



Merging Cultures in Vietnam: Overcoming HR Challenges in Cross-Border M&A

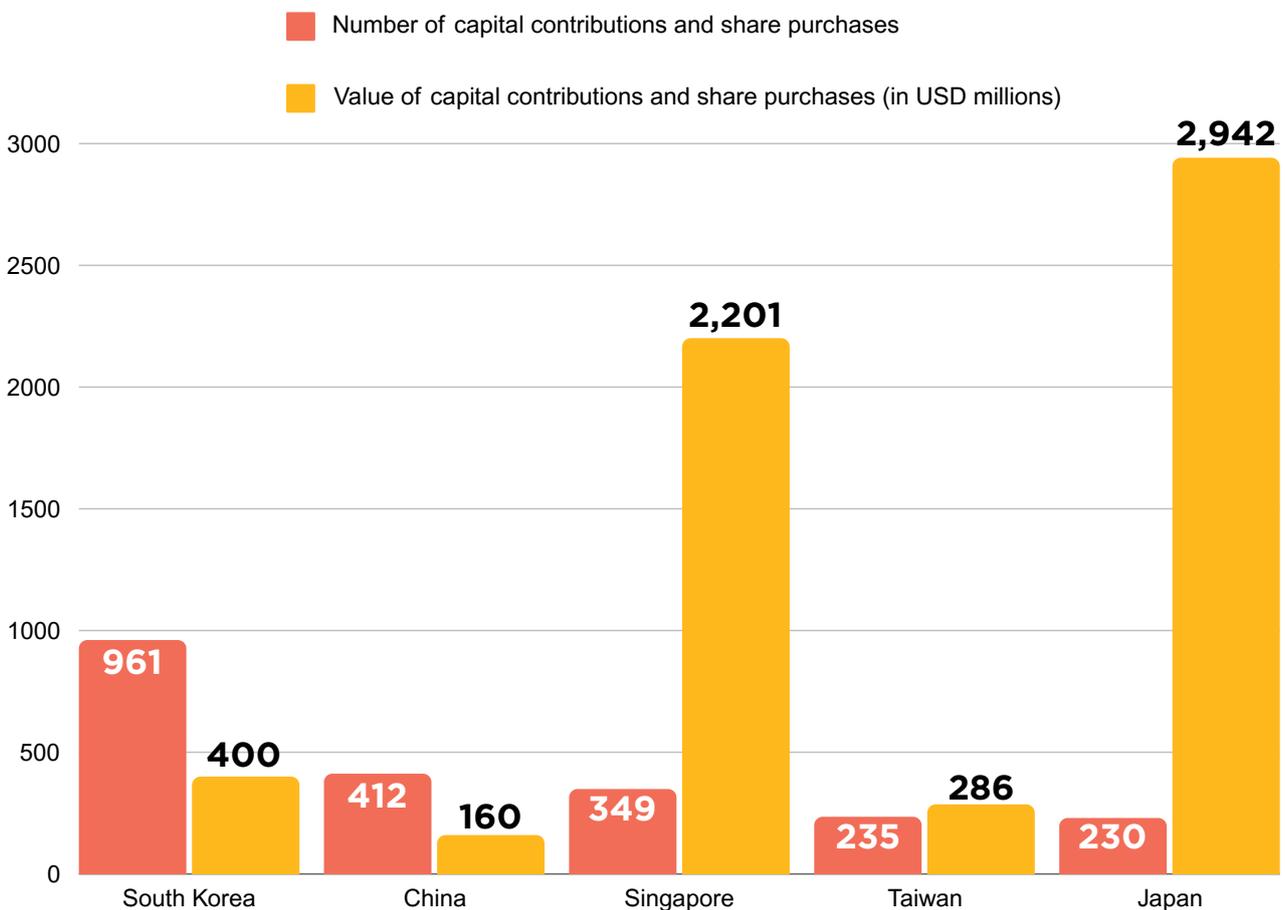
The recent surge in foreign acquisitions of Vietnamese companies, particularly from Japan, China, Korea, and Singapore, presents a unique challenge: merging HR systems. Long-established practices in Vietnamese companies often clash with the values and approaches of foreign acquirers. This paper will explore a few of these differences in HR systems, focusing on Japanese acquisitions of Vietnamese companies and identifying effective strategies for post-merger integration.

The Current State of Cross-Border M&As in Vietnam

While globalisation fuels cross-border mergers and acquisitions (M&As) worldwide, Vietnam is attracting significant interest. In 2023, South Korea, China, Singapore, Taiwan, and Japan led the M&A activity. Japan and Singapore topped the charts in investment value (see figures below), according to Vietnam's Foreign Investment Agency (FIA).

Acquiring companies enjoy faster market entry and access to the target company's expertise and infrastructure. However, this can be a double-edged sword. Local companies often face significant HR system changes, which can disrupt employees and the overall business.

The number and value of capital contributions and share purchases in Vietnam in 2023:



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Merging Cultures: HR Challenges After M&A



While differences exist between foreign and local companies, cross-border M&As accelerate these discrepancies due to the immediate need to merge HR systems. Here's how these differences create challenges:

Evaluation Systems:

Japanese Companies: Focus on MBO (Management by Objectives) where employees set goals and develop competencies for long-term growth.

Vietnamese Companies: Emphasise KPIs (Key Performance Indicators) and task completion, reflecting the need for immediate results in a high turnover environment.

Compensation Systems:

Japanese Companies: Offer smaller pay gaps between high and low performers, reflecting a seniority-based system.

Vietnamese Companies: Often have significant salary differences based on performance, aligning with a more performance-driven culture.

Labor Practices:

Japanese Companies: Maintain stricter compliance standards and avoid variable pay structures.

Vietnamese Companies: May minimise fixed salaries subject to social insurance and use variable pay to reduce costs.

These contrasting systems create challenges during M&A integration, requiring careful planning and negotiation to bridge the gap and minimise employee disruption.

Bridging the Gap: Effective Strategies for HR System Integration

Here are some key approaches to navigate the complexities of merging HR systems:

1. Align or Adapt: Decide Early On

Determining a clear direction for improvement is crucial. Should the new system align with the practices of foreign or local companies? The PCG project exemplifies the challenges – headquarters in Japan, Japanese members in Vietnam, and local Vietnamese employees all have different perspectives. Open communication and pre-defined decision-making processes will help navigate these differences.

2. Communication Beyond Language: Valuing Local Input

Involving local team members is vital, but language barriers can hinder communication with foreign counterparts. Interpreters can bridge the gap, but deeper cultural understanding takes time. Since local members will operate the system long-term, their perspectives are crucial.

3. Continuous Improvement: A Long-Term View

There's no one-size-fits-all solution for HR systems. Regular reviews promote ongoing improvement. Merging systems fundamentally requires sensitivity to local concerns and confusion. Schedule periodic reviews (every few years) to ensure the system remains effective for everyone.





Conclusion

Mergers and acquisitions (M&A) often require HR system changes, which can disrupt employees and the overall business. This concern is particularly amplified in cross-border M&A when the system shifts to a foreign model.

To address this anxiety, three key steps are crucial:

- 1. Active Listening:** Gather employee feedback from all levels to understand their concerns and perspectives on the integrated HR system.
- 2. Shared Vision:** Clearly communicate the vision for the ideal HR system, outlining its benefits for employees and the company as a whole.
- 3. Phased Implementation:** Implement the changes progressively, allowing time for adjustment and feedback loops to address any issues.

Companies can ensure a smoother transition to the new integrated HR system by taking these steps.



By
Kohei Nojiri
Senior HR Consultant
PERSOLKELLY Consulting

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