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College of Informatics

Graduate School of Information Management

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Study the Application of Human Capital Management System in Small and Medium Enterprises in Nam Dinh Province, Vietnam

Student: Pham Thanh Loi

Advisor: Dr. Jeu-Jiun Hu

Dr. Nguyen Huu Chau

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Study the Application of Human Capital Management System in Small and Medium Enterprises in Nam Dinh Province, Vietnam

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This Student, Pham Thanh Loi, whose thesis entitled Study The Application of Human Capital Management Systems in Small and Medium Enterprises in Nam Dinh Province, Vietnam, is under my advisory and agree to submit for examination.

Adviser: Jeu-Jinn Hu

Co-Adviser: 

Date: December / / 2010
Graduate Student of Shu-Te University

Qualification Form of Master Degree

Student Name: Pham Thanh Loi

Thesis Title: Study The Application of Human Capital Management Systems in Small And Medium Enterprises in Nam Dinh Province, Vietnam

This is to certify that the thesis submitted by the student named above in February, 2010. It is qualified and approved by the Thesis Examination Committee.

Chair, Thesis Committee: Jen-Jin Hu

Committee Member: 

Committee Member: Ting-I Tsai

Adviser Committee Member: Jen-Jin Hu

Co-Adviser Committee Member: 

Director of Department: 

December /_______/ 2010
Abstract

The term “Human Capital Management System (HCMS) emerged a few years ago when business organizations began to realize the important role of information technology and the association between it and the human resource management. Although researches have indicated the ability of successful application of this system, it didn’t arrive yet in the Human Resource Departments in a large number of enterprises. In the last few years, after Vietnam implemented the Reform (Doi moi) Policy and opened its market, the number of enterprises in this country has been increased steadily in scope and in number of employees. Thus, the management of human resource is an important problem for Vietnamese management, especially small and medium sized enterprises (SMEs) – the most popular form of business in Vietnam.

The purpose of this thesis to investigate the impact of the application of Human Capital Management System in SMEs in Vietnam, in particular firstly I want to determine what benefits of HCMS are if enterprises apply it in their organization, secondly factors affecting the application of HCMS are also identified. It helps managers or owners of SMEs to understand about the usefulness of HCM.

In this thesis, a case study in the Nam Dinh export foodstuff and agricultural products processing Joint Stock Company, a SMEs located in Nam Dinh province has been selected to employ. A qualitative interview with its Director and Chairman and two deputy directors was carried out. Besides, published documentation of this firm was also reviewed in order to understand the status of HCMS implementation in this enterprise.

The results indicate that, three main benefits that company can achieve when it
applies HCMS: 1, Cost reduction (on labor force); 2, Enhancing employees’ quality and 3, more effective and efficient management; and three main limitations: Capital constraints, low infrastructure and unequal quality of employees. Besides, three major factors influencing the HCMS implementation in SMEs: The determination of top management; quality and IT level of employees and Quality of HCMS.

Keywords: Human Capital, Human Capital Management System, HCMS, Human Resource, Human Resource Management
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Nam Dinh, February, 2011

Pham Thanh Loi
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<td>Human Capital Management System</td>
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<td>Human Resource</td>
<td>HR</td>
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<td>Human Resource Management</td>
<td>HRM</td>
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<td>Small and Medium-sized</td>
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<td>Nam Dinh Export Foodstuff and Agricultural Products</td>
<td>NADEXFOCO</td>
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<td>Processing Joint Stock Company</td>
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Chapter 1 Introduction

1.1. Research Background

1.1.1. Human Resource Management System

Human Capital Management (HCM) can be generally described as a strategic approach to manage employees of an organization in a way which can take full advantages of their knowledge, skills and other abilities [1].

According to HCM theories, manpower is the real source for added value (Wunderer & Jaritz, 1999) [2]. Nowadays, the management of people is treated as a strategic matter rather than an operational issue, as the management of people will have direct financial consequences. Consistent with that, HCM aims systematically to analyze, to measure and to evaluate how people policies and practices add value to the enterprise.

In addition, human capital management involves all the programs and processes that deal with the human capital or human resources of a business, from recruiting, training, rewards, performance effectiveness, benefits, career development, to labor force relations [3].

1.1.2. Apply HCMS in Vietnam and in Nam Dinh Province

Human resources in Vietnam are quite abundant but haven’t gained enough attention, haven’t been planned or exploited yet. They were only trained in half way or haven’t trained yet. Moreover, the quality of the human resources is still at a low level. As a result, there is a conflict between quantity and quality [3]. Especially, dynamic
shifts in Vietnam market conditions require firms to have an intelligent workforce and processes, practices that are consistently aligned to business strategy. In order to pursue key performance drivers, the intermediate steps would be productivity, quality, customer satisfaction as well as innovation. These steps establish the connection between human capital investments and superior performance obviously [4].

In Vietnam, most of enterprises are established in form of small and medium-sized enterprises. SMEs play an absolutely important and indispensable role in the economy of many countries, including Vietnam, a developing country. Due to the significance of SMEs, our government needs to design and issue policies to encourage their development. Simultaneously, SMEs themselves must be more dynamic, active as well as try to adapt to and catch up with the global economic environment. A formal definition of SMEs is provided by the Vietnamese Government in 2001 in Decree No.91/2001/CP-ND. By this decree, SMEs “are independent business entities, which have registered their business in accordance with prevailing laws, with registered capital of not more than VND 10 billions or the annual average number of labor of not more than 300 people” [5]. Because of the size of SMEs, it is very difficult to apply management software like HCMS in such companies.

Until now, Vietnam has been assessed as a potential market of HCMS, but the rate of development is rather slow. The supply and demand are available but the freezing of the HCMS market in recent years has made many people doubtful about the feasibility of HCMS for domestic enterprises.
It can be seen that not only Vietnam but also many other countries also face similar situation. However, considering what HCMS brings about and competitive challenges of the market in which enterprises are facing, the market should assess the HCMS seriously. The success of a HCMS-project is decided by the determination of the leadership and the right awareness of staff. Alternatively, whether an enterprise decided to use HCMS, but its staff doesn’t update information and managerial staffs don’t manage through HCMS, this project will fail as usual [6].

In Nam Dinh Province

Nam Dinh province has geographical advantage to develop the economy and society quickly and sustainably. In addition, according to the General Statistics of Vietnam, in 2009 the population of Nam Dinh province is 1,825,771 with population density 1.196 people/km² [7]. As a result, this province is considered as the centre of the provinces lying in the southern of Red River Delta.

The Prime Minister Nguyen Tan Dung appreciated that Nam Dinh has “advantage of its abundant human resources” so it should take this advantage “while efficiently applying science and technology in its industrial and agricultural production to create a breakthrough in development” [8]. Mr. Dung also said “he highly valued the socio-economic achievements the province had gained during the past five years, which reduced the poverty rate to less than 7 per cent …” [3].

Nam Dinh has planned to develop to 2 main directions:

- Development orientation to economic zones:
- Sea economic zone
- Agricultural production zone
- Industrial centers and service centers in Nam Dinh city

- Development orientation for main economic sectors:
  - Enhance agricultural development
  - Speed up industrial agricultural development, concentrating on some sectors:
    - Textile industry
    - Mechanical & electronic industry
    - Building material manufacturing industry
    - Food and beverage processing industry,
  - Create far-reaching development in service & tourism industry.

Enterprises in Nam Dinh province are more and more developing and growing. According to statistics in 2005, there were 133 new-established businesses in this province. However, the application of IT in general and the HCMS solution in particular in the enterprises in Nam Dinh is still very limited and in great demand.

1.2. Research Motive

Benefits of Human Capital Management are well documented. HCM planning allows enterprises to build and shape the resource pool which is ready to gain strategic objectives. It provides organizations with many benefits:

- HCMS allows enterprises to use resources more effective and efficient. Because some organizations want to do the same or more amount of work with fewer employees,
this will become increasingly significant.

• It assists to ensure that replacements are on hand to fill important vacancies. As organizations face with an increasing number of resources adequate for retirement, filling vacancies is especially significant.

• For budget purposes, it provides realistic staffing projections and it helps to reduce costs on labor force.

• HCMS helps to maintain or improve a varied of Human Capital; in particular it enhances the quality of employees.

• It provides an obvious rationale for connecting expenditures for training and retraining, development, career counseling, and recruiting efforts.

• It helps an enterprise to prepare for restructuring, decreasing, or expanding its Human Capital.

Using these perspectives, this research will look at how HCM systems can benefit SMEs in the Nam Dinh business environment.

1.3. Research Purpose

Currently, one of the disadvantages of Vietnamese enterprises is the low level of management as well as of the utilization of human resources. Most of Vietnamese enterprises manage their employees on the intuitive way and have no or lack of strategy. The application of HCMS is very essential and visible. However, in fact, the application of HCMS in Vietnam is still not popular.

The benefits of HCMS are very clear for companies on the world, but in Vietnam
and in Nam Dinh province, as stated above, theses benefits have not been realized clearly and haven’t been aware exactly. There are many barriers and also problems inside as well as outside a company. This study will try to justify the benefits and limitations of HCMS and help enterprises in Vietnam in general and in Nam Dinh province in particular to be aware of the importance of HCMS to their business, to their employees’ productivity and to their profit. Besides, I will try to find out factors affecting on applying HCMS in SMEs in Vietnam.

The major purpose of my research is to investigate the impact of the application of HCMS in Nam Dinh province and to find out its difficulties as well as opportunities.

1.4. Research Questions

Because of the limit of time, I will limit the size of my thesis within the framework of researching the application of HCMS in SMEs in Nam Dinh province, Vietnam.

In order to achieve this purpose, the following questions are addressed:

Question 1: What are the benefits to enterprises in Nam Dinh province in applying HCMS?

Question 2: How can SMEs implement HCMS successfully?

1.5. Research Procedure

Like many other theses, the research procedure of my thesis includes 8 steps, which are showed in Figure 1:
Firstly, I define the main problems of my research: The impact of HCMS-application in SMEs in Nam Dinh province, Vietnam. Secondly, I review all the concepts and theories related to my research problem. The third and the fourth steps are to design interview questions so as to collect data, which is carried out in the fifth step. Subsequently, from the above collected data, I will analyze and give strategic recommendations. The last step, I prepare and write a report.

1.6. Research limitations

All analysis in this research will be based on data collected from a business owner or manager of a small and medium-sized enterprise in Nam Dinh province because of human, financial and time limit.
Chapter 2 Literature Review

2.1. History and Evolution of Human Capital Management in the World

The Second Industrial Evolution in the middle of 19th century made much more complex and capital intensive industries. Nevertheless, it was still a centralized functional organization, which included production and sales as the largest departments. Hundred years later, “the simple, focused, local manufacturing company’ ‘morphed into a giant, multiproduct, multifunctional, multiregional corporation [9]. Thus, it was really important to manage employees, human capital. Beginning of HCM has divers’ origins. Paton (1962), an accounting theorist, wrote about treating employees like assets. By contrast, Likert (1961) assumed that people are ‘valuable organizational resources’ [10]. Schutzt and Becker wrote in their first works about Human Capital that investment in employee’s education is similar to investments in equipment and should be handled like this [11]. In the late of 1960s, the new organization form conglomerate was developed. In stead of gaining growth through expansion from core businesses, organizations grew by merging with unrelated businesses [12]. According to Kaplan and Norton, An ‘economically grounded rationale was that the senior executives in these conglomerates were exceptional managers and could use their superior knowledge as well as skill to create more value from the collection of companies they owned than would occur if the companies operated independently without the benefit of the corporate office’. Companies paid increasing attention to achieve more knowledge and skills.

In 1967, first steps were made to develop measurement methods of human
resources by researchers. A team of researchers (Pyle, Likert, Flamholtz ...) had a lot of projects to establish basic technique of accounting for human capital and finished an article ‘in which the term “human resource accounting” was used for the first time’ [10]. They stated ‘that although outlays for human resources have been traditionally treated as “consumption” rather than “capital” by economists, and as “expenses” rather than “assets” by accountants, these treatments are the result of conventional boundaries of the concept of an asset, and not due to the real nature and timing of benefits that result. The essential criterion for determining whether a cost is an “asset” or an “expense” relates to the notion of future service potential [13]. According to them, human resource costs should be handled as expenses in the phases in which benefits result and ‘if these benefits relate to a future time period they should be treated as assets’ [13].

In the 60s and 70s, Albert Humphrey had a research project, in which he used data from 500 organizations and introduced the planning tool SWOT Analysis [14].

In the 70s the interest of HCM grew rapidly. The expression human capital was used from Schutz and explained that money that is spent on education and training should be understood as investments because it is one method to enhance personal income [15]. During that period many different models for Human Resource Accounting (HRA) were published. Besides, a different group of managers appeared. And their concerns in employees and their feelings affected all aspects of business life [16]. These managers emphasized the importance of the relationships between employers and employees. Programs to increase wages and benefits carried on to be
extended. Companies discovered the value of their employees.

Around 1980, three was a declining interest in HCM. The major reason was that basic research about HCM and other models had been completed. Needed examinations were complex and could be made only a few scholars and needed the participation of organization to make an applied research study. Besides, costs for that were high; In the meantime, benefits were uncertain and not necessarily profitable for the sponsoring company.

The change from an industrial based economy to a knowledge based economy leads to an increasing demand and stress on Human Capital. Enterprises need highly trained as well as educated people; ‘they tend to spend more on investment in people than on investments in equipment’. So, international interest in HCM came up again and interactions between theory and application were made.

The twenty-first is exemplified by the increase of significance of knowledge in firms and its influence on all positions within a company. Interest in human capital management has expanded alongside with the progresses in ‘computers, networks, and data management systems’ [16]. Human Capital Management developed to a prominent research topic since strong international competitiveness and changing patterns of HR related activities emerged. The knowledge of the value Human Capital is a drive to launch new measures that can be employed to document and state the value attributable to Human Capital within a company [17].

Nevertheless, recognizing an effective human capital management strategy and
turning into a knowledge-based company is seen as a compulsory term of success for firms as these organizations go into the time of knowledge economy [16]. This indicates that the organization is able to measure the principal investment in human capital. Measuring the company’s benefits of Human Capital Accounting is at this time rather complicated. As a result, without assessable success, interest and cooperation for HCM is not likely to maintain [16].

In the early 1990s, employees were considered as ‘cogs in the industrial machine’, but many of highly skilled knowledge workers of today actually control the machines, carrying the power and ability to make decisions to satisfy customer needs [15]. The value of employees grew and the importance to know about that value got more significant for the firms. Shyness about treating workforce as assets has been reduced in this century. Odiorne gave 2 reasons for that: Firstly, highly people such as accountants, scientists, lawyers rarely feel they are oppressed and aren’t usually insulted if they are to discuss the relationship of their value to the return they gain from their skills’ [18]. Today organizations have several tactics when it comes to use and benefit from human capital. New methods are usually developing, but also been queried critically. These days, firms have to take care that work environment ensures the best outcome of their human capital. Enterprises have to evaluate the value that is generated by the employees to be able to find out how successfully they use their knowledge and skills.
2.2. Human Capital Management System

2.2.1. Human Capital

The definition of Human Capital is not generally established. Nevertheless, in BNET Business Dictionary Human Capital is defined as, ‘the employees of an organization. The term builds on the concept of capital as an asset of an organization, implying recognition of the importance and monetary worth of the skills and experience of its employees. It is measured through human capital accounting’ (Bnet, 2008) [19].

Another summary definition of Odiorne is, ‘Human capital economics is a system of inputs, processes, outputs, and adjustments which individuals, firms, government agencies, institutions, and societies make toward the increase of potential and performance which the individual human or human as groups may contribute to society, the economy, specific employers, or themselves’ [20].

Huang, Luther and Tayles (2007) tried to give a simple and clear definition of human capital by assembling a new combination of the components. They identified and confirmed the classification founded by Guthrie, Petty, Yongvanich and Ricceri (2004) [21].

They state that human capital includes the following 15 items divided into three groups:

<table>
<thead>
<tr>
<th>Employees’ capabilities</th>
<th>Employees’ development &amp;</th>
<th>Employees’ behavior</th>
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</thead>
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Table 1. Human capital items (Huang, et al., 2007, p.402)
<table>
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<tr>
<th>retention</th>
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<tbody>
<tr>
<td>Employees’ know-how &amp; expertise</td>
</tr>
<tr>
<td>Employees’ job satisfaction</td>
</tr>
<tr>
<td>Key employee turnover</td>
</tr>
<tr>
<td>Employees’ work-related competence</td>
</tr>
<tr>
<td>Leadership qualities of managers</td>
</tr>
<tr>
<td>Incentive programme &amp; compensation scheme</td>
</tr>
<tr>
<td>Employees’ creativity &amp; innovativeness</td>
</tr>
<tr>
<td>Employees’ motivation</td>
</tr>
<tr>
<td>Employees’ previous job experiences</td>
</tr>
<tr>
<td>Employees’ work-related knowledge</td>
</tr>
<tr>
<td>Employees’ loyalty</td>
</tr>
<tr>
<td>Employees’ level of education &amp; vocational qualification</td>
</tr>
<tr>
<td>Employees’ profitability</td>
</tr>
<tr>
<td>Employees’ training</td>
</tr>
<tr>
<td>Employees’ training costs</td>
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</tbody>
</table>

*Source: Journal of Intellectual Capital: An evidence-based taxonomy of intellectual capital (Huang, C., Luther, R., & Tayles, M)*

Whether all employees and all jobs are really a source of competitive advantage? Is there a differentiation between employees that contribute their skills and motivation and are important for the operational success of the company and from those who genuinely are a competitive advantage? [22] These are the questions given by Huselid, Becker and Beatty.
To answer them, in “Intellectual capital: the new wealth of organizations”, Stewart wrote that not all employees make a contribution with human capital to a company [23]. Additionally, Low skilled people and their work based on routine do not involve human capital for any firm. This kind of work can usually be substituted either by a different employee or even by a computer or machine [23]. Nevertheless, for most organizations it is hard to obtain and develop talents that actually can grow to be assets. Huselid assumed that “an asset with a flow of benefits that are greater than the costs of the asset’ [22].

Indeed, corporations are recognizing the importance of investing in their employees now more than ever before. Companies start to understand that if they want to stay on top in the economy, they need to emphasize more and more on developing and retaining their people. Organizations that consider the financial impact of their staff often refer to them as human capital. It’s necessary for strategic management of human capital to ensure that human resources are effectively deployed as well as that they support the office’s vision and mission.

As a result, human capital is a valuable concept because it recognizes that people should be treated as assets, rather than as an expense, especially in highly competitive environment nowadays. The tendency in today’s business is toward creating a culture of well-informed, self-sufficient employees. The Human Resources (HR) group, working in collaboration with line management, can achieve this strategic objective using human capital management (HCM).
2.2.2. Human Capital Management System (HCMS)

Human Capital Management (HCM) was described as “a strategic approach to people management that focuses on the knowledge, skills, abilities and capacity to develop and innovate possessed by people in an organization” [1].

The philosophy of HCM understands manpower as the real source for added value (Wunderer & Jaritz, 1999) [2]. HCM methods to collect data are basically techniques to capture the business sense of the personnel work or a process to obtain information if the organization or to which grade they achieve their tasks in HRM. ‘In general, human capital measurement is a measure of effective human resource management’ (Lockwood, 2006, p.1) [24].

Traditional HCM methods are characterized through its partly one-sided orientation. Traditional HCM methods have to collect data mainly a quantitative orientation (Fredersdorf, 2001). These instruments are operative orientated and information used is related to the past. It deals with costs, quality and effectiveness of processes and function and structure of the HR management (Wunderer & Dick, 2001). Meanwhile, strategic HCM concentrates on targets, concepts, programs, resources and potential for success … The traditional HCM methods to collect data are neither bad nor unusable, but these methods have some weak points [2].

Because of changes in the working environment, a strategic orientation in HCM got more important and adjustments needed to be done. Modern HCM is characterized by its orientation of quantitative as well as qualitative, operative as well as strategic and
past- as well as future-oriented perspective (Armutat, 2002) [25].

Human Capital management is a relatively new business concept which is becoming more familiar among human resource practitioners, especially in publicly quoted companies. Its importance rests on findings that the way a company manages its human capital significantly affects its financial performance. As an access to people management, HCM focuses on the factors that actually predict and affect the long-term success of the business. It treats the management of people as a strategic matter – rather than an operational concern best left to the human resource people. Consistent with that, HCM aims to analyze, to measure and to evaluate how people policies and practices add value to the enterprise systematically.

2.2.3. Benefits of HCMS

Because of many above mentioned advantages of HCMS, many companies all around the world have chosen and applied HCMS and have got many benefits.

HCMS combines human resource management functionalities with information technology. This simplifies the decision making process, and also support complex work processes in the human resource area. The basic advantage of a HCMS is to not only computerize employee records and databases but to automate most of the processes, therefore reduce errors and increase work quality [30].

The principal areas of HR that benefit from a good HCMS include payroll, time and labor, and HR management. With a HCMS in place, these basic HR functionalities not only become less problematic, but the speed of work, and more complicated
functions not possible with a manual system can now be used [30]. For example, the combined data permits a user to see online a chronological history of an employee, such as position and work history, personal details, payroll records, and benefits information.

Payroll management

The advantage of a HCMS in payroll is that it automates the entire payroll process. The system gathers and updates employee payroll data on a regular basis. It also gathers information such as employee attendance, calculating various deductions and taxes on salaries, generating automatic periodic paychecks and handling employee tax reports [30]. With updated information this system makes the job of the human resource department very easy and simple. Everything is available on a 24x7 basis, and all the information can be accessed from anywhere.

Time and labor management

In time and labor management a HCMS is advantageous because it lets human resource personnel to effectively gather and appraise employee time and work information. This is particularly important for a manufacturing company, because employees’ work time is a major cost factor. HCMS lets an employee’s information and timesheet be easily tracked, so that personnel staff can assess on a more scientific level whether an employee is performing to their full potential or not, and equally important is to check that employees are not working overtime, or exceeding legal limits of overtime [30].

HR management
A HCMS also has advantages in HR management because it reduces time and money consuming activities in HR. Especially in manufacturing companies where the number of employees are high, this can lead to a more efficient HR department. This system reduces the long HR paper requirements that are often found in most HR divisions of companies [30].

2.2.4. Success Factors in Implementing HCMS

In this extensive research area, many authors have identified various critical success factors (CFS) for successful ERP implementation, and HCMS projects in particular. For this research, I will base my study on two main factors after extensive study of previous literature.

Strong commitment from company management

Any HCMS project without continuous support from the highest level of company management will fail. While the support from a mid-level management, such as CIO or IT Director also has tactical importance, it's often not enough. Given the complexity of HCMS implementation, and the scale of impact it has to HR activities, problems such as conflicting business needs and user resistance will definitely arise [31]. At these critical phases the total support and involvement from the top level is needed to make critical decisions and ensure HCMS implementation is continued [32].

Executive management as well as key decision makers should actively involve throughout the HCMS implementation period, and can not limit their involvement in the initial and planning stages. This is usually a huge demand in terms of time and effort;
however top management must be able to follow the implementation from its inception until final completion. It needs to make assessment and evaluation of the impact of ERP implementation on company’s business process thoroughly, after a certain period [33].

Employee training

ERP implementations in general require complete reorientation and retraining of employees [32]. HCMS is no exception, and projects will mean that some necessary training and skills development for employees must be provided. The training will give users and employees, the same people who will implement the new system, sufficient knowledge to properly run the system [33].

HCMS systems mean significant changes for all involved, and the system will not work if employees do not understand how to use it effectively. Proper training when the ERP system is up and running it is very important, so that the users are capable to use the functionalities, or at the most basic level they should be aware of the ERP logic and concepts and should be familiar with the systems features [31].

Therefore, time and money need to be spent on training, change management, job design, etc. This is a crucial factor to any HCMS project. These activities should cover everyone from executive management to all staff in personnel departments and workers on the shop floor [30].

2.3. Status of Applying HCMS in Vietnam and in Nam Dinh Province

2.3.1. In Vietnam

It is necessary to note that among the three stages of developing technology
including adopting technology, mastering technology, and creating technology, today, Vietnam is basically at the first stage. Technology creation requires efficient knowledge-intensive activities such as research and development (R&D), which are very limited in Vietnam. The investment value of State-owned enterprises in Research & Development accounts for only 0.25 percent of their revenues, much less than developed countries (5-10 percent); private sector has virtually no investments in R&D, according to Dinh Van An and Vu Xuan Nguyet Hong (2004). The lack of technology-creating capability of Vietnamese private enterprises largely stemmed from the following [36]:

1. Education and professional training system have not been efficient with the university syllabi which is very theoretical. The private enterprises still pay inadequate attention to formal training of human resource [36];

2. Because of the weak connection and interactions among universities, research institutions and businesses, commercialization of technology products has been very limited. Additionally, majority of the labor force (70-75 percent) is unskilled causing the low absorptive capability of the domestic firms. Shortage in labor along with poor professional training has significantly hindered every stage of technology development [36]. It is absolutely important for many developing countries to make technology available for domestic firms. Technological availability in Vietnam is diversified. Le Xuan Ba (2006) found out that in 2000, a large number of Vietnam’s SMEs used 339 old or outdated machines and equipment. Over the years, SMEs technological
innovativeness revealed the availability of new machinery and equipment in which about 88 percent of these SMEs have equipments no more than 10 years old [34].

3. Nevertheless, nearly 10% of the SMEs still use hand tools and 4% use manually operated machines. As much as 25 percent of the firms already use power driven equipments. Moreover, more than 61% of the technology was bought new and circa 34% was purchased second hand. During the past three years, about 41% of the SMEs introduced some new products; while only 30% was able to introduce a new technology in the production process. Larger enterprises are more innovative and able to improve technological production processes more regularly (Table 2):

Table 2. Innovation rates

<table>
<thead>
<tr>
<th></th>
<th>Introduced new product</th>
<th>Introduced new technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>40.6</td>
<td>29.5</td>
</tr>
<tr>
<td>New entry</td>
<td>44.3</td>
<td>33.1</td>
</tr>
<tr>
<td>Incumbent</td>
<td>39.1</td>
<td>28</td>
</tr>
<tr>
<td>Micro</td>
<td>32.6</td>
<td>19.1</td>
</tr>
<tr>
<td>Small</td>
<td>51.1</td>
<td>42</td>
</tr>
<tr>
<td>Medium</td>
<td>62.9</td>
<td>63.8</td>
</tr>
<tr>
<td>Large</td>
<td>87.5</td>
<td>81.3</td>
</tr>
<tr>
<td>Urban</td>
<td>47.2</td>
<td>36.2</td>
</tr>
<tr>
<td>Rural</td>
<td>35.6</td>
<td>24.4</td>
</tr>
<tr>
<td>Male</td>
<td>43.6</td>
<td>30.5</td>
</tr>
</tbody>
</table>
According to informants, the key driving forces for introducing new products are:

1. requirements by purchasing customers (62 percent);
2. increasing competitive ability from domestic producers (29 percent).

The businesses’ adoption of new technology has been mainly due to:

1. needed upgrading in order to face competitors (37 percent);
2. buyers’ requirements (32 percent);
3. increase profits (22 percent).

Technology level in general and HCMS in particular across the SMEs in Vietnam is assessed as being two, three or more generation behind comparable regional and world technologies (assessments of the Ministry of Industry).

Indeed, the status of HCMS application in Vietnam is not very clear. The number of enterprises, which have applied HCMS, is very limited. Beside the internal problems (negative attitude and response of managers, lack of expertise employees, lack of capital …), there are external factors such as: Lack of support of government, the infrastructure is not good; SMEs have no or lack of support from larger companies …..

As a result, although HCMS is very effective and can help enterprises to gain a lot of success, especially in currently competitive business environment, Vietnamese SMEs haven’t paid enough attention to it.
However, the Vietnamese Government takes current priority in technology: about five years ago, there appeared a clear ranking in the form of four national priority programmes for high-technology. Each program is considered by the Government as important to modernization. These four national programmes, which are in information technology, biotechnology, new materials, and automation, are monitored and coordinated by high-level inter-ministerial committees [35].

2.3.2. In Nam Dinh Province

Along with geographical convenient position as well as the socio-economic achievements it has achieved, associated with the population up to 1,825,771 people (in 2009) [7] that enables Nam Dinh province to develop its multiproduct and multisectoral economy. However, the problem of managing the large human capital here is very difficult to solve.

Like many other provinces around Vietnam, Nam Dinh province has a large number of SMEs. Consequently, the number of workforce focusing on working in SMEs is very much. How SMEs manage their employees effectively? The application of HCMS will solve all these problems. Nevertheless, these enterprises face with many obstacles. Therefore, until now, there are limited companies that can use this application in their business activities.
Chapter 3 Research Method

3.1. The Case Company

The selected SMEs, which were selected, have the following criteria: Businesses have implemented HCMS application. They must also be located in Nam Dinh province. This was indeed an important consideration in this research in practice because it’s easy and convenient for the researcher to have contacts with the interviewees and have direct meeting for interview or discussions whenever required.

I've chosen the size of SME’s according to the definition of SMEs by the Vietnamese Government in 2001 that enterprises have registered capital of not more than VND 10 billions or the annual average number of labor of not more than 300 people for my research work.

For case studies type of research, it is necessary to reduce the size of sample because of the limit of budgets as well as time constraints. According to Saunders (2000), when the data can not be in a great measure assessed statistically, non-probability sampling could be used [26].

As stated above purpose of the thesis, The Nam Dinh Export Foodstuff and Agricultural Products Processing Joint Stock Company (NADEXFOCO) is selected as data source.

NADEXFOCO was established in 2003 by Mr. Nguyen Trung Kiem. It started as a small company, after that, it developed and became a SME in the business field of processing and trading meat, cattle, and poultry ... for export. The company has the
charter capital up to 3,700,000,000 VND and its number of employees is approximately 100 employees. It has a head office, which is located in Tran Nhan Tong Road, Tran Quang Khai Ward, Nam Dinh City, and a factory to process agricultural products and foodstuff.

3.2. Research Design

3.2.1. Research Purpose

According to Yin (2003), there are three research purposes. They can be exploratory, descriptive or explanatory [27]. An exploratory research is designed to decide and demonstrate the characters of the problem by means of information collection through exploration [26]. Exploratory research is related to defining the real nature of research problems as well as of important hypothesis formulation for later test. Since this research is concerned to finding “what” by asking “What will be the benefits to a SME in Nam Dinh province in applying HCMS?” and “how” by asking “How can SMEs implement HCMS successfully?” Exploratory research is suitable.

3.2.2. Research Questions

Based on the review of literatures as detailed in Chapter 2, I will seek to address the following questions in particular:

What will be the benefits to a SME in Nam Dinh province in applying HCM, specifically in:

- Payroll management
- Time and labor management
- HR management

How can SMEs implement HCMS successfully?
- The importance of strong commitment from management
- The importance of employee training

As a result, the interview with the company’s management was based on the following general questions:

- Please describe your company main business and history
- Please describe how you managed payroll functions before HCMS
- Please describe how you managed time and labor before HCMS
- Please describe how you managed HR functions before HCMS
- What were the issues with the previous system?
- Please describe the HCMS implementation process
- What are the benefits from the new payroll system?
- What are the benefits from the new time and labor management system?
- What are the benefits from the new HR management system?
- Do you consider the HCMS a success?
- How important was the support from top management?
- How important was user training?

3.2.3. Research Approach: Qualitative Research Approach

According to Denscombe (2000), there are two types of research approaches:
Quantitative and qualitative [28]. Qualitative research is an exploratory and unstructured research method that uses a small sample base but has a much greater focus on the individual case which requires a close view at details.

As this study aims to understand in-depth the HCMS implementation process of Vietnamese SMEs and justify the benefits as well as the limitations of HCMS and help enterprises in Vietnam in general and in Nam Dinh province in particular to be aware of the importance of HCMS to their business, to their employees’ productivity and to their profit, qualitative approach was most suitable. Besides, Marschan-Piekkari and Welch (2004) pointed out that “qualitative research may be preferable in developing countries, where the secondary data required for random samples may be lacking… [29].

3.2.4. Research Strategy

According to Yin (2003), five research strategies are defined including experiments, history, survey, case studies and archival analysis [27]. He emphasizes that there are three conditions on which these strategies distinguishes:

- The size of control an investigator has over real behavioral events.
- The type of research question posed
- The level of concentration on contemporary as opposed to historical events [27].

The case studies are well suited for this thesis. Firstly, case studies are preferred so as to answer “how” and “why” questions. Secondly, throughout the
process, case study approach doesn’t require the researchers to have direct control of events or have any kind of direct intervention with the subjects.

The major method I choose to use in this research is case studies; direct contact thus was made with the top management, in particular with Mr. Nguyen Trung Kiem, the Chairman and Director of the company who has an overall responsibility for HCMS implementation and two deputy directors of the company.

3.2.5. Data Analysis

In general, the analysis of collected data includes examining, classifying, structuring or reorganizing these data. This analysis will be based on the theoretical framework that is developed from theory. This framework, then, is used to examine the answers of respondent and check their agreement or their new point of view which can be different from theory.

3.3. Data Collection

3.3.1. Data Collection Methods

As stated above, Mr. Kiem, the Chairman and Director and the two deputy directors of the company are the key members in HCMS implementation of enterprise, will be interviewed.

I collected data mostly through interactive interviews, brainstorming as well as a review of published documentation (request for proposal, process documentation …). Semi-structured conversational method is considered most appropriate for this research. Interactive interviews are most suitable for
exploratory research, due to the fact that the researcher can adapt the questions as required, and ensure that the responses are completely understood. Moreover, it allows researcher to find out problems given out by respondents, which are impossible to be done through questionnaire.

Direct interviews were carried out from 15.10.2010 to 25.10.2010. The interviews can be carried out at the respondents’ premises or other places of their choice to make them to feel comfortable with the surroundings and, thus, more relaxed during the interview. Structure questionnaire for interview were well-prepared. Nevertheless, I prepared also open-ended questions with the aim of getting a more in-depth look at the situation and record insights that cannot be captured in the formatted, structured manner. The length of the interviews can be over one hour. With permission of the respondents, the interviews were recorded and then transcribed in parallel with being noted to capture relevant ideas and thinking. Most of the time of interview, the researcher listened the participants, sometimes responded to encourage the respondents to tell more and more stories with little interruption.

3.3.2. Research Quality Criteria

Validity and reliability are critical criteria in every research. In order to increase the quality of data collected through the interviews, we made a point of sending the respondent the question in advance. The interview questionnaire was prepared in Vietnamese then translated into English to ensure maximum language
comfort. In the process of interview, every interview is recorded for later reference.
Chapter 4  Research Results and

4.1. Status before Implementing HCMS

When NADEXFOCO was established, it had only 40 employees including administrative and executive staff as well as manual labor, it’s thus not difficult for the manager to manage. All of his employees were taken care of like members of a family. In addition, their company is just a SME, not a large one. The company’s structure isn’t complex and it’s managed in a casual way. Thus, there was no need for any system related to Human Resource such as HCMS. That’s because the cost of purchasing, installing an HCMS application. It was also too expensive for the enterprise. Therefore, at first, the company didn’t realize the significance of having a HCMS, although they admitted that people are the key to any success of the company.

However, when the business activity developed, the structure of the company expanded and more complicated. The company had to adjust and adapt itself in order to survive and continue their business:

Because of being a small enterprise, NADEXFOCO had no strict rules as well as regulation in comparison with large companies. The early control process of the company was still under informal form. When the company recruited employees, since the company didn’t keep or store employees’ profiles, the employees only gave the Human resource department a copy of identification card. It sometimes led to employees left their jobs without giving notification to manager in advance. Or they worked for the company for just 1 to 2 months, after getting their salary, they
disappeared. The consequence was that the company had to face with problems: Firstly, it cost the company money spent on training new employees. Secondly, the company lacked of workforce and had no replacement while the product line was left the rails. It also affected on other employees when they had to work overtime in order to fill the gap of the missing people. The remained employees had to work harder so as to finish the package of products that must be exported on time.

With respect to a SME like NADEXFOCO, the retaining and keeping employees is one of the problems that it has faced until now. Under the form of SME, the company is incapable to offer a higher salary than a large enterprise. So, many employees have left this company to work for larger company, though the company used bonuses to encourage employees to stay and continue working for it. Some employees said that they worked for NADEXFOCO in order to gain experiences and these experiences will be used as reference for them to apply to big firm.

When the number of employees of the company increases, it makes the calculating of employees’ payroll also more complex and overdue, and mistakes increases, too. Meanwhile, every task of employees is carried out by hand and with no help of software or solution. That makes employees feel unsatisfied. Thus, their motivation to work reduces considerably. Meanwhile, the number of staff in Human Resource Department is up to 5 people but they can’t manage all of the workload.

At that time, Mr. Kiem considered the importance of having a Human Capital Management System seriously. He recognized that even if the company has good
equipments and machines, other companies could also copy and manufacture products, which are as good as, or even better than their products. The only thing that no competitor could copy from the company was “human” – his employees.

4.2. Benefits and Cost Analysis before Implementing HCMS System

Payroll management

All functions are carried out using Excel sheets and papers. Employee contracts are kept in paper files; there is not a system to search for information when needed.

Payroll calculations are done using a calculator, and figures are recorded in a paper book. This leads to two issues: (i) calculation errors, and (ii) no electronic record of payroll history. Overtime, it becomes impossible to track and check the amount of salary that has been paid to each employee, or analyze payroll functions.

Time and labor management

Timesheet, especially for workers on the shop floor, is filled in on paper and used for a variety of purposes such as payroll calculation, benefits calculation, leave, overtime benefits, etc. However because all data is captured on paper, it is easily lost, and overtime the volume of data is too great for any meaningful use. While the company does maintain all the timesheet papers in folders, it is impossible to find historical data for analysis.

HR management

Similarly, all functions are carried out manually. There are totally 5 employees in the HR department, who have to take care of all HR responsibilities for all office staff.
and factory workers.

The workload for all HR staff is very demanding, resulting in high levels of stress, error and overtime for HR staff. Moreover, similar to the above areas, because all systems are on paper, the main focus is to process the current work, with no possibility of archiving data, integrating processes, or analysis.

4.3. Process of Implementing HCMS

After analyzing the benefits and challenges of applying HCMS, the company believed that HCMS will be very useful to them and decided to use HCMS. First of all, in order to help employees in HR Department use and control the HCMS, they hired experts in the field of HCMS application from FPT Corporation, which provides most of software and systems all around Vietnam and has top experts in IT, to train them for a period of 3 months. For newcomers, they also opened new training course to make them have more understanding in HCMS. The company also set up one group, which includes 3 HR staff and two IT specialists of the company, with the aim at monitoring, managing HCMS and then report to manager.

Simultaneously, they purchased and installed HCMS. With the aim at improving company’s infrastructure, it installs LANs and wide Area Networks, purchases and supplies dedicated leased line and also enhance bandwidth to simplify the data transmission. Its System Report has enhanced ability to generate and analyse reports on employee profile for use during analysis process, on short-listed employees and successful employees with appointment details. In addition, the system database server,
SQL server, windows 2000 server and back-up server and storage devices were installed.

The company also installs firewalls and anti-virus software and assigns the user access controls and permissions in order to ensure the security of the information.

4.4. Benefits and Limitations after Implementing of HCMS

In 2008, the top management decided to install HCMS in his enterprise. Before purchasing and installing HCMS, they determined some benefits gained and costs spent by using HCMS. After 2 years applying HCMS, it can be assessed that the HCMS has operated very good. It brings to NADEXFOCO range of benefits:

Benefit to payroll management

The payroll module allows SMEs to reduce the workload of HR staff by automating the payroll process. It completes the payroll on time, in everywhere and without mistakes. The payment amounts and varied of deductions e.g. Income tax before generating paychecks or employees tax reports, etc. are calculated automatically by the payroll module.

Presently there is no mistake with the employees’ payroll calculation left; the situation of paying salary late has also been fixed. Employees of the company haven’t complained about it. Since the company applied HCMS, the productivity of the labor force has increased more and more and thus the net profit margin has also increased by 23 basic points. In addition, the loyalty of employees raises and there is less intention to leave the company.

Benefit to time and labor management
With the aim at organizational cost accounting, the time and labor management module of HCMS helps to collate and analyze timekeeping information of each employee. Therefore, it provides manager with valuable relating to the use of workforce resource within the company.

Thanks to the application of HCMS, the management of a large amount of labor force has become more effective and efficient. Because of automation function of HCMS, the number of employees is cut down and the company can therefore reduce labor cost: From the number of five, the HR Department of the company has currently only three. Meanwhile, the workload of administrative staff has also reduced significantly with the help of HCMS: They just enter, add and update information and figures, the HCMS will calculate and analyze automatically and give out the final and trustworthy results with no errors. According to statistics, the administrative workloads have been cut by as much as 60%.

Benefit to HR management

The module of benefit administration provides HR Department with the ability to manage and control employee participation in benefit programs in relation to the wellbeing of the labor force (e.g. Health insurance, pension schemes …) and profits making programs, e.g. profit sharing and stock option plans, etc.

The HR management module assists a large number of HR solutions starting from analyses of application data through to the employees’ basic demographic data. It allows HR personnel to manage the Human Capital Pool (HCP) available within the company
effectively. It continues tracking the training and development of the labor force and the skills, competence as well as qualifications of each employee.

As a result, HCMS enables SMEs to automate a lot of aspects of Human Resource Management: It not only reduces the workload of HR Department, but also increases the Department’s efficiency by standardizing Human Resource processes. HCMS allows also enterprises to use Human Resources more effectively and efficiently: They can do same or more amount of work with fewer people. In addition, it can help reducing labor cost as well as improve working productivity of employees.

Because the company has invested in training human resources in order to they can catch up with the development of IT as well as can manage technology; the quality of employees is enhanced significantly.

Because of financial limit, like many other SMEs, the company can not afford to invest on HCMS regularly and innovate it. The infrastructure of the company is also a problem: The size of the company is relatively small, while the demand on computers is becoming higher.

4.5. Success Factors

The importance of strong commitment from management

Throughout the implementation, and in the early usage period, there was some level of staff resistance, because the project required a lot of employee involvement, which created extra work for staff.

When the system first became operational, in the beginning the HCMS required
extra effort from HR staff to make sure it is used properly. Also, workers did not understand the new system and had suspicions that this was a management’s plan to tighten control of timesheet.

During critical times in the project, the company’s top management had to show absolute support for the implementation, and made very clear that the HCMS will have to be used by all staff. Anyone who wanted to resist this will be severely punished by financial and administrative means.

After the difficult initial period, users begin to realize the great benefits HCMS brings to their work, and the system became a success, however without strong intervention from top management in the beginning, the project would have failed completely.

The importance of employee training

Before having planned to apply HCMS, NADEXFOCO has applied some systems in their company but they haven’t gained any positive result. So, the enterprise has to face with the risk of failure of HCMS. One more challenge is that NADEXFOCO can face with the objection of their employees. They get used to traditional method of work (e.g. bureaucracy, etc.). They don’t understand how to use the new System and don’t accept it.

In contrary with these above mentioned benefits, the application of HCMS in NADEXFOCO has also shown some limitations: The quality of employees in company has been improved but been not equal and it makes them get difficulty in using HCMS.
Besides, HCMS is difficult for users to monitor in detail and it takes much time and effort to add information. As a result, they can’t exploit functions of HCMS completely.

After the company spent a considerable amount of time and money on training, user acceptance of the HCMS system was improved, and the quality of HR work showed clear improvements. This shows clearly that the investment in training and getting staff to be used to the system and accept its necessity is a highly critical factor in a HCMS success.

However, the company also has to face with several challenges: Building infrastructure and maintaining the equipment update are very expensive; the low level of computer literacy on IT of users, in particular the staff of the HR Department. It demands the company to spend money on establishing training course for HR employees in order that they become employees with high-level of IT and can use and manage the HCMS effectively. Therefore, the costs on employee training are very high.

4.6. Overall Evaluation of HCMS Implementation

In general, beside some limitations including the unequal quality of employees, low infrastructure of the company, limit on capital, etc., the implementation of Human Capital Management System in the Nam Dinh export foodstuff and agricultural products processing Joint Stock Company has brought about some following benefits:

- The company can reduce cost on labor force.
- Because of automation, the workloads of Human Resource Department reduce along with the efficiency of this Department increases considerably.
The quality and level of IT literacy of employees are improved significantly.

According to the process of studying the HCMS implementation in NADEXFOCO, we can conclude some factor affecting on implementing HCMS successfully, as below:

In spite of facing the objections of employees, the top management has considered between benefits and costs of HCMS. After that, they realized that the company will develop thanks to HCMS application; they determined to apply this system. Without determination of top management, there also a decisive factor influencing the implementation of HCMS in NADEXFOCO. And in the end, the quality is an indispensable factor.
Chapter 5 Conclusions

5.1. Findings and Contribution

My thesis researches on the implementation of HCMS in SMEs in Nam Dinh province, in Vietnam, in particular, I choose a SME to justify the benefits as we as limitations of HCMS implementation. Along with them, I try to find out factors affecting on applying HCMS in Vietnam. So, the results of my research indicate that there are three main benefits that SMEs can achieve when they apply HCMS: 1, Cost reduction (especially on labor force); 2, Enhancing employees’ quality and at last more effective and efficient management (e.g. employee satisfactions, keeping employees’ loyalty, reduce workloads of employees); and three main limitations: Capital constraints, low infrastructure and unequal quality of employees.

Three factors affecting on the HCMS implementation in SMEs include: The determination of top management; quality and IT level of employees; lastly, Quality of HCMS.

5.2. Implication

As we can see, the benefits that HCMS brings to SMEs in Vietnam are very significant. One of this purposes of this thesis is to find out how can SMEs implement HCMS successfully? That is the question which not only SMEs in Nam Dinh province but also SMEs around Vietnam are considering. It can be denied that the potential of HCMS in Nam Dinh province particularly and in Vietnam generally is very expecting.
In practice, the conclusion of my thesis can help SMEs’ managers/ owners in Nam Dinh province as well as all around Vietnam can determine benefits as well as limitations and it is considered as a basis for decision that should invest in HCMS or not?

However, in order to make sure that the investment in CRM system will be successful, they also should take care of factors affecting HCMS implementation in SMEs.

Although my thesis mentioned only one enterprise in Nam Dinh province, I hope that the results of my thesis will help SMEs’ managers or owners to understand more about the HCM system in general and make reasonable decisions in implementing HCMS applications in their enterprises.

5.3. Limitation

Due to limitation on human and resource and time, this thesis focuses on only one SME and they located in Nam Dinh province. Therefore, future researchers who are interested in applying HCMS in SMEs can use this thesis as well as conceptual framework as a foundation to develop the scope of the research. Furthermore, further research should investigate more enterprises in order to have a clearer and better view of status of HCMS application in SMEs. In my research, I have only investigated a company operating in food industry. Thus, my research can be only applied in food industry. For other sectors such as services (e.g. software production, advertising, law, etc.), it is not clear whether the same factors also have a similar effect to . Therefore, I
hope that in the future there will be more and more researches about the HCMS implementation in various sectors.
References


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November 2000.

