

Managing Production in a Foreign Environment

An exemplifying study of the managerial practises adopted in Foreign Direct Investments, and their encounter with the customs prevailing in the local institutional environment

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Abstract:

Companies are increasingly held responsible for demeanours throughout their supply chain as the importance of Corporate Social Responsibility rises; at the same time as the outsourcing trend prevailing implies loss of control over operations. Vietnam is one of the fastest growing countries in the world and an attractive location for production. Utilising two exemplifying foreign-owned textile factories in Ho Chi Minh City, we depart in an institutional economics perspective and examine the interrelations between the local institutional environment and unaccommodated managerial practises. By mapping local common-practise in terms of six identified institutional and environmental aspects, we compare the factories' individual conducts with focus on deviations and their effects. We deduce that corporate strategy is the key determinant of optimal conduct and thus complement preceding research by providing an actively prescriptive framework for adaptation of managerial practises based on the local institutional environment.

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1. Introduction

1.1 Background

Retailing companies inevitably face an important decision on whether to produce their products in-house or to outsource production. The trend prevailing that companies increasingly outsource manufacturing to low cost countries (Bryce & Useem, 1998; Zhao & Calantone, 2003) is supported by lower labour costs, increased possibility of specialisation and potential agglomeration economies (Henderson, 1997). Outsourcing also implies a decline in control over manufacturing operations (Quinn & Hilmer, 1994). A number of scandals have surfaced, exposing companies engaging with outsourcing partners conducting unethical practises in their plants resulting in significant subsequent reductions in goodwill on behalf of the outsourcing company. Examples include Nike in 1997 when it was revealed that workers in one of its contract factories in Vietnam were being exposed to toxic fumes at up to 177 times the local legal limit (Stabile 2000); and H&M in 2001 when the Swedish newspaper Aftonbladet (Carlström & Peruzzi 2001) naked the substandard working conditions prevailing in the Cambodian factories of H&M's subcontractor M&V.

1.2 Purpose of Study

The loss of control and the increased medial focus on CSR are trends with contradicting implications, squeezing Western retailers from two angles. Strategic outsourcing of non-core operations is often deemed economically favourable, mainly due to the uncertainty entailed by the establishment of in-house operations in a foreign country, the immobilisation of capital it inevitably entails and the opportunity to focus on core operations it grants (Quinn & Hilmer, 1994). This thesis aims to help reduce this uncertainty usually associated with in-house off shoring by providing a point of direction as to what factors may be of importance for retailers when establishing in-house operations in comparatively advantaged production locations (e.g. where labour is less expensive). The resulting reduction in perceived risk might induce Western companies to reconsider establishment of in-house operations abroad and thus retain control over the actualities they are in fact held responsible for (Ählström 2010).

1.3 Previous Research

Institutional Economics perspective on firms

Whitley has conducted research on the interrelation between the characteristics of business systems, features of the prevailing institutional environment as well as the characteristics of firms

present in these (Whitley 2000). He has identified consistent empirical patterns and from these deduced how different institutional characteristics are optimal for different *Ideal Types* of firm. (Whitley's framework is described in more detail in section 3.2.)

In their renowned work *Varieties of Capitalism*, Peter Hall and David Soskice (2001, 2004, 2007) describe how capitalist economies differ in terms of non-market control. They introduce a spectrum ranging from coordinated market economies to liberal market economies, establishing the notion of *varieties* within the term *capitalism*; how these varieties may take their form and how this effects organisations and society within the economy. However, by focusing on firms as the 'key agents of adjustment in the face of technological change or international competition whose activities aggregate into overall level of economic activities', they also process the reversed line of causality – that micro-level behaviour shape long-term macro-level outcomes.

The institutional economics perspective takes on an approach in which the firm is regarded as a *black box*, potentially affecting the institutional development (Hodgson, 2006). What mechanisms function within the box is not touched upon, other than in a descriptive fashion where present commonalities of organisations are outlined (e.g. in Whitley, 2000).

Management in its context

On communication and organisational structures

Mintzberg (1979) describes how optimal division of authority, decision processes, and flows of material and information depend on a firm's age, size as well as its industrial and technological environment. The varying *modus operandi* of firms are classified according to a framework based on the notion of five generic configurations¹, which are distinguished in terms of the roles, coordination and interaction of five basic parts of the organisation². (See Appendix A.1 for an overview of the basic structure in five and Appendix A.2 for an overview of the characteristics of each firm type.)

On remuneration structures

Anthony and Govindarajan (2006) introduce a model on how extrinsic and intrinsic motivation work towards improving performance. Extrinsic motivation has proven more effective for improving motivation and performance with regards to repetitive, clearly defined tasks. On the other hand, tasks requiring more creativity and innovation are better performed if motivation lies

¹ *Simple Structure, Machine Bureaucracy, Professional Bureaucracy, Divisionalised form and Ad-bocracy.*

² *Strategic Appendix, Middle Line, Operating Core, Technostructure and Service Staff.*

on an intrinsic foundation.

On Situational Management

Mockler (1971) presents a recollection of the theories that have gained most recognition on the subject of how management principles work differently in different situations. He reviews optimal managerial choices with regards to organisation; leadership and staffing are contingent on the current growth dynamics of firm and what sector(s) the firm is active in. Mockler does neither mention nor refer to any consideration to institutional and/or environmental factors concerned with the location of operations in his 1971 article. Lawrence & Lorsch (1969) describes how the optimal organisational structure for a firm varies depending on the industries it is active in, and what stage of growth it presently lies in.

Identified gap/Theoretical contribution

Existing research on institutions tend to regard the firm as a black box: an individual actor in the institutional environment. When attempts are made to scrutinise this black box, the results are descriptive rather than prescriptive. Research on management in the light of environmental realities generally regards the *environment* as the organisation's position in its growth cycle, its position in the relevant industry and the characteristics of the industry as such. However, in the intercept of the two, we lack analysis of managerial practises in light of the institutional environment. Research attempting to approach the intercept is generally of descriptive nature. It is our aim to, on the basis of this specific small-scale study, initiate a discussion on the topic of how these two perspectives converge and merge in the managing of organisations. The intention is that our discussions fall into a generally prescriptive approach to what factors to take into account when considering establishment of operations in a foreign country, and how to relate to them.

1.4. Hypothesis and Research Question

This study stems from two base hypotheses. Combined, these constitute the foundation for the research question that this paper aims to answer. The base hypotheses will be supported by previous research. On the back of this they will be used as underlying assumptions in the exploration of the research question.

Base hypothesis 1: *The institutional environment prevailing in the provenance of the investors of a Foreign Direct Investment (FDI) affects managerial practises the investors are inclined to adopt.* (Bloom & Van Reenen 2010)

By this, we argue that the investors, i.e. the ultimate centre of power, tend to exhibit a preference for managerial practises and customs common in their native environment.

Base hypothesis 2: *Managerial practices implemented by a company are impinged by management practises in the company's native environment.* (Bloom & Van Reenen 2010)

By this, we mean to clarify that the managerial practices implemented in the operations of an FDI are affected by the investors' preferences on the matter.

As a consequence of base hypothesis 1 and 2, the difference between the institutional environment in Western and South Korea will have lead to differences in the managerial practices implemented by a Western and a South Korean company. These differences are anticipated to prevail even in offshore affiliates. But what has proven efficient and effective in Europe and South Korea respectively need not be effective and efficient in the environment in which the FDI is located. (That the environment differs from the home country of the company is indeed the original rationale for the FDI.) This leads us to our research question:

How does the fit between a company's adopted managerial practices and the prevalent institutional environment affect the operational outcomes of an FDI?

1.5 Delimitations

In order to purposefully explore the area and be able to come to a reasonable conclusion within the scope of this study, clearly defined limitations are necessary. We will approach our research question by studying two representative cases of FDI in production. We will depict and analyse chosen aspects of the local institutional environment of textile-manufacturing clusters in the outskirts of Ho Chi Minh City in southern Vietnam, and in the light of these insights describe and examine the managerial practises of two textile-manufacturing plants located within such clusters. The study is further restricted to incorporate an analysis of the impact from the native institutional environment and the managerial practises of the local plant management.

The geographical delimitation to similarly structured clusters of close inter-proximity is made in order to keep as many factors in the institutional environment equal for the two plants. This limitation will enable the possible correlation between the local environment and the managerial practises to be singled out for comparison in terms of the firm' success. The study was restricted to analyse

two plants in order to preserve the ability to do a thorough analysis within the limitation of its scope.

1.6. Definitions

Institutions

North (1990) defines institutions as humanly devised constraints that shape human interaction. Hodgson (2006), departing in North's taxonomy, specifies institutions as "systems of established and embedded social rules that structure social interactions" as to incorporate the fact that institutions can both constrain, and enable, behaviour.

These are wide definitions, applicable to different levels of aggregation. Williamson (2000) specifies four levels of aggregation for the purpose of analysis. (See Appendix B for an overview and definitions of the four levels.) This study focuses on institutions as defined by Williamson's third level of aggregation as we find the level adequately concrete, for the purpose of recognition and analysis, and adequately aggregated to sufficiently represent the macro institutional environment. In Williamson's third level, institutions are defined as *formal and informal rules* that decide how 'the game should be played' (Rafiq, 2009). The existing systems of institutions is called institutional environment, in which organisations are treated as individual players.

Managerial practises

We define managerial practises as management conduct on an individual level. In effect, this implies the actions made for the purpose of exercising leadership.

Gary Yukl (2006) defines leadership as "the process of influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives". Peter Northouse (2007) defines leadership as "a process whereby an individual influences a group of individuals to achieve a common goal." Leadership as influence is thus subject to interpretation by all parties included.

Managerial clusters

The expression *managerial clusters* is utilised to distinguish between groups of managerial levels and positions that can be analysed collectively for the purpose of this essay. The groupings are based on observations of characteristics such as formal and informal distance as well as barriers to communication. The primary clusters used in the analysis consist of the *local plant management* or *office-based employees*, including Mintzberg's (1979) Middle Line, the Support Staff and Techno

Structure; as well as the *factory workers*, which are the equivalent of the Operating Core. The geographically distantly located owners of the companies correspond to Mintzberg's Strategic Appendix.

Terms used in production

Mini-marking: The jig-saw-laying-like process of printing patterns on fabric rolls in order to reduce waste between the pieces.

FOB: Free on Board. This is an incoterm. It implies that the client places an order and payment for a certain complete output. The factory, in this case, purchases the necessary inputs and assembles the parts. The ownership and risk of the goods are transferred from the factory to the customer when the goods pass the railing of the ship of transportation bound for the client. Hence the cost of shipping lies on the client unless otherwise specified.

CM: Cut and Make. This is an industry term. It implies that the client places an order, and then provides the producer with all necessary material inputs for assembly. The producer's responsibility lies in hiring the right competence and the right equipment to manufacture. (Online Clothing Study, 2011)

1.7. Disposition

Above, we have outlined the background and purpose of our study, previous research on the area as well as our research question. This is followed by an outline of applicable limitations to our study and some definitions of relevance.

We continue here by outlining the methodology underpinning the study in chapter 2. This is succeeded by a chapter introducing our theoretical framework and the arguments supporting it. Chapter 4 provides a detailed description of how we have conducted our research and the rationale behind this mode of procedure. In chapter 5 we present our empirical findings, structured in terms of the theoretical framework described in chapter 3. Chapter 6, consisting of our analysis, is structured in the same fashion; as is chapter 7, which outlines our conclusions as well as deduced managerial implications. The chapter is concluded with some general managerial recommendations. We finish with a closing remark from the authors: an epilogue.

2. Methodology

In this chapter, we will outline the epistemology underpinning how we approach our research questions.

Our analysis of the institutional environment, applied managerial practises within and the resulting effects will be illustrated by in-dept analysis of two textile-manufacturing plants. The rationale behind this, as well as details on our research conduct, will be described in chapter 4.

2.1. Scientific approach

An analysis departing from identified empirics, aiming to develop new models and theories is defined as an inductive research approach. A hypothetical-deductive approach, on the other hand, starts by the formulation of a hypothesis, subsequent deductions of logical implications of this hypothesis and conclusively an analysis of whether or not this hypothesis corresponds to empirical reality (Bryman & Bell, 2007; Bell 2006). An abductive research approach offers a combination of the inductive and the deductive approach, departing in theory and previous research, followed by gathering of empirics, which are then used to analyse the original theories in order to establish empirical support for this (Alvesson & Sköldberg 1994). This study will follow a hypothetical-deductive approach as our research departs in the two aforementioned base assumptions from which a research question has been logically deduced.

2.2. Data generation

A qualitative study is called for when the purpose of a study is to gain a deeper understanding of a problem and its relationship with the reality surrounding (Andersen, 1998). The explanatory perspective of our study lies in drawing conclusions from a deeper understanding of the interrelations between operational outcomes and the employed managerial practises. We have performed a qualitative study to explore these interrelations. Furthermore, the limited availability of existing quantitative data has restricted our possibilities to perform quantitative studies within the scope of this essay. However, in section 7.7 we have included quantitative studies as an example of an area to be further explored.

Our base hypotheses will not be explored with more granularity than with references to previous work by scholars.

With regards to our research question, our research approach departs in the mapping of managerial practises in two comparable operations within a closely defined institutional environment. In order to explore our research question we seek to choose and compare two companies, similar in many aspects, so that the backgrounds of the people in managerial positions in the entities' can be singled out for comparison.

Secondary data

We will primarily rely on secondary data in investigating the institutional environment prevailing in the region where the factories are located and in the native environment of the investors. This will be collected by means of secondary research from credible sources (e.g. published scholars and official authorities).

With regards to the factories, quantitative data will chiefly be collected from existing sources due to the scope and time restrictions constituent for this study. The secondary company data consists of the companies' internal reports, occasionally complemented by online information.

Primary data

Observations with regards to the institutional environment will serve as a complement to secondary research on the subject.

Primary data will serve as the principal basis of exploration and analysis for the managerial practises at the factories. An explorative research approaches benefit from qualitative research conduct (Gustavsson, 2004) as conclusions from qualitative studies are based on subjective interpretations of the reality. (Backman, 2006). Leadership being a product of managerial practises and the interpretation of these (see section 1.6.2.) thus makes qualitative studies of managerial systems and their functioning useful in definition how the plants analysed are managed. Generally accredited models and theories on managerial systems and practises will be drawn upon in order to systematically interpret, define and analyse the empirics.

The qualitative research will be based on observations and semi-structured interviews. The latter allows for the interviewer to encourage the interviewee to talk freely around a set of open questions. This allows for the interviewee to (consciously or not) lead the conversation into area he or she finds important (Kvale, 1997), thus we aim to complement our pre-set queries to gain an understanding of the management's subjective perspective on what is important with regards

to the operations. The number of interviews conducted is constituent for firstly how deep an analysis of each interview can be made, and secondly how generally applicable the conclusions drawn can be. (Kvale, 1997). (The nine interviewees and their positions are presented in appendix C.1; and the basic outline of the interviews in appendix C.2.)

2.3. Validity and reliability

Validity concerns whether the analysis made positively depicts a valid and relevant answer to the posed research question; whether the theoretical and the empirical frames of reference coincide (Andersen, 1998). Normally, as qualitative studies are subject to interpretations, these are considered less valid than quantitative studies (ibid). However, due to the level of abstraction of our research question and the unfeasibility of quantifying our proxies for deeper econometric analysis due to restrictions in time and access to extensive quantitative company data, we are forced to rely on qualitative data. To improve validity, we have conducted the interviews in the interviewees' habitat, and complemented them with extensive on-set observations in order to be able to pick up subtle empirics, and identify potential discrepancies in the subjectively stated and the objectively prevalent reality.

Reliability concerns whether findings are coherent, insensitive to timing and conclusions generally applicable or situational (Andersen, 1998). Performing analysis of examples of individual companies rather than populations reduces the applicability of our findings. However, the resulting conclusions provide an aggregated picture of subsections previously explored by scholars. Thus, our systematisation of aspects and consequences aim to offer more of a clarification and points of departure for a subsequent discussion, than upheaval of established conventions. Furthermore, most of our interviewees have more than decade-long experiences within the industry, which reduces the sensitivity of timing for our findings.

3. Theoretical Framework

3.1. Overview of what is required of the institutional framework

When determining institutional and environmental aspects to analyse, we aim to identify factors that jointly depict as many perspectives on the intercept of environment and management as possible. Ideally these factors would be mutually exclusive and collectively exhaustive, however we recognise our own limitations and our ambition is to develop a framework that sufficiently covers all perspectives of the intercept that directly impact a companies operations and success.

This includes the influences and relative positions of owners, customers and employees – as well as the underpinnings of management itself. As this study aims to address the intercept between managerial practises and the prevailing environment, the framework utilised covers the interrelations between management and the aforementioned interest groups in its direct environment.

3.2. Introducing Whitley's framework of Business Systems

Richard Whitley (2000) introduces a descriptive framework depicting how characteristics of business systems, institutional features and characteristics of firms tend to coincide. He argues that six business systems types³ can be distinguished as different constellations of three business systems characteristics⁴.

Institutional features affect the discerned business systems types⁵. Different variants of institutional features tend to correlate with different business systems types. Furthermore, within the different business systems, firms tend to exhibit commonalities with regards to four characteristics.⁶ (The inter-relations between these tendencies are shown in Appendix D.)

3.2.1. Identified deficiency

In approaching our research question, we found that Whitley's 2000 framework insufficiently describes managerial practises. Firstly his mapping of *characteristics of firms* is too general; it lacks the granularity necessary to analyse direct effects of the managerial practises, as well as identifying nuances. Secondly, the framework merely describes what patterns are positively identified within

³ *Fragmented, coordinated, compartmentalised, collaborative, highly coordinated and state organised*

⁴ *Owner control type, ownership coordination and alliance coordination.*

⁵ *Level of state coordination, strength of intermediaries, financial system, strength of collaborative public training system, union strength and trust in formal institutions*

⁶ *Authority sharing with a) Business partners and b) Skilled workers, Contribution of skilled workers to organisational capabilities and Dominant firm type*

the economies analysed. The description is based purely on statistical observations – which is indeed optimal for the purpose of identifying patterns of conduct – but it lacks sufficient qualitative analysis of what effects can be the result from deviation, as well as the rationale behind current patterns and thus, potential support for deviation in the individual case.

Our aim is to explore Whitley's conclusions in terms of how deviation takes its forms and the subsequent effects.

3.3. Introducing the framework

Departing in Whitley's (2000) framework, we have focused on features with an institutional and environmental focus where a custom for comparable companies in the area can be identified, as well as features describing the firm. We have then, on the back of other scholars' findings, chosen to adjust and complement these in order to increase the granularity of the analysis and the relevance for our specific research question (which has a more explorative and micro-level approach than Whitley's aggregation of identified patterns).

More specifically, we have aggregated Whitley's Business System Features *owner control type* and *ownership coordination*, to a common measure: *ownership structure*. We find it sufficient in terms of representing Whitley's pure macro features as the institutional environment of operations will not exhibit large differences in our analysis, this being the common denominator for the two companies. Incorporating the ownership perspective is nevertheless important, as the ownership is what differentiates the heritage of the companies; the effect of which we aim to identify and analyse.

Ensuing environmental analysis will be performed by departing from the micro-aspects of the firm and subsequently relating these to the customs of the environment in which the firm acts. This will be done through the lens of an institutional economic perspective, meaning that the point of departure is the supposition that organisations are acting in an institutional setting. Predominant institutional features therefore affect organisations; both in the sense that these are actively taken into consideration when developing choice of strategy, and they also affect the outcomes of realising these strategic choices.

With regards to the characteristics of firms, Whitley's *authority sharing with skilled workers* and *contribution of skilled workers to organisational capabilities* have been analysed under Mintzberg's (1979) nomenclature *decision-making*, which incorporates both with a more prescriptive/normative link to

organisational structure. Whately's *authority-sharing with business partners* is considered under *communication with clients*, as this to a larger extent focuses on an aspect where i) differences can feasibly be identified, ii) differences are likely to be evident and iii) differences are likely to have an effect on how local management conducts business and subsequently, the success of the firm.

Furthermore, we have added three additional aspects. *Remuneration & motivation* are aspects that have gained large recognition as determinants of employee performance as thus firm success (Anthony & Govindarajan, 2006). *Target time horizon* and *performance tracking and quality control* are equally appreciated as influencing motivation and performance. (Bloom and Van Reenen 2010)

3.3.1. Ownership structure

The structure of ownership has implications for the explicit and tacit distance to the ultimate power centre. This tend to affect on the one hand how the organisation is structured, as large corporations often require a higher level of formality to function efficiently (Mintzberg, 1979); and on the other how complex the internal political scene is. Asiedu & Esfahani (2001) show that ownership structure in FDI depicts the perception of how the different actors can contribute to organisational capabilities. Furthermore, higher importance of the specific investment induces the foreign investor to retain a larger equity share.

3.3.2. Decision-making

The structure of decision-making determines how efficient and effective an organisation functions (Mintzberg, 1979). This implies a trade off, as formalised, hierarchic decision-making is normally quicker, more straightforward and thereby more efficient. More decentralised decision-making, on the other hand, implying more authority sharing with the workers, may improve effectiveness if these workers are skilled enough to contribute to improvement of the operations.

3.3.3. Communication

Based on Mintzberg's (1979) theory of the five configurations, different communication practises are optimal in different types of firms. In a textile production factory, typifying a machine bureaucracy (Burns & Stalker) primarily coordinated by standardisation, communication is condensed and formalised. It is argued that when tasks are clearly defined, simple and repetitive, little is to be gained in reducing *efficiency*, i.e. standardisation in processes and communication, to open for informal contribution to *effectiveness*.

3.3.4. Remuneration & motivation

A firm's success is contingent on cost efficiency by maximising factor productivity in terms of labour and material. Factor productivity in terms of labour in the cases at hand is contingent on good seamstresses executing effective tasks fast and accurately. Factor productivity in terms of material is contingent on efficient material purchasing and efficient mini marking. The way in which the remuneration and communication system is structured has important implications for motivation, which affects with long-term performance (Anthony and Govindarajan, 2006). Optimally, the remuneration system in a textile manufacturing plant will induce seamstresses to work fast and with low variety, as well as incentivising managers (especially those operating in Mintzberg's techno structure) to work creatively towards improving purchase conditions, general working procedures and mini marking. The remuneration systems' effect on motivation depends on its structure and the tasks of the employees; i.e. different remuneration systems are optimal for motivation of different tasks. (Anthony and Govindarajan, 2006)

3.3.5. Target time horizon

Setting distant target time horizons results in increased respect for the target in question. The target is rewarded emphasis and significance. However, distant target times can reduce the targets' impact on daily operations. A closer, more tangible target is easier to relate to and to bear in mind while performing tasks on a daily basis. It is essential for motivation and evaluation to strike a balance in setting target time horizons. In general, small and clearly defined, standardised tasks requiring low variety in output are preferably assigned short target time horizons, whereas larger, more complex tasks that are harder to pre-define and requires a measure of creativity benefit from longer target time horizons. (Anthony & Govindarajan, 2006; Bloom & Van Reenen 2010)

3.3.6. Performance tracking and quality control

Internally, the usefulness of targets and incentive programs rely on the ability to adequately follow up actual efficiency. Performance tracking regards the follow up of the efficiency of workers. In the vast majority of textile factories in Vietnam the seamstresses have a salary affected by the level of efficiency attained (Mr. Prasanna, 2012). Thus, as incentive programs clarify what is to be done, performance tracking scrutinise how it is done (Bloom & Van Reenen 2010). Differences in operations with regards to how work is performed are derivable from managerial practises and may have large implications on firm success.

Quality control relates to the control of garments during operations. Usually this presents itself as on-line, final and random post-packing controls. The manner in which this is effectuated, as well as the level of tolerance of quality discrepancies found are reflects managerial practises. Notably, it is also a reflection of the decision making process and the authoritarian division (Glock & Kunz 2005).

4. Method

In order to fulfil the aim of this paper, we will focus on the institutional environment and customary managerial practices in a specified region. We will outline and compare the background of exemplifying companies (i.e. ancestry of the firms) and the local vicinity in which the factories examined are located in terms of relevant institutional and environmental factors. These factors are deemed relevant as we denote that differences in manifestation of the aspects will have effects on firm operations.

We will subsequently examine the indirect interconnections between managerial practices at the factories and the local institutional environment. Finally, we will analyse the effects of these interconnections on the success of the two factories.

In this chapter we expand on the details and rationale behind how this is done.

Research mode of procedure

We will go about analysing our research question by identifying two comparable actors of different backgrounds that are active within the same institutional environment and in the same industry. Comparability in this context implies that the actors serve similar markets; i.e. their customers have analogous institutional background, and their workers are locally employed; and thus are interchangeable in terms of institutional background. This will allow us to single out for comparison the institutional background of the investors and the local plant management.

We will assess the differences in business conducting through the lens of six essential institutional and environmental aspects. We will commence with defining the prevailing institutional environment in which the relevant companies act. We will then assess how the companies are managed with regards to these aspects. The focus of our examination will be differences between the two companies and how their conducts differ from local managerial customs, succeeded by an examination of the effects of potentially identified disparities.

Finally, we will conclude by outlining a prescriptive memorandum for companies considering establishing in-house production abroad. This memorandum will synthesise what aspects are imperative to consider and how these ought to be assessed with respect to the company's specific situation.

4.1. The institutional environment of study

4.1.1. Overview of what is required of the chosen region to study

The institutional environment in which the exemplifying companies operate in need to meet two primary criteria:

- Institutional aspects need to be reputable and identifiable.
- They need to provide the companies with the same institutional arena

Institutional aspects must be identifiable in order for our analysis to have common points of departure. This is necessary for clarity and coherence in the analysis.

The institutional and environmental aspects must affect the companies similarly in order to avoid divergence in success derivable from other causes than managerial practises. For correlation between managerial practises to be positively established, environmental divergences as a source of distortion must be eliminated as far as possible.

4.1.2. What is the chosen region of study?

We have chosen the outer districts of Ho Chi Minh City, Vietnam, as a point of departure for our environmental analysis.

Production in Asia has various advantages compared to other regions in the world. Labour is cheap. People are willing to work hard. The political climate is increasingly benign. (Meyer, Tran & Nguyen, 2006)

Vietnam is one of the fastest-growing economies in the world (World Bank, 2010). Especially the southern part of the country is an attractive region to locate production in to many Western manufacturers as it has been under capitalist influence since the French colonial times (Hayton, 2011) whereas the northern provinces has historically been under Communist rule. Compared to the northern regions and the Midlands, decent knowledge in English is relatively widespread (Hayton, 2011). Ho Chi Minh City is in many aspects considered the business' capital of Vietnam (Meyer, Tran & Nguyen, 2006).

Vietnam is the sixth largest textile exporter in the world, with an annual export volume of \$19 billion. In total, 2 million labourers, or 5 per cent of the national workforce, is employed by the textile industry. It is a nation where the textile manufacturing industry is well established, and

caters to an array of different nationalities (Hoa, 2012). Yet, the custom of FDI in the sector has been present merely for the past twenty years, hence were not an essential element in founding the industry. This implies that an institutional environment had been established without significant impact from the nationalities from where foreign investors stem. This leads us to believe that Ho Chi Minh City provides an environment where the institutional and environmental factors directly influencing the industry can be separately identified and analysed.

A key element of the modernisation and recent growth of Ho Chi Minh City has been increasing internationalisation. The majority of European and American designer brands have their own local stores. International five-star hotels open each year. The city is evidently expanding and looking to the western world for inspiration (Thoburn, 2004; Litchfield & Justino, 2004). The ever-present international influence entails that workers get accustomed to the concept of foreign managers, which renders it viable for foreign companies investing in Ho Chi Minh to implement their own managerial methods in line with their own corporate strategy. The diffusion of international influence in all parts of the city's economy implies that all workers are influenced by the internationalisation to a similar degree.

The outer districts of Ho Chi Minh are an established arena for production factories generally, and textile factories specifically, to operate in (Nadvi & Thoburn, 2004). The consequences of this, which also increase the relevance of this area as an appropriate institutional environment to study, are two-fold. The first implication is that this has allowed the development of accepted industry norms, which take time and environmental consistency to develop. These norms, as well as the institutions which some of them have induced, provide us with a Vietnamese benchmark necessary to be able to measure the companies' adaptation to the environment. Further, two autonomous factories, without historical presence in Vietnam and previous influence during the evolution of the prevalent institutional and environmental features will not be sufficiently significant to affect the established norms or institutions. We can therefore assume that they manoeuvre as flexible actors in a stable institutional environment. The second implication is that the two factories face a large and relatively homogenous labour force. The workers are numerous, and are not skewed to taking a job or staying at one merely due to geographic proximity. Consequentially, the actions of the employees can successfully be used as signifiers of response to the actions of the factories. These factors guarantee both that the factories are operating in the same institutional environment and also that the aspects of this environment can be identified and controlled for in an analysis.

The outskirts of Ho Chi Minh City sufficiently fulfil our criteria to be an effective example. Nevertheless, the area is obviously one out of many of equal adequacy. Due to the limited time frame, scope and available resources and the difficulties in obtaining primary data, this specific area was chosen due to practical reasons, as comparatively extensive information for the area could be relatively easily accessed.

4.2. Companies Analysed

Comparing two textile plants, producing for international markets, is beneficial as the output is generic as well as the workers and customers interchangeable in terms of institutional backgrounds. Both companies also have an ownership structure representative of the institutional background of the local plant management.

The choice of analysing the textile industry, amongst other industries that would suffice for our purpose, also stem from us being previously versed with the industry.

4.2.1. Reflection of what is required of the chosen companies to analyse

When choosing factories for the purpose of analysis, we needed them to fulfil three basic requirements. First of all, the factories must have local plant management of dissimilar institutional background, with identifiable and differentiating extents of adaptation to the local institutional environment. Second of all, the customer bases of the companies must be of similar institutional background as one can otherwise argue that adaption to the client base can influence the firms' success. Finally, the institutional background of the factory workers, i.e. blue-collar employees, must likewise be of the same institutional background, as adaptation to their institutional environment too can have distorting effects of firm success.

4.2.2. Presentation of the chosen companies analysed

Introducing Phong Phu Guston Molinel (PPGM)

Phong Phu Guston Molinel (PPGM) was established in 1991. Employing 564 seamstresses and 324 in administration, PPGM reached a turnover of \$4.9 million in 2011. They target markets of clothes and accessories with extremely high quality assurance requirements, as their expertise lies in the handling of heavy materials and safety equipment, e.g. safety work wear and baby carriers. PPGM produces in total approximately 7.3 millions minutes a month (PPGM Financial Reports, 2012).

Phong Phu, a Vietnamese corporation mainly involved in textile manufacturing, but also finance and building, owns the land on which the An Phu textile cluster is located and requires an ownership share of 50 % for the plants within the cluster. With regards to the managing of the daily operations, Phong Phu has a representative that share the post as general manager of PPGM along with a representative of Guston Molinel. Vietnamese native Ms. Hanh has the responsibility of administrative tasks and personnel related issues, whereas long-time Vietnamese resident Mr. Kling is in charge of strategy, customer interaction and sales.

The factory was founded in 1991 by two work wear companies, Molinel and Blåkläder, as a response to increasing demand for their products and the envisaged trend of moving production to Asia. Both companies favoured integration of production, to outsourcing, in order to retain control of the productivity and working conditions in their respective value chains. Both companies had also previously been engaged in textile production. Guston had since establishment regarded production a vital part of rendering business profitable and sustainable, and operated their own production plants in Portugal before establishing operations in Vietnam. Moving production to Asia was a strategic choice in line with an anticipated trend, done in order to get the advantage of lower labour costs. The textile industry crises in Southern Vietnam during 1990-1992 were viewed upon as an opportunity to gain a local toehold at a low cost.

Guston and Molinel both entered the joint venture with competences in production, although little or no knowledge of production in Asia. The choice of investing in Vietnam was based on low labour costs and a stable diplomatic environment as compared to other Asian countries, combined with the opportunity of collaboration with Phong Phu. The prior knowledge and experience of production effectuated in diminutive adoption of work methods. Details on how the plants were to be managed were agreed upon between Guston and Molinel when specifying the terms under which the joint venture was to operate; these were subsequently implemented through employment of non-Vietnamese managers approved by both parties. Employing local managers suitable for pre-defined requirements enabled enforcement of the agreed-upon managerial practises that were considered necessary in order for the factory to function optimally as well as to maximise efficiency in communication and cooperation with the owners. As the investment in the factory was conducted collaboratively, communication and cooperation were vital aspects.

Introducing Hansoll Vina Ltd

Hansoll Vina Ltd was established in 2001 as the first Vietnamese factory of the textile production conglomerate Hansoll Textile Ltd. The reason for locating operations in Vietnam was the superior cost position.

Hansoll Textile Ltd has its headquarter located in Seoul, South Korea, and additional sales offices in New York and Miami. The conglomerate manufactures knit products in 25 factories, primarily in Vietnam and Indonesia, but also Cambodia, Philippines, Guatemala, Honduras and Nicaragua. Customers are giant international fashion brands. Hansoll Textile exports its merchandise to customers in the United States, Japan, and Europe. (Bloomberg Business Week, 2012; Fair Labor Association, 2011)

The parent company has three subsidiary manufacturing plants in Vietnam as of today: Hansoll Vietnam, Hansoll TNA and Hansoll Vina. Hansoll Textile also operates a Global Dyeing factory in Vietnam that dyes all garments produced within the conglomerate for the purpose of reducing lead times. This factory also dye garments for clients only purchasing dyeing, however this is only to the extent that capacity is available after internal needs have been fulfilled.

Hansoll Vina was established in 2001 and has approximately 6000 seamstresses operating 82 lines with a total capacity of 4.1 million pieces per month (Hansoll Website, 2012) corresponding to 21.6 million minutes per month. Hansoll Vina produces knitwear for a range of large customers. It is chaired by Mr. Sin Jae Lee and managed by Mr. Tae Ha Yoon, both native South Korean. The factory reached a turnover of \$864 million in 2011. (Mr. Kim, 2012)

4.2.3. Why are these relevant with respect to our requirements?

PPGM

PPGM operates its textile-manufacturing factory as a joint venture. Phong Phu, the Vietnamese company owning the land on which the plants are situated, has 50 %; Guston, a Swiss-owned holding company, and Molinel, a French work wear company each hold 25 % (Mr. Kling, 2012). Local management consists of mixed nationalities, whereof one Swedish, two Sri Lankan and remaining Vietnamese; the seamstresses' supervisors working directly and continuously with the lines are Vietnamese. The director of personnel, Mr. Kiet, is Vietnamese, as is Ms. Hanh, the employee/administration focused general manager. The strategy/sales focused general manager Mr. Kling is native Swedish, but has made his career primarily in Vietnam, but also in the U.S. France. COO, Mr. Jeewantha, and Quality Control Manager, Mr. Sumedha, are Sri Lankan. Both

Mr. Jeewantha and Mr. Sumedha have worked for French or partially French companies throughout their careers (PPGM Interviews, 2012).

PPGM has four long-term contracted customers, all internationally recognised for high-quality products, which usually constitute 90-100 % of revenues. If volumes from these are predicted to drop, PPGM strives to fill the available capacity by setting up short-term contracts with new clients. (Mr. Jeewantha, 2012)

Hansoll Vina Ltd

Hansoll Vina Ltd is owned by Hansoll Textile Ltd, a South Korean textile-manufacturing conglomerate head quartered in Seoul. All employees in managerial or otherwise office-based positions are native South Koreans and have been employed from South Korea. However, all seamstresses working in the factories are native Vietnamese. (Mr. Kim, 2012).

Hansoll Vina Ltd sells to twelve large clients. These are international household names prominent in Europe and America. Although the majority of the brands to which Hansoll Vina cater to are American, they sell their merchandise worldwide (Company data, 2012).

5. Empirical findings

5.1. The reality of the textile industry in the outskirts of Ho Chi Minh City

5.1.1. Ownership structure

Vietnam, being a one-party communist state, has historically experienced high levels of state ownership. After the reunification in 1975, the government took over a large number of textile companies (MOEAITC, 2012). Since then, state owned enterprises (SOEs) have received favourable ancillary benefit (Hakkala & Kokko, 2007). SOEs are still prominent in the textile industry, both in number and in total market share. Further, a significant portion is privately owned, however more often as FDI than Vietnamese. Yet another portion of the industry consists of joint ventures between Vietnamese and foreign investors, some of these being partnerships between SOEs and private enterprises. Around 30 % of the market is composed of SOEs, either local or central, and this share is constantly declining. Around 25 % of market is composed of firms with 100 % foreign capital ownership, a share that remains steady, and around 15 % is composed of mixed ownership, a share that is increasing (IDRC/CIDA, 2001).

5.1.2. Decision-making

With regards to authority, the Vietnamese workplace is most often extensively hierarchical (MOEAITC, 2012). However, Vietnamese people in general exhibit a high level of integrity and have firm beliefs and value to which they stick. This is especially prominent among the younger generation. In the workplace, this is often crystallises in that the management make decisions on what is to be done, in a strict and hierarchical manner. However, middle management (e.g. pattern makers) will often have a say in how they reach the targets set. The flexibility however is limited, and they will not greatly alter what they believe is to be expected of them. Further down the line, seamstresses will only report to their line supervisors unless directly asked otherwise. Even in this case, they will never report directly to management without their line supervisor present, this due to the responsibility which line supervisors have over their seamstresses. This mentality is reinforced by the hierarchical pressure placed on line supervisors to be in complete control of their workers. All parties are expected to have absolute authority within their section; the lack thereof will negatively represent the person in charge. Hence authority is passed down to site-specific managers, however with closely defined restrictions on decision-making autonomy. (MOEAITC, 2012; Glock & Kunz, 2005)

5.1.3. Communication

Communication generally occurs in Vietnamese unless this is impossible due to foreign ownership. In this case, English is today the most common second language, and will be used as means of communication. However, due to the low level of English knowledge among low-skilled workers such as seamstresses, the communication will usually go through a second hand and there will exist a “cut-off” point, where the communication goes from English to Vietnamese. (MOEAITC, 2012)

Communication is most often verbal and face-to-face internally within the factories. Most factory managers will receive orders via e-mail or another form of written invoice. The majority of sourcing work is initially conducted at fairs or conventions, in person, and the relationships are later maintained via e-mail and visits on yearly or bi-yearly bases. (MOEAITC, 2012)

Most vertical communication is top-down. Bottom-up communication is a rarity. (MOEAITC, 2012)

5.1.4. Remuneration and motivation

The minimum salary in Ho Chi Minh is set at 2 million VND (approximately \$97) a month. All companies in the geographic vicinity abide by these laws. However the minimum wage for wholly Vietnamese-owned enterprises are lower, and so are those for state owned enterprises (Grassi, 2011). Apart from the basic monetary salary, employers must also, by law, provide both insurance and health care. This too is abided to, however the level of health care and the accessibility differs throughout the area. It is however customary in larger factory areas provide on-site health care. The norm is to provide for work-related or work-affecting sickness on a short-term level, hence not being a complete substitute for a general doctor. Apart from the non-monetary compensations stipulated by law, provisions of some other forms of non-monetary compensation are customary. These are primarily lunch and transportation. Lunch is often provided on-site for convenience, and is usually included in the salary. That is to say that the workers do not have any options regarding the price they pay for the daily meal. As for transportation, the norm is to provide all workers with bus transportation or parking slots and gas money for motorbikes. (MOEAITC, 2012)

5.1.5. Target time horizon

Vietnam has historically attracted labour-intensive low-cost work. On the back of this, most companies within the textile industry are working with a time frame contingent on the rate of

wage inflation as compared to closely related countries such as Laos, Cambodia and Taiwan. As salaries for low-skilled labour are standardised, textile production in the outskirts of Ho Chi Minh will become comparatively disadvantageous due to rises in wage level around the same for all actors in the industry. (IDRC/CIDA, 2001)

This time frame may be altered if actors specialise in production requiring a higher level of skill. However, assuming this is not the case, the strategic time frame implemented by factories is based on the estimated gap between when they established themselves in Ho Chi Minh and their estimates on when salary inflation will render operations unprofitable based on opportunity costs of cheaper production locations.

Generally, we see three types of firms in the regional textile industry. The first type consists of those established in the beginning of the 90's in the European rush to countries with low-cost labour, who will stay until the wages become too high. The majority of these companies are today relocating, either to another part of Vietnam or to another country. (Viet Nam News, 2012) The second group are those who established themselves for the low wage costs but as the labour has reached a higher level of skill following the maturing of the industry, they have adapted their strategy to better take advantage of the high-skilled seamstresses available. These are able to stay longer as, although they too are faced with rising wage levels, they would benefit less from moving to another country, as the time to reach the same level of skill would be significant (ibid). The third category are those who established themselves in Vietnam due to the comparatively lower costs but at a later stage, after the change of millennia, only once they were convinced that the established industry was functioning. These actors are those who did not take part in the creation of the industry today, and for the most part are not in need of specialty skilled workers (that is, skills that are unique to their production). It is customary for these actors to have factories in numerous countries without being significantly bound to any of them. (Viet Nam News, 2012)

Based on these classifications, the general target time horizons differ in that firms in the first group have had generally longer-term strategies but are today working with short-term target time horizons (Viet Nam News, 2012). However, an exception must be noted for companies planning on moving production from Vietnam to new locations, bringing the management along. These companies have no intention or need to change their strategy in the foreseeable future; hence they elongate their time horizon and adjust their location to areas suitable for the strategy

employed. The second group work with the longest target time horizons of the three, whilst the third group consistently works with a short target time horizon. (Viet Nam News, 2012)

5.1.6. Performance tracking and quality control

Performance tracking

In an industry where direct labour represents a potent portion of the cost, productivity of direct labour becomes of utmost importance. Consequently, all factories track labour productivity. This productivity tracking can be conducted in several manners, are the most commonly used metrics are *units of output per labour hour*, *value of finished goods per labour hour* and *units of production per labour hour*. It is customary to keep records of the type and the quantity of goods produced per working day and labourer on a daily time sheet. The information is then translated to provide necessary measurements needed as a basis for compensation calculations. The earned minutes calculated are used to produce a productivity index, indicating how well a worker performs compared to performance standards (Glock & Kunz, 2005). The productivity percentage used as the standard measurement can be based on the daily average observed, an ideal number of minutes it takes to produce the product, or derived from the average number of minutes it takes to produce the garment. The standardised method is to index against the Standard Allowed Minutes, calculated by General Sewing Data. (Online Clothing Study, 2011). (See appendix E for an introduction to SAM and efficiency calculations).

Quality Control

Attempts have been made to standardise garment and textile quality control on a global level. Although there is no regulation on the precise method of quality control, more or less standardised methods are widely implemented due to their provision of comparability between producers and clients. Ensuing standardised methods of quality control enables a mutual agreement between both parties with regards not only to the ideal quality of the good, but the accepted level of deviation.

A widely adopted distinction between controlling techniques are on-line and off-line controlling. Individual methods of quality control are normally based on this distinction. On-line controlling refers to ensuring that the quality of the components produced on the floor maintains an adequate level. Off-line controlling refers to ensuring that the final garments reach the requirements specified by the client (Peace, 1992). However, Glock and Kunz make further distinctions, within off-line controlling, between pre-production and post-production. During the pre-production quality control, focus is on the textile quality, impact of washing, shrinkage and

spreading. On-line production focuses solely on the control of assembly of components. During post-production control on the other hand, measurements, matching of garments to client specifications and impact of storage are controlled.

Quality control measures are mainly obtained through audits. Distinguishing between three different stages of production, requiring three different types of controls, is mainly done by larger firms. Smaller firms tend to combine pre-production and post-production controls (Ballard & Norton, 2009). Throughout the three stages, the choice of what percentage of the output to sample for controls lies with the producer and is based on cost-effectiveness. Although some producers controls 100 % of the output, most producers are content with *acceptance sampling*, which implies that a selected sample is chosen and the acceptance or rejection of the entire batch of goods is determined from the outcome of the control of this sample (Besterfield, 2000).

5.2. The reality of the companies

The companies are described systematically with respect to our previously defined institutional and environmental aspects (see chapter 4. Method). Special emphasis is placed on how the interfaces between different managerial clusters are constituted. More specifically, for PPGM a distinction is made between *local factory management*, implying people in managerial position, white-collar workers and, to an extent, office-based employees; and *workers*, meaning factory employees, blue-collar workers and seamstresses.

For Hansoll Vina Ltd, the worker-local management-interface is supplemented by the interface between the local plant management and the Seoul headquarters of Hansoll Textile Ltd.

5.2.1. Ownership structure

PPGM

PPGM is a joint venture. A collaboration of two Western companies owns a total of 50 %; French work-wear brand Molinel and Swiss owned Guston, a production company owned by owner of Sweden-based work-wear brand Blaklader. The two work-wear companies each hold 25 % and constitute the *GM* of PPGM. (Mr. Jeewantha, 2012)

Vietnamese Phong Phu owns the land on which the cluster of An Phu is placed. The company, that constitutes the *PP* of PPGM, owns a share in all plants operating within the cluster. In PPGM this share constitutes the remaining 50 %. (Mr. Jeewantha, 2012)

Hansoll Vina Ltd

Hansoll Textile Ltd owns 100 % of Hansoll Vina Ltd. Hansoll Textile is a South Korean chaebol with head quarters in Seoul and sales offices in New York and Miami. The conglomerate operates 17 factories in South East Asia, including four in Vietnam. (Hansoll Vina website, 2012)

5.2.2. Decision-making

Decision-making is described in terms of authority sharing and reciprocity in the decision-making process.

PPGM

As PPGM is constituted by one production facility, it has been allocated a sovereign plant management. Management is composed by representatives from both Phong Phu and the Guston-Molinel collaboration. (Mr. Kiet, 2012)

Phong Phu representatives are Vietnamese and their fields of responsibilities are more HR related and administrative as they can not only communicate orally in Vietnamese with workers and authorities, but also know the non-verbal codes and customs necessary for friction-free interaction.

Having an implicit HR perspective on top factory management roles, paired with akin managers being native Vietnamese, has facilitated a window for more ad-hoc communication with the workers. The more experienced seamstresses do enjoy the benefit of being able to, to a certain extent, communicate their view-points and potential complaints to Mr. Kiet, who operates directly under Ms. Hanh; the managing director from Phong Phu. (Mr. Jeewantha, 2012)

The managers appointed by Guston-Molinel are non-Vietnamese natives and they are responsible for the operational aspects of the company.

The COO and production manager, appointed by Guston-Molinel, spend 40 % and 95 % respectively of their time on the factory floor, inspecting the operations and looking for ways to improve efficiency. Doing this, they actively seek inputs from the seamstresses on how they regard their tasks and what obstacles to improved efficiency they experience. (Mr. Jeewantha, 2012)

PPGM is a top-down organisation, managed with respect to consistent theme of productivity in terms of both efficiency and effectiveness. However, management do recognise the seamstresses'

superior competences within their specific, highly specialised, tasks, and they do take seamstresses' opinions into account when working towards improving efficiency in production.

As previously mentioned perfection in quality is of the utmost important to PPGM's clientele, and subsequently production effectiveness is the lynchpin. The materials used are often difficult to handle, which implies that seamstresses do face a certain upward-sloping learning curve. As management recognise their comparative competences (although management actually do know how to sew) they open up for skilled seamstresses to communicate ideas and suggestions to improve processes. (Mr. Sumedha, 2012)

Hansoll Vina Ltd

The local plant management at Hansoll Vina is appointed by a Vietnam-focused division at the Hansoll Textile headquarters in Seoul. The head quarters give specific targets in terms of what output they require and how much they will pay for the input. The local factory management are then left to work out how to accomplish the required results. This is done by the management and subsequently translated into Vietnamese, subdivided into specific job descriptions and announced to the workers. These do not have any natural forum for communication with the people in managerial position. When asking whether such communication could feasibly be initiated by any of the workers in practise, the verbal answer was imprecise and it was made implicitly clear that this was not the case. (Mr. Kim, 2012)

With regards to reciprocity in decision-making between the Seoul based management of the conglomerate and Mr. Kim, the latter testifies how he occasionally brings forth propositions on e.g. potential improvements to design aspects in order to advance efficiency in production. To what extent his suggestions are then taken into account in developing ameliorated processes remains unclear. Mr. Kim acknowledges that he has no access to decision-making procedures at the headquarters and verifies that he is left to trust that his opinions are taken into consideration. He does, however, indicate that hands-on impact is rarely seen.

Between the factory workers and the local plant management, decision-making is without exceptions top-down.

5.2.3. Communication

Communication is described in terms of level of formality, language of communication and frequency of management's communication with clients, as well as with line supervisor.

PPGM

Level of formality

In general, communication at PPGM is not very formal and often takes place in verbal form. This is especially evident horizontally (Observations, 2012). Nevertheless, all procedures are formalised and there are specific task descriptions to all functions in the factory. There are possibilities for upward communication, and formal channels exist to enable seamstresses to communicate ideas and opinions to management, however via filters of supervisors and middle managers. (Mr. Jeewantha, 2012)

Language

Within management, communication is in English and Vietnamese. Non-Vietnamese managers communicate with each other in English, and with Vietnamese colleagues in English and Vietnamese. All in managerial position stationed at the factory can make themselves understood in Vietnamese in work-related situations. (Observations, 2012) The only employee of PPGM that does not speak Vietnamese is managing director Mr. Kling. He works primarily from the sales office in central Ho Chi Minh City.

Frequency of communication with clients

The managing director representing PPGM, Mr. Kling, is responsible for interaction with Guston and Molinel, as well as communication with prospective clients. His direct contact with Guston and Molinel takes the form of weekly reports via e-mail as well as board meetings four times annually in Europe. He meets the four main clients in person between three and four times annually, usually when they visit the factory. He meets with smaller clients only once or twice to set up operations, as most of these are merely short-term customers placing one-time orders.

Mr Jeewantha is responsible for communication relating to day-to-day operations, order intakes, technical specifications, alterations and production priority listings. Both Guston and Molinel have daily contact with representatives from the factory (Mr. Jeewantha, 2012). Should problems occur, the frequency of communication increases.

Frequency of communication between line supervisors and managers

Mr. Kling is the only manager that is not stationed at the factory; however he spends approximately three working days a week there. Other managers have their office adjacent to the

factory floor, within the same building, and the COO and production manager interacts with the supervisors several times every day. The production manager, Mr. Sumedha, spends 90 % of his time on the factory floor; the COO, Mr. Jeewantha, approximately 60 %. (Mr. Kling; Mr. Sumedha; Mr. Jeewantha, 2012)

Other aspects and observations

Occasionally, however rarely, the formalised communication channels are circumvented. One day ensuing to our visit, Mr. Kiet and Ms. Hanh received letters of physical threat from some of the seamstresses, causing them to take safety precautions affecting their private lives. (Observations; Mr. Kling, 2012)

Hansoll Vina Ltd

Level of formality

Communication at Hansoll Vina Ltd is highly formalised. No decision is valid unless in written form. Vertical communication does not exist other than in pre-defined forms and on set times, and consists of orders and follow-up reports.

The scarcity of ad-hoc vertical communication is evident for the entire factory, however auxiliary palpable in the intercepts of the three managerial clusters. Local management and head quarters are parted by means of lack of both physical proximity and hierarchical propinquity, increasing the formality in communication and restricting it to almost solely written.

The local management and the factory workers are to a lesser extent physically distant; however they are physically parted as managers use a separate building for offices.

Within the local managerial cluster, formality is high. When greeting colleagues of higher seniority, solemn and dutiful bowing is custom. The larger the difference in seniority, the deeper the bow. (Observations, 2012)

Language

All people in managerial or administrative positions (i.e. office-based) are native South Korean. This goes for the local plant management, as well as the head quarter and sales offices. These communicate with each other in South Korean.

All factory workers are native Vietnamese. These communicate with each other in Vietnamese.

In the intercept between the local plant managers and the factory workers, communication is in English. This sometimes causes difficulties, as the level of English proficiency is neither very high amongst the workers (Mr. Kim, 2012) nor the management (Observations, 2012). This has been resolved by teaching one senior line-supervisor English and allocate to him the task of communicating with the South Korean employees in the next level of seniority. However, as communication points are reduced to one representative from each cluster, the risk of misunderstandings is further increased.

Frequency of communication with clients

The local plant managers at Hansoll Vina do not interact with clients. (Mr. Kim, 2012)

Frequency of communication between line supervisors and managers

One senior line supervisor is appointed the task of communicating with the office-based managers. He or she is chosen based on English proficiency and experience, the former being most important as the task of the senior line supervisor is primarily translating reports upwards and orders downwards.

Office-based managers interact with the senior line supervisor once a day, and if something deviates from plans. (Mr. Kim, 2012)

Other observations

The factory workers are used to Mr. Kim showing clients around the factory floor. When touring the floor, several workers came up and bowed until informed that we were students rather than clients.

5.2.4. Remuneration and motivation

PPGM

Seamstresses are paid a base salary with a performance-based addition in accordance with a bonus scheme. This is based on level of skill (A gives \$130/month, B gives \$150/month, C gives \$170/month) and output and evaluated against targets on a monthly basis. A 1 % beat in monthly output target renders an additional ten percentage points, calculated on the base salary. Further non-salary benefits include health insurance, on-set health facilities, transport to and from work as well as lunch in the factory canteen. The workers are paid competitively. In 2011,

the salaries were increased by 35 % in order to keep up with rising costs of living in Ho Chi Minh.

When workers leave, they leave for monetary reasons. (Mr. Kiet, 2012). PPGM has an employee turnover of 35 % per annum, which is low in this context (Mr. Prasanna, 2012). Mr. Kiet hypothesises that this is because the seamstresses are paid more than seamstresses in most other factories, and that they do enjoy the opportunity to communicate upwards. It is mostly the experienced workers that utilise this opportunity, and these stay for several years – Mr. Kiet has found a correlation in that the workers leaving have in general been working at the factory for less than six months.

Management has a fixed remuneration scheme. Management's salaries are significantly higher than the seamstresses', however not as competitive. Turnover of people in managerial position is very low, current managers have been in place for an average of 12 years. (Jeewantha, 2012; company material.)

Hansoll Vina Ltd

Workers are paid a base-salary and an additional bonus based on level of skill/task complexity and performance compared to output targets. The base salaries for the different levels are related as follows: level 2 workers have a base salary 10 % above level 1 workers; and level 3 workers 20 % above level 1 workers. The average base salary paid in 2011 was \$114/month. Bonus is calculated on a weekly basis where a 1 % target beat renders an additional ten percentage points, calculated on the base salary. Further non-salary benefits include health insurance, on-set health facilities, transport to and from work as well as lunch in the factory canteen. In 2011, the salaries were increased by 75 % in order to keep up with rising costs of living in Ho Chi Minh, as well as competitors' salary offerings. (Mr. Kim, 2012)

Hansoll Vina has an annual employee turnover of 120 % (APR; 10 % per month). Mr. Kim describes this as a low rate. He believes that workers leave because they are paid better elsewhere, but added that this is probably not the case.

The conglomerate headquarters employ a hand-off approach to the running of factories, and salaries and discussions exclusively concerns target setting and target fulfilment. Management is paid based on fulfilment of allocated production output. (Mr. Yoon, 2012)

5.2.5. Target time horizon

PPGM

Time period used for salary bonuses

PPGM keeps daily records of the average efficiency for each line. The previous day's efficiency levels are visibly recorded on a whiteboard outside the managers' office. The efficiency used as a basis for the bonus calculations are monthly averages. The fluctuations in these measures are observed and may be subject to scrutiny if severe, however daily efficiency levels and their fluctuations are not used as basis for salary bonus calculations.

Average time period for retaining customers

The non-Vietnamese joint-venture partners of PPGM; Molinel and Guston, have been the primary customers of PPGM since establishment in 1991. They initially accounted for the entire capacity of the factory, and still account for more than half of the volume. Moreover, they are actively involved in investment and expansion decisions (Mr. Kling, 2012). Today, the amount of revenues stemming from PPGM's long-standing customer-base fluctuates around 90-95 %. This long-standing customer-base is composed of four companies, two of them being the joint-venture partners Guston and Molinel, and two being external. The remaining capacity is used to take in one-time or short-term customers when necessary; these commitments are usually very straightforward. This is done in order to keep the number of employees constant, and to not drive down efficiency. Although not part of the core business, this is a strategic effort to keep quality variance low, which benefits the main customers (Mr. Jeewantha, 2012).

The largest external customer, Customer A, started placing orders with PPGM in 2004 and is seen as a long-term customer. Customer A sends representatives from the company to visit the factory twice a year in order to keep continuity in the relationship and to resolve issues of complicated nature. The sturdy and stable relationship is successively enhanced by mutual investments in terms of time and money. This long-term view on the relationship also implies that PPGM takes into account the development of the order volumes from Customer A when calculating future capacity and long-term development (Mr. Kling; Mr. Jeewantha, 2012).

Customer B has been a customer since 2008, and is regarded a long-term customer. When placing an order of a new product, representatives from Customer B spend a week at the factory. While there, they work with the seamstresses who are going to produce their product, teaching

them the most efficient way to sew each component and making adjustments if necessary (Mr. Sumedha, 2012). Customer B produces less than ten products, but take great care in each detail of the components. As with Customer A, this collaboration requires trust and ensures a long-standing cooperation built on mutual investment in each other as business partners (Mr. Kling, 2012).

In general, PPGM sees its customers as long-term partners as opposed to impersonal sources of orders. Working in production of relatively high-skilled and complex products, it is necessary to have long lasting relationships with the clients. This requires significant amounts of time invested in the learning process. It can take up to a few months before the seamstresses know all the components and reach a steady level of efficiency. In discussions about the future strategic direction of PPGM, the relationship with both Customer A and Customer B are considered equally strategically important as the relations to Molinel and Guston. It is not part of the strategy to terminate the collaboration with any of these clients (Mr. Kling, 2012).

General future plans

The profitability of PPGM is currently in decline. This is mainly caused by wage inflation in the Ho Chi Minh area due to recent upsurges in living costs. Combined with a rise in cotton prices, hitting the entire market, PPGM margins have suffered recently (Mr. Jeewantha, 2012).

This has put PPGM in a situation with two possible solutions. One is relocating the factory to an area with cheaper labour costs. The other is to increase the specialisation in high-skilled garment production, facilitating a higher premium for output. The plan is to keep the production facility as it is for as long as possible, benefiting from the high level of skills the seamstresses have acquired. In the long term, when the factory is no longer profitable, the most likely solution is that the factory will relocate, keeping intact the general structure and key managers (Mr. Kling, 2012).

Hansoll Vina Ltd

Time period used for salary bonuses

Hansoll Vina records the efficiency of the lines daily and uses the weekly average as a basis for salary bonuses (Hansoll Vina internal reports, 2012). The volatility of the efficiency-measures are observed, and may be subject to scrutiny if severe, however volatility as such is not used as foundation for the bonus levels. (Mr Kim, 2012).

Average time period for retaining customers

Hansoll Vina receives orders from the headquarters at Hansoll Textile Ltd on a weekly basis (Company presentation, 2012). Customers that are long-term customers for Hansoll Textile Ltd are not necessarily long-term customers for Hansoll Vina (although correlation naturally exists). Reasons for this discrepancy may be cost efficiency related. Moving production to one of the other Hansoll Textile Ltd owned facilities might be more lucrative due to a difference in labour costs or general efficiency. However, as Hansoll Vina is specialised in knitwear production and accustomed to the textiles used and the components sewn, they have managed to retain the same customer-base for several years. Although the length of the customer relationships differ, most of the customers have had production located at Hansoll Vina for over five years (Mr. Kim, 2012).

Mr Kim stated that Hansoll Vina has not lost any customers since establishment in 2001. During the interview however, observations were made that would question this statement. Sample products produced by Hansoll Vina were presented in the conference room, stemming from brands that were not on the up-to-date client list. We were not able to get a clear explanation on the reason behind this (Observations, 2012). One possible explanation may be that these were samples from one-time orders. Another is that they were samples that never reached production but represent a special skill set in its composition not apparent in the other products (Mr. Prasanna, 2012).

General future plans

As previously mentioned, Hansoll Vina Ltd is one of 25 factories owned by Hansoll Textile Ltd. Hansoll Vina competes for orders with its sister factories. Orders will be placed at the most cost-efficient production facility. With the rising costs of living in the Ho Chi Minh area, combined with the investment of Hansoll Textile Ltd in other countries and other areas in Vietnam with lower costs, Hansoll Vina is gradually becoming comparatively unprofitable (Mr. Yoon, 2012). Combined with the fact that Hansoll Vina does not conquer its clients by themselves, but gets order allocated from the Hansoll Textile headquarters, there is no rationale for the continuing existence of Hansoll Vina unless it is more profitable than its internal competitors. Consequently, when relative non-profitability appears, production will be moved to another factory and management will be relocated accordingly. Mr. Kim expanded on how Bangladesh and Burma could be potential future locations for Hansoll Textile production. (Mr. Kim, 2012)

5.2.6. Performance tracking and quality control

This section describes the ongoing evaluation of the operations of the two factories. Performance tracking evaluates the performance of the people involved whereas quality control evaluates the output produced. Quality control are performed on-line and off-line, the latter being an umbrella term for end-of-line controls and random post-production checks.

PPGM

Evaluation is based on metrics depicting efficiency and effectiveness. Performance efficiency is evaluated in terms of time and mini-marking results. Performance effectiveness concerns the quality of the output produced and is based on Quality Control assessments.

Performance tracking

The performance of the seamstresses is evaluated in a quantitative manner. However, evaluating and classifying seamstresses' skill-sets require qualitative assessments. Most of the garments produced by PPGM have at least one vital component that requires a higher skill-set and unique practice in terms of assembly. This results in the line supervisors having to invest auxiliary time in a group of seamstresses in order to teach them the special skills required for the more complex components. However, once the learning process is completed and they are accustomed to the task, their performance is tracked quantitatively. Efficiency is calculated on the basis of finished goods at the end of each day (see Appendix E) (Mr. Jeewantha, 2012).

For each production line, one supervisor is in charge. This supervisor is in general a prior seamstress. Their responsibility includes ensuring a high level of concentration and focus among the seamstresses, as well as aiding in reparation of mishaps; the latter includes engaging technicians if necessary. The line supervisors tend to deter from taking on a passive, observing role and are often observed shouting at the seamstresses (Ms. Hahn, 2012).

Quality Control

PPGM conducts quality control in three steps with varying degrees of frequency (specified below): on-line, end-of-line and random post-production checks. Furthermore, they also conduct sample tests on shipments with textiles. Finally, they perform quality tests on components received. This includes checking all fabrics received, measuring length and width of reflexive tapes, and counting accessories. For the FOB clients, more rigid tests concerning shrinking and shedding are conducted in house. The CM clients are themselves responsible for conducting the primary checks of new order of components themselves (Mr. Jeewantha, 2012).

On-line

On-line quality control is conducted by line-supervisors. However, Quality Control Manager Mr. Sumedha spends 40-50 % of his time conducting on-line quality controls. This is done by checks of random garments on the hangers between the seamstresses. If faults are detected he will communicate this to the seamstress in charge of the specific operation where the fault is detected. The faults will then be repaired instantly. If line-supervisors detect frequent faults appearing, this will be communicated to Mr. Sumedha for further inspection (Mr. Sumedha, 2012).

End-of-Line

Finished garments are moved to a table for quality control placed at the end of each respective line. At this stage, 100 % of finished goods are controlled. Quality controllers check the garments on the basis of technical specifications and trim the threads. If faults are detected that can be altered, they are moved back into the section of the line concerned with the component in question, and they are discarded if the faults are deemed irreparable (Mr. Sumedha, 2012).

Random post-production

Random post-production checks are conducted for every shipment. Once the products have undergone end-of-line controls, they are moved into an area designated to packing. If included in the specification, the garments are ironed before they are packaged into boxes for shipment (Mr. Jeewantha, 2012). For every shipment completed, a number of boxes are chosen for further scrutiny. The number depends on the total size of the shipment and the variety of articles but is usually around 10 %. These are then examined in terms of whether the *number* of products packed, *how* they are packed and the *quality* of the individual garments packed match the pre-defined specifications. The tolerance limits of the faults on the garments are determined by following a 4-point system (see Appendix F). Further, each of the four primary clients conduct their own random quality control checks once the garments have arrived. The results of these are then reported back to PPGM. This is conducted in order to ensure a consistent level of quality and to avoid discrepancies in quality expectancy for PPGM and the clients (Mr. Sumedha, 2012).

Hansoll Vina Ltd

The factory is distinctly target oriented. Factory management receives order on output expected, along with the fabric required according to head quarter's calculations, and are subsequently paid a pre-defined sum for the garments produced. Head quarters does not perform any follow-up with regards to the processes that result in the output and no variations in payment occurs as

long as required amount and quality of output is delivered (Mr. Yoon, 2012).

Performance tracking

Performance of the workers is evaluated quantitatively based on the efficiency-levels attained. The efficiency is calculated on the basis of finished goods at the end of each day. The primary reasons for not complementing this metric are the straightforward nature of the work combined with the low skill requirements and the high employee-turnover rate. This causes the need to take into account the ability and willingness of employees to improve as well as their general attitude to be relatively insignificant (Mr. Kim, 2012).

To ensure the maintenance of a high level of productivity, line supervisors are put into place. (See Appendix E for relevant calculations.) They see to that the seamstresses are continuously working, and assist if major problems arise. They are then in charge of reporting the results to the managers (Mr. Yoon, 2012).

The efficiency of textile utilisation is not tracked as the customer sends the patterns and a simulation program composes the mini-markers. According to Mr. Kim (2012), this implies that there is no aspect left for possible improvement by Hansoll Vina.

Quality Control

Hansoll Vina also conducts the three-step quality control observed at PPGM and tests on arriving textile shipments. The latter are standardised tests for shrinking, colour shedding and strength. For shipments of components not previously used, numerous samples of the batch are tested, whereas for recurring shipments only one sample per batch is tested (Mr. Hung, 2012).

On-line checks

The line-supervisors are in charge of on-line quality control. This implies that while walking up and down the line, they make sure that the different components are assembled correctly. If a fault is detected, the component is undone and redone. In practice, this implies undoing a stitch and sewing it back in the right manner. If detected directly, only one component needs to be altered and the garment does not need to move from one station back to another. If detection occurs late, it is possible that numerous components have to be redone (Mr. Kim, 2012).

End-of-Line checks

At the end of each line there is a workstation in place for control of finished garments. The clients determine the error-margins of faults in the technical specifications. 100 % of the

garments are controlled at this stage (Mr. Kim, 2012). The scrutiny of all finished goods takes place on tables placed under large lamps (Observations, 2012). The quality controllers are also in charge of trimming off excess threads on the garments. After the end-of-line checks, the goods are moved to the packaging section. Here, the garments that do not pass inspection are either sent back into the line if the fault is reparable or discarded if not (Mr. Hung, 2012).

Random post-production checks

Post-production checks are conducted, although not for every shipment. The individual end-of-line control is deemed detailed enough for a regular random post-production check to be superfluous. When controlled, one of the boxes ready for shipping is unpacked. Checks include comparing to specifications the number of garments in the box, the manner in which they are packed, and the quality of the individual goods (Mr. Kim, 2012)

6. Analysis

In the following chapter, we outline how our empirical findings relate to the suggested implications presented in the theoretical framework. Focus is placed on deviations from theoretically hypothesised conduct, the rationales that might justify these as well as the implications on operational outcomes.

6.1. Ownership structure

PPGM

The ownership structure of PPGM has been consciously adapted to the local environment in accordance with Asiedu's & Esfahani's (2001) theory. The initiators, the Guston-Molinel collaboration, have established a joint venture for the purpose of overcoming obstacles with regards to communication with employees and local authorities. They deliberately work with compliance with a strategy of precaution. However Mr. Kling expresses the effects as granting PPGM a competitive advantage in terms of legitimacy, as their clients highly value political correctness in all steps of the supply chain, implies that this adaption has been beneficial.

Hansoll Vina Ltd

The ownership structure of Hansoll Vina is analogous to the structure of all factories within the global conglomerate. The structure is distinctly a product of the South Korean *chaebol* system. No negative effects have been confirmed; the lack of competitive advantage is to a lesser extent important than in the case of PPGM, as the (primary) source of revenue for Hansoll Vina is production allocation from the parent company.

6.2. Decision-making

PPGM

Decision-making processes at PPGM are informal relative to common practise in the local vicinity. PPGM regards workers' opinions to a relatively larger extent, even though management effectively makes the decisions. At PPGM this does however serve a purpose, as the materials handled are at times extremely rough and garments manufactured are more complex than the normal garment produced in the area (i.e. work wear must conform with extensive safety requirements, the quality of a branded baby-carrier is vital). An A-level seamstress at PPGM has more deep and specific knowledge, which is harder to replace, than the general long-term seamstress at a sewing factory in the vicinity.

PPGM shows, in this aspect, nuances departing from the textbook machine bureaucracy; the workers have small but evident channels to communicate upwards. The positive effects include worker retention, especially evident for more long-term employees – and these are distinctly harder to replace. However, introducing, to an extent, power to a population of workers not used to this, can have unforeseen effects in how they react. We saw evidence of this when Mr. Kiet and Ms. Hanh received threats from some of the seamstresses. This may well be an effect of the perceived reduction in symbolic distance to the managers that are not only Vietnamese, but also to a certain extent *listens* to them. This perceived equality appears to reduce legitimate authority, which occasionally may cause negative externalities to the intended allocation of power and decision-making structure.

Hansoll Vina Ltd

Hansoll Vina depicts the typical machine bureaucracy in that decision-making is extensively formal and bureaucratic. Decisions made from a higher level in the corporate hierarchy are not questioned nor are they challenged openly.

Decisions are explicit in terms of outcome expected. Notably, directions from headquarters are solely goal-oriented. The lack of formal or informal directions and suggestive guidelines with regards to the process leaves decision room for the local management in terms of how they wish to run their factory. The goal-oriented focus is evident throughout the organisation, a tradition seemingly related to the monetary focus common amongst all employees (the section 5.4. for further expansion on the matter). Details on execution are generally left for lower levels to work out. This implies that decisions on how the pre-determined targets are to be reached are fairly evenly distributed throughout the hierarchy. The granularity and narrowness of constraints increase lower in the hierarchy, but choices regarding details of execution are surprisingly flexible in theory – although, naturally, practical restrictions apply, as every manager's targets are narrowly defined.

6.3. Communication

PPGM

Internal communication at PPGM is relatively westernised in that the seamstresses' perspective is to a large extent involved in communication practises. Management has adapted language-wise by learning Vietnamese, and communication being informal is a fashion more common for Western companies. The local management spends a lot of time on the factory floor, and the generally

commitment to optimisation of operations induce management to listen to where the workers find bottlenecks in the processes.

This makes sense for PPGM, as their more experienced workers do possess unique capabilities. However the threat focusing on Ms. Hanh and Mr. Kiet could be an adverse effect of this informality. The informality humanises managers to an extent well beyond common practise in the industry and region. This humanisation and tangibility of managers is presumably especially evident for Ms. Hanh and Mr. Kiet as these are native Vietnamese. As such, they are expected to comply with prevalent customs and their deviating behaviour is more palpable. Cognitive dissonance can consequently occur amongst the employees as complaining is suddenly an option to complying; and complaining, as observed, can take the form of threats. The trade-off is for PPGM to make, but it appears that these kind of liberties are seldom taken and to a certain extent tolerable in light of the long-term gains to be reaped from accumulating corporate competencies that contribute to PPGM's competitiveness.

Closely entertaining the relationships with clients is more meaningful to PPGM than for Hansoll. Both have a stable client base and are very dependant on the individual clients' satisfaction. However, Hansoll Vina relies on the parent company Hansoll Textile for client entertainment, and their clients are huge international brands that employ a large number of factories; some of which are within the Hansoll Textile conglomerate. PPGM's clients, on the other hand, even though they too are international brands, are significantly more contingent on PPGM predominately due to their reliance on PPGM's input on design suggestions and improvements. Essentially, the product they purchase from PPGM is not only a physical garment, but also a service.

Hansoll Vina Ltd

Hansoll Vina conducts such formal communication practises that is commonplace in the regional textile industry. However, the language barrier segregating the Vietnamese factory workers from the South Korean office-based employees⁷ increases the perceived distance between the two managerial clusters. To what extent the observed bowing and extreme obedience are results of this perceived barrier or of an employed South Korean tradition of exceedingly strict behavioural control is impossible to determine without further research. However, it is reasonable to assume that the observed submissiveness is a result of both.

⁷ This includes managers, secretaries and general administrators.

6.4. Remuneration and motivation

Both companies employ a similar kind of salary scheme where part of the salary is fixed, part is bonus, and some customary non-monetary benefits are included in the package. The bonus percentage is equivalent, however based on a salary that is significantly higher at PPGM. The consequences of this are two-fold. Firstly, as motivation for seamstresses is almost exclusively extrinsic, seamstresses stay longer, employee turnover is lower and competences can be accumulated. This benefits PPGM as their relatively complex output requires a higher level of competence than Hansoll Vina's. Secondly, as the salary level does not closely follow the minimum required salary in the region, PPGM are not subject to externally inflicted fluctuations in labour costs to the extent Hansoll Vina is. This lack of control over the cost structure is likely to cause Hansoll Vina problems, as a wage increase, such as the 75 % jump seen in 2011, no doubt makes Hansoll Vina look less profitable to the Hansoll Textile headquarters. The expected result would be fewer orders for Hansoll Vina.

PPGM

With regards to the factory workers of PPGM, motivation-related efforts and incentives are primarily extrinsic and monetary. However, the sense of influence enjoyed by the more experienced workers reasonably increases intrinsic motivation, which is supported by the fact that workers tend to stay longer at PPGM than the average textile factory in the region. The effects of this are two-fold. Firstly, motivated workers stay longer and accumulate more knowledge that benefits the operations.

The management at PPGM are not competitively paid compared to what other companies offer but, although Mr. Jeewantha states that he works there primarily for monetary reasons, managers at PPGM exhibit exceptionally low turnover. The two factors indicate that managers' motivation is largely intrinsic and based on personal satisfaction. Having intrinsic sources of motivation for people in managerial position is beneficial as their tasks are more varied, more inclusive, less clearly defined and they require more creativity.

Hansoll Vina Ltd

Similarly to workers at PPGM, Hansoll Vina seamstresses are extrinsically rewarded for high productivity. However, Hansoll Vina seamstresses do not enjoy any increased status as they become more experienced. The correlation between the relatively petty salaries and the extreme

employee-turnover figures is confirmed by Mr. Kim's reported insights into what drives employee satisfaction: money.

Furthermore, this focus on monetary compensation for motivation is evident also amongst managers. Mr. Kim and Mr. Yoon openly state that they work solely for money and that he constantly evaluates his salary against other opportunities (in South Korean companies) as they appear. This monetary focus is coherent with a culture strongly focused on goals and goal achievement. It does not induce creativity and it does not foster innovation; what gets measured gets done, and that is the orders from headquarters. How this affects the long-term viability of Hansoll Vina's operations is of secondary consequence, as the factory is merely a part of a short-term focused strategy of production location in the super ordinate Hansoll Textile conglomerate.

6.5. Target time horizon

PPGM

The time period used as a basis for salary bonuses for the seamstresses at PPGM is in line with general industry practise. Setting a tangible time horizon provides a focused workforce. However, this time horizon provides a natural cut-off period for workers to leave the factory, as they are working with month-long perspective. Theoretically, this raises the risk of creating a high employee-turnover. PPGM has been able to maintain a relatively low employee turnover of 35 % per annum, partially by providing the opportunity for seamstresses to increase their skill level requiring unique competences. As uniquely skilled employees receive a higher bonus at PPGM, the incentive to resign at the end of the month for the benefit of another job within the industry decreases.

The low customer turnover of PPGM allows them to make relationship-specific investments with their primary clients. This enables more continuity in operations in terms of what products are produced and what quality and procedure requirements can be expected from the customers. However it also makes PPGM subject to fluctuations in the demands of their customers' end-markets. The strategy of taking on no-margin, one-off order is the result of the incorporation of a shorter-term perspective in order to buffer for temporary uncertainty in the long-term plans. The result is that PPGM manages to retain an utilisation-level above 100 %.⁸

⁸ Utilisation-levels above 100 % are the results of outsourced production in demand peaks.

PPGM's strategy of developing a higher level of skill in more specialised textile production is likely to enable them to retain margins by transferring their increased costs to customers as wages rise. The differentiation-by-specialisation strategy improves the sustainability of PPGM operations in the region while facing higher input costs.

Hansoll Vina Ltd

With regards to target time horizon for seamstresses, the implications coincides with aforementioned inferences in the case of PPGM. The foreseeable future for managers, on the other hand, differs most notably. The most consequential result of local managers at Hansoll Vina being allocated orders on a weekly basis is that they are unable to plan for management of production fluctuations. It was stated during the interviews that capacity utilisation was 100 %. The purport of this statement was not specified further. However, as purchases from the clients inevitably fluctuate, order quantity placed on Hansoll Vina must reasonably do so too.

Mr. Kim stated during the interview that he does not interact with the clients and that the sales functions are centralised to the Hansoll Textile headquarters and the sales offices in New York and Miami. However when we were shown the factory, it became apparent that Mr. Kim regularly tours clients and prospective such through the operations.

The contradictory observations and statements seem to imply that the official and the actual version of reality not always coincide. However, the actual reality need not contradict the official one: as long as the requirements are fulfilled there is ostensibly no need for headquarters to intervene in the operations of Hansoll Vina. Our personal deduction is that this divergence is likely the result of local management double charging their clients. If productivity targets are beaten, this never benefits the headquarters, or the clients. In stead, this releases saved time and/or textile that Hansoll Vina can re-sell to other clients. This hypothesis is supported by the massive black market for products produced at the factory at local market.

Although Hansoll Textile retains long-term relationships with their clients on conglomerate level, this long-termism does not translate into a long-term perspective for Hansoll Vina. The result from the conglomerate strategy of internal competition is that managers cannot optimise flow in the factory by partially adjusting lines to reoccurring or predicted items and quantities.

With regards to the future, Mr. Kim pronounced with clarity that he expected Hansoll Textile's presence in Vietnam to be petering out during the coming decade. The passive reference to wage inflation indicates a purely cost focused competitive thrust with little or no efforts made to differentiate production. Hansoll Vina is thus a product of an overarching strategy on conglomerate level, which includes low cost FOB production as its only selling point. Clients need not worry about factory visits, material purchasing or transportation; this is all seen to by Hansoll Textile, and at minimal cost. The customers need not engage further, as long as output of required quality and quantity is delivered at the required time and place.

6.6. Performance tracking and quality control

PPGM

Performance tracking

PPGM tracks performance with both quantitative and qualitative metrics.

The quantitative methods of measure used coincide with industry norms and textbook recommendations. Two of the four main clients, Molinel and Guston are familiar with the methods of production, and apart from purchasing from PPGM, they have a managerial and financial interest in the company. Moreover, they both produce garments in other factories worldwide. To ensure comparability of productivity between factories and nations, PPGM aims to use standardised measures to the greatest possible extent. Hence, SAM minutes calculated by GSD are used to track performance. The optimal units of measures of productivity to be used are not set in stone, and as in other industries, these depend on the nature of the production processes and the output produced. However, although standardised measures may not be the most efficient due to their rigid nature, this rigid nature ensures comparability: something that is prioritised by the factory owners (Mr Prasanna, 2012).

Due to the skill level needed for the composition of certain components of heavy-duty work wear, seamstresses with the ability to improve their skill level are required. Some of these skills are transferable from a previous job, such as the mastering of certain instruments, but some are unique to the products at PPGM. This need to identify potential in the seamstress calls for an additional qualitative and subjective performance-tracking element, which is less common in the garment industry than the quantitative elements are. The significance of a qualitative element of the performance tracking renders an overly strict hierarchal organisation less advantageous.

Quality Control

The on-line component of the quality control at PPGM follows the industry norm without significant alterations. The off-line component is slightly more extensive than Hansoll, although still within the general norms of the industry. The increased comprehensiveness is partially derivable from the close contact PPGM have with their clients, which might be an incentive for PPGM to take on a greater portion of the responsibility when it comes to quality control. Further, as some of the client specifications are not clearly outlined, but have evolved influenced by PPGM, it is reasonable that more time will be spent on qualitative quality control than at other firms. This because the quality control manager does not only guarantee that output concurs with specifications, but he also engages in shaping the specifications themselves.

Hansoll Vina

Performance tracking

Hansoll mainly conducts performance tracking based on quantitative metrics.

The quantitative measures used are in line with industry norms and textbook recommendations. Hansoll Vina Ltd is part of the conglomerate Hansoll Textile Ltd, which only utilises factories that they own to 100 % – as is not the case with PPGM's owners. This implies that they could in theory defer from customs and utilise purposefully adapted Hansoll specific measures as a substitute, and the outcome would still be useful as a basis for comparison within the conglomerate. However, the benefit of using SAM is two-fold. Firstly, it is an easily interpretable measure to use when communicating with Hansoll Textile-external customers, e.g. when justifying pricing. Secondly, it is a universally taught method, which shortens the learning process for externally recruited managers. Nonetheless, the use of standardised measures may also be the result of lack of innovation related to the development of more specific measures.

Quality Control

The on-line element of the quality control at Hansoll Vina follows industry norms without significant alterations. The off-line control is also in line with industry norms. In both modules, Hansoll Vina relies heavily on following pre-determined specifications. As the company is merely judged on the quality and quantity of actual output compared to specifications; i.e. target fulfilment, they exclusively prioritise following specifications by the book.

Contrary to PPGM, no considerations are taken to evaluating possible improvement in relation to the design of the garments. If complications of significance should arise, changes may be

suggested to the clients via Hansoll Textile, the parent company, but incremental improvements are not actively sought after.

As Hansoll Textile does not interfere in the detailed management of operations, not much attention is paid to processes control of the different operations. Process changes are made if they are believed to improve productivity and boost financial results as a result, but only if pressure for improvement is felt from Hansoll Textile. Overall, aforementioned features imply that a larger proportion of quality control time is placed on off-line controlling, rather than on-line controlling.

7. Conclusions and managerial implications

Although PPGM and Hansoll Vina have in common the institutional environment of the operations, the institutionally environmental background of the client-base and the institutional background of the workers, they differ with regards to our institutional and environmental aspects. However both companies have a rationale behind their business conduct that is employed in line with the parent companies' strategy. The differences in success, if any, are likely the result of the fit between the corporate strategy and the location at hand.

For every aspect analysed, we have identified the key criteria that ought to determine the relevant practise adopted by the management of an FDI.

7.1. Ownership structure

PPGM has benefitted from adapting the ownership structure to include local competencies. This is evident in terms of smooth government relations, which in turn is a key selling point towards their highly CSR oriented clients who wish to encounter no shadiness in their value chain. Hansoll Vina has not adapted their ownership structure at all, however their clients seem in different and Hansoll Vina's strategy incorporates relocating solely on the basis of developments in labour costs. The effective differences of adaptation of ownership structure seems thus to lie in the benefits of adaption, rather than the costs of neglecting to, and these are closely tied to the parent companies **competitive strategy**.

7.2. Decision-making

Both companies analysed can be regarded as employing a strictly hierachical decision-making structure, however Hansoll Vina more so than PPGM. As PPGM produces more complex output than Hansoll Vina and the span of skill-levels of the seamstresses is wider. Consequently, there are more ways to efficiently produce the output, more potential sources of error and more fatal consequences of substandard quality. In accordance with Mintzberg's (1979) theory on structural configurations, a higher level of worker influence this justified when their capabilities are more complex. How the decision-making process is efficiently structured and how decision-making power is optimally allocated thus depends on the **complexity of the output produced**.

7.3. Communication

The effect of the different communicational practises is primarily that PPGM, with more extensive and open communication, capitalise relatively more on in-house capabilities; which is in line with what their operations require. Hansoll Vina has no feasible way of extracting knowledge

from the factory workers and externalise it into the corporate knowledge base. However, as long as no unique skill is required, the fact does not hold back Hansoll Vina's performance. Hence, internal communication practises should be defined with regards to the **value of the employees' own knowledge bases**.

The communication practises between the management and clients should be adapted to the clients' key requirements of factory operations; i.e. **the corporate strategy**, as well as what **responsibility of sales** generation the local management holds. PPGM's clients are very vary of CSR issues and are willing to pay for quality and political correctness, which is something they expect to be able to rigorously follow up on. Hansoll Vina's clients are not very quality-oriented and the conglomerate retains the sales function on headquarters level.

7.4. Remuneration and motivation

The importance of working with remuneration schemes and motivational efforts for seamstresses is determined by the significance of maintaining a low employee turnover. This, in turn, depends on the specificity of competence required by the work force: **how substitutable the employees are**.

The character of PPGM's output requires a relatively high level of specific capabilities for a portion of the seamstresses. Having competitive salaries and employing a more inclusive approach to seamstresses thoughts and opinions likely raises intrinsic motivation, which is most likely causally linked to the relatively low employee turnover. The threat towards management experienced at the time of our visit does bear the evidence that workers do try to affect their working conditions rather than just leaving for another factory. Thus, although the practical outcome was unsought-after, it provided evidence of success in a strategy for employee retention.

Management remuneration did not differ notably, with regards to motivation however, the differences are all the more notable. Local plant managers at PPGM stay even though a higher salary may be offered elsewhere. They care about whom they work for, and especially the amount of freedom they are allowed to express in their work. After talking to and observing these individuals, our deduction is that the observed behaviour is the result of a combination of the individuals, their responsibility and the partially process oriented focus. The individuals are engaged and enthusiastic: this is evident, but the ways of causality are impossible to determine. The individuals are responsible for not only output delivery to a far-off headquarters; but also for the establishment and entertaining of client relationships. Finally, the owners' and clients'

expressed interests in production processes do not leave room for exclusively focusing on target fulfilment, at the cost of continuous process scrutiny.

The importance of intrinsic management motivation depends on the **level of creativity required**. A competitive strategy based on product differentiation requires creativity to maintain clients' willingness to pay for the differentiation. Cost-based competition, however, is largely based on standardisation for which intrinsic motivation is less needed.

7.5. Target time horizon

The lengths of the target time horizons are closely linked with **the fundamental corporate strategy** and **the required granularity of follow-ups**.

At PPGM the target time horizons get shorter lower in the hierarchy. This coincides with the increasingly narrow scope of the tasks at hand at lower levels. The conduct is reasonable based on both the granularity of follow-up required as well as the motivational effects sought-after. The practise does not deviate from common practise in the area or the industry.

Hansoll Vina employs a time horizon similar to PPGM's time horizon for their seamstresses. However, this time horizon prevails for managers also – if not shorter (i.e. a month or a week respectively). This should theoretically thwart the development of intrinsic motivation for managers; a notion confirmed by observations. Hansoll Vina's cost-cutting strategy does not benefit from instigating intrinsic motivation to managers. Hence, short-term the closely define target times seem sensible. However, it can be further discussed whether a pure low-cost competitive strategy in production is viable in the long term as rising labour costs are increasingly contagious due to globalisation. Further, as evident in Vietnam (and also in India) companies employing a short-term opportunistic approach towards production location may encounter negatively discriminating conditions.

7.6. Performance tracking and quality control

The measures used as basis for performance tracking and the methods of quality control are widely standardised. However, the division between qualitative and quantitative performance measures depends on the **skill-development expected of the employees**. The division between on-line and off-line quality control on the other hand, depends on the **tangibility of the product offering**.

Products that require a high level of product-specific skills require seamstresses that are willing and able to obtain such skills. In an industry with generally high employee-turnover rates, these employees need to be actively identified. Quantitative performance measures focus on results that have been attained, whilst qualitative measures and subjective observations focus on identifying future potential. Therefore, qualitative observations are more important in production requiring extensive and product-specific skills. Between PPGM and Hansoll Vina, where the required skill level differs greatly, this distinction is clear.

The amount of energy and time devoted to on-line versus off-line quality control depends on the factory's responsibility towards its primary clients. PPGM provides their clients not only with a physical product, but also expertise with regards to identifying potential improvements in design and processes. Consequently, the tangibility of the output is reduced and objective quantification of performance delivery aggravated. Furthermore, having owners in their primary customer base forces PPGM to be able to justify every phase in the production line and the control of it. This is a conscious strategy of differentiation, and is likely to increase customers' willingness to pay. Nevertheless, the increased intangibility of output seemingly leads on a higher priority of on-line process control. Hansoll Vina however, having been given rigid specifications on highly tangible products, focus on off-line controlling supportive of strict compliance with these pre-determined specifications.

7.7. Synthesis

We acknowledge the fact that our conclusions rest on a somewhat fragile foundation, being drawn upon only the findings from only two case studies. The fact makes general inferences feeble and unfounded. We also recognise that the information we have received and indications we have seen during interviews, which has provided the bulk of the company information, might be biased. This makes deductions skewed. However, on the back of what we have seen and how we have interpreted the information accessed and the observations made, we can identify some tendencies in our case studies. Should these tendencies prevail in a larger picture, we would suggest that the following conjectures could be made when considering how to structure operational adaption to local institutional and environmental aspects.

Corporate strategy and competitive advantage should be kept in mind when deciding upon ownership structure, communicational practises, target time horizon as well as performance tracking and quality control. Firstly, when employing a differentiation-based strategy, clients normally prioritise low uncertainty and have diverge and qualitative requirements. This may imply that

including indigenous parts in the ownership may be worth the increased complexity. Secondly, it calls for extensive communication, both internally and externally, to ensure clarity and transparency in as many aspects as possible. Thirdly, longer target time horizons are to be preferred, at least on managerial levels, as a short time perspective reduces likelihood of long-term strategic planning.

Characteristics of output in terms of complexity and specificity should be regarded when allocating decision-making authority, setting remuneration schemes and establishing processes for performance tracking and quality control. If output is complex and has unique features, detailed knowledge lies to a larger extent lower in the hierarchy and decentralising decision-making authority implies that the competent decides. The increased responsibility also functions as a motivational factor that, paired with properly structured remuneration schemes, incentivises workers to stay longer; which is important when output is unique and knowledge is output specific. Moreover, performance tracking and quality control, which provides the basis of remuneration schemes, should have a qualitative bias compared to when output is generic. Finally, production of output with intangible aspects as a complement to the physical product is likely to call for relatively more focus on on-line quality control.

Process requirements, in terms of granularity and quantifiability of follow-ups as well as the level of in-process creativity required of operational staff, should affect adopted approach with regards to remuneration and motivation as well as target time horizons. If granular quantitative follow-up is required, this calls for short target time horizons paired with rigid and objectively based bonus schemes. When little or no in-process creativity is needed, the same implications are reasonable with regards to remuneration schemes and setting of target time horizon.

The relation to clients and sales efforts required by the factory should influence external communication practises. If the company is reliant on attracting and maintaining an external customer base, extensive communication between management and clients is required.

The next step in exploring the effects of managerial strategy in FDI's in the light of local institutional environment ought reasonably be to test our synthesised insinuations on more companies and to examine our discoveries through the lens of more and objective data.

Epilogue

Referring to the theory of the *survival of the fittest* (Spencer, 1864-67) it is reasonable to assume that what is common practise in terms of business conduct for firms of comparable operations can be regarded as *optimal*. Or, as Williamson (1979) would describe it: common practise is how to conduct business while minimising transaction costs. Deviation from common practise would thus imply a higher level of transaction costs, unless the prerequisites for the deviating firm are different from the average prerequisites for the comparable firms.

Quantifying these transaction costs and the mechanisms involved in determining the effects of managerial practises are exercises well beyond the scope of this essay (and our competences as of today). However, this paper has aimed to illuminate what these mechanisms are (chapter 3), and what determines the direction in which deviation from the customary *modus operandi* may affect success (chapter 5).

With this we leave our findings to be scrutinised, challenged, criticised and, hopefully, explored by scholars more experienced and knowledgeable than ourselves.

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Company specific sources

See appendix C.1 for presentation of interview respondents

PPGM Financial Reports, 2012

Hansoll Vina internal reports, 2012

Company presentation (2012), held by Mr. Kim at Hansoll Vina Ltd office 2012-03-21.

Observations were made at the Hansoll Vina office on 2012-03-21

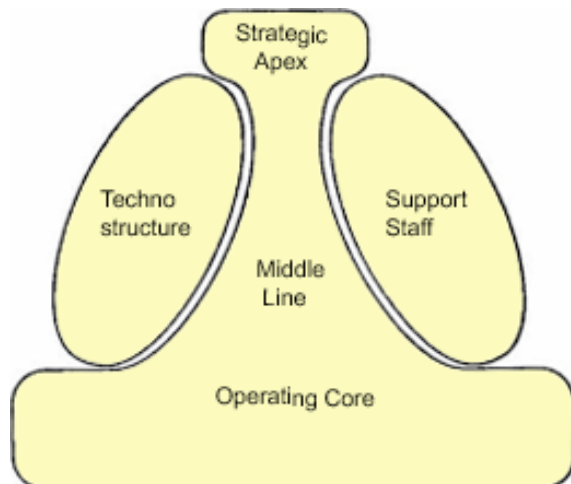
Observations were made at the Hansoll Vina factory on 2012-03-21

Observations were made in the PPGM facilities on 2012-03-20 and 2012-03-22

Appendix

Appendix A.1

An overview of Mintzberg's (1979) structure in fives.



Appendix A.2

An overview of Mintzberg's (1979) basic characteristics of his stylised firm types according to the structure in fives.

Table 1. **Structural configuration of organizations according to Mintzberg** (4)

Structural configuration	Prime coordinating mechanism	Key part of organization	Type of decentralization
Simple structure	Direct supervision	Strategic apex	Vertical and horizontal centralization
Machine bureaucracy	Standardization of work processes	Technostructure	Limited horizontal decentralization
Professional bureaucracy	Standardization of skills	Operating core	Vertical and horizontal decentralization
Divisionalized form	Standardization of outputs	Middle line	Limited vertical decentralization
Adhocracy	Mutual adjustment	— ^a	Selective decentralization

^a In administrative adhocracies the support staff are a key component. In operating adhocracies the operating core is pivotal.

Appendix B

An overview of the levels of aggregation of institutional features as presented by Williamson (2000).

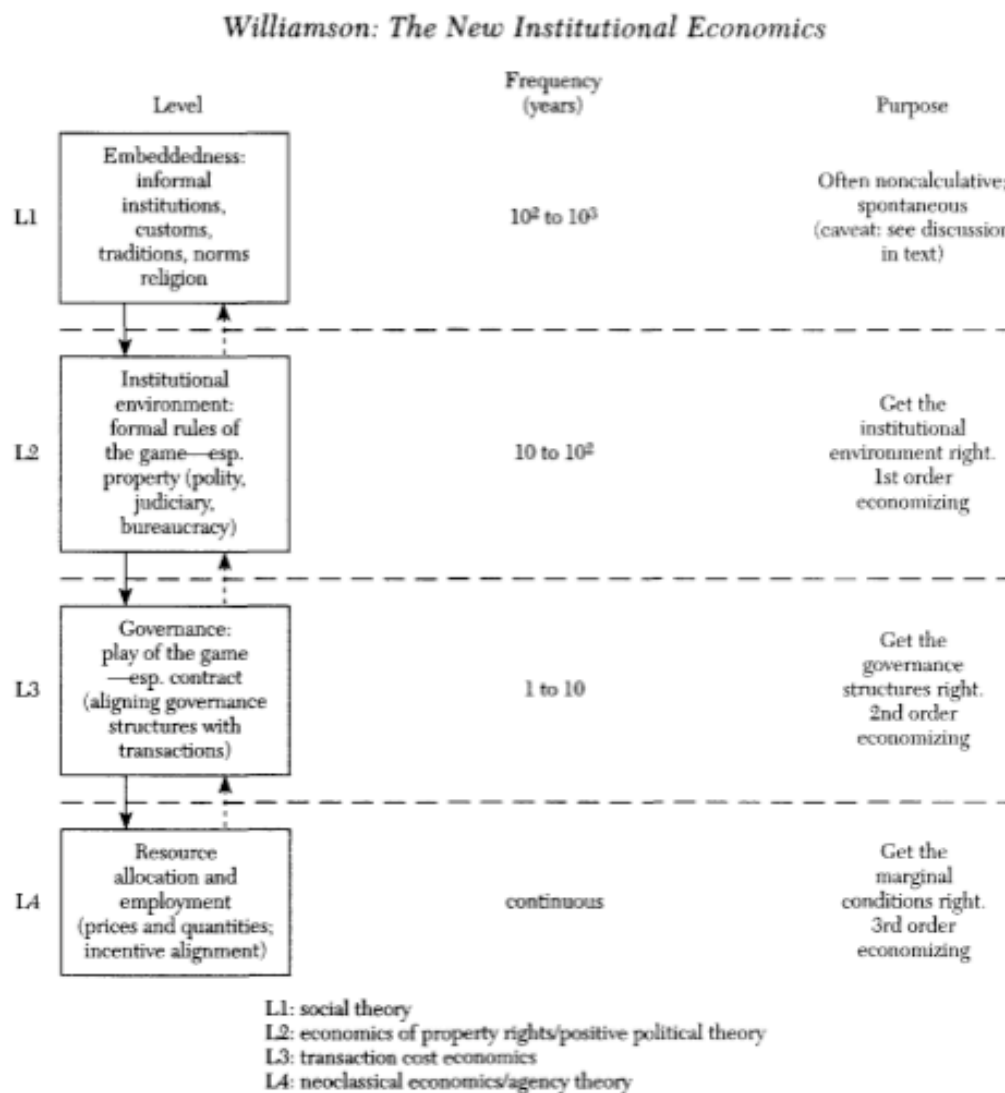


Figure 1. Economics of Institutions

Appendix C.1

Presentation of interviewees and their positions

Date	Interviewee	Position	Company	Interview Mode	Location
2012-03-20	Mr. Kling	Managing Director	GM	Face-to-face	PPGM factory
2012-03-22	Ms. <u>Hanh</u>	Managing Director	PP	Face-to-face	PPGM factory
2012-03-22	Mr. <u>Kvet</u>	Vice President	PPGM	Face-to-face	PPGM factory
2012-03-20, 2012-03-29	Mr. <u>Jeewantha</u>	COO	PPGM	Face-to-face	PPGM factory
2012-03-21, 2012-03-29	Mr. <u>Sumedha</u>	Operations Manager	PPGM	Face-to-face	PPGM factory
2012-03-21	Mr. Yoon	Managing Director	<u>Hansoll Vina</u> Ltd	Face-to-face	<u>Hansoll Vina</u> factory
2012-03-21	Mr. Hung	COO	<u>Hansoll Vina</u> Ltd	Face-to-face	<u>Hansoll Vina</u> factory
2012-03-21	Mr. Kim	Operations Manager	<u>Hansoll Vina</u> Ltd	Face-to-face	<u>Hansoll Vina</u> factory
2012-03-14, 2012-04-11	Mr. <u>Prasanna</u>	Industry expert	N/A	Telephone (2012-03-14) E-mail (2012-04-11)	N/A

Appendix C.2

The reader should bear in mind that the interviews were conducted in a semi-structured fashion: the below presented outline merely functioned as such. The order of the questions and what questions were asked varied for the interviews depending on

- i) The position of the interviewee and
- ii) The interview situation as it was.

Some questions were asked, although we already had reliable data on the matter, for the purpose of identifying discrepancies in the statements.

For the purpose of clarity, the questions outlined below are presented in order of what institutional and environmental aspect we sought to explore by asking them.

Area of interest	Interview question
DM	What is your official position?
	What is your official education?
	Can you sew?
DM	Of what consists your daily tasks and responsibilities?
DM	From who do you get your shipment orders?
DM	Who is your super ordinate?
C	How is information diffused throughout the organisation? (Who do you communicate with and how?)
C	What language do you use internally?
C	Where is your super ordinate located?
C	How frequently do you communicate with clients?
C	How frequently do you communicate with your subordinates?
RM	How satisfied do you believe your employees are?
RM	Employee turnover?
RM	How important is employee satisfaction to you?
RM	What salary level do the seamstresses have?
RM	How are incentive systems for seamstresses designed?
RM/ DM	How are incentive systems for managers designed?
TTH/ RM	What time periods are used for salary bonuses?
TTH	For how long does a normal client relationship last?
TTH	How do you handle seasonality/temporary over capacity?
PTQC	What levels of productivity do you normally and currently maintain?
PTQC (/RM)	How do you measure productivity?

Appendix D

The interrelations of business systems characteristics, the surrounding institutional features and the characteristics of firms within, as presented by Whitley (2000):

	Business System Type					
	Fragmented	Coordinated Industrial District	Compartmentalized	Collaborative	Highly Coordinated	State Organized
Characteristics of Business Systems						
Owner control type	direct	direct	market	alliance	alliance	direct
Ownership coordination	low	low	high	considerable	considerable	high
Alliance coordination	low	medium	low	considerable	high	low
Institutional Features						
State Coordination	low	considerable locally	low	considerable	high	high
Strength of intermediaries	low	considerable	limited	high	high	low
Financial system	unpredictable	locally credit based	capital market	credit	credit	state controlled credit
Strength of collaborative public training system	low	considerable	low	high	low	low
Union strength	low	considerable	limited	high	considerable in enterprises	low
Trust in formal institutions	low	medium	high	high	considerable	limited
Characteristics of Firms						
Authority sharing with:						
(a) Business partners	low	medium	low	considerable	high	low
(b) Skilled workers	low	medium	low	considerable	medium	low
Contribution of skilled workers to organizational capabilities	low	considerable	low	considerable	considerable	limited
Dominant firm type	opportunistic	artisanal	isolated hierarchy	cooperative hierarchy	allied	state-dependent

Appendix E

SAM and Efficiency calculations as presented by Online Clothing Study (2011)

SAM CALCULATION

SAM or Standard Allowed Minute is used to measure task or work content of a garment.

General Sewing Data (GSD) has defined set of codes for motion data for SAM calculation. There are also other methods through which one can calculate SAM of a garment with out using synthetic data or GSD.

Method 1- Using synthetic Data:

In this method 'predetermined time standard' (PTS) code are used to establish 'Standard Time' of a garment or other sewing products.

Step 1: Select one operation for which you want to calculate SAM.

Step 2: Study the motions of that operation. Stand by side of an operator (experienced one) and see the operator how he is doing it. Note all movement used by the operator in doing one complete cycle of work. See carefully again and recheck your note if all movement/motion are captured and correct. (for example motions are like - pick up parts one hand or two hand, align part on table or machine foot, realign plies, etc.)

Step 3: List down all motion sequentially. Refer the synthetic data for TMU (Time measuring unit) values. For synthetic data you can refer GSD (without licence use of GSD code prohibited but for personal use and study one can refer GSD code and TMU values) or Sewing Performance Data table (SPD). Now you got TMU value for one operation (for example say it is 400 TMU). Convert total TMU into minutes ($1 \text{ TMU} = 0.0006 \text{ minute}$). This is called as Basic Time in minutes. In this example it is 0.24 minutes.

Step 4: Standard allowed minutes (SAM) = (Basic minute + Bundle allowances + machine and personal allowances). Add bundle allowances (10%) and machine and personal allowances (20%) to basic time. Now you got Standard Minute value (SMV) or SAM. $\text{SAM} = (0.24 + 0.024 + 0.048) = 0.31 \text{ minutes}$.

Method 2 - Through Time Study:

Step 1: Select one operation for which you want to calculate SAM.

Step 2: Take one stop watch. Stand by side of the operator. Capture cycle time for that operation. (cycle time – total time taken to do all works needed to complete one operation, i.e. time from pick up part of first piece to next pick up of the next piece). Do time study for consecutive five cycles. Discard if found abnormal time in any cycle. Calculate average of the 5 cycles. Time you got from time study is called cycle time. To convert this cycle time into basic time you have to multiply cycle time with operator performance rating. [Basic Time = Cycle Time X performance Rating]

Step 3: Performance rating. Now you have to rate the operator at what performance level he was doing the job seeing his movement and work speed. Suppose that operator performance rating is 80%. Suppose cycle time is 0.60 minutes. Basic time = $(0.60 \times 80\%) = 0.48 \text{ minutes}$

Step 4: Standard allowed minutes (SAM) = (Basic minute + Bundle allowances + machine and personal allowances). Add bundle allowances (10%) and machine and personal allowances (20%) to basic time. Now you got Standard Minute value (SMV) or SAM. $SAM = (0.48 + 0.048 + 0.096) = 0.624$ minutes.

EFFICIENCY CALCULATION

Efficiency calculation formula:

Efficiency (%) = $\left[\frac{\text{Total minute produced by an operator}}{\text{Total minute attended by him}} \times 100 \right]$

Where,

Total minutes produced = Total pieces made by an operator X SAM of the operation [minutes]

Total minutes attended = Total hours worked on the machine X 60 [minutes]

On-Standard Operator Efficiency:

Operator on-standard efficiency (%) = $\frac{\text{Total minute produced}}{\text{Total on-standard minute attended}} \times 100\%$

Where,

Total minutes produced = Total pieces made by an operator X SAM of the operation [minutes]

Total on-standard minute attended = (Total hours worked – Loss time) x 60 [minutes]

Appendix F

The tolerance limits of the faults on the garments are determined by following a 4-point system.

Textile version of 4-point system as presented by ACG (2008).

This system is mostly used in textile industry around the globe now. This test method describes a procedure to establish a numerical designation for grading of fabrics from a visual inspection. It may be used for the delivery and acceptance of fabrics with requirements mutually agreed upon by the purchaser and the supplier. This system does not establish a quality level for a given product, but rather provides a means of defining defects according to their severity by assigning demerit point values. All type of fabrics whether grey or finished, can be graded by this system.

Defect Demerit Points	
Length of defect	Demerit Points
3 inches or less	1
Over 3 inches but not over 6 inches	2
Over 6 inches but not over 9 inches	3
Over 9 inches	4

N.B.: 1. No running yard shall be penalized more than 4 points for warp and weft defects.

2. For Fabric width exceeding 64"-66", Maximum penalty points can be increased above 4 per linear yard in proportion to the width.

3. Defects appearing within one inch of either edge shall be disregarded.

4. Any hole other than a pin hole shall be considered a major defect and assigned 4 points for penalty.

Grading:

1. Linear Yard basis:

Acceptable tolerance=20 points per 100 linear yard

2. Square yard basis:

Points/100 sq. yd= $\frac{\text{Total Points scored in the bulk} \times 100 \times 36}{\text{Width of the roll(inch)} \times \text{total yds inspected}}$

Acceptable tolerance= a. 28 points per 100 sq. yd. for each individual roll.

b. 20 points per 100 sq.yd. for average of rolls inspected.

1st Quality: Penalty points not exceed the acceptable tolerance.

2nd Quality: Penalty points exceed the acceptable tolerance.

Garment version of 4-point system as presented by ACG (2008).

Acceptable Quality Level (AQL)

As MIL-STD-105E is based on random sampling, therefore a few defectives are considered acceptable. The AQL is the maximum defective rate that, for purposes of sampling inspection, can be considered satisfactory as a process average. Different AQLs may be designated for different defects such as critical, major and minor defects. The AQLs should be agreed upon between buyer and supplier before the start of production. The following AQLs are usually applied by qaChina unless otherwise instructed by the client:

	High valued products	Low or medium valued products
Critical defectives	No critical defect is accepted	no critical defect is accepted
Major defectives	AQL 1.5	AQL 2.5
AQL 2.5	AQL 2.5	AQL 4.0

Acceptable quality level (AQL) sample inspection methods have been proven to be accurate over a long run. However, the quality level of merchandise at destination is sometimes lower than the per-shipment inspection results. This may be due to transport, handling, change in environment and/or reliability problems. Buyers are therefore advised to take this into consideration when deciding the AQL levels.

Defect Classification

The client defines the AQL and the maximum number of defective goods allowed in the sample size.

Defects detected during visual inspection are usually classified within 3 categories: "Critical", "Major" and "Minor"

Critical: likely to result in unsafe condition or contravene mandatory regulation or reject by import customs.

Major: reduces the usability/function and/or sale of the product or is an obvious appearance defect

Minor: doesn't reduce the usability/function of the product, but is a defect beyond the defined quality standard more or less reduces the sale of the products. An Individual with defect(s) is called defective sample. In the inspection process, one defective sample is counted one for the most serious defect only no matter how many defects found in the said sample.

Clients can specify what points are minor, major or critical in a defect classification checking-list together with the inspection criteria and product specification.