

**THE DEVELOPMENT OF HUMAN RESOURCE MANAGEMENT AND
INDUSTRIAL RELATIONS: A COMPARISON OF TAIWANESE AND
FOREIGN-OWNED ENTERPRISES**

外資企業與本國企業勞資關係與人力資源管理的比較研究

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我國因應亞太營運中心人力資源規劃與發展之研究

- - 外資企業與本國企業勞資關係與人力資源管理的比較研究

ABSTRACT

Small- and medium-sized, mostly family-owned, enterprises employ more than 60 per cent of paid employees in Taiwan; however, these enterprises traditionally do not have distinct human resource management functions. In contrast, state-owned and large-sized private enterprises gradually establish their human resource systems and learn human resource management techniques from foreign-owned companies. This paper first examines employment structure and labour market development in Taiwan, then evaluates employment legislation and the development of human resource management functions, and finally identifies several major challenges for future human resource management, such as employee participation and employment security.

INTRODUCTION

Small- and medium-sized, mostly family-owned, enterprises employ more than 60 per cent of the paid employees in Taiwan; however, these enterprises traditionally do not have distinct human resource management (HRM) functions. In contrast, state-owned and large-sized private enterprises have gradually established human resource systems and learned HRM techniques from foreign-owned companies during the past few decades (Farh, 1995). This paper first examines employment structure and labour market development in Taiwan, then evaluates employment legislation and the development of HRM functions, and finally identifies several major challenges for future HRM, such as employee participation and employment security.

LABOUR MARKET DEVELOPMENT

Taiwan has experienced rapid economic growth and egalitarian income distribution in recent decades. The annual average rate of economic growth between 1952 and 1990 was 8.9 per cent. Gini coefficients declined significantly from 0.58 in 1953 to 0.303 in 1990.

Unemployment remains low. The annual unemployment rate was, on average, 2.1 per cent from 1960 to 1995. Table 1 presents data on macro-economic and labour statistics for selected years. Development strategy shifted from import substitution to export-led growth (Deyo, 1989). In order to utilize relatively abundant human resources, the Taiwanese government encouraged labour-intensive industries, such as textile and food, in the early stages of economic development (Galenson, 1979). This is a similar point to the one made in the paper on Korea in this volume, as it also focused on labour-intensive manufacturing in early stages of growth. In addition to private enterprises, the Taiwanese government took over many monopolistic state-owned enterprises (SOEs), such as the petroleum, transportation, sugar, and electronics industries, from the Japanese government after the second war world.

(Table 1 about here)

The labour force has grown from 3.6 million in 1960 to 9.04 million in 1995. In 1995, some 5.4 per cent of the labour force listed themselves as employers; 17.1 per cent as self-employed workers; 8.8 per cent as unpaid family workers; and 68.6 per cent as paid employees (working for both public and private sectors) (DGBAS, 1996). In addition, the labour force participation rate has continuously declined over the last five years. The labour force participation rate was 60.9 per cent in 1987, but dropped to 58.71 per cent in 1995. The decline was especially rapid for male workers as they declined from 76.4 per cent in 1983 to 72.03 per cent in 1995. In contrast, the female labour force participation rate actually grew in the 1980s, although it declined slightly in the early 1990s (DGBAS, 1996).

The labour force employed in the manufacturing sector was 14.8 per cent in 1960, a figure which increased steadily through the 1960s and 1970s, and peaked at 35.17 per cent in 1987. Since 1988 the manufacturing work force has decreased to 27.08 per cent as of 1995. In contrast, workers employed by the service industry increased from 29.3 per cent of the labour force in 1960 to 50.71 per cent as of 1995.

Due to the adoption of labour-intensive policies and rapid economic development over the past several decades, the demand for labour gradually surpassed its supply, especially for lower-skilled workers. The labour shortage began to prevail in many industries in the mid-1980s, such as manufacturing and construction. In 1989 the Taiwanese government began to encourage foreign workers from Southeast Asia to relieve the labour shortage problem. Although there is a heated debate on the effects of foreign workers on the economy, the total number of foreign workers increased rapidly in the past few years. There were more than 220,000 legal foreign workers in mid-1996. It is expected that the total number will be twice by the end of this century (Ay, Chiu and Hsu, 1996).

SELECTED HRM PRACTICES

This section reviews selected HRM practices in Taiwan, including staffing, training and development, and compensation. Most SMEs do not have a distinct HR or personnel department. In contrast, large-sized and some SOEs have gradually established HR systems, such as using job analysis, job evaluation, performance appraisal, and compensation practices.

Staffing

The major positions in SMEs are nearly all held exclusively by close family members, since non-family members are usually not trusted by the owner. This fact is reflected in staffing practices; these enterprises hire close relatives or close friends as workers to ensure loyalty. However, this trait is not only restricted to these enterprises. Loyalty and the “right” personality qualities, such as being an easy-going and hard-working employee, are also major concerns for large-sized enterprises when they hire workers. For example, President Enterprise, the biggest food company in Taiwan, puts loyalty and personality as its first priorities when hiring.

As far as selection procedures are concerned, different types of enterprises use different methods. SOEs select their candidates by using competitive written examinations. Farh (1995) points out that using written examinations as the sole criterion for staffing is done not because it is valid but because it is seen as objective and fair in the public's mind. In contrast, private enterprises combine various kinds of methods to select their employees, such as physical examinations, interviews, written examinations, in combination with educational qualifications.

According to research by the DGBAS (1996) on how workers found their current job, about 28 per cent of interviewed employees reported they found their job through an newspaper or magazine advertisement. Importantly, more than 58 per cent reported that they found their current job from referrals (as relatives or friends). This is consistent with the view that close relatives and friends are hired by small-sized, family-owned companies. Also, some employers believe that hiring close relatives and friends contributes to a reduced turnover rate.

Training and development

Training in Taiwan is viewed by employers as a personnel cost rather than an investment in HRs (Farh, 1995). Employers are reluctant to spend much training employees because of

high turnover rates, especially for small-sized enterprises. When comparing training and development between large- and small-sized companies, Jean (1994) finds that around 60 per cent of large-sized companies have an independent training department; however, less than one per cent of small-sized companies have one. Only 21.3 per cent of small-sized companies had held training programmes. Most training in small-sized companies is sub-contracted to business consulting companies or co-sponsored with the government. In addition, Jean (1994) also notes that only 18.6 per cent of the total labour force in Taiwan reports they have attended a training programme. Of these, 72.4 per cent paid the training fee themselves and 27.6 per cent were assigned and supported by their employers.

In order to improve workers' skill levels, the government has passed several training laws to encourage employers' investment in training. In the early 1960s, a large proportion of the labour force was employed in the agricultural sector and workers lacked industrial skills. The government passed the Law for Occupational Training Fund in 1972. This law requested enterprises which employed more than 40 workers to deduct at least 1.5 per cent of all workers' compensation for an occupational training fund. However, the law was repealed in 1974 due to the oil crisis (*Ibid*). Similarly, in 1983 the Law for Occupational Training was passed in order to encourage enterprises to develop HRs. This law offered enterprises tax reductions if they initiate training programmes.

Compensation

Compensation is one of the most important HRM issues for both workers and employers (CAL, 1995). At the national level, the increase in real wages has nearly paralleled the increase in productivity over the past several decades. For example, the increase in annual labour productivity was, on average, around 5.94 per cent from 1952 to 1986; while the growth in annual real wages was 5.30 per cent (Lee, 1988). Lee (1988: 193) further points out that 'workers in Taiwan enjoyed their share of the fruits of economic development.'

At the firm level, the compensation package includes base pay and various types of bonuses, such as a year-end, competition, invention, long-service, spring festival and mid-autumn festival gifts, and so forth. There are several reasons for employers to use different types of bonuses instead of paying a higher base wage. First, the LSL's prescription that employers allocate retirement and severance payment according to the years of a worker's service based on a worker's base wage. Second, both the Labour Insurance Law and the Health Insurance Law request employers to pay the insurance and health insurance fees for their workers. The computation of the two payments by employers is based on a worker's base wage. Therefore, employers pay higher bonuses and benefits instead of higher base wages to reduce their levels of responsibility for such benefits.

According to the report from the CLA (1995:3), the ratio of base wage to total compensation was 68.98 per cent in 1994. Around ten per cent of the entire compensation was paid by employers for employees' protection programmes (e.g., medical care, life insurance and pensions). The ratio of payments to employees' protection programmes to the entire compensation has increased during the past few years. More than 90 per cent of enterprises give employee year-end bonuses. Even when the enterprises did not make a profit in the previous year, many employers still, more or less, paid this bonus. The amount

depends on the balance of profits. Over the past few years, employees working for high-tech and monopolistic enterprises have enjoyed higher bonuses. For example, Chinese American Petrochemical Company (CAPCO), a joint venture chemical company between Taiwan and the US, gave a 14-month-base-wage year-end bonus in 1995. In addition, Formosa Plastics Corporation, the most successful private company in Taiwan, usually pay about 4.5-month-base-wage year-end bonus. Public employees receive 1.5 months wages as a year-end bonus.²

Yet, since there is no commonly acceptable formula for the amount of year-end bonus, many labour-management disputes erupted over this issue during the past decade. For example, the CAPCO union asked for a 4-month-base-wage year-end bonus in 1996; however, the company agreed to pay 3.5-month-base-wage because of the economic recession. Therefore, the union tried to call a sit-down strike in early 1997.

Most SMEs in Taiwan do not use job analysis and job evaluation to price their workers. However, large-sized and SOEs do use job such systems. Due to a higher turnover rate, small companies rely heavily upon external competitiveness to develop their compensation practices. To acquire the market wage level, personnel managers often meet regularly and informally to exchange pay information (Farh, 1995).

Despite the complexity of the composition of compensation packages, base pay is traditionally seniority-based (Lee, 1995). With the traditional culture of avoiding conflict between management and employees, most workers can be promoted along the grades of their job titles after their annual performances as they are classified as “above-average”. That is, their base pay increases with their tenure. At the end of the year most workers can receive a performance bonus based on their performance evaluation, although the proportion of qualifying workers varies in different companies. For example, more than 80 per cent of employees in SOEs and the public sector can be ranked as grade A in their performance evaluation and receive one-month-base-wage performance bonus. If they are ranked as grade B, they can receive half-month-base-wage performance bonus. It is not common for the employees to receive a “below-average” (grade C or below) evaluation.

Comparing Personnel/Industrial Relations with HRM between SMEs and SOEs

This section makes a summary in comparing Personnel/Industrial Relations with HRM between SMEs and SOEs. The dimensions used are the same as China paper in this volume (itself based on Storey, 1992). They include rules, behavior, managerial role, key manager, personnel selection, payments system, work conditions, labour-management, job design and in-house training. By using the ticks, crosses and percentage marks to indicate level of presence of HRM practices, the researcher's subjective judgment is presented in Table 2.

(Table 2 about here)

COMPARATIVE AND INTERNATIONAL HRM PRACTICES: A FIELD STUDY

To compare larger Taiwanise-owned firms with foreign subsidiaries and joint ventures (JVs), we use the same questionnaire as the Korean paper in this volume. We collected data from 26 Taiwanise-owned firms and 26 subsidiaries and JVs (14 from the US, seven from

Holland, two from Japan, two from Germany and one from Australia). Most companies investigated are located in the Taipei or Kaohsiung areas. Several of the main characteristics of the firms are presented in Table 3.

(Table 3 about here)

We use 27 items, which are condensed from the 38-item questionnaire of the Korean paper in this volume, on a six point scale to measure the 12 HRM practices. These are recruitment and selection, training and development, employment security, tasks and assignment, job redesign, control, wage level, performance-based pay, performance appraisal, employee participation, employee ownership, and culture. The results of the survey are shown in Table 4. From the results, it seems there is no significant difference in most aspects of the HRM practices between Taiwanise-owned firms and foreign subsidiaries and JVs. Only training and development and employee ownership show significant differences in the HRM practices between them. Farh (1995:280) points out that in the 1960s large US and Japanese multinationals, such as IBM, Matsushita and Mitsubishi, began to influence personnel management practices in Taiwan. Therefore, from the results, we can observe the emergence of some convergence in HRM practices between Taiwanise-owned firms and foreign subsidiaries.

(Table 4 about here)

To further investigate whether there are differences in HRM practices between these firms, a logit regression model is used. Dependent variable is dichotomous. 1 represents foreign subsidiaries or JVs and 0 represents Taiwanise-owned firms. Independent variables are four broad HRM areas which are summarized from the 12 HRM practices. They are HR flow, work systems, rewards systems and employee influence. Readers could refer to the summary of the above 12 HRM practices on Korean paper in this volume. The results of the logit analysis presented in Table 5 indicates that there is no significant difference in the four HRM areas between Taiwanise-owned enterprises and foreign subsidiaries and JVs.

(Table 5 about here)

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Table 1: Macro-economic and Labour Statistics for Selected Years

	1960	1965	1970	1975	1980	1985	1990	1995
GNP per capital: US\$	143	203	360	890	2,155	2,992	7,413	11,315
Economic Growth Rate (GNP)	6.4%	11.0%	11.3%	4.4%	7.1%	5.6%	5.5%	5.9%
Consumer Price Index (1991=100)	19.04	21/42	26.51	47.14	71.45	86.57	96.50	116.06
Unemployment Rates	3.98%	3.29%	1.70%	2.40%	1.23%	2.91%	1.67%	1.79%
Gini Coefficient	---	---	0.294	---	0.277	0.290	0.303	---
Total Labour Force (thousand)	3,637	3,891	4,654	5,656	6,629	7,651	8,423	9,040
Male LFPR*	---	---	---	---	77.11%	75.47%	73.96%	72.03%
Female LFPR*	---	---	---	---	39.25%	43.46%	44.50%	45.34%

Sources: (1) Council for Economic Planning and Development (1996); (2) Directorate General of Budget, Accounting and Statistics (1996).

* represents labour force participation rate.

Table 2: Comparing Personnel/IR and HRM between SMEs and SOEs

	Personnel/IR -vs- HRM	
Dimensions	SMEs	SOEs
Rules	x	x
Behavior	x	%
Managerial Role	%	%
Key Managers	x	%
Personnel Selection	x	%
Payments System	x	%
Work Conditions	✓	%
Labour-Management	✓	✓
Job Design	x	%
In-house Training	x	✓

1. Readers could refer to Storey, 1992 for explanations of the dimensions.
2. all (✓); some (%) none (x)

Table 3: Characteristics of Taiwanise-owned Firms and Foreign Subsidiaries
(the number of firms in survey)

Factors		Foreign Subsidiaries and Joint Ventures	Taiwanise-owned Firms
Independent HR Department	yes	23	23
	no	2	3
Firm' s Age	0-10	13	8
	11-20	5	6
	20-30	7	7
	over 30	0	4
Firm' s Size	0-100	3	2
	101-300	13	3
	301-500	1	3
	over 500	8	17
Unionized	yes	17	13
	no	8	11

Table 4: Comparison of HRM Practices between Foreign Subsidiaries and Taiwanese-owned Firms

	Foreign Subsidiaries and Joint Ventures	Taiwanese-owned Firms	F-value
Recruitment and Selection	4.36 (0.57)	4.38 (0.58)	0.03
Training and Development	3.50 (0.49)	3.22 (0.56)	3.59*
Employment Security	4.61 (1.17)	5.04 (1.04)	1.90
Tasks and Assignment	4.35 (0.93)	4.27 (0.66)	0.16
Job Redesign	3.83 (1.00)	3.54 (0.89)	1.20
Control	4.69 (0.88)	4.44 (1.12)	0.80
Wage Level	3.73 (1.25)	4.08 (1.09)	1.13
Performance-based Pay	4.19 (0.60)	4.43 (0.60)	2.09
Performance Appraisal	4.50 (0.89)	4.10 (1.03)	2.24
Employee Participation	4.35 (1.16)	3.77 (1.48)	2.45
Employee Ownership	3.07 (1.55)	4.15 (1.38)	7.03 **
Culture	4.42 (1.03)	4.21 (0.99)	0.09

1. The 12 HRM practices are measured from the 27-item questionnaire assessed on a six point scale. 1 means ‘strongly disagree,’ and 6 means ‘strongly agree.’ Standard deviations are given in parentheses.
2. Approaching 1 means HRM practices are more like a cost-minimizing type, while approaching 6 means more like commitment-maximizing type. Readers could refer to Tables 7 and 8 about the definitions of variables on Korean paper in this volume.
3. * $p < .05$; ** $p < .01$

Table 5: Logit Result

Variables	Coefficient	Standard Error
HR Flow	-0.594	0.791
Work Systems	1.067	0.619
Reward Systems	-0.719	0.815
Employee Influence	-0.114	0.467
Constant	1.479	2.73
-2 Log Likelihood	65.21	
n	52	