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COPING WITH LABOR TURNOVER IN TAIWANESE COMPANIES

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Introduction

East and South-East Asia has emerged as one of the most dynamic regions in terms of economic growth in the 1980's (see Table 1). Over the past decades, Asia's Newly Industrialized Economies (NIE's), namely, Taiwan, South Korea, Singapore and Hong Kong, have successfully transformed themselves from being low-cost production sites with abundant supply of cheap semi-skilled labor to being the home base of successful enterprises who compete on a world-wide basis.

The strength of the Asian NIE's economic prowess can be illustrated by the fact that their combined share of world trade in goods has reached 7.4 percent of total world imports and 7.7 percent of the total world exports in merchandize trade (see Table 2 and 3), which is almost equal to the world trade shares in import of West Germany and close to world trade shares in export of Japan.

With strong and continuous economic growth came growth pain especially in regard to labor market adjustments. One par-

Table 1:

ASIAN NIES IN COMPARISON

(Source: ADB Annual Report, 1990; World Dev. Report, 1991)

Population 1989 (Millions)	Country	Average Annual GDP Growth Rate 1980-1987	GNP per capita 1989 (US\$)	Average Annual GNP Growth Rate 1965-1989	Country	Population (Millions)
3	Singapore	6,5%	10'450	2,1%	Ireland	3.5
6	Hong Kong	8,1%	10'320	2,4%	Spain	38.8
19	Taiwan	8,1%	7'510	2,9%	Greece	10.0
42	S. Korea	8,1%	4'400	3,0%	Portugal	10.3
70						62.6

Table 2: Leading exporters and importers in world merchandise trade 1990
(Source: GATT, March, 1991)

Population in millions (1988)	Rank 1990	EXPORTERS	1990 % Share	Value Billion US\$
78.0	1	Germany ^a	12.1	
250.0	2	United States	11.4	
124.0	3	Japan	8.2	
56.0	4	France	6.2	
57.0	5	United Kingdom	5.3	
58.0	6	Italy	4.9	
15.0	7	Netherlands	3.9	
27.0	8	Canada	3.8	
10.0	9	Belgium-Luxembourg	3.4	
291.0	10	USSR ^b	3.0	
6.0	11	Hong Kong ^c	2.4	
19.0	12	Taiwan	1.9	
42.0	13	Korea, Rep. of	1.9	
7.0	14	Switzerland	1.8	
1,115.0	15	China	1.8	
8.0	16	Sweden	1.7	
40.0	17	Spain	1.6	
3.0	18	Singapore ^d	1.5	
87.0	19	Mexico	1.2	
8.0	20	Austria	1.2	
17.0	21	Saudi Arabia	1.1	
17.0	22	Australia	1.1	
5.0	23	Denmark	1.0	
4.0	24	Norway	1.0	
158.0	25	Brazil	.9	
		Total	84.3	2,925
		World	100.0	3,470

^a The value figures for exports and imports combine the former Federal Republic of Germany with the former German Republic.

^b Because of difficulties involved in converting data expressed in national currency into dollars, the figures are at best only rough approximations.

^c Imports f.o.b.

^d Includes re-exports. In 1990, they amounted to \$53.0 billion compared to \$44.3 billion in 1989.

^e Includes re-exports. In 1990, they amounted to \$18.6 billion compared to \$16.4 billion in 1989.

^f Includes substantial imports for re-exports.

^g Includes estimates of trade flows through processing zones.

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GATT/30a

ticular pain in point has been a high labor turnover rate in all four Asian NIEs in general and in Taiwan in particular. (see Table 4)

In comparison, Japanese average annual labor departure rates in the manufacturing sector over the period 1980-1987 are reported to have only been 16.8 percent (Singapore Productivity Digest, January 1990).

A key task facing companies in Asian NIEs is the retention and utilization of qualified and motivated staff. The achievement of this strategic human resource objective is considered to be a key determining factor of a company's success in the Asian NIEs.

The present paper describes the anti-labor turnover tactics utilized by Taiwanese companies whose work force, management and ownership characteristics are in many ways similar to the enterprises of the other Asian NIEs.

Labor Turnover as a Reflection of Environmental Evolution

The thrust of this paper's theoretical orientation is based on the authors' assumption that labor turnover reflects changes over time in the socio-economic context of a given society. Hence, alternative explanatory constructs proposed by the "Rational Choice School" and the "Cultural Relativity School" are rejected in favor of a more interactive and evolutionary view of labor turnover (Yiu & Saner, 1991).

The "Rational Choice" school helps explain individual and organizational factors of labor turnover but does not sufficiently explain the differences in turnover between e.g. Japanese and American employees known for comparatively low (Japanese) and high (American) turnover rates. Main contributors of the "Rational Choice School" are Bycio, Hackett & Alvares, 1990; Fleishman & Harris, 1962; Krackhardt, McKenna, 1981; Martin & Hunt, 1980; Mobley, Griffeth, Hand & Meglino, 1979; Mobley, 1982.

The proponents of the "Cultural Relativist School" shed light on the cross-cultural differences but do not allow for much change in behavior since they consider culture a long-term determining factor of human behavior. Much of the Asian NIEs stunning success for instance has been attributed to Confucianist values which supposedly have led to the economic miracle of the Asian NIEs (Kahn, 1979; Redding & Hicks, 1983; Hofstede & Bond, 1988; Chen & Hou, 1990).

The most often cited Confucianist values which supposedly have "caused" fast economic growth are clanism (loyalty to the group), filial piety, obedience to elders, humility, "face," harmony and unity, tolerance for hardship, emphasis on education and thriftiness. However, after thirty years of growing prosperity, the traditionally docile and submissive workforce of the Asian NIEs has become increasingly assertive and is demanding more respect of individual rights and better working conditions. Workers are thus expressing behaviors which do not fit with any more the norm of traditional East-Asian societies whose Confucianist values were based on unequal ruler-ruled dichotomies reflecting the socio-economic levels of development of an agricultural and feudal society.

Confucianist values played an important role in the early phase of rapid economic development of the four Asian Dragons. However, Confucianist values are now being altered by the younger generation of the Asian NIEs who either reject or modify key Confucianist principles to the great chagrin of traditionalist leaders whose authority is increasingly challenged and "democratized" by the materially more prosperous and psychologically more self-assured young Asian workers and managers.

This change of behavior is most apparent in regard to labor relations and job mobility. During the early phase of economic development when typical Confucianist authoritarian-paternalistic leadership was still the norm, employees stood very little chance of redressing grievances or concerns. Conflict-mediating functions, such as trade unions or ombudsmen, were not avail-

Table 5:

**COMPARATIVE TURNOVER RATES IN
TAIWAN AND SINGAPORE, 1990**

	YEARLY AVERAGE RATE (%)	HIGHEST RATE (%)	LOWEST RATE (%)
TAIWAN			
TNC'S (n = 21)	51.6	96	15
MUNUFACTURING SECTOR (incl. LOCAL FIRMS)	43.7	n.a.	n.a.
SINGAPORE			
TNC'S (n = 42)	42	98	6
MUNFACTURING SECTOR (incl. LOCAL FIRMS)	39.5	n.a.	n.a.

Source: 1) Industrial Relations Club, N. Taiwan (1990)

2) Personnel Manager Club of Electronic Companies, Singapore (1990)

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American and European transnationals), and general manufacturing (30-45 percent) (see Table 6).

Regarding occupational categories, the highest attrition rates are reported for young (20-29 years old) white-collar male employees. This group leaves more readily and is more difficult to recruit. Young female factory workers leave less often, and their separation is primarily related to two factors, pregnancy and the search for a potential spouse at other work sites.

A company's size also has a bearing on turnover rates. Higher turnover rates are reported for medium- to large-size companies. Taiwan's predominantly small and medium sized companies (97.8 percent of the total company figure, see J.S. Lee, 1988) are less affected, although one should bear in mind the average turnover rate of more than thirty percent quoted above.

Causes of Taiwan's High Labor Turnover

I. Macro-Economic Factors

With Taiwan's economy is still humming at full speed, it comes as no surprise that unemployment is low (1.7 percent in 1990), labor shortages abound (200,000 job vacancies in manufacturing, 120,000 in construction and an expected shortage in the electronics field of an estimated 50,000 over the next three years according to the Council of Labor Affairs). Salaries are the highest in the Asian region, second only to Japan. A senior manager, for instance, earns between US\$60,000-65,000 annually; a construction worker averages US\$100 per day; a taxi driver can count on US\$2,500 to 3,200 per month; in comparison, a university professor can expect about 3,000 per month (ca. 1,500 base salary plus benefits such as housing allowance, grants etc.).

Tight labor market conditions are known to contribute to labor turnover (J.G. March, H.A. Simon, 1958). This cause-effect relation is particularly apparent in Taiwan, whose tight labor market enjoys no relief, since importing foreign labor is

severely restricted. A few exceptions exist but they are mostly linked to the country's construction industry. In manufacturing, managers pressed by export orders are willing to pay very high salaries to attract workers during the months of rush orders, disrupting even further the already dried-up labor market.

2. *Micro-Economic Factors*

With the growing affluence of Taiwanese society, more and more young people have migrated to urban areas and started working in the rapidly expanding service sector. Although the wages for the semi-skilled service jobs are relatively lower in comparison with the wages paid for the similar skill level in the manufacturing sector, young people prefer to work in the service sector since it offers a more comfortable working environment, lower work-related stress and perceived higher social status than work in the manufacturing sector. The combined factors of general working conditions and social desirability have precipitated the trend of worker migration from the manufacturing sector to the service sector.

3. *Organizational Factors*

While more than 97% of the businesses in Taiwan are small- and medium-sized companies¹, the majority of Taiwanese companies (including large conglomerates) are in family hands. A typical family-owned Taiwanese business is centrally organized around the owner-manager-entrepreneur. Rules and regulations are often vague or non-existent, the decision-making style is the top-down command approach and information is seldom made

¹ Small- and medium-sized companies are defined in Taiwan as companies employing less than 300 employees with an annual turnover of N.T.\$4 million (equivalent of US\$143,885 at the current exchange rate).

VOLUNTARY JOB CHANGERS BY AGE GROUP

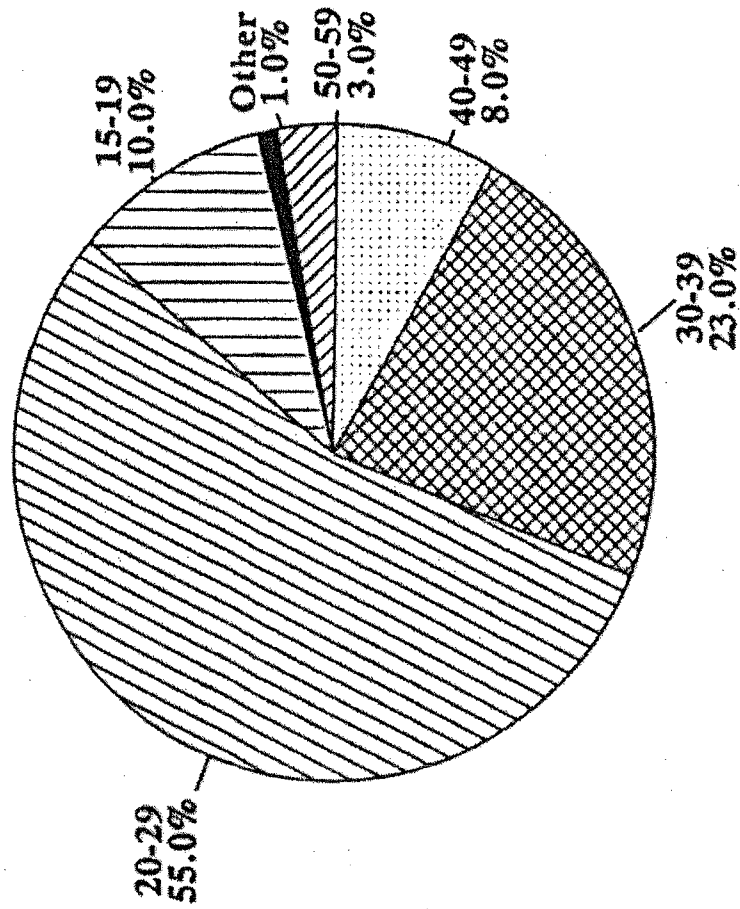


Figure 1:

(TAIWAN - 1988); N = 501,000
Source: Council for Economic Planning & Development, 1988
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oriented educational environment and, thus, are less attached to traditional Chinese values such as unconditional loyalty, deference to hierarchical power and primacy of collective goals over individual aspirations. The new credo of the Taiwanese "Me-Generation," often heard and taken seriously, is "It's better to be the head of a chicken than the tail of a cow"—a value preference already reflected in the predominance of small enterprises and further supported by the young generation's continuous job-hopping.

Social Respectability of Wealth

Making money, which was considered "vulgar" by Confucianist standards, is definitely in fashion, as is the desire to "make it to the top" (acceed to power) as fast as possible. This represents an attitudinal shift away from World War II conservatism to a more liberal outlook on life which is most evident among the twenty- to thirty-year-old segment of the workforce often called "the Asian Me-generation." Becoming a wealthy investment broker is now more attractive to graduate students than pursuing a career as a teacher or civil servant, which in the past was considered as being more desirable and more honorable.

Concurrent with this change in attitudes and values, with regard to personal interests and lifestyles, there has been a marked shift away from the proverbial diligence, thriftiness and hard work of the past to newly-exhibited behaviors such as opportunism, gambling and pleasure-seeking and consumerism. Stock market speculation and gambling of all sorts have permeated Taiwan's labor force on all levels during the late 1980s. This phenomenon has prompted Mr. Chao Yao-Tung, former Minister of Economic Affairs of Republic of China (Taiwan), to lament, "The Chinese tradition of austerity and hard work has been hard-hit by the money games of recent years" (Economic

abroad (separate career paths for expatriate versus local managers). Hence, local managers tend to contemplate leaving a TNC once they have realized that their career has reached the ceiling allotted to local managers.

Leadership Style

Many Taiwanese managers seem unable or unwilling to delegate, to define and assign tasks adequately, and to provide on-the-job training. Employees, however, increasingly reject this authoritarian-traditional school of leadership. Thus, clashes become inevitable between these different values and expectations. Moreover, as the preferred style of conflict resolution in Asia is conflict avoidance, many employees when faced with such antiquated leadership behavior, simply quit and start anew elsewhere.

Working Conditions

Working conditions in Taiwan are stressful, leading to dissatisfaction and turnover. Local working conditions in general are harsher than conditions in North America or Europe. Monitoring the implementation of the new Labor Standards Law, the Council of Labor Affairs (1989) found widespread violations, predominantly by small enterprises, especially concerning prolonged work hours, safety regulations, lack of working rules and too few days off work.

A follow-up inspection of 294 medium-sized companies (employing 250-500 workers) confirmed the findings of the small enterprise sample. In addition, the Council's inspectors uncovered a general lack of labor insurance, and no appropriation of funds for labor welfare; 34 percent of the sampled enterprises did not even offer a day off work once a week.⁴

⁴ Study reported by *China News*, Taipei, 11 April 1989.

Table 7:

LABOUR TURNOVER MANAGEMENT STRATEGIES TAIWAN, 1989

REMEDIAL ACTIONS	MOST USED	LESS USED
1. Salary increase	XXXX	
2. Bonus payments	XXXX	
3. Poaching of labour	XX	XX
4. Alternative business strategies	XXX	X
5. Employee stock options	XX	XX
6. Spin-off partnerships	X	XXX
7. Culture & climate improvements	XX	XX
8. Financial "bonding"	X	XXX
9. Shorter work hours	X	XXX
10. More effective leadership		XXXX
11. Professionalizing of personnel system		XXXX
12. Rationalizing of work flow structure	X	XXX

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increasing number of international executive search firms have opened offices in Taiwan and since employees have become accustomed to their services, their business has been excellent. The less sophisticated approach in using head-hunters is the offering of a "finder's" fee. Monetary rewards are offered for each new recruit, thus spurring a new cottage industry of head-hunters who enlist young school dropouts for factories throughout Taiwan.

markets. These high-tech companies are characterized by their spirit of innovation and their ability to respond rapidly to market demands. Such companies tend to be small, employing around seventy people, with very low levels of formalization and work climates that are less formal than is the case in traditional companies.

The spin-off partnership strategy has been effective in retaining key performers and their know-how within the "family" network. It enjoys the following advantages:

- a) The need for autonomy of the ambitious key performers is satisfied. Limited by their size, small companies cannot offer many possibilities for promotion. The spin-offs allow the company to create new opportunities for ambitious managers to be the "head of the chicken" and, at the same time, avoid growth in size and subsequent bureaucratization.
- b) Close supervision and control is not necessary as the partner-employee shares the risk as well as the responsibility for turning the new spin-off businesses into a viable enterprise.
- c) The spin-off business usually forms an integral part of the core business through the process of vertical or horizontal integration. This offers the benefit of maintaining flexibility and responsiveness.

2. Culture and Climate Improvements

Some enterprises offer improved working conditions and opportunities for personal growth as a way to increase group cohesion and identification with the company.

Training

The most often used measure is the offering of training programs. Training is much appreciated by the workforce, as it is perceived as a way to increase chances for promotion, career

In-house Services

To counter the effects of Taipei's traffic jams, medium- to large-sized companies have also begun to set up their own in-house health clinics, recreation centers and food co-operatives, thereby helping their workers and employees save time, energy and money.

3. *Financial "Bonding"*

As a result of the soaring price of real estate, some high-tech companies have built housing units near company headquarters and sell apartments to employees at unit cost. This incentive is very popular with professional and managerial staff since realty prices are prohibitively high. Living next to the office cuts down the time and energy wasted by travelling to work during rush hours and helps to cultivate a sense of togetherness which may strengthen identification with the company through proximity to other fellow employees. When an employee leaves the company, the company-built apartment must be sold back to the company. Since it is easier to find another job than another apartment of similar standing, employees tend to remain longer, allowing the company to foster loyalty, thereby reducing turnover rates.

4. *Employee Stock Options*

Distributing shares to managers and professionals has become a preferred reward tactic in the electronics industry, especially computer manufacturers. This retention strategy is fairly effective as long as the stocks cannot be traded publicly.

Young start-up companies often face a great surge of turnover among young engineers and technicians after the company's stock has been quoted on the stock market. In pursuit of higher return on investment, these highly sought-after engineers often

Thailand, Indonesia and Vietnam have also topped the investors' list.

This relocation strategy has had a profound impact on the economic relationships in the region. The most significant result is the integration of economic activities of Southern China, Taiwan and Hong Kong. Since the mid-1980s, more and more Taiwanese companies have been investing in China. Benefitting from the still competitive labor costs in China, Taiwanese firms conduct R&D and marketing in Taiwan while manufacturing in China and utilizing the financial and transport services of Hong Kong to export the finished products to world market.

The companies which decided to maintain their manufacturing facilities in Taiwan are moving increasingly into automation and robotization. The goal is to upgrade and to move to knowledge-intensive product lines which, it is hoped, will require less and less manpower. Another business strategy has been to diversify away from industrial production altogether and to focus instead on financial services and real estate businesses.

7. Student Loans and Apprenticeships

Major companies are providing student loans to students with the understanding that they will work for the company for a specified number of years after graduation. This scheme is effective as long as the company enjoys a good reputation and offers career prospects. Apprenticeships are also provided to students who are attending night school. These students often work in the offices as dispatchers, bookkeepers, or clerical workers.

Strategic Considerations for Transnational Companies

It would be unrealistic to suggest that all turnover is dysfunctional. The loss of unproductive employees in fact is desirable, and the maintenance of a manageable level of turnover has been

above followed a different path in dealing with the turnover problem. They offered more culturally sensitive and more participatory-oriented management practices such as spin-off partnerships, financial bonding and better work climates. These measures proved effective in retaining high-potential Taiwanese managers.

Transnational companies operating in Taiwan have counted on their more sophisticated labor relations and more advanced training and development schemes as strategies to cope with the turnover issue. These motivational alternative strategies have indeed been appreciated by young local managers who look for work environments which are considered fair and supportive of personal development. In addition, transnational companies in Taiwan follow a more consistent business strategy than local companies which are constantly adapting to changes in the business environment. TNCs can offer greater job security which helps curb the high turnover rate. Nevertheless, the forty to fifty percent labor turnover rate incurred by TNCs is still much higher than the average turnover rate of local enterprises and much higher than the turnover rate in Western Europe and the U.S.A. One of the reasons for this high turnover rate lies in the personnel policies of TNCs which tend to favor European and American managers and discriminate against high-potential Taiwanese managers.

How to curb the excess labor turnover and how to retain and motivate the young and promising Asian professionals will be the two key questions facing the TNCs who are operating in the Asian NIEs in the 1990s. The successful implementation of their localization strategy will hinge on the effective resolution of these issues.

Policy Recommendations for Transnational Companies

The following policy positions regarding human resource management should be carefully considered by TNCs who want

2. *Fostering a Global Corporate Culture*

One of the key tasks facing the TNCs is the achievement of a strategic balance between the conflicting demands of integration and differentiation (Y. Doz, C.K. Prahalad, 1989). Successful TNCs have shown evidence of this by developing and nurturing a unifying global corporate culture.

Evidence of globalization of corporate culture is, for example, reflected in the selection of an official working language to be used at headquarters level. The use of such a working-language policy-decision should be mandatory for all personnel, especially for those who are in direct contact with non-national counterparts, e.g., telephone operators and receptionists. The language issue is a particularly sensitive issue for many European TNCs, since most Asian NIEs managers use English as their second language. To insist on French, German or Italian instead of English would automatically block the participation of Asian managers at headquarters-level and render the internationalization process less effective.

A fundamental shift of corporate culture is required which in turn demands a reframing of the corporate mindset. Management, especially the managers holding staff functions at headquarters, have to move from a parochial to a global orientation. Establishing a mandatory international rotation policy as part of the corporate career path would certainly strengthen a TNC's globalization and internationalization strategies. The firsthand exposure gained through rotation policies, when supported by relevant management training, would enhance the intercultural competencies of the TNCs' top managers. In turn, TNCs would be better equipped to provide culturally sensitive responses with regard to leadership, team work, conflict resolution, customer satisfaction and staff appraisal (Yiu, L., Saner, R., 1984, 1986).

Cultural adaptation of TNCs' professionals, thus far, has oftentimes been one-sided. Many of the younger generation of Asian managers have attended universities in the United States, the U.K., Australia or Germany, and have thus acquired a more

gration with local suppliers and helps to reduce financial risks. When market penetration in Asian NIEs becomes increasingly competitive and critical, TNCs might consider emulating a similar strategy for their own benefits.

Conclusions

For companies seeking global competitiveness, Asian NIEs warrant special consideration. Asian NIEs offer 1) highly skilled, motivated workers, and well-qualified professionals; 2) affluent customers with growing purchasing power; 3) sophisticated consumer demands which could facilitate product innovation; and 4) a culture based on entrepreneurship.

To maintain global competitive advantage, TNCs can ill afford to be marginalized in the Asian NIEs. TNCs need to know how to better utilize the human resources in Asian NIEs in order to effectively counter the on-going trend of job-hopping among their local employees. Seeking to retain their best people, TNCs will have to examine their fundamental assumptions concerning their strategic interests within the Asian NIEs and their value assumptions concerning non-Western human resources. To be global players, TNCs need to improve their organizational capabilities and actively seek cross-cultural synergies within their multi-cultural work force.

A fundamental reorientation of the management philosophy and practices is called for as a way to effectively deal with the changing expectations of the Asian work force and to curb the rising tide of turnover. Thus, a reinterpretation or "modernization" of the Confucianist social contract is an inevitable consequence of such a reorientation. To change the managerial behavior in Asian NIEs requires a fundamental redefinition of the role of the leader as well as that of the subordinate. The traditional roles defined by the Confucianist doctrine are no longer congruent with the role expectations of the younger generation who grew up in a Westernized cultural environment.