

A Preliminary Study of TNCs' Hiring and Localization Policies in Thailand

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Following worldwide economic recovery in the late 1980s, direct foreign investment flows increased at a much more rapid rate annually than did world trade and output (*Transnationals*, Vol. 3, No. 1, March 1991). Investments by transnational corporations (TNCs) grew by 20 percent, totaling US\$196 billion in 1989.

Although most of the investment took place in developed countries, TNC investment in developing countries also grew at the very respectable rate of 16 percent in 1989. The 10 developing countries that received the largest investment flows in the 1980s were Singapore, Brazil, Mexico, China, Hong Kong, Malaysia, Egypt, Argentina, Thailand and Columbia.

This paper looks at the policies of TNCs on hiring of local staff and localization of top management positions in Thailand. The aim of this paper is to provide some hypotheses for more intensive research, rather than to provide empirical findings. Apart from reviewing existing literature, interviews were conducted with two senior local executives of TNCs producing consumer products, one senior engineer of an oil exploration TNC, and one former executive of an automobile assembler. Statistics on localization were compiled from 984 firms whose 1989 sales exceeded one million baht.

INDUSTRIAL DEVELOPMENT AND THE LABOR MARKET SITUATION IN THAILAND

The strategies of TNCs on hiring and localization cannot be properly assessed without a knowledge of the industrial evolution of the host country and the local labor market situation. The type of skills and the extent of investment in human capital depend on the quality of available human resources and the environment within which firms operate.

The history of the modern private industrial sector in Thailand is relatively recent, beginning in the 1960s when the Thai government provided industrial protection and fiscal incentives to private enterprises in sectors deemed vital to economic development. In 1960, the manufacturing sector accounted for less than 20 percent of gross domestic product (GDP). In the 1960s and 1970s, the manufacturing sector grew in response to the increase in urban demand for manufactures. Manufacturing establishments were concentrated in Bangkok and its five adjacent provinces, known as the inner ring. In 1981, the share of manufacturing value added of Bangkok and the inner ring was as high as 70 percent. In 1987, this increased to 78 percent. The local manufacturing sector was a typical case of an enclave of relatively capital-intensive firms catering to a small proportion of the population which was relatively well-off. Employment within the manufacturing sector accounted for 16.6 percent of the total employment.

Although numerous factors, including trade and protection policies, hinder the expansion of the manufacturing sector, one major obstacle concerns the availability of a labor force which possesses sufficient education for modern manufacturing activities.

To understand the availability and the quality of the labor supply, one must also understand the impact of the agricultural sector. In 1971, when local industries constituted only a small enclave, the labor force in agriculture was 73.7 percent. Nearly two decades later, in 1989, agricultural employment still stood at 57

percent. Presumably employment in other sectors was affected by the demand for labor in the agricultural sector. In the 1970s, demand for agricultural labor continued to expand and more deforested areas were brought into cultivation. Thailand then had a relatively land-abundant developing economy. The high and seasonal supply of labor in the rural areas rendered industrial regionalization difficult. Another important factor that affects an economy dominated by agriculture is the relatively low requirement for education. Thailand has the lowest secondary enrollment ratio in Asia.

Toward the mid-1980s, as the land frontier gradually closed, Thailand's comparative advantage in agriculture started to decline. As land became increasingly scarce, surplus labor in agriculture emerged. The first labor group leaving the agricultural sector was the female workforce. The resulting availability of a large female workforce gave the manufacturing industries comparative advantage in the 1980s. By 1990, the share of the manufacturing sector in GDP had reached 39 percent.

These developments held two very important implications for TNCs in Thailand. First, most unskilled laborers in Thailand have relatively low levels of formal education compared with their counterparts in many other developing countries. The manufacturing sector must cope with a labor force whose educational background consists of only six years of compulsory education. In the 1950s and 1960s, when Japan embarked on its program of accelerated industrialization, the country's compulsory education requirement was nine years. Thus, on-the-job training may not be sufficient for unskilled labor in Thailand to achieve the level of productivity of its counterparts in other countries. Second, the relatively short history of industrial development in Thailand implies a small pool of experienced, skilled and managerial staff. Third, the explosion in the demand for engineers may require more off-the-job training of technicians to upgrade their skills so that they may temporarily substitute, even though imperfectly, for engineers.

TNC INVESTMENT IN THAILAND

TNC investment in Thailand is believed to have had little impact on the economy until very recently, as the annual foreign investment flow during the 1960s never exceeded US\$25 million in investment. Prior to 1977, foreign investment accounted for around one percent of gross domestic investment (GDI). Investment flow during the 1970s was severely affected by the oil shock and the political uncertainties in Indochina. The ratio of direct foreign investment to GDI increased to 3.5 percent during 1977-80 and dropped slightly to 2.1 percent during 1981-82. Until the early 1980s, the Republic of Korea and Thailand had the lowest levels of direct foreign investment among the Newly Industrialized Economies (NIEs) and the ASEAN countries.

Since the international currency realignment in 1985, Thailand has been viewed as a profitable export base for Japan, Taiwan and Hong Kong. After 1986, the investment scene in Thailand took on a new momentum. Japanese investment flows in 1988 were four times greater than those in 1987, and by 1990, they had more than doubled again.

THE EMPLOYMENT EFFECT OF TNCs

A conservative estimate of direct employment generation suggests that at least 65 million people worldwide are employed by TNCs, or about 3 percent of the world's active workforce. About two-thirds, or 43 million people, are employed in their home countries, the remainder in host countries (UNCTC 1988). In developing countries, 7 million workers—less than one percent of the active workforce in the LDCs—are employed by TNCs. Although indirect employment by TNCs is estimated to be at least double, the impact of the TNCs on total employment is not likely to be substantial. However, since TNCs tend to be concentrated within relatively capital-using and high-technology industries (ILO 1981), the impact of TNCs on the generation of technical and managerial skills could be more significant.

In 1986, Thailand had about 678 foreign manufacturing firms, 667 of which maintained employment data (Atchaka and Brimble 1988). These firms hired 192,655 workers, which accounted for 8.8 percent of the workforce within the manufacturing sector, but only 0.7 percent of the country's total workforce.

The foreign investment boom has caused a heavy demand for engineering and technical staff. Before 1987, engineering graduates were normally paid 10-20 percent more than graduates in other fields, but the structure of the incremental income was similar. Within the public sector, there was no price differentiation between engineering and other graduates. Since 1987, the situation has changed. The starting salary for an engineering recruit more than doubled between 1987 and 1990. "Poaching" of workers and managers has become quite common.

DETERMINATION OF TRAINING AND LOCALIZATION

Economic theories suggest that a firm will train workers as long as the marginal benefits (measured in terms of productivity) accrued to the firm exceed the marginal costs of training. The costs of training are not confined to the financial, but also include time and production lost during training.

In addition, the level of investment in training would be concentrated in areas where returns are highest. Thus it can be expected that technical and managerial staff tend to receive more training, while training of unskilled and semi-skilled staff generally results in higher rates of output and reduction of defects. Training of technical and managerial staff tends to multiply overall efficiency and may lead to new commercial and technological innovations.

Technical training tends to be more intense in companies that utilize relatively complicated technology and in which skills are company or industry specific. To fully internalize training benefits, firms sometimes institute specific agreements, for example with employees to remain with the company for a certain period after training, or with firms not to poach employees.

The issue of localization, on the other hand, is related to a firm's decision-making strategies, which in turn depend on:

- The price of decision-making services in home versus host countries (i.e., the cost of hiring local rather than expatriate managers)
- The need to regulate the goals of affiliates, which may differ from a corporation's goals
- The nature and history of a corporation (i.e., a TNC with a relatively short history may have a lower degree of localization)
- The development of the host country, especially the availability and quality of human resources in the host countries

Empirical findings suggest that TNCs from countries of different origin tend to have different strategies on decision-making structures, which in turn affect localization practices.

According to two studies by Dunning of 205 U.S. affiliates in the U.K. in the 1950s and 22 Japanese firms 30 years later, significant differences in the decision-making structure between the two groups were observed. Japanese TNCs tend to employ a higher proportion of Japanese to local staff but normally conform to the national standard on wages, and are very careful not to poach employees from other firms. U.S.-based TNCs, on the other hand, tend to provide much higher financial incentives than the competitive wage. Unfortunately, Dunning's study did not analyze the impact of industrial development or product type on the decision-making structure.

Hiring Policies

Hiring policies refer to the qualifications demanded from local candidates and the selection system adopted by TNCs.

Existing information suggests that the general qualifications of shop floor workers tend to depend more on the type of industry than on foreign ownership (Nipon and Wannasiri 1991). In the food-canning industry, where cleaning operations often result in unfavorable (damp and smelly) working conditions, workers with four to six years of education are required. Other industries, such as textiles and the production of

electronic products, require at least six years of education. TNCs involved in electronics invariably require at least nine years of education. Regardless of origin, TNCs tend to recruit workers at the lowest ladder of each category.

Recruitment is generally conducted via newspaper advertisements, announcement posters pasted on the front of factory gates, and word of mouth by existing employees.

TNCs tend to pay substantial attention to the recruitment of management trainees. In a globalized TNC, staff are broadly divided into two categories: local staff and international staff. Among the local staff, there are also two broad categories: managers and operators. In one of the TNCs interviewed, about 20-30 management trainees are recruited every year. An applicant has to hold at least a Master's degree from an internationally accepted university. Management trainees are viewed as young cadets who will one day assume the responsibilities of their superiors, and must complete an intense selection procedure which includes an IQ test, a personality test (an interview with middle management), and a written English expression examination. After such preliminary tests, a group of candidates are chosen to participate in a group discussion and respond to on-the-spot questions. Senior managers and directors are present during the discussion. Candidates are then prioritized and have a final interview with senior managers. Management trainees are recruited first as local staff members. After a number of years in service, those with the most potential will be upgraded to join the ranks of international staff.

Skill Formation and Training Policies

The potential skill-formation contribution of TNCs is seen in the difference in productivity between the factories of the mother company and those of its subsidiaries. In Thailand, the productivity gap between a mother company's factories in Japan ranges from 1:1.4 to 1:1.5 in the car battery and the car assembly industry (Koike 1987). For shop floor workers, skill formation of unskilled workers comprises an increase in:

- the ability to perform at greater speed and accuracy
- the ability to deal with unusual operations (i.e., changes in output mix, input mix and labor mix)
- the ability to locate problems and defects and make corrections

On-the-job training is a major form of skill acquisition for unskilled and semi-skilled staff, and is usually obtained through plural jobs and the ability to cope with unusual operations.

One way to measure the extent of successful skill formation concerns the career span of employees. An empirical study of indigenous Thai firms, Japanese-Thai joint ventures, and Japanese firms reveals that lengthy service is a normal practice for workers in such companies (Koike 1987). Workers were able to advance in all cases. The career span for employees was shortest among Thai firms and longest among Japanese firms. That of employees of Japanese-Thai joint ventures was in the middle. This may be explained by the relatively low level of education of Thai workers. Skill formation through on-the-job training requires a certain level of formal education, which provides an understanding of the structure and functions of machines and products. Career advancement was found to be relatively slow in Japanese TNCs, which was compensated to a certain extent by higher fringe benefits and social security.

An ILO research project on the training practices of 15 multinational enterprises suggests that TNCs provide significant training to all categories of personnel, but the training is uneven and specialized. More emphasis is given to medium- and higher-level managerial and technical staff (ILO 1981).

Interviews support the hypothesis that firms invest more to train high-level staff than low-level staff. For high-level staff of relatively small firms, local or foreign training is usually outside the firm, as the cost of in-house training is high. In the case of larger firms, training may be conducted in-house, outside the firm, or overseas.

One of the TNCs interviewed noted that investments for management trainees begin with recruitment. A TNC executive indicated that training programs are set for each level of staff: Three to five weeks for

management staff and trainees, 10 days for supervisors, 12 days for sales staff and four days for operators. Training is mostly in-house, except for management trainees whose training program comprises: a) special lectures by external experts, mostly from local universities, b) overseas training wherein regional affiliates in East Asia and the Pacific generally collaborate and take turns in organizing training, and c) company business schools.

Another TNC, specializing in oil exploration, has a similar training pattern, although the content differs because of the nature of its business. Employees are classified into two categories, local and international employees, and three ranks—junior, senior and executive. Training is provided to staff at all levels, but is most intense for the senior technical staff. New recruits for senior positions are mainly engineers with at least Master's degrees and good communicating abilities. The first training course is an orientation program that describes overall corporate activities and philosophy to new recruits. Next, new recruits must participate in a cultural training workshop, during which foreign staff are informed about the "do's and don'ts" of the country of duty station. At the same time, local staff participating in the workshop learn to readjust their work habits and attitudes. For example, in the Orient it is customary for employees to listen obediently to a superior. If they hold different ideas, they have to find a way to indicate those ideas indirectly and quietly. In the cultural workshop, they are encouraged to speak out.

In the case of highly technical jobs, training is standardized and follows a fixed schedule. For instance, senior technical staff spend three months in Europe at a training center that is equipped with modern devices and machinery to simulate actual situations in exploration fields. Instructors are generally experienced senior staff. When the staff return to their duty stations, they participate in annual in-house training programs which comprise courses on industrial relations and psychology, negotiation techniques, communication and reporting skills. All senior staff in all duty stations follow exactly the same pattern of training, so that should a position be vacated unexpectedly at a critical time, a counterpart from any other duty station can easily be substituted, with only minimal disruption to production flow or work schedule.

As with the previous case cited, after a few years, local senior staff members with high potential may be offered an international staff position, which will enable them to move up to a different pay scale and eventually on to an executive career. International staff are expected to work outside their home country throughout most of their careers.

As regards American and European TNCs, overseas training is limited to senior technical staff. Japanese TNCs, however, send a larger group of technicians and engineers to train in Japan before the start-up of a factory. Studies in the 1970s and early 1980s (Mingsarn 1981, 1984) suggest that training is more generously provided by Japanese TNCs, but usually does not exceed six months. Toward the end of the 1980s, a new situation emerged as a large Japanese TNC reportedly sent a large group of semi-skilled workers and engineers to Japan for an extended training period. This coincided with a period of acute labor shortage among Japanese industries. Because of their trainee status, the Thai workers received lower wages. Engineers who returned from Japan claimed that the training consisted mainly of stock and library supervision and was not related to technical and research development (Suvinaï, no date). That particular TNC was accused of exploiting cheap trainee labor.

After intensive and costly training programs, how can TNCs retain their employees? The interviews reveal that major U.S. and European TNCs in the fields of oil exploration and consumer products have agreements not to poach employees from one another. Earlier studies suggest that the same practice applies in Thailand's car assembly industry, which has been dominated by Japanese TNCs (Nipon and Wannasiri 1991). Employees often have to sign contracts with TNCs agreeing to return and work for a specified time period following overseas training. In 1989, a Japanese TNC took a local employee to court for breach of employment contract (Suvinaï, no date). The employee had promised to work for the company for at least twice as long as his training period in Japan, but the employee left the company on his return to Thailand. Poaching of engineers by small or new enterprises and job hopping have both become more common. A recent development among firms is the attitude that foreign engineers may have to be imported.

A TNC employee interviewed indicated that he had to sign a contract with his employer stipulating that, in

the event he left the company, he agreed not to use the knowledge and information acquired from that company in his next employment for at least two years.

Appraisal and Promotion

Appraisals are regularly made by the immediate superior and, as a rule, those appraised are informed of the outcome. Promotion is determined by a "best for the job" criterion, not by seniority. However, in one of the TNCs interviewed, women tended to be less preferred for several reasons. First, women were viewed as providers of diversified household services, including driving children to school. Thus, they had less time to devote to the company. Second, married women are more reluctant to travel overseas, but management staff are expected to internationalize after the age of 30. An overseas marketing officer or an export manager can expect to travel about 165 days per year. Finally, women tended to leave the company to help in their family businesses.

Localization Policies

The following discussion is best treated as observations leading to hypotheses for further testing, rather than as concrete research results.

In discussing the issue of localization, it is important to distinguish between three types of TNCs—globalized, Japanese and small non-globalized. Globalized TNCs are those with operations worldwide and who have a relatively long history of transnational operations. In other words, they are multinational corporations in the true sense, i.e., they cease to be national firms although their headquarters may be based in a major city of the country of origin. The international staff are multinationals who strictly follow corporate goals and strategies. These TNCs will source for the most productive resources, including human resources, to maximize profit. They generally have two categories of employees. Local staff with high potential will be offered international staff positions, provided they are willing to be stationed overseas. Thus, host countries may eventually lose high-potential local staff to TNCs.

An interview with a former executive of a U.S.-based automobile firm reveals that in the late 1960s and early 1970s, the pool of local professional managerial staff was small. In those days, the better educated tended to be from well-to-do families and would usually join the public sector or their own family businesses. It was difficult for TNCs to recruit large numbers of high-quality local staff because to be an employee of a foreign firm was not as prestigious a job as those in the public sector.

In the 1980s, as the pool of local professionals began to grow and the salary scale of the public sector lagged behind that of the private sector, the status of government officials became "the new poor," and there was a brain drain from the public to the private sector. Two local executives of TNCs confirmed that it is still quite difficult to convince local staff with high potential to become international staff, as they do not like living outside the country.

In another TNC, the chairman of the company is local. The number of expatriates varies according to need, e.g., the opening of a new production line which would temporarily increase the number of expatriates. In addition, some expatriates are despatched according to internationalization policies which encourage staff to have opportunities to internationalize. These expatriates normally stay four years or less. Local staff above management level must be prepared to be despatched to other overseas affiliates as well. The employment policy calls for management trainees to begin their careers in the appropriate country of origin, completing a basic training period of three to five years, after which they will be sent overseas to broaden their international experience and perspective. Finally, toward the end of their careers, they can expect to retire in their country of origin. Each subsidiary is expected to make maximum use of local staff. For globalized TNCs, if local employees have high potential, the issue of national concern is not localization but international brain drain.

Japanese TNCs behave rather differently from other TNCs, in that their international staff are almost entirely Japanese. It is believed that, while western TNCs attempt to encourage their staff to adopt the

corporate culture of a particular TNC, the staff of Japanese TNCs must first adapt to the Japanese business culture, before the corporate culture, as Japanese TNCs retain more national traits than other TNCs. Local staff therefore need to become familiarized with Japanese work ethics and business culture. In other words, a Japanese TNC may be internationalized in its operations, but not in its internal business culture. Part of the reason may lie in the need to communicate with high-ranking executives at the headquarters. Consequently, localization in Japanese-related TNCs can become a major issue of concern for host countries.

In the 1970s and early 1980s, Japanese joint ventures tended to use more expatriates than their western counterparts (Mingsarn 1984). Moreover, joint ventures with Japanese TNCs generally involved trading and manufacturing partners, and thus tended to adhere to established functional specialization according to their comparative advantage—i.e., the Japanese trading companies specialized in the import of machinery, the Japanese manufacturer specialized in production, and the local partner specialized in local distribution. The possibility of localization in trade and production was, therefore, limited.

When the yen appreciated dramatically following the 1985 Plaza Accord, Japanese joint ventures were forced to hire and upgrade local staff to more important positions.

TNCs from developing countries are mostly regional TNCs and have only a few branch operations. These TNCs have a relatively recent history, and many are family businesses. Their connections are typically overseas Chinese connections. Presently, there is little information on these TNCs.

It was observed during the interviews that the stage of development of the host country could affect a TNC's strategy of localization. Within the consumer products industry where advertising is an important marketing means, TNCs that appointed high-ranking officers from the local staff tended to be more successful, as the local employees were more familiar with local tastes. The wider the income gap between the host and the home country, the more important the contribution of the local staff. As the income gap narrows and telecommunications improve, a TNC's strategy is likely to be more centralized and globalized as regards marketing and advertising activities (e.g., Coke, Pepsi), and local staff, unless they are international staff, would become less important.

The extent of localization in Thailand can be roughly approximated by the nationality of the managing director. The information in [Table 1](#) was compiled from company data in *Million Baht Business Information Thailand*. Foreign firms are defined as firms having more than 30 percent foreign ownership. Of 148 foreign firms for which the data were available, 44 firms (30 percent) had a local managing director.

CONCLUSIONS

The preliminary findings of this paper confirm earlier ILO studies which conclude that TNCs' training is significant and of high quality, but that benefits tend to be specific to and internalized by TNCs. As for factors which influence localization, this study suggests a number of possibilities: the human resource base of the host country, the age of a TNC and its corporate strategy, the development gap between the home and host countries, and the type of industry concerned. This study also emphasizes the need to distinguish between the three different types of TNCs—globalized, Japanese and small TNCs from developing countries.

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