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## Human Resource Management in Thailand: A Strategic Transition for Firm Competitiveness

Sununta Siengthai & Clemens Bechter

### ABSTRACT

The 1997 Southeast Asian crisis and the subsequent institutional reforms have compelled regional nations to reappraise their human resource management (HRM) practices. In Thailand, this has led to many transformations and restructuring programs, and renewal plans within the public as well as private sector organisations to adapt to the borderless competition. In this paper, the call for strategic role transition of HRM and the significance of this function in enhancing the competitiveness of firms, from a traditional payroll function to a business partner in the business operations, is delineated. Also, key challenges and opportunities faced by practitioners are identified with a final assertion that the various external and internal features of Thai business organisations will substantially impact the transition of HRM.

### INTRODUCTION

In the aftermath of the Southeast Asian crisis, Thailand has experienced many reform initiatives. Environmental changes, both external and internal, and particularly those subsequent to the Asian financial meltdown, have led to many transformational and restructuring programs (Laohathanakul 1999, Kamoche 2000, Bothidaht 2001, Vorapongse 2001, Siengthai & Bechter 2004). These in turn have invigorated unprecedented plans for revitalising both public and private sector organisations. For example, many change programs, such as the business process of reengineering, are taking place with the greater availability of the advanced information and communication technologies (ICTs). Indeed, most of the organisations experiencing rapid changes are being compelled to be more customer oriented because competition is becoming fiercer as business operations become borderless (Becker, Huselid & Ulrich 2001, Bothidaht 2001, Kongsanchai 2001). Specifically, Thai business organisations now require professionalism of their employees with recognition that transparencies of business transactions and operations are to become the norms (Lawler, Siengthai & Atmiyananda 1997, Kongsanchai 2001, Lee 2002, Wailerdsak 2003). Hence, in less than a decade, organisational changes are being implemented to enhance the competitiveness of the country and business firms in an era of globalisation.

A collapse of regional currencies during mid 1997 considerably impacted on Thailand local business activities. For instance, the sudden financial crisis led to a large number of 'laid offs' as a large number of businesses had to terminate operations due to lack of working capital and high

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interest rates. Such effects are revealed in Table 1 of the Appendix, which shows that in 1997, the number of establishments that had to lay off their employees increased to 837 compared to 77 establishments in 1996. Also, in consecutive years (from 1996) the number of involved employees dramatically rose from 5,015 persons to a total of 38,217 persons. And in 1998, a second round of lay offs was experienced by 51,960 workers of which the majority (i.e., 41,065 or 79.03% of the working cadre) were production workers. However, in the following year, 1999, the number of lay offs was less than the 1998 figure (i.e., 20,886 persons), but still considered quite high as was the incidence of business operations closing down or downsizing. Although these outcomes have raised concern from various parties the casual observation, however, of surviving firms during the financial crisis, seems to suggest that these firms have resilience ability. Consequently, it is the assertion of this paper that the effectiveness of human resource management (HRM) has been one of the key factors maintaining and enhancing the competitiveness of the surviving firms. Moreover, the evidence suggests a notion of the strategic importance of HRM during periods of transformation to a modern market economy.

This paper will be presented in three parts. In the first part the forces of socio political and economic changes that influence the role and the significance of human resource management in the business operations in Thailand from the military regimes to the current democratic period will be presented. In the second part of the paper, a delineation of the transition of HRM roles and the significance of human resource management from a traditional payroll function to a business partner in the business operations is given. Also, key challenges and opportunities faced by human resource management are identified. The final part of the paper summarises factors influencing the changing role of HRM in Thailand, which includes globalisation, and the availability of the new ICTs, together with changing demographics (gender and age composition) of the workforce.

## THAILAND HRM DEVELOPMENT DURING 1960 - 1990

The dramatic 1997 collapse of Southeast Asian markets and regional currencies has encouraged an accelerated reexamination of HRM practices and policies of companies in Thailand. Prior to that time, reform programs were geared towards egalitarian welfare provisions and maintaining lifetime employment by administrative, procedural frameworks, rather than engendering in employees a strong commitment to work effort and institutional productivity (Chaweewatanasakul 1998, Laohathanakul 1999, Vorapongse 2001). Such imperatives were pursued despite consistent reporting in the Western literature, throughout the 1980s, that the utilisation of human resources (HR) is crucial for company competitiveness and national productivity. Nevertheless, HRM as the organisational function and the body of knowledge of a firm's management development, in developing countries such as Thailand, had been gradually developed until the financial crisis experienced in 1997 (Siengthai & Bechter 2004). Indeed, until that time most companies still had so called 'traditional' personnel management which was perceived as the payroll function.

In the early period of economic development, until the sixth National Economic and Social Development plan (1987-1991), the use of cheap, mostly uneducated labour was considered a key element of Thailand's comparative advantage, particularly for investors (Siengthai 1993, Siengthai & Bechter 2004). At that time there was a necessity for the promotion and maintenance of an unorganised work force, weak trade unions and dominant employer authority. This led to the hierarchical relationship between employer and employees in the organisation, which was a feature to be observed in the public administration and large corporations in the country (Siengthai 1993, Suehiro & Wailerdsak 2004). It reflected that the economy was then based mainly on the labour intensive manufacturing activities where unskilled and semi skilled workers dominated the workforce of such enterprises. Indeed, the majority of workers from the rural areas were concentrated in these industrial enterprises, located in Bangkok and the four neighbouring provinces; namely, Thonburi, Samutprakarn, Samut-Songkram and Pathumthani. These are centres that predominantly host manufacturing activities. Moreover, the central notion of Buddhism, the national religion, to the Thai culture, the practices of 'middle path', which means no encouragement of extremism, has contributed to the unique HRM and industrial relations

framework of Thailand (Siengthai 1993).

It was not until foreign direct investment started to flow into the country around mid 1970s that modern, or professional, management became commonly practiced. This transition of traditional to modern management was reflected by foreign, or joint venture, firms that recruited professional managers, who were expatriates sent from the headquarters to operate their business. In practice, the firms hired professional HR managers who had formal training in HRM to oversee the HR operations. To some extent, the acceptance of such management prerogatives was endorsed by the government policy which was to promote the export oriented industries. In terms of institutional comparison, the HRM practices of these more progressive entities were in contrast to the majority of the business community that was still family owned and hired mainly those who were related by blood, or those who were close to the family networks. Notably, the introduction of professional HRM practices was underpinned by managers who were educated in the foreign countries, particularly in the home countries of the multinational enterprises (MNEs), or the joint venture companies (Siengthai & Bechter 2004).

Different nationality or ownership of firms may have significant impact on organisational performance. Within the foreign MNEs sector, the relevant distinction can be observed between the policies pursued by Japanese subsidiaries and those pursued by subsidiaries of Western MNEs. In many ways, the systems that were endorsed were consistent with the stereotypical notions of Western and Japanese styles of HRM, with some modifications necessitated by the Thai environment (Lawler, et al. 1997). However, efforts by Western and Japanese MNEs to impose HRM systems in an ethnocentric fashion in their Thai operations had, on occasion, generated significant cultural clashes in the workplace.

For Indigenous Thai firms, there are at least three groups of systems with respect to HRM policies. First, private sector firms which mostly began as small family owned enterprises and closely tied to the Sino Thai community (Lawler, et al. 1997, Suehiro & Wailerdsak 2004). The second category was comprised of a number of large firms of which a substantial number continued to be managed as family owned business. The typical employment and personnel practices that these companies pursue were quite distinct from those companies within the first category. These second group of firms had a broad base of investors, especially the publicly traded firms (Thai corporations). A third category, within the set of indigenous firms, consisted of numerous state owned enterprises.

Thus, the difference of ownership of firms can well have a significant impact on the HRM policies and practices in Thailand. An empirical study undertaken by Kongchant (2001) found that among the 215 sample companies, the HRM practices in the majority of Thai companies were found to focus at only divisional level both in the manufacturing and service sectors. The main responsibilities were to take care of basic functions of HRM, such as recruitment and selection, training and development, and compensation. However, these work related functions were expanded to introduce labour flexibility.

By the time the Labour Relations Act was proclaimed in 1975 many companies already had professionals who practiced more progressive HRM. Initially, the role of these professionals, and hence, the personnel department, was recognised by their contributions to reducing the work stoppages in the workplace and to make sure that their company complied with the labour law. In addition to this responsibility, the personnel department also maintained the payroll records and function. However, since the 5th National Economic and Social Development Plan (1982-1986), and the 6th Development Plan (1987-1991) HRM has gained a more significant role in business operations. This achievement was reflected in training and development activities which became the domain of the HRM department. Moreover, in some firms, a separate unit, from the personnel department, was established to focus on training and development.

#### HRM PRACTICES IN THAILAND IN THE 1990s

Progression in HRM initiatives accelerated after the 1997 collapse of Asian financial markets. Since then large Thai organisations in the service sectors, such as banks and particularly some small and medium sized financial institutions, have considerably developed their HR systems

(Lawler & Siengthai 1997). In mid 1997, when Thailand was impacted by the financial crisis, many companies had to restructure and downsize. Consequently, layoffs were experienced by many firms that had been financially involved in international markets either through exporting their products, investing overseas, or even making loans from international sources through the Bangkok International Banking Facilities office. Financial insecurity and soaring inflation from the financial crisis reinvigorated the reform initiatives (of earlier periods) in many family businesses (Suehiro & Wailerdsak 2004). In particular, the establishments in the financial and banking sectors, owned by many of the Chinese descents' families, had to relinquish their control in such businesses. Moreover, the principals were compelled to engage professional managers and/or entertain foreign direct investment or equity so their business could be restructured and recapitalised. Most of these firms were well established, and in their maturity stage, and hence, in order to survive were compelled to streamline their business procedures. Thus, more professional management concepts and frameworks were implemented. For instance, after the financial crisis, when many of these family owned enterprises entered the securities market and became public companies, business practices were adjusted to improve transparency and achieve greater efficiency. In this 'new role' these companies exhibited greater professionalism of HRM to support marketisation, worker participation, welfare benefits and better job security.

Recent studies demonstrate a development in HRM practices in Thailand. For instance, in a study in one leading Thai agro industry conglomeration, Charoen Pokaphand, it was found that the firm has redefined its business into two main business activities; namely, full cycle agriculture and technology related businesses (Chaweewatanaskul 1998). These initiatives have compelled the company to invest more in human resources. Other studies (Laohathanakul 1999, Vorapongse 2001) on business firms' HRM strategies and practices have revealed that those institutions that do have business plans have adjusted their HR strategies and practices to cope with the economic crisis. For example, with respect to recruitment, most organisations have addressed retrenchment and turnaround strategies by recruiting only certain necessary positions and the selection process has now become very rigorous. In the real estate sector, for example, most firms have recruited more employees from the external labour market to support the expansion of the company (Vorapongse 2002), and the recruitment criteria are based on specific qualifications, knowledge, competence and experience. Furthermore, firms have become quite strict in the probationary evaluation of new employees. And in terms of remuneration, most companies have suspended or reduced items such as monthly payments, bonuses, annual salary increases, overtime, strict overtime payments, reduction in work hour/day, payment for time not worked, sub contraction, or/and reduction in welfare or activities. Vorapongse (2001) also found that in the real estate sector, most companies set the compensation level according to the standards of living. Bonuses are paid depending on the profits made. Most organisations provide welfare and fringe benefits, of which some are required by law. In terms of performance appraisal, the evaluation criteria for promotion or salary increase are based on the profits made by the company and individual employee' s performance achieved (Vorapongse 2001.) Earlier, Laohathanakul (1999) observed that many companies have turned to in house training, and on the job training as a result of the recession. These HR development policies also have been evidenced by the public enterprises under the privatisation scheme, such as the Telephone Organisation of Thailand, The Communications Authority of Thailand, as well as the Electricity Generating Authority of Thailand (Bothidaht 2001, Kongsanchai 2001). These public enterprises, while realising the emergence of a knowledge based economy is a feature of the global marketplace, have attempted to acquire a more skilled workforce as well as redeployment and/or job rotation programs. Nevertheless, a 'layoff' option is used as the last resort for most firms.

Following the Asian economic crisis many Thai corporations reengineered their HRM capabilities. Indeed, many large organisations have restructured and implemented the business processes, such as restructuring, downsizing, and integrating to cope with the fierce competition which comes with the new information and communication technologies. These changes have been implemented to improve the efficiency and reduce their operational costs. In fact, organisations have attempted to adopt flatter structures to endorse the notion of empowerment. And the concept of broadbanding

in compensation management has been facilitated in many cases where there has been a 'flattening' of organisational structures. These actions have also realised a need for employees to be multi skilled to avoid higher levels of workforce redundancy.

A more recent trend is that some business organisations have now changed the nomenclature of the human resource department to that of the 'resourcing department'. This seems to suggest that the traditional concepts of personnel management and HRM have been adjusted to a broader perspective. Such action is in line with the concept of the resource based view of an organisation which advocates that an entity will gain a greater competitive advantage through the development and sustainability of its renewable and inimitable human resources.

Furthermore, since the 1997 Asian financial crisis, greater importance has been given to the macro HRM in the public sector. For instance, the Ministry of Education is under the Reform Program. In effect, the Thaksin Government (in 2003) merged the Ministry of Education and the Ministry of University Affairs so that the overall planning and implementation of educational programs can be fully integrated to allow more efficient and effective use of the national resources. It is believed that the new system of education will be more adaptable to the needs of the labour market and responsive to the inevitable application of technological advances that will be commonplace in proactive Thai companies.

## HRM AS A BUSINESS PARTNER

All these changes have led to the notion of the HR system as a strategic asset. Strategic assets are " ... the set of difficult to trade and imitate, scarce, appropriable, and specialised resources and capabilities that bestow the firm's competitive advantage." (Amit & Shoemaker 1993: 36). This ideal is delineated by Becker, et al. (2001) who assert that the development of HRM practices can be represented by four evolutionary processes. These processes are identified as (1) the personnel perspective, (2) the compensation perspective, (3) the alignment perspective, and (4) the high performance perspective. According to Becker and colleagues the personnel perspective focuses on practices employed by firms which hire and pay people, but does not emphasise the very best practices for developing exceptional employees. These authors also claim the compensation perspective is revealed in firms that use bonuses, incentive pay, and meaningful distinctions in pay to reward high and low performers. A further contention is that the alignment perspective is represented by senior managers who see employees as strategic assets, but do not encourage investment in overhauling personnel capabilities, despite the fact that such negligence or indifference results in the inability of the company HR system to leverage the management's perspective. Finally, the high performance perspective is illustrated when senior executives view HR as a system embedded within the larger system of the firm's strategy implementation. The firm manages and measures the relationship between these two systems and firm performance.

The increasingly significant role of HRM in achieving management objectives is reflected in the transformation of the personnel management function (Silva 2002). Over the last two decades, this function was often marginalised in terms of its importance in management activities and hierarchy. It has evolved from a concentration on employee welfare to one of managing people for the best possible productivity of the employee. In Thailand, the former approach has been emphasised in the Buddhist context as it is embedded in family values and management values such as compassion and kindness. One of the many principles of management taught in Buddhism is termed 'Brahmavihaara 4'. This principle advances a notion that those who are the leaders of others, either in the household or in the workplace, should practise four central tenets. These are 1) Mettaa (compassion), 2) Garunaa (kindness), 3) Mudhitaa (Sharing the joy of success of others), and 4) Ubekkhaa (Let go and accept that it is up to the other's karma, when one cannot be of any further help to others even they have already tried very hard to do so) (Siengthai & Bechter 2004).

The changing management approach emphasises productivity enhancement through methods that provide employees with both intrinsic and extrinsic rewards. Therefore, today, far from being marginalised, the HRM function becomes recognised as a central business concern. In practice,

performance and delivery are integrated into line management for the aims shift from merely securing compliance to more ambitious ideals of winning commitment. Human resource investment has become one of the main business strategies of firms in creating their competitive advantage. These initiatives are associated with, and perhaps are even predicated upon, a tendency to shift from a collectivist orientation to an individualist workforce. Accordingly, management inspects for 'flexibility' and seeks to reward performance differentially.

An assessment of these notions was recently undertaken (Siengthai & Bechter 2001). The survey was conducted during 1999 - 2000 with a number of Thai firms that had cadres of 200 employees or more. A regression analysis revealed that bundles of HRM practices were significantly and positively related to the level of innovation in the industry (Siengthai & Bechter 2001). When the data base was used to investigate HRM business partnerships between the studied firms it was generally revealed by the respondents (who were mostly human resource directors, some functional managers and some managing directors) that the top management in their organisation thought that the HR strategy was an important component of an innovation strategy (Siengthai & Bechter 2004). However, most of the respondents were reluctant to say that: 1) their top management valued HR more than other resources, 2) their top management believed human resource policies were a source of competitive advantage, or 3) their top management considered the HR manager a strategic partner in formulating and implementing business strategy (Siengthai & Bechter 2004). Arguably, it can be concluded that most of the HR departments or divisions are still not regarded as being a significant business partner in many firms' business strategies and change implementation. In reflection, in the case of Thailand, it may be claimed that the development of the HRM function and the perception of the other departments in the majority of firms have developed to the second stage, or that of a compensation perspective. However, the globalisation process has brought about changes and the image of HRM is being perceived more as a business partner in large organisations in the 2000s.

## GLOBALISATION AND KEY HRM CHALLENGES AND OPPORTUNITIES

Globalisation has elevated the importance of HRM development in firms operating in Thailand. Investment in international markets has been viewed as a way to increase returns and decrease risks, but these business engagements also entertain substantial macro and micro level adjustments. Among the changes at the macro level are the deregulation policy or privatisation initiatives decreed by the government as a response to external environmental changes. Hence, firms have incorporated restructuring or downsizing policies to take advantage of the new information and communications technology and thus create new competitive business strategies. Consequently, many corporations are now confronting labour market issues created by technological developments, rising prosperity and market realignment. The radical transformations have created numerous challenges for HRM practitioners who have to deal with the shift from low wage to high wage and high skilled labour as well as the need for management development to cope with these changes, the workforce diversity which comes with the globalisation process and the regionalisation process which allows free flow of products, capital and labour. At the micro level of firm operation managers have to balance the link between the HRM functions and the financial performance of the company, organisational innovation and productivity improvement, the empowerment of employees, project based contracts, the management of workforce redundancy, as well as bipartite labour management relations. These are but a few societal expectations, for regional level industrialisation and globalisation has been predicated to bring about the convergence of HRM/IR systems and practices (Lee 2002). In short, the management of change compels HRM function to be a proactive and innovative business partner.

Balancing business economic efficiency with social equity is an emerging dilemma for Thailand society. There is a need for Thailand to move away from the notion of low wages as a source of competitiveness and to begin to invest more in the development of a skilled workforce, which calls for far reaching reforms in the educational system (Kamoche 2000). Such efforts are perceived to

be hindered by existing cultural norms. For example, the hierarchical ' nakrian ajarn' (student teacher) relationship turns the student into a passive recipient of knowledge and probably creates a culture of dependence in which the student (or in this case the employee) is taught that it is impolite or inappropriate to question the ' ajarn' (supervisor or employer). If the HR component is to make a significant contribution to economic recovery and industrial development, it will be important to institute change that creates more inquisitiveness and a willingness to challenge conventional wisdom in education, and allow more scope for management and employees to engage in constructive dialogue as to how best to tackle their difficulties. This will entail reviewing the sustainability of existing patterns in organisational paternalism.

The impact of the financial crisis is still prevalent. The government as well as private sector organisations are still working on the recovery of the economy. Together with the fierce competitive environment, it is foreseen that organisations will keep on shredding the redundant workforce that has resulted from bringing in more labour saving technology such as information technology and the automation of certain services functions. Even though the introduction of such technology will create the need for some certain skilled labour, the size of the workforce needed will not be equivalent to the earlier period of economic development. Another implication is that the increase in overhead costs as higher skilled employees will also receive a higher level of wages and salaries in organisations which cannot maintain a redundant workforce as slack resources. This can only be offset by an increase in organisational productivity. Hence, the need for organisational restructuring to become flatter organisations for those that are now large corporations will be the on going movement to enhance customer responsiveness, and hence, innovation and productivity. The dual economy in Thailand will become more evident as there will be a digital divide between organisations which now take advantage of the new (ICTs), and those which are still run by traditional management approach and are basically small scale family business enterprises with an absence of formal HRM system. For those companies, which are now moving into more high technology led operations, the new competitive landscape will necessitate that they resort to more of the individualised terms and conditions of employment for higher skilled and scarce employees.

It has been observed that many organisations, in both private and public sectors, have currently made use of the new ICTs to enhance the efficiency and effectiveness of their HRM practices. Many have started to have the so called ' e-HR' of which the most popular function seems to be ' e-learning' programs. Other institutions, and particularly the large sized organisations, are adopting similar courses of action after initial attempts to restructure their organisations by implementing combinations of the four more popular HRM strategies, which have been referred to under the following terms:

- Early retirement program
- Redeployment program
- More effective performance management
- Core competencies appraisal program

In contrast to the period before the financial crisis, one positive aspect for firms is that the phenomenon of job hopping has decreased significantly. However, an accompanying caveat is that for people with poor employment related skills their job opportunity will remain low while their job mobility will remain relatively high.

The dramatic and discontinuous changes that are taking place in the global environment have contributed to the evolution of traditional multinational corporations (MNCs) into global organisations that are more of a network nature (Gimeno & Woo 1996, Wolf 1997, Galunic & Rodan, 1998) The global network form of organising roles and activities infuses into the firm a heightened need for cross functional interdependence, which in turn, can increase role ambiguity for a human resource manager (Grimm & Smith 1997).

In Thailand, many corporations are now trying to maintain the core work force and outsourcing of

some activities has become more common. In fact, casual observations suggest that many large corporations have started to divest some units into other legal entities that serve the core unit operations of the company, such as the customer relationship management unit, marketing unit, the HRM unit, the auditing unit, and the legal unit. This results in both downsizing and increased efficiency of operations due to a higher level of autonomy of decision making and speed to market services. The divestiture is more, to some extent, a creation of the network organisations. Most of the projects or bidding will be granted to the divested unit. When the latter becomes better organised, both in term of services and human resources, a greater variety of services can then be offered to the market in general (Huws & Flecker 2004). This means that the HRM function also will be separated from the parent organisation. It usually has its own autonomy in terms of business formulation and implementation as the nature of the business may not be the same as that of its parent organisation. This is an advantage in terms of HRM and the recent trend of outsourcing management of particularly large corporations.

## CONCLUSION

There is greater awareness in Thai companies for integrating strategic HRM with national, social, economic and environmental exigencies. Major shifts in the global marketplace, escalating demographic changes, the rapid technological advancements, as well as the changing role of women in contemporary industrial society has pressured managers to rethink fundamental organisational practices and policies. A notable conclusion is that these discontinuities have been imposed by both external and internal environmental factors. On one hand, the external environmental factors include globalisation of market or economic situations, government policies or politics, growth of the foreign or the joint venture sectors, stages of industrial relations development, and other significant changes in the domains of firms. Consequently, there has been a call for HRM to have a more strategic role.

In this paper, the forces that have led to the role transition of HRM have been traced. Specifically, a historical perspective of HRM development in Thailand has been delineated into the period before 1990s and after 1990s, and particularly when Thailand experienced the Asian financial crisis. Within the globalisation process in which the business operations become borderless, the need for a speedy reaction to market volatility has led to many organisational restructuring and change programs. The availability of information technology has demanded changes to the skill composition of employees, and coupled with an increased participation of females in the work place, has compelled Thai organisations to transform their structures and work practices. Consequently, resource planning and work related initiatives have become central in HRM functions to improve corporate productivity and employee enterprise.

## AUTHORS

**Dr Sununta Siengthai** is Associate Professor of Human Resource Management and Industrial Relations at the School of Management, Asian Institute of Technology. Her teaching and research interests include: Organisational Behaviour and Structure; Human Resource Management; Managing HR in MNCs; Comparative Industrial Relations and Performance Management. She has published in *Administrative Science Quarterly*; *Research and Practice in Human Resource Management*; and *International Studies of Management & Organizations* among others, and also serves on the editorial board of *RPHRM*.

E-mail: [siengthais@ait.ac.th](mailto:siengthais@ait.ac.th)

**Dr Clemens Bechter**, is Adjunct Professor at the School of Management, Asian Institute of Technology; Adjunct Professor of Universitas 21 Global, Singapore, 'Euro\*MBA, Netherlands', and AIT Center Vietnam, Hanoi. His teaching and research interests include international marketing and e-Business management, international marketing strategy.

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## APPENDIX 1

Table 1  
Number of Employees Laid-Off, Whole Kingdom,  
1994-1999

Year	No. of Estab.	Total	Production	Service	Admin.
1994	177	5,970	5,448	374	148
1995	74	6,936	6,658	236	42
1996	77	5,015	4,862	81	72
1997	837	38,217	27,493	9,307	1,417
1998	1,076	51,960	41,065	7,040	3,855
1999	802	20,886	17,023	2,047	1,816