

# SERVICE-ORIENTED HUMAN RESOURCE PRACTICES: A COMPARATIVE STUDY BETWEEN LOCAL AND FOREIGN FIRMS IN VIETNAM

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**Abstract:** As a result of its economic reform policies, Vietnam has emerged as an attractive country for foreign direct investment, especially in numerous service sectors such as banking and financial services, hospitality and retailing. The presence and operations of foreign service firms have also raised growing concerns regarding the competitive position of local service firms. However, after more than 30 years of the Doi Moi, little is known about whether there are differences in the service-oriented human resource practices within local and foreign service firms in Vietnam. Using a mixed method approach (surveys with 549 service employees and 20 in-depth interviews with managers and service employees in both local and foreign service firms), this study finds that foreign firms perform better than their local counterparts in several dimensions of service-oriented human resource practices (e.g., service-oriented recruitment, training, rewards and employee autonomy). Conclusions and implications for service managers have been provided.

Keywords: service-oriented human resource practices, service firms, Vietnam

## 1 Introduction

Service industries make significant contributions to global economic growth. The service sector contributes more than 70% of GDP in most advanced markets and about 40% of GDP in emerging markets [29]. As a result of its economic reform policies, Vietnam has been an attractive country for foreign direct investment in the region, especially in numerous service sectors such as banking and financial services, hospitality and retailing. Since Vietnam and several emerging markets are in the process of moving from state ownership and management to a more market-based economy, much of the recent literature has pinpointed the importance of foreign firms in these markets in terms of technology transfer, know-how transfer, management skill enhancement, productivity enhancement and economic progress [25]. However, the presence and operations of foreign service firms have also raised growing concerns regarding the competitive position of local service firms [6, 25]. The literature has identified several reasons for foreign companies to invest abroad including firm-specific competitive advantages that are unavailable for local companies or difficult for local companies to imitate [3]. Such advantages may include financial advantages, product and service

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differentiation, and marketing advantages and, therefore, may assist foreign firms to outperform their local counterparts [13]. One question which emerges is whether foreign service firms attempt to transfer the service-oriented human resource practices from their parent firm's home country. Further, after more than 30 years of the Doi Moi, little is known about whether there are differences in the service-oriented human resource practices within local and foreign service firms in Vietnam. To address such gaps, the aim of this paper is to explore the service-oriented human resource practices in local versus foreign service firms in a key emerging market in the Asian context, Vietnam. The rest of this paper is structured as follows. First, we examine the theoretical background of service-oriented human resource practices and develop a set of research hypotheses. We then describe the research methodology and present our research results. Finally, we discuss theoretical contributions and provide managerial implications for the study.

# 2 Theoretical background and hypotheses

# 2.1 Service-oriented human resource practices

Service-oriented human resource (HR) practices include service-oriented recruitment and selection, service-oriented training, service-oriented rewards and recognition and employee autonomy. For service-oriented recruitment and selection, organisations first need to identify them and compete with other rivals to hire them, then need to be conscientious in interviewing and screening to choose employees with service-oriented personalities and competencies from the pool of candidates [39]. Service-oriented training refers to educational and training programs to improve employees' job-related and service behavioral skills [2]. Service-oriented rewards include compensation and other incentive rewards to employee's service-oriented performance, and recognition for their service excellence [38]. Finally, autonomy relates to the degree to which the manager provides freedom, power, independence, and discretion to the employee in carrying out a given job [10].

## 2.2 Ownership influence on the adoption of service-oriented human resource practices

The extent to which a foreign firm should adapt home country practices or transfer their practices to the host market is a central issue in the internationalisation of firms [9]. Some studies [21, 26, 28] show that the country of origin of multinational corporations (MNCs) has a significant impact on the HR practices, and management systems of the firm. MNCs with a higher proportion of expatriates are more likely to adopt the organisational practices that are transferred from their parent's company to the host country's company [15, 31]. This argument is relevant to the resource-based view of competitive advantage [4, 34, 36, 37] and Dunning's eclectic paradigm [12–14].

Based on the RBV, firms are likely to adopt similar HR practices to take advantage of their parent' resources and competencies [21]. The eclectic paradigm by Dunning [12-14] explains that foreign firms possess three specific advantages, namely ownership-specific advantages, location-specific advantages, and internalisation advantages. Ownership-specific advantages consist of knowledge, capability, managerial skills, relationships, processes and physical assets that are specific to the firm. Location-specific advantages relate to comparative advantages that are available in individual foreign countries. Such advantages are external to the firms and may include customer demand, market growth, proximity to the market, availability and price of skilled and professional labour, and the quality of local infrastructure and government regulations [12, 35]. Meanwhile, internalisation advantages are those that the enterprise derives from internalising its value chain [12]. In other words, internalisation-specific advantages explain how a firm is able to spread its operations for production or delivery internationally through the establishment of subsidiaries. Although the eclectic paradigm is often used to explain the internationalisation of manufacturing and services, prior studies have not used this paradigm to explore whether foreign firms transfer the HR practices employed by their parent firm to differentiate their HR practices in an international setting. The perspectives of ownership and internalisation advantages of the eclectic paradigm can enhance our understanding on how foreign service providers use these specific advantages and transfer the practices from their parent firm's home country to create a more developed human resource practices compared to local firms in emerging markets such as Vietnam.

In particular, in Asian emerging markets such as Vietnam where foreign firms face fewer institutional constraints, they may practise greater market-oriented and service-oriented approaches which are transferred from their parent's company and adapted to suit local conditions [22, 23, 26]. In contrast, although domestic service firms can enhance their serviceoriented HR practices by observing such practices in foreign firms and imitating them in their operations [40], several studies have found that managers in South Asian emerging markets are traditionalists, less active and committed to strategic roles, who prefer their current ways of personnel management practices [23, 24, 26]. Foreign firms, therefore, have been found to utilise greater service-oriented HR practices than their domestic counterparts [1, 24]. For example, a comparative study between service organisations of Western Europe markets and an emerging market (China) showed that the service orientation of HRM, corporate culture and the entire organisation is significantly better in Western Europe service organisations than in their Chinese counterparts [16]. This study indicated that high power distance in China limits the application of service orientation in training and empowerment and high uncertainty avoidance explains the lower service orientation of incentive system or performance appraisal of Chinese service managers. For example, Chinese service managers feel uncomfortable with establishing concrete goals for their service employees and prefer motivating employees based on personal

relationships [16]. Further, while foreign companies have a merit-rating system for evaluating employee performance, merit-rating systems of most local companies in Asian emerging markets are uncertain and promotion process and procedures are unclear [1, 20, 26, 33].

Based on the above arguments, the following hypotheses were developed:

- H1. Compared to local firms, foreign firms exhibit a higher level of service-oriented recruitment and selection
- H2. Compared to local firms, foreign firms exhibit a higher level of service-oriented training
- H3. Compared to local firms, foreign firms exhibit a higher level of service-oriented rewards and recognition
  - H4. Compared to local firms, foreign firms exhibit a higher level of autonomy

# 3 Methodology

# 3.1 Research approach

A mixed-method approach was applied to this study. The mixed-method approach which includes a combination of quantitative and qualitative study would enable us to have a better understanding of the implementation and comparison of service-oriented HR practices in both local and foreign service firms. Further, a mixed-method approach provides better findings and improves the reliability and validity of the study as suggested by several researchers [30].

## 3.2 Quantitative study

#### Data collection

We collected data from three service sectors (banking, hospitality, and retailing) since these sectors had more than five foreign service firms from advanced Western markets operating in Vietnam. We contacted the HR department of these companies and seek their approval of the survey with their service employees. Finally, 14 service firms, including eight local and six foreign firms operating in big cities of Vietnam agreed to be involved in the study. Firm size ranges from 120 to 249 employees for local firms and from 120 to 1,200 employees for foreign firms. Service employees of these firms were encouraged to participate on a voluntary basis and were assured for their confidentiality and anonymity. We distributed 850 questionnaires, of which 560 questionnaires were returned. 11 questionnaires were excluded due to missing data, and a total of 549 questionnaires were fully completed for final analysis. Thus, a response rate of 64.6% was obtained. The respondent profile is illustrated in Table 1.

Table 1. Sample characteristics

	Total		Local firms		Foreign firms	
	Number	Percent	Number	Percent	Number	Percent
	549	100	319	100	230	100
Gender						
Male	184	33.5	102	32.0	82	35.7
Female	365	66.5	217	68.0	148	64.3
Age						
Under 20	1	0.3	0	0	1	0.4
20-30	346	63.0	195	61.1	151	65.7
31-40	171	31.1	100	31.4	71	30.9
Over 40	31	5.6	24	7.5	7	3.1
Average working tenure	4.2 years		4.8 years		3.1 years	
Service sector						
Banking	199	36.2	132	41.4	67	29.2
Hospitality	241	43.9	148	46.4	93	40.4
Retailing	109	19.9	39	12.2	70	30.4

#### Measures

A total of 15 items (rated from 1- strongly disagree to 7- strongly agree) were utilised to measure service-oriented HR practices, including four subscales as mentioned above. These items were adopted from previous studies [8, 11, 38].

More specifically, service-oriented recruitment and selection were measured by asking respondents to evaluate the extent to which their companies recruit and select employees with service-oriented personalities and capabilities (e.g. "Recruitment in my company emphasises traits and abilities required for providing high-quality customer services"). Service-oriented training was measured by asking respondents to evaluate the extent to which their companies emphasised training activities, especially in customer service training (e.g. "High quality of customer services is emphasised in training"). Service-oriented rewards and recognition were measured by asking participants to evaluate the extent to which their companies rewarded and recognised employees based on their service excellence (e.g. "My company rewards employees for new ideas for improving customer services"). Finally, the dimension of autonomy was measured by asking employees to evaluate the extent to which they are provided freedom, power, independence, and discretion in serving customers or carrying out a given job (e.g. "I am permitted to use my own judgement in solving customer problems").

#### **Analysis**

In order to test the five hypotheses, we conducted Independent samples t-test comparing service-oriented HR practices, including service-oriented recruitment and selection, service-oriented training, service-oriented rewards and recognition, and autonomy between two groups of different ownership types, local and foreign-owned. The test of equality of variances was first examined to check whether there was the equality of variances between two groups (local and foreign) [7]. If equal variances are not assured, the equal variances not assumed in SPSS output will be used for t-test results for the differences between the two groups.

# 3.3 Qualitative study

Semi-structured and in-depth interviews are the principal data collection method for the qualitative study. The benefit of semi-structured in-depth interviews is that we can gain a more comprehensive and better understanding of respondents' opinion in a list of key topics [17]. This method of data collection is appropriate for this qualitative study as respondents are free to answer the questions according to their own perception and thinking regarding the implementation of service-oriented HR practices in their firms [17].

Ten service firms, both local and foreign-owned, were invited to participate. These firms operate in banking and financial services and hospitality sectors. In each firm, one manager and one representative service employee were involved in the interview process. The managers work in various positions such as general manager (GM), vice GM, relationship manager, human resource manager, and service manager. Service employees work in different departments that have customer interfaces such as front office, customer relationship, and sales and marketing office (See Table 2 for participant details).

An interview protocol with themes and questions was developed to guide the research. Thematic coding was used for data analysis. All information regarding interviewees such as interviewees' name and firm's name was kept confidential.

Table 2. Participant details

Firm	Service sector	Ownership	Position/Department		
			Manager	Service Employee	
#1	Hotel	Foreign	General Manager (GM)	Frontline Officer	
#2	Hotel	Foreign	Human Resource Manager	Frontline Officer	
#3	Hotel	Local	GM	Sales/Marketing Executive	
#4	Hotel	Local	Service Manager	Frontline Officer	
#5	Banking and financial services (B&F)	Local	GM	Teller	
#6	B&F	Local	Deputy Manager	Client Executive	
#7	B&F	Foreign	Senior Vice President	Teller	
#8	B&F	Foreign	Relationship Manager	Customer Relationship Officer	
#9	B&F	Local	<b>Deputy Director</b>	Customer Service Officer	
#10	B&F	Foreign	Deputy GM	Frontline Officer	

# 4 Findings

#### 4.1 Quantitative results

Confirmatory factor analysis (CFA) was conducted to test the fit of the measurement model. According to Hair et al. [18], reliability and validity for each variable in the present study were examined by observing the values of individual factor loadings in CFA, the composite reliability (CR), Cronbach's alpha ( $\alpha$ ), and average variance extracted (AVE). The CFA result indicates that the four-factor measurement model provides a good fit to the data (( $\chi^2$ /df = 3, SRMR = 0.053, GFI = 0.93, AGFI = 0.907, CFI = 0.956, TLI = 0.95, RMSEA = 0.06). The standardised factor loadings for all constructs in this study range from 0.67 to 0.86, as shown in Table 2. CR values for all constructs range from 0.75 to 0.83, exceeding the prescribed minimum requirement (0.5); the alpha values exceeded 0.7, ranging from 0.895 to 0.903; and the AVE values all exceeded 0.5. In addition, all AVE values are greater than the squared correlation estimate, thus supporting discriminant validity between the dimensions.

Table 3. Reliability and validity

		Standardised	Cumbo 1/2		
Scale	Item	Loadings	Cronbach's a	CR	AVE
	1. My company selects the best all around candidates when recruiting employees.	0.81			
Service- oriented recruitment	2. My company places priority on candidates' potential to learn when recruiting employees.	0.86			
	<ol> <li>My company has effective procedures for recruiting and selecting the best service employees.</li> </ol>	0.86			
	4. Recruitment in my company emphasises traits and abilities required for providing high quality of customer services.	0.81	0.896	0.8	0.7
Service- oriented training	<ol> <li>My company provides an orientation program for newcomers to learn about the company.</li> </ol>	0.74			
	2. My company continuously provides training programs.	0.79			
	3. Training is comprehensive, not limited to skill training.	0.84	0.895	0.75	0.63
Service- oriented rewards and recognition	<ol> <li>Employee salaries and rewards are determined by their service performance.</li> </ol>	0.79			
C	2. My company rewards employees for new ideas for improving customer services.	0.82			
	3. My company provides the fairness of compensation/rewards.	0.85			
	<ol><li>My company gives special rewards to employees who are excellent in serving customers.</li></ol>	0.77	0.896	0.8	0.65
	1. I am permitted to use my own judgment in solving customer	0.71			
Autonomy	<ul><li>problems.</li><li>2. I have the freedom in my work to serve customers.</li></ul>	0.84			
	3. I am allowed to serve the customers the way I think best.	0.76			
	4. I am encouraged to serve customers with my own way.	0.67	0.903	0.8	0.56

Table 4 shows the results of the quantitative study. The results of Levene's test for equality of variances for service-oriented recruitment and selection, service-oriented training, service-oriented rewards and recognition, and autonomy were all significant at 0.001 levels. Therefore, equal variances were not found for these variables.

As predicted, the Independent samples t-test results in Table 4 strongly confirm that significant differences in the service-oriented HR practices were found between local and foreign firms. Specifically, foreign-owned service firms exhibit a higher level of service-oriented recruitment and selection, service-oriented training, service-oriented rewards and recognition, and autonomy. All of these differences are significant at 0.001 levels.

Table 4. t-test results of service-oriented HR practices between local and foreign firms

	Company ownership	Mean	Levene's test for equality of variances	t test for equality of means	
1. Service-oriented recruitment and	Domestic	4.83	***	***	
selection	Foreign	5.55			
2 Coming oriented torining	Domestic	4.89	***	***	
2. Service-oriented training	Foreign	5.67			
3. Service-oriented rewards and	Domestic	4.65			
recognition	Foreign	5.21	***	***	
4.4.4	Domestic	4.23	***	***	
4. Autonomy	Foreign	4.92	0.0.0.	222	

Note: \*\*\* - significant at 0.001 level

#### 4.2 Qualitative results

The qualitative study provides further support for the quantitative results. All participating firms involved in the study implemented service-oriented HR practices in the operations of their firms. With regard to recruitment and selection, they indicate that "service is a passion" and they select service employees based primarily on personality fit and attitude towards customer services. They implemented training and educational programs to enhance knowledge and skills for service employees such as workshops, on-the-job training, teambuilding activities. Further, several managers (e.g. manager #5) and employees (e.g. employees #4, #6) indicated that when employees are recognised and rewarded based on service excellence, they feel motivated in delivering quality customer services. The managers, both local and foreign-owned indicated that in addition to monetary rewards for front-line staff in obtaining their sales and service targets, they also offer prizes for back-office staff for their performance and achievement of corporate targets. One manager stated:

"Staff at our bank's assessment unit may not have personal interaction with customers but they have to assess customers' records, which means they are also offering services to customers" (manager #6, local).

The participating firms also provided some level of employee autonomy in order to give employees opportunities to make quick decisions in dealing with customer-related issues. However, the level of implementation of these service-oriented HR practices is different between local and foreign firms.

While local and foreign firms emphasised personality and attitudes in recruitment and selection, foreign firms tend to have strict criteria to hire the right person. The interviews reveal that the recruitment and presence of expatriates in foreign firms in Vietnam tend to make their service-oriented recruitment and selection better. Managers in foreign firms (e.g. managers #2, #7, and #8) stated that they prefer recruiting expatriates or those who had studied abroad. Although these managers were aware of cultural differences from recruiting these employees, such differences were not considered challenges but rather opportunities. They believed that expatriates or overseas-trained people could bring a professional service environment that they could learn from advanced markets and that it could also influence the working style of local employees. Manager #2 said:

"Recruiting expatriates brings many benefits. Local employees can learn foreign languages, working styles, and knowledge from these expatriates. The discipline and professional working style are those that local employees can learn and follow" (Manager #2, foreign)

Regarding training, while employees in local firms presented that their firms had limited training programs, foreign firms tend to provide more opportunities for training for their service employees. In particular, many foreign firms, for example, companies #2, #7, #10 take advantage of internalization-specific advantages to send their employees to other subsidiaries, even overseas subsidiaries for training.

"Annually, our hotel organises training classes for our service employees and teachers are foreigners. Employees in our hotel are also sent to other Accor corporation hotels in Hanoi, Ho Chi Minh city and even overseas for training or working. After their returns, they earn more experiences and share with other employees. Our service climate and service quality, therefore increase accordingly". (Manager #2, foreign)

Foreign firms also tend to emphasise more service-oriented rewards and recognition. For many of them, the purpose of such rewards and recognition is to gain the highest service quality and to indicate to service employees that their firms are very concerned about service quality.

"Excellent service in our company is recognised. For example, employees who pick up belongings that customers have dropped, serve customers well, and show enthusiasm at work will be given incentives or promoted...". (Employee #10, foreign)

The interviewees further suggested that foreign firms tend to provide more employee autonomy than local firms.

"In my company, we adopt a more Western culture in service practices. Managers often provide more autonomy to service employees in order to lessen the burden for the higher levels of managers. This is very different from a domestic company that I used to work before, which provided a very limited level of autonomy" (Manager #8, foreign)

# 5 Conclusions and implications

Over the past two decades, with the opening policies to attract FDI and the participation in the global marketplace, local firms in Vietnam have achieved many improvements in terms of firm resources, capabilities and performance [19, 22]. However, despite such improvements, the findings of this study found that local firms still lag behind foreign firms in the four dimensions of service-oriented HR practices, including service-oriented recruitment and selection, serviceoriented training, service-oriented rewards and recognition, and autonomy. These findings corroborate the RBV which suggests that MNCs are likely to adopt similar organisational practices to take advantage of the resources and competencies owned by their parent companies [21]. Likewise, in line with the eclectic paradigm [12–14], MNCs take advantage of ownershipspecific advantages from their parent company such as managerial skills, capabilities, processes, and expertise in the coordination of international activities to gain a higher level of serviceoriented HR practices in local subsidiaries. Foreign firms also transfer their ownership-specific advantages across national borders within their own organisations to take advantage of their internalisation-specific advantage [12-14]. In the context of emerging markets such as Vietnam, as foreign firms faced fewer institutional constraints, they utilised greater service-oriented HR practices that were transferred from their parent company. This finding is consistent with previous studies that found a higher level of organisational practices such as organisational development [21], HRM practices [26, 28], and ethical practices [27] in foreign firms compared to domestic firms in emerging markets. To achieve a more competitive advantage, local firms in Vietnam should pay more attention to developing their service-oriented HR practices. They may start to use benchmarking, i.e. they benchmark against successful foreign companies in implementing service-oriented HR practices, identify the gaps for change in their policies and practices. In addition, they could use consultants (e.g. HR lecturers or HR professionals) to diagnose and find the best ways to enhance the service-oriented HR practices in their firms.

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