appropriate HRM system that is supportive of the enterprise strategy. Thus, HRM systems and practices should be evaluated on the basis of how well they align with the enterprise strategy. As SMEs make changes in strategy or in HRM systems, the alignment between the strategy and HRM needs to be monitored and maintained.

A shift in strategy may entail a change from a largely *ad hoc* to a more systematic HR system. There appears to be a turning point for enterprises to transition from a “leadership” to a “managership” mode wherein more systematic and structured HR systems are needed to replace informal and *ad hoc* HR practices. SMEs must however be aware that in changing HR system and practices, negative repercussions and effects should be anticipated and corrected to fit the needs of the organisation.

Tapping Outside Resources Effectively

One issue that often plagues SMEs is their lack of financial and other resources. Successful enterprises selectively utilise to their advantage outside resources, either those provided by the governments, international NGOs or through the networks of people. Collaboration with other enterprises, NGOs and universities through an established network of people enables SMEs to take on big challenges which they by themselves may not be able to handle. Governments can play a major role in linking and bridging different stakeholders.

Creating a Sense of Pride in People

In many of the cases, the valued talents’ decision to join and remain with an SME is influenced by more than just monetary and employee benefits considerations. A big factor in their decision is their sense of pride in being part of a company or enterprise which has distinguished itself through, among others, the quality of the products and services it offers, the leadership that propels its growth, and the high regard it has earned from other industry players or stakeholders. Overcoming big challenges creates among the employees a sense of pride in the organisation. Taking on such a big challenge requires a leader’s decision to go against all odds.

In order to attract talents to SMEs, entrepreneurs should develop and articulate their values and visions to their employees. Sharing a dream and striving for it together appears to be an important factor in attracting talent to SMEs, just like in large businesses and organisations.

Establishing a brand name is also one way of attracting good people to the company; hence, the company brand is not only intended for the customers or market but also for the company’s employees. Likewise, activities done as corporate social responsibility (CSR) initiatives can serve as means to consolidate SME efforts in giving pride to the organisation.

Opportunities to Develop Capabilities

Some SMEs attract potentially capable talents by adopting a scheme that would provide professional or career capacity development opportunities to their employees. Encouraging employees to upgrade their skills, providing opportunities for in-house training within work hours and recognising the results appear to be effective ways for retaining talent.

B. Differences










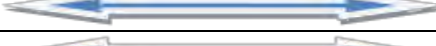
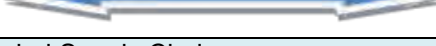

From the cases and the discussions, a few areas of differences were noted. The lessons learned from the project conducted under APEC may be effective inputs to developing management capacity to work in a liberalised environment.

Values and expectations of the entrepreneurs and employees, as well as those of the customers, may be different from place to place or situation to situation, and learning about these differences and making necessary adjustments are important. To cite an example, to address high turn-over of employees, an alternative to, or in addition to, an effort to retaining talents, measures such as accelerating/shortening skill development, and developing a system for seamless knowledge transfer as well as measures for protecting important know-hows were considered as important.

C. Factors in establishing HRM Systems and Practices

The following were identified as some of the major factors in determining strategies as well as HRM systems and practices (Table 2):

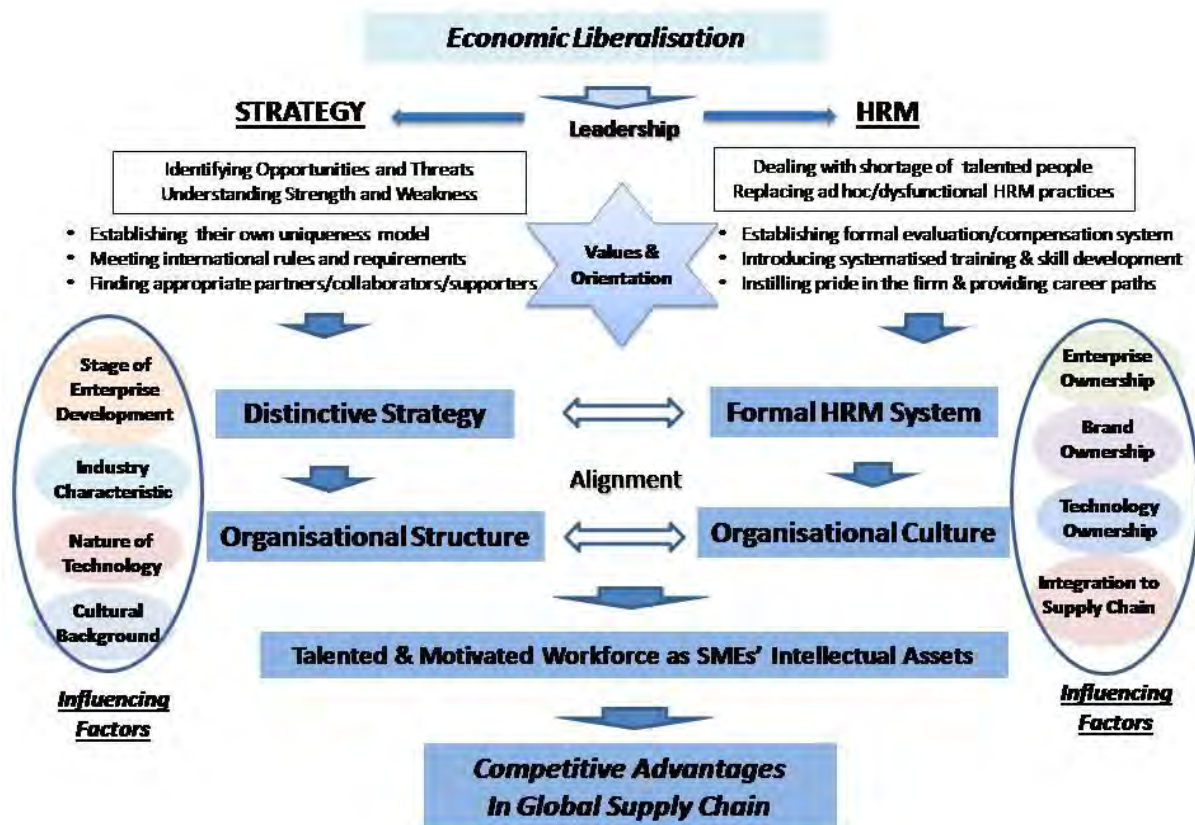
Table 2: Influencing Factors

Stage of enterprise development	
Start-up 	Growth 
Decline 	Revitalize
Characteristics of the industry	
Traditional/slow changing 	New/fast changing
Social culture or organisational culture	
Collective 	Individualistic
Non-litigious 	Litigious
Enterprise Ownership	
Family 	Closely held 
Publicly owned	
Brand Ownership	
OEM 	Own brand
Technology - Nature & Ownership	
Leader owns 	Professional owns
Simple/Easy to Acquire or Imitate 	Complex/Difficult to Acquire or Imitate
Degree of Integration into Global Supply Chain	
Independent 	Part of long chain

FRAMEWORK FOR IMPLEMENTATION OF S-HRM

While the project was not intended to provide the equivalent of findings from empirical research, the cases developed and the lessons obtained from the discussions among the resource persons and seminar participants revealed valuable insights on the important factors that need to be taken into account, when S-HRM systems are to be implemented in SMEs competing in a liberalised global market. The following diagram attempts to capture these factors and their interrelationships as a guide to SMEs seeking to implement S-HRM to enhance their competitiveness and chances of success.

Figure 2: Emerging Framework for the Implementation of S-HRM by SMEs in APEC



THE WAY FORWARD

Based on the experience of implementing the Strategic HRM for SMEs project, which drew on the resources, knowledge base and diversity within APEC, the resource persons involved recommend the following future actions for consideration by APEC and its members:

Hold a Continuing Series of Capacity Building Seminars Using the Outputs of APEC HRD-CBN Projects

APEC Human Resources Development Working Group – Capacity Building Network (HRD-CBN) has carried out a number of projects in the past, accumulating rich sources of capacity building materials. In particular, the more recent projects such as “Corporate Social Responsibility (CSR) throughout the Supply Chain,” and “Strategic Intellectual Asset Management (SIAM)” had SME management as its target. Using such accumulated resources, combined with the S-HRM project outputs, a variety of capacity building programmes can be developed, based on the needs of individual APEC economies. New seminar designs can also be developed and replicated in a number of member economies.

In order to carry out replication of the programme and dissemination of the case teaching materials effectively, the APEC community should support these efforts. The capacity building programme may be replicated in cooperation with the SME Working Group within APEC as well as with other organisations outside APEC, such as government agencies, NGOs and private organisations/groups, and educational institutions engaged in SME capacity building and development.

Develop a More In-Depth HRM Training Programme Focusing on Skills Development

There should also be an effort to develop more in-depth, skill development-oriented training programmes for SMEs to prepare them to enter the global supply chain. In terms of S-HRM, for example, knowledge of different performance evaluation criteria used and their effects on different cultural settings would enable entrepreneurs to apply appropriate measures in their own setting, with fuller understanding of risks and benefits.

Exhibit 1: Profiles of SMEs Studied

Economy	Name of Enterprise	Industry Sector	Market Served	Outside Linkage & Network	Workforce Size/ Sales	Ownership	Years in Operation
Canada	Data-mineware	Information Technology Software development	Canada, USA and global	Software developers global network	20 employees with 8 Software developers from outside Canada, Annual sales: C\$35 million	Single Proprietor	Est. 2003 9 years
Indonesia	Dharma Siaga	Financial Industry Micro financing for cooperative members	Local micro business (some are exporters), increasing competition of foreign banks	Ministry of Cooperatives and SMEs to provide revolving funds.	22 employees Total Revenue of US\$130 million with gross margin of US\$10.6 million	Cooperative	Est. 2004 8 years
Indonesia	Wisnu Karya Purtra International	Manufacturing and exporting of wooden handicrafts & furniture products	Middle East, European Union, Australia, USA	Central & local governments programs for Timber & Wood Suppliers	30 regular plus a few part-time employees Annual sales US\$2.52 million	Stock Company	Est. 1995 17 years
Japan	Edokiriko Hanashyo	Lifestyle industry and gift items, traditional crafts of cut glass (cups, dishes and lamps)	Local plus offshore thru online sales, potential to enter high-end Asian market thru stores in Singapore & Hong Kong	Exhibition at Musee des Arts Decoratifs in Paris, & ran a booth at International Contemporary Furniture Fair, Selected gifts for state guests.	9 people: 4 Family members & 5 non-family employees Annual sales over US\$1.25 million	Family Owned; 3 rd Generation	Est. 1946 65 years
Japan	Kowa Tech	Manufacturing of specialty vehicles (fire engines, ambulances, amphibious vehicles)	Domestic, subcontractor for large automakers like Mitsubishi, Isuzu, etc. Future plans for overseas expansion	University Professors in shipbuilding field	50 regular employees with 20 to 25 temporary Annual sales of US\$10 million	Privately held stock co, 2 nd Generation	Est. 1966 46 years
Korea	Dong-yang Machinery Industrial	Manufacturing of heavy industrial machinery	Sub-contractor of global companies (e.g. Daewoo, Hyundai)	Government support thru HRD Korea, partner contractor of Daewoo	110 employees Annual sales of US\$50 million	Stock Company	Est. 1987 25 years
New Zealand	2Touch	Informational technology: Interactive whiteboards for educational use.	New Zealand and Australia, with future plan for expansion	Entrepreneurs' network (breakfast meetings), University Professors, leading to Smart Technology, Canada.	14 members for 2Touch/Manzana Annual sales of US\$1.7 million each in New Zealand & Australia	Partnership	Est. 2007 5 years
Chinese Taipei	Pasadena International	Food service industry; chain of fine dining: French, Italian, Japanese & US cuisines	Local market, serving local and foreign residents and tourists	Brought in world renowned Michelin star chefs.	Total of 250 employees 5 international cuisine restaurants and 6 bakeries	Individual Proprietor	Est. 2000 12 years
Thailand	Global Precision Engineering	Mould and die manufacturing for automobile and other industries	Local Industry, import substitution, and increasing competition from China	Mould and Die Cluster of Thailand, Thai-German Institute	17 workers Annual sales of 22 million Baht (US\$730,000)	Proprietor	Est. 2004 8 years
Viet Nam	VietSoftware International	Information Technology-Software outsourcing service	Local (foreign companies) and Europe, Japan & US, off-shore	Part of global supply chain	200 workers in 2011; Annual sales US\$1.8 million	Stock Company	Est. 2006 6 Years

Exhibit 2: Opportunities and Challenges Facing SMEs and Their Strategic Focus

Economy	SME	Opportunities	Challenges	Strategic Focus and issues
Canada	Data-mineware	Speed and frequency of updating software	Software developers' high turnover and lost software programming code due to insufficient documentation	Fast and frequent updates of software, incorporating newest production data, using internationally mobile software developers
Indonesia	Dharma Siaga	Close relations with members	Recruiting and retaining good marketers.	To compete with large, more efficient banks, having closer contacts and deeper understanding of customer needs through marketing officers is considered important
Indonesia	Wisnu Kanya Putra International	One of a few SVLK-certified (to meet international standards) wood product manufacturer/exporter. Instituted discipline in its workforce	International rules and standards apply throughout supply chain. Discipline needed throughout the supply chain.	Meeting international rules and standards for timber production became a comparative advantage. Using incubation center and other networks, ensuring the discipline to other raw material suppliers.
Japan	Edo-kiriko Hanashyo	Unique patterns and products attracted attention of domestic and international customers	Training of craftsmen takes >5 years, retention of recruit is difficult. Core technology not yet transferred.	Shifted from OEM to direct selling, establishing own brand and product design. Innovated on process for higher quality cut. Need to transfer technology from 2nd generation owner to the next.
Japan	Kowa Tech	The first amphibious vehicle internally developed. Possible expansion to overseas or other products	Preparing human resources and leadership for overseas expansion or new product lines	Shifting from subcontracting to large automakers to serve public sector to more varied private sector demand through enhanced engineering and design capabilities. Attempting to install more performance oriented HRM system.
Korea	Dong-yang Machinery Industrial	With government sponsored programmes, upgrading systems are being done.	Continuing to improve management systems	After weathering economic recession without cutting people, Dongyang improved its HR systems, including structured OJT, using government support programme
New Zealand	2Touch	Expansion to international market, possibly starting with UK	To see if the current systems of independent and informal structure can be extended outside of NZ & Australia	Innovation based on addressing user's unrecognized needs with "push marketing", 2Touch tries to maximize creativity of employees. Whether the system will work in overseas operation needs to be considered.
Chinese Taipei	Pasadena International	Acceptance and appreciation of fine dining of international variety	For the growth of business, expand to other lines or geographically?	Introduced novel cuisines with fine-dining service plus a set of vision for the group, bringing in world renowned Michelin star chefs, testing various HR schemes to develop and retain chefs.
Thailand	Global Precision Engineering	Government policy to promote local production of mould and die, with technical support	Cheaper imports under liberalisation, maintaining trained personnel	Utilizing government schemes, acquire design and manufacturing technology, making best use of facilities of industry cluster. Retention of trained employees remains to be a major issue.
Viet Nam	Viet-Software International	Reputation as a reliable outsourcing software service, with established customers	Limited supply of programmers with right skills	Established a reputation of reliable off-shore service provider, trying to move up the higher end of supply chain, through capable people working in family atmosphere with professional capabilities.

Exhibit 3: HRM Issues/Challenges and HRM Systems/Policies/Practices

SME	HRM Issues/Challenges	HRM Strategies / Systems / Policies / Practices	HRM Theories and Topic
Datamineware (Canada)	High turn-over of software developers Independent work style with little structure Discipline to encode the programme Protecting intellectual assets	Instituting formal organisational structure with Chief Information Officer and changing work process to closely monitor development speed and team-based development. Changing performance evaluation from informal and <i>ad hoc</i> to formal and regular evaluation based on quality of work with results published openly.	<ul style="list-style-type: none"> Change management & organisational culture Agile development theory Effect of organisational structure and reporting system Performance evaluation Intellectual Technology Infrastructure Library (ITIL) for customer service management
Dharma Siaga (Indonesia)	Attracting and developing marketers who can exploit customers' needs ahead of competition	Lowering education requirement for recruits and offering selling skill training programmes to attract potential candidates. Introducing productivity and performance based pay and possible scholarship for education.	<ul style="list-style-type: none"> Productivity and performance based evaluation Customer survey for service quality Relationship based marketing
Wisnu Karya Purtra International (Indonesia)	Requirement to follow international rules and standards throughout supply chain	Taking initiative to acquire certification, and sending employees to government-organized training programmes. Instituting discipline through performance based evaluation. Helping others in the supply chain through incubator programme.	<ul style="list-style-type: none"> Government or international NGO sponsored certification Performance-based evaluation Instituting discipline with punishment and rewards
Edokiriko Hanashyo (Japan)	Retaining and developing craftsmen, facilitating technology transfers of specialized skills	Shortening development period by instituting training system Design meetings to foster innovation and design capacity Informal family-orientated approach to evaluation Training school for the public to honing teaching skills of craftsmanship	<ul style="list-style-type: none"> Prioritizing work Formalizing pay and benefit schemes Career management and technology transfer Succession for family owned corporation
Kowa Tech (Japan)	Inheriting high average age workforce with high manpower costs	Shifting to technology oriented company, with younger, higher educated manpower complement; challenging to develop entirely new product and technologies. Technical school to enhance skills during work time.	<ul style="list-style-type: none"> Management by Objective (MBO), performance evaluation Cycle of Success Management and Leadership Cycles
Dongyang Machinery Industrial (Korea)	Increasing employment through growth and productivity. Improving technical capability of workforce	Instituting structured training and fact-based productivity improvement activities, assisted by the government sponsored schemes	<ul style="list-style-type: none"> Structured on-the-job training (S-OJT) Learning organisation Input-process-output framework
2Touch (New Zealand)	Recruiting people for R&D and innovation	Clear vision to do "meaningful work with a purpose" Diversity of members, Use of Goal Metrics system based on new initiatives Maintaining redundant engineers for future activities.	<ul style="list-style-type: none"> Goal metrics system (evaluation) Management of Innovation Push marketing based on offering un-recognised needs
Pasadena International (Chinese Taipei)	Recruiting and developing creative chefs	Treating interns like chefs Extensive and varied training programmes, teamwork, new recipe contests. Participating in chef competition with big rewards.	<ul style="list-style-type: none"> Use of internship programme Talent management Employer branding
Global Precision Engineering (Thailand)	Recruiting, developing and retaining employees to SMEs (negative image)	Use of industrial cluster and government supported training. Introduction of worker's standard to show career paths	<ul style="list-style-type: none"> Joint training in the industry cluster and incubation center Industry-wide worker standards
Viet-Software International (Viet Nama)	High turnover, lack of qualified software developers with professional & communication skills	Introducing HR development model, which requires local adjustment. Recruiting those with lower qualification or those with experience of failure, complemented with OJT and coaching, family-like culture.	<ul style="list-style-type: none"> Agile development Capability Maturity Model Integration 3 (CMMI-3) Team, community-linked HRM

Exhibit 4: Profile of Leaders/Entrepreneurs

SME	Founder/ Leader	Characteristics	Past experience	Expressed Values/Philosophy	Technical Experience
Dataminware (Canada)	John Denning (disguised)	John did not like evaluating people. He liked to treat his employees as friends. Allowed independent and loose control.	Has an extensive knowledge and experience in software development and user needs.	Speed is the primary concern for SMEs to be competitive.	Knowledge of customer needs with IT application.
Dharma Siaga (Indonesia)	I GedeSunadnyana	He learned from his competition and improved his own services. Managed the bank as a team.	Worked in a large bank as marketer. Graduate of Management, Marketing.	To be a reliable partner in providing capital through excellent service.	Experienced marketer, believed in network of people and service excellence.
Wisnu Karya Purtra Internat'l (Indonesia)	Wayan Diana	Through export business, he was sensitive to the international requirements and standards imposed by the market. Had deep understanding of Balinese culture and human behavior, which may be counter to discipline required.	Master's degree holder in accounting, strong belief in HRM.	Being the first enterprise that provides one stop services for customer satisfaction	Clear understanding of the market requirement.
Edokiriko Hanashyo (Japan)	Ryuichi Kumakura & Takayuki	Wanted to establish own brand to be independent of wholesalers. Enjoyed direct link to customers. Open-minded to share and teach skills to any employee who wish to learn and allowed others to use his own special tools.	Worked for his father as one of the craftsmen.	"Looking into the World." To make Hanashyo "small but amazing" company.	Ryuichi innovated process and developed new designs. Takayuki needed to improve his craftsmanship.
Kowa Tech (Japan)	Yuji Oguri, 2 nd Generation owner	He believed that "what was important for an SME manager was to be in high spirit always. Few people extended help to an SME; therefore, the managers of SMEs were always under enormous pressure to fight for various concerns and often tended to be skeptical about others' intentions."	Graduate degree in marine engineering. Worked as management consultant. Saw his father through ups and downs in his business.	Strive to contribute to society with global view, using technology & creativity to address social needs. Everyone in company to overcome challenges and share the same spirit.	Familiar with the company operation from a young age, but no technical expertise. Exposure to basic management knowledge in early professional career.
Dongyang Machinery Industrial (Korea)	Tae Hun Lee	Maintained employees by work-sharing scheme even during the severe economic downturn, gained employees' trust.	N.A.	Honesty, Loyalty, family-centered (teamwork), professionalism & creativity	Hands-on manufacturer
2Touch (New Zealand)	Pablo Garcia	Member of enthusiastic entrepreneur group. With international exposure & comfortable with multi-cultural, informal setting.	Experience in various IT related business start-ups.	To develop technologies that had the potential to enhance learning.	IT related knowledge and managing multicultural team
Pasadena International (Chinese Taipei)	Shiu Jeng-Ji	Offered value added rather than cost advantage. Believed in 3 Principles and Core values of Truth, Goodness, and Beauty.	Entrepreneur in manufacturing (consumer electronics). Worked in China and Malaysia.	Truth, Goodness and Beauty Environment and corporate responsibility	Not in food preparation, but with experience in management.
Global Precision Eng. (Thailand)	PrapanSodatip	Had always wanted to run his own business.	Management training at incubation project.	N.A.	Learning through government support.
Viet-Software International (Viet Nama)	Le Xuan Hai, & his team	A team with international experience and software development careers in large multinational corporations.	Highly educated, with work experience in IT related industries.	To become a world-class software outsourcing service provider, through most cost effective manner.	Solid grounding in business and understanding of customer needs.

N.A. means not available.

Exhibit 5: APEC Pilot Seminar Programme on “Strategic Human Resource Management for SME Winning in the Global Economy”

Day 1

Introduction & Orientation

Opening Session – Presentation: HRD through Government Sponsored Programmes on Strengthening HRM (Case: Dongyang Machinery Co. Ltd)

PART 1 - CHALLENGES AND OPPORTUNITIES FOR SME PRESENTED BY THE LIBERALISATION OF ECONOMIES

Case Presentation: **WisnuKarya Putra International: Challenges and Opportunities in Implementing SVLK**

Case Presentation: **Dharma Siaga**

Case Presentation: **Global Precision Engineering Co., Ltd**

PART 2 – LEVERAGING HUMAN ASSETS FOR STRATEGIC ADVANTAGE

Case Presentation and Discussion: **EdokirikoHanashyo**

Case Presentation and Discussion: **Pasadena International Group**

Wrap-up & Assignment for Day 2

Day 2

Review-Preview

PART 3 – LEADING INNOVATION AND GROWTH

Case Presentation and Discussion: **2Touch**

Case Presentation: **KOWA TECH**

Discussion of the two cases

PART 4 – SHAPING WORK CULTURE THROUGH SYSTEMS

Case Presentation: **VietSoftware International Inc.**

Case Presentation: **DATAMINEWARE**

Discussion of the two cases

Wrap-up of Seminar



**Asia-Pacific
Economic Cooperation**

**Datamineware Technology Inc.
Canada**

**Human Resource Management
in a “Red Queen” Game**

Written by

Charles Gastle

Partner

Bennett Gastle Professional Corporation Barristers and Solicitors

Heather Gastle

Law Student

Bond University

The case was developed solely for educational purposes as a contribution to the project entitled “Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC,” conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

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“Well, in our country,” said Alice, still panting a little, “you’d generally get to somewhere else if you ran for a long time as we’ve been doing.” “A slow sort of country!” said the Queen. “Now, here I see. It takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!”

Lewis Carroll, *Through the Looking Glass*¹

In January 2012, John Denning was concerned that DATAMINEWARE² was taking too long to release new software and functionality to the marketplace. Its market positioning was dependent on the release of software program updates every three months to outpace its competition. Denning had since changed the process of software development but organizational problems threatening customer service persisted and he faced the imminent loss of one of his key software developers.

Company Background

A “Red Queen” game is one in which a small and medium-sized enterprise (SME) has to exceed the pace of its competitors. DATAMINEWARE Technology Inc. (DATAMINEWARE) was such an SME as it had to stay ahead of a number of large multinational competitors.

DATAMINEWARE was founded by John Denning in Vancouver, Canada in 2003. By 2011, the company had grown to C\$35 million in annual net sales and established its predictive software as the standard in its market niche. It competed with large Management Information Systems (MIS) corporations in providing software that analyzed data collected during the clients’ “just-in-time” manufacturing process. DATAMINEWARE, with its plug-in features to any existing MIS software, outpaced its competitors by continually providing new and innovative functionality. It also designed custom functionality requested by a particular customer as each had his or her own preferences. This made DATAMINEWARE more sensitive to customer needs than the large MIS companies. As a result, excellent customer service was also important to its position in the marketplace.

Identifying the Problem

Initially, new functionality was released to customers on a timely basis. By 2011, the development cycle had lengthened by 30% to 50%. Even with this extended time period, some projects were incomplete and had to be held over for a second cycle. The developers worked individually and only revealed the lines of computer code that they had written which formed the software program at the end of the development cycle, when it was subjected to testing. Denning realized that the privacy he allowed his developers was counterproductive and one of the reasons why project deadlines were missed.

¹ Lewis Carroll, *Through the Looking Glass* (Dover Thrift Editions, 1999).

²Datamineware Manufacturing, Inc. was a fictitious company but the issues raised herein were based on a software company located in the United States of America in an industry different than that of data mining.

Denning believed that another reason the development cycles were lengthening was the growing complexity of the software products and functionality that DATAMINEWARE offered. When it was a start-up, writing software code was relatively easy and all the developers were “stars.” Over time, the programs evolved and inevitably, the code for each program had flaws embedded within it that impaired the functionality or caused the system to crash from time to time. The code also had peculiarities as a result of developing custom functionality for particular customers. These legacy issues could trigger problems in the new functionality that was being added in later development cycles.

Another problem was that the software lacked proper documentation embedded in the software code that comprised the computer program. Comments were inserted into the code to explain the logic that had been adopted by the developer. The comments were important for any subsequent developer to understand the manner in which the code was written.

Finally, so much software was written during the longer development cycles that there was not sufficient time to thoroughly test the code. This inability to test was causing customer service problems due to bugs and software instability, once the functionality was released to the customer.

Denning believed that the root of the problem was the way in which the development team was organized and evaluated. Denning had to increase the pace of software development while maintaining productivity and customer service.

DATAMINEWARE’s Development Team

DATAMINEWARE initially had a team of three software developers but by 2011, the team had grown to eight developers, all of whom were from abroad. It was difficult to find MIS developers in Canada and Denning had to hire them from China, India, Israel, Romania and Russia by advertising on the internet and through his development team. Often, they would identify friends who had MIS expertise from where they came from, and due to their unique skill-set DATAMINEWARE was able to arrange their immigration to Canada. Bringing developers from abroad did have disadvantages, though. First, these workers were highly mobile internationally, and many would leave for other local or foreign opportunities. Second, cultural demands placed on developers required them on occasion to return home. To overcome the turnover problem, Denning hired developers even when he did not need to do so because of the difficulty of finding them. As a result, he usually had more developers than he needed at any one time.

Denning found that he could keep developers for no longer than a period of two to three years as they appeared to have a need for novelty and eventually moved on to new projects. As an example, Denning lost a number of developers to social networking start-ups before Facebook emerged as a “killer” application. Some of them would eventually return but there were no policies that Denning could think of to overcome the two to three year shelf-life of a developer:

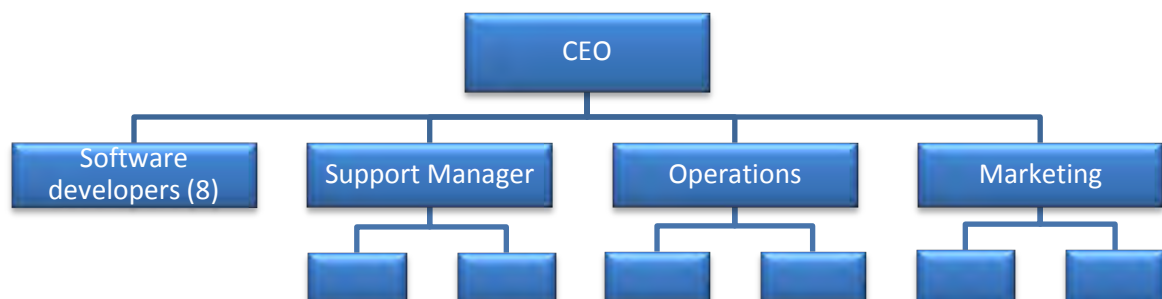
Duration of Employment	Number of developers
1 year	2
2 years	5
3 years	7
4 years	2
5 years	1

The threat of losing a key developer to one of the large MIS companies was a significant threat to DATAMINEWARE as some knew the software company's overall architecture, its functionality and its future development plans. Denning believed that he had done everything he could to keep his developers. He offered a flexible work environment and flexible hours, and paid them a salary that was competitive with what large corporations offered. They also received a discretionary productivity bonus up to 10 percent of their salary, depending on Denning's evaluation of the quantity and quality of the software code they had written. Denning did this subjectively, without any established criteria, and he sometimes gave higher bonuses to those he liked or wanted to keep. He knew that some companies kept their most productive developers by giving them an ownership interest in the company or a percentage of the profits. He considered these alternatives but Denning's corporate counsel informed him that according to Canadian law, minority shareholders had ownership interests sufficient to give them the ability to commence a lawsuit, if they felt that their interests were treated in an oppressive manner by the majority shareholder. He was also told that giving the employees a profit percentage carried with it the requirement to provide financial disclosure. Denning was not prepared to give up an ownership interest in DATAMINEWARE or make financial disclosure to his employees.

Changing the Organizational Structure

Denning had to admit that his own management style contributed to the problems at DATAMINEWARE. He had run the company as if it were a small start-up by controlling every function of the organization. He realized that the company might have outgrown him. From the time of its incorporation, DATAMINEWARE had maintained a flat management structure (Figure 1) in which the developers reported directly to Denning. He acted as his own Chief Technology Officer (CTO).

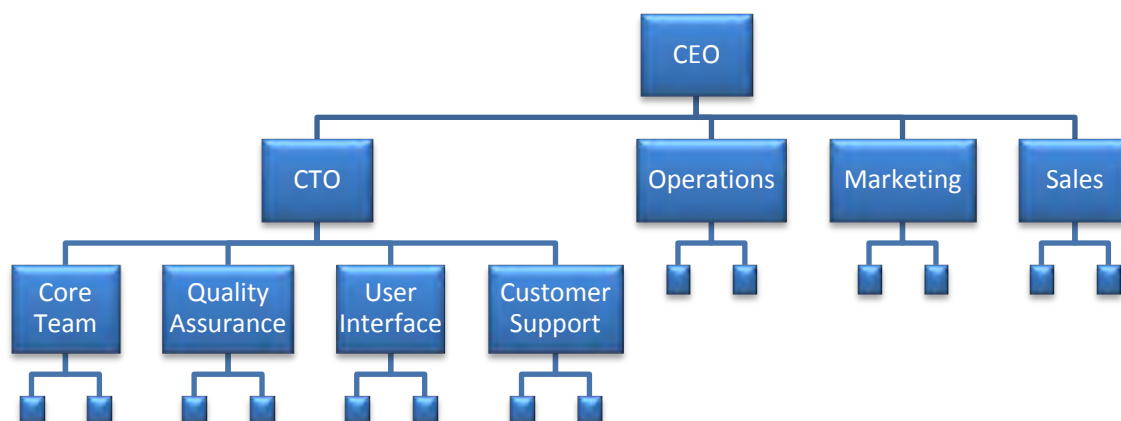
Figure 1: Original Management Structure



Denning decided to hire a CTO and put him in charge of the development team. He advertised for a CTO and hired one with significant experience in developing software through "agile software development" processes. He then redesigned the corporate

structure so that the developers reported to the CTO. The developers were split into different teams relating to core technology, quality assurance, and the graphic user interface. Team leaders were designated for each of these critical functions. He also decided to have customer support report to the CTO due to the fact that customer service issues would give rise to development projects that would have to be integrated into the sprints (Figure 2).

Figure 2: Redesigned Organizational Structure



Changing the Software Development Model

To accelerate the speed of software development, Denning studied agile software development concepts which promoted the rapid development of software in an iterative process. It provided that software development should occur in a series of sprints of no longer than one month in duration.³ A daily meeting was to be held to synchronize the work of each team member into the overall project.⁴ At the end of the sprint, the new features were integrated into the software program and tested. A review meeting was held in which the team demonstrated the new functionality that had been created during the sprint. Once it was tested and passed by quality assurance, it would quickly be made available to customers who would beta test the software and provide their feedback.⁵

Denning decided to implement agile software development and defined the sprint development cycle as a two-week period. One advantage of a short sprint was that the performance of the various developers could be measured on an on-going basis. If a project was not completed within the sprint, it would be held over, with a review undertaken as to why it was not completed on a timely basis. It would also be evident if the developer had poor skills or suffered from a lack of interest. This continual assessment provided a more regular measurement of the developers' work by which decisions could then be made to terminate the developer's employment if warranted.

Denning believed that a two-week sprint would also allow him to improve the testing of the software code and the documentation within it. Each sprint would produce a limited

³<http://www.mountaingoatsoftware.com/topics/scrum>, last visited August 14th, 2012

⁴Ibid.

⁵Ibid.

amount of code that could be quickly reviewed by Quality Assurance and then released to customers for beta testing. The software code could be sent back to the developer if appropriate documentation of the logic used in writing the code had not been included. Also, reviewing the code on an on-going basis would make the development team more familiar with its structure. Only two weeks of new code would be at risk if a developer left without warning. The results of the testing and the inclusion of proper documentation became key criteria in the evaluation of software developers.

Planning the sprints was left to a Product Development Team comprised of the Chief Executive Officer, Chief Technology Officer, the Support Manager and the Product Manager from the marketing department. This Team was responsible for the strategic management of software development and for breaking projects down into parts that could be completed within the two week sprints.

The CTO recommended that the programming language be changed from “C++” in which its software was written to “ASP.NET” language. The CTO explained that C++ was a desktop language whereas ASP.NET was a web language in which software code could be written more quickly. The CTO stated that the move to agile development could not be made successfully unless this change in programming language was made. Denning took time to consider this change. His developers were experienced C++ programmers but some of them had no experience in ASP.NET. Denning agreed to adopt ASP.NET but he was concerned about the impact it would have on the developers.

Communicating Change

Denning had made the commitment to change, but he knew it would be difficult and disruptive to the company’s operations in the short term. The challenge now was to communicate this commitment to the entire organization and ensure that all employees knew that there was no returning to the *ad hoc* culture that had evolved since DATAMINEWARE days as a start-up.

Denning and the CTO held a series of meetings with the developers as well as the customer service and sales teams so that all understood the changes in management and the implementation of agile software development processes. The employees were advised of the critical importance of staying ahead of the competition by being nimble and customer-oriented. They spoke to the developers about retraining in ASP.NET at the company’s expense. The developers were then sent for two-week training sessions on rotation.

Due to the risk that key developers might leave, Denning contacted his corporate counsel to review the existing employment agreement and determine whether DATAMINEWARE might obtain protection from its former developers joining the competition. Pursuant to Canadian law, developers could be prevented from taking a job with a competitor for a period of up to 12 months if the contract contained a non-competition clause. The former employee also had to keep confidential any matter relating to the architecture or other secrets of the code forever. Denning was advised that it was difficult to enforce non-competition and confidentiality clauses in foreign jurisdictions, particularly in an economy not known for a reliable and independent judiciary.

Denning also extended the period of notice a developer had to give to leave the company to take another job. The old employment agreements provided that a departing employee had to give two-weeks' notice. DATAMINEWARE had experienced problems two weeks after a key developer left, when the code the developer had written proved to be inscrutable and had to be abandoned. The notice period was extended in the new employment agreement to four weeks to provide enough time for the departing developer to explain the code written, and the logic on which it was based.

Denning had the development team sign the new employment agreements before they were sent for training on ASP.NET.

Impact of Change on the Development Team

The current state of the software was analyzed by the Product Development Team and projects were identified for the initial two-week sprints, which were quickly introduced. The first sprints were somewhat disorganized, with a number of projects not being completed. It took three months of adjustment before Denning felt that the sprints were working as intended.

Denning found that his developers fell into two groups in their response to the changes that were occurring. The first included those who were willing to embrace agile development process and retrain in ASP.NET. The second group was not ready to adopt agile development, did not want to retrain in ASP.NET or proved incapable of it. These were some of the top developers in the company who did not like to lag behind some of the younger developers writing ASP.NET. As Denning feared, these developers soon left the company causing further disruption by having to replace good talent and losing their knowledge of the code's architecture. Denning had to rely on the non-competition clauses contained in the employment agreements to protect DATAMINEWARE from the risk of having the departing employees join the competition.

Eventually, DATAMINEWARE was left with a team of developers that were ready to work with the new processes and were trained in the ASP.NET programming language, but some issues remained. Some developers were shy and would not speak up in front of others at the sprint meetings that were scheduled every day for the developers to discuss their projects. This made it difficult to monitor and forecast the progress of each task. To remedy this, developers had to be encouraged to speak up at meetings. Denning also held firm that the developers had to forget the old processes and adopt the new ones. During the initial adjustment period, the developers who used to report to Denning came and talked to him, asking to return to the old system and citing the preference for Denning's managerial style over that of the new CTO. Denning made it clear that the CTO had his full support and that this new structure was permanent. Denning found these problems were a type of growing pain, which dwindled over time. After a few sprint cycles had been completed and the employees had time to gain familiarity with the new processes, these problems were eliminated.

Employee Evaluation

Employee evaluation was an important tool in reinforcing the changes made. In the past, employees were given an evaluation once a year on an informal basis. Denning did not really like evaluating employees who had become his friends and he did not want to

confront them with their shortcomings. As long as the company continued to thrive, the employees received favourable evaluations without much criticism. As part of the changes made, Denning, the CTO and the other managers designed a comprehensive evaluation procedure that identified objective metrics. The criteria included, but were not limited to:

- Completing the task assigned within the two-week sprint (10 points);
- Participating in discussions during the daily sprint meetings (up to 5 points);
- Including comments within the software code
 - (1 point for each comment, up to 10 points);
 - (if code is properly described, up to an additional 10 points);
- Testing by quality assurance,
 - (10 points, less 1 point for each bug,);
 - (loss of all 10 points if code was unstable);
- Customers evaluation of code during Beta testing:
 - (rating on a scale of 10 by customer);

The importance of a customer orientation was underscored by including customers in the evaluation of the software code. The new system of evaluation was objective and measurable. Results of the evaluation showed an improvement in performance scores among those developers who accepted the changes and the new programming language. The scores were posted within one month of the end of the sprint so that all could monitor their performance relative to others within the group. This caused some dissatisfaction among the poorer performing developers and this was a problem because some of the top C++ developers were struggling with ASP.NET and it was a further incentive to leave.

An Unexpected Consequence: Customer Service Suffered

The biggest challenge Denning faced in implementing change to DATAMINEWARE was customer service. He commented that “after the first three months, I didn’t have a single happy client and eventually, I had to pay back C\$100,000 in rebates to satisfy them.” He knew that due to the disruptions caused by the changes being made, the customer service employees were subject to confrontations by angry customers on a regular basis, which made their working lives very stressful. Understandably, it led them to reject the changes being made. Prior to the change, the customer service agents were able to contact developers directly, requesting them to work on solving a customer complaint. When Denning implemented the change to agile development processes, the customer service employees had to make requests to the CTO to whom they reported. They found that the CTO would make promises about dealing with specific customer complaints but that these would not be addressed. The CTO either failed to assign developers or those who were assigned could not take time away from their projects due to the tightness of a two-week sprint to complete the new code assigned to them. As a result, customer service employees could not react to customer complaints on a timely basis.

The customer service problems had a ripple effect on the sales team of DATAMINEWARE as well. This occurred because each customer had a relationship with their sales person and when customer service did not address the problem immediately, the sales person got the next call. As a result, a number of employees in the company had cause to reject the agile development processes that were being implemented and preferred the old system in which bugs would be fixed quickly and customers appeased.

Complimentary Change: Introducing ITIL

Agile development was not intended for other functions within the company. Denning was aware of processes known as ITIL (Intellectual Technology Infrastructure Library) which was initially developed by the British Government, and which eventually spread around the world to a variety of businesses. ITIL was designed for identifying, planning, delivering and supporting customer service.⁶ Just as Denning had worked on implementing agile development processes to solve the problems in software development, he turned to ITIL principles to solve customer service issues.

Implementing ITIL required the introduction of a new customer flag system. The existing system was one that allowed the clients to fill out customer support flags which established a record of a particular problem they were experiencing. Each flag would then be assigned to a developer by the customer service team. A new flag system had to be created to allow ranking them in order of importance. DATAMINEWARE adopted a process indicating that if a flag was rated “high,” it would have to be dealt with within two hours. If one was rated “medium,” additional time was allowed for the problem to be dealt with. If it was rated “low,” it could then wait and be inserted into the next sprint cycle. It again took approximately three months to implement the new customer service processes. Support staff had to be assigned to enter up to 100 flags into the new system to activate it.

But Problems Remained

Even after ITIL processes were introduced and the new flag system created, customer relations issues remained. Customers were still dissatisfied with the time it was taking to have their complaints dealt with. Denning learned that customer service fixes were not being handled within the time period established by the flag system. He found that the CTO was still giving priority to the development projects in situations where he felt that the development of new code was more important. The CTO defended his position indicating that this was necessary so that the new functionality could be developed on time, and that the flags that were delayed were not really that important.

Denning knew that customer service issues had to be given a higher priority in the development process. He knew that until he did so, there would be strong resistance to the changes being made among the customer support and sales teams. He also knew that the ranking of the new software code versus customer service projects had to be made with the input of different departments within the company. He knew that the corporate structure would have to be adjusted and the question was how this should take place and what new processes should be implemented.

Denning was also advised by another developer that Jim You Song was about to leave and join a competitor in Guangdong Province in China. Jim was Denning’s good friend and a key developer who had defied the odds and had remained at DATAMINEWARE for the last five years. Jim was unhappy with ASP.NET which he was struggling with and he felt insulted when the evaluation scores were published as he was regularly in the bottom tier of developers. Denning did not want to lose Jim as he had been the

⁶ “What is ITIL?” <http://www.itil-officialsite.com/AboutITIL/WhatIsITIL.aspx>.

company's most creative and visionary developer responsible for some of the company's most popular software. Denning feared the damage that could be done if Jim joined a company in a jurisdiction in which non-competition clauses might be meaningless. The question was: What should he do to encourage Jim to stay and continue to ensure that DATAMINEWARE stayed ahead in its Red Queen game with its much larger competitors?



**Asia-Pacific
Economic Cooperation**

**Dharma Siaga
Indonesia**

Responding to Globalization

Written by

Putu Saroyini Piartrini

Lecture of Faculty of Economics
University of Udayana

The case was developed with the cooperation of Dharma Siaga solely for educational purposes as a contribution to the project entitled "Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC," conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

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Dharma Siaga was a small scale financial service cooperative, operating in Denpasar, Bali. Its business was focused on retail/consumer loan and financing for micro businesses. Having been involved in the small scale financial service industry for several years, the company realized that the industry environment was getting extremely competitive. The industry was characterized by standard products of either savings and credit, low customer switching cost, relatively high cost of money, and required building new relationship with prospective customers or enhancing relationship quality with current customers to generate new business. Unfortunately, in 2008, Dharma Siaga had a shortage of marketing officers; it had only six marketing officers who had been with the cooperative since its establishment.

The manager of Dharma Siaga had been trying to strengthen its marketing function by improving its HR policies and performance measures to attract potential marketing officer candidates. While the company performance showed some sign of improvement, Mr Suriadnyana was wondering if there were other aspects he needed to address to survive the competition. The financial industry was getting competitive because of the Regulation allowing foreign investors to become controlling shareholders with up to 99% share ownership.

History of Dharma Siaga

Dharma Siaga was a cooperative which was established in 2004 in Denpasar, Bali by Mr I Gede Suriadnyana who was considered as the father of Dharma Siaga. Before establishing Dharma Siaga, Mr Suriadnyana worked for a banking institution for eight years where his academic background as a graduate of Management Economics, majoring in Marketing was put to good use. He began his career in the financial service industry as marketing officer in Jakarta. It was this experience which gave him the confidence to build his own business. Later, he continued to learn from Dharma Siaga's competitors how to run and grow the business. He believed that developing an effective network was a key success factor in the business that Dharma Siaga was in.

Dharma Siaga set up its office in a business area where there was a growing number of micro businesses. It served micro businesses largely made up of handicraft producers. In order to survive, just like a general bank with large-scale operations, the cooperative needed a wide customer base and a high volume of transactions while effectively controlling operating costs. To enhance the volume of transactions, Dharma Siaga had to enhance the productivity of its marketing activities.

Dharma Siaga started out as one of the small scale organizations engaged in financial services. It was registered as a cooperative institution on 19 January 2004 with the following vision and mission:

Vision: "To be a Reliable Partner in Providing Capital and Managing Business for its Members and Prospective Members."

Mission: Providing excellent saving and credit services to members and prospective members; Improving the efficiency and quality of operations in a sustainable way; Improving the competence and the welfare of employees, members and prospective members continuously; Developing a network of cooperation, either with individuals or other legal entities, to support business development.

Dharma provided a savings facility and a credit facility either for consumption or productive activities of its customers. According to company data, there was an increasing number of customers served by Dharma Siaga. The number of customers served by Dharma Siaga from 2008 to 2011 were as follows: 3,515 in 2008, 5,268 in 2009, 5,549 in 2010 and 5,868 in 2011.

The company's development was based on its capability to create economic value for stakeholders. Its target market consisted of members and prospective members who needed either credit or saving services.

The loan with a maximum amount of Rp.200,000,000 (US\$20,000) was provided to those who were engaged in an economic activity. There was a large number of micro businesses operating in Denpasar which had limited access to sources of capital. While there was no limit to the amount of savings that one could have, Dharma Siaga tried to utilize money it received from customers. Its marketing officers offered credit facility to its clients when they needed money instead of withdrawing from their saving account. This kind of transaction created revenue from credit realization and at the same time maintained asset stability. Idle cash in the company was deposited with larger state owned banks so that Dharma Siaga could earn additional interest revenue while at the same time making the fund secured. Only a limited amount of cash was retained in the company.

Industry Competition

The financial service industry in Denpasar regency was extremely competitive, with nearly 1,500 industry players operating in the area. There were 687 branch offices of National Bank and Global Bank with service offices having small, medium and large scale service capacity. Among the SMEs, there were 671 primary saving and credit cooperatives, 39 Credit Provision Bank for People (BPR), and 35 village credit institutions (LPD). Denpasar had a population of about 600,000. Based on the survey, on the average, a client had transactions with more than one credit provider institution. Thus, a financing institution had to compete for a larger share of individual client/customer's transactions because the population growth rate was not significant.

Denpasar, an expansion area just like Jakarta, Surabaya Medan and Semarang, was targeted by Commonwealth Bank, ANZ-PANIN Bank, CITI Bank, CIMB Niaga, AMRO Bank, Indonesia National Bank (BNI), International Indonesia Bank (BII-May Bank), Danamon Bank and Permata Bank. These were banks owned by either foreign investors or a partnership between Indonesian and foreign investors. Local competition, together with the declaration of collective commitment made by the leaders of ASEAN economies at the 12th ASEAN summit in Cebu, Philippines, on 13 January 2007 to accelerate growth (including its ASEAN Economic Community pillar to 2015, with regional economic integration by 2015), would make the competition stiffer in the future. There would be more and bigger financial companies operating in Denpasar. Financial services, in the form of savings and loan services were not just offered by small and medium scale enterprises, but also by the large-scale financial services company that set up separate business units to satisfy the need for financial resources by the community. Capital was also provided by the Institute of Rural Villages (LPD), Credit Unions (KSP) and Rural Bank (RB), particularly for the low-income segments of the population who lived in rural areas.

Financial services provided by other financial institutions were also competitors and could be a substitution for Dharma's saving and credit services. The large number of players in the small scale financial industry, high intensity rivalry or competition, combined with low buying power and moderate level of money suppliers power could result in a potentially low profitability of the industry. Table 1 presents comparative rates of savings and credit offered by small scale financial institutions.

Table 1. Comparative Rates of Savings and Loans

No	Product	Interest rate of other financial institutions (Annually)	Dharma Siaga Interest Rate	Average interest (Annually)
1	Saving Demand	4%-6%	6%	5%
2	Demand Deposit			
	3 months	6%-8%	8%	7%
	6 months	7%-9%	9%	8%
	12 months	10%-12%	12%	11%
3	Credit	18%-24%	18%	21%

Data presented above indicated that interest rate for credit was nearly twice as much as that for demand deposit. With the high gross interest margin, cooperatives earned low net interest margin because of relatively high average overhead cost due to limited scale of activities. The high cost of fund made interest margin in the cooperative industry relatively low, something like 2% from credit transactions.

Strategy

Dharma Siaga was part of a financial industry in which the volume of transaction was as important as company credibility to be competitive. Generally, financial institutions offered standard products and services so that customer switching cost was relatively low.

To enlarge market share, the company needed highly qualified marketing personnel who had the competence to maintain the number of current customers and at the same time attract new ones. The small scale financial service industry had few potential competitive advantages; both the credit and saving services did not differ much from those of its competitors. The key success factors in the industry were fast service, competitive price and high volume of business. The larger the business scale, the higher the company profitability; hence, an effective marketing system played a significant role in developing company business.

To expand its business Dharma also implemented a cooperation strategy or syndication loan. This strategy enabled Dharma to increase its business volume and overcome resource limitations simultaneously. Dharma Siaga had been developing syndication Loan Strategy either with other small scale financial institutions like BPR Dharma Siaga, or other cooperatives such as the Cooperative Sari Permata, to finance potential business while at the same time hedging its credit risk. Dharma Siaga also developed relationship with larger banks such as the Indonesia State Bank (BNI) to distribute loans for small business enterprises because of either limited money available in the company

or as a risk management policy. In case of potential business to finance, Dharma invited other micro finance companies to share the loan amount and related credit risk.

Dharma Siaga penetrated the market by adopting a relationship marketing strategy. Its marketing officers built relationship with their clients coming from their own *banjar* or village. The strategy enabled them to build customer trust faster and more easily. When trust and credibility had been established, the customer perceived the risk of transaction to be lower.

Marketing Function, Marketing Officer's Roles and Competencies

Marketing was the process by which Dharma Siaga communicated its products and services to prospective customers, with whom the company should be able to build relationship and trust, and gather information to satisfy customer needs for fund. Because Dharma Siaga's performance heavily depended on the quality of the relationship between the cooperative and its customers, the company implemented a relationship marketing strategy. The effective implementation of the strategy largely depended on the various relationship and trust building activities conducted by its marketing officers.

Dharma Siaga tried to build its distinctive competence by enhancing its marketing officer's capability in relationship and trust building. The marketing officers were company representatives who had intensive interaction with the customers. Dharma Siaga expected them to demonstrate integrity and friendliness, and provide personalized attention to customers. It also established standard operating procedures to control its internal process performance and to make sure that its target could be met. Since 2010, the company had aligned its business performance measurement with individual employee performance system. The company conducted a customer satisfaction survey annually to generate feedback on its service performance. The results of the survey provided information on the level of customer satisfaction and the areas for service quality improvement. (See Exhibit 2 for sample questionnaire). The customer survey in 2010 and 2011 reported that the average score of customer satisfaction were 3.2 and 3.55 respectively.

The capability to build trust and relationship was the fundamental competence that had to be developed to enhance the cooperative's volume of transaction. Dharma needed marketing officers who were not just able to communicate product specification, interest rate and credit application procedures accurately, but should also be able to build trust and relationship effectively. If they were trusted, marketing officers could regularly communicate with prospective customers, know client's business and financial needs, acquire new clients, expand the wallet and deepen existing client relationship, and cross-sell the cooperative's financial products.

Similarly, the marketing officer was expected to conduct a series of activities such as meeting prospective investors and establishing interpersonal relationship regularly; meeting prospective debtors; explaining to customers the different types of credit schemes and saving schemes, including the terms of those services and the loan application process; getting information on the prospective clients; and obtaining and compiling information and data which were relevant to credit applicants such as credit histories, financial capacity, character and its business prospect.

To support its business development, Dharma Siaga needed to develop certain abilities (e.g., the ability to actively listen, be socially skillful) among its marketing officers that would help them build relationship and create customer trust effectively (See Exhibit 3).

Labor Market and Demand

On the average, there were 4,588 new entrants to the labor force in Denpasar every year, 34.17% of whom graduated from Senior High School. Some 1,600 of them entered the labor market and were available for recruitment. Approximately 1200 potential workers or labor force were available for recruitment not just by small scale financial companies but by those in the financial industry and hospitality industry such as hotels, restaurant and others. Those who finished college and had good qualifications were not interested in working for SMEs which they believed would not offer satisfactory working conditions and compensation. Instead, they were more interested in becoming civil servants or working for government offices or state-owned companies which they felt could provide job security, higher social status and stable income. In addition, working for SMEs provided limited personal development and salary increases. Most workers had the perception that working for a small scale company exposed workers to low job security and low job status.

Organizational Structure

Dharma's operations were under the control and supervision of a management team composed of the chairman, secretary and treasurer, and operations manager. They were supported by a Board of Auditing which ensured that internal control policies and operating policies were properly implemented.

As chairman, the Operating Manager of Dharma was responsible for formulating business strategies to realize the vision and carry out company missions; formulating operating policies as guidelines for Marketing, Finance, Human Resources and quality control services activities of the company; developing operating programs and operating budget of the company; monitoring and evaluating operating performance of the cooperative; and reporting its performance to management.

In 2008, operations activities were carried out by 14 staff who performed various functions to serve 3,515 clients. In a low segment financial market, it was impossible to develop technologically sophisticated financial products as those developed by larger financial companies; hence, Dharma Siaga tried to maximize its capacity to build consumer trust and credibility through employee-customer interaction.

Operationally, Dharma Siaga implemented bank oriented policy which required customers to come first to the bank if they needed some services. It also implemented a customer-oriented policy in which the marketing officers visited its customer regularly to deliver the service needed by the customers. The marketing officers picked up the money saved by the customer every day as well as the loan payments. The intensity of customer–marketing officer's interaction was relatively high so the latter had more chance to enhance the quality of relationship every day and access the latest information regarding the customer needs, the status of the business as well as the customer's paying capacity.

Basically, operating functions were distributed across three departments: fund management department, credit department and accounting and general administration department.

Credit Department

The credit department performed the following functions: establishing a general credit policy; planning and controlling credit portfolio; setting overall and specific credit limit; conducting performance credit reviews; analyzing feasibility of credit application; providing credit performance report; credit documentation and administration; collecting and updating collateral administration.

The Credit Manager was responsible for credit management functions. He was assisted by a credit analyst and credit administration officer.

Fund Management Department

The core function of the Fund Management Department at Dharma Siaga was to measure, monitor and control liquidity and fund management. The department was also responsible for balancing and managing the daily cash flow and liquidity of funds within the bank. It likewise handled Dharma Siaga's bank investments in securities, and/or cash instruments.

The department conducted the following activities: establishing a general saving scheme and its terms; planning and controlling fund portfolio; measuring, monitoring, and controlling interest rate risk (IRR) and ensuring that IRR stayed within Assets/Liabilities Management guidelines; performing funding activities and performance reviews; managing fund related risk; fund documentation and administration; and collecting and updating fund administration.

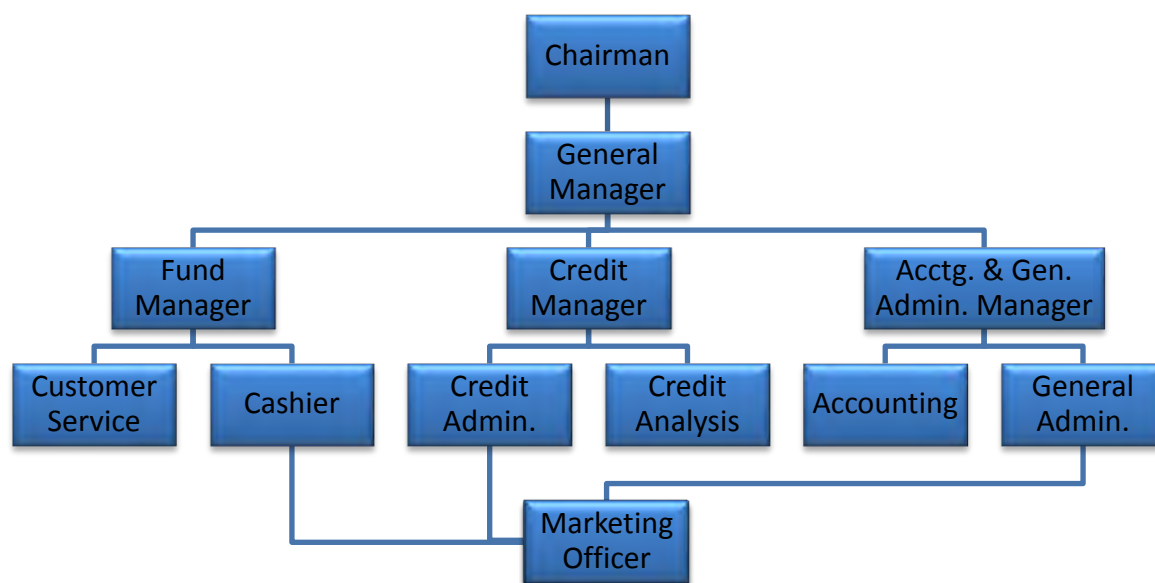
The Fund Manager was responsible for fund management functions. He delegated services activities to the customer service officer, and delegated cash receipt and disbursement to the cashier.

Accounting and General Administrative Department

The Accounting and General Administrative department was responsible for, but not limited to, financial administration of payments and receipts; administration of the payroll; maintenance of accounting records of the cooperative; compiling, presenting and publishing the monthly and annual financial statements; provision of management information and budgetary control reports; and trusteeship of the assets of the cooperative. In addition to the above responsibilities, the department coordinated the bank's budgeting processes and ensured execution of any measures geared towards enhancing Dharma Siaga's operational efficiency.

The Accounting and General Administrative Manager was responsible for managing logistic and financial as well as accounting records. He was supported by the General Administrative Officer and Accounting Officer (Figure 1).

Figure 1. Organizational Structure



Human Resource Policies and Practices

Initially, in 2004, Dharma employed four staff who conducted marketing activities, administrative activities and credit analysis. As of 2012 the number of Dharma employees had gone up to 26. Some 80% of them had been working for the company for more than four years. Most were graduates of Senior High School or Vocational schools (Table 2). Table 2: Number and Educational Qualification of Employees: 2008-2011

No	Education	2011	2010	2009	2008
1	Undergraduate program.	1	1	1	1
2	Vocational	13	10	8	8
3	Senior High school	12	11	10	8
	Total	26	22	19	17

As shown in Table 3, the bigger number of Dharma Siaga staff handled administrative functions while the rest conducted marketing activities.

Table 3: Number of Employees Administrative and Marketing Function: 2008-2011.

No	Education	2011	2010	2009	2008
1	Marketing officer	10	8	6	6
2	Administrative officer	16	14	13	11
	Total	26	22	19	17

Recruitment and Selection of Marketing Officer

Human resource activities began with workforce planning which was the process of analyzing the organization's need for people in terms of number, skills, and HR allocation. It allowed the organization to plan how those needs could be met through recruitment and selection. Recruitment involved attracting applicants with the correct qualifications to apply for vacancies. For external recruitment, Dharma advertised

vacancies through the newspapers and radio as well as employee reference which were cost effective ways of attracting the right applicants. Selection involved choosing the most suitable candidates from among the applicants, while observing employment laws and regulations.

For the initial operating period of 2005–2008, the search for marketing officers at Dharma was difficult. Advertisements placed in the newspaper for the position did not elicit any response from job seekers, and Dharma was not sure whether it was because of the negative attitude of job seekers toward the marketing function or because of individual achievement orientation. To gain job seekers' attention, Dharma changed its communication strategy. Instead of advertising the marketing officer position, Dharma also invited potential candidates from the community, which was its target market, to participate in a training program on selling skill building. There were no detailed requirements mentioned and the invitation was open to senior high school or college graduates, and even to housewives.

Since 2009, recruitment was conducted every year in September. Dharma received 15 to 20 applications for the training and recruitment each year. The number of employees remained stable due to the 10% to 20% of training participants who completed the program and signed contractual employment agreement. Dharma Siaga implemented on the job training to develop its marketing competences. Usually, after attending three days of training, the applicant did not come back to complete the program.

Screening candidates was the most important part of the selection process since it ensured that those selected for interview best fit the job requirements. At this stage, the Manager of Dharma Siaga, whose function also included Human Resource Management such as recruiting and selecting employees, carefully reviewed the applicant's curriculum vitae (CV) which summarized his or her education and job history. Dharma Siaga prioritized potential employees recruited from the target community for expansion.

The selection of potential candidates was based on the results of a psychological test and how they met the criteria for selection such as self-confidence, desire to succeed, level of ambition, commitment, social approbation and tendency to compete. The successful candidates were offered an opportunity to take part in the selling skill training and an attractive salary which was higher than the average market compensation.

Skills and On the Job Training

Dharma Siaga also provided selling skills training for its new employees. Mr. Suriadnyana sent employees to training centers to develop their capacity and exploit their potential capability because he knew that he needed them to expand Dharma Siaga.

The training and development program provided by Dharma Siaga were intended not only to provide product information but promote personality development, and build communication and negotiation skills of the employees. The training lasted three to four weeks of class sessions and on the job training.

After completing the training session, the prospective employees were offered an opportunity to take part in an on-the-job orientation training. The prospective employees who were involved in this session were those who had signed contractual work arrangement and were classified as contractual based employee. They received a basic

salary between Rp.750,000 (US\$75) and Rp.1,000,000 (US\$100) and were eligible to receive performance-based incentives in return for what they contributed to the company.

Generally, 20% or four to six of the 20 participants who completed the training session were interested in going through the job orientation activity. They generally had no selling experience; most of them were female aged 19-22 years old and were senior high school graduates.

The initial step in the job orientation process was target setting wherein an individual employee learned to set his or her performance target. For the next 25 days, the new employee did the job in tandem with a senior employee who helped identify prospective clients and guided the new employee in building relationship. At this stage of the work, the new employee tried to gain job experience step by step with a senior employee as coach.

The 12 months performance of contractual employees was evaluated based on measureable indicators of the quality and quantity of work achieved. They had to achieve at least 70 % of the targeted nominal value of savings and credit realization to move on as permanent employees. Based on data, only four to six trainees passed the minimum requirements. Those who failed to meet the minimum level of performance were found to have a negative attitude toward selling activities; they were reluctant to initiate product presentation or contact potential customers as reflected in the prospect visiting report. Compared to successful candidates, those who failed visited fewer prospects.

Compensation

In Dharma Siaga, the management tried to establish a relationship among training program, performance evaluation process and compensation policy. Results of the survey on compensation in small scale financial companies in Denpasar in 2012 indicated that most companies implemented a seniority based compensation system while only a limited number adopted a performance based compensation system. Most companies with performance based compensation systems came from the small scale banking industry such as the Credit Bank For People. Average salary paid for a new worker in the small scale financial industry was Rp.1,000,000 (US\$ 100). In Dharma Siaga a new account officer's salary was Rp. 1,500,000 (US \$150).

The results of the compensation survey conducted by the company in 2011 revealed that there were some variations in performance based compensation policies in the small scale financial industry (Table 4).

Table 4: Compensation Structure

Compensation Structure of Dharma Siaga	Compensation Structure of Competitors
Basic salary	Basic salary
Food expenses	Food expenses.
Transportation expenses.	Transportation expenses
Productivity incentives	Pay increase based on seniority and length of service

A compensation review conducted on several companies which had similar business and scale of operating activities as Dharma revealed that most could not satisfy the

salary expectations of college graduates. Based on regional government regulation of Bali Province, the minimum take home pay for new employees was Rp.1,259,000 (US\$133) per month. There was a salary increase of 5% annually because inflation rate in Bali was between 3.5%-4.5%. Most of these companies tried just to maintain stable purchasing power of the employee's salary and did not attempt to stimulate higher work motivation and better future performance. On the other hand, depending on employee performance, Dharma Siaga provided annual salary increases of 2%-10% of basic salary.

Performance Management System

Starting in 2010, Dharma Siaga recognized and appreciated employees' contribution to the company through the performance management system which involved the identification of measurable performance indicators, target setting, periodical performance evaluation, and reward and recognition policy.

Performance Indicators

The management and employees identified some indicators to measure employee performance or contribution. Employee contribution or performance was measured in terms of the accumulated balance of credit realization and time deposit as well as demand deposit accumulated either on a monthly or annual basis. The employee and management agreed on the performance target.

The management conducted performance monitoring at the end of every week, followed by performance evaluation at the end of the month. Results of the performance evaluation were used as the bases for calculating how much the employees should be paid for their contribution.

The management continuously tried to build a meritocracy culture within the company. Annually, each employee in Dharma Siaga was evaluated in two ways — from the customer perspective and from the company perspective. The evaluation from the customer perspective measured the quality of service provided by the employee while the company evaluation covered the objective performance data extracted from the number and the rupiah value of transactions accomplished by each employee.

The company set up a system to evaluate work efficiency and work effectiveness of each employee. Level of work efficiency was represented by the ratio of total revenue generated by each employee to the total labor cost paid by the company, while work effectiveness was measured by the level of achievement of performance target. Pay increase was dependent on employee achievement (Table 5).

Table 5: Level of Pay Increase Based on Performance

Level of Performance Target Achieved (in %)	Performance Category	% of Pay Increase
151 -175	Outstanding	10.0
126-150	Above Expectation	8.0
101-125	Satisfactory	6.0
76-100	Below Expectation	4.0
51-75	Below Performance	2.0

The best performer at Dharma Siaga who was recruited in 2008 obtained the highest score on self-confidence, desire to succeed, level of ambition, commitment, social approbation, and tendency to compete. He earned high scores on his performance, particularly in the accumulated balance of demand deposit and time deposit managed which was nearly 140% more than what was expected. He also exceeded by 125%, his target in total credit realization.

The employees were also eligible for variable pay which was calculated based on performance. Every month, the management evaluated the performance of each employee which became the basis for determining additional performance-based compensation such as:

- Saving performance: 0.05% of total value of savings account handled by each employee.
- Time deposit performance : 1% of total value of time deposit handled by each employee (Maturity period 12 months)
- Credit performance: 1% of total value of credit realization.

Rewards and Recognition

Employees who had above expectation performance and outstanding performance were also provided financial rewards and an opportunity to obtain higher education on a scholarship.

Financial rewards were distributed annually based on the ratio of individual contribution to total business performance. Educational scholarship to an undergraduate program of management, financial management training and leadership workshop was provided for those who consistently achieved outstanding performance. The company also developed its employees continuously through financial management competency certification.

In 2012, Dharma Siaga opened two branch offices, headed by the company's two best employees. In the near future, Dharma Siaga expected that it would be able to expand its business on a sustainable level. Its success however would depend, to a large extent, on the quality of its human resource, particularly its marketing staff.

To enhance business performance in the future, Mr Suriadnyana was wondering how effective were the changes in Human Resources Management policies in improving bottom line company performance and retaining its marketing officer. Were there positive impacts on the HR balance sheet of Dharma Siaga? What should the company do to make sure that the prevailing policies supported the attainment of company objectives effectively and efficiently in the long run?

Exhibit 1: Operating Performance of Dharma Siaga 2009-2011 (\$ million)

	2009	2010	2011
Operating Revenue			
Total Revenue	8,735.4	10,329	12,991
Total Interest Expense	2,980	3,468	5,043
Salary	3,051	3,565	4,024
Office expense	924	854	771
Rent Expense	78	85	85
Bad Debt	160	340	190
Depreciation	728	990	1,475
Other expense	161	168	333
Total expense	8,082	9,470	11,921
Gross margin	653.4	859,0	1,070.0

Exhibit 2: Dharma Siaga's Customer Survey Questionnaire

No	Service Attribute	Perfect	Good	Satisfied	Should be improved
1	How is service of Dharma Siaga?				
2	How is responsiveness of Dharma Siaga employees?				
3	How is service attitude of employees?				
4	How is employee's appearance?				
5	How is the convenience to access service?				
6	How is company credit interest rate?				
7	How is saving interest rate?				
8	How is delivery time of company service?				
9	How is clerical work accuracy?				
10	How is company credibility?				

Exhibit 3: Required Abilities of Sales Staff

- ✓ Active listening, giving full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate and not interrupting at inappropriate times.
- ✓ Time management, managing one's time and the time of others.
- ✓ Persuasion, persuading others to change their minds or behavior.
- ✓ Speaking, talking to others to convey information effectively.
- ✓ Socially skillful.
- ✓ Service orientation, actively looking for ways to help people.
- ✓ Negotiation, bringing others together and trying to reconcile differences
- ✓ Coordination, adjusting actions in relation to others actions.



**Asia-Pacific
Economic Cooperation**

**Wisnu Karya Putra International
Indonesia**

**Challenges and Opportunities in
Implementing SVLK**

**Written by
Ni Putu Sri Harta Mimba**

Lecturer, Department of Accounting
Faculty of Economics
University of Udayana

The case was developed with the cooperation of Wisnu Karya Putra International solely for educational purposes as a contribution to the project entitled "Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC," conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

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Introduction (WKPI)

Mr Wayan Diana, Director of Wisnu Karya Putra International Ltd Co. (WKPI), had just finished reviewing the latest economic report on business and industry in Bali. He noted that the export value of Balinese arts crafts timber for the period January to May 2012 had increased by 56% over that of last year for the same period, from US\$ 23.9 million to US\$ 37.3 million. He was certain that this increase was in no small way attributable to the implementation of the Indonesian Timber Legality Assurance System, also known as the *Sistem Verifikasi Legalitas Kayu (SVLK)*. WKPI was one of the few timber enterprises in Bali that had already fulfilled the *SVLK* requirements. More than that, WKPI had played a central role in facilitating the implementation of the *SVLK* in other timber enterprises.

Wayan Diana sat back in his chair, privately savoring a sense of pride in the accomplishments of WKPI. He always wanted to be the first enterprise to provide one-stop services for customer satisfaction. He personally recognized the importance of following international standards in order to be a player in the global market and he had made sure WKPI was compliant with these standards. As a result, WKPI had been able to export its products to all buyer economies. He was also aware of the impact of human resource management in increasing the knowledge and ability of WKPI's employees in complying with the *SVLK* requirements. Moreover, WKPI had also been involved in supporting other small and medium enterprises (SMEs) in the timber industry to obtain the *SVLK* certification through an incubation program. It had also proposed a *Warung Kayu* and *Gerai Kayu* to help other timber enterprises obtain legal raw materials and sell wood products.

While reflecting on these accomplishments, two questions entered his mind: What next steps would be needed to further make WKPI and other SMEs in the wooden handicraft and furniture products industry in Bali more competitive in an increasingly liberalized international market? And how could WKPI's human resource management systems and practices be further enhanced to fully support its business objective of becoming a significant player in the international market for wood products?

Wisnu Karya Putra International Ltd Co. (WKPI)

WKPI was a small-sized timber enterprise established on 10 October 1995 in Denpasar, Bali as a producer and exporter of wooden furniture, housing components, wooden house, furniture and handicraft as well as garden furniture. It started with 19 employees, with the Middle East region as its main target market. In 2007, WKPI expanded its target market to include Australia, the European Union and the United States. In 2012, WKPI's annual sales reached US\$2.52 million with about 30 regular employees, complemented by a number of part time employees hired only when the company received orders that could not be met by its regular workforce.

WKPI was one of the timber enterprises in Bali that had already fulfilled the *SVLK* requirements. Through the years, WKPI had built sufficient facilities (e.g., administration office, production rooms, packaging rooms, transportation facility, and warehouse) and fully equipped processing machines (e.g., planner, crosscut, circle saw and kiln dryer) for its products. This made WKPI the only timber enterprise in Bali that provided, at competitive prices, a one-stop service from wooden product processing and wooden packaging, to preparation of supporting shipping documents for cargo.

Wooden Products and Production Process

Puri Taru was the brand name for wooden products made by WKPI.¹ Every month, WKPI produced about 50-100 cubic meters of housing components, such as wooden floor. A similar capacity had been created for furniture. It also produced about 100-150 cubic meters of wooden packaging every month. (Figure 1 shows samples of wooden products.)

Figure 1: Samples of Wooden Products



The first step in the production process for wooden furniture was kiln drying of the sawn timber. Unfinished furniture from sub contractors had to first go to the kiln drying machine to undergo the phytosanitary process which secured the wooden materials from dangerous micro organism and fungi. The unfinished furniture was then brought to the assembly room, after which it was subjected to the sanding and coating process in another room. Finally, the furniture was brought to the packing room. Sawn timber had to go through a similar process, except that they had to go through the cut-rip room before they were brought to the assembly room.

In 2012, WKPI had three main wood suppliers and nine semi-finished wood product suppliers who also had to obtain SVLK certificates in order that WKPI could fulfill the requirement for legal compliance of raw materials and the legality of production. WKPI also had to keep all supporting documents related to raw materials and production process for auditing purposes related to SVLK (Figure 2).

Figure 2: Production Process



¹In Balinese, *Puri* means house and *Taru* means wood.

Wooden Packaging

In addition to producing wooden products, WKPI also provided wooden packaging for international cargo (e.g., box pallet). For wood packaging and exported wood products, WKPI had to meet the *International Standard on Phytosanitary Measures* number 15 (ISPM #15)². This standard usually applied to pallet, dunnage, crate, drum, and skids. ISPM #15 required all enterprises to have the kiln dryer machine to perform the Phytosanitary function. To meet this standard, WKPI maintained a 2-chamber kiln dry machine with each chamber measuring 75 cubic meters. In addition, the certificate of ISPM #15 required the document on the origin of the raw material used in production. Figure 3 shows some processes in wooden packaging.

Figure 3: Wooden Packaging



Providing Supporting Documents and Shipping Services

As part of its services, WKPI provided other timber enterprises in Bali environmental related documents usually required in applying for related international standards and meeting the demands of the market. For instance, after checking the customers' raw materials documents, WKPI provided documents to fulfill a Chain of Custody (CoC) standard for raw material. The director of WKPI, Wayan Diana, was appointed by the Ministry of Forestry as the official publisher for timber invoice in Bali. He also held the technical certificate from the Production Forest Utilization Monitoring Center in 2007. In addition, Wayan Diana completed the Training of Trainers on CoC conducted by the World Bank Group in 2008, and the training on timber legality assurance system from the Multi-stakeholder Forestry Program (MFP), a collaboration program in forestry between the Indonesian Government and the British Government.

WKPI also provided shipping services and some of its employees were experts in custom clearance, handling and stuffing, as well as in managing containers.

Changing International Market Requirements

While market demand for environmentally friendly wood products had been increasing, international buyers had become more selective in buying wood products. To reduce the negative effects of free trade, some importing economies applied non-tariff barriers by requiring certain standards for wood products. They required many legal documentation

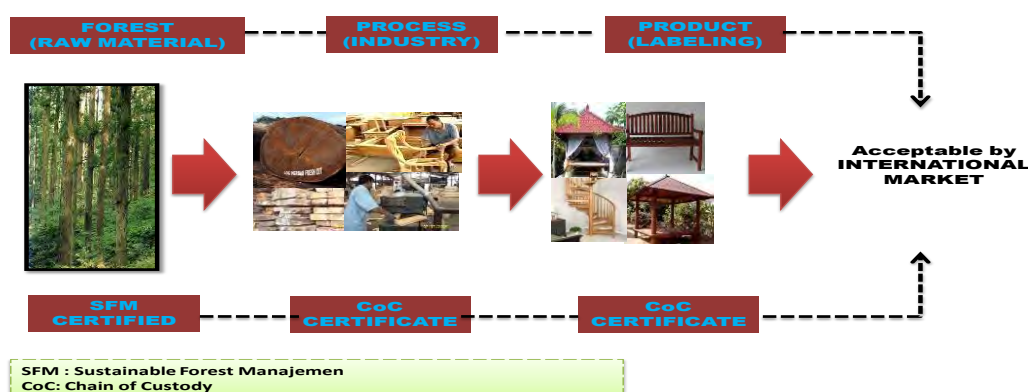
²This standard was developed by the International Plant Protection Convention (IPPC); it required exporting companies to treat wood materials of a thickness greater than 6 mm before shipping them to other economies to prevent the spread of irritant micro organism to destination economies.

regarding the company, raw material, handling of wood, production processes, and marketing. For instance, the European Union, through a Voluntary Partnership Agreement (VPA) with the Indonesian Government, required “legal” wood. In March 2013, the European Union (EU) would be requiring all timber export companies to have a certificate of timber verification legalization system.

Similarly, the United States through the implementation of the Lacey Act, required importers from the US to declare that they imported only legal wood. Besides, some importers required a certificate of Sustainable Forest Management for each wooden export product. The decision of some economies to purchase certified wood products was an attempt to reduce deforestation, and promote sustainability of forests in the future. In addition to the European Union and the United States, the application of this system was also observed by other importer economies, such as Australia and Japan. Japan required the certificate for legal wood through Green Konyuho or Goho Wood, a system to ensure that the government procurement used legal timber which came from legal sources.

In the future, only certified timber products would be accepted by international markets. The certifications covered raw material sourcing, processing and selling the wood products. For instance, the raw materials had to be supported by a Sustainable Forest Managed (SFM) certificate, while a product process had to follow a Forest Stewardship Council Chain of Custody system (FSC-CoC). (Figure 4.)

Figure 4: CoC Flow Chart



Response to Changing Market Requirements: The SVLK

The implementation of the CoC system in the timber industry was one of the requirements for obtaining the certificate of SVLK. The SVLK was also known as the Indonesian Timber Legality Assurance System (TLAS) which was issued by the Indonesian government to maintain the sustainability of its forest resources.

Based on the agreement between the European Union and the Indonesian Government as mentioned in the VPA, the timber legality certification (SVLK) requirement would be applied in 2013. All wood products and wood packaging that have fulfilled the SVLK requirements would receive the 'V-legal' sign issued by the Indonesian Government through some accredited institutions.



The implementation of *SVLK* would have a significant effect on the Indonesian timber industry. *SVLK* aimed to stop illegal logging, illegal timber products and its associated trades. An *SVLK* certification was an assurance that an enterprise in the timber industry had fulfilled legal requirements in various aspects of its operations such as company status, raw materials used, production process and marketing. Having the *SVLK* certificate was a mandatory requirement to be acceptable to international buyers. With an *SVLK* certificate, an enterprise could export its wood products to all economies and did not have to be bothered by varying requirements of buyer economies. This, in effect, would increase the market access and increase the product share of companies that already obtained the *SVLK* certificates as well as enable them to get the premium price because of selling environment-friendly products.

Challenges in Fulfilling *SVLK* Requirements

The implementation of *SVLK* was urgently needed by the timber industry in Indonesia, especially in Bali which was not only famous as a tourist area, but was also a rich source of handicraft and furniture exports. Hence, the implementation of the timber legality system by buyer economies would significantly affect the timber industry in Bali since the industry in this island was dominated by SMEs.

The obligation to obtain the *SVLK* was especially difficult for the craftsmen, including those who mostly used wood waste. This was especially true in the case of Bali where most of the village craftsmen had limited capital. Many of these craftsmen managed their business as part of their traditional heritage. This might be the reason why they had limited knowledge of related regulations and the need for documentation and administration related processes.

Existing studies on the timber industry in Bali and the interview with Wayan Diana from WKPI and other entrepreneurs (e.g., Wayan Sudiksa from Bina Sarana Cipta Co. (BSC) and Made Witari from Tri Utami (TU) Company) indicated that the main challenges encountered by the timber industry in Bali were related to sourcing of raw materials, appropriate and sufficient documentation and production process and marketing.

Sourcing of Raw Materials

In Bali, the need for legal raw materials was very high. Most small and medium craft and wood enterprises found it difficult to obtain certified wood, thus limiting their production capacity. For example, on the average, a small to medium sized timber company in Bali produced only three to five units of wooden gazebo in a month. Since most of them had limited capital, they had difficulty in ordering a small volume of certified wood, say 6-10 cubic meters. This condition was aggravated by the fact that there were only a few wood suppliers in Bali who, quite often than not, were also without supporting documents. Hence, small wood enterprises in this island usually ordered the raw materials from other islands such as Kalimantan and Sulawesi Islands. However, the said wood suppliers who also had forest concessions, considered it inefficient to sell wood in small volume and preferred to sell legal wood in large quantities. On the other hand, many craft and wood enterprises in Bali had limited financial resources. Therefore, they could not afford to order large volume of wood, the cost of which could be very high, especially for certain types of wood such as Meranti, Teak and Merbau.

As a whole, most craft and wood enterprises in Bali faced difficulty in meeting the requirement to use raw materials from a sustainable and responsible forest management system as well as implement SVLK standards.

Appropriate and Sufficient Documentation

According to Wayan Diana, "... indeed, the actual number of exports could be increased if the craft and wood enterprises could overcome some export barriers, such as incomplete documents. For instance, an obstacle was faced either at the port of transit or destination port because the exported products had insufficient documents or lacked a certificate of origin to explain the source of wooden raw material."

This information was supported by Suarnatha, the head of Wisnu Foundation, an NGO involved in conserving the environment. He pointed out that most craftsmen and wood enterprises had done the right way, but failed to keep the documents they used for transactions or archive them properly. For example, most enterprises in Bali did not keep their sale and purchase receipts. This was especially true for transactions involving wood waste. There would probably be a need for the government to provide a statement letter to confirm the legality of such wood.

In addition, Wayan Diana suggested that to support the legality of waste wood, there must be a valid retrieval document, witnessed by a competent authority, to prove that the wood was sourced from a village. This could increase the utilization of waste wood products that could meet the legal requirement. Therefore, the international market could more easily absorb the waste wood products that meet the legality principle. Given this scenario, Suarnatha noted that "we should also anticipate the possibility of deliberately making certain type of wood as waste wood." For this reason, wood craftsmen in Bali, especially wood waste craftsmen, should archive all related documents on sourcing of raw materials, processing and selling the products.

Production Process and Marketing

Choosing the proper raw material, combining the product components according to the design and storing the scrap raw materials were some of the challenges faced in the production process. In case some aspects of raw material processing were distributed to other partners, the required systems or manner of doing the work had to be covered by a proper cooperation contract. For example, if the work was contracted out to sawmills, the requirements had to be part of the contract. Based on this contract, the sawmill should separate the order properly to clearly determine during the production process which wood came from WKPI, and which were sourced from other companies.

In marketing, one challenge faced by most timber enterprises was their lack of financial resources to expand the network. WKPI had limited human resources to improve the marketing aspects in the website of WKPI.

Implementing SVLK in Bali

The Role of WKPI to Support SVLK Implementation in Bali

Despite the challenges posed by the application of the timber legality verification system regulation (i.e., SVLK), Wayan Diana affirmed SVLK's positive impact on the export

development of WKPI, as there was no longer a need to fulfill various different requirements from different importer economies. Convinced of the benefits of SVLK certification and desirous of extending these benefits to other timber companies in Bali, Wayan Diana, through WKPI, supported and initiated actions for a wider implementation of SVLK.

Supporting Business Incubator for Related SMEs

In the beginning of 2012, the Ministry of Cooperative and Small and Medium Enterprises activated business incubators³ in Indonesia, with full support from state and private universities.

With the support of Udayana University, the biggest university in Bali, WKPI stimulated the activation of the business incubator in the timber industry, the Udayana Business Incubator (UBI). The UBI was located in Denpasar municipality on a one-hectare area. This business incubator supported more than 30,000 small medium timber enterprises in Bali to stimulate SVLK implementation. Most of these enterprises lacked experience in business management and had insufficient knowledge of the importance of business legality and of production standards required by international markets.

The UBI developed and supported enterprises located outside (i.e., tenant out wall) and inside of the incubator area (i.e., tenant in wall). It had two tenants in wall and about 20 tenants out wall during the early stage. One of the tenants in wall was WKPI, which at that time had already obtained some national and international certificates in the timber industry. Because of WKPI's successful venture into the international markets, this company would serve as the benchmark for UBI tenant candidates, which would be recruited through the business incubation development program at the end of 2012.

WKPI assumed the role as the "anchor tenant" of the UBI in Bali. The anchor tenant was the leading tenant which could provide technical and non-technical support to other tenants. Technical support included sharing knowledge about design, production and the finishing process. Non-technical support included increasing skill in quality control, business management and administration.

WKPI arranged some business meetings (e.g., focus group discussion on SVLK, talk show and product expo) among financial institutions, tenants and other stakeholders in the timber industry. In addition, WKPI initiated the conduct of seminars and workshops to increase the knowledge and to develop the interpersonal skills of entrepreneurs, such as teamwork and collaboration. A workshop room and office supplies for the business incubator were mainly supported by WKPI.

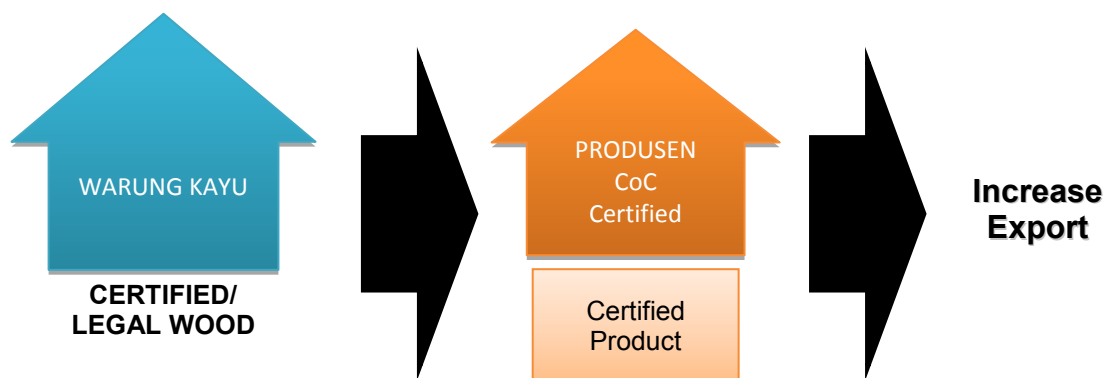
Facilitating Raw Materials Sourcing through Warung Kayu and Gerai Kayu

Warung Kayu

As an alternative to overcome challenges in obtaining legal raw material, WKPI initiated the establishment of *Warung Kayu*⁴ which was expected to serve as a shop selling legal

³ A business incubator is an institution that provides supporting staff and facilities to stimulate small and medium enterprises to become self-supporting enterprises. The intensive support for tenants usually took two to three years (Dipta, 2003; Novel, 2001).

wood as raw material for the wood industry. The availability of certified wood would allow wood enterprises to have CoC certificate and thus increase the number of certified wood products serving the global markets (See Figure below).



The common raw materials used in the timber industry in Bali were Meranti, Kapur, Teak, Sonokeling, Coconut, Merbau, and Sengon, which were relatively expensive types of wood. Considering that it might be difficult to obtain legal wood in the future, WKPI was promoting the use of lesser known species of wood that had high economic value. There was however a need to know more about the exact structure and characteristics of these potential raw materials to achieve optimum result at minimum cost.

Gerai Kayu

Gerai Kayu was projected to be a one-stop shop for selling all types of certified finished wood products, and for providing information on the buying and processing of environmentally friendly wood products. The shop would also carry the Balinese touch in its interior and exterior design. In the future, it could be an alternative tourist destination that could provide information about the wood processing process and finished products. As of August 2012, the proposal for the establishment of *Gerai Kayu* was still waiting for funding institutions or the support from the provincial Government. Besides, WKPI could not yet find a strategic location with ample space for all activities and facilities planned for *Gerai Kayu*.

Developing Networks

Networking development activities aimed to increase production quantity and quality as well as enhance the international market share of WKPI. The company arranged various activities (e.g., workshop, trainings, seminars, technical consultations) to support the preparation of SMEs in the timber industry to fulfill the SVLK requirements. Most activities used the financial support from the MFP. Such funding was to be used only for non-investment activities and not for capital expenditures. For instance, WKPI facilitated SVLK socialization and training in Bali about (a) funding mechanism and the financial system; (b) the management of raw materials and standard systems of SVLK; and (c) the process of official purchase of raw materials. As explained by Wayan Diana, in order to decrease the problems of raw materials, other related SMEs had to know clearly (a) the sources of raw materials, (b) cooperation with other enterprises that had forest

⁴In Balinese language, *Warung* means a traditional shop which is familiar in the village, while *kayu* means wood.

concession, (c) a good raw material management system that could provide information about the appropriate time to order the raw materials, (d) a good documentation and record keeping system of raw materials kept in the warehouse, and (e) a concession contract with enterprises that had forest concession available for the sustainable supply of wood raw material.

From the point of view of WKPI, it was in WKPI's business interest to ensure that its potential suppliers in Bali were *SVLK* certified. In case the potential suppliers of WKPI had no *SVLK* certificate, the company could still order from the other islands but at a much higher cost. For this reason, it can be concluded that stimulating the business incubator for timber enterprises in Bali and proposing *Warung Kayu* and *Gerai Kayu* were essential components of WKPI's business strategy.

Human Resource Management Practices in WKPI

As the main director of WKPI, Wayan Diana emphasized the importance of human resource management (HRM). His strong attention to this issue emanated from his academic background and his understanding of various international requirements as an issuer and an examiner of molding fracture. He had a master's degree in accounting and was taking a course in the Professional Accounting Education at Udayana University.

The HRM System in WKPI had a significant role in enhancing the ability and knowledge of its employees, especially those related to *SVLK* requirements. Wayan Diana, the critical or key factor in minimizing the difficulties faced by WKPI and other timber entrepreneurs in implementing *SVLK* in Bali was a good HRM system. To support WKPI's regular activities and the business incubator, the company adopted and put in place various HRM practices as demonstrated in its human resource development, staffing, compensation, and health and wellness programs.

Human Resource Development

The human resource development implemented at WKPI consisted of training and performance management.

Training

To reduce some problems in the production process faced by WKPI (e.g., untraceable used materials), WKPI conducted some training activities, including training on behavior and technical skills. Skills training for employees was conducted regularly almost every year and covered the following areas:

- (a) Preparing systems and procedures with specific time duration, of the production process
- (b) Composing the reports of actual used material per day
- (c) Preparing required documents related to the production process procedure
- (d) Executing an intensive evaluation on the production process
- (e) Implementing the standard system of *SVLK* in the production process of WKPI

WKPI was a small company with only 30 employees (regular and temporary workers) and five divisions. Meanwhile, the production of wood products required high technologies and constant development of new technologies. Since WKPI did not have

sufficient resources to train their employees in-house regularly, the company mostly sent them to public training programs organized by the central and local governments. The central government provided support to increase skills related to SVLK and the local governments also had similar programs. Since, the central government cooperated with the British Government under the Multi-stakeholders Forestry Programs, funds for skill enhancement were also provided from international stakeholders. WKPI used these opportunities provided through its network of stakeholders to develop its workers at minimum cost.

WKPI also sent its selected loyal and potential employees to government academy and school to obtain specific certifications. For instance, in 2010, WKPI funded the training of its employee in Jakarta on customs certification. However, WKPI did not bind the employee to any written agreement with the company that would prevent him or her from leaving. Wayan Diana emphasized that the privilege granted to selected employees was based on trust. (WKPI did not provide formal trainings to its temporary or contractual workers but conducted informal orientation at the beginning of their employment). In addition to technical skills training, WKPI sometimes implemented training on organizational behavior for its division managers. This was intended to improve their communication skills in interacting with the staff in their own division and with other related divisions, as well as with external stakeholders. This kind of training also equipped the division managers to better understand various problems confronting their particular divisions.

Performance Management

Wayan Diana experienced difficulty in instilling discipline in workers attendance in order to meet production schedules. He noticed that the Balinese culture might have an influence on the discipline issue. Most Balinese people had a number of social responsibilities in their neighborhood. For instance, if their neighbor had *ngaben* (i.e., cremation ceremonial, as the ritual performed in Bali to purify the spirit of the dead to reach its highest state), they had to follow and attend the ceremonial which might take a couple of days. Although instilling discipline was hard to implement, Wayan Diana put a lot of effort on this aspect because the orders had to be finished on time. He had tried to change this cultural challenge into an opportunity.

The director encouraged good behavior and discipline among its employees through a system of rewards and punishment. The company, through its division managers, granted bonus to its employees who could finish orders on time (WKPI had five division managers, one each for cargo, export and import, production and management outsourcing, wooden packaging, and wood trading). On the other hand, WKPI issued reprimand letters to employees who did not work for three days without prior notice as a punishment mechanism.

Staffing

WKPI conducted a job analysis for each division which became the basis for developing the corresponding job description and job specification for each type of job. The job description indicated the responsibilities, related jobs, required skills, and expected outcomes, while the job specification defined the specific expertise required for a certain position. For instance, the manager of the cargo division had to know packaging, stuffing, and container operations, while the manager of export and import had to understand custom clearance and freight handling. Likewise, the manager of production and

management outsourcing division had to be acquainted with quality, design and infrastructure.

In the recruitment process, WKPI selected applicants with specific knowledge for each position. Wayan Diana emphasized that although some of WKPI's employees were relatives of the owner, their employment with the company was mainly based, not on their special relations, but on their expertise, as shown by the results of written tests and interviews. Recruitment of employees was usually determined by the number of new employees proposed by each division manager, with an announcement in local mass media.

Compensation

WKPI compensated its employees based on their status. Fixed-term employees were paid a fixed salary based on the minimum regional salary defined by the local government. In case they met the target quantity defined by their division manager, they were also provided a bonus. Part-time employees were paid based on the number of days they worked.

Safety and Health Wellness

WKPI paid sufficient attention to Occupational Health and Safety, or what was known in Indonesia as *Keselamatan dan Kesehatan Kerja (K3)*. It also subscribed to the so-called *Jamsostek* insurance, the social insurance for private sector employers and their employees, which covered death, injury and health insurance, and an old age provident fund.

It was observed that some WKPI's employees were not yet familiar with the *Jamsostek* insurance and were not aware that it required the observance of safety at work conditions. Wearing safety tools during working hours was also not strictly observed as of yet by WKPI's employees, particularly those who cut logs in the sawmills.

Next Steps...

Wayan Diana roused himself from his musings. It was undeniable that WKPI had done a lot to accelerate the implementation of the *SVLK*. But he still had no answer to the two questions in his mind: What were the next steps needed to further make WKPI and other SMEs in the wooden handicraft and furniture products industry in Bali more competitive in an increasingly liberalized international market? And how could WKPI's human resource management systems and practices be further enhanced to fully support its business objective of becoming a significant player in the international market for wood products?

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**Asia-Pacific
Economic Cooperation**

**Kowa Tech Co. Ltd
Japan**

Leadership for Technological and Human Resource Development

Written by

Katsunori Nakajima

Senior Expert, Management Solution Learning & Training
Japan Management Association

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The year 2011 was an unforgettable year for the Japanese. In March of that year, the Great East Japan earthquake and tsunami hit Japan, bringing in their wake a nuclear disaster which continued to have a huge impact on life in Japan even after one year. However, the most significant difficulty for the people was the separation from those they loved the most.

In December 2011, Yuji Oguri, president of Kowa Tech, lost his father, Koichi Oguri. A few months later, Yuji's father-in-law also passed away. Both men had been great influences in Yuji's life. Yuji had always turned to them, especially his father, for guidance on the direction of his business, Kowa Tech. Although it was a difficult time for Yuji, he had to fight for Kowa Tech's survival in spite of his grief.

In March 2012, orders for Kowa Tech's innovative amphibious vehicle continued to come in. The market appeared to be expanding from the purely recreational segment to the emergency product segment. Customer requirements had also become increasingly complex. Its initial success in designing and building an amphibious vehicle prototype and its continued development of new variations made Kowa the acknowledged leader in this particular sector of the automobile industry in Japan.

As the president of Kowa Tech, Yuji was telling himself that "what was important for an SME manager was to be in high spirit always. Few people extended help to an SME; therefore, the managers of SMEs were always under enormous pressure to fight for various concerns and often tended to be skeptical about other people's intentions."

Yuji reflected on the days when he had to fight against all odds to sustain the business after he took over from his father in 2002. From being an insignificant subcontractor of large automakers, Kowa Tech had come a long way to become a company with its own unique development capabilities. However, Yuji anticipated that the market of specialty automobiles in Japan would be limited. He needed to think of options to expand the market by developing other product lines or going for the global market. Either way, he would have to address various issues, foremost of which were the human resource management concerns standing in the way of Kowa's growth.

Company Background

Kowa Kogyo Co. Ltd was established by Koichi Oguri to manufacture special automobiles for large auto makers (e.g., Isuzu and Mitsubishi Motors) as a subcontractor. Koichi got involved in this industry as a sales staff working for one of the special vehicle manufacturers, where he met the owner's daughter who was to become his wife. The owner highly regarded Koichi, but Koichi's life changed when the owner passed away. When their marriage was not approved by the family, Koichi left the company with his bride and worked for another company. He later became independent, starting his own small business called Kowa Kogyo in 1966. Despite its ups and downs, by 1990 Koichi's company had established a reputation as a reliable producer of special automobiles, with over 70 veteran employees manning its operations. The company acquired its own headquarters building and factory facility in Kanagawa, about 60 kilometers from central Tokyo. It was also during the 1990s that demand for Kowa's products significantly declined due to the economic depression. Most clients placed only minimum orders, and it was almost impossible to expect new business once a client was lost. Oftentimes, the company had to accept orders from old clients even if there was no profit to be gained from the transaction. Securing orders became the company's first priority.

When he turned 70, Koichi suddenly decided to close shop, as the business continued to

decline. In 2001 when Yuji Oguri, at the age of 36, was called in to take over as Kowa Kogyo's president from his father, the company was burdened with a big deficit of 60 million yen. Majority of the sales came from the public sector, with long payment terms. The annual turnover during that time was around 360 million yen.

Yuji, instead of closing the shop, ushered in a new phase of the company's development by changing its name to Kowa Tech Co. Ltd to signify his emphasis on technology. He took stock of the three elements of corporate management, "materials, money and men", as they applied to Kowa Tech at that time. The factory and facility remained the company's major material resource, which Yuji was able to maintain. But he had to struggle with the two other elements, "money" and "men."

Ensuring Profitability

The major challenge for Yuji was to improve the money flow, as the deficit could not be any bigger. He, therefore, concentrated on gaining profits than just increasing sales. He found that previously, the company did not take cost accounting too seriously. Yuji instituted a system to identify the actual cost of production. Since Kowa Tech handled a variety of products with varying complexity in small quantities, it was imperative to calculate the man-hours needed to produce a unit of product accurately. Based on the costing information, Yuji was able to selectively take orders from the clients, not accepting unprofitable requests. While that created negative feelings in long-time clients, Yuji stood firm. Yuji recalled of that time:

In our industry, a decision to give orders rests on the person in charge within a big auto-maker. So, if you refused to take an order from him on the basis of profitability, he would not give you other businesses which might be profitable. So, you take a risk of losing that account entirely. But, I later found that since the industry's capacity is more or less fixed, with a limited number of reliable manufacturers, the orders we refused would go to other companies, but then the other orders which would have gone to that company might be given to us. If you become an indispensable producer, you could almost choose preferred jobs. It takes guts to say no, but it works if you have something to offer which no other producer can.

Financing the Business

In 2001, there were times when Yuji had to wait for three hours just to meet with the bank's loan officer in charge, with whom he passionately discussed his company's vision. The bank refused to extend their loan facilities, due to tight money condition after the post-bubble economy. In Japan, SMEs wanting to secure a bank loan generally had to prove their credit worthiness, as the banks wanted to know the personality of the owner as well as the business performance.

In the meantime, Yuji was fortunate to receive an order to produce wrecker trucks from one of his business partners who was the CEO of a company with around 300 employees. The total order of wrecker trucks reached 100, which gave Yuji a breathing space for the period. Sales at the time Yuji took over was about 30 million yen per month with three to six months payment terms. Therefore, the company needed to have a working capital of around 100 million yen in cash every month. When the company encountered liquidity problems, the same business partner supported Yuji by discounting checks for Kowa.

Later, when this business partner faced financial difficulty himself, a commercial bank extended loans to Yuji. It took Yuji two years to prove his credit worthiness with the bank.

In 2012, after 10 years of those challenging times, Kowa began to receive regular visits from the board members of mega banks who wanted to lend Kowa any amount of money any time that Kowa needed financing for his business. The strong trust built between Kowa and the banks was due to the company's healthy financial status as a profitable SME in the automotive industry for the past 11 years.

Improving Sales and Developing New Products

Since Kowa already had strong relationship with its existing clients, Yuji focused on developing new clients by putting more efforts on improving sales. From 2001 to 2002, Yuji personally went out to look for new clients. Networks with clients that he already had were important information sources for new business. Eventually, Kowa started to receive various orders for car remodeling from new clients (See Exhibit 1 for the current line of products).

In order to build good relations with clients, Kowa had put up an office in Tokyo that handled nearly all communication with clients. The office had only three staff when it first opened but after three years, three more office staff were added to attend to clients' needs.

Beginning the “Revolution”

The final and most difficult element for Yuji to tackle was “men.” Yuji initially took in everyone from the previous company. However, he found out that the average age of the 60 employees at the time of transfer was over 60 years old. Several of them who were over 70 years old and had supported his father on the engineering and production side received annual salaries of over 10 million yen. The amount was much higher than the average industry salary of 5 million yen. This was a result of seniority based pay prevalent in Japan. The youngest employee was over 40 years old. Most of their final education was middle school, and they had experience in metal processing or in automobile body assembly. Yuji wanted to retire those who were over 70 years old so he could hire younger engineers to take their place.

Yuji talked with everyone in the company individually and in small groups, and told them that unless the company could cut their salary into half, Kowa had no choice but to go bankrupt. After a great deal of discussions, 20 employees who were over 70 years old eventually decided to retire from the company. The other 40 employees, aged between 40 to 60 years old, decided to stay with the company accepting a big salary cut. At their age, it would have been difficult for them to find another job outside of Kowa.

In order to replace the retiring employees with younger people in their 20s to 30s, Yuji had to rely on publicly run placement office, word-of-mouth and his own network to recruit applicants. He first hired women workers, who were attracted to the family-like atmosphere in the workplace, as assistants for design and/or production. Initially it was not easy to recruit young workers. Yuji realized that he should target those who were interested in manufacturing/production to start with, so he approached technical school professors to introduce him to prospective applicants. Yuji eventually succeeded in interviewing several applicants who were in their 30s, or those belonging to his own generation. They were graduates of engineering colleges and had experience in working with assembly-line automobile components manufacturing.

Most of the SMEs in the automobile industry in Japan worked as a part of assembly-line operations or as subcontractors to large firms. The assembly-line operations were on a

lot production basis where workers did the same work every day. Therefore, the work could be monotonous, leaving not much room for creativity. In contrast, Yuji offered the applicants the excitement of making made-to-order products, even if the salary could not be higher than those offered by other companies. Yuji persuaded applicants by telling them that the “attraction of working with Kowa Tech is that one staff is responsible for designing to producing. Since orders from clients are different from one another, it is expected that each staff has to think differently every day. Therefore, work at Kowa can be very creative.” This approach paid off and Kowa Tech was able to hire new recruits as the older employees started to retire.

In 2003, Yuji, established the Skills Transfer School within the company. Three of the retired engineers were rehired as trainers in this school. The younger staff who graduated from a technical college specializing in automobiles was required to hone their skills by attending school for two months on company time. This system which had continued to be practiced at Kowa Tech was generally not done by other SMEs in Japan; these SMEs allowed their staff to attend only those trainings conducted after work and/or on weekends.

It was said that it took 10 years to be a specialist engineer in the automobile sector in Japan. However, in Kowa Tech it took only three years to accomplish this because of the training provided by the Skills Transfer School.

Developing the First Amphibious Vehicles in Japan

In 2007, one of Kowa Tech’s clients inquired if Kowa Tech could produce amphibious vehicles. At that time, there were already amphibious vehicles made in the US but there was no model made in Japan yet since efforts of a large manufacturer to produce amphibious vehicles in Japan failed.

This unexpected request from Kowa Tech’s client involved the conversion of cars (with a width of 2.5 meters and a maximum length of 12 meters) to amphibious vehicles. The client had a high priced amphibious vehicle imported from the United States, which Kowa Tech’s engineers were able to study. Outright, it seemed impossible to convert a car of such size to an amphibious vehicle which had to float on water. In addition, Kowa Tech did not have the financial resources at that time to work on the project; however, instead of saying “No” to the request right away, Yuji investigated the state of the amphibious vehicle development and its potential market.

Based on the research conducted by the Japan Amphibious Vehicle Organization (JAVO), amphibious vehicles had been utilized mainly in the tourism industry in Europe, Southeast Asia and the United States. In Japan, amphibious vehicles were considered to have a good potential not only for recreational purposes, but also for transporting people from disaster areas and bringing aid during emergency situations. The government was planning to conduct social experiments on amphibious vehicles. Tourism outside the urban areas utilizing amphibious vehicles had also been under consideration. An amusement park called Huis Ten Bosch in Nagasaki Prefecture was interested in using one. In an area like Japan which was completely surrounded by the sea and was extremely rich in water resources, amphibious vehicles were expected to draw more attention for both recreational and emergency purposes.

After careful consideration, Yuji finally decided to challenge the production capability of his company based on his belief that “I want to contribute to society. I want to face the challenge and the opportunity to be the first in Japan.” Since responding to the needs of

clients was the mission of the company, he made up his mind to prove equal to the challenge by following Kowa Tech's management philosophy. Besides, Yuji could visualize clearly the production of amphibious vehicles as the successful business of the future, even if he had to start from scratch.

Design and Development

When Kowa Tech was just starting to develop amphibious vehicles, Yuji was confronted with the fact that their engineers were experts in automobiles but not in vessels. Yuji consulted with a faculty member of the School of Marine Science and Technology at Tokai University who introduced him to a vessels specialist. He also discussed Kowa Tech's limited financial resources to undertake actual production of amphibious vehicles. Moved by Yuji's passion, personality and vision, the professor agreed to join the development of amphibious vehicles as a collaborative project between the academe and industry. The professor visited Kowa Tech almost every week for the first three months to work on the project.

It took one and a half years to complete production of the amphibious vehicle. The team encountered difficulties in the design and production of the first vehicle (e.g., relevant regulations in Japan, how to make the vessel float). With limited finances, the team did not have the luxury of producing many prototypes or trial products; what they developed and produced was to be the final product. The support from the professor and his colleague from the shipbuilding industry to use their computer system enabled a number of simulations, thus shortening the design time.

At this stage, one other difficulty blocked the way. Inasmuch as the Japanese government put much importance on the operational safety of vehicles, the amphibious vehicle was subjected to a great deal of scrutiny and evaluation by the Ministry of Land, Infrastructure, Transport and Tourism. Since it was the first such vehicle produced in Japan, there was no precedent to guide their evaluation. Voluminous documents that were submitted to the ministry in order to receive permission were more than 50cm thick,

Because amphibious vehicles had two aspects, that of a car and a vessel, Kowa Tech organized two groups to attend to the requisite documentation. Explanation by phone and visits to the ministry were made a few hundred times. Endless experiments were conducted to demonstrate the vehicle's safety features. The last safety experiment conducted was done by hanging the amphibious vehicle on a crane and dropping it in the Yokohama Bay waters. The team's tenacity and patience paid off. Finally, the ministry gave its permission to operate the first ever amphibious vehicle produced in Japan.

Obtaining permission from the ministry was the first large breakthrough for the actual use of the product. However, various other concerns started to confront Yuji. Some unexpected risks surfaced just before the launching ceremony organized in Osaka in July 2008. One was the problem regarding gas emissions which Kowa Tech had been working on time and again. Yuji was worried that if something happened during the launching ceremony, there would be no way to recover public confidence in the product. Yuji reminded himself that "a leader of a company is always under the fate of battling with worries and concerns forever."

In July 2008, "Legend Zero One," the first domestic amphibious vehicle was launched safely for its first cruise in Osaka. It was a joyous and momentous time for Yuji and a fitting tribute to the efforts of Kowa Tech's staff.

The First Amphibious Vehicle



The picture shows the first domestic amphibious bus, LEGEND ZERO ONE, which was remodeled from Isuzu's 8-ton truck with length of 11.85m, width of 2.5m, and height of 3.65m, and carried 42 passengers. Two engines were installed on the car for onshore and offshore use, and maximum speed was 90km/h for onshore and 15km/h for offshore.

Between July 19 and November 30 2008, Yunishikawa Duck Tour ("Visiting Kawachi Dam and exploration of Dam Lake 2008") which was organized and operated by Nihon Kanko Co., Ltd started its run. The tour started from the roadside station of Yunishikawa, visited Kawachi Dam and cruised Kawachi Dam Lake. It was originally planned to operate until November 3, but got extended to November 30 because of its popularity. A total of 15,332 passengers enjoyed the tour and the cruise. In November 2008, around 30 Kowa Tech staff and their families took the Duck Tour and were amazed at the product of their creative and innovative work. Yuji and his wife could not have been happier.

Based on the great success of Legend Zero One, Kowa Tech received an order for the second amphibious vehicle, which was also produced successfully. After these two successful productions, one unit of vehicle was valued at 100 million yen.

Human Resources at Kowa Tech

Yuji Oguri

Yuji who was born in 1965 obtained his degree from the Graduate School of Marine Engineering in Tokai University in 1990. His area of studies was engineering and marine construction (such as ports) and the related government policies. When he graduated, he had an option to seek employment at a construction company or the government. However, he decided to get exposed to the basics of management. He thus chose to work for the Japan Management Association, one of the biggest organizations which promoted management improvement, with about 1,000 experts working as instructors. Yuji was in charge of planning and marketing Management and Leadership education to corporations. He also served as consultant on human resource system and the management by objective (MBO) program. Thus, Yuji well understood the importance of mission and vision, management and leadership education of the staff, and an effective human resource system. (See Exhibit 2)

When Yuji turned 28, he briefly helped his father in his business. However, the father and Yuji had differences of opinion in management, so he decided to seek other opportunities outside, with the understanding that he would come back at a later stage. He then worked for a think-tank group to study government policies.

Management by Objectives (MBO)

Five years after Yuji became CEO of Kowa Tech, the company started to have stable business and a growing number of young engineers. In 2006, Yuji introduced the “MBO through self-control” system to enhance human resource evaluation at Kowa Tech.

During the first year, Yuji had many face to face interviews and meetings with the young staff to establish their personal objectives in line with those of the company and to evaluate their work. However, Yuji was disappointed to find out that most of these engineers were not willing to challenge new objectives that were proposed by Yuji. Many would say, “We have been doing things this way for a long time, why do we have to change?” Yuji was convinced that the company had to change and in order to change, it was necessary to provide management and leadership education.

Leadership Skills

From 2007 to 2012, Kowa Tech faced a number of difficulties in human resource management. Since Kowa Tech offered just the standard salary in the automobile sector, only the satisfaction obtained from their work could motivate the staff and differentiated Kowa Tech from other companies. Given this condition, managers were expected to enhance their ability to encourage and motivate their staff.

For instance, one of the staff who was in his 40s was selected as production manager. However, in spite of his hard work, there was not much improvement in the production line because he did not have good communication skills. He failed to communicate instructions to other members of the team and address problems in the production line, resulting in delayed delivery time. Similarly, an outstanding engineer who was hired failed to properly blend with the other members of the team so he ended up resigning soon after he started his work at Kowa Tech. Yuji regretted that he could not stop the engineer from resigning.

These experiences further bolstered Yuji’s belief in the importance of professional development for the staff. He built a library in the cafeteria where everyone could sit and read books on management.

Yuji also believed in the importance of team building among the executives and administrative staff. He noted that there was a research on the “cycle of success” of an organization conducted by Dr Daniel H. Kim in Massachusetts Institute of Technology. The results emphasized that to have bigger achievements, what was important was to improve the quality of behavior inside an organization. To improve the quality of behavior, quality of thinking needed to be improved. To improve the quality of thinking, quality of relationship among staff needed to be improved (See Exhibit 3).

When Kowa Tech started to work on amphibious vehicle development, the relationship between the managers and staff, and between the product design/development team and manufacturing team in Kowa Tech were not solid. In order to improve the situation, Yuji decided to sponsor an in-house leadership training program which would cover communication, leadership and negotiation skills¹ (See Exhibit 4).

Some 20 executives and administrative staff of Kowa Tech attended the training conducted over three Saturdays. The purpose of the training was to enhance their understanding and skills in team collaboration and improve their thinking skills as leaders. Through this training, the participants understood the importance of managing both the

¹The leadership training program was a blend of Neuro Linguistic Programming (NLP) and Leadership.

management cycle and the leadership cycle —sharing visions, communication, empowerment, and action (See Exhibit 5).

After the training, mutual coaching was implemented for one year between the executives and the staff. This gave them an opportunity to practice what they learned in the training program. The whole process eventually developed greater collaboration between the executives and the staff.

Reflecting on the experience, Yuji noted that after the training, the staff had stronger commitment to their jobs. They had a clearer vision of the work and a more positive perception as they experienced a paradigm shift from being highly individualistic (due to their high sense of pride as engineers) to being team players. The members started teaching other members. Unfortunately, one senior female staff who was used to working alone resigned because of the new work environment that put much weight on teamwork and efficiency. Yuji understood that since Kowa Tech had evolved its own unique work environment and culture, it would have been difficult for her to continue working with the company.

Kowa Tech's Vision

Yuji shared the company vision as follows:

We always strive to contribute to the development of our society with a global perspective.

Using scientific technologies creatively, the company aims to address the needs of the society, which will bring both psychological and material satisfaction and happiness to all the company people.

We expect everyone in the company to turn the problems they face to a joy of overcoming the challenges through creative wisdom and unfailing spirit.

We would like our company to be the place where people share the same spirit.

We consider people as the source of everything we do.

Evaluation and Compensation

Yuji modified the compensation system from purely seniority based to more performance based pay. A new performance evaluation system was instituted where evaluations were done from three angles. Based on agreed targets, the immediate superior, the employee himself or herself, and the board member in charge of the section evaluated each of the employees. Yuji recognized that any evaluation done by people was subjective and getting three different viewpoints would minimize the biases.

In addition to their basic salary, employees received bonuses at the end of a fiscal year, reflecting the company performance. While the salary level at Kowa Tech was still the average in the industry, employees felt motivated with these year-end bonuses.

Plan for the future

In 2012, Kowa Tech completed its 5th amphibious vehicle. After the earthquake and tsunami in 2011, amphibious vehicles were starting to be used not only for recreational purposes but also for emergency or relief uses, thus the need for amphibious vehicles would continue to increase in the future. As of 2012, 60% of all the orders came from the public sector and 40% was from the private sector, but Yuji hoped this proportion to be reversed in the future. As they developed the amphibious vehicle, he realized that while

servicing the public sector meant competitive pricing because of the bidding system, the private sector depended more on value creation. To deal with these potential orders, Kowa Tech was working on improving the quality of work by installing the latest design system. In 2012, as one way of enhancing the management system in the company, Yuji began preparing for ISO accreditation of the production of special vehicles, which was said to be difficult to achieve in this industry.

Yuji reflected on the challenges over the years. Kowa Tech's regular employees in 2012 had increased to 50 with 90% of them less than 40 years old, and with either college or university engineering education. They were complemented by 20 to 25 fixed term or temporary employees when the volume of orders increased. With the combined efforts of all the staff of Kowa Tech, the sales of the company reached 850 million yen in 2012. Yuji hoped that it would increase by 50% by 2017.

In addition to Kowa Tech's traditional products, there were great potentials for amphibious vehicles in Japan and possibly overseas. After the initial success of the amphibious vehicle, the needs of the clients would continue to increase in complexity. Therefore, the technology and skills of the workforce must continue to be enhanced and further research on clients' needs, Kowa Tech's competencies and those of Kowa's competitors, must be emphasized in the future.

Yuji received inquiries to invest in Indonesia from client automakers, as Indonesia was one of the largest potential markets left in Asia. Kowa Tech had been using a special government employment scheme to bring in Indonesian workers during the last few years. In 2012, Kowa Tech had five Indonesian employees, with one of them staying more than a few years. Yuji entertained the thought of establishing a production line of special vehicles in Indonesia. As a first step, in 2010, Kowa Tech recruited one English speaking female secretary. Between 2010 and 2012, Yuji went on business trips to East Asia and Southeast Asia four times to investigate the current situation in the region.

Yuji also considered developing an amphibious motor cycle for emergency purposes in the near future. Using the technologies and know-hows gathered from manufacturing amphibious vehicles, expanding the product line to motor cycles would be an important step forward. He considered the value of amphibious motor cycles, particularly for rescue operations. Yuji's interest in this new product appeared to spark his next passion:

I feel that the need would be there, once the product becomes a reality. Imagine if you can save someone who was drowning in the water by using an amphibious motorbike and bringing the victim to a waiting ambulance without any other people's assistance. The chance of saving a life would be greatly enhance! There may be many other uses.... when we encounter problems, by thinking deeply, some images will emerge. You can expand on that image to solve a number of problems.

Kowa Tech was applying for an international patent on the technology of producing amphibious vehicles, a move that worried Yuji to no end, since an international patent would be a key factor for Kowa Tech's ability to enter the global market. Regardless of whether Kowa Tech chose to expand its production of existing products to overseas markets, or expand product lines to motorbikes, or both, to make Kowa Tech a true global company, Yuji had to consider carefully how best he could prepare for the future challenges. Yuji started to map out the priorities and future plans for Kowa Tech in his second decade as the company's prime mover.

Exhibit 1: Main products of Kowa Tech



Main product from the public sector is fire engine.



Second largest order is for ambulances.



Main order from the private sector is for power generation vehicle used by electric company.



Kowa also takes order from TV stations for vehicles for TV crew.

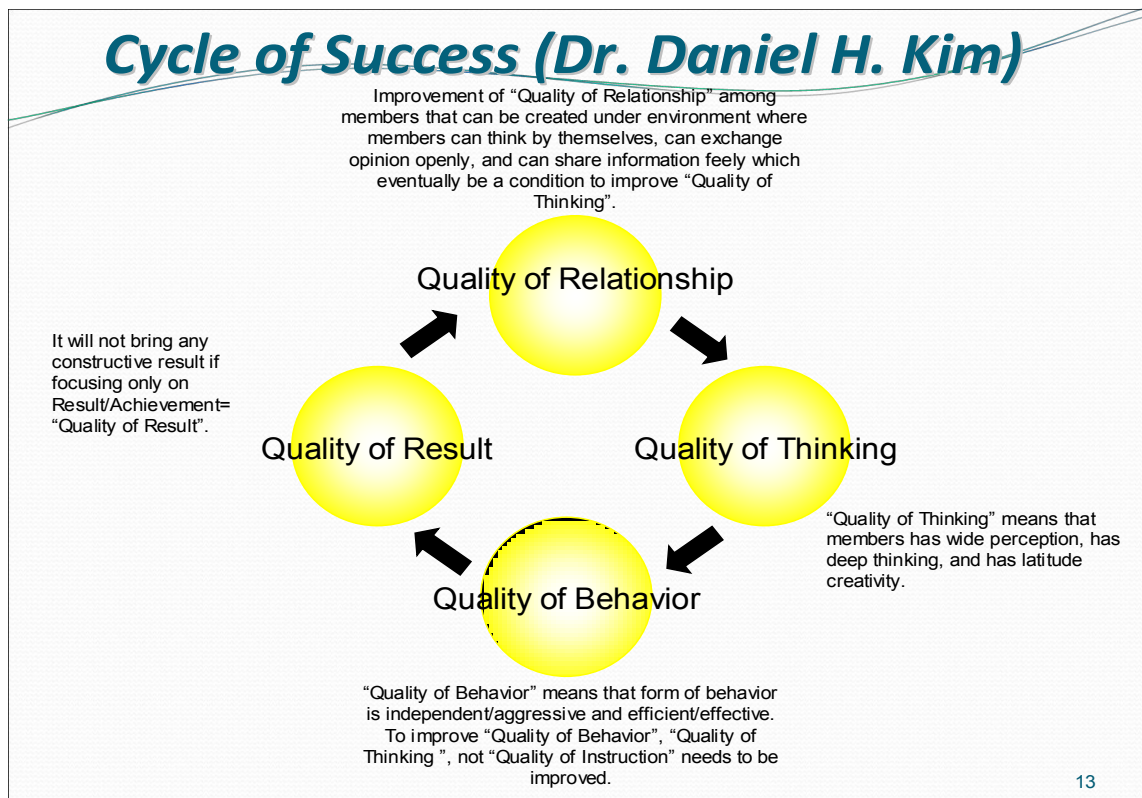
Exhibit 2: Practices of Exemplary Leadership*

5 Practices for Exemplary Leadership

- Model the Way = “Model”
- Inspire a Shared Vision=“Inspire”
- Challenge the Process=“Challenge”
- Enable Others to Act=“Enable”
- Encourage the Heart=“Encourage”

*Reference above was a part of the contents explained in the Leadership training program Yuji attended. The list was created based on interviews of leaders who made great achievements even during economic depression in US.

Exhibit 3: Cycle of Success



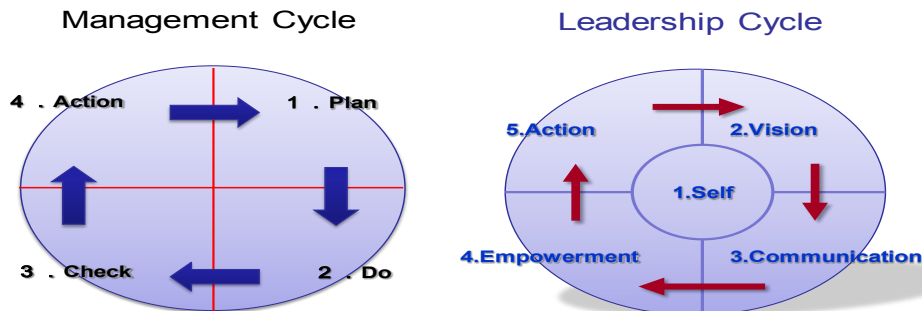
Above is a model of the “cycle of success” to create a virtuous cycle for successful organization proposed by Dr. Daniel H. Kim at Massachusetts Institute of Technology. By firstly improving quality of relationship, quality of thinking is improved, after quality of thinking is improved, quality of behavior is improved, and eventually quality of results can be better.

Exhibit 4: Leadership Training Program

Course Schedule : Leadership Mechanism & Skill	
<Day 1 AM>	<Day 1 PM>
<ol style="list-style-type: none"> 1. Opening <ul style="list-style-type: none"> - Introduce yourself, Expected training rules, Team making - 2. Compare Management and Leadership <ul style="list-style-type: none"> - What is Management, what is leadership? 3. Understand Paradigm Shift. <ul style="list-style-type: none"> - Meaning, merit, demerit, and implementation 4. Correlation of “vision”, “mission” and “value”. <ul style="list-style-type: none"> - Meaning 5. Understand leadership cycle <ul style="list-style-type: none"> - Cycle of self, vision, communication etc... 6. Seek for own value <ul style="list-style-type: none"> - Enneagram Testing 7. Create Vision <ul style="list-style-type: none"> - Method of vision creation 	<ol style="list-style-type: none"> 8. Vision Transmission <ul style="list-style-type: none"> - Method and meaning 9. Empowerment <ul style="list-style-type: none"> - Method and meaning 10. Action for innovation <ul style="list-style-type: none"> - Innovative behavior, team innovation, project innovation and organizational innovation. 11. Summary for leadership <p>Activities flexibly be applied during the class:</p> <ul style="list-style-type: none"> ✓ Blind Walk etc <p><Wrap-up for the day></p> <ul style="list-style-type: none"> ✓ Game using the ball <p><Wrap-up for the course></p>

Exhibit 5: Management Cycle and Leadership

Management Cycle and Leadership



*Management Cycle: Peter Ferdinand Drucker, Leadership Cycle: Center for Creative Leadership



EdokirikoHanashyo *Japan*

Strategic Human Resource Management

Written by

Reiko Toyoshima

Program Officer for APEC HRDWG CBN
Human Resource Development Department
Institute for International Studies and Training (IIST)

The case was developed with the cooperation of EdokirikoHanashyo solely for educational purposes as a contribution to the project entitled “Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC,” conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

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The opening of TOKYO SKYTREE, a new landmark in downtown Tokyo in May 2012 was especially significant for Takayuki Kumakura (born in June 1979), the director of EdokirikoHanashyo Co. Ltd. Hanashyo, one of Japan's traditional Kiriko (cut glass) manufacturers in Tokyo, was reputed to be the top brand of the Edo Kiriko industry due to the continuous innovation that the company adopted. Hanashyo had so far succeeded in attracting customers both domestic and internationally. Takayuki could foresee continued solid demand for Edo Kiriko since the use of Edo Kiriko patterns as interior decoration for the TOKYO SKYTREE had further raised public interest in the tradition and culture of old towns in Tokyo.

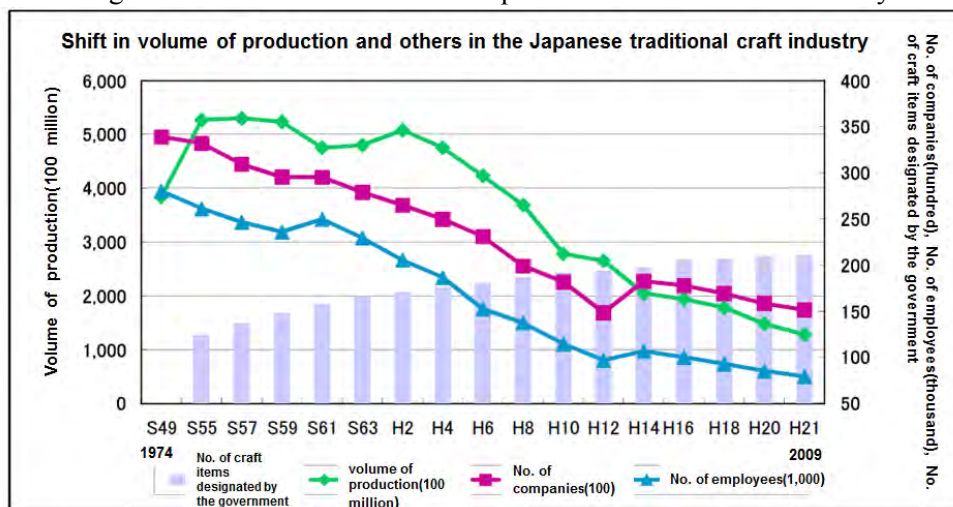
Takayuki had been working for 10 years at Hanashyo and was being trained to be the third owner of the company. While there were still a lot of things to learn from his father, Takayuki felt that it was time to move the company to the next stage and pursue the dream which his father had always wanted for Hanashyo — enter the global market.

Takayuki was encouraged by the company's steady sales growth and increasing opportunities created by economic liberalisation. There were however a number of issues to be addressed. For a small family-owned enterprise like Hanashyo, lack of human resources was always a bottleneck for expansion and innovation. Developing and retaining skilled workers was also a critical issue. Takuyaki started to evaluate what the company's priority should be and how an SME like his company could be successful in the international market.

Traditional Craft Industry

Japanese traditional crafts had long enjoyed a high reputation for its outstanding technologies and exceptional beauty both at home and overseas. The industry however faced a threat of decline, with the continuous fall in its production volume and in the number of firms and workforce. In 2009, production remained at about 128 billion yen, approximately 13% lower than that of the previous year and 25% below the peak in the 1970s. The number of companies and employees in the industry likewise dropped to 15,100 and 79,000, respectively in the same year (Figure 1).

Figure 1: Volume of Production: Japanese Traditional Craft Industry



Source: The Association for the Promotion of Traditional Craft Industries

Several factors appeared to be responsible for the decline. For one, the domestic market had been shrinking due to the protracted economic recession and decreasing population. Likewise, the industry was confronted with an influx of cheaper goods mass-produced abroad. In 2008, imports in Japan's so-called lifestyle industry¹ amounted to approximately 2.4 trillion yen, exceeding exports by approximately 1.5 trillion yen.² Also, the aging of skilled craftsmen and lack of successors continued to be a serious problem in this sector. In 2009, 64% of the employees in the industry were aged over 50, while only 5.6% were under the age of 30.³ Another issue to be considered was the changing value and lifestyle among customers. Modernisation of daily life exposed the customers less and less to traditional culture and knowledge as well as reduced their opportunity to utilise traditional crafts and appreciate their fine quality.

Edo Kiriko was a cut glass craft produced in the downtown areas in Tokyo, the city formerly known as Edo. Its origin dated back to 1824, when a glass artisan named Kyubei Kagaya started to engrave patterns on the surface of glassware. Edo Kiriko's main features were the fine cutting and vivid colour contrast created by engraving patterns on two-layered structures of coloured and transparent glasses. The production of Edo Kiriko was carried on in the urban culture and its traditional techniques had been preserved by the manual skills of Japanese craftsmen. As of 2005, there were 78 Edo Kiriko workshops in Tokyo where an estimated 135 artisans were engaged in manufacturing Edo Kiriko products.⁴ Most of Edo Kiriko workshops were Original Equipment Manufacturer (OEM) suppliers, selling their products to large department stores and other retailers. The annual industry sales amounted to approximately 900 million yen in 2005.⁵ Just like other traditional crafts in Japan, the industry had long suffered from sluggish growth in sales and fewer applicants wishing to be artisans in businesses.

The government had been implementing measures to support the traditional craft industry in developing new products that fitted into modern life and created a new market. Some local communities established regional brands of local industries. For example, Sumida, a downtown area located in the western part of Tokyo and also known as the production area of Edo Kiriko, launched the Sumida Area Brand Strategy in FY 2009. The project intended to promote the industry in the area to coincide with the launch in 2012 of TOKYO SKYTREE (Figure 2), the world's highest broadcasting transmission tower, which was expected to attract a large number of both domestic and overseas visitors to the city. The strategy aimed to raise Sumida's name recognition and image to the public by branding products made within the Sumida area, as well as promoting them through collaboration between businesses in Sumida and outside designers and creators.

Figure 2:
TOKYO SKYTREE



¹The lifestyle industry referred in this text consisted of eight manufacturing sectors including home furnishing, textile and apparel, leather goods, plates and utensils, toys, jewelries, stationaries and traditional crafts.

²Trade Statistics of Japan (2008), Ministry of Finance.

³The Association for the Promotion of Traditional Craft Industries.

⁴<http://www.nipponnowaza.com/>

⁵Ibid.

EdokirikoHanashyo

Historical Development

Kumakura Glass was established in 1946 in Kameido, Tokyo by Takayuki's grandfather as a small family-owned company specialising in the manufacture of Edo Kiriko glass products. At that time, Kumakura Glass was purely an OEM company whose production was 100 percent order-based by wholesalers.

The turning point in the business came when Takayuki's father, Ryuichi Kumakura (born in July 1947), took over the Edo Kiriko business from the founder in 1994, and incorporated EdokirikoHanashyo as a retail store of Kumakura Glass. He decided to cut off all the OEM arrangements and started selling direct from the factory. In the preceding years, Ryuichi had seen the price of Edo Kiriko products beaten down by retailers and the danger of the Japanese glass industry vanishing altogether. He also strongly wanted to establish his own brand and manufacture original products, rather than provide OEM products to wholesalers. Initially, he started to sell direct through advertisements placed in daily newspapers. Customers who responded to the advertisements were mainly housewives who called the store to buy the Hanashyo products for their families. Their husbands then started to use the products as corporate gift items. At that time, online shopping had sprouted in the market. Ryuichi opened a website (<http://www.edokiriko.co.jp/>) in 1997 to appeal to a broad clientele. Since then, the showroom and website had been Hanashyo's only sales channels. Direct sales enabled them to grasp customer needs firsthand and present their own ideas direct to customers.

Products

Hanashyo's Edo Kiriko was characterised by innovative designs combined with tradition. While preserving traditional patterns handed down through generations, Ryuichi managed to develop three original patterns⁶ that matched the sensitivities of modern lifestyle (Figure 3).

Figure 3: Traditional Patterns



Tamaichimatsu Pattern featuring a circle motif



Kometsunagi (rice line) Pattern (used as gifts for Toyako Summit)



Itokikutsunagi pattern featuring lines of a chrysanthemum motif

⁶Hanashyo had applied these three original patterns for design registration.

A diversified collection of items included regular items, petit-premium items and premium items (See Exhibit 1). Regular items, Hanashyo's leading products, were large Japanese sake cups, old fashioned-glasses, wine glasses and others priced from 4,200 to 52,500 yen.⁷ Petit premium items were products such as above designed by the employees and made as one of a kind, priced between 30,000 and 60,000 yen.⁸ Premium items were the top of the line specially designed and created by Ryuichi as one of a kind. Some of their most luxurious items were lamps developed in collaboration with Arita ware manufacturer (Figure 4), with the price tag of as high as 850,000 yen.⁹ A series of lamps was well received by their clients and flew off the shelves.

Figure 4:
Lamps Developed
with Arita



Production Process

The work of manufacturing Edo Kiriko was roughly divided into two processes: grinding and polishing. In the grinding process, artisans first laid out patterns on the surface of overlaid coloured glasses and engraved the outline of the design into the surface using a grinder with a diamond blade. More delicate patterns were engraved using different kinds of fine grinders. Mature hand technique was required to engrave exquisite patterns in the right equilibrium. The grinding process did not differ much among Edo Kiriko manufacturers such as Hanashyo. Ryuichi however exercised his ingenuity in the way he did polishing. While other competitor companies frequently used chemicals such as sulfuric or hydrofluoric acids to polish products Hanashyo carefully hand-polished its products. Hand-polishing could preserve the genuine colour of glass and the sharpness of engraved patterns, which differentiated Hanashyo from other Edo kiriko manufacturers. All the specialised equipment and materials for polishing were invented in-house, and continuously improved by Ryuichi and other artisans; they were the company's trade secret. The products were then polished with thick woolen cloth and displayed in the store shelves after quality checking. In Hanashyo, artisans shared responsibilities in these production processes to ensure the smooth flow of operations.

Customers

While Hanashyo premium items targeted affluent individuals, the main customers were those in their 20s or 30s (about 70% of the customers were male) looking for nice gifts or something special for their own use. The number of their corporate customers rose after their products were designated by the Ministry of Economy, Trade and Industry as the first product in Tokyo of the Local Resource Utilisation Project in 2007. Thereafter Hanashyo products were often selected as gifts for state guests as well as business VIPs. The Hanashyo brand came to be recognised by the public when their wine glasses featuring the original pattern "kometsunagi," or rice line, were selected as the commemorative gifts for leaders at the 34th G8 Summit (Toyako Summit) held in Hokkaido, Japan in July 2008. This opportunity also enabled the company to rapidly increase their sales (See Exhibit 2).

⁷Equivalent to USD 52.50 to 656.25

⁸Equivalent to USD 375.00 to 750.00

⁹Equivalent to USD 10,625.00

Organisation

As of June 2012, Hanashyo had a staff complement of nine members, four in management and five employees. Hanashyo's artisanal craftsmanship was led by Ryuichi and supported by Takayuki, as well as other non-family member staff. Ryuichi became the chairman of the company in April 2012 and Takayuki took charge of the overall management of the manufacturing process, including quality control and procurement. Takayuki's mother, the president, and the elder sister (the director of the company), were responsible for sales, marketing and planning. There were five non-family staff members who were engaged in production. Takayuki and two employees, all in their 30s were the main production workforce in the company. The three other employees who were in their 20s were still in their apprenticeship and could not yet manage the whole production process on their own. As a whole, the average age of employees was 30 years old, which was quite exceptionally young for a traditional craft firm in Japan.

Management Vision

The Hanashyo team shared the company's vision, "Looking into the world." The product design and concept were different from ordinary Edo Kiriko products since the management and employees in the company had always been devoted to design that appealed to foreign clients; thus, the company had never outsourced product planning to outside designers. Having established their own sales channels, Hanashyo's business style was quite different from other Edo Kiriko makers who were mostly subcontractors to wholesalers. Because of the level of quality of their products, the company was confident that they had no rival among other Edo Kiriko industry players. Rather, they viewed manufacturers of other industries in the high-end gift market, (e.g., ceramic wares) as their potential competitors. They wanted to move away from being a traditional craft manufacturer and were focusing their efforts on building and expanding Hanashyo as a major luxury brand of glassware. Ryuichi and Takayuki hoped to create an image of Hanashyo as a "small but amazing" company in the market, modeled after successful family-owned companies often found in European economies like Italy.

Going International

Around the turn of the century, the company started mail orders for overseas clients through the website created in 1997. The reputation of Hanashyo's brand had spread by word of mouth, even outside of Japan, as foreign customers bought Hanashyo products as souvenirs or gifts for their families and friends. In December 2008, the company held an exhibition at the Musée des Arts Décoratifs in Paris on the theme, "Japan Design Exhibition" for the 150th anniversary of cultural exchanges between Japan and France. In May 2009, Hanashyo put up a booth at "the JAPAN by Design" exhibition as part of the International Contemporary Furniture Fair (ICFF). Since then, Hanashyo had been pushing their sales to foreign customers through the website and had been receiving many orders from offshore.

Chairman Ryuichi Kumakura was confident of the market appeal of his products and aimed to enter the international market at full-scale speed. He was looking particularly at the Asian market. He discovered that Asian customers had both purchasing power and appreciation for excellence when young people from China and Chinese Taipei in their 20s and 30s visited the company showroom in search of Japanese goods of the highest

quality and artistry. Thus Hanashyo targeted the Asian high-end market as the company's new clientele.

According to Ryuichi's strategy, lamps would be the main products to be promoted internationally since lamps were common fixtures in the lifestyle of foreigners. Ryuichi wanted to make Hanashyo the company that would bring luxury art pieces to the international market. He was considering opening Hanashyo's flagship stores in Asia, particularly in Singapore (famous for promoting arts), or Hong Kong, a centre of brand shops. He was even thinking of transferring manufacturing and sales operations to these international bases by employing capable local people. He was hoping to realise his plan in about three years wherein he would have to find appropriate financial resources, foreign partners and supporting companies.

Takayuki had reservations about his father's business plan. He did not agree with the idea of manufacturing their products overseas because flaws might occur in controlling the quality of products, which would be fatal to the brand image. Another concern was that customers would not want foreign-made products since they liked the fact that the products were only available in the workshop located in Kameido, the birthplace of Edo Kiriko. On the other hand, he agreed with his father on expanding the sales channels by establishing outlets in Asia, and the importance of gaining cooperation from local supporting partners. The key question was how much and how fast their business could be expanded for the international market. The father and son were always debating on the issue and still had to reach a consensus.

As the future third owner of the company, Takayuki fully understood that it would be his role to expand sales channels to overseas: "My father has consolidated the basis of the company's technology. In my turn, perhaps I am expected to expand our sales area for future generations." However, Takayuki noticed that the current level of production should at least be doubled to expand their business offshore. Approximately 180 items of large Japanese sake cups and glasses were produced a month, mainly for domestic customers. He thought it necessary to strengthen the line of lamps and premium items made by his father in order to enter the international market. He was planning to double the production by quintupling the number of lamps produced monthly, while preserving the current production level for the domestic market. However, this scenario was quite difficult to realise at this stage due to lack of human resources. At least two more additional skilled craftsman would be needed to ramp up the production (See Exhibit 3). Since nurturing the company's human resources was becoming more important to the company, Takayuki started to review Hanashyo's human resource management systems.

Human Resource Management

Recruitment

Hanashyo posted information on job offers and applications on their website (See Exhibit 4). Selection was made under specific conditions such as age limit and academic background. "In older days, some people became artisans because they did not have to talk while working. Nowadays the situations are much different. Artisans need basic education and social skills in order to communicate with both customers and colleagues. So we recruit applicants who graduated from technical college or universities," Takayuki explained.

One female staff who had been with Hanashyo for eight years was an art college graduate studying glass-working who joined Hanashyo to realise her dream of becoming a glass artisan. She said that the traditional craft industry was male-dominated for long, and she was very lucky to be accepted by Hanashyo, which had provided equal job opportunities and treatment for men and women. One male staff who joined Hanashyo three years ago first encountered Hanashyo products on the website when he was searching for information on Edo Kiriko. He was planning to join an international exchange programme where he wanted to introduce something Japanese to peer foreign participants. Fascinated by the artistry of the products he saw on the website, he decided to apply for a job with the company. He originally planned a career as a school teacher and had no experience in arts and crafts. His mother was disheartened by his change of mind but his father understood and supported his decision to be an artisan.

There were always enough applicants, with different backgrounds. For the past five years, approximately 30 candidates applied for a job with the company. A trial period was introduced for the first six months to determine whether the newcomer could fit into the company's organisational culture. The company valued the newcomer's ability to get along with senior colleagues and elicited senior members' opinions about the newcomer before hiring him or her full-time. "In a small company like us, good working relationship is critically important to operate smoothly. For this reason, we never employ persons who have no rapport with the other members, even though they seem to have a good aptitude for the job," Takayuki explained.

Training

It was very important to develop capable workers as soon as possible in order to accommodate a large number of orders. Under the conventional systems in the traditional industry, it usually took 10 years to develop full-fledged craftsmen. Hanashyo had taken a unique approach to shorten the duration down to five years for a new recruit to be able to make products that could be displayed on the shelves. New workers were exposed to the whole process of creating Kiriko glasses soon after they joined the company. They learned all the manufacturing processes step by step, starting with laying-out patterns on the surface of glasses as well as checking the quality of finished products. Next, they practiced polishing the cut portion of products. Finally, they were taught how to grind glasses, which was the most difficult part of the manufacturing process. Time needed to acquire skill in each process differed, depending on individual capacities and efforts of artisans. One senior artisan took care of one new worker as the latter's personal tutor on how to acquire technical skills, maintain tools and design products. As Takuyuki observed:

Young apprentices in the past were taught to learn by watching the work of their masters. Now we are happy to teach our employees as much as they want. Our chairman never hides his skills and technology from our employees. He does not even hesitate to lend his tools to the others, which is not usually the case for artisans. This is because he is confident of his artistic skills and he also wants to raise the technical level of all the employees.

One of the good opportunities for up-skilling their abilities was the design meetings, where employees brought their own designs to be evaluated by their colleagues. The meetings highly motivated the employees since new items could be developed from some of these designs and even newcomers had the chance of producing bestsellers with the help of senior employees. One young employee remembered the moment when

a product he designed was first sold in the shop. The customer who bought his product for the first time told him that she had “fallen in love” with the product at first sight! “It was the happiest moment since I started working in the company,” he reflected.

In their attempt to develop artisans, the company set up a school named “Hanashyo’s” in January 2011 to teach cut glass skills and cut glass related culture. The school provided basic, intermediate and advanced courses for three days a week, during which students could learn how to make a product in a 2-hour lesson. The students could complete a Japanese sake cup in 10 to 15 lessons. All classes were small, having at most four to six students each. The classes were always full and about 80 students have attended the classes since the opening of the school. The school proved to be useful in developing the skills of the staff members who gave lessons to the students as their part-time job at the school. They learned by teaching others and developed communication skills through interaction with the students. Takayuki noted that while it could be very hard for the staff to teach while working, they enjoyed it. He also taught at the school despite his busy work as artisan and owner of the company.

Most of the students took classes just for fun, but the company hoped that the school would be a training ground for company personnel and some promising students who might join the company in the future after finishing advanced courses. Though six students hoped to work as artisans, none of the students had applied to join the company so far.

Retention

While Hanashyo always had plenty of job applicants, it had difficulty in retaining young workers in recent years. Three of the four people who joined the company in the last five years had already left for varied reasons. One felt that the work was too hard and another had too much expectation from the company. The other staff left because the parents strongly opposed his decision to make a living as an artisan. This was presumably due to the negative image of SMEs or artisans compared to large corporations. Hanashyo’s starting wage amounted to less than 60% of that in large corporations. However, Takayuki insisted that he could not afford to pay much more to new recruits who could do very little as an Edo Kiriko artisan. Instead, based on the company’s wage system, salaries were increased according to the level of skills acquired.

In Takayuki’s opinion, the company offered a good salary compared with other SME manufacturers. As of 2010, the average annual income of Japan’s workforce in their late 20s and early 30s were 3,360,000 yen¹⁰ and 3,640,000¹¹ yen, respectively.¹² Hanashyo provided about as much as these average salaries to their workers and even paid better considering the size of the company. Takayuki believed that “the key factor for retaining talented workers was paying them well.” The wage system in Hanashyo was based on the informal and personal approach. The family members discussed the timing and amount of wage increase based on skills and work attitudes; they had not introduced regular pay raise or salary schedules. In Takayuki’s view, it was not necessary to formalise the wage system for a small family-owned company. He believed that all his employees were satisfied with the evaluation they received, and indeed had not heard

¹⁰ Equivalent to USD 42,000.00

¹¹ Equivalent to USD 45,500.00

¹² Statistics conducted by National Tax Agency in 2010

any complaint so far. Sales growth was reflected in the amount of bonuses provided twice a year which was worth 1.5 months' base pay.

In terms of career development for employees, there was not much career options that Hanashyo could provide since the key management functions in the business were lodged with the family members only. Likewise, starting a business of their own in the Kiriko industry posed many challenges even for highly-skilled artisans. Foremost among these was the sourcing of materials and tools which required long-established relations with supporting industries. It was also difficult for these skilled artisans to move to a competitor company because each Edo Kiriko company adopted totally different production methods and work culture. For these reasons, most craft artisans opted to be employed under the mother company. Takayuki explained that such industrial structure helped protect family-owned technologies from getting out of the company. In the past, some experienced artisans left Hanashyo when they felt that their junior fellow artisans had higher production skills. Hanashyo stipulated that job leavers must abide by the company's non-disclosure agreement in order to protect its trade secrets. "It may be difficult to find the best way, but we would like to provide the opportunity for our workers to stay in my company while developing their careers as artisans," Takayuki concluded.

Issues to be Addressed

Hanashyo was overwhelmed by the rise in demand for its products that the present pace of production could not meet. In addition to the monthly sales of more than 180 regular items, one-of-a-kind items were developed in the intervals. All these products were handmade by the seven artisans. Besides, the company was quite strict in preventing order backlogs and the artisans managed to meet the delivery deadline 100 percent every month. Some clients requested to receive their products the next day. Hanashyo never declined such rush orders, which enhanced their reliability among customers. However, the current demand level left very little time for the employees to develop new product concepts. They were always swamped with daily orders and had to render overtime work to comply with the orders. "If you hope to become a good artisan, you have to brush up on new ideas. I want my employees to go out to absorb and learn a lot of things for new ideas. But they are so worn out that they stay at home and just sleep on holidays," lamented Takayuki. He was concerned that the present work environment could be a stumbling block for him and his employees to generate new ideas and innovation. In particular, he believed that more time should be spent on developing products suitable for the particular market if the company wished to go international.

One of the solutions to handle a chunk of orders appeared to be the recruitment of more employees. Takayuki however considered it unreasonable to suddenly increase the number of staff for a number of reasons. For new hires to become a substantial part of the workforce after a minimum of five years of training, considerable time and effort had to be provided by senior colleagues to train and assist them. Having too many new hires — even three people at the same time — could slow down the flow of production. Thus, the company could afford to accept only one newcomer at a time. Takayuki also thought that having too many employees could impede their strict quality control. Looking at the age structure in the workforce, he realised that it was remarkably unbalanced, consisting of only young workers in their 20s and 30s. To increase production, the company had to wait for these young employees to become technically competent in the years to come.

Transfer of technology and knowledge had become an issue of much importance. Takayuki and others in the workforce fell short of Ryuichi's standards. They could follow

Ryuichi's example but could not achieve the same level of speed, sophistication and meticulousness. Takayuki admitted, "My products would be given a failing grade compared to those of my father." Some premium items of Hanashyo's exclusive lineup, which accounted for about 5% of the total production, were created only by Ryuichi's unparalleled craftsmanship. Currently, Ryuichi was the only artisan in the company (and in the world) who was able to engrave the company's original "rice line" pattern that was an indispensable ingredient for the uniqueness of Hanashyo's products. Takayuki had not yet fully mastered this technology from his father. However, being a successor of a family company, he felt the need to acquire his father's core technologies faster and better than anyone else in the company (Ryuichi had not taught the other workers the rice-line cutting yet). The problem was that he was also engaged in managing the company and found it difficult to spare enough time for practice to acquire the technology.

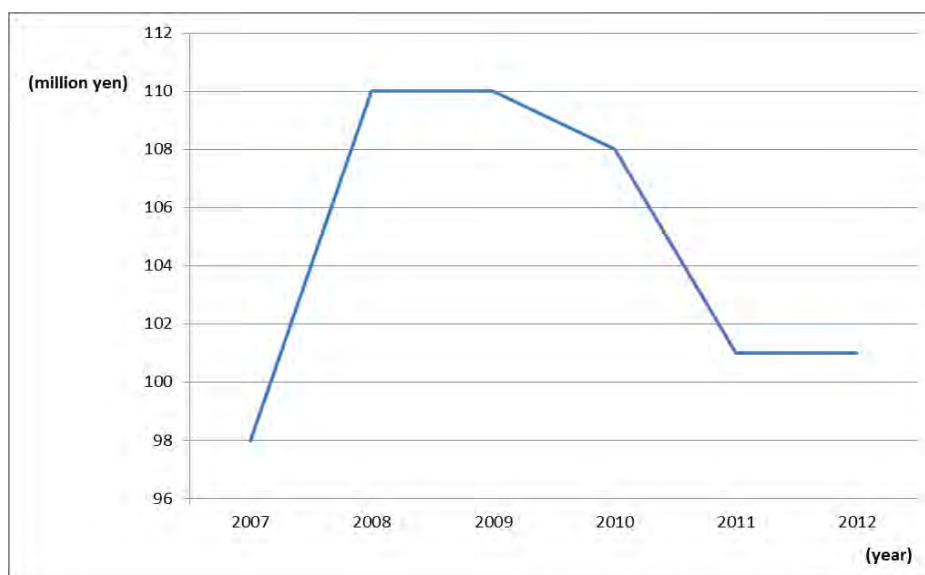
Takayuki mentioned that formalising employee benefits would be another key issue for the future of the company. He noticed that recent job applicants were mostly women. Unless this trend changed, it was expected that the gender proportion in the company would be 50% men and 50% women in the future. Inasmuch as the traditional craft industry had long been dominated by men, Hanashyo had not instituted a system such as maternity leave and childcare leave where female workers could pursue both child-rearing and career advancement. For instance, when his sister became pregnant in 2011, Takayuki let her go on maternity leave from October 2011 to October 2012 on a trial basis. However, the shortfall of hands forced her to go back to work with her baby even before the end of her maternity leave period. He considered the possibility of introducing work-sharing schemes, but was not sure whether such system could work effectively in a small home-based manufacturing company.

In preparation for new opportunities, Takayuki kept asking questions on the key issues Hanashyo faced: How big and how fast could their business be expanded in the international marketplace? What kind of approaches should be best taken to address the issues concerning their human resource management?

Exhibit 1: Product Categories, Estimated Production Time and Number of Artisans

Product Category	Price Range (Yen)	Production Lead Time	Number of Artisans Engaged	Monthly Average Sales (Units)
Large Sake Cup	4,200-21,000	1-3 hours	4	100
Wine Glasses	11,000-21,000	1-3 hours	4	30
Old Fashioned-Glasses	13,000-32,000	1.5-3 hours	4	50
Plates	10,000-32,000	3-5 hours	3	3
Lamps	420,000-870,000	12 hours	2	-

Exhibit 2: Sales of EdokirikoHanashyo (Fiscal year ending August 31)



Note:

2008: Sales jumped up after their products were selected as gifts of the Tokyo Summit

2011: Downturn in sales volumes temporarily occurred in 2011 due to the change of material suppliers.

2012: Sales were affected by the Great East Japan Earthquake on 11 March 2011. The numbers cover the period between September 2011 and May 2012).

Exhibit 3: Current and Ideal Number of Artisans at EdoKirikoHanashyo

Organisation	Levels of Skills	Present Number of artisans	Ideal Number of artisans*
Chairman (Ryuichi)	Master- holding all the skills and technologies for top quality	1	1
Director (Takayuki)	Main workforce- capable of doing all the manufacturing process	3	5
Workers in their 30s			
Workers in their 20s	Assistant- not able to do cutting work	3	3

*The number was considered to be ideal to double the current production level

Exhibit 4: Job Opportunities at EdoKirikoHanashyo

Employment Requirements: Applicants must meet the following requirements

- Be less than 25 years old
- Must have graduated or will graduate from technical colleges, two-year junior colleges or universities
- Be willing to develop a new business utilising the technology of Edo Kiriko
- Be willing to engage in manual labour
- Please visit our blog (<http://edokiriko.exblog.jp/>) for our management vision, corporate activities and other latest information

Location: 3-49-21 Kameido, Koto-ku, Tokyo

How to apply: Please contact us by e-mail (hanashyo@edokiriko.co.jp)



**Asia-Pacific
Economic Cooperation**

**Dong Yang Machinery
Industrial Co. Ltd
Republic of Korea**

**Job Creation Capability of SMEs through
Government
Institutionalized Support**

Written by

Jin-Sil Kim

General Director
Training Quality Improvement Center
Human Resource Development Service of Korea

The case was developed with the cooperation of Dong Yang Machinery Industrial Co. Ltd solely for educational purposes as a contribution to the project entitled "Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC," conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

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Introduction

Today, jobless economic development and increasing unemployment of young college graduates have become main social issues decomposing middle class and aggravating social polarization. According to a report by the Korea Institute for Industrial Economics & Trade (KIET), the trend is more striking in the manufacturing industry. Manpower needed to make the same amount of products decreased by two-thirds over the past decade. In the report, the institute presented the latest changes in the ratio of employment to gross domestic product (GDP), which indicates the number of laborers needed to manufacture products worth 1 billion won (US\$1.05 million).

Theoretically, economic growth should lead to job creation, thereby raising the employment rate. According to economists, an additional 1% economic growth rate is estimated to result in 55,000 to 70,000 new jobs. However, as the falling employment to GDP ratio indicates, the link between macroeconomic growth and employment has been weakening because of the advancement of the industrial structure and expansion of overseas investment in the era of jobless growth. Employment in the manufacturing industry in Korea had been following a slowly falling curve in the 2000s after a sharp decrease in the 1990s, unlike that in other advanced countries. According to the KIET report, Korea was showing a somewhat different pattern from that of advanced economies in which the increase in production was accompanied by an increase in employment.

The Small, Medium Enterprises (SMEs) play an important role in job creation in Korea across the total years. According to Jung's (2008) study, the unchanging robust results of the dominant role of SMEs in job creation in Korea affected the various measures of employment data such as size distribution of employment and new jobs created. Moreover, the effects of net job creation in SMEs were bigger than those of Large Enterprises and the job stability of SMEs was inferior to those of Large Enterprises. Therefore, it is necessary to figure out a new job strategy to create more decent jobs and develop government policies to support more job creating firms. Job creation is at the intersection of corporate management and government policy. The government is supposed to facilitate job creation in many different levels just as job creation is an essential part of corporate social responsibility.

It is in this light that the government's HRD Service conducted a case study to explore and strengthen the job creation capability of SMEs through government institutionalized support, the Public HRD Service. Dong Yang Industrial Machinery Co., which was established in 1987 as a registered partner contractor of Daewoo Heavy Industries & Machinery Ltd and Daewoo Motors Co. Ltd was selected as the enterprise case because it received the Prime Minister Award in 2012 for Job Creation Performance. As a government initiated service, the Public HRD Service was also in the best position to share good practices and experience about job creation, especially the quality of employment (which could be affecting the change in mindset of the CEO and workers), innovative culture, improvement of productivity and skills and the decline of industrial accidents in SMEs.

Factors of Job Creation Capability

A review of literature on job creation indicates that the variables of job creation capability are a high skills society (Finegold, 1998), high performance work system (Pfeffer, 1999), people centered management (Kim, 2006), great working place (Kim, 2006) and corporate social responsibility (Kim, 2006). The assumption is that job creation is not the goal of corporate organizations, but the output of strategic decisions focusing on human resources in order to increase performance. The firm's employment capability is composed of three components: job creation capability which could create new jobs, job stability which continues employment, and job quality which relates to decent jobs, such as fair rewards, employee welfare and humane workplace conditions.

Table 1: Factors of Job Creation Capability

Category		Contents
Input	Human resources	Acquisition and development of high potentials, wage level
	Corporate governance	Separation of ownership and management, induction of international investment
	Organizational culture	Innovative culture, industrial relations
	Technology	Importing technology, technology change, technology development
Process	Strategy	Environmental change, Org. structure change, customer satisfaction, supply change management
	Organizational structure	Team matrix structure
	Leaders	Entrepreneurship, leadership, Org. management
	Skills and HRD	Labor productivity, skills, training
	HR Structure/policy	Encouraging long term employment, Reward system
Output	Measure of job creation	Ratio of new employees
	Measure of job protection	Turnover rate
	Measure of employment quality	Satisfaction of employment quality, engagement, motivation

Source: Kim, Youngsang, "Exploring Firm Assessment Model of Decent Jobs Creation and HRD Investment for Young College Graduates," *Asia Pacific Journal of Small Business*, 33(4), 19-41, 2011.

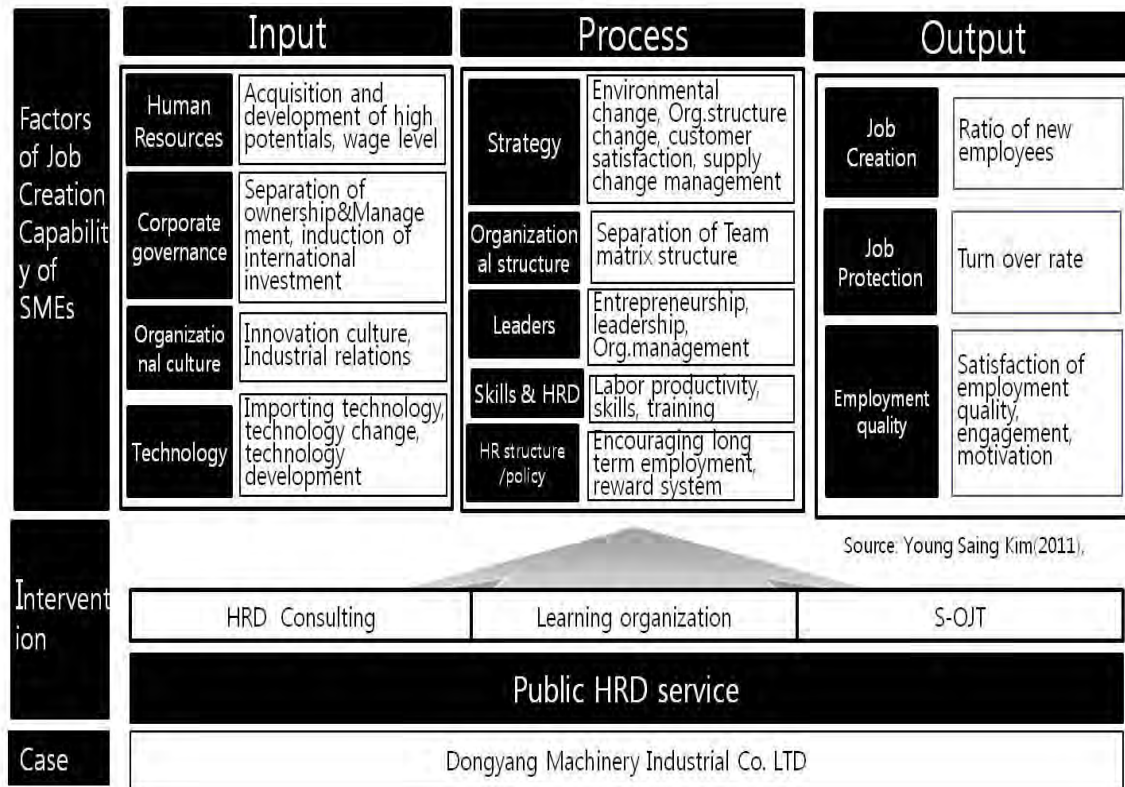
Framework of Study

This case study consisted of two parts. First, the factors of job creation capability of SMEs in Korea were reviewed based on the systems approach (input-process-output). Second, an analysis was done on how the public HRD Service (HRD consulting, Learning Organization building, S-OJT) strengthened the job creation capability of Dong Yang Machinery Industrial Co. Ltd, and which component of the company's job creation capability had to be strengthened through public HRD Service.

Public HRD service referred to government institutionalized support from HRD Korea, a specialized organization in human resource development established in 1982 under the

Ministry of Employment and Labour. Figure 1 illustrates the study framework used for the case.

Figure 1: Framework of Study



Company Background

Dong Yang Machinery Industrial Co. Ltd (Dong Yang) was engaged in the manufacture of heavy equipment (e.g., tail frame, center frame, side frame, bucket, tower crane, placing boom, crane). It was primarily a stock company with some 110 employees and sales reaching US\$50 million in 2012. The company believed in their slogan, “Quality is the basic, Speed is requirement, Cost is survival!” The president served as the head of the company, supported by an executive director and directors heading the different units and divisions such as management, marketing, design, production, quality control, material division and Research & Development (R&D).

HRD Consulting Service

This service examined the quality of systems and problems of SMEs and what could be done to improve their operations, using information on recent technologies and processes. The output was an improvement plan that could help the subject SMEs correct their weaknesses in order to strengthen their competitiveness.

The HRD consultants conducted a survey of the HRD system of Dong Yang. Results of the survey indicated the need to:

Republic of Korea

- raise members' activities for communication and sharing value, delegation of power, problem solving;
- adopt an incentive system for learning and performance;
- manage knowledge information for individuals and deliver the new information easily; and
- build a systematic learning system

To complement the survey, the HRD consultants conducted an **observation of company operations and processes and interview** of key informants from Dong Yang to determine the company's problems and technical needs (Table 2). The results of these processes, together with additional information on the latest technologies, were used as inputs in crafting improvement plans to address the company's weaknesses in order to strengthen their competitiveness. The whole process helped Dong Yang design its own Learning Organization.

Table 2: HRD Consulting and Problems and Technical Needs Covered

Number	Date	HRD consultant	Performance
1	2011.2.14(Mon), 13:00~14:00	Jongwoo, Kim, Pangye, Choi, Sungyong, kim	Examining the quality of systems and problems of Dong Yang Industrial Machinery Co. Ltd
2	2011.2.23(Wen) 15:00~17:00	Jongwoo, Kim, Pangye, Choi, Sungyong, kim	Examining the problems of production line
3	2011.3. 29(Tue) 15:00~17:00	Jongwoo, Kim, Sungyong, kim	Proposing improvement plans & recent technology information
4	2011.5.2(Mon) 08:00~10:00	Sungyong, kim	Designing and time scheduling of Learning Organization Building
5	2011.6. 3(Fri) 14:00~18:00	Jongwoo, Kim, Pangye, Choi	Consulting and training for improving process
6	2011.6. 14(Tue) 14:00~18:00	Jongwoo, Kim, Sungyong, kim	Consulting and proposing recent technology information
7	2011.6.21(Tue) 14:00~18:00	Jongwoo, Kim, Pangye, Choi	Consulting and proposing recent technology information



Building a Learning Organization

Learning Organization building basically focused on the sharing and creation of knowledge, experience and know-how of the constantly changing learning culture of SMEs. It also involved the construction of learning infrastructure in SMEs to strengthen competitiveness and enhance their employees' vocational skills.

Using the improvement plan formulated as a result of the Consulting phase, the consultants helped Dong Yang build a Learning Organization. They formed five small learning groups focusing on the five important areas of their operations and competitiveness: quality improvement, cost reduction, industrial safety, welding improvement and material control. Each of the groups set its target and performance criterion against which their success or failure would be measured (Table 3).

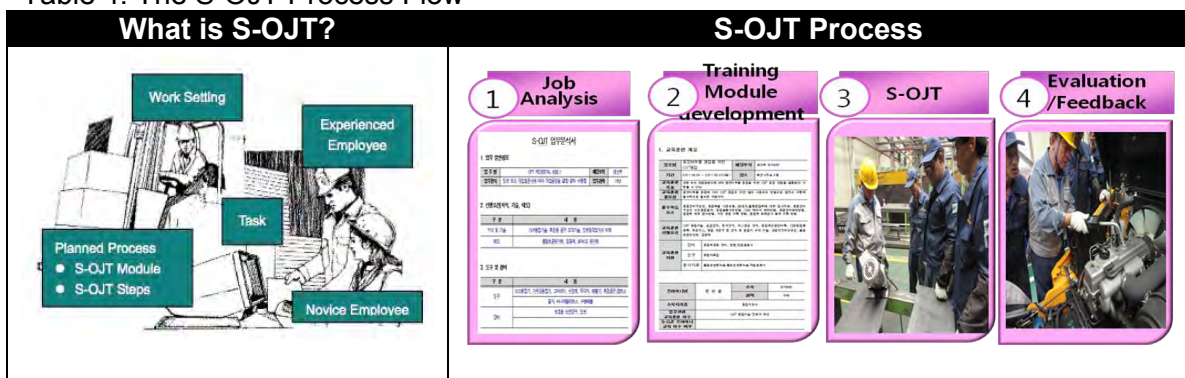
Table 3: Learning Organization of Dong Yang Machinery Co.

Division	1 Group	2 Group	3 Group	4 Group	5 Group
Learning Group	Quality Improvement	Cost Reduction	Industrial Safety	Welding Improvement	Material Control
Target	10% Decrease of fraction defective	Creativity	Injury record	Working condition improvement	Manual development
Performance	Decrease of fraction defective	Product competitiveness through cost reduction	Continuous safe working area	Effective Welding	Sales increase through effective management

S-OJT Training Service

S-OJT was “the planned process of developing competence on units of work by having an experienced employee train a novice employee at the work setting or a location that closely resembled the work setting.” The S-OJT training service was meant to encourage SMEs to conduct on-the-job training. HRD Service assisted SMEs to achieve this by developing their capability to construct learning infrastructures such as training of lecturers, developing training materials and establishing standard approaches for both classroom and on site skill development activities.

Table 4: The S-OJT Process Flow



The workers' performance and important qualitative and quantitative results of S-OJT are shown in Table 5.

Table 5: S-OJT 's Results

Workers Performance	Quantitative results
	<div style="border: 1px solid blue; padding: 5px; margin-bottom: 5px;">1. Sales increase (29%)</div> <div style="border: 1px solid blue; padding: 5px; margin-bottom: 5px;">2. Defective rate Decrease (Average 1.5)</div>
Qualitative results	
<ul style="list-style-type: none"> -Increased development opportunities for employees, competency development of employees, positive thinking of employees, increased customer satisfaction -Reduced training times, training costs, cost reduction rate 	

Job Creation Capability of Dong Yang Machinery Industrial Co.

Results of the observation and interviews conducted by HRD Services revealed the job creation capability factors of Dong Yang.

Input

Human Resources

In the 21st century knowledge-based society, the competitiveness of companies depends on a competent human resource development and training. Dong Yang prioritized the recruitment and hiring of highly skilled employees who were considering career in the heavy equipment manufacturing industry. The company provided opportunities for new employees to develop their skills continuously in order that they could attain the level of skills required in the various divisions of Dong Yang.

For instance, before a new employee could join the new product development division, he had to work in the existing production pilot plant, Doosan Infracore, as the first condition for employment. Since the company often provided new employees with some tasks such as welding, cutting and canning, it hired technical high-school graduates and let them develop their skills. The company also nurtured and encouraged employees with high potentials for growth in order to enhance their enthusiasm for their work, and to develop the mindset that their job was not just about making money, but a means for self-development.

Corporate Governance

The company had a strong and close relationship with the employee unions. Dong Yang enjoyed the trust and confidence of the unions because the company was able to

recover from the IMF economic crisis without resorting to restructuring. The workers were provided information on important management decisions regarding the steps that were taken to ensure its continuous future even in the midst of the crisis. Hence, the unions came to appreciate their job security rather than complained about wage cuts.

Organizational Culture

The company considered work experience and capabilities needed in the heavy equipment industry as the most important factors in choosing and retaining employees. It had a performance-based culture aimed at developing the world's best employees through a strong culture of innovation and sustainable growth. All employees could easily share an action-oriented corporate culture that was based on job security and the quality of basic employment, as well as the consensus that Dong Yang was a great place for work.

Technology

The development of a superior product through technological innovation and manufacturing process efficiency was a survival strategy for businesses. The development of technologies and products that continued to accumulate know-how would contribute to increasing employment and income. Dong Yang emphasized continuous innovation in its core technology as the key to its competitiveness. It recognized the inability of stereotype, traditional technologies to survive international competition. Starting out as a subcontractor company, Dong Yang succeeded in becoming a global company with highly skilled workers.

Since its establishment in 1987, Dong Yang had received a number of awards reflecting the culture of innovation and technology that it adopted. The company was given the Outstanding Contractor Award and Certification from Daewoo Heavy Industries & Machinery Ltd in 1990 and 2006. It also obtained placing-boom Patent Pending and Register a Design (Patent Office) in 1998 and KSA9001/ISO3007 Quality Assurance System Certification in 1999.

Process

Strategy

A strategy determines the company's direction and how to achieve the mission and goals of the company. The strategy is formulated through an analysis of the external environment (opportunities and threats) and internal situation (strengths and weaknesses). In selecting desirable strategies for the company, human resource management should be considered a priority. There are opportunities and threats in the external environment which affect people in the company. For example, potential labor shortages, wage levels of competitors, such as employment-related laws and government policies are factors to consider in human resource management.

Dong Yang recognized that the development of the company contributed to the development of society; hence, the company had to take on its corporate social responsibility. The company's involvement in profit management and employment creation ensured its long-term sustainability as a profitable enterprise and a contributor to economic development. Despite the difficulties posed by the external environment, the

company considered the employment of workers and their increased productivity as one of Dong Yang's organizational strengths.

Organizational Structure

Dong Yang supported the development of skills and lifelong learning for workers to safeguard their welfare and work-life balance in the workplace. The continuous lifelong learning system brought about by Dong Yang's adoption of the learning organization paradigm boosted the confidence of the members. Because of its horizontal organizational structure which promoted equality among the members, Dong Yang employees knew and shared selection and concentration strategy, the overseas marketing differentiation strategy (pricing, marketing, distribution channels, etc.), people-oriented management and lifelong learning support system.

Leaders

Dong Yang President Lee regarded the human resource development in Dong Yang from a wider perspective. He sought to develop workers skills to support the company's development. President Lee believed in the importance of staff training and the need to actively invest in it. Training of employees led to better performance, promotion and career advancement of the workforce, all of which could translate to overall company growth. By developing further the capacity of the staff, employees would be able to be more productive and creative. While workers competence could not be converted to monetary value in the short-term, it could have its long-term benefits both for the individual and the company. Those who were lazy complained about payment and working hours, whereas the workers eager to attain self-development and training did not complain at all.

Skills and HRD

Dong Yang set "Progressive thinking and creative man who does the best in his work" as the ultimate goal of its human resource initiatives. It was based on Honesty (customer oriented), Loyalty (his best work), Family-centered (teamwork), Professionals (the best in mechanical fields), and Creativity (progressive thinking).

The company's learning organization established with the help of the public HRD Service played a pivotal role in establishing skills development and HRD at Dong Yang. This was mainly accomplished through the five learning organization groups.

In operationalizing the learning organization however, Dong Yang encountered a number of problems. For example, it was hard to provide appropriate job-related training and adequate compensation, allocate time to participate in HRD activities, or build the learning space.

Employee awareness in the early stages of the learning organization was also average. In order to investigate the status of employees' awareness of Dong Yang' learning organization, the company commissioned a survey by an external research agency. The research agency developed the questionnaires based on Marchick & Watkins (2001) learning organization measurement tools. The questionnaire was administered to 66 Dong Yang employees, out of which 21 or 42.4% responded to the survey. Table 6 presents a summary of the survey results.

Table 6: Employees' Awareness of Learning Organization at Dong Yang

Members behavior/ characteristics		System for learning organization		Learning Process		Learning level		Education & training	
Open communication	3.07	Leadership-CEO	3.52	Knowledge creation	2.98	Individual learning	2.72	System	2.45
Personal mastery	3.11	Leadership-team leader	2.77	Knowledge storage	2.59	Team learning	2.61	Curriculum	2.74
Delegation of authority	2.84	Information system	2.93	Knowledge sharing	2.80	Organization learning	2.65	Methods	2.59
Team learning	2.90	Compensation system	2.84	Knowledge Application	2.78	Trends learning	2.65	Performance	3.20
Building shared vision	3.07	Organizational structure	3.00			Customer learning	2.70		
Systems thinking	3.18					Environment learning	2.65		
3.03		3.01		2.79		2.66		2.75	

Source: KMC Khan Consulting (2011). Learning organization consulting reports of Dong Yang Industrial Machinery Co. Ltd.

In order to overcome these learning organization related problems, the management tried to motivate the group members to provide a learning space, conduct small learning group activities and structural on-the-job training (S-OJT) programs, invite external resource persons and well-known lecturers and study work-related books. The resulting cost reduction, quality improvement, and improvement in sales were significant changes that made it all worthwhile for Dong Yang.

HR Structure and Policy

In hiring new employees, the Dong Yang management primarily considered their career path in the heavy equipment manufacturing industry and their potential to be developed in the long term. The employee also had to personify the ideal Dong Yang Man — a creative and progressive thinker who gave his best to his work based on Honesty (customer oriented), Loyalty (his best work), Family-centeredness (teamwork) and Professionalism (the best in mechanical fields). The management used objective assessment tool based on HR related regulations to evaluate employees for promotion and placement. The company usually used employees working checklist of monthly personal job performance, attitude, attendance and extra points earned which could be the basis for rewards.

Output

Job Creation

During the financial crisis, the company carried out "The union and management are one" slogan. They cut work hours to reduce operating costs but they used the extra time to conduct skills training in order to improve productivity. Management's move not to fire workers enhanced employee loyalty and helped keep the company afloat in those critical times. In fact, the company managed to hire seven more employees with its increased

productivity. Dong Yang continued to recruit and contribute to job creation in Korea with the development of new technology and infusion of new business investments.

Job Protection

Dong Yang maintained the employment of its workers even during the financial crisis through job sharing scheme and shortened working time (closing time strategy) as agreed on by labor and management. At first the employees opposed the closing time strategy because it cut down their wages and salaries. However, the union persuaded the employees to agree or else the company would not be able to survive and all employees would lose their jobs. The employees accepted the conditions of their employment and eventually all of them survived the crisis. Dong Yang continued to operate without resorting to restructuring. The company experienced the most number of days with shortened work hours in December 2008. Thereafter, the company tried to reduce the number of “closed days” and as much as possible prevented their occurrence.

Table 7: Closing Time Strategy

Closed Year, Month	Closed Allowance(US\$)	Closed number	Closed days
2008.12	29,270	110	22
2009.01	8,426	101	3
2009.03	5,418	56	8
2009.06	4,455	52	11

During closing time (shortened working time), the company supported workers to get training and skills development, which had the effect of improving productivity

Employment Quality

Employee loyalty for the company was higher than for other companies because it carried out job protection without restructuring during the crisis. Likewise, Dong Yang employees took pride in belonging to one of the world’s leading companies where they could grow through continuous learning. Through the learning organization, employees shared and created knowledge, experience and know-how. It also strengthened their competitiveness and increased their job satisfaction and engagement. The job creation capability factors of Dong Yang are summarized in Table 8.

Table 8. Current Job Creation Capability Factors of Dong Yang

	Category	Contents
Input	Human resources	-Securing highly skilled manpower in heavy equipment manufacturing industry fields -Based on creativity and challenge of human resource development -Workplace is a venue for self-development rather than a means for making money
	Corporate governance	-Harmony between labor and management through the formation of mutual trust
	Organizational culture	-Performance-based culture, -Innovation culture and world’s best technology development -Sustainable growth -Based on cooperative labor-management relations

cont .Table 8. Current Job Creation Capability Factors of Dong Yang

Category		Contents
Input	Technology	-Development of superior technology in the heavy equipment manufacturing industry -Investment on highly skilled workers -Strong R&D
	Strategy	-Long-term perspective -Environmental Analysis -Corporate Social Responsibility -Employment protection as priority
Process	Organizational structure	-Continuous lifelong learning system through learning organization -Activated S-OJT
	Leaders	-Employees motivation development based on strong leadership -Empowerment -Proactive organizational management -Socially responsible entrepreneurship
	Skills and HRD	-Establishment of “Dong Yang Machinery Company Man” -Activated learning organization -Improvement of human resource competency -S-OJT activation
	HR Structure/ policy	-Possibility of future development in long-term perspective -Establishment of the Company Man -Objective assessment -HR related regulations
	Job Creation	-Increase of employees loyalty without restructuring -Skills development during closing(off-day, shortened working time) time -Hiring new employees with increased productivity
Output	Job protection	-Maintain employment through job sharing -Induction of closing with the harmony of union & management -Paid training for closed(off-day, shortened working time) workers -Increase of change consciousness rather than restructuring
	Employment Quality	-Increase of employees loyalty with job protection -Employees’ pride in world’s best company -Job satisfaction and engagement through skills development

Conclusion

A company’s job creation capability does not depend on just an unconditional increase in investment on new employment. A variety of factors can influence job creation capability. This case has shown how the government’s HRD Service influenced the job creation capability of SMEs in Korea. The HRD Service has played an important role in changing the management mindset of SMEs even in the face of a difficult business environment.

When the economy worsens, companies generally cut their training expenses. Other companies have also been turning to automation or machines rather than developing their human resource. There are however more progressive and innovative companies that recognize education and training of their workers as future revenue sources. When the direction of innovation puts its emphasis on human resource development, the company can be a significant source of job creation because a culture of innovation anchored on HRD can utilize creative problem solving skills and develop new and improved products and services.

The benefits of training and HRD are to enhance the knowledge, skills, and abilities and loyalty of the employees. In addition, training and HRD can improve customer satisfaction by activating information sharing and communication among workers. Training and HRD for workers can raise employee welfare and work-life balance in the workplace. Through continuous learning and a horizontal organizational culture, employees become more creative, productive and efficient. They contribute to a culture of excellence in the company which further leads to the company's productivity and profitability.

Don Yang activated S-OJT which is the training process wherein one employee—usually a supervisor or an experienced employee—passes on knowledge and skills to a new employee. Trainees are expected to immediately use their newly acquired skills on the job based on company standardized checklist of tasks and performance criteria. In this way, new hires learn not only the job, but the skills and knowledge they need to successfully perform in the position. With structured OJT, any experienced employee given minimal “trainer instruction” can train new employees. In a well-implemented and well-monitored structured OJT program, all new employees receive consistent, effective, and efficient training regardless of the trainer assigned to them. S-OJT is one of the most cost-effective ways to provide job task training and skills.

It is thus important that the SMEs undertake continuous capacity building and human resource management that would help them become more competitive. Given the important role of SMEs in the economy, particularly in job generation, government intervention on training and HRD for SMEs is critical. In particular, SMEs with lack of resources and vulnerable structure should be supported following the framework for job creation of “high investment on people>high skilled manpower>high wage-job creation” virtuous circle model. Corresponding policies on HRD and job creation likewise need to be adopted.

Appendix 1: Employees' Level of Awareness of Learning Organization

1. Members behavior's characteristics

Category	Members behavior's characteristics	Average
1. Open communication	1.1.1. Mutual communication with workers in related business and jobs in my company	2.90
	1.1.2. Actively encouraging new proposal related to the work in my company	3.25
	1.1.3. Are willing to accept good suggestions, regardless of position in my company	3.05
	Sub-Sum	3.07
2. Personal mastery	1.2.1. Employees of our company are pursuing the quality of the product or service in the world in the highest level.	3.29
	1.2.2. Employees of our company are active for the future of the new changes	3.10
	1.2.3. Employees of our company have a strong motivation to new goals to challenge constantly	2.95
	Sub-Sum	3.11
3. Delegation of authority	1.3.1. Our company's executives are delegating access rights to their subordinates and supporting them actively.	2.86
	1.3.2. The authority delegated staff have a lot of discretion to conduct the business.	2.85
	1.3.3. My company provides the authority delegated staff enough support.	2.85
	1.3.4. Company-wide decision-making and responsibility is granted to individuals in my company	2.81
	Sub-Sum	2.84
4. Team learning	1.4.1. Inter-departmental communication is well in my company	3.10
	1.4.2. The exchange of information between departments is well in my company	2.80
	1.4.3. Inter-departmental cooperation is well in my company	2.80
	Sub-Sum	2.90
5. Building shared vision	1.5.1. The company staff is well aware of the goals of the company	2.95
	1.5.2. In developing strategy, the company tries to seek the opinion of the employees actively	2.90
	1.5.3. All employees do the best to achieve the goals of the company	3.37
	1.5.4. Teaching and learning activities to achieve a given goal, is highly recommended in my company	3.05
	Sub-Sum	3.07
6. Systems thinking	1.6.1. Both executive and regular employees are focused on increasing the productivity of the entire company.	3.11
	1.6.2. When problems occur, my company identifies the causes systematically and then looks for a solution.	3.42
	1.6.3. Employees think and act from the standpoint of the entire company as well as the position of the individual	3.00
	Sub-Sum	3.18
Total Sum		3.03

cont. Appendix 1: Employees' Level of Awareness of Learning Organization

2. System for learning organization

Category	System for learning organization	Average
1. Leadership-CEO	2.1.1. CEO regards training expenses as investment, not costs	3.42
	2.1.2. CEO thinks that education and training is essential to improve the growth and competitiveness of the company.	3.44
	2.1.3. CEO is trying to learn new ideas and management methods.	3.71
	Sub-Sum	3.52
2. Leadership-team leader	2.2.1. Team leader tells how much team members get the benefit after achieving their goals clearly	2.63
	2.2.2. Team leader is aware of team's needs, helps us to achieve this.	2.89
	2.2.3. Team leader checks how team members share with other employees and utilize their knowledge and know-how.	2.82
	2.2.4. Team leader promotes and supports a team members' self-development and career development	2.72
	Sub-Sum	2.77
3. Information system	2.3.1. Information system, such as a corporate intranet and e-mail channels is built in my company	3.18
	2.3.2. Information system manages new information or know-how as DB	2.94
	2.3.3. Employees search and utilize needed information and knowledge in building information system	2.83
	2.3.4. There are lots of useful information in my company's information system	2.78
	2.3.5. There are lots of information to be learned in my company's information system	2.94
	Sub-Sum	2.93
4. Compensation system	2.4.1. When evaluating employees, new knowledge and skills are reflected in business performance.	2.95
	2.4.2. In addition to acquisition of new ideas and knowledge, it is also important to share knowledge with other employees	2.84
	2.4.3. There are competency based compensation system with incentives.	2.74
	Sub-Sum	2.84
5. Organizational structure	2.5.1. Tasks or roles of the team members can be changed depending on the nature of the business from time to time.	3.21
	2.5.2. In addition to a fixed department, project team, learning team, and problem-solving team can be fixed or configured	2.89
	2.5.3. Organizational structure was established so that the individual or team can promote and support learning activities	2.89
	Sub-sum	3.00
Total sum		3.01

cont. Appendix 1: Employees' Level of Awareness of Learning Organization

3. Learning Process

Category	Learning Process	Average
1. Knowledge creation	3.1.1. Employees are acquiring work-related information and knowledge after participating in the meetings, seminars and training out of the company.	2.95
	3.1.2. New knowledge, products, technologies, and services can be created by sharing previous acquired information, technology and know-how.	3.06
	3.1.3. The experience, skills, know-how and knowledge can be shared within the department or between departments	2.95
	Sub-sum	2.98
2. Knowledge storage	3.2.1. Individual employee's know-how, knowledge and information were stored systematically in a company's information systems.	2.61
	3.2.2. Departmental business know-how and business processing history were organized and updated on a regular basis	2.67
	3.2.3. Employees' systematic stored know-how, knowledge, information, and materials shall be updated periodically	2.44
	3.2.4. Even if the person acquiring the first Information and knowledge is leaving the company, the information system can preserve that information or knowledge.	2.63
	Sub-sum	2.59
3. Knowledge sharing	3.3.1. The unique know-how or knowledge of any employee can be shared with others	2.89
	3.3.2. There is good communication with interdepartmental, within-team and among individuals	2.78
	3.3.3. When acquiring new knowledge and know-how to strengthen the company's core competencies, it can be actively communicated and shared within the company.	2.72
	Sub-sum	2.80
4. Knowledge application	3.4.1. Employees acquiring knowledge and know-how can apply them in the practical work	2.94
	3.4.2. Employees can apply many knowledge and know-how from other departments in practical work	2.76
	3.4.3. Employees can apply know-how and knowledge from outside in practical work for the company's competitiveness and value creation	2.78
	Sub-Sum	2.78
Total sum		2.79

cont. Appendix 1: Employees' Level of Awareness of Learning Organization

4. Learning Level

Category	Learning Level	Average
1. Individual learning	4.1.1. Employees know the knowledge and technique from other departments	2.83
	4.1.2. Employees have annual, semi-annual, quarterly or monthly goals for their own learning goals	2.63
	4.1.3. Employees are involved in self-development to become a leading expert in their field	2.94
	4.1.4. Employees are improving staff knowledge or information gained through reading, training programs, seminars, etc., to improve problem-solving skills.	2.50
	Sub-Sum	2.72
2. Team learning	4.2.1. There is more emphasis on the team rather than individuals; puts more emphasis on cooperation among team members.	2.88
	4.2.2. It is important for employees to be helped through the exchanges and cooperation between the departments.	2.69
	4.2.3. There is collective learning through meeting of common topic or interest and research	2.25
	Sub-Sum	2.61
3. Organization learning	4.3.1. Employees are learning together new skills and knowledge which is difficult to learn individually	2.41
	4.3.2. There is a system for creating and sharing company-needed knowledge and information	2.65
	4.3.3. There are various learning activities for solving problems such as the new product development and quality improvement	2.88
	Sub-Sum	2.65
4. Trends learning	4.4.1. The company is taking advantage of making learning opportunities and competitive strategy after analyzing trends and competitors' strategies on a regular basis	2.76
	4.4.2. Employees learn the best practices of other companies.	2.65
	4.4.3. My company is sharing necessary information and knowledge with affiliates or partners	2.53
	Sub-Sum	2.65
5. Customer learning	4.5.1. My company is analyzing the actual requirements of the customer as well as potential requirements periodically	2.76
	4.5.2. Customer suggestions or complaints can be used to improve my business as it is.	2.82
	4.5.3. My company provides a variety of learning opportunities for our customers.	2.50
	Sub-Sum	2.70
6. Environment learning	4.6.1. Employees are collecting important external information and sharing these with the company.	2.69
	4.6.2. Management strategy is developed by analyzing the domestic political, economic, and social trends	2.56
	4.6.3. Management strategy is developed by analyzing the global political, economic, and social trends	2.69
	Sub-Sum	2.65
Total sum		2.66

cont. Appendix 1: Employees' Level of Awareness of Learning Organization

5. Education & Training

Category	Education & training	Average
1. System	5.1.1. Education & training is carried out mainly by the position in my company	2.47
	5.1.2. My company puts the focus on nurturing the company's core competencies	2.67
	5.1.3. My company encourages informal learning activities, such as learning groups and study groups	2.33
	5.1.4. Employees are selecting their own job-related training programs	2.33
	Sub-sum	2.45
2. Curriculum	5.2.1. Many training courses are associated with regular jobs of the company.	2.88
	5.2.2. My company provides a variety of self-learning materials that will continue to provide to develop their own competency	2.65
	5.2.3. The curriculum of the company is being modified quickly to meet technological changes	2.82
	5.2.4. Education & training is carried out mainly by the job level in my company	2.59
	Sub-sum	2.74
3. Methods	5.3.1. Informal training is increasing rather than formal education in the classroom	2.47
	5.3.2. Team learning is increasing	2.82
	5.3.3. S-OJT is carried out in the work area	2.67
	5.3.4. There are education & training systems to provide the necessary training or knowledge in the field	2.59
	5.3.5. Online learning system is built through internet and new information technology	2.41
	Sub-sum	2.59
4. Performance	5.4.1. I think I am getting the satisfactory treatment in my current work	2.74
	5.4.2. I think I am getting a fair promotion according to ability and performance management.	2.83
	5.4.3. I am satisfied with the current job and rewards	3.00
	5.4.4. I am trying to get involved at work with the vision for the future	3.17
	5.4.5. I am satisfied with the work-life balance in this company as a whole	3.06
	5.4.6. I am sympathetic to the company's management philosophy and corporate goals	3.11
	5.4.7. I have self-esteem and pride in the company's good image	3.06
	5.4.8. I am proud that I am a member of the company	3.32
	5.4.9. I don't spare any effort, if it helps in the development of the company's departments.	3.42
	5.4.10. I think that the problems of the company or department are like my own problems	3.37
	5.4.11. I make every effort on my own as well as the company	3.74
	5.4.12. I think this company will forever be my company	3.61
	Sub-sum	3.20
Total sum		2.75



**Asia-Pacific
Economic Cooperation**

**2Touch
New Zealand**

Managing Creative People for Innovation

Written by

Dr Antonio Diaz Andrade

Senior Lecturer
Business Information Systems
Auckland University of Technology

The case was developed with the cooperation of 2Touch solely for educational purposes as a contribution to the project entitled “Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC,” conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

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Introduction

In July 2012, Pablo Garcia, owner of Manzana Ltd and 2Touch companies, mulled over the growth prospects of the small organisations he had set up a few years ago, first in New Zealand, and then in Australia. He had to decide whether or not to enter new markets and what could be the best approach to this expansion. He also had to consider the design and implementation of human resource strategies that could drive the continuous innovation needed to sustain the market expansion he was envisioning.

It had been a long journey for Pablo. Back in 2001, Pablo was convinced that he could make a very meaningful contribution to society by developing technologies that would enhance education outcomes. A lengthy and winding series of events eventually gave shape to three sister organisations. After some time, during which new ideas emerged and alternative courses of action were tested, he managed to form a dynamic and enthusiastic team committed to realise his vision in a particularly competitive environment.

In order to implement his innovative ideas, Pablo had to plan, adapt, re-plan and re-adapt his strategies according to the changing directions of the dynamic environment. In fact, innovation, rather than being a process prescribed by rational planning only, is a complex, chaotic and emergent process that involves a mix of both anticipated and unanticipated actions. These actions are influenced by economic, political, social and cultural factors, where both external (e.g., suppliers, customers, government) and internal (e.g., managers, employees, investors) stakeholders interact. Having consolidated his presence in the New Zealand and Australian markets, Pablo was now considering the possibility of expanding the international operations of his business. He knew that this new endeavour would bring new challenges to their existing human resource practices.

The Beginnings of a Promising Idea

Mañana,¹ the Spanish word for tomorrow, was the name given to regular breakfast meetings held by Pablo and a group of enthusiastic New Zealand entrepreneurs in 1998. The origins of both Manzana and 2Touch, and the solutions they both provided to emphasise learning through full engagement and full involvement, could be traced back to these daybreak gatherings.

After Mana (his business on health management software development for general practice) came to an end, Pablo was keen on developing and embracing new projects. These regular morning meetings proved to be an inspiring forum for discussing innovative ideas. One of the ideas that caught Pablo's attention during those breakfast time gatherings was the use of interactive surfaces as a source of information. It was at that time that he met Phillip Hunter,² a Canadian information systems lecturer at The University of Auckland Business School. Phillip put him in contact with Smart Technologies, a Calgary-based company. This contact laid the foundation of a new and exciting endeavour.

¹ It is pronounced man'ja:nə.

² Not his real name.

In 2001, Pablo realised his vision when he established Manzana Ltd, a small, independent New Zealand owned and operated company which sought out ways to improve class and individual learning outcomes. Manzana represented the platform that would take the business ideas Pablo had been mulling over for some time to the market. Manzana entered into a 50/50 partnership with Avcom, an established audiovisual technologies business, which would distribute Smart Technologies' products in New Zealand. His plan was to use his recently incorporated company as a launch pad to introduce the new category of interactive whiteboards to New Zealand.

In 2003, Pablo, frustrated with the lack of progress of this arrangement, terminated the relationship with Avcom. Manzana then became the exclusive importer and distributor of Smart Technologies in New Zealand, and was highly successful in establishing a network of dealers for the interactive whiteboards. The year 2005 was a particularly strong year for Manzana. Unfortunately, as soon as sales started to flourish, Smart Technologies withdrew from the distribution arrangement and decided not to renew the exclusivity agreement in 2006. With the exclusivity agreement no longer in place, Manzana had to compete with the same Smart Technologies dealers it had set up not long ago in New Zealand. As part of the distribution restructuring, Pablo and Manzana committed to a non-competition agreement with Smart Technologies, wherein they would not introduce competing solutions in the New Zealand market for two years. It was at that time that Pablo suffered a terrible accident, which put him off work for nine months in 2006.

2Touch: A New Dawn

During his recovery, Pablo decided to embark on a new yet related endeavour. Deeply disappointed with his experience with Smart Technologies, he tried to look at its positive side and as an opportunity to explore new horizons. He focused his efforts on conceptualising and developing an entirely new approach to interactive whiteboards. Pablo's vision was to develop technologies that had the potential to enhance the learning experience:

Group-based learning can be experienced far more effectively when enabled by technologies such as large interactive surfaces and wireless personal responders. Both of these technologies are well developed in technical terms. However, the education sector lags far behind in its capacity to adapt teaching and learning processes to take advantage of the technology enabled opportunities. I am far less interested in the technology *per se* than I am in the development of new teaching and learning processes for exploiting these opportunities. This is a brave new world where software and social engineering meet.

As a result, Pablo established 2Touch Technologies Ltd in early 2007. The objective of this small company was to locally produce innovative products oriented to the education sector. While the newly established business was not limited to dealership in education technology produced overseas, 2Touch was forced away from the New Zealand market due to the non-competition agreement it had with Smart Technologies. The new company thus immediately commenced operations in Australia. In hindsight, Pablo believed that "if Smart Technologies had not made the decision of not renewing the exclusivity agreement with Manzana, the opportunity for me to grow the business and, later on, enter the Australian market would have never happened." In fact, 2Touch emerged from this downside.

New Ideas, New Challenges

From the outset, 2Touch aimed at revolutionising the classroom experience by offering an interactive experience on an uncomplicated, durable, porcelain steel interactive whiteboard (Figure 1) that neither required special drivers nor software. It had multi-touch capabilities and allowed the use of standard whiteboard markers. This technological solution was supposed to support the learning process, professional development and training through full engagement, full involvement and continuous formative assessment.

Figure 1: Interactive Whiteboard



Manzana eventually became the dealer of 2Touch solutions for New Zealand. It was a promising yet uncertain endeavour. The small 2Touch start-up had to contend with the colossal Smart Technologies, a worldwide dominant player in the interactive whiteboard category. Back then, Pablo realised that if he wanted his two fledgling sister organisations to grow, he had no choice other than to enter the Australian market. He also knew that if he wanted to succeed in Australia, he needed to have control of the distribution channel. Consequently, he travelled throughout Australia looking for a business partner. Pablo admitted that an outsider might consider this move unwise. In fact, the idea of establishing a partnership in Australia was rejected by one of the largest business incubators in New Zealand:

In other people's minds the decision I made was nonsense. They may have asked, 'Why would a small business, which is at its early stages in its own economy, establish a division in another much larger, more competitive economy? Would it not have been more sensible just to sign a distribution agreement with a local dealer in Australia?' Well, I followed my intuition. I knew that for the sort of product I developed, controlling the distribution channel was critical. I really wanted to be socially engaged in order to know and understand my business partner. It gave me a sense of control of my future. And trust is a big issue for me.

Eventually, Pablo found a like-minded business partner in Australia — someone he felt he could rely on. They both established Interactive Whiteboards Australia Pty Ltd in Melbourne which provided the platform for launching and supporting 2Touch's growth in Australia. Pablo had an 80 percent share in the company while his partner held the remaining 20 percent. Pablo felt that in this way, he retained control over the fledgling organisation's future (in New Zealand, a shareholder with a 25 percent share could still

stop decisions made by larger shareholders). He also believed that by having equity in the enterprise, his partner would have a true sense of ownership and participation in the business.

The production of interactive whiteboards in Australia began in early 2008. By 2009, Manzana's non-competing agreement with Smart Technologies in the New Zealand market had expired. The road was clear now for Manzana to offer the 2Touch solutions in New Zealand. 2Touch utilised the components produced by Next Window, a specialist New Zealand developer of touch solutions based on optical technology. While Next Window focused on developing optical technology to be used in small surfaces (e.g., computer monitors, tablets), Pablo's idea was to use the same technology in bigger surfaces (e.g., large whiteboards). Right from the beginning, Pablo was aware of the asymmetric nature of the relationship between 2Touch and Next Window; the latter was much larger than the former. Moreover, there were intrinsic risks in this partnership. Based on his past experience with Smart Technologies, Pablo knew that the terms and conditions agreed on at a certain stage were not permanent; they could change depending on the interests of the parties, and it was usually the smaller party that lost the most when collaborative agreements were terminated. The possibility of Next Window being acquired by a third company was always present and could not be overlooked. This possibility eventually happened in 2010, when Next Window was sold to the very same Smart Technologies, something that Pablo had anticipated as a probable scenario from the beginning. This development, however, did not stop the commercial relationship between 2Touch and Next Window.

Pablo was aware of the drawbacks of partnerships, such as issues around intellectual property. This was the reason why he did not get involved in previous government initiatives to establish clusters that brought together small organisations with complementary capabilities since "it was too risky." He also had some concerns about distribution partners:

Partners controlling exclusive access to the end user present a risky future to a small intellectual-property centred business without a big marketing budget. This is not much of an issue for big companies because they have the resources and can be more independent. I simply could not afford this.

The Production Process and Managing the Supply Chain

Manzana and 2Touch shared a two-storey facility in Glenfield, a neighbourhood in the North Shore area of metropolitan Auckland. A door connected the 200-square-metre workshop area to 2Touch's research and development (R&D) area located on the ground level. Open-plan administrative offices along with a meeting room, which also served as a display area, were on the upper level. Because of the increasing activities of the company, Pablo was planning to move out to a larger facility in the same area when the lease agreement expired.

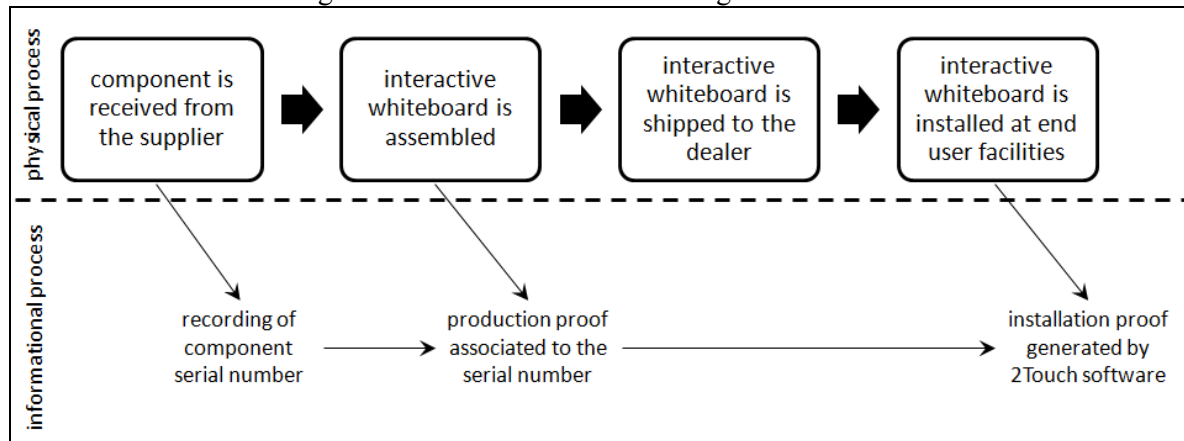
In the early days, the manufacture of interactive whiteboards in New Zealand was done through local contractors, with parts provided by local suppliers. Later, the parts for the interactive whiteboards were provided by suppliers from China and Korea. While the production process in New Zealand was entirely in-house, this was done by local contractors hired by Interactive Whiteboards in Australia. In 2010, 2Touch produced 1,000 units for both the New Zealand and Australian markets. Though considered small

compared to what the competitors produced, this level of output made the production process sustainable for a small organisation like 2Touch.

While the optical components were largely supplied by Next Window, the material for the whiteboards was sourced mainly from China. This made some wastage inevitable since the whiteboards all came in the standard width of 2.4 metres by a height of 1.2 metres. However, since the material was essentially aluminium, it was completely recyclable. Although 2Touch's versatility was significantly reduced because the materials had to be imported in bulk (in containers), this arrangement was the cheapest option. In addition, it also allowed customisation of the final product, which was one of the key features of 2Touch products.

In 2010, Pablo and his team launched 2Touch Tracker, an in-house developed logistics system. It allowed tracking 2Touch products throughout the supply chain from the provider of the optical components to the end user by generating unique identifiers for every finished product. When the components were received at 2Touch warehouse, the serial number given by the manufacturer was recorded. From that point on, this number became the unique identifier of the interactive whiteboard to be assembled either by 2Touch in New Zealand, or by its contractors in Australia. Once the interactive whiteboard had been assembled, it was tested and given a production proof, which was the same as the recorded serial number. Then, the interactive whiteboard was shipped to the 2Touch authorised dealer who was responsible for its installation at the end user facilities. Once the interactive whiteboard had been installed, it was tested again *in situ* and an installation proof was uploaded by the installer into 2Touch Tracker. Upon providing the installation proof, the dealer was able to access the customer key for the 2Touch application software bundled with the interactive whiteboards. Tracker automatically produced the key upon satisfactory completion of requirements by the dealer. A schematic representation of this process is depicted in Figure 2.

Figure 2: Schematic View of the Logistic Process



Implementing Tracker represented a big transformation for the business. It did not only allow 2Touch to know who its customers were but also, and most importantly, to influence the relationship with them. Pablo observed that some dealers did not bother to train the end users, which every so often produced less than satisfactory customer experience in the past. Guaranteeing that the job done by the dealers was of high standard became critical.

As of 2012, there were 18 dealers serving the Australian market. In New Zealand, besides Manzana, there were two dealers, plus a number of authorised installers. By managing the whole process, Pablo was able to control not only the quality of the production process but also the quality of the installation. In this way, he was in a better position to choose his future downstream partners. Moreover, Tracker allowed 2Touch to gain an intimate knowledge of the end users and influence its relationship with them. This valuable experience could be now leveraged with other markets.

The Role of Government

Research and development was a key aspect for an organisation devoted to innovation such as 2Touch. In 2011, the company invested NZ\$350,000 (US\$282,300) on R&D. Pablo admitted that Australia offered more attractive tax incentives than New Zealand for R&D. While small companies in Australia could receive a refundable tax offset of 45 percent of their R&D spending, the situation was not so encouraging in New Zealand where the refundable tax offset was only 15 percent of eligible R&D expenditure. Moreover, at some point the government has signalled its intention to phase out this tax scheme.

In the past, Pablo availed of government support for his business. In 2010, 2Touch received a grant of NZ\$50,000 (US\$40,300) for the development of new concepts toward a multiparty collaboration solution from the Foundation for Research, Science and Technology, now under the Ministry of Business, Innovation and Employment. This assistance was awarded on a competitive basis as funding for research and development activities only.

Unluckily for 2Touch, this type of government support was not available for products oriented to the Australian market. The Close Economic Relations, a free trade agreement that New Zealand and Australia signed in 1983, did not allow any kind of government incentive for goods and services targeting any of the Trans-Tasman markets. Since Australia represented the main market for 2Touch products, Pablo decided to stop looking for government assistance; thus, R&D activities in 2Touch had to be internally funded from then on.

A Diverse and Committed Team

The operations in New Zealand were managed completely independent from the Australian office. In Australia, besides the managing director of Interactive Whiteboards Australia, Pablo's business partner in the trans-Tasman enterprise, there was one person who served as the National Business Development Manager, while another one looked after the daily operations.

In New Zealand, both Manzana and 2Touch had six employees each. Pablo the business owner and Director of both companies and one accountant after the two businesses on a three-day working week basis, completed the 14-member, well-integrated team across the two organisations. Despite their small size, the Manzana and 2Touch teams constituted a truly multicultural group. People came from different corners of the world: Argentina, China, Indonesia, Samoa, Korea and the United States. Even Pablo was an expression of this multiculturalism. His parents took him from his native Spain to the United States when he was five years old. After some years in North

America, the family made the move to New Zealand, where Pablo completed university degrees in both engineering and business. The level of diversity went beyond the team's diverse origins. Their diversity was also reflected in the variety of experiences (from primary teaching to corporate sales in the telecommunications sector) and qualifications (from degrees in English, ancient Egyptian history and primary school education to computer science and even a PhD in mathematics).

The team at Manzana consisted of one Sales and Marketing Coordinator, three sales executives and two tele-salespeople. The Sales and Marketing Coordinator had the responsibility to look after the downstream customer service experience. He, along with the sales executives, was also tasked to develop relationships with prospective customers. For their work, they used a Canadian Customer Relationship Management (CRM) software solution Maximizer. This package was at the core of their activities, since it allowed them to identify market opportunities and, eventually, realise sales. In order to optimise its operations, Manzana had partially integrated Tracker, the in-house logistics software solution, with Maximizer. The tele-sales operation started in March 2012, when a Voice over the Internet Protocol (VoIP) technology was deployed after one year of planning and an investment of approximately NZ\$40,000 (US\$32,300). It integrated both the New Zealand and Australian offices into a single communication network. One of the tele-salespeople was in charge of driving appointments for the dealers in Australia, while the other one performed customer service activities in New Zealand.

In 2Touch, it was the R&D Coordinator who organised the creative activities, which, in the main, involved software development. This person managed the work of one graphic designer, two software developers and one quality assurance officer. In addition, the R&D Coordinator supervised the person in charge of the production and fabrication process. The 2Touch team was composed of highly trained individuals, mainly in computer science. The skills they brought were invaluable for developing the products Pablo envisioned.

Pablo followed a devolved management style. Overall, employees enjoyed a high degree of freedom in terms of decision making within their areas of responsibility such as R&D, operations and others. Pablo kept for himself the strategic decisions which were made after a round of consultation with the staff. It was not uncommon for the group to have lengthy discussions on specific aspects of major relevance before making any decision. The always present jottings on the meeting room's whiteboard gave evidence of this management style. Web conference technology was used to coordinate activities or decide on courses of action with the Australian office. As Pablo declared, "I try to make business run without me."

Approaching the Market

It had been a long journey for Pablo since his early dream of developing technologies for enhancing education outcomes. Although Manzana's growth had been relatively static, 2Touch showed an impressive expansion of 30 percent for both 2010 and 2011. The combined sales for both Manzana and 2Touch as of March 2012 were NZ\$2.1 million (US\$1.7 million) in New Zealand and AU\$1.6 million (US\$1.7 million) in Australia. The combined assets of the sister organisations totalled NZ\$1.162 million (US\$935,500) in March 2011.

Australia was by far the larger market. It represented 80 percent of the interactive whiteboard market, while New Zealand took the remaining 20 percent. These figures should not come as a surprise. Australia's 23 million inhabitants comprised more than five times the just over four million people largely living in the two main islands that made up the New Zealand territory. Thus, Pablo believed that the focus of his organisations had to be on Australia, and not on New Zealand. However, he was proud that Manzana was the only supplier of the technology 2Touch was developing in New Zealand.

Typically, the customers of 2Touch products were educational institutions and business organisations. Although his focus was not on primary schools, Pablo reckoned that they offered the opportunity to prove the relevance of the concept to education. If the interactive whiteboard technology could be demonstrated as successful in the primary schools, he could subsequently concentrate the R&D efforts on the needs of secondary and tertiary education providers.

In the beginning, Pablo faced a number of challenges to introduce to the market the products coming from his recently established small business. He carefully chose the right location for establishing a safe and secure position, which could later be used for further advancement. He found out that Gisborne, a coastal town with a population of 35,000 in north-eastern New Zealand was the right place to test 2Touch products. The choice of the location was meant to avoid embarrassment if things did not work out as Pablo and his team wished.

Eventually, in March 2007, the first interactive whiteboard prototypes produced by 2Touch were installed in three local schools in Gisborne: Mahanaiterangi School, Hamiora Primary School and Taawhiri-Maathea School.³ During his first meeting with the teachers in the aforementioned schools, Pablo could present, at best, a concept only. The technology he was promoting had not been developed or tested before, even at the prototype level. However, Pablo was passionate about the opportunity and believed that the educators would place a very high value on the promise of finger touch control over a computer, from a standard whiteboard surface, using a plug-and-play driver-less non-proprietary approach to connectivity. In order to allay fears that the schools might compromise their budgets, Pablo offered an unconditional, no-questions-asked, money-back guarantee if they were not happy with the interactive whiteboard technology he would install. He did a good job in convincing the educators about the benefits of the new technology. It was a quite aggressive move which paid off later.

The test worked out well and proved to be a right start for future expansion. The first prototype whiteboards installed in the Gisborne schools remained in operation until 2011, when they were replaced by new ones. As of 2012, in addition to a number of schools, Manzana customers in New Zealand included Massey University, The University of Auckland (through its clinical support unit at Auckland Hospital), the Liggins Institute (a world-class research centre for perinatology), UNITEC (Auckland's largest polytechnic) and Middlemore Hospital. In Australia, 2Touch products could be found in a number of educational and business organisations.

In January 2012, Manzana and 2Touch participated for the first time in the British Educational Training and Technology show, or just The BETT as it was known in the education and information technology circles. The BETT which usually attracted around 30,000 visitors from over 100 economies was an excellent opportunity to showcase the

³ The names given here are not the real names of the schools.

educational technology produced in New Zealand. However, participating in this type of events could be quite expensive for a small business, and an activity not eligible for government assistance. Pablo had to allocate a budget of around NZ\$50,000 (US\$40,300) for the January exhibition. Although no sales were completed at the event, some contacts with prospective clients were established. Moreover, the learning experience turned out to be invaluable. Pablo was looking forward to participating at The BETT show at least every other year. It would give Manzana and 2Touch international exposure, beyond the Australasian market.

Differentiating the Products

Innovation, defined as “the creation of either a new process or a new product or service that has an impact on the way an organisation operates,” was what Pablo and his team did on a daily basis at 2Touch. Pablo was aware that 2Touch was not a big global player in the interactive whiteboard technology market. Smart Technologies and Promethean, with around 60 percent and 20 percent of the world’s market, respectively, were the largest providers of interactive whiteboards by far. Although Hitachi, Polyvision, GTCO Interwrite and Mimio were not as big in this category as Smart Technologies and Promethean were, they made 2Touch look insignificant by comparison. The reality of this competitive market made Pablo adopt a rather unconventional approach. He realised that his products must exhibit distinctive attributes, and in fact be defined by their differences. “I simply did not have the scale to compete against them. I could not play the same game the gorillas play,” Pablo admitted.

It did not take long for Pablo to realise that Smart Technologies products he initially distributed through Manzana imposed certain technical restrictions – and practical ones too. There were three problematic aspects: the size of the interactive whiteboards was fixed and could not be customised to specific needs; the whiteboards required drivers to operate, which made them an inflexible and somewhat clumsy technology; and there was no software available to make the classroom truly interactive. Pablo was determined to look for innovative solutions to overcome these limitations. The R&D team at 2Touch delivered; they developed the right solutions for the market Pablo was targeting.

Pablo wanted to highlight the differences between 2Touch products and the ones offered by the big players. While the latter were for the most part focused on the primary school market, the former concentrated its efforts on developing solutions for the secondary and tertiary education markets. Secondary and tertiary education markets were different from primary education particularly in the mobility demanded of both teachers and students. In particular, there was no one-to-one relationship between technology implemented in a classroom and an educator primarily responsible for that solution. This distinctive emphasis had implications on the technologies that needed to be developed. As a consequence, while most of 2Touch competitors’ solutions required a special pen to work on their interactive whiteboards, Pablo and his team focused on developing touch technology, something that could recognise the finger movements as commands. This creative approach freed the user from having to use a special writing implement and all its associated shortcomings such as making unavoidable the acquisition of at least as many special pens as whiteboards or getting the special pens lost or forgotten (a not uncommon occurrence).

However, what made 2Touch solutions really unique were two other characteristics. The first one was that it offered ‘plug-and-play’ technology which needed neither device

configurations nor user intervention to make the interactive whiteboard work. This technology had not been developed by any of the competitors. The second one was the development of inter-operable applications that could work with content produced using competitors' interactive whiteboards. In fact, 2Touch applications could open any file, including those developed by its competitors. While his competitors had developed proprietary solutions, Pablo was pursuing solutions "that would disqualify what they did." As a result of this distinctive approach, 2Touch product suite consisted of customised-size surfaces, hardware-independent and non-operating-system specific as well as interactive solutions for classrooms and boardrooms.

While most of 2Touch competitors offered the standard 4x3 aspect interactive whiteboards, Pablo appreciated that these conventional dimensions sometimes imposed a major constraint on customers from whiteboards that could not fit into already existing rooms to distorted images such as circles that did not appear as circles on the whiteboards. It was a no-brainer that the standard solutions offered by the competitors simply failed to meet the user needs. Pablo did not want to deprive customers of what they really wanted and needed – just a whiteboard of the size they needed that worked both as a normal whiteboard and an interactive whiteboard. 2Touch came up with a solution that made the size of the whiteboard independent of the optical system. In this way, it was possible to use a section of the whiteboard as a normal whiteboard with standard markers, while the remaining area could be activated using finger interaction. Pablo relished the user reaction who "just loved the idea."

To supplement the interactive whiteboard features, 2Touch later developed Workbook, a software package that allowed users to create a space where they could bring together all their resources, from basic text and shape creation to annotation, text, video, flash, sound files, multi-linking brain-storming diagrams, page management, images and an in-built web browser. Workbook could be used on any interactive whiteboard, touch screen or touch device and stream multiple live feeds (e.g., webcams, digital cameras, document cameras) directly onto the Workbook page displayed on the whiteboard. Something that distinguished Workbook from its competitors was its multiplatform features; the competitors' software could only be used in their own hardware. Pablo was clear on the approach he favoured in terms of content ownership: "I was focused on interoperability. I believe that content belongs to the person who created it, not to the platform on which it was created. Our products allow the user to access any content regardless of what sort of interactive surface or mouse was used to create it."

2Touch's latest software development was Xorro-Q. It was a solution geared towards optimal interaction from the audience that leveraged today's widely available distributed handheld technologies. Xorro-Q enabled the audience to interact with the presenter's computer – and with any interactive whiteboard, for that matter – using any mobile devices (e.g., laptops, mobile phones or tablets). In the classroom, for instance, teachers could send questions to student devices and students could reply in text. The results were then displayed on the teacher's computer for all to share as is shown in Figure 3. The recently tested Xorro web service made it possible to access material available on the cloud using whatever device the customer used.

Figure 3: Workbook and Xorro-Q Technologies in Practice



Although 2Touch did have intellectual property rights over its products, it did not have a production scale large enough to fund investments in patents. Pablo deemed the costs involved in the procedures of both obtaining and protecting patents prohibitive for his small organisations. Alternatively, Pablo decided to take a more proactive approach. The philosophy guiding innovation in his companies was to be “fast to market needs and customer relationship.”

The Innovation Process

Innovation as a process entailing three stages became a habit at 2Touch. The first stage of innovation is initiation. It involves a series of preliminary events that set the stage for the innovation to occur. When planning and deciding on his next steps, Pablo always preferred to take an unconventional approach. He scanned the competitive environment in order not to do what their competitors were doing:

Our competitors' strengths tell us that that is not the route for us to take. For instance, it would require us to be ten times bigger to compete with Smart Technologies. We just cannot afford paying hefty fees to intellectual property experts to protect our products. Our focus is more on innovation in processes rather than in products. Our technology was developed not because someone saw a gap in the interactive whiteboard market but because we simply listened to what educators had to say.

The second stage of innovation is development. This is the stage of discovery, where multiple ideas pointing to different directions are considered in an explorative learning journey. Pablo knew that research and development activities were at the core of the two innovative organisations he managed. In the process of making their innovative products marketable, Manzana and 2Touch followed a strategy that was more ‘push’ than ‘pull.’ They were continuously developing and testing ideas in an iterative fashion. An innovative product was developed first and then it was pushed to the market. However, this was not a trouble-free enterprise; stories of technical failures have been interspersed with customers not buying-into the proposed ideas. One approach taken by Pablo and his team to reduce the occasional reluctance to accept innovative products

and to increase the visibility of new unrecognised opportunities was involving their customers from the early phases of product conceptualisation.

The outcome was positive and created a synergetic relationship between Manzana and 2Touch and their early adopter customers. In some cases, prospective customers explained their specific requirements even before the product was developed. In some other instances, customers provided valuable feedback that helped refine the product further. These examples represent the third stage of innovation which is implementation. In the implementation stage, the integration between the new and the old occurs while judging the goodness of the innovation. The latest available customer satisfaction survey conducted on a quarterly basis in which every customer participated, reassured Pablo that he was on the right track. It confirmed that Manzana had shown continuous improvement in each of the four key areas of interest: people, solutions, training and solution delivery.

Human Resource Practices

In the three stages of innovation, developing and leveraging the full human potential became essential. Recruiting individuals for the R&D initiatives at 2Touch, however, was not easy. Sometimes it was hard to find people with the right skills. In order to overcome this difficulty, Pablo was actively engaged with two potential providers of gifted employees. One was Student Job Search, a not for profit and 100 percent student owned organisation that offered free employment services in New Zealand. The second was his personal relationship with lecturers from the Department of Computer Science at The University of Auckland. These strategies proved to be useful. Two of their employees worked on a part time basis at 2Touch until they graduated in late 2011, when they became full-time workers.

The challenges recruitment posed, however, were not restricted to the shortage of talented people only. It could be the opposite too. In one case, 2Touch could not immediately benefit from the skills of a highly qualified staff member who was recruited overseas. Pablo thought that "his recruitment was a little bit early for the development stage we were at. Unquestionably, there was an adjustment period between the skills this person brought to the organisation and what 2Touch needed at that time." In any case, Pablo could count on the advice offered by a part-time technical consultant for matters involving recruitment.

Invariably, shortly after joining Manzana or 2Touch, every employee had to participate in a brief and somewhat informal induction programme. Although there was no explicit human resource strategy in place, the conventional approach at both organisations was to keep employees intrinsically motivated. According to Pablo, his vision was "to have people doing something that was meaningful and had a purpose." Certainly, employees developed a passion for what they did. Pablo exuded self-confidence when he said that "people represented the biggest investment by large at both Manzana and 2Touch."

Extrinsic incentives supplemented this intrinsic motivation. In addition to the conventional annual salary reviews and quarterly performance reviews, Pablo implemented a goal metrics system. This system was designed to encourage employees to bring about initiatives that could make a significant contribution to the business. It operationalised the idea of promoting inventiveness beyond the routine activities.

Under the goal metrics system, a plan for deploying the proposed initiative was jointly outlined between Pablo and the employee who advanced the idea. Although these initiatives had to be approved by Pablo, he had never rejected one. Once the idea was approved, periodical reviews were scheduled, typically every three months – although they could be more or less frequent depending on the nature of the project. A comparison between the actual achievement and the planned progress was made during these periodical reviews across different weighted dimensions such as new product category, process optimisation, savings enhancement and sales increase. If the proposed initiative had been successfully executed, the initiator would get an incentive of between 10 percent and 30 percent of their salary. Moreover, if the initiative had been successfully implemented ahead of time or at a lesser cost than what was originally budgeted, the initiator would get extra incentives of as much as 200 percent of the initially agreed bonus. Pablo believed that in order to be effective, the incentive had to be substantial; anything below 10 percent was not attractive enough.

The goal metrics proved to be a system that has engendered interesting ideas. For instance, the Sales and Marketing Coordinator proposed establishing a tele-sales campaign in Queensland to boost the sales in this Australian state. Similarly, the R&D Coordinator put forward a project that would allow the visualisation of the work in progress on a wall.

The goal metrics system was open to every employee at Manzana but only for the R&D Coordinator at 2Touch. There was a valid reason for this apparent inequity. Pablo did offer this stimulus to the developers in the past. However, it did not work because it was simply not consistent with the work they did. “Should I pay incentives for writing lines of code faster? What about quality? It was too hard,” Pablo concluded. Moreover, the nature of the work executed by the developers was intrinsically collective, which made it extremely difficult, if not impossible, to allocate individualised incentives.

The working arrangements, especially at 2Touch, were quite flexible. After a few months in the position, employees did not need to come to the workplace on a daily basis. The only exceptions were the once-a-week lunch days – Wednesdays for the Manzana team and Thursdays for the 2Touch team – when plans and project execution progress were discussed in groups.

Looking into the Future

Pablo was aware that competing in overseas markets for the interactive whiteboards was a challenge that could not be underestimated. However, he had plenty of expectations on Xorro-Q. Pablo anticipated exciting times for this software which could make the classroom truly interactive in the coming years. Based on his analysis, the maturity of the British market made it an especially attractive proposition. In addition, he could see the potential in the Brazilian, Indian, Malaysian and Turkish markets, where there had been remarkable growth in government expenditure on educational technology during the last few years. Korea was another promising market which would require local representatives and support. A transition to an educational delivery heavily supported by information technology was taking place in this rising Asian economy. Similarly, Pablo saw the value of the Mexican market, where considerable investments on information technology in education made of the only Latin American economy in North America a case in point. However, Pablo recognised that the timing was not the

best: “We arrived late there, at least for the stage of development that the Mexican market was in.”

There were some other interesting yet uncertain markets, in Pablo’s opinion. Chile, where Pablo worked for a few years in the late 1980s and early 1990s, was one of them. Chile was the natural option if he were to enter the South American market, just like many other New Zealand organisations which have established their beachhead in Chile for their subsequent expansion into the Latin American market. France, Germany, the Netherlands and the United States were options that also attracted Pablo’s attention not only because of the size of their economies but also for their cultural proximity to the business environment where Manzana and 2Touch operated. Conversely, while China offered interesting prospects because of the sheer size of its economy, Pablo recognised the huge challenge of the language barrier and cultural distance for the kind of products 2Touch offered. Interestingly, Japan, although technologically advanced and a main player in the technology business, was a market that was somewhat self-reliant and did not import technology from overseas.



**Asia-Pacific
Economic Cooperation**

**Pasadena International Group
Chinese Taipei**

**Strategic Human Resource
Management**

Written by

Jin Feng Uen

Professor

Institute of Human Resource Management
National Sun Yat-sen University, Kaohsiung

Pei Fan Chen

PhD Candidate

Institute of Human Resource Management
National Sun Yat-sen University, Kaohsiung

The case was developed with the cooperation of Pasadena International Group solely for educational purposes as a contribution to the project entitled “Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC,” conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

Small Medium Enterprises (SMEs) were the foundation of Chinese Taipei's economic development. The food service industry was one of the rapidly growing industries with sales reaching US\$12.4 billion in 2011. This case study introduces one of the most successful SMEs in the food service industry and in the economy as a whole — the Pasadena International Group. Pasadena's experience, particularly its strategic human resource (HR) practices, illustrates how SMEs in the food service industry keep their competitive advantage to grow.

SMEs in Chinese Taipei

Chinese Taipei has developed as a highly mature economy in the past two decades. Many of the traditional manufacturing and high-technology original equipment manufacturer (OEM) companies moved to China and other developing economies due to cost reduction considerations. During the transformation of the economy, the service industries grew very fast, accounting for more than 72% of GDP in 2011.

The SMEs were also important to the economy. According to government statistics shown in Table 1, more than 98% of companies were SMEs, contributing about 36% of sales, 35% of imports and 16% of exports in Chinese Taipei. Some 87% of workers and 82% of employees worked in SMEs. From these statistics, we can see that the SMEs might not have contributed as much to sales, import and export as large companies did, but these SMEs, especially those in the service industry were very important to Chinese Taipei's employment growth.

Likewise, as shown in Table 1, SMEs did not contribute very much to foreign trading in the past (only 30% to import and 16% to export). We can expect that the service industry SMEs might generate even much less than SMEs did in the manufacturing industry. This means that the SMEs seemed to contribute little to multilateral trading because of their nature; most SMEs had limited resources (e.g., finance, human capital, organizational capabilities) and had some management issues.

Table 1: Selected Government Statistics Related to Small and Medium Enterprises (Year 2010)

Company size Indicators	Small and medium enterprises	Large enterprises
Number	1,247,998 (98%)	29,587 (2%)
Sales*	10,709,005 (30%)	25,530,632 (70%)
Import*	9,088,972 (35%)	17,127,166 (65%)
Export*	1,620,033 (16%)	8,403,466 (84%)
Workers**	8,191 (87%)	1,253 (13%)
Employees**	5,805 (82%)	1,250 (18%)

*Unit: Million NTD

**Unit: Thousand

Source: SME White Paper 2010, Published by Small and Medium Enterprise Administration, Ministry of Economic Affairs, Chinese Taipei.

In general, because of the nature of their business, SMEs in the service industry had limited opportunities to promote trade liberalization. From a resource perspective, these SMEs had difficulty operating overseas and as such lagged far behind those in the manufacturing industry in the globalization process. This was because service companies had to be located near their customers and deliver their value face to face. However, instead of operating overseas, the service SMEs played critical roles in attracting foreign visitors and promoting the international hospitality and tourism industries. Successful service SMEs usually enriched the local culture and enhanced the attractiveness of the economy.

Industry Background

Having been a member of the Asia-Pacific Economic Cooperation (APEC) since 1991 and of the World Trade Organization (WTO) since 2002, Chinese Taipei had been actively participating in international organizations and economic activities. According to *Doing Business 2012* reports, Chinese Taipei was ranked 25th among the 183 economies covered in the survey in five priority areas: starting a business, getting credit, enforcing contracts, trading across and dealing with construction permits. It moved up to 16th place from 24th place in 2011 in terms of ease in starting a business.¹

In the past years, the government improved the ability and competitive advantage of SMEs at the local and international levels. For example, to boost the food service industry, the government launched a four-year project from 2010 to 2013 with a budget of US\$36.6 million to promote local gourmet to the world. The project was expected to generate 50 international gourmet brands, 3,500 domestic and international food chain stores expansion, 10,000 job opportunities and 1,000 international talents. It was also

¹*Doing Business 2012*, <http://www.doingbusiness.org>.

expected to increase tourism and foreign investments in Chinese Taipei.

According to statistics from the Ministry of Finance, the food service industry, which was one of the top ten industries promoted by the government, registered consecutive and positive growth, with more than 95,000 locations, a workforce of more than 600,000 employees and annual sales of US\$12.4 billion in 2011.

The Pasadena International Group was one good example of an SME in the food service industry in Chinese Taipei. Its experience and growth as a key industry player and its innovative Human Resource Management (HRM) system may contribute to a better understanding of HRM's role among SMEs in the APEC economies.

Pasadena International Group

Overview

Kaohsiung, the second largest city in Chinese Taipei, with a population of around 2.8 million in 2011, was a harbor city for manufacturing, refining, shipbuilding, and various industries. Sadly, it was also perceived as a city with a low-end culinary culture. Fortunately, Mr Shiu Jeng-Ji, a manufacturing entrepreneur with a simple philosophy "Share" on his mind, has changed the restaurant and bakery landscape in the city of Kaohsiung through the Pasadena International Group.

Mr Shiu founded PushPower in the late 80s. PushPower was an original equipment manufacturer of consumer electronic products for some companies like IBM, Sony and Nokia. It operated some factories in China and Malaysia and generated more than US\$60 million in sales annually.

In 2000, Mr Shiu established the Pasadena International Group which included five of Kaohsiung's most notable restaurants and six bakeries: Pasadena French Restaurant, opened in 2000 serving French cuisine and catering; Pasadena Italian House was launched in 2007 serving lovingly prepared Italian cooking; Pasadena Bouchon opened in 2011 offering French homemade style dishes and wine; Pasadena Japanese cuisine opened in the same year offering refined Japanese cuisine; and Pasadena Warehouse 1928 opened in 2011 serving American style grill and pizza. Six Pasadena bakeries opened separately from 2002 to 2012 offering daily handmade breads and pastries, prepared food, and household and convenience items. Each restaurant and bakery had distinctive features and distinguished itself for its sophisticated hospitality and consistent excellence.

Engaging in both the manufacturing and service industry, Mr Shiu emphasized that "Pasadena wants to create a differential advantage more than a cost advantage." This meant that instead of producing a product or service at a lower cost than its competitors,

Pasadena created its advantage by offering added value to customers.

Pasadena Bakery has made an unprecedented record in Chinese Taipei bakery history. Wu Pao-chun, Pasadena's top baker, was declared world champion baker in 2010 and a silver medalist in the 2008 Bakery World Cup (the *Coupe du Monde de la Boulangerie*). He was also the winner of the Louis Lesaffre Cup in 2007. Likewise, Pasadena's Walnut and Dried Longan Bread, known as the Asian champion bread, twice earned the city government's top 10 local specialty rating and won the "good design product" award in 2008.

In addition, Pasadena invited the master chef from a Michelin star² restaurant in Paris, Christian Le Squer, to Kaohsiung where he demonstrated his extraordinary culinary talent to Pasadena customers. It was the first time that a Michelin 3-star chef served as a guest chef at a restaurant in southern Chinese Taipei.

Enterprise Culture: Truth, Goodness and Beauty

Every employee of Pasadena International Group was expected to follow the three principles and company core values, "Truth, Beauty, and Goodness." Adherence to these principles ensured that customers would receive the best quality food and drinks. The concept of "Truth" meant that the staff should never cheat on customers and should apply the highest standards of excellence to the purchasing, processing and fresh delivery of food and drinks to customers. "Goodness" referred to the need to incorporate sustainability into products, packaging and operations, while "Beauty" meant being professional all the time.

Being a Responsible Company

Being a leading food service company in Kaohsiung, Pasadena was always thinking ahead especially when it came to sustainability and social responsibility. Whether it advocated ecosystem friendly practices such as reducing carbon food print, or did something well to be good corporate citizens, Pasadena continually looked for ways to improve the quality of life of the people it served.

Sustainability

According to the Food and Agriculture Organization (FAO), "sustainable diets" mean those diets with low environmental impact and which contribute to food and nutrition security and to healthy life of present and future generations. Sustainable diets are protective and respectful of biodiversity and ecosystems, culturally acceptable,

²The Michelin star is a hallmark of fine dining quality. Michelin awards 0-3 stars on the basis of [anonymous inspections by reviewers](#). The reviewers are supposed to concentrate on the quality, mastery of technique, personality and consistency of the food, not on interior décor, table setting, or service quality. (About.com culinary travel, .about.com/od/planningculinarytravel/qt/Michelin_Stars_Defined.htm)

accessible, economically fair and affordable; and nutritionally adequate, safe and healthy, while optimizing natural and human resources.

In a fine dining restaurant offering high-end European cuisine like Pasadena, most food materials were sourced abroad. How to reduce carbon footprint of food ingredients while retaining the cuisine's exotic qualities was a serious concern. Pasadena soon launched a new concept of using local, eco-friendly food materials to make their cuisine creative and exotic, thus gaining high praise from the Michelin Star top chef of Paris, Christian Le Squer.

Go Green: Reduce, Reuse, and Recycle

To meet the serious issue of environment protection, implementing sustainable practices had become an important concern for many companies. Pasadena introduced the "Go green: reduce, reuse, recycle" concept in food packaging to their customers in 2007. By offering well designed reuse handbag made of recycled paper or cotton and providing some special discounts to customers for reusing, Pasadena not only reduced its own cost of packaging, but successfully attracted and engaged the interest of customers and promoted what was good for the environment.

Community Involvement

Pasadena had consistently been working to be a good corporate citizen in its local communities since its establishment. Following the idea of "improving the quality of life for all," Pasadena had various community involvements, such as donating a percentage of sales of famous artist works to charities; sponsoring the venue as well as drinks and dessert for the monthly activities of non-profit organizations; providing fresh bread to poor aboriginal children in the countryside; and opening its gallery to the public for free to accommodate monthly art exhibits of a diverse range of collections of local, national and international artists.

Customer Service and Quality Emphasis

To provide the foundation for building outstanding customer service in different settings, Pasadena set forth eight basic principles that frontline employees must adopt in every interaction to ensure guest satisfaction and loyalty:

1. Smile and keep eye contact with the guest.
2. Remember the guest's name.
3. Make guests happy, above and beyond their expectations.
4. Anticipate guests' unexpressed needs and concerns.
5. Never easily say "no" to guests.
6. Fulfill guest's needs.
7. Offer comfortable surroundings.

8. Offer an additional retribution for guests' bad experience when complaints occur.

In Pasadena, there were many heart touching stories of service that went beyond so-called SOP (Standard Operating Procedures). For instance, an old gentleman, Mr Wong, always dined alone at the Pasadena French Restaurant. Upon finishing his meal, a server always accompanied Mr Wong across the road to his home. Because of such an intimate relationship (like dear friends) between guest and employees, many customers kept coming back to Pasadena not just for dining but for seeing old friends.

Due to its insistence on selecting only qualified suppliers with the highest standard, each of the food ingredients used in Pasadena's cuisine had safety certification. Pasadena further won the customers' trust because it was one of the few food and beverage companies that had not been involved in the dairy scandal (Melamine case³) in 2008 and the toxic industrial plasticizer (DEHP) case⁴ in 2011.

HR Strategies of Pasadena

Trust and Respect the Professionals

Mr Shiu emphasized that his philosophy on talents is "try to find the right person to do the right thing, and then they will find the way out themselves."

In Pasadena, all the strategic decisions were made by the top management team that included the following: the Director of the branding department who was responsible for all the branding functions for the Pasadena International Group (the group created and delivered products, packaging and concepts to build winning brand equities); the Director of the culinary department who was in charge of administrative duties related to kitchen operations; and the Director of business development department who was responsible for the generation and development of business opportunities. Strategic issues which affected the growth and development of multi-unit restaurant companies like Pasadena International Group, had to be totally discussed by these top managers to reach a consensus.

Strategic Recruiting: Internship Programs

As Jim Collins describes in his book, "*From Good to Great*," people are not the most

³The melamine-tainted milk scandal in China posed one of the most serious global food safety crises in recent years. Chinese official statistics shows that, 53,000 to 294,000 of children were suffering kidney ailments due to melamine-contaminated milk formula. Not only Chinese made food products but some leading global brands products were involved because of the global food supply chain.

⁴DEHP is a toxic plasticizer primarily for industrial uses, but had been illegally provided to food manufacturers as a cheap substitute for palm oil based emulsifiers to make food and beverage look clouded and pleasing to the eye.

important asset, while the “right” people are.⁵ To recruit the right people is always a big challenge for any company. Pasadena was growing fast, and looking for the right talent was really a big challenge. To find the right talent, Pasadena recruited internally and mostly, externally.

To attract early career talents, Pasadena launched an internship program to recruit undergraduate students of universities and vocational schools who had background in food and beverage management or hospitality. It offered an opportunity to experience working for the company through paid internships for one or two semesters. This was highly attractive to students who were willing to engage in the foodservice industry as a career after their graduation.

In contrast to fastfood service, both culinary arts and culinary services in fine dining restaurant needed more detailed and sophisticated skills and processes. An intern at the frontline needed at least four weeks on-the-job training before getting into contact with customers, while an intern deployed in the kitchen needed much more time to train and be familiar with the basic skills needed for a specific cuisine type such as French or Japanese cuisine.

Usually, the direct trainer (often the senior member of that department or team) not only assisted the interns in familiarizing themselves with the job and Pasadena’s culture but also help them carry out their work when they needed more time to learn and practice. Sometimes, attending to interns who kept coming and going was a heavy load for a senior member.

Unlike most employers in the food and beverage industry who filled in labor shortages cheaply by hiring interns as part time workers, Pasadena offered interns the same wage and benefits package enjoyed by employees. This practice definitely increased Pasadena’s operating cost but it also developed the interns’ attachment to this renowned company from the very first day they walked in. This, by itself, had been an effective way to retain potential talents.

As a whole, Pasadena’s entry into campus recruiting produced some benefits. The internship program built up Pasadena’s reputation as a sincere organization, both within the academe and the restaurant industry, so interns would like to work there after graduation. It also saved a big amount of recruitment and training cost and reduced turnover rate when qualified interns became formal employees.

Orientation, Training and Development

Pasadena invested significant time and resources in orientation, training, and development. The company believed that the comprehensive trainings were necessary

⁵ James C. Collins, *Good to Great: Why Some Companies Make the Leap... and Others Don't* (Harper Business, 2001).

to embed its values among employees and educate them on Pasadena's service or culinary standards.

Orientation

Pasadena regarded employees as the most important asset of the company. It did not only recruit the right employees with good personalities such as those who were passionate and adaptable, but also provided them the necessary training to attain excellence in their performance.

The company invested much time and resources in orientation and training. All newcomers had to attend a two-day orientation conducted by management. On the first day, the newcomers had to familiarize themselves with the company's history, philosophy, vision, values, standard and most importantly, their employee benefits and career development path.

On the second day of orientation, all head chefs of restaurants and bakeries in the Pasadena group were introduced to the newcomers. Each chef made a brief introduction of the culture and the particular cuisine or bakery department he or she represented, after which the newcomers were treated to delicious samples of the most popular products of Pasadena, such as dessert, chocolate and French bread.

The orientation facilitated the newcomers' integration into the company's family-like environment and an appreciation of its products. It was the first and important moment that assimilated newcomers into the team, making them friends and not just coworkers, even with those coming from other departments. It was this relationship which helped newcomers to adapt to the new workplace smoothly and quickly.

Ongoing Training

Employees received subject-based training monthly or quarterly and all employees were expected to complete certain training requirements. The company conducted workshops and classes on Fundamental Food Composition and Properties, Food Products and Preparation, Specialty Food and Beverage Operations, Introduction to Wines, Art Appreciation and others. Some of the courses were department specific. For instance, employees who came into regular contact with guests had to take a soft skills class which focused on developing service skills and problem-solving capabilities. Employees who dealt with food and beverages had to attend food handling classes to be knowledgeable about safe food storage, regulations and health requirements for food handling and preparation. For management level employees, the company also offered classes on such topics as Leadership Development, Power and Influence, Motivation, and Coaching and Counseling.

Weekly scheduled meeting was a time for sharing knowledge and techniques on various

topics as well as getting other members' feedback on matters contributing to service and culinary excellence. All supervisors at various levels were required to present their ideas or suggestions through case studies or discussions.

From Culinary Arts to Culinary Artist Team

Just like extraordinary service, culinary excellence was a critical element in order that a restaurant or bakery could retain its customers. In an environment where competition was growing dramatically fast, building a solid and competitive culinary team known for its high caliber performance in composition, creativity, correct preparations, service practicality, taste, proper utilization of ingredients, presentation and consistency, was a tough challenge for any restaurateur. Performance excellence needed team members to collaborate closely and seamlessly, and openly share all skills and knowledge with each member of the culinary team.

To meet the challenge of building an effective and efficient culinary team and to meet the potential manpower needs for operating a new restaurant, Pasadena launched a series of training activities for the chefs. To stimulate the chef's creativity, aside from the basic chef related skills training conducted by the executive chef, each chef had to clearly demonstrate every two weeks, one of his or her own designed dish from concept to execution, and get feedback from other members. This presentation was available for all members of the department or section such as the Branding and Marketing sections. As previously mentioned, Pasadena was the only restaurant in southern Chinese Taipei that twice invited a Michelin star chef from Paris to demonstrate his own brand of culinary arts. Hence, all the chefs had the great opportunity to work with one of the top chefs of the world and learn much from him.

The chefs were encouraged to attend well-known chef competitions at the national and international levels. Generous rewards were given to winners based on the region where the contest was held and the contest level category. Pasadena produced many first place and second place winners whose winning entries were featured in a collection of award-winning recipes. This was a big selling point for Pasadena and enhanced the company's reputation and sales.

To develop the team's spirit of cooperation and collaboration, the chefs learned communication and interpersonal skills. Each chef could recommend the dining menu reflecting his or her culinary background and work with the team in producing the meal. Chefs who came up with successful suggestions were rewarded with cash bonuses and other prizes such as recognition given to the members by the top management team.

Pasadena also put in considerable investment to send talented chefs to study abroad (such as in France and Italy) and acquire more advanced skills and new culinary arts concepts. For example, Pasadena sent the head chef in charge of Pasadena French Bouchon to the famous French culinary school, Paul Bocuse, for four months. The

company shouldered all tuition and necessary fees for the chef's training.

Talent Management

Survey results suggest that opportunities for career growth, learning, and development and performing exciting and challenging work are some of the most important factors in determining employees' engagement and commitment to their current employer.⁶ Due to their human resource management activities such as training and development, giving of rewards for contributions made by employees and creating an environment to encourage creativity, Pasadena enjoyed a competitive advantage in attracting, retaining, developing and motivating highly skilled employees and managers and generating increased sales almost every year. It was no surprise that the company's average employee turnover rate was lower than that of its competitor.

Other Winning Strategies

Widely reported in media and highly evaluated by customers for the past 12 years, Pasadena was the most recognized and leading brand name in the fine dining restaurant and bakery industry in Kaohsiung. Aside from the critical elements discussed previously, there were other factors that contributed to Pasadena's stature as the top brand and a company that consistently outperformed its competitors.

Employer Branding

Champion Bread, various exotic restaurants, community involvement, environment protection, trustworthy food, all of these positive images of corporate product, corporate service, corporate citizenship, and corporate credibility made Pasadena a more attractive workplace to current and future talents who would have the requisite passion and enthusiasm for the food service industry, thereby making possible more successful recruitment and retention of top talents.

It Is Beyond Salary

Pasadena provided all employees an average salary and a package of employee benefits based on the Labor Law, including labor insurance and employment insurance, national health insurance, and retirement program. It also provided corporate discount programs and an employee dining program. Given this, what Pasadena offered its employees was not superior to what its competitors offered. Thus, Pasadena's competitive advantage in recruitment or retention was not due to the benefits it provided. Instead, by offering a series of training activities to improve employees' abilities, expand their skills and reward their contributions in an atmosphere that encouraged growth,

⁶ Peter Cappelli, "Talent management for the Twenty-First Century," *Harvard Business Review*, 2008:74-81.

Pasadena met the employees' need for self-esteem and self-actualization.

When interviewed by a famous magazine, Mr Shiu said he wanted always to “lead by sensibility while managing by sense.” Pasadena treated its employees like family members, offering them a friendly and hopeful workplace where employees would be able to develop close attachment to their teams and groups.

What's Next?

“It's not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change.”

Charles Darwin

There are many SMEs like Pasadena that have successfully overcome the initial survival challenge. They provide service and product which meet closely the customer needs. They not only have a good reputation but have also gained customer loyalty. However, how do they keep their ability to maintain and gain market share in their industries? Are they able to fully exploit their growth opportunities under a dramatically changing environment?

For most of the SMEs, there are more critical issues like leadership and development strategy to be dealt with after experiencing fast growth brought about by good performance. What will be the company's next-stage goals and strategies? Would it be better to maintain the status quo or grow bigger to attain the biggest market share? Would it be better to pursue diversification or scale expansion? How should the company's culture and HR systems and practices change according to the strategy change?

As the CEO of Pasadena, Mr Shiu was thinking of the right time for the group to expand; how the company could maintain the competitive advantage it enjoyed for the past years under the rapidly increasing competition in the dining industry in Kaoshiung; and how they could maintain an effective and efficient, though different, workforce and culture to suit future development. These were really complicated and important issues of organizational change for Pasadena.



**Asia-Pacific
Economic Cooperation**

**Global Precision Engineering Co. Ltd
Thailand**

**HRM Challenges in a
Manufacturing SME**

Written by

Somwang Boonrackcharoen

Deputy Director
Thai-German Institute

The case was developed with the cooperation of Global Precision Engineering Co. Ltd solely for educational purposes as a contribution to the project entitled "Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC," conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

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Mr Prapan Sodatip, president of Global Precision Engineering Co. Ltd (GPE) in Thailand, was faced with the impending issue of the minimum wage increase (300 baht) per day declared by the Thai government throughout Thailand, starting January 2013. This would translate to a 9.8% increase from the current level of 273 baht. While the policy would affect all the players in the industry, the SMEs in the mould and die industry not only faced the challenge of productivity improvement to compensate for the minimum wage increase but the shortage of skilled workers as well. Only those who could overcome this would be able to survive

For eight years, Mr Prapan managed to survive competition and started to see some progress in production of moulds and dies for the local industry. Starting with seven employees, GPE's workforce increased to 17 over the years and its sales volume multiplied four times, from 5 million baht in 2004 to 22 million baht in 2012. Having reached this level, Mr Prapan, in the medium term, wanted to move to providing parts to the manufacturers where the market appeared to be bigger instead of staying in mould and die manufacturing. However, he experienced difficulty in recruiting and retaining talents for his operation, even with the support from the government sponsored incubation project and from the Thai-German Institute. Given these circumstances, he attempted to test various new measures on human resource management (HRM) at GPE. Since his new approaches were still being tested, Mr Prapan wondered if he could do anything further to ensure his business success.

Mould and Die Industry

The mould and die industry was a core support industry for various major manufacturing sectors in Thailand. In the past, parts were manufactured using dies and moulds imported from abroad, such as Germany and Japan. As industrialization advanced in Thailand and demand for dies and moulds increased, there were moves to transfer the production near the market. The Thai government recognized the importance of this industry and started to accelerate its localization by providing various support mechanisms to industry players. However, the mould and die industry was still at the medium level in technology, serving mostly domestic plastic and metal industries. The comparative reach and technology level of the industry in Asia is shown below.

Figure 1: Technology Level and Supply Market in Asia (Moulds and Plastics)

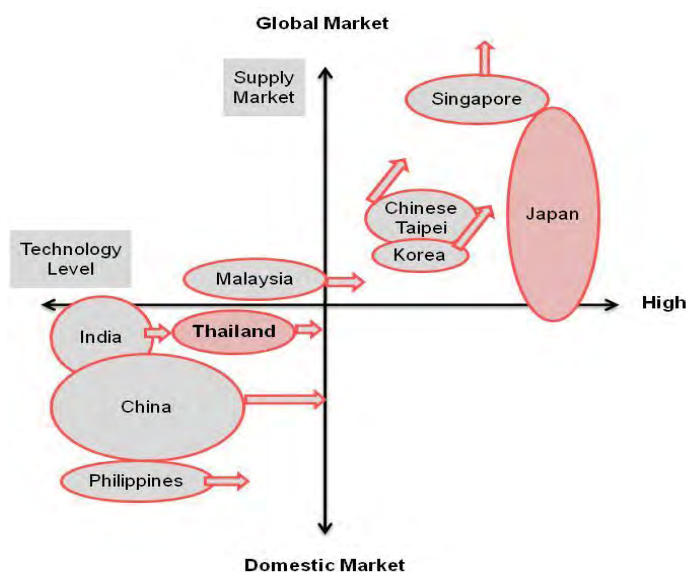
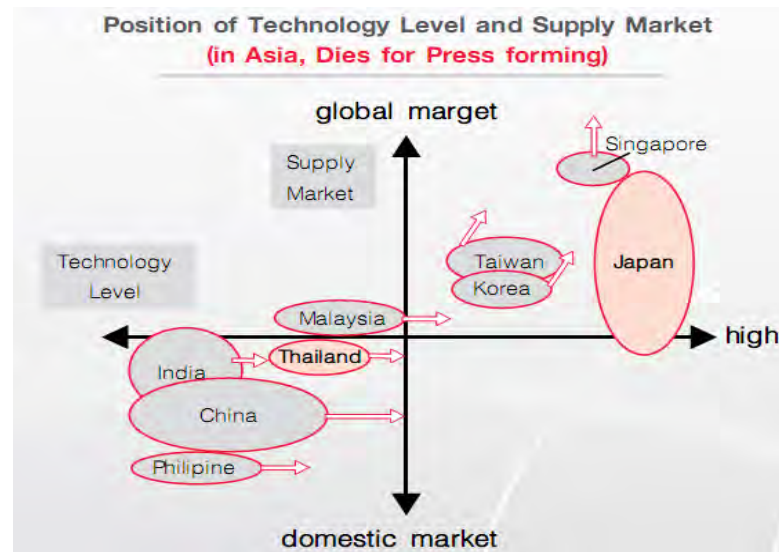


Figure 2: Technology Level and Supply Market in Asia (Dies for Press Forming)



Source: Thai Mould and Die Industry Development Master Plan, 2003.

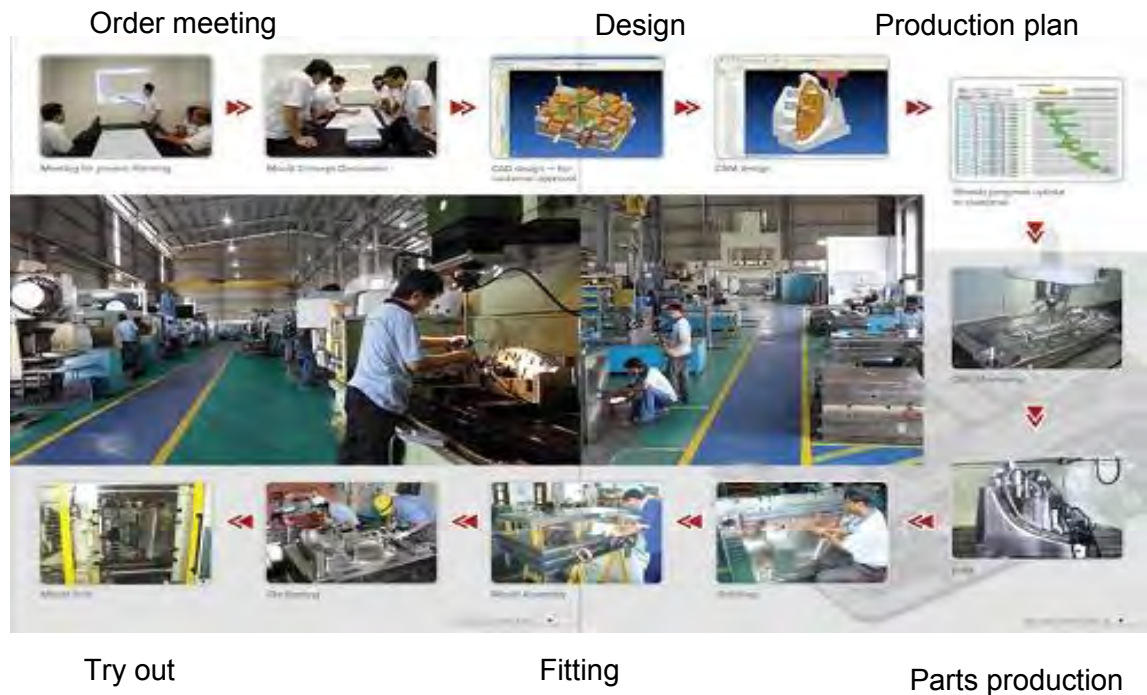
Profile of Mould and Die Industry in Thailand

Majority of the companies in the mould and die industry of Thailand were small and medium enterprises (SMEs). As the Department of Industrial Works (DIW) data indicated, there were 1,097 mould manufacturers, but there existed small factories not yet registered with DIW. The number of manufacturers classified by product consisted of 328 metal, 497 plastic, 10 ceramics, 63 rubber, 10 glass mould and 148 jigs and fixtures manufacturers. There were also seven manufacturers producing mould components. Out of these, 772 enterprises were small enterprises (with authorized capital of less than 50 million baht), 243 medium (with authorized capital of over 50 million baht but not over 200 million baht) and 42 large enterprises (with authorized capital of over 200 million baht). Typically, the educational background of workers in these sectors were high vocational certificate, vocational certificate holders or grade 12 for machine operators. CAD/CAM designers were holders of high vocational certificate or bachelor's degree.

Mould and Die Design and Making Process

The manufacture of mould and die making involved activities such as deciding the materials for parts, designing dies and moulds, developing production plans, producing parts, assembly/fitting, and testing (Figure 3). The companies could obtain higher value if they enhanced their capacity to design the products themselves rather than simply produce them based on someone's design.

Figure 3: Mould and Design/Making Process



Company Background

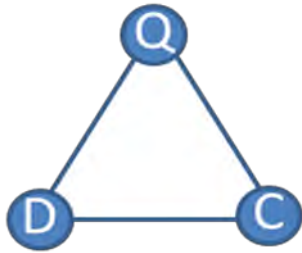
In 2004, Mr Prapan Sodatip established MS Create which was a part of the Mould and Die Factory Incubation project organized by the Thai-German Institute to upgrade design and product development of rubber mould and jigs & fixtures. MS Create was located in the Thai-German Institute for Mould and Die Factory Incubation project site for the first five years. When the company was ready to move to its own factory, it changed its company name to Global Precision Engineering Co., Ltd (GPE) in 2009.

The company started with only seven workers to produce rubber moulds and jigs & fixtures. Expanding the scope of its work every year, by 2012, GPE had 17 workers and had increased its sales volume 4 times over the period. The product lines also expanded to various plastic injection moulds and aluminum and zinc die casting such as automotive parts, electronics and electrical parts and medical parts. All these products served the local customers, who were mainly original equipment manufacturers (OEMs) of automotive parts, electric and electronics products. Roughly 40% of the products were rubber mould, 30% were aluminum and zinc die casting, 15% were plastic injection moulds and the rest consisted of jigs & fixture, and precision machining parts.

Performance and Competitors



Rubber mould was the most important product among GPE's four product lines. The company was especially well-known by customers for its polyurethane polymer (PU) mould for automotive steering wheels, the most



sophisticated mould in the market. However, Mr Prapan thought that the design capability and mould making process in his company required further development to achieve better Quality, Cost, and Delivery (QCD). The results of customer assessment in 2011 showed that the company was rated relatively high on Quality (90%). They however highlighted GPE's weakness in Cost (80%) and Delivery (75%). It was difficult for GPE to tackle these weaknesses, as it required a better working system to improve a QCD triangle of competitiveness. In order to improve Q and D, investment might be needed, raising C.

"The root cause of the problem," said Mr Prapan, "comes from people. Workers with lower skills need more training and development."

There were about 150 mould and die making companies in Chonburi province where GPE was located but only 11 companies were in the field of plastic injection mould and could thus be considered as GPE's competitors. At the same time, each of these 11 companies had its own set of customers due to the long years they had been in the business. Hence, GPE was not worried about local competitors but about Chinese mould and die manufacturers, especially in terms of Cost and Delivery. GPE lost many orders to Chinese companies because the latter offered 20%-40% lower price. To reduce delivery time and address the bottleneck in the mould designing stage, GPE tried to implement the CAE technology, a simulation software for mould design. Mr Prapan expected that delivery time could be reduced by about 50% from a trial and error design that he used. Despite these production issues, GPE continued to grow because many customers focused more on quality than cost. Besides, Mr Prapan enjoyed good relations with existing customers and members of the Mould and Die Cluster of Thailand where he was actively involved.

Strategy to Survive

Mr Prapan had a 5-year plan to develop and expand his business. Within two to three years, he wanted GPE to be able to acquire mould design and manufacturing technology. To achieve this, starting in 2011, he took part in the mould and die industry development project supported by the Ministry of Industry in the area of technology development. He did some R&D and consultancy projects with experts from universities to help him improve GPE's design capacity with simulation technology (CAE) in order to reduce delivery time as well as cost. The target was to manufacture the products according to exact specifications in a single tryout as Japanese mould shops did. Once he was able to achieve it, Mr Prapan was intending to expand his business to cover injection moulding. Because it would be hard to make enough profit by mould making alone, he was thinking of selling products rather than selling moulds. Selling moulds would just be a one-time transaction while selling processed products would be continuous. However, he needed time to find the products that would fit the customer needs.

The strategy to survive could be achieved in two stages: 1) mould and die technology development to strengthen competitiveness; and then 2) product development to expand and secure repeat business. Mr Prapan anticipated that producing end products would require more time, investment and innovation.

Mould and Die Cluster

The Mould and Die Cluster of Thailand (MDCT) was established by the Thai government to bring together and develop a number of SMEs which the Thai-German Institute had organized. MDCT was one of the four area-based clusters developed under this scheme to serve as the core of a supply chain. MDCT was run by the management committee consisting of the president and the consultants group. The consultants group was represented by member companies that had long experience in this field and could include any number of consultants. Since most of the entrepreneurs lacked experience in managing people and in marketing their products, it was considered absolutely necessary to have alliance with the group of professionals who acted as consultants for the group. The support was extended mostly by older members to less experienced entrepreneurs to help them become more competitive. The group was divided into three sub-groups:

1. Plastic injection mould group: injection, blowing, and rubber mould
2. Metal forming die: stamping die, press die, die casting, part machining and jig & fixture
3. Mould and die support: mould and die materials and components such as mould base, heat treatment shop, machine tool, tooling, etc.

At the beginning, there were 94 company members, but during the economic crisis of 2007-2008, only 37 remained. Those who ceased to be members either went bankrupt or had no activities with the cluster. As the economy started to recover, the membership once again increased to 47 companies as of 2012. GPE had been a member of MDCT since 2005 and had benefited from its membership. Some of the benefits included internal member outsourcing, machine time sharing, standard price setting and human resource development.

HRM in Mould and Die SMEs in Thailand

Most SMEs in the industry faced difficulties in recruiting new employees with the desired knowledge, skills and experience. Those with skills had opportunities to choose a job with large companies at higher pay and better welfare. Hence, the SMEs usually had to settle for new employees with less qualification and education and with little technical skills. Training these employees took a great deal of money and effort, and when the same employees acquired enough skills, they tended to look for another job with higher pay. SME owners, therefore, were generally reluctant to develop people.

Offer to Buy GPE

At the end of 2011, one of GPE's large customers offered to buy GPE, including the property and all employees. Mr Prapan was offered a factory manager's position because this company wanted to set up a mould shop at the shortest time. After careful consideration, Mr Prapan decided to continue running his company because it had always been his dream to own his business. Explaining his decision, he said, "I know all my headaches will be gone if I sold the business, including those issues on HRM. But I have always wanted to run my own business."

Assistance in Human Resource Development (HRD)

To continue his own business meant that Mr Prapan had to deal with human resource issues, especially because the government was raising the minimum wage to 300 baht per day. In Chonburi, the current rate was 273 baht per day. Since GPE had to follow the minimum wage guidelines, workers' productivity must increase as well to compensate for the wage increase.

In most SMEs, business owners, who often had little knowledge and expertise in human resource management were also the HR managers. Whatever system they used would have been developed through their experience at work in the past. Most of them just checked attendance, tardiness, compensation, and often had no formal evaluation system. Mr Prapan was fortunate because he attended the Mould and Die Factory Incubation project and was also a member of MDCT, where he had been trained on business administration and human resource development systems. He tried various measures such as setting the objective of human resource development in accordance with the competency standard of the Thai Tool and Die Association. The standard divided workers into seven levels from T1 to T7 (See Exhibit 2), from an operator assistant to management level position. He conducted a gap analysis of the knowledge and skills of individual workers to determine the appropriate course and training method that could develop the competency of a worker from T1 to T7.

GPE was developing the Individual Development Plan (IDP) to manage training. The IDP would be monitored and a final evaluation to get feedback would be conducted. However, because of the resource constraints, GPE had not been able to fully implement its IDP. Most of the training programs included on the job training (OJT). Being a member of MDCT, he would be able to avail of the more systematic training it offered, as the cluster had established a training center to develop workers of member companies. It was expected to start the first course in August 2012 to correspond to the competency standard of T1-T7. With this HRD assistance, he thought human resource development issues, particularly developing workers, would no longer be major problems for the company.

Retention: A Big Issue

To Mr Prapan, the major problem particularly for most SMEs was "when workers get higher skills and improve their capability, they tend to move to other companies for a little higher pay." Alternatively, they would ask for a pay raise. In GPE, turnover of workers tended to be higher among workers with vocational certificates and most of those at the operator level. On the other hand, high level staff such as technicians and engineers had been working for a long time with the company. The few who left GPE did not move to another company, but started their own business. In Thailand, people's preference to be on their own and to be the head of their own company was widely shared. Considering his own experience, Mr Prapan had to contend with this underlying characteristic of the Thai people.

Under these circumstances, Mr Prapan was determined to address some of these issues in the following manner:

1. Instead of Vocational Certificate holders, who were limited in supply but were in high demand by the industry, hire Middle/High School graduates and spend more time to develop them.
2. Hire all employees on a monthly salary basis, instead of on daily wages.
3. Show a clear career path early to inform employees of the steps T1-T7 and how compensations would be affected.
4. Provide an annual bonus plan to reflect the roles and performance of workers.
5. Manage the employees like family members; take care of everyone, keep an eye on them, and inquire about their personal problems, including the problems of the family members and their finances. Give assistance, if necessary, and all the care that a big company might not be able to provide.

Headaches Continue

In spite of the measures that Mr Prapan had taken, the turnover of operators after one to two years of employment still persisted. With the Thai economy starting to pick up, the trends might worsen in the future. Mr Prapan started to review his company strategy, which was to move to the manufacture of end products rather than produce just moulds and dies, in relation to GPE's HRM practices. Being a member of MDCT, how could he effectively utilize the linkage to overcome the three big challenges of SMEs — recruiting, developing and retaining good performers?

Exhibit 1: Sales Growth and Number of Employees (2009 – 2012)

Year	Sale (10 ³ THB)	Employee
2009	14,000	11
2010	19,000	12
2011	12,000	14
2012	22,000	17

Exhibit 2: Mould and Die Skill Standards

Skill Level	Competency
T1	Semi skill
T2	Skill
T3	Technician
T4	Designer
T5	Expert
T6	Shop Floor Management
T7	Manager

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**Asia-Pacific
Economic Cooperation**

**VietSoftware International Inc.
Viet Nam**

**The Journey to Become an
International Player**

Written by

Le Duy Binh

Managing Director
Economica Vietnam

The case was developed with the cooperation of VietSoftware International Inc. solely for educational purposes as a contribution to the project entitled “Strengthening Human Resource Management System of SMEs for Facilitating Successful Trade and Investment in APEC,” conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or quoted for purposes other than the above without the written permission of the author(s) and APEC Secretariat.

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VietSoftware International Incorporated (VSII) was a medium sized company with 200 employees. The company was established in 2006 under the Vietnamese Enterprise Law. VSII operated as a software outsourcing service provider with offshore dedicated centers for clients in Europe, Japan and the United States.

Spun off from VietSoftware, Inc. in 2006, VSII grew from a company of less than 20 people during its start-up to a company with nearly 200 people in 2011. The human resource (HR) challenge that it faced and continued to face included the high staff turnover rate, strong competition for qualified and talented staff, qualification of software developers, and the need to introduce an advanced HR system that worked in the Vietnamese context. Lack of professional interpersonal and communication skills of the staff resulted in lower work productivity. The constraints also deterred VSII from scaling up to compete with other companies that were strong at information technology or business process outsourcing (ITO/BPO). In addition, HR constraints in the Vietnamese labor market, especially in the software industry, were serious hurdles to the improvement of the competitiveness and productivity of VSII and its ability to meet the increasingly sophisticated needs of international customers. They also slowed down the integration of VSII into the global supply chain and its efforts to increase revenue.

In the past few years, VSII had been relatively successful in managing human resource challenges to maintain its growth. However, just like in the past, these constraints would continue to be a constant concern for the top management of VSII in the medium term future.

Software Industry in Viet Nam

The Viet Nam IT sector had been moving forward continuously, emerging as a key economic-technology sector of Viet Nam and contributing more and more toward its sustainable growth. Software development and services, with an average growth rate of over 30% a year both in terms of revenue and market, became the most promising economic sector of Viet Nam from 2006-2010. The software industry generated over US\$1 billion of revenue in 2010, which was four times higher than that in 2005. Likewise, software exports accounted for 35% of the total IT revenue in 2010, or five times that in 2005. The industry also attracted around 72,000 workers in over 1,000 firms, which were mainly located in big cities (Table 1).

Table 1: Statistics of Software Industry: 2008-2010

	12/2008	12/2009	12/2010
Total revenue (million US\$)	680	850	1,064
Total number of employee (persons)	57,000	64,000	71,814
Average wage (US\$/person/year)	3,600	4,093	5,123

Source: Ministry of Information and Communication

Expanding ICT infrastructure and internet penetration would continue to drive demand for IT products, software and services. Software was a highly cost-sensitive market, with 75% of software provided by lower-cost local software vendors or developers (SMEs).

However, larger Vietnamese companies would more likely buy higher-priced software from multinationals which controlled around 25% of the market.

The software industry was believed to benefit from the increasing demand from overseas market and had the potentials to be a big contributor to the economic growth in Viet Nam.

VietSoftware International Inc.

Overview

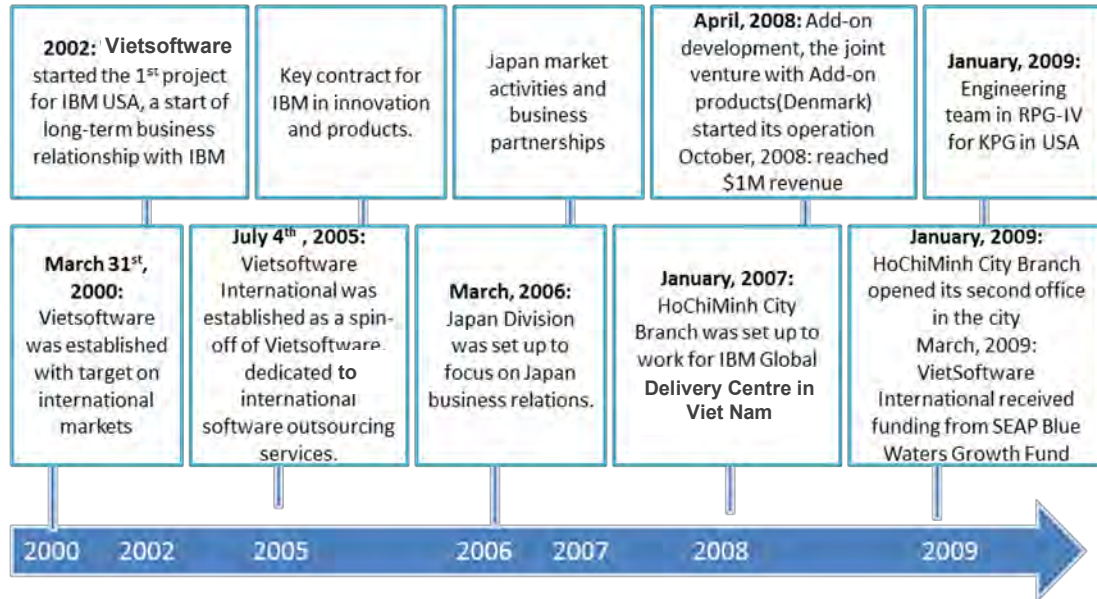


VietSoftware International Incorporated (VSII) was a medium-sized software development and outsourcing company in Viet Nam. The company operated as a software outsourcing service provider with offshore dedicated centers for clients in Europe, Japan and the United States. In 2011, its revenue reached US\$ 1.8 million as compared with US\$ 1.5 million in 2010.

In 2002, VSII started its first project for IBM USA, marking the beginning of a successful long-term business relationship with IBM. The VSII management worked very closely with the IBM team in Hanoi and Ho Chi Minh City to ensure that its software developers met IBM's expectations on quality, delivery time and cost savings. VSII had strong technical capabilities in some key skills areas that IBM required, and showed flexibility in meeting the requirements for work locations and scheduling. It recently completed a successful transition of work to an IBM managed off-shore Delivery Center at the VSII main location in Hanoi.

Since 2006, the company has expanded rapidly its operations and markets. A Japan Division was set up in 2006 and the Ho Chi Minh City Branch was set up in 2007 to work for IBM Global Delivery Center in Viet Nam. In 2008, VSII co-founded Add-On Development, a joint venture with a Danish partner, Add-On Products (Figure 1). In 2009, VSII's HCM City Branch opened a second office in the city. In 2010, VSII partnered with TIBCO and Novell Inc. It started its long-term partnership with HarveyNash and established a BPO company in Danang (VBPO) in the same year.

Figure 1: Milestones of VSII



Source: VietSoftware International, Inc.

VSII's Vision and Mission

The CEO and management team understood the customers' business challenges as well as their technical needs. This solid grounding in business issues made VSII a particularly valuable collaborative partner (often contributing more than just technical expertise) especially because it worked with a select group of high-level customers. It rapidly built a reputation for quality work at a very competitive price.



The vision of VSII was “*to become a world-class software outsourcing service provider.*” In order to realize its vision, VSII set its mission to provide high quality software outsourcing services in the most cost effective manner via collaboration and partnership. This mission was to be achieved by the following business strategies:

1. Fast turnaround, high quality, low price

VSII accomplished this with a unique combination of business-savvy management, a remarkable depth of technical expertise, and a lean, agile organizational structure that could respond rapidly to changing customer needs. The cost of labor and production in Viet Nam was relatively low, thus allowing VSII to provide world-class technical capability at competitive low prices.

2. Adaptation

VSII adapted to the way partners worked such that it became an extension of its partners' team. The company's internal processes were well-defined and had been developed with the express purpose of being easily adaptable to customer needs. VSII

dedicated the resources necessary to learn their partners' technologies and methodologies, becoming a virtual extension of their teams.

3. Lean, agile organization

The CEO and management team believed that the challenges partners or customers faced could change on a daily basis; thus, VSII structured the company to be responsive to customer's needs. There were no extraneous layers of management.

4. Reliable infrastructure

VSII built a reliable technical infrastructure to ensure that it could deliver to customers all over the world 24 hours a day, 365 days of the year. At the same time, it made sure that it had a stable workforce to minimize any disruptions due to employee turnover.

People in VSII

Along with the expansion of the market and capital, VSII simultaneously scaled up its human resources from 19 developers in 2006 to 100 in 2007, and 200 by 2011.

VSII was managed by a group of leaders with sound academic background in information technology and long track records in successful software development businesses. The top leaders of VSII were all educated in reputable universities in Viet Nam and in other economies such as Australia, Belarus and Russia. They included Mr Le Xuan Hai, the Chairman and Chief Executive Officer; Dr Tran Luong Son who was in charge of Global Strategic Development; Ms Nguyen Hong Hanh, the Chief Financial Officer and Vice General Director of VSII; and Mr Nguyen Thanh Tung, the Vice General Director and Management Board Member. Before joining VSII, some of them held important management positions for big multinational companies.

Core Business

Since its establishment, VSII has quickly moved from simple and low-end software services to higher end services and proprietary products which included both software and services. As of 2012, the main business of VSII was to provide Software Project Outsourcing Services (independently implemented software projects) and to work as an Offshore Dedicated Center (ODC) for clients where VSII staff worked as an extension of the client's team.

Typical Software Outsourcing Services tasks included:

- a. Software development: proprietary product development; Internet business applications; Java/J2EE, Microsoft.Net and SharePoint, PHP, Flex-based, Embedded Software and Real-time OS programming and development services.
- b. Migration and maintenance: application and data migration service; porting of legacy applications to new technology platforms (SOA, web based, distributed), migration of C/C++ code to embedded systems; maintenance of existing databases and applications.
- c. Software testing services: full range of test services for various types of applications using advanced test methodologies and tools.

- d. Website development and graphic design: website design and development; professional website content update and editing.

HRM Issues and Approaches

Human Resources Constraints Facing VSII

The supply of human resources for the software industry was in severe shortage and the qualification of employees and professionals were limited. Like in many other software companies in Viet Nam, new recruits of VSII were found to be better at academic knowledge than practical and applied skills and expertise. The educational system in Viet Nam was partly to be blamed for this condition.

The qualification of engineers and workers was lower than that set by international standards. Major constraints included the low level of command of English, and lack of interpersonal and communication and other soft skills. These were brought about by the lack of emphasis given to training in these skills by vocational schools or universities in Viet Nam. As a result, most of the university and college graduates were not equipped with these critically needed soft skills. Lack of work discipline was also a serious issue facing VSII.

The competition among software firms for human resources was fierce. SMEs like VSII were always at a disadvantage to big multinational companies. Competitor companies, both domestic and international, often resorted to malpractices to lure talented staff and professionals from VSII. As a result, the attrition rate in the industry was as high as 20%.¹ Developers and professionals in the software industry often hopped from one company to another. This unsound practice was one of the factors that contributed to the lowering of the productivity of the software industry in general and of VSII in particular.

Effects of the HR Constraints on VSII

These human resource constraints slowed down the integration of VSII into the global supply chain. Though VSII had made some progress in this respect, the company was still in the early stage of integrating into the global supply chain, and had not been able to climb up to the higher level of the supply chain. As shown in Figure 2, VSII was still in the first stage of the value chain (i.e., providing services (ITO/ BTO) to foreign clients) where profit margin was much lower. From the low-end service level, VSII was scaling up (the largest circle) and making an effort to develop the critical mass (in terms of volume and expertise and technical capacity) and integrate into higher end services. However, the proportion of the services at the higher level of the value added chain was limited (small circles). It was not able to provide proprietary services and products or those that promised higher profit margin for a software company.

¹ According to Mr Chu Tien Dung, President of Ho Chi Minh City Informatics Association (*The Saigon Economic Times*, 26 July 2012).

Figure 2: Moving up in the Value Chain by VSII



Source: VietSoftware International, Inc.

Lack of professional interpersonal and communication skills resulted in lower work productivity. An internal survey by VSII showed that ineffective communication was one of the key reasons that prevented VSII from getting a high level of orders from clients and generating revenue and sales. Lack of communication skills also hindered VSII engineers and development staff from correctly identifying the needs of clients and addressing such needs, thus prolonging the time needed to respond to clients' service order.

Human resource constraints were among the factors which required VSII to spend a huge amount of resources or to create a comparative advantage over other software companies in Viet Nam. The constraints also deterred VSII from scaling up to compete with other strong ITO/BPO companies.

Strategy and Actions by VSII

Strategic Human Resource Planning



VSII recognized the need for a system of recruiting and developing human resources in the fastest way in order that it could grow sustainably and respond quickly and efficiently to client needs. VSII applied a forward-looking HR development program and made it one of the key pillars of company growth. It followed the Capability Maturity Model Integration 3 (CMMi-3) standards for resource planning. CMMI was a framework of industry best practices for improving the management, development, and maintenance of products and services. CMMI was developed by the Carnegie Mellon Software Engineering Institute (SEI), a federally funded research and development center. Benefits of using the CMMI included reduced cost and higher productivity, quality and customer satisfaction. Level 3 confirmed compliance in 18 process areas spanning management, engineering, and support activities.

Inasmuch as CMMI was a set of best practices developed in the western context, it had been a challenge for VSII to apply it. There was slow response at the beginning as it required everybody to change the way they worked. However, VSII was very persistent in applying the system and made some adjustments, for example, on management practice of services. The internal business procedures were adjusted to suit international best practices. By so doing, VSII was able to handle all the resource planning and management requirements according to specifications required by clients. Over the years, VSSI had built a strong pool of technical professionals with the help of the CMMI framework.

HR Policy of VietSoftware International

The recruitment policy was also changed such that VSII adopted a more flexible policy in recruiting staff instead of sourcing them from formal job service companies or centres. Recruitment was no longer focused on university graduates and post graduates from domestic and international schools, but also on student graduates from applied training centers and vocational training schools. VSII also recruited those who started their own business but failed. This was a unique feature of VSII's recruitment policies. According to the HR manager of VSII, failed business starters had a strong determination to do new things, to innovate and to venture into something new. This was exactly what VSII needed; the company repeatedly emphasized the value of creating a favorable work environment for the innovative, venture-taking instinct of these people. The company also set up a referral system in which senior level or junior level staff could recommend good potential candidates to the HR section. A fair and transparent recruitment system was put in place. Its multi-layered recruitment process included personal interviews, aptitude tests and sometimes small assignments to qualify candidates.

On the job training and coaching was intensively used by VSII. Special focus was placed on soft skills and IT, and management according to PMF PMP Crestcom standard.

In addition to offering a competitive salary package, the remuneration system of VSII included incentives for those who demonstrated the values which the company appreciated the most such as integrity, work performance, loyalty and commitment and client satisfaction. These factors were included in staff performance evaluation sheet with concrete measurable indicators (e.g., number of years working in VSII, number of complaints received from clients or other partners, number of innovation and good ideas which were adopted in VSII). Salary increase and bonus were also based on the achievement of indicators in the staff performance evaluation sheet. The shift to performance-based salary and remuneration gave a boost to the average staff productivity.

VSII Recruiting Philosophy

- *Select the right people for the right place ahead of time.*
- *People are capital and staff is member of the company.*
- *The members share the vision and profit of business.*
- *Ideal hiring criteria are a combination of morality and qualification.*

The current computer-based HRM information system is being developed in order to track the performance of staff and their motivation. Though VSII was a software development company, it had been a challenge for VSII to develop or customize the HRM software. As explained by VSII senior management, the difficulty was in how to combine best practices in HR management from more advanced economies in Europe, Japan and the US with the culture and business practices in Viet Nam. The development of efficient and modern HRM software that was applicable to the context of VSII was one of management's top priorities.

It should also be noted that some of the HR programmes by VSII did not work and faced resistance or lukewarm response from the employees. For example, the Loyalty Commitment Program (LCP) was introduced in 2009 but for a few years, not many members participated since it took a long time before participants could touch the bonus. The programme was not well communicated to the staff either. Starting from 2011, the HR Department has made considerable effort in re-introducing the LCP to existing

members as well as introducing it to successful candidates. Little by little, the LCP was being accepted by company members.

HR Practices as Contributor to the Build up of Corporate Culture at VSII

The senior management of VSII disclosed that one of the best practices they adopted in HR management was to create a culture in which the staff were not seen as employees but members of VSII — a bigger family of all of the staff. This policy was integrated into all pronouncements of the company and permeated all activities and businesses of VSII. For example, at outdoors meetings, corporate cultural events, the term, “VSII family” rather than company has been used more often. Family values were encouraged and promoted. Company gifts were provided to VSII staff’s newborn babies who were referred to as the future generation of VSII. These pronouncements and gestures enabled VSII to create a culture in which people were bonded to each other by cultural and traditional values, in addition to corporate or contractual obligation.



The company adopted a participatory approach in charting the company’s directions. The directors, line managers and team leaders were encouraged to participate in strategic planning and in communicating VSII’s strategy to every company member.

VSII used the Services Execution Management system named Whizible SEM™ to manage projects, processes and interactions between teams. It also applied a strict Quality Management System (QMS) that included policy, processes, procedures, and customizing guidelines for software development as well as for organization management; CMMI level 3 compliant standards; and quality instruments--QA plan, defect reports, etc. All the staff members were trained and required to use the system. VSII also introduced the ISO system in its management processes wherein human resource was an important part, both as an area of focus of the system and as implementer. The management of VSII believed that these would help to remarkably improve the company’s productivity and customer satisfaction.

Innovation and creativeness were strongly encouraged. An incentive system was crafted in which any good idea for a new product, new process or new market opportunity was adequately rewarded. Personal innovation and creativeness were important criteria used for personal performance evaluation. Company members were given enough room and flexibility to test new ideas in new services and products and new management style, in the context of existing company policies. VSII formed evaluation panels to determine the practicality and applicability of new ideas. It also provided the opportunity and resource for scaling up ideas that were tested successfully. An idea that failed the tests was not seen as a personal failure of the proponent who was encouraged to continue looking for new ideas. As a whole, VSII’s HR policy reflected the importance that the company placed on building a culture in which risk taking was encouraged.

As part of its effort to build the corporate culture among its staff, an internal bulletin entitled *Konnect!* came out on a periodic basis. The bulletin aimed to connect all members of the companies to become a strong team with a common goal and vision. The bulletin also helped the employees to have a fuller picture of the company. It was an

important tool to communicate VSII's policy, commend talented staff, and praise innovations, new ideas and examples of successful innovation and projects.

Team building activities were also organized to promote teamwork. Company retreats were held for the staff every two years and overseas vacations were organized for employee of the year (VSII called it "top-gun" tour).



VSII Team Building

VSII had a strong policy to promote corporate social responsibility which was widely communicated to the staff. It developed programs and policies supportive of its overall development strategy to strengthen its corporate culture such as the fight against HIV/AIDS workshop, promoting social values, and participating in charitable activities. This enhanced VSII's attraction as a decent workplace and good employer.



An HIV/AIDS Workshop held by the VSII

VSII also established a trade union as required under Vietnamese law and strictly complied with all relevant labor law regulations. All employees had official work contracts that included social and health insurance benefits.

VSII encouraged women workers and developers which resulted in a VSII workforce composed of 30% women and 70% men. This proportion of women workers was relatively high, compared to that of other companies in the industry.

Programme Results and Impact on HR

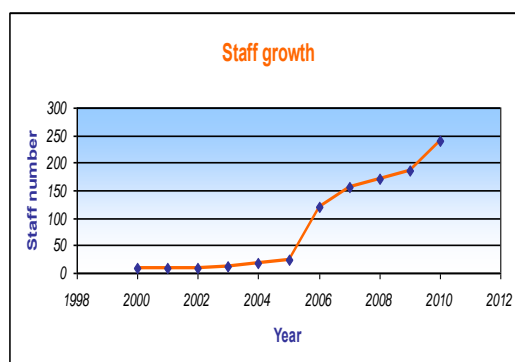
Because of the gradual introduction of new HR policies and practices in the last few years, the long-term impact of these policies still remained to be seen. However, there had been positive and encouraging results. VSII managed to grow despite the global economic downturn and the slowdown of the Vietnamese economy. Its growth was on track and was still in line with the business strategy formulated at its establishment. Mr Le Xuan Hai, CEO of VSII concluded that "the improved HR policy is obviously one of

the most important factors that enabled VSII to weather the on-going global economic downturn and to integrate deeper into the international market...”

The VSII management was very confident that the company would meet its target to increase revenue by 30% a year and profit by 20% a year in the next three years.

Its HR policies improved its overall productivity and performance. The billable rate of VSII increased from 65% in 2011 to 85% in 2012. The human resource capacity use rate increased from an alarmingly low 38% in 2007-2008 to 78% in 2012.² These were encouraging indicators for VSII and emphasized the importance of improving HR management practices in the company.

Figure 3: Staff Growth in VSII: 1998-2012



The HR practices adopted by VSII enabled VSII to maintain an acceptable attrition rate of 12% as of 2012. The rate was much lower than the industry average of 20%. VSII was increasingly becoming a desirable workplace for young job seekers in the software industry in Viet Nam. As illustrated in Figure 3, its policies enabled VSII to increase the number of staff significantly between 2005 and 2010, despite the strong competition from other companies wanting to augment their workforce.

The global economic turmoil had adverse impact on all the business sectors in Viet Nam. According to the Ministry of Planning and Investment, more than 60,000 businesses or 15% of the total enterprise population had to close businesses in 2011 and 2012. This difficult business environment imposed negative impact on VSII. However, the company was able to minimize the losses in the peak year of the economic crisis in 2010 and 2011, without having to lay off staff and reduce employee benefit packages. The VSII management was confident that the difficult time might be over and VSII would make profit in 2012. Much of this achievement could be attributed to the improved HR system which VSII had been trying to achieve in the last few years.

The improved technical expertise, English language skills and sales skills of its staff on which VSII invested considerable resources, brought about positive business results. Improvement in the quality of staff and human resource led to the decision by SEAF Blue Waters Growth Fund (a venture capital fund) to provide a 5-year financial assistance in the form of mezzanine funding of US\$1.25 million to VSII in 2009. Confidence among investors in the growth potential and the human resource capacity of the company was also boosted. As a result, investors kept putting in more money, enabling VSII to increase its capital by 25% from US\$ 400,000 in 2006 to US\$500,000 in

² Human resource capacity use rate is a measure of the efficiency of human resource usage. It is the number of billable headcounts (or billable man-months) divided by the number of production headcounts.

2010. With a stronger human and capital resource base, VSII founded a VBPO in Da Nang and was planning to open an office in Japan. It was also venturing into new IT businesses, and new investments and merger and acquisition (M&A).

VSII broadened its ITO market share in Viet Nam to an estimated 1% in 2010 and aimed to double this to 2% in 2015. As previously mentioned, it has expanded into new markets such as Australia, Europe, Japan and the US. Its improved expertise and skills enabled it to move higher, though still at a modest level, in the value chain.

Looking Forward to the Future

Human resource management is both a science and art. It is a challenging task for any company. VietSoftware International had been developing and testing various HR management policies and practices to make them most suitable to the Vietnamese context. It had been a continuous “trial and error” process (e.g., the loyalty programme, the customization of the performance-based remuneration system) which had resulted in good and better practices adopted and reflected in VSII official HR policies.

The formulation and adoption of the HR policy of VSII also reflected its risk taking business culture. People were encouraged to come up with new ideas and test them, resulting in the adoption of the most applicable ideas by the company.

VSII however would still have to face the HR challenges which the company was able to manage relatively well in the last few years. The problem of high staff turnover rate, strong competition for qualified and talented staff, qualification of software developers, well-functioning internal HR system, lack of professional interpersonal and communication skills, would still haunt managers in the Vietnamese software industry, at least in the years to come. On top of all these, there would be new challenges that the industry would have to confront, such as the issue of intellectual property, the protection of intellectual assets of the company and knowledge management. These issues would obviously have to be addressed by VSII as it expands further and moves up higher in the value chain.