

INTERNATIONAL HUMAN RESOURCE MANAGEMENT IN THE CONTEXT OF HUMAN CAPITAL OF MULTI-NATIONAL ORGANIZATIONS IN LAOS

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ABSTRACT

Human resources is one of the key assets of organizations at both national and international levels and suggests that it becomes more complex once an organization is operating across borders. This research project was conducted in the context of the human capital of Laos as the host country. A questionnaire was administered to 90 employees of five international organizations in August 2013. The main finding was that the key constraint to practicing IHRM in Laos is the shortage of skilled labour. The belief also exists that education level supports employees in their job, but the result was not significant. The result was significant that education, regardless of level, can support employees' capacity to do their job.

Keywords: IHRM, HR functions, human capital, Lao PDR

INTRODUCTION

Human resources are part of the core capital in every organization and it is also likely to be true that the effective management of human resources (HR) largely contributes to the success of any organization. Nel et al. (2012) contend that HR plays an important role in all activities and that it is the means of endeavour in organizations, be it at national or international levels. Businesses use opportunities to expand their markets for larger sales and lower expenses on labour and raw materials by going global (Dowling, Festing & Engle, 2009; Du Plessis, 2010). The question then arises is what would the implications be when organisations experience rapid growth, which inevitably leads to globalisation and often global cooperation? These are also the consequence of the development of the appropriate tools to manage HR effectively, once an organization operates across borders. Therefore, the concept of international human resource management (IHRM) comes into play as well.

According to Sisavath (2014) the reasons for conducting this research project regarding IHRM can be traced back to after the opening up to the global economy of Lao in the 1980s. The spark was the re-alignment of a nationally-based production approach only into a global oriented business production and services approach (Bird & Hill, 2010; Otani, Anderson, & Pham, 2008). The formulation and implementation of the National Socio-Economic Development Plan (NSEDPP), which set the target of country development in five-year terms or as it is informally called 'the five-year-plan', is the main driving force to expand the country's economy (Otani et al., 2008). In addition, Lao also embarked upon international cooperation by generating various measures to attract investment as well as international aid (Fane, 2006). Therefore the increase in bilateral and multilateral cooperation with countries and international organizations, as well as the reduction of barriers such as obstacles for investment, dramatically changed business activity in Lao since the 1980s. For example, in 2011 it was found that there were 433 foreign investment projects which amounted to a total investment of approximately USD2.9 billion (Lao Statistics Bureau, 2013). In addition, there are also 72 International Non-government Organizations (INGO) which implement 246 development projects in Laos (INGO Network Laos, 2014). This makes Laos a

very attractive investment hub in the world. Therefore, the need to take note of the application of IHRM, which is the focus of the research project presented in this paper.

The aim of this research project is to explore the actual application of IHRM, which includes human resource practices and staffing policies in the context of the human capital of multinational organizations in Laos.

LITERATURE REVIEW

International HRM is broadly defined by Briscoe, Schuler and Claus (2009) as the study and application of all human resource management activities in the process of the management of human resources for businesses in the global environment. Specifically IHRM is the management of staff across country boundaries (Dowling et al., 2009; Nel et al., 2012; Vance and Paik, 2006). Additionally, IHRM has been redefined as the world-wide management of human resources (Morley and Scullion, 2004; Schuler, Budhwar and Florkowski, 2002; Shanine, Buchko and Wheeler, 2011). IHRM was also defined by Chen as cited in Du Plessis and Huntley (2009) as being "a set of distinct activities, functions and processes that are directed at attracting, developing and maintaining the human resources of a MNC" (p.414). The objective of IHRM is therefore to enable the organisations to be successful at the international level (Farndale et al., 2010; Johnson, 2009; Schuler et al., 2002). Additionally, IHRM is also claimed to be the tools for multi-national organizations to gain a global competitive advantage, to be efficient, locally responsive, flexible and quickly adaptable, as well as capable of transferring knowledge internationally. HR activities refer to the process of recruitment, training, utilising and compensating the people. The type of employees in the international context refers to the expatriates, host-country nationals and third-country nationals (Mondy and Mondy, 2012; Reiche, 2007). Finally, 'country of operation' refers to the host countries and headquarters. This means that the management of HR in the international context consists of the various dimensions for organizations to apply IHRM practices effectively.

Furthermore, Vance and Paik (2006) have classified the factors influencing IHRM into two categories. The first category focuses on external factors which include the economy, social preferences, competition, demographics, innovation and government. The second category being internal factors such as company culture, company climate, company strategy and organizational structure. Additionally, Härtel and Fujimoto (2010) identified some influences on HR policies and practice in the international context such as culture differences, differences in employment laws and regulations, different socio-political systems, labour market supply, local pressure groups, health and safety issues and language differences.

Human Capital

In organizations, any human resource practice is a direct investment in the employees' human capital, with the purpose of ensuring the competitiveness of the business and the development of its staff (Bisanav and Rangnekar, 2009; Noe et al., 2013). Generally, human capital is described as human knowledge, skills, innovativeness, and capabilities of employees applied to accomplish organizational goals (Armstrong, 2008; Bisanav and Rangnekar, 2009). Nel et al. (2012) describe human capital as the productive capabilities of individuals. This means the knowledge, skills, capability and experience that individuals have in creating economic value in the job they are doing. Human capital also refers to the unique set of knowledge, skills and abilities of workers which are acquired from education and work experience (De Winne and Sels, 2010). Based on these definitions, it seems likely that organizational success is the ability to manage human capital successfully.

In terms of a wider view, human capital development is the key economic driver (Ndinguri, Prieto and Machtmes, 2012), as it is prominent in various studies on the relationship between large pools of human capital and rapid growth of the economy. In terms of the organizational view, it means that organizations should have strategies to find the stock of human capital they need by enhancing their skills and knowledge through training programs and professional development, as well as rewards for superior performance (Nel et al., 2012).

The education of people in a country is another element of readiness for work and using human capital (Asghar, Awan, & Rehman, 2012). Bisanav and Rangnekar (2009) claim that education helps people to

understand their knowledge better and enable them to accurately predict outcomes, better manage time and resources and monitor results. Additionally, education also provides new information and knowledge that enormously impact on peoples' cognitive reasoning. Many studies have focused on the relationship between the country's education and the ability of human capital to generate economic growth. Those findings show that the country that invests more in education produces more effective human capital, and that effective human capital will again result in growth for the organization and the country's economy in general as well.

METHODOLOGY

This research project is designed to use a mixed data collection method (or mixed method). Mixed method refers to the approach that combines qualitative and quantitative data collection and data analysis methods in one research inquiry (Borrego, Douglas and Amelink, 2009; Frels and Onwuegbuzie, 2013; Venkatesh, Brown and Bala, 2013). A quantitative approach was executed through a survey questionnaire.

According to Sisavath (2014) the data was collected from 90 employees by means of questionnaires who are at various levels in the five organizations in Lao. The data collection was done mainly in Vientiane, the capital of Laos, during August of 2013. The actual findings focuses on the data obtained from the survey only. Interview data is not discussed due to paper length limitations

FINDINGS

The profile of the respondents is presented in this section in terms of gender, age, position and education. All demographic results are representative of the organisations which participated in the survey. Gender: A total of 44 respondents or 48.9% of the respondents are male and 46 respondents or 51.1% of the respondents are female. Age: A total of 71.1% of respondents are in the age-group of 20-35 years, 23.3% are in the age-group of 36-50 years and only 5.6% are in the age-group of 50-65 years. Position in organizations: A total of 37 respondents or 41.1% are Administrative officers, 31 respondents or 34.4% are Technical officers and 22 respondents or 24.4% are general operational officers. Education: The highest proportions of all respondents have a Bachelor Degree being 51 respondents or 56.7%. The other levels are: 14.4% with a Higher Diploma, 14.4% with a Master Degree, 8.9% has a Secondary School Completion Certificate and 5.6% with a Post-graduate Degree.

The findings are supported by scholars like Dowling et al (2009) and Du Plessis (2010) concerning approaches to deal with IHRM challenges faced by MNC like adjusting to local culture practices ability to do a job.

Survey Data

The questionnaire results specifically focused on perspectives of Lao staff on their human capital in association to the highest education level they have achieved. Only results which are significant are fully reported being significant in levels of $P \leq 0.05$.

The belief of respondents that education can support their work

This question focused on the respondent's opinions on whether their qualification can support their work in the various organizations. More than half of the respondents, namely 70%, answered that their education is the factor that supports the work they are doing now. Only 14.4% answered 'no' and 15.6% answered 'not sure'.

Respondent's self-confidence on their capacity to do their work

This question focused on whether the respondents thought they have suitable capacity to do their current jobs. The results show that 74 people or 82.2% answered that they have suitable capacity to do their current jobs. Only 1 respondent or 1.1% answered that he or she does not have the capacity to do their current job. Also 15 respondents or 16.7% are not sure whether they have the capacity to do their current job.

The importance of capacity enhancement for career advancement

This question pays particular attention on the perception of respondents regarding capacity. Respondents were asked to rate the importance of enhancement of capacity for their advancement. A total of 78 or 86.7% of respondents regard the enhancement of capacity as very important. Only 11 or 12.2 % saw it as somewhat important. Only one respondent or 1.1% saw it as neutral.

It is clear that the issue of education, self-confidence and capacity to do the job and advancement of career are important issues. These aspects are elaborated upon in the next section.

Testing of results to identify significance

One of the main objectives of this research was to find out what the educational level of Lao human capital was. Therefore this section mostly provided data on the capacity of Lao staff in association with education levels. All results were tested for a Sig. value for significance where the P-value ($p \leq 0.05$) being applied to identify significance.

The association of the highest education achieved and the belief that education can help in their work

The relationship between the highest education level respondents has achieved and the proportion of respondents who believe that their education will assist them to do the job is analysed. All categories believe that their education can support their work. A total of 39 respondents who completed a Bachelor Degree believe that their education can help them in their work and only 6 of the respondents in the same category believe that their education does not help them to do their job. Overall 63 said “yes”, 13 said “no” and 14 were “unsure” of the 90 respondents. The Sig. value of the test is 0.418 which is considerably higher than the P-value ($p \leq 0.05$), and therefore the result did not load at a significant level. It can be concluded that there is no significant relationship between the highest education achieved and the belief of respondents that their education can support their work.

The relationship between the highest education achieved and capacity to do the job

The results show the relationship between the highest education that respondents have achieved and their capacity to do the job. Most of the respondents in all educational categories think that they have the capacity to do the job, for example, respondent who have achieved a Master Degree, namely 12, think that they can do the job, and 41 with a Bachelor’s degree believe similarly. Overall 74 said “yes”, 1 said “no” and 16 were “not sure” of the total of 90 respondents. The results show a Sig. value of 0.174 that is a higher value than the P-value ($p \leq 0.05$) and the result therefore did not load at a significant level. It can be concluded that there is no evidence of a significant relationship between the level of education and the capacity to do the job of the staff in the target organizations.

The relationship between the belief of respondents that education can support their job and their perception of their capacity to do the job

Table 1 compares the belief of respondents that education can support their job and their perception of their capacity to do the job after both variables have been compared to the highest level of education of the respondents. It was found that 63 respondents believe that their education supports their work and also perceive that they have the capacity to do the job. In addition, 13 respondents do not believe that their education can support their work, but they believe that they have the capacity to do the job, whilst 14 were unsure.

Table 1: Your education can support your work and your capacity to do the job

		You have ability to work in the position			Total
		Yes	No	Not sure	
Your education helps your	Yes	63	00	00	63

work	No	-	13	--	13
	Not sure		-	1	14
Total		63	13	14	90

Table 2 shows the result which is significant. It can be seen that the Sig. value of the test is 0.043 which is lower than the P-value ($p \leq 0.05$). It can be concluded that there is a significant relationship between the belief of respondents that education can support their job and the perception of their capacity to do the job.

Table 2: Chi-square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.858 ^a	4	.043
Likelihood Ratio	10.117	4	.038
Linear-by-Linear Association	.528	1	.467
N of Valid Cases	90		

The relationship between the between the highest education achieved and the importance of capacity building

The results show the association between the highest education level that respondents have achieved and the importance of capacity building. It is clear that the majority of respondents in all educational categories see capacity building as very important where from the total of 90 respondents, 78 regarded it as very important, 11 as somewhat important and 1 as neutral. The significant Sig. value which is 0.134 is higher than the P-value ($p \leq 0.05$). Therefore, it can be concluded that there is no significant relationship between the level of education and the importance of capacity building.

DISCUSSION OF FINDINGS

This section focuses on education level and human capital in relation to the HR activities that are applied by the international organizations. The survey data show that almost all the respondents spent between 11 to 17 years studying. This means they have a certain level of human capital. From the survey results it is clear that most of the respondents believe that their education supports their work and that they are capable to do the job. Hence, it is interesting to investigate whether there is a significant relationship between their highest educational qualification achieved and their human capital. The findings are presented below based on the various hypotheses that were tested.

Hypothesis 1: There is a relationship between the highest education achieved and the belief that education can support the respondents' work. There is no evidence of a significant relationship between the highest education level achieved and the belief of respondents that their education can support their work. This means that the idea that a higher education level supports the belief of respondents that education can support their work is unsupported by the results because the significance level was also above the P-value ($p \leq 0.05$) level.

Hypothesis 2: There is a relationship between education level and the perception of staff regarding their capacity to do the job. There is no evidence of a significant relationship between education level and the perception of staff regarding their capacity to do the job in the target organizations. Therefore, we can conclude that the information on the education level of staff is independent from the perception of staff members of their capacity to do the job. It is concluded that a higher education level does not mean that the staff have a higher capacity to do the job. The result is also unsupported from a significance point of view being above the P-value ($p \leq 0.05$) level.

Hypothesis 3: There is a relationship between the beliefs that education can support their work and the perception of their capacity to do the job. The test results in Table 6 show that there is a significant relationship between the belief of respondents that education can support their job and the perception of their capacity to do the job. This means that most of the respondents who believe that their education can support their work are more likely to perceive that they have the capacity to do the job. This is confirmed with a test result of the Sig. value of the test being 0.043 which is less than the P-value ($p \leq 0.05$).

Hypothesis 4: There is a relationship between education level of staff in the target organization and their perspective on the importance of capacity building. It is clear that there is no significant relationship between education level and the perspective on capacity building. This means that no matter how high the education level of staff is, it does not affect the perspective of staff regarding capacity building. It is concluded that people who have higher education levels do not see capacity building as significantly important.

CONCLUSIONS AND MANAGEMENT IMPLICATIONS

According to Sisavath (2014) it is clear that most participant organizations use the Geocentric and Regiocentric approach. The main issue they face in Laos in practicing human resource activities, however, is the shortage of skilled labour, but they do not have any problems with cultural differences. It is also important to note some issues regarding Lao human capital. A higher education level does not make respondents believe that their education can support their work. Additionally, a higher education level does not mean that the staff members have a higher capacity to do the job. Also, most of the respondents who believe that their education can support their work are more likely to have more capacity to do the job. Furthermore, having a higher education level does not affect their perception of capacity building.

The research results also identified some management implications that can be applied in international organizations, in particular in Laos. These are outlined below. The main concern of the HR managers in the participating organizations was that employees have no initiative and that they are risk averse. It could be that staff is not able to apply what they have learned to the actual work situation. It was also found that one element is missing from the HR functions in these organizations namely management of rewards. The effective management of rewards can be the key to overcome this problem. It is widely-recognized that rewards can be used to improve employees' efforts and performance (Sisavath, 2014). Additionally, it is also acknowledged that rewards have a huge impact on organizational corporate culture. Therefore, if the participant organizations want to encourage initiative, they may have to value the employees more by providing them with appropriate rewards, since employees will be more motivated when they know that what they do is what is valued by the organization. This also supported by the research of Dowling et al (2009)

Managers must acknowledge that HR managers should maintain continues learning and growing environment of the organization's employees. Even though Lao staff is knowledgeable, skillful and capable, the actual data obtained indicates that Lao staff needs to improve their performance. Additionally, the findings also established the need for capacity development regardless of the educational background of employees. Therefore, the support for learning by providing equal opportunity, participation in training and a chance to grow could be some of the key success factors for the international organizations to enhance its human capital potential in Lao.

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