

Advantages and Disadvantages in setting up and managing a Captive Center in Vietnam

Case study: Company KV & Company WAV, Vietnam

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<p>Abstract:</p> <p>This work concerns factors that Captive Centers would face when they operate in Vietnam. In other words, it purposes to perceive in detail what Vietnam offers to Captive Centers by identifying the advantages and disadvantages in establishing and managing Captive Centers in Vietnam from the perspective of foreign companies. Under the qualitative research method, the authors have done three interviews with the managers of two Captive Centers operating in Ho Chi Minh City, Vietnam, by sending them interview questions via email. Together with secondary data from the literature review mainly provided by Oshri, and information about Vietnam provided by national organizations, this thesis firstly describes the aspects such as definitions, trend or practical models of Captive Centers, then provides facts on economic conditions and business environment of the country together with some example countries. Then, by analyzing the answers from the respondents, specific information is used for the discussion to find out if cost saving, manpower supply, high market potential, and increasingly supportive business environment can benefit foreign companies. It also covers the conclusion that set up problems and human resource management are the two biggest obstacles companies face if they want to set up Captive Centers in Vietnam. The thesis is a one-sided perspective which discusses Captive Centers from the foreigner’s viewpoint, and does not examine how Captive Centers operate in Vietnam. This analysis concludes with the summary of the mentioned advantages and disadvantages faced by the two Captive Centers in Vietnam. Assumptions and recommendations for the development of the Captive Centers which are based on the provided theories are also presented. Finally, suggestions for further research are discussed.</p>	
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FOREWORD

This bachelor thesis is the last step for completing our bachelor's degree in International Business at Arcada University of Applied Sciences (UAS). The thesis was conducted at Arcada during the autumn semester 2015.

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We hope that our work will benefits the case companies as well as foreign firms that have the intention of establishing a captive center in Vietnam, and other thesis workers who conduct relevant research to ours.

Vantaa, October 7th 2015.

Thien An Nguyen

Trang Thanh Nguyen

1 INTRODUCTION

1.1 Research background

As a result from globalization and technology development, crossed-border operations have become easier than ever before for those who look for business expansion or want to gain competitiveness. Thus, offshoring business models including Captive Center have been widely implemented by many companies to acquire desired benefits such as cost savings, growth in high potential markets or skilled people. The increasingly favored trend in establishing Captive Centers has received much attention from companies regardless to size or field of operations. Because each offshore country offers a distinct set of benefits to foreign investors, it is essential for the companies to understand the attractions as well as discouragements provided by the chosen destination, before engaging to the setting up of Captive Centers in that country. According to multiple rankings on national scale, Vietnam has emerged to be among top destinations for offshore activities regarding to its economic conditions and business environment. Also, with recent effort on negotiations with developed countries, Vietnam is finalizing the Free Trade Agreement (FTA) with the EU as well as Trans-Pacific Partnership (TPP) Agreement with 11 countries (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and the US), or the Vietnam-Korea Free Trade Agreement (VKFTA); therefore, it is expecting that Vietnam's economy would be more open up for international business. However, due to various reasons including some information that is only available in Vietnamese, there are few reports on real business cases operating in Vietnam, especially under Captive Center models. Therefore, to provide a detailed picture on the operation of Captive Centers in the country, the authors have decided to carry a research about Captive Centers in Vietnam (European Commission, 2015; BBC News, 2014; Economist, 2015.)

1.2 Research questions

Captive Center is a strategic offshoring model that has been commonly employed by many businesses due to the benefits it provides. The Captive Center nowadays is not only popular in India, China, etc., but also widely used in several emerging offshoring locations including Vietnam. Although many organizations consider establishing a

Captive Center in Vietnam to benefit their business operations, these firms are still hesitant when coming to the final decision because of the lack of information needed. KV and WAV are the two companies that have implemented a Captive Center model to their businesses and had years of experience managing that model in Vietnam. Therefore, taking KV and WAV's business patterns as a case study would provide insight in understanding the Captive Center model and how foreign companies that have the intention of operating a Captive Center in Vietnam like KV and WAV can create an effective plan to fulfill that goal. On that note, this thesis would explore the research question as follows:

Research problems: “What are the advantages and disadvantages in establishing and managing a Captive Center in Vietnam that KV and WAV have experienced?”

1.3 Research objectives

The research aim of this paper is to study the consequence (pros and cons) of setting up and running a Captive Center in Vietnam. By collecting information from the interviews with KV and WAV companies and other data from secondary sources, this thesis will discuss and answer the core thesis question. This research is supposed to benefit foreign companies in taking full advantages of several business factors as well as minimizing problems occurring during the set-up phase and management time of a Captive Center in Vietnam. Together with other researches on the consequence of operating a Captive Center in Vietnam, this paper also expects to help with further research accomplished in relevant field.

2 LITERATURE REVIEW

2.1 Definitions

To comprehend the literature, it is necessary to define some repeatedly used terms. In most investigations of offshoring, the discussion turns to Captive Center, which is a new emerging sourcing model that has only recently received attention. However, any discussion of Captive Centers would not be fulfilled without an understanding of globalization, which has provided not only the foundation but also the driver for offshore sourcing.

In this thesis, besides the essential terms that will be discussed in the upcoming chapters, the following terms are also used:

- Vendor or service provider — a company that provides its services to others.
- Client firm or outsourcer — a company that enters into a contract for services performed by *service provider*.
- Customer — a company or individual that purchases goods and services from an *outsourcer*.

2.1.1 Globalization and Technology

Although the main discussion of this thesis is about Captive Centers, it is not fully equitable without mentioning the assistance from Globalization and Technology. One of the central factors that brings Offshoring to the world is the rapid expansion of globalization. By reducing the barriers between countries, globalization undoubtedly brings a vast amount of opportunities to the success for entrepreneurs, but as the same time challenges and drowns many of the businesses by the increasingly competitive environment it has brought. According to The International Monetary Fund (IMF, 2008) globalization is defined as the economic development of countries around the world through an increasing number and diversity of international trading in the field of services and goods with the support of the rapidly developing technology. With the help from globalization, countries under a same agreement can trade with each other more easily due to a smaller amount of cost and less legislation process required. However, any expansion will bring side effects to the origin, not excluding the globalization. Indeed, as globalization comes to more countries, along with the opportunities offered,

it is complained for its negative consequences such as increased world oil prices, more carbon dioxide emission or jobs lost in developed countries. Since the core focus of this thesis is not about globalization, readers can find more about the positive and negative effects of it in the works of Mary C. Lacity & Leslie P. Willcocks (2001), Mark Kobayashi-Hillary (2005), Dani Rodrik (2012).

Another factor considered as a driving force behind the growing of Offshoring is technology. Nowadays, people have become familiar with, and used to technology that improves their lives. Indeed, according to a research made by The World Bank in 2014, the Information and Communication Technologies (ICTs) have ordinarily become the everyday use of people since more than 75 percent of the world population have access to mobile phone with the amount of cellular subscriptions rapidly reaching 7 billion. The fast developing pace of Technology has brought many types of supports, such as the Internet, computer, mobile devices and a variety of software to ease the work of business in the globalized world. For instance, international companies and domestic companies can benefit from technology as tools for communication, inventory management, data management, information system management or customer relationship management. The bigger the business, the more dependent it is to technology for carrying out everyday tasks; and as pointed out in a study released by Dell and Intel in 2013, 77 percent of businesses rely on technology for success and growth.

Globalization and technology have been symbiotically growing together. The connection is highlighted in the practices of IT outsourcing to less developed countries of many technology giants. As reported by Bloomberg, Apple and Microsoft, they have their IT tasks offshored for desired purposes like cost reduction and competitive gain. In this example, it can be said that Globalization offers technology dynamic environments to grow; when the technology is growing, it contributes back to the Globalization by improving the world economy and giving more tools to trade. Therefore, Technology and Globalization each participates in the other's enlargement.

2.1.2 Offshoring

As the main focus of this thesis, offshoring is defined as the relocation of production processes overseas, leading to trade in intermediate goods internationally (WTO, 2011). Firms can be implemented Offshoring by the following two options: (1) to contract with a suitable external vendor, and, (2) to establish their own business or known as Captive Center (for example, in the form of a branch office). The intension of this thesis is more about the two company cases, which are constructed on the process of the second option, authors will purely focus on Captive Center regarding to its process, advantages and disadvantages.

According to Oshri (2011), offshoring has become a popular choice due to an ability to access to low-cost skilled labors who provide services back to the parents company by the support of technology. The relation of Offshoring, the Globalization and Technology can more likely described in the following figure:



Figure 1. The relation of Globalization, Offshoring, and Technology

2.1.3 Captive Center

Captive Center or also known as captive model is a strategic choice to set up a wholly owned subsidiary typically in a low-cost country. It is a model of offshoring that provides service resources directly to the parents company without contracting with a third-party service provider. Therefore, it shares the benefits of offshoring such as low

cost and skills availability. In practice, Captive Centers provide Basic, Hybrid, Shared, Divested, Terminated and captive options (Oshri & Kotlarsky, 2011; Oshri, 2011). These will be discussed later in the thesis.

2.2 Landscape of Captive Center

2.2.1 History of Captive Center

Historically speaking, authors including Oshri (2011) and Overby (2011) have summed up that the first Captive Centers were established in numerous countries, mostly in India. At that time, the primary motive of large multinational companies such as Texas Instruments and Motorola was to obtain low-cost labor while maintaining or raising the service quality. Traditionally, the companies kept most of their offshoring functions in-house until the services were offered at lower cost by emerged companies namely Tata Consultancy Services, Infosys and Wipro. The low-in-cost offers influenced the initial in-house Captive Center and gave ideas for other offshoring implementation alternatives (See Figure 2)

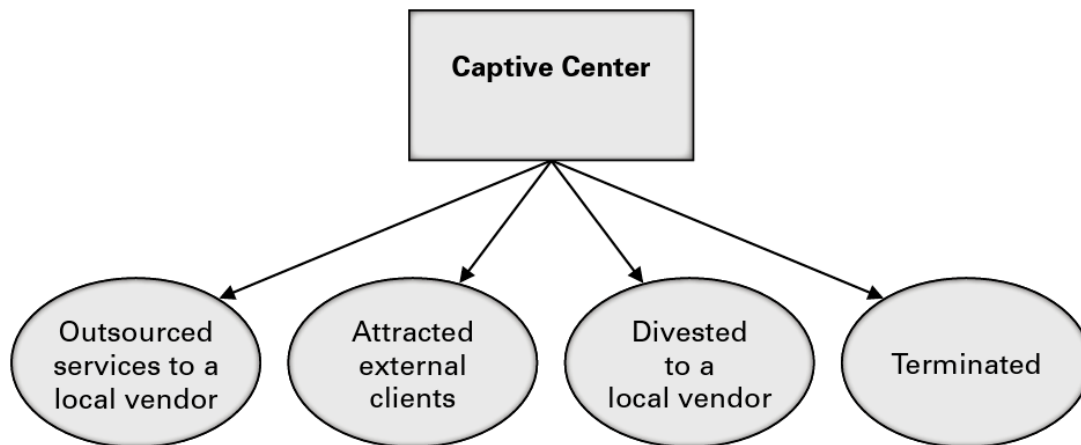


Figure 2. Alternative implementations of offshoring strategies (Oshri, 2011)

The summary of the first Captive Centers (CIO, 2011):

- 1985: Texas Instruments was the first company to run a Captive Center in India for the purpose of research and development (R&D).

- 1990-1998: General Electric, British Airways and Dun & Bradstreet establish their Captive Centers in India. All were eventually converted into third-party service providers.

2.2.2 The trend of Captive Centers

As reported by Everest Group in 2012, there is an increased popularity of the captive model indicated by many companies establishing or enlarging their Captive Centers. Although India continues to hold their top favored destination for practicing captive operations, companies also explored and successfully established captive operations in China, the Philippines, Central and Eastern Europe, and Latin America. Recently, Middle East and North Africa (MENA) has emerged as an attractive offshoring destination. By Global Fortune 250, a research investigation in 250 global companies to understand why and how Captive Centers receives increased adoption between 1990 and 2009, Oshri has given more details on the expanding of Captive Centers. The research concludes that 137 companies (54.8%) established a total of 367 Captive Centers within the period of time. The exceeded number of Captive Centers means 77 of these companies owned not only one center; IBM was running global delivery centers at 18 locations worldwide, and Dell owned 11 Captive Centers. The research also gives notice that companies which did not own a Captive Center often sought for a vendor to carry offshore outsourcing. The different types of Captive Center strategies used by the companies are summarized in the following table:

Table 1. Captive Center Strategies Used by Fortune Global Companies (Oshri 2011)

Types of Captive Center Strategies	Number of Captive Centers	Names of companies
Hybrid	45 (12.2%)	SAP and IBM
Shared	40 (11.8%)	Barclays, HSBC, Motorola, Siemens, J. P. Morgan Chase
Divested	23 (6.2%)	Citigroup, Unilever, Deutsche Bank
Terminated	32 (8.7%)	Aviva, Dell, and Santander

2.2.3 Captive Center per industry

By industrial perspective, banking sector, with 48 companies, represents the strongest industry among the Global Fortune 250. Other large industries are petroleum, insurance, and electronics, with 29, 27, and 24 companies respectively. Figure 3 presents an overview of industry division served by the Captive Centers. An example of Captive Center in banking sector comes from the Denmark's Danske Bank. In 2014, Danske announced to establish a Captive Center in Bangalore, India to perform in-house IT tasks and Support Service Center; with the investment around \$12 million, the Captive Center called Danske IT (DIT) became operational in August 2015 (DanskeIT, 2015; Computerweekly, 2014).

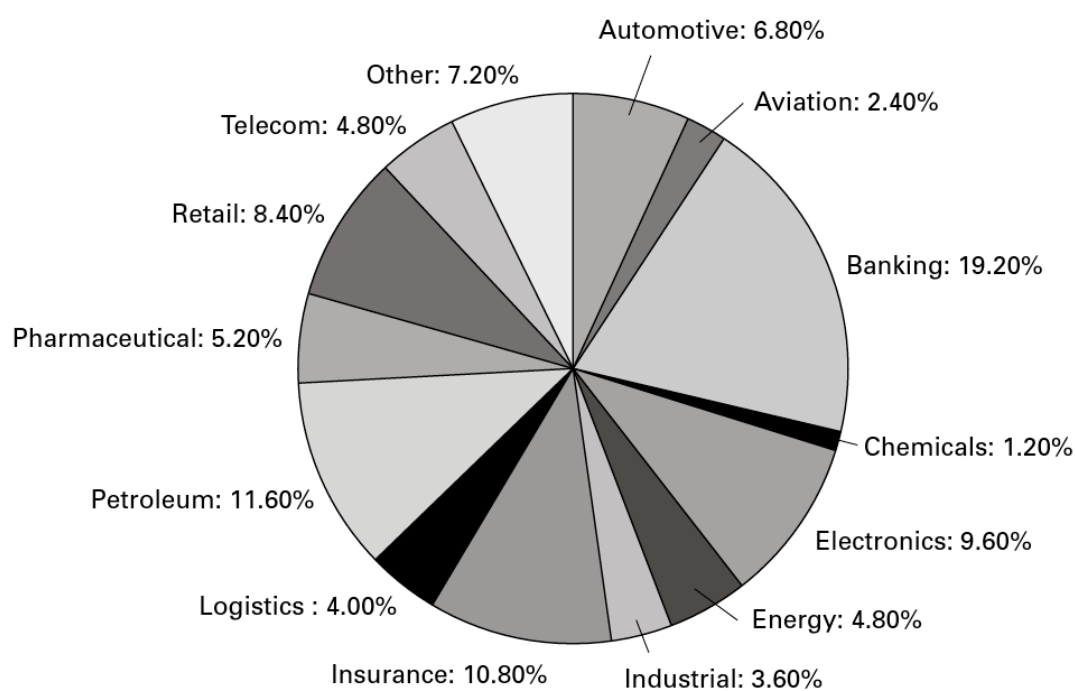


Figure 3. Industry Distribution, Global Fortune 250 (Oshri, 2011)

The Evolution of Establishing Captive Centers

Accordingly, companies gradually established Captive Centers in various regions in the early of 1990s. Started with Motorola by its first captive R&D center built in India in 1990, it was followed by Citigroup in 1992, which established a major captive operation in the country to carry out financial activities. Microsoft set up an R&D center in Israel in 1991, and in the same year, Canon transferred R&D activities to its new Captive

Center in the Philippines. Figure 4 presents an overview of the number of Captive Centers newly established by the Global Fortune 250 in four geographic regions between 1990 and 2009. The number of newly established captives has increased significantly over the years. Prior to 2004, India was the top destination for new captives; from 2004 until 2009, the eastern European/Russian region overtook the top spot (Oshri, 2011.)

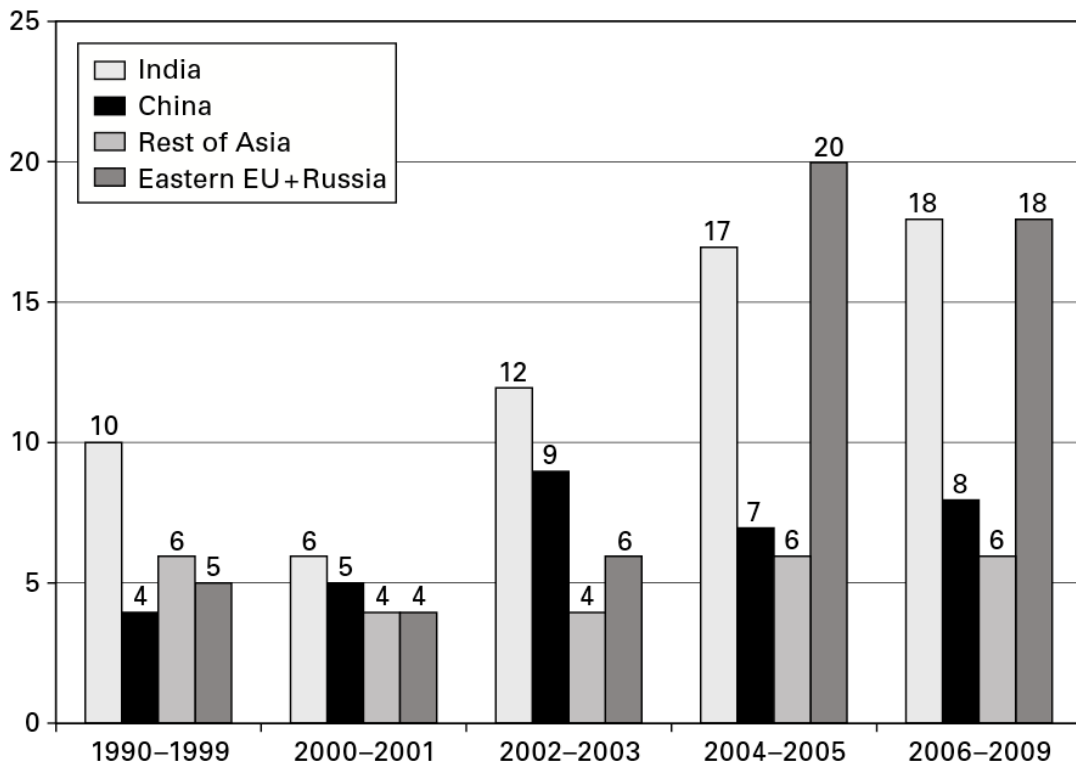


Figure 4. Newly established Captive Centers per period and region (Oshri, 2011)

However, according to A. T. Kearney Global Services Locations Index (2014), a larger scale research compared to the Global Fortune 250, India always maintains the most attractive country for offshore services, unbeatably topped the field in both scale and skills for the past decade. It is followed by China who is drawn down mainly by its uncompetitive financial attractiveness due to the rising wages made. The top fifteen countries listed by A.T. Kearney ranking are cited to show in the following figure.

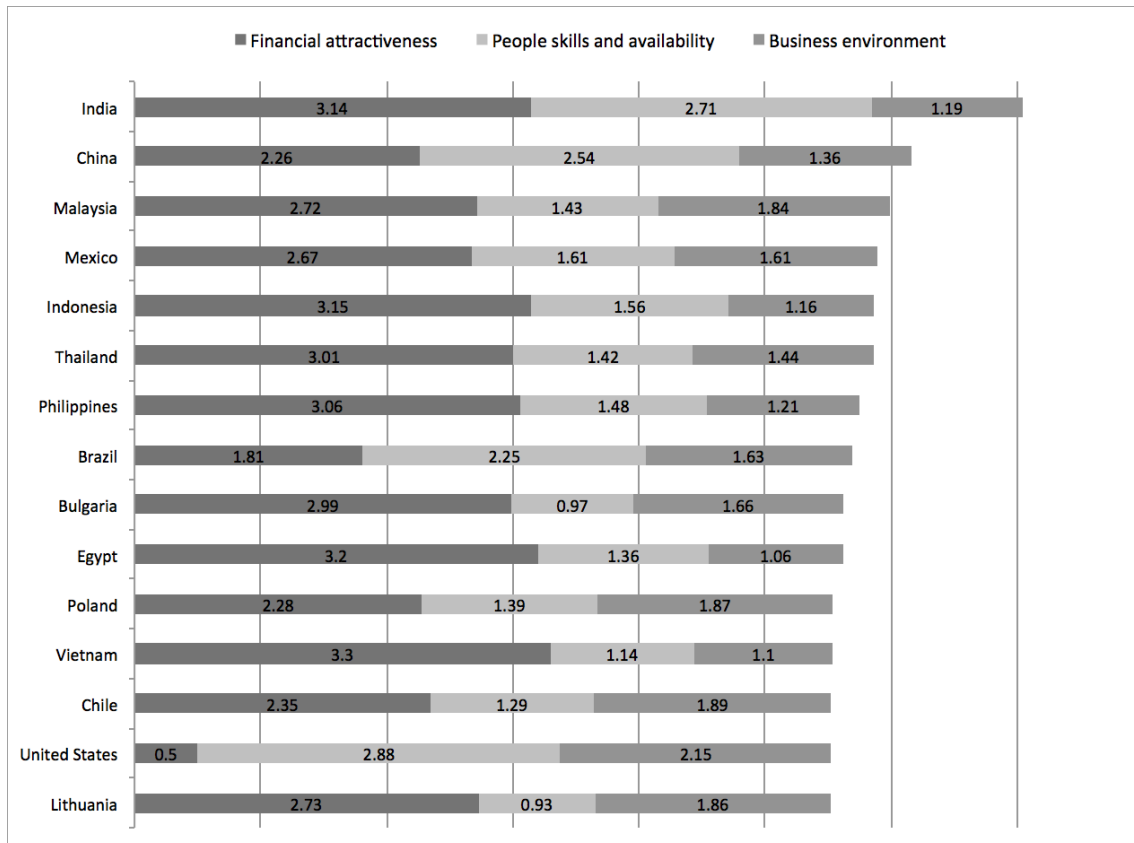


Figure 5. The 15 Most Attractive Countries for Offshore Services (Among 51 countries) (A.T.Kearney, 2014)

Also reported by Oshri (2011), different Captive Center types were established from 1990 to 2009 to serve different types of businesses, notably the significant growth of Combined Service Centers, IT Related Centers and R&D Centers. Details of the growth of different Captive Center types within the period are shown in the Figure 6.

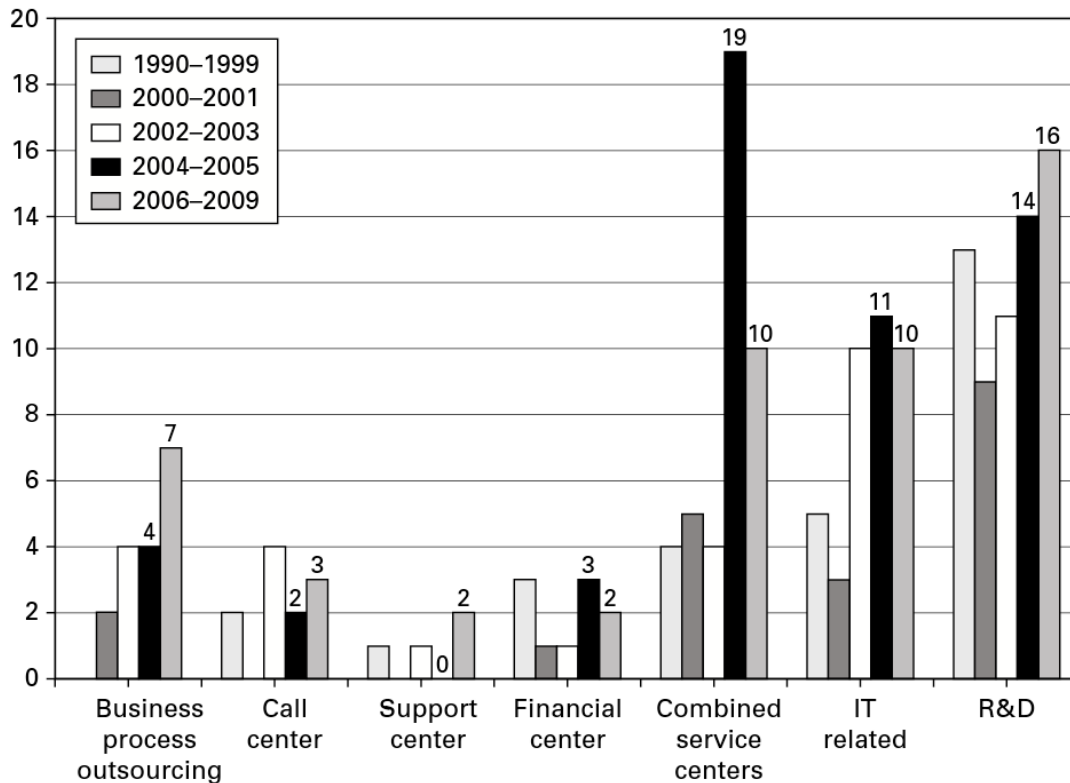


Figure 6. Number of Captive Centers by specialization per period (Oshri, 2011)

The Growing Attractive Destinations in Asia

As pointed in Figure 5, Asia is a hot spot for offshore services. Globally, India's overall score outweighs the others and acquires the 1st in ranking index. India competes to China (2nd) from the people skills and availability, which is scored highest in the field; moreover, the low operation costs increase their competitiveness over China. For the other Asian countries, with the advantages of developing countries, they could quickly improve the business environment with the attempt to well-educate the people, build more stable economies, reducing legislations or language barriers. At the time when the Global Fortune 250 research was carried out, there were not many Captive Centers in other Asian regions. According to Oshri (2011), only a small number of captives were found in Indonesia, Vietnam, Sri Lanka, Taiwan, and Thailand. However they are now emerging to be listed within the top ranking countries globally. The emerging of Asian countries for offshore activities, specifically Vietnam will be discussed further in the introduction of Vietnam.

2.2.4 Captive Centers and different types of sourcing models

As sourcing has developed at a fast pace in today business, so too have the types of sourcing models emerged. Besides onshore outsourcing and offshore outsourcing, Captive Centers has become more popular and can be considered as one of the most effective sourcing types that provide high value added and great opportunity for profit increase. In order to have a better understanding of Captive Centers as a sourcing business model, this segment will give a clear discussion about Captive Centers along with other alternative sourcing forms, such as onshore outsourcing, offshoring, offshore outsourcing, and joint ventures, in the context of sourcing literature.

Onshore outsourcing

Onshore outsourcing, which is also known as domestic outsourcing, is the simplest outsourcing model comparing to the others. According to Oshri (2011) onshore outsourcing is an agreement where a client company obtains goods and services from local external vendor. The authors such as Click & Duening (2004) have suggested that although there are many reasons for choosing to outsource locally, cost saving is the most attractive one. Oshri (2011), however, stated that the primary reasons for client firms to choose onshore outsourcing are proximity to the vendor, cultural fit, and familiarity with work regulations, methodologies, and values. Besides those advantages, client firms also expectedly gain benefits from improved agility, a freeing up of talent to focus on high-value activities, and access to skills.

Until the late 1990s, onshore outsourcing still has been a preferred sourcing model comparing to offshoring because it provided approach to innovations and new ideas, while offshoring concentrated on cheap labor markets. However, that benefit has no longer been counted in recent years as innovations and new ideas now can be created from offshore markets as well. Client firms who participate in onshore outsourcing model usually do not have to deal with language and culture differences problems or any issues relating to distance. Yet, they still need to take care of initial processes such as service provider selection and contract management. (Oshri, 2011).

Offshoring

Offshoring is the next important sourcing model that needs to be discussed in this section. As defined by Blinder (2007) and Oshri (2011), offshoring is the movement of

business operations and processes out of the home country, usually to a different continent. The offshoring model can be performed under one of the two alternatives, which include offshore outsourcing and offshore Captive Center. While offshore outsourcing is the sourcing form that is carried out through the use of a third-party service provider located in an offshore country, offshore Captive Center is all about establishing a wholly owned subsidiary in an offshore location. (Oshri, 2011).

Offshoring emerged in the late 1980s when businesses started to pursue cheap labor markets, especially in the health care industry, the telecom industry, and the technology sector (Vashistha, 2006). In the early 1990s, it became more and more popular because of the advantages of low-cost skilled labor in offshore areas (Willcocks *et al.* 2009). Afterwards, in the mid-1990s when the tech boom has started, offshoring was considered as the main sourcing form to seek for cheap qualified software developers and programmers (Kotlarsky *et al.* 2011). Offshoring, nowadays, still holds a certain position comparing to other sourcing options, and is inspired by a demand for innovative technologically advanced, and low cost workforce.

Offshore outsourcing

As stated above, offshore outsourcing is a branch of offshoring, in which the jobs will be shifted to another country and be accomplished under the responsibility of the third-party vendor in that location. Click & Duening (2004) have suggested that offshore outsourcing is the most challenging sourcing type but potentially the most rewarding. The reason for that statement is because in addition to those famous stories of suddenly affluent geographic regions, there have been numerous infamous stories about exploitative labor practices, especially in India, China, etc. Despite of those actual situations, offshore outsourcing is still encouraged by governments pursuing to increase foreign direct investment and the development of their local economic (Oshri, 2011).

In a comparison with onshore outsourcing, offshore outsourcing offers much deeper cost savings, but higher risk of conducting a business in another country. Offshore outsourcing basically shares the same concerns as onshore outsourcing. However, the outsourcer who engaging to offshore sourcing has to face to some additional challenges such as culture dissimilarity, language barriers, and time zone differences. There can

also be a risk of losing control of outsourced business operation due to the distance and different legal technicalities. For instance, in some offshore countries, the awareness and application of intellectual property rights are completely different from those in most Western countries. Thus, the fear of losing knowledge and unclear return on investment are considered as the biggest drawbacks of offshore outsourcing (Oshri, 2011.)

Joint Ventures

Joint venture nowadays is not a new business approach. It has emerged and been applied widely since the 1990s. According to Oshri (2011), a joint venture is fundamentally a partnership between a client firm and an offshore service provider. In this corporation, the offshore vendor provides expertise to the joint venture unit to take care of both outsourcing services of the client firms and insourcing services of the joint venture itself.

In a comparison of offshore outsourcing and Captive Center, joint venture is considered as a less-risk taking model. As most client firms considerably worry about uncertain return on investment in offshore countries, joint venture offers them an option to share cost, risk, and others concerns about offshore activities with a partner. Under the joint venture agreement, the vendor and outsourcer engage in a deep commission, but high value achievement for both sides. In addition, the joint venture also provides client firms a certain right to manage the sourcing as well as some control over the outsourced operations and processes (Aron 2004).

Besides the previously-mentioned advantages, there are some disadvantages associated with a joint venture model. One drawback that usually concerns the client firm is large penalty occurring by non-contractual termination. Once the termination takes place, all resources in the offshore country are considered as freezing properties until the point of transfer, since they are still owned by the build-operate-transfer (BOT) models partner. Another downside of joint venture model is a possible “trick” play by the offshore partner. Although the client firm obtains higher control over outsourced operations and processes, the partner can play off another and take unfair benefit from this collaboration (Oshri, 2011).

Captive Center

Managers in offshoring projects often mistakenly assume that migrating operation offshore requires outsourcing them to another company (Oshri *et al.*, 2008). However, offshoring does not always mean outsourcing, it can be acknowledged as in-house offshoring which is known as Captive Center, a sourcing model that is carried out by setting up a wholly owned subsidiary outside the home country (see Figure 7).

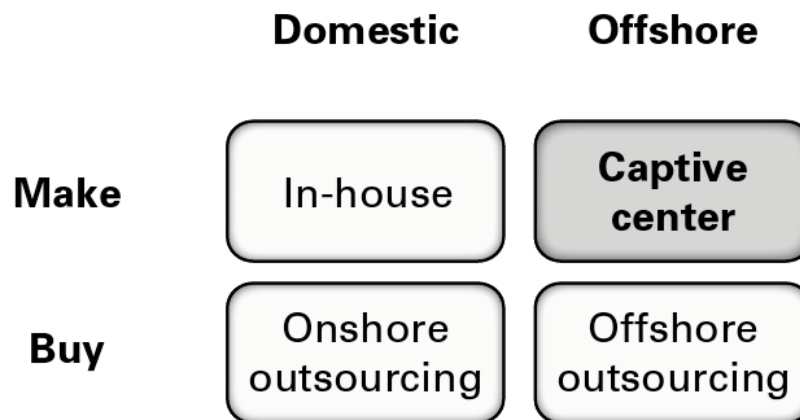


Figure 7. Captive Centers in the make-buy matrix (Oshri, 2011)

Captive Centers appeared at the end of the twentieth century and became more popular in the twenty-first century. The first Captive Center emerged in 1997 and was built in India by the company called General Electric Capital International Services. While Captive Centers were mainly set up in the technology industry in prior period, both business process outsourcing (BPO) and information technology (IT) Captive Centers are now key areas for development (Offshoring Times, 2008).

Oshri (2011), who has spent years on investigating sourcing models, believes that banking and financing, along with computer and network are the main sectors that have used the Captive Center model. Global companies usually enter a new market with one Captive Center and set up other offshore in-house businesses after the success of the first center has been proven (Menezes, 2007). Establishing a new Captive Center generally requires a company to use its own resources together with local expertise, and requires a complete understanding of the market of the offshore location.

There have been various reasons for creating a Captive Center. Some prominent advantages are associated with Captive Center model such as cost saving, production efficiency, full control over the offshore processes, etc. Among those advantages, not sharing assets and intellectual property right are claimed as the most considerations. Besides the benefits, the obstacles in setting up a Captive Center should also be taken into account as they deserve consideration. Some key challenges are political and regulatory changes and taxation, the lack of English-speaking staff, the scale of the workforce, etc. Those reasons for establishing as well as rejecting a Captive Center will be discussed clearly in the upcoming parts of this thesis.

2.2.5 Captive Center Strategies

Although the primary inspiration of Captive Centers is to bring benefits to the parent companies, the fact shows that many of the captive struggle with the goal of success. Not every Captive Center operates successfully, it requires parent firms to understand the different captive strategies for their own implementation to earn success. This chapter will review the six strategies of Captive Centers identified by Oshri (2011), which are Basic, Shared, Hybrid, Divested and Migrated and Terminated.

Basic Captive Center

The basic Captive Center is the foundation of any other types of Captive Centers. It is defined as a wholly own offshore subsidiary, which operates to serve the parent firm only. It is also indicated that the basic Captive Center involves into a Hybrid, Shared and Divested types. Since there are several way to develop a Captive Center, parent firms can decide which path their captive unit will follow, for example basic-hybrid or basic-share-divested. The Figure 8 generally depicts the six strategies of Captive Centers:

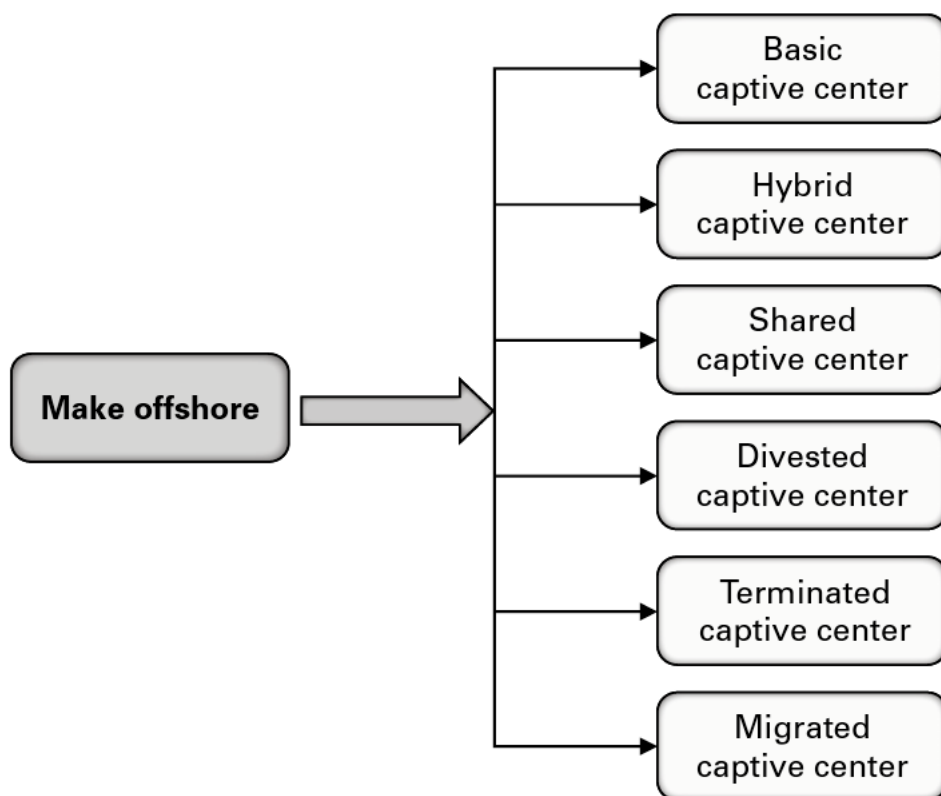


Figure 8. The main types of Captive Centers (Oshri, 2011)

Hybrid Captive Center

The hybrid Captive Center is the one who continues to provide services to the parent firms, typically in core activities, while outsources noncore functions to a local vendor and the functions are carried out at the vendor’s location. According to Oshri (2011), the hybrid Captive Center can be divided into two different hybrid structures, which are Hybrid Insourcing and Hybrid Outsourcing (see Figure 9).

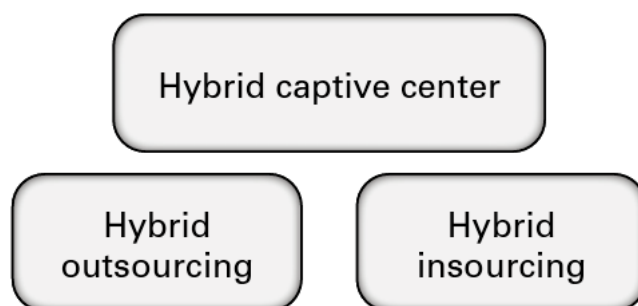


Figure 9. Hybrid Insourcing and Outsourcing (Oshri, 2011)

A good example of this is the GlobalSoftware case, the firm had a Basic Captive Center in 2002 with 500 employees working on software development. Then in 2004, it became a hybrid Captive Center by a decision to insource third-party provider's staff letting them become a part of the Captive Center's team. At that time, the insourced staff mission was to conduct testing while the real captive employees continued working on software development. Until 2006, it outsourced the hosting services to a local vendor in order to able to invest more time and money to higher-value tasks (Oshri, 2011). Also noted by Kotlasrsky (2008), a relationship with vendors must be well managed by the hybrid Captive Center, so the parent firm should be provide the Captive Center with management skills.

Shared Captive Center

Unlike the hybrid type, the shared Captive Center typically carries all of the works assigned from its parent firm, and is able to provide services to external clients without vendor's work involved. Shared Captive Centers boost the number of transactions processed offshore and therefore tend to offer better value per transaction. This type of Captive Center is usually used when companies are planning on expanding the business. At a result, well-running shared captive units receive more attention local vendors who are looking for an acquisition (Oshri 2011). For example, ITConsulting decided to transform their regional centers into shared service centers in 2004. Eventually, in 2006, the shared centers started attracting clients and offered similar and additional services to the external clients (Oshri 2011) (see Figure 10).

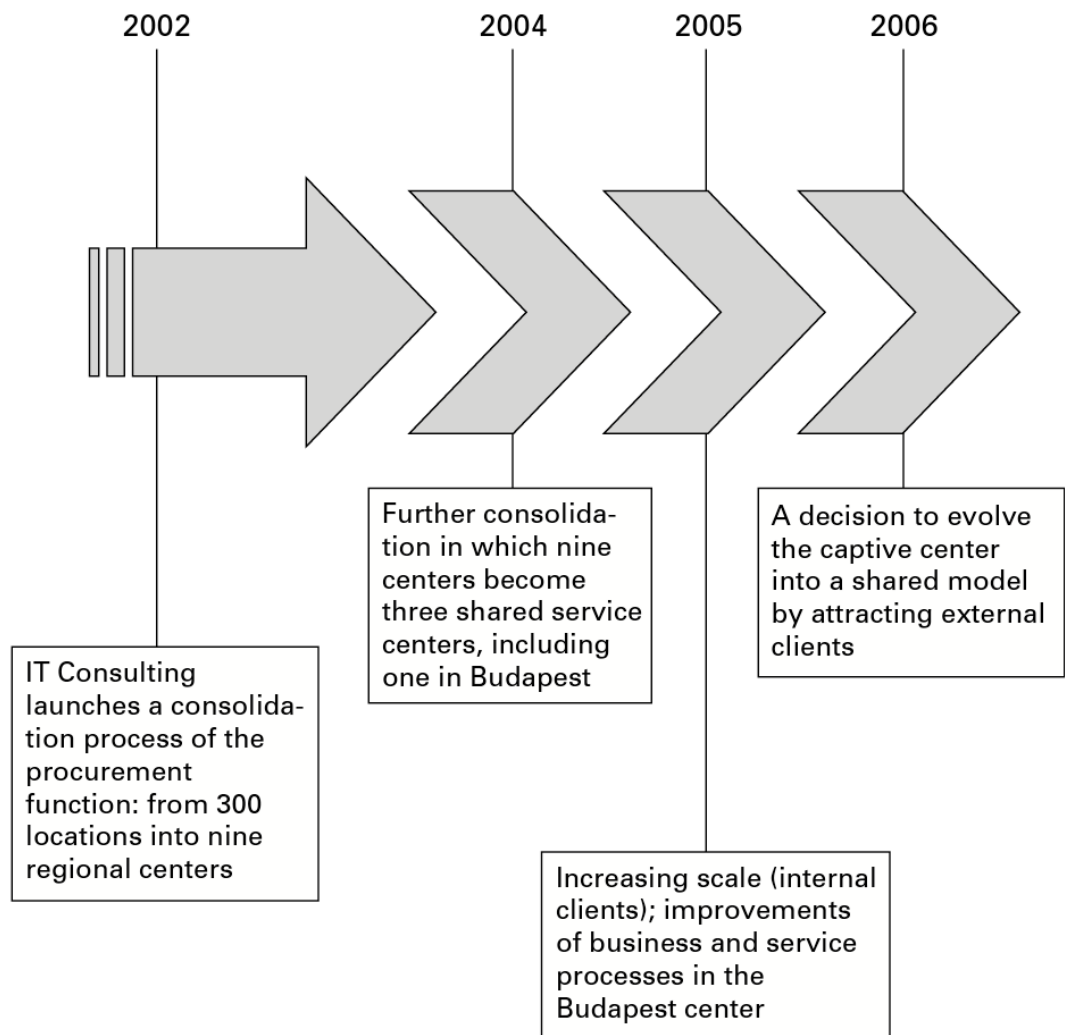


Figure 10. ITConsulting's establishment of shared Captive Center (Oshri, 2011)

Divested Captive Center

This strategy is applied as the parent company partly or totally divests the Captive Center to a service provider. A divested Captive Center is considered as a cost reduction method by saving additional investment to the center. It is stated as an exit way for parent companies since the decision to divest the captive unit will eventually leads to the same result: the sale of part or all of the Captive Center's operation (Oshri 2011). There are many reasons for divesting the Captive Center with respect to the problems and disadvantages related to the Captive Centers such as hidden costs, or the parent companies want to raise capital for other investments; these problems and disadvantages will be discussed in the chapter 2.4.

Accordingly, the Captive Centers, which have been implementing a shared strategy earlier, can be more attractive to buyers and are likely sold at a better price. It is due to this reason that real performance of the captive unit has been shown through its operating to the potential buyers, who typically are local vendors with the need for market expansions (Kotlarsky, 2008).

Terminated Captive Center

The name of this strategy can share some light about itself according to Wall Street Journal report (2008). By implementing this strategy, parent companies will shut down their Captive Centers because they are considered as damaging to the parent companies' benefits or reputation regarding difficulties in language barriers, issues about IP security, and no-qualified service performance. In contrast to divesting, the parent companies do not want to divest or are not able to divest the captive units, due to the fact that buyers are not interested in the venture (Oshri 2011). When companies terminate their Captive Centers, they usually outsource the noncore business previously performed by the Captive Centers, and transport the main business back onshore for easier management and problem fixing (Wall Street Journal, 2008).

Migrated Captive Center

Migration of Captive Center describes the movement of all the functions in the Captive Center from one country to another. In this strategy, the process of establishing a new Captive Center will begin when the original center stops working after the assets and resources have been transferred to the new center. In comparison to termination, the parent company involved in migration still sees the benefits of their captive units and decides to relocate the unit based on some specific goals. Some of the goals could be the higher skills of labor, cost saving at the new location, and a strategy for expanding the business to the region. Parent companies must consider the costs and challenges occurred in the transferring of their assets and resources to the new location, although it is stated that the benefits of migration usually outweigh the expenditure (Oshri 2011.)

2.3 Reasons to establish a Captive Center

The fast changing of demands from today's market reduces the power of planning and forces organizations to be quickly responsive. In addition, the globalized world requires

businesses to gain their competitiveness by decreasing the costs by increasing quality of products. In order to survive and success in the environment, businesses find Captive Centers as a good solution by the benefits it offers. Typically, the mission of Captive Centers is to provide services to the parents companies at a lower cost; many companies have gone beyond the point to address more advantages provided by a well-managed Captive Center such as access to specific skilled talents with innovative ideas or release in internal resources for other purposes. This chapter will highlight the reasons for doing Captive Centers.

2.3.1 Drivers

As identified by International Labor Organization report in 2010, there are several main factors driving decision to go offshore from the perspective of developed countries. These drivers coming either from the sides of developed countries such as pressure from shareholder to reduce down costs, or from the extent of benefits provided at the offshore locations. These drivers include (Messenger & Ghosheh 2010, p.31; Infosys 2011, p. 2-3):

- Extent of realizable cost reduction, particularly labor cost drivers
- Labor market factors in developed countries – labor/skill shortages, attrition, recruitment difficulties
- Perception of advantages deriving from labor factors in offshored or nearshored destinations, language and cultural attributes, skills, availability
- Ability to migrate more complex processes
- Competitive pressures and vertical and sector-specific drivers
- Company restructuring, including mergers and acquisitions
- Shareholder pressures
- Ability to achieve labor flexibilities
- Avoidance of union recognition
- Regulatory frameworks in destination geographies, data security, etc.
- Governments (national and local) support/incentives
- The supportive role of industry bodies
- Perceived technological and infrastructural capabilities in destination geographies

- The ability to strengthen the presence in local market

2.3.2 Advantages of a Captive Center

According to a report made by Trestle Group, there are 12 advantages that organizations can gain when they manage Captive Centers properly, see Figure 11 (Trestle Group 2010).

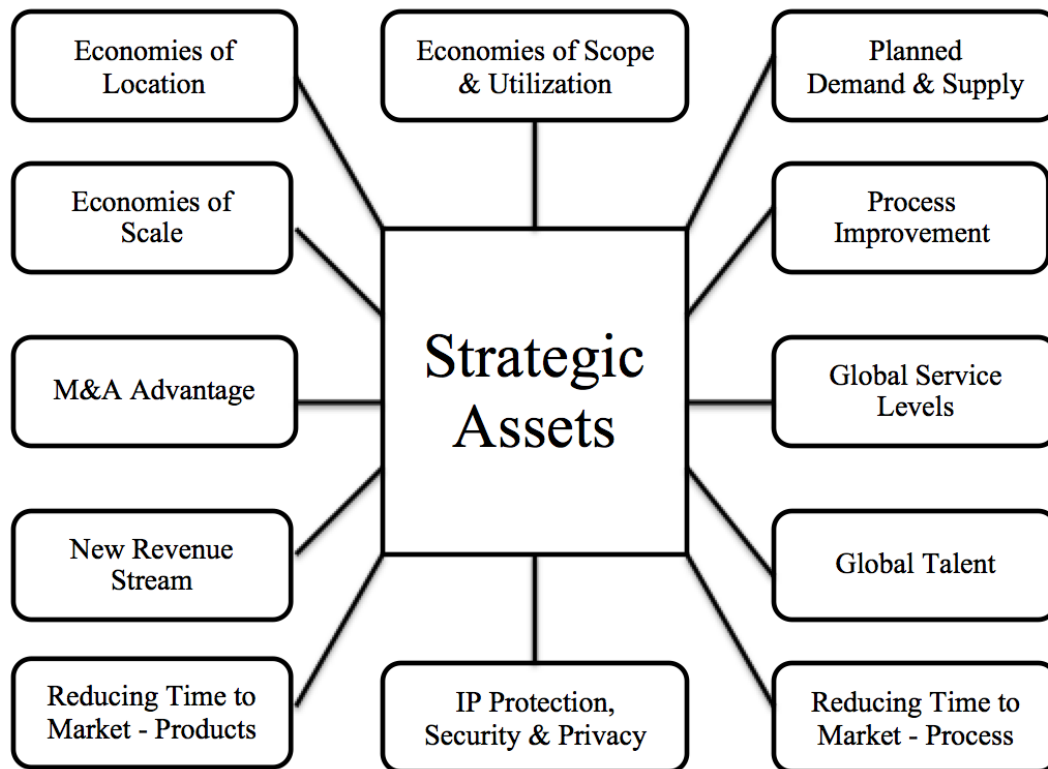


Figure 11. Captive Center as Strategic Asset (Trestle Group, 2010)

Economies of Location

This factor is most considered by companies since it associates the majority of costs, infrastructures, and the skill of laborers at the location. From a financial point of view, as maximizing the benefit of low-cost skilled labors, companies can leverage the value of their products and services by lowering the prices to end customers. It is claimed that total cost savings vary by location and function; it can typically range from 30% to 70% for an in-house Captive Center over five to seven years (Oshri, 2011). The savings taking into account total cost of ownership including salaries, real estate, technology,

and telecom expenses as well as amortized costs associated with the setup, transition, and ongoing governance of the center (CIO 2014). Indeed, when comparing annual labor costs in information technology (IT) field between developed and developing countries, it shows that an average income of a German graphic designer can be spent to employ four graphic designers in the Philippines or Vietnam. As a subsequence of cost reduction, the competitiveness level is improved (Staff, 2012; Caroflot, 2015).

Economies of Scale

Big organizations or IT related companies who diversify their products or services can consolidate many of their functions into single Captive Centers to increase the scale of operations while reduce the cost per unit. It helps businesses to achieve quantitative efficiency at low costs (see Figure 12).

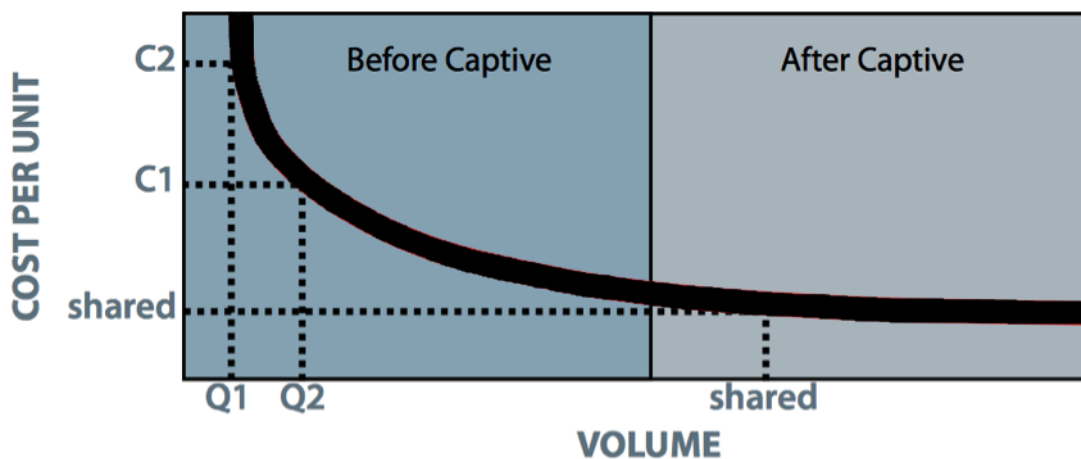


Figure 12. Economies of Scale (Trestle Group, 2010)

Economies of Capacity & Performance

When the capacity of services is increased and more services are compounded in Captive Centers, the performance of labor force is multiplied. As a result of improved level of performance, companies need to plan less for uncertainty. Figure 13 shows the outstanding performance of a combined Captive Center.

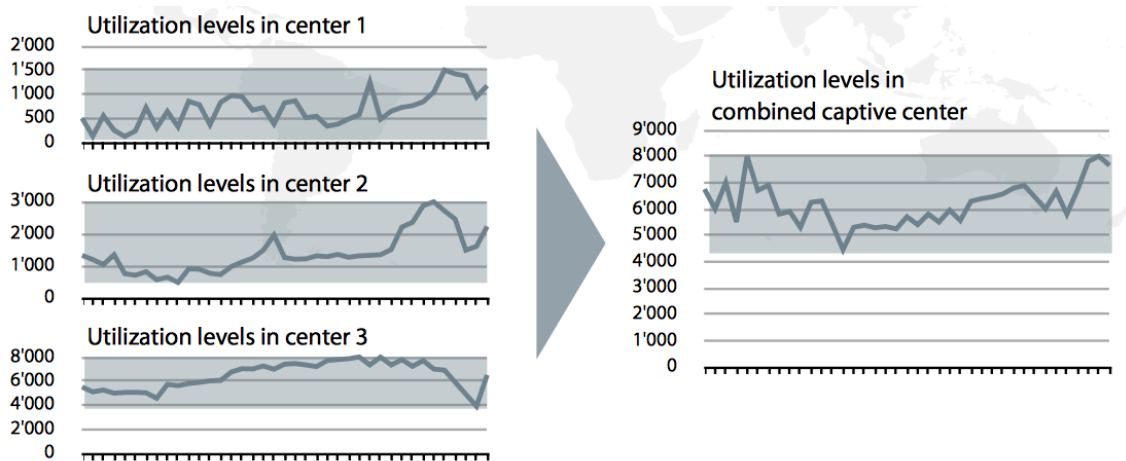


Figure 13. Economies of Scope and Performance (Trestle Group, 2010)

Mergers & Acquisition (M&A) Advantage

Captive Centers help to speed up the process of M&A (see Figure 14). Much of the combined efforts in M&A are in Selling, General and Administrative (SG&A) tasks, and most of the SG&A tasks can be performed in Captive Centers; if the parent company acquires a new company, and SG&A functions can also be carried from the same Captive Center. This helps in shortening integration time, achieving synergies and launching common process across merged entities.

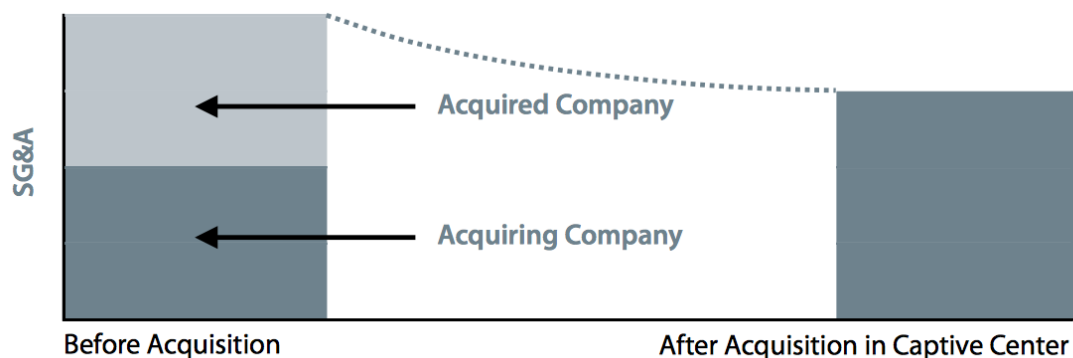


Figure 14. Mergers and Acquisition Advantage (Trestle Group, 2010)

Planned Demand & Supply

As mentioned earlier, Captive Centers can increase the scale of economies once they are combined, and companies can earn much production efficiency (see Figure 15). It is also believed that the cost accountability can more precisely reflex the resources used since the production efficiency is achieved, companies do not have to buy or waste

much spared materials when the market demands fluctuate. This leads to more effective planning on the inputs and outputs of products and services, also companies' responsiveness to the market is increased.

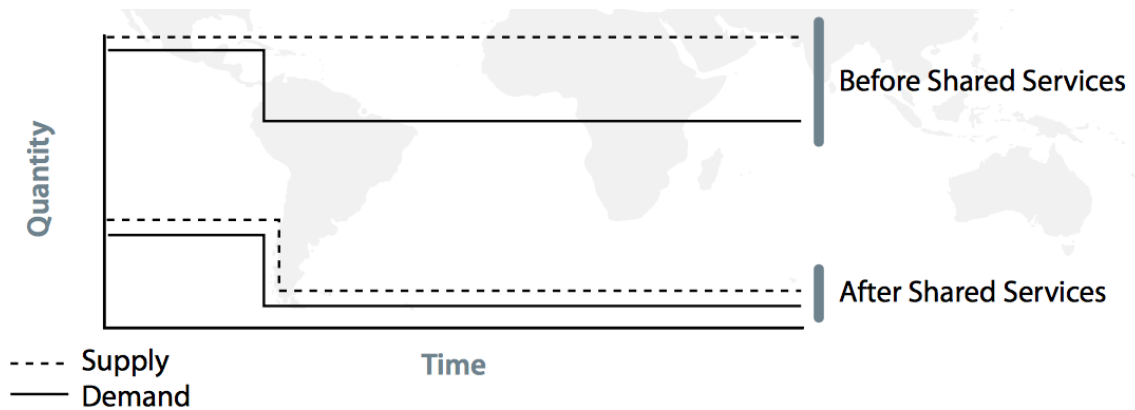


Figure 15. Planned Demand and Supply (Trestle Group, 2010)

Process Improvement

Captive Centers can improve and streamline the consolidated processes through:

- Process reengineering
- Process standardization
- Best practices proliferation

Global Service Levels

When service levels vary across an organization, the consolidation and improvement of processes can help attain consistent global service level agreements.

Reducing Time to Market

With production efficiency in consolidated Captive Centers, companies can boost the process of launching a new product or service. Additionally, it is also suggested that the application of the follow-the-sun, also known as around-the-clock method can reduce time-to-completion (Carmel & Tjia, 2005). This method uses the time zone differences as an advantage to fasten the working progress. For instance, while the Finnish workers sleep at night, the Asian offshore center is continuing the job done by the Finns by refining the prototype, inspecting and giving feedback. If it is applied on software

product companies, the development cycle could be sped up for several months, so new products can be released earlier.

As a real case, Portal Player, a maker of multimedia chips and embedded software for Apple's iPod, with R&D in India and Silicon Valley, was able to perform rapid prototyping using follow-the-sun (Carmel & Tjia 2005) Figure 16 describes the process of reducing product development duration using Captive Centers.

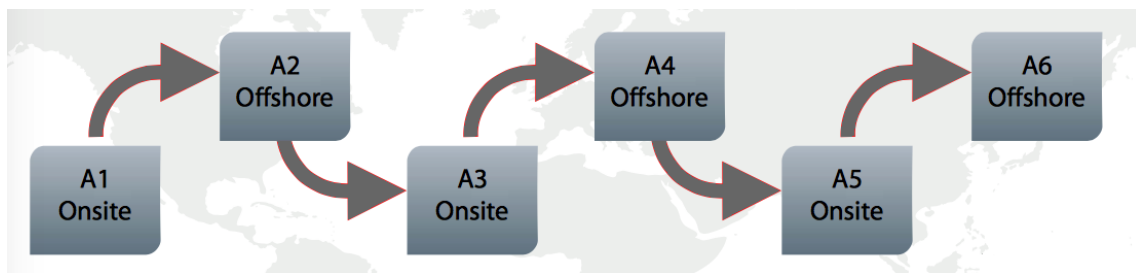


Figure 16. Reducing Time to Market using Captive Centers (Trestle Group, 2010)

Intellectual Property (IP) Protection, Security & Privacy

As subsidiaries of parent companies, the companies can maintain full ownership of their Captive Centers. Therefore, they can protect IP better, and minimize the possibility of accidentally exploiting private information. This is a plus benefit of Captive Center compared to offshoring tasks to a service vendor.

New Revenue Stream

Captive Centers bring extra revenue to the parent companies too. Establishing a Captive Center means more opportunities for parent firms since they introduce their presences to the local markets, typically developing ones, where the economic growths are still high. The companies can, through their Captive Centers, learn about labor markets and needs, gain reputation by promotion, and sell their products/services to the local markets. These movements potentially or slowly contribute to the parent companies' expansion (SsoNetwork 2012).

Global Talent

Captive Centers give companies access to talent pools with specific skills needed, so they can enhance the efficiency and effectiveness of the businesses. In addition, it either

improves the quality of noncore functions or increases the focusing of core activities—if hiring talents at captive centers means a free up of internal resources. As a result, it is allowed to make a business boost in short time.

Case Evidence of the Advantages

This phase will review a company case, which is cited from the work of Carmel and Tjia to prove the practical aspect of some of the mentioned advantages. The case tells about the German airline Lufthansa:

In 1999, Lufthansa was planning on a huge IT project: to automate its booking system. The company was hesitant to perform this project in-house because it was not certain it had sufficient resources and sufficient know-how. The project required expertise in middleware with specific expertise in the middleware software product BEA. On top of this, the air carrier, under competitive pressure, wanted the project done very fast.

Lufthansa put the project out for bid. Two of the largest US-based IT service firms each bid about 50 million USD, committing to two-year development duration. The third bidder, Perot Systems, like the other two bidders, brought expertise in airline systems to the table. But Perot relied on offshore resources to staff some of the project. It won the bid for just 25 million USD with promised delivery in only 9 months, which is less than half the duration of the other bidders. Perot bid without some of these resources in-house, knowing that if they win the contract they can “buy” the resources in the Bangalore cluster. They did. Lufthansa Cargo became the first air cargo carrier in the world to offer its customers an online-booking system. (Carmel & Tjia, 2005 p. 10 f).

The airline case indicates the benefits that offshoring can offer to the Lufthansa as well as the third bidder Perot Systems: A key to a large labor supply with specific skills needed to professionally accelerate the time to completion of a big project at low cost.

2.4 Captive Center: Obstacles and Problems

2.4.1 The key challenges in setting up a Captive Center

Once the decision to establish a Captive Center is put into consideration, companies must take into account of the challenges occurred during the process of setting up their captives. Beside time zone or cultural differences, many companies find it is a much more demanding job to deal with tasks such as business registration process or finding an office. This phase will highlight those key challenges of establishing a basic Captive Center when a city is selected.

Complication of the Registration process

One of the most difficult parts of establishing an offshore Captive Center is to deal with the registration process in another language to create a legal existence for the captive. Additionally, the various registration processes from country to country, the rapid changes in regulations and the language barrier altogether make it time-consuming and costly for companies. Also, the complexity in legal requirements and allowance and responsibilities, which differ greatly in each type of entities, add extra complication to the job. For example, the differences in requirement of the minimum share capital of a private Limited Liability Company (LLC) in Finland, China and Vietnam shall be EUR 2,500, RMB 30,000 and no requirement respectively. (Vietnam Briefing 2013; LehMan Law 2012). To ease the establishment process, some companies may hire a lawyer or other service providers to get assistance along the process regarding name availability, tax and labor registrations. It is disclosed by Fenwick that to get the best-suited services, companies must look for providers at the same cities where the Captive Centers are located.

Finding an office

When the city for the Captive Center is identified, an effort of acquiring an appropriate office is no less critical. To be considered as appropriate, the office should provide enough space to set up layout for an expected amount of personnel, relevant renting-time and cost saving. Though the leasing prices vary dramatically by places even within a city, the office typically represents for the parent company to the local city or to the local country so it is advised not to pick up a broken-down, distantly located office even cost saving is a top priority. Also, companies must be aware of the convenience of the office since it will affect every day all the working members, and the convenience could attract laborers too. Moreover, companies must pay attention to details including the

maintenance charges, electricity supply, security and business atmosphere of the building. Luckily, the activity can be best carried by local experts such as leasing advisors or other service providers (Elixirr 2014.)

Initiative recruitment

Recruiting the right people is one of the most difficult tasks if companies want to perform this task themselves. Since the education systems differs from country to country, and if the high availability of people in different majors fulfills the current labor market, companies will probably not be able to recruit the best people when they first start their business. As the consequence, it may consume a lot of time for the managers to get familiar to the local labor pool and select the needed people. As well, it could freeze the working efficiency of the captive and bring extra costs (NeoGroup, 2005; Elixirr, 2014.)

2.4.2 Problems in managing a Captive Center

Managing a Captive Center in another country is not easy. On the daily operation of Captive Centers, managers will encounters difficulties deriving from both internal sources and external sources such as issues relating to HR, or changes in the country's regulation and tax codes. This chapter will categorize the problems confronting the management of Captive Centers into Internal and External.

Externally, problems could be anything from the Captive Center's outside environment that can negatively influence the captive's performance and goals. Mostly, these threats are unavoidable and uncontrollable factors relating to legal and regulatory changes, foreign exchange fluctuations, new competitors, unstable political systems and crisis in the local country or even terrorist activities (Francis, 2010). Truly, any international organization can be impacted by external threats, however, by running a Captive Center, a parent company is more than double vulnerable to the external damages. Moreover, Captive Centers are usually located in less developed countries where those threats are more likely to appear. In addition, the unfamiliar environment at captive location weakens the responsive ability to threats when they come.

While external threats are to adapt, internal threats can be to control and manage. These threats or issues emerging from day to day running mostly include HR related such as conflicts among the captive unit employees and other issues such as hidden costs from operating and management challenges such as misconstruction or technology problems. For further understanding of the issues, Figure 17 addresses possible problems when the seven essential factors in HR are overlooked. Following Figure 18 will give specific recommendations for each of the seven essential HR issues (NeoGroup, 2005).

Common Oversight		Result
Cultural Differences	<ul style="list-style-type: none"> Lack of cultural sensitivity and/or cultural training programs 	<ul style="list-style-type: none"> Cost increases Increased time required from senior executives to understand and resolve issues Integration, productivity and quality take longer to establish
Organizational Structure	<ul style="list-style-type: none"> Parent-centric reporting Non transparent reporting structure 	<ul style="list-style-type: none"> Decisions delayed that are critical to operations Disruption of services Create power centers Inability to recognize decision makers, leaders and key performers early
Positioning	<ul style="list-style-type: none"> No positioning plan with recruiting in mind Lack of social programs 	<ul style="list-style-type: none"> Failure to attract the right talent Company's image becomes a labor pool compared to socially responsible organizations
Recruiting	<ul style="list-style-type: none"> No university recruiting program Unspecific job descriptions 	<ul style="list-style-type: none"> Higher cost of hiring Low conversion rate from application to interview to selection Longer time to recruit right talent
Training & Development	<ul style="list-style-type: none"> Non-specific training program No development program 	<ul style="list-style-type: none"> Long training cycle Inability to establish consistent corporate values Internal growth impeded Increased need for additional middle- and senior-level positions Lack of nurturing management from within
Compensation & Benefits	<ul style="list-style-type: none"> Inadequate attention to pay structure Key employee friendly benefits overlooked Executive rewards not tied to corporate success 	<ul style="list-style-type: none"> High cost to company Mismatched expectations Lack of drive and commitment
Retention	<ul style="list-style-type: none"> Monotonous work No avenue of global exposure Lack of lateral growth opportunities 	<ul style="list-style-type: none"> Loss of trained workforce Employees view captives as training grounds Inability to retain middle and top management

Figure 17. The Common Oversights and Results (NeoGroup, 2005)

Cultural Differences	<ul style="list-style-type: none"> • Provide cultural training to both offshore and onshore resources at different levels in the organization to help cross cultural teams better understand each other. • Create opportunities of physical interaction between onshore and offshore managers • Encourage direct communication at various levels across geographies to discuss and resolve issues • Become familiar with potential barriers or challenges for particular cultural groups • Document cultural differences and frequently address specific issues and roadblocks
Organizational Structure	<ul style="list-style-type: none"> • Create organization structure where transparency and visibility of activities is available • Do not dilute information by creating too many hierarchies across the organization • Allow all levels of organization to interact with the offshore center • Develop programs to recognize decision makers, leaders and key performers early • Build an organization where performance can be easily recognized and need not be announced • Do not create power centers - allow competency centers within a group to grow
Recruiting	<ul style="list-style-type: none"> • Map education and psychological profile of the available workforce with onshore counterparts • Build relationships with educational institutions and industry bodies • Institute process for campus recruitment and orientation • Explore option of building a training school if recruiting numbers are high • Anticipate and plan for growth early enough – avoid bulk recruitment at higher levels and create home-grown managers
Positioning	<ul style="list-style-type: none"> • Do not market yourself only as good 'pay masters' – stress opportunities for growth and learning • Position the captive center as part of the corporation, not just a delivery unit • Internally, implement a vision of growth for captive center to develop into a profit center • Make social responsibility an integral part of your company's culture
Training & Development	<ul style="list-style-type: none"> • Include cultural training as integral part of all training and orientation programs • Customize training programs to local needs; benchmark with leading local firms • Aspire to develop every employee to take up diverse and higher responsibility in the organization • Identify opportunities to develop global managers
Compensation	<ul style="list-style-type: none"> • Create compensation structures that allows maximum benefit to employees within the local tax framework • Build allowances, incentives and perks inline with the local needs and practices • Include stock options – encourage executives to contribute to growth • Benchmark compensation with local firms – avoid high cost to company
Retention	<ul style="list-style-type: none"> • Provide transparency of performance and recognition at the corporate level • Create path and opportunity for lateral growth • Encourage cross functional responsibility at middle and top management levels • Institute provision for onsite/global visits for top and middle management

Figure 18. Recommendations for the essential HR issues (NeoGroup, 2005)

2.4.3 Reasons to reject a Captive Center

In some perspectives, a Captive Center is not the best option available for sourcing; there are reasons not to establish Captive Centers such as being more expensive than outsourcing or offshore outsourcing. This phase will identify those reasons:

- The highest in investment and exit costs compared to other sourcing types (EverestGroup 2010; Offshoring Institute 2010)
- Higher risks than insourcing (Information Service Group 2013)

- Longest time to achieve maturity and generate savings compared to other sourcing types, which means that the highest commitment in time and management required (DresslerPartner 2010)

2.5 Establishing a Captive Center

When deciding to set up a Captive Center, companies must assess a variety of factors. To have a successfully running Captive Center, some factors should be taken into consideration even before the establishment such as activities and processes to send offshore or the strategies for the captive unit. This chapter will discuss about the essential steps of the captive establishment.

Identify the vision and Address the tasks

Before entering a business, it is always necessary to understand the goals and reasons behind the decisions of organizing the case. More specifically, companies seek to set up Captive Centers to acquire various purposes such as cost reduction, performance boost, or market expansion; due to these reasons, a road map including strategies, scale and scope of the Captive Centers should be drawn. Moreover, companies must assign which processes and activities to be carried by captive unit or which should be outsourced. For example, if a company wants to run a Captive Center for a long period of time with the purpose of cost saving and expanding business to local market, it should first start as a basic captive unit but over time it should engage to a hybrid Captive Center and outsource some of its noncore to a local service provider (SSONetwork, 2012).

Once the plan is carefully prepared, companies should notice that the success of Captive Centers still depends on numerous factors: parent company's level of engagement, financial capital on infrastructure and technology, the production efficiencies, and the adaption of managing skills towards risk factors, and business continuity challenges (TheHinduBusinessLine, 2005).

Location analysis and site selection

A good location should offer companies with various benefits regarding to technology parks, tax rates, business environment or costs. Since the intension of this thesis

concentrates on Vietnam, the benefits provided in the country will be mentioned further in the chapter 2.6.2.

Human resource (HR) and training strategy

HR and training strategy should be focused and developed at the very beginning to be able to recruit the right people with the right skills. As the supply of talents is one of the most desirable factors to go offshore for many firms, they should pay extra attention on the cultural differences to avoid conflictions among the captives, organizational structure should be defined for a smooth and effective running of the captives. Therefore, it is important to set up roles for the employees and distribute their responsibilities within the captive unit (EquaTerra, 2007). When recruiting for the Captive Centers, companies need to keep in mind the variety of people's skills and psychological profile in each region. According to Neogroup (2007), if a typical call center in the United States employs two-year college graduates, the ideal education background in many Asia countries would be bachelor degrees and over 50% would have master degrees. Accordingly, even the same training programs with those at the parent companies are applied at Captive Centers, the results on the captives' employees could be different compared to those employees at the parent firms. It could be the consequence of differences in education system, profile, experience and culture that could have an effect on the success of training new employees. The other factors should be considered for the success of managing HR including clear career growth path and international development opportunities for the employees, the variety of compensation and benefit expectations at different countries, and transparency in terms and conditions of the labor contract (NeoGroup 2005).

Further steps

It would not be complete without mentioning vendor selection, quality, and service level agreement expected from the vendor if companies want to establish a hybrid or shared Captive Centers at the first place. However, due to the intension of this work is on basic model of Captive Center, the authors will skips these steps. Readers can find more information about these steps in chapter 17, 19, 20 from the work of Kobayashi-Hillary in 2005 (Mark, el et. 2005)

2.6 Vietnam

2.6.1 Introduction about Vietnam

The Socialist Republic of Vietnam is a developing country situated on the Indochina Peninsula in Southeast Asia area. The country is bordered to the north by the People's Republic of China, to the west by Laos and Cambodia, and to the east by the South China Sea (Europa World 2015) (see Figure 19). Vietnam is comprised of 63 provinces and five centrally governed cities, which include Hanoi, Ho Chi Minh City, Can Tho, Da Nang and Hai Phong. According to the Central Intelligence Agency (2015), Vietnam is the 15th most populous country in the world with an estimated 94.3 million inhabitants as of July 2015.

Vietnam is a country going through multiple transitions. The transition from central planning to a market economy, started in 1986, has been greatly developed but not yet completed. Likewise, the transition from an agricultural economy to a modern, industrialized economy has continues to evolve (Bodewig & Badiani, 2014). As a result of those transformations, Vietnam is quickly adapting new production technologies, modernizing its economy, advancing growth, and varying from Asian to global market. Currently, Vietnam has become a newly secure investment opportunity open to foreign investors. The country not only provides a huge advantage of young growing workforce and low-cost labor, but also offers differing benefits from a good location, low operation cost, high skilled labor, and great market potential, etc. In 2014 Vietnam is ranked as the 12th most potential destination for offshoring among 51 popular locations such as India, China, Brazil, etc. (Atkearney, 2014).



Figure 19. Vietnam-the frontier between East and Southeast Asia (Hayton, 2010)

Some key figures about Vietnam according to CIA (2015):

Official name: Social Republic of Vietnam

Area: 331,210 sq. km

Population: 94,348,835 (July 2015 est.)

Capital: Hanoi

Largest city: Ho Chi Minh City

Official language: Vietnamese

Government type: Communist state

Religion: Buddhism 9.3%, Catholic 6.7%, Hoa Hao 1.5%, Cao Dai 1.1%, Protestant 0.5%, Muslim 0.1%, none 80.8%

Currency: Vietnam Dong (VND)

GDP (purchasing power parity): \$510.7 billion (2014 est.)

GDP (official exchange rate): \$186 billion (2014 est.)

GDP – real growth rate: 6% (2014 est.)

Labor force: 54.07 million (2014 est.)

Unemployment rate: 2.5% (2014 est.)

2.6.2 Country attractiveness and weaknesses for sourcing

Location selection seems to be one of the key challenges that businesses face when deciding on an offshoring. A decision either to relocate a business operation or set up a new Captive Center is fundamentally based on the available of numerous attractiveness of sourcing location, as well as the possibility of occurring hidden problems in that country. It is obvious that each country offers a different set of advantages and disadvantages. Beside popular sourcing countries (such as India, Brazil, Russia, and China), many Asian countries, nowadays, are gradually prominent as new potential destinations for offshoring, especially Vietnam. In order to help companies making an appropriate decision about offshoring in Vietnam, in this section, the authors will examine both the attractiveness for sourcing of Vietnam such as the comparative advantage of labor cost, the available of qualified human resources, growth potential, etc., as well as the sourcing disadvantages such as low quality of the infrastructure, difficulty of government regulation, etc.

Costs

Companies considering offshoring activities usually perceive saving-cost as the priority factor when making decision. Costs are often examined carefully and compared across

potential offshoring countries. Those costs typically include labor costs (average wages for skilled employees and managers), infrastructure costs (costs for telecom network, Internet connection and power, office rent), and corporate taxes (tax concessions, regulations and other inducements for local investments).

Cheap labor cost seems to be one of the most attractive sourcing factors of Vietnam. A survey made by Oshri (2011) points out that, among fourteen countries investigated (seven countries in the Central Eastern Europe: Romania, Bulgaria, Poland, Slovakia, Czech Republic, and Belarus; three countries in the Middle East and Africa: Egypt, Morocco and Tunisia; and three countries in Asia: Vietnam, Philippines and Thailand), labor costs in Asia are lower than in all the other countries in the survey, with Vietnam being the cheapest. Wages in Vietnam are relatively half the average wages in India, and one third of the salaries in China. While Oshri (2011) provides a broad comparison among differing countries in specific regions, the International Labor Organization (ILO) (2014) made a deeper analysis about wages of countries in the Asia-Pacific area. The result from ILO (2014) shows that Vietnam, with the average wage of US\$197 belongs to the low-income group, which also includes Nepal, Pakistan, Cambodia, etc. The range of average wages among those countries is not much different and varied from US\$73 in Nepal to US\$215 in Philippines. Other discussion about wages level across six Asian countries (including China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam) conducted by Chris (2015) also concludes that Vietnam stands in the top three countries that have the lowest salaries among six targets investigated.

While labor cost is considered as one of the advantages of Vietnam, infrastructure cost can be seen as a non-contributing factor for attracting foreign investments. According to Oshri (2011), the costs of telecom infrastructure and Internet are comparatively low in all the fourteen countries compared excluding Vietnam, but he does not provide further information on the details. Based on research made by the authors of this thesis, home broadband with the max speed as 5Mbps in three countries (Vietnam, India, the Philippines) were studied. In Vietnam, the current tariffs for home Internet and mobile phone subscription are available at EUR 15 and EUR 10 respectively. As the EUR15 paid, people can get unlimited access to the home Internet 5Mb/640Kpbs at maximum speed; for the mobile subscription, people are offered with a package including 200min free calling time, 100 SMS and 300MB for surfing the Internet (by Viettel & VNPT; the

currency exchange rate is EUR 1 for VND 25.176.000 provided by Google). While people pay EUR 16 (1199 Rupee) to be able to get an unlimited access to the Internet in India with the maximum speed of 4Mbps till 15 GB thereafter reduced to 512 Kbps (According to the Fast 1199 package by Airtel; the currency exchange rate at the moment is EUR 1 for 73.5 Indian Rupee provided by Google). While the 5Mbps maximum speed home connection is provided by Globe Telecom is about EUR 30.5 (the amount includes 50GB monthly data with additional value added as HOOQ online entertainment service and an option for Spotify or NBA League Pass). It should be noted that even within a country, the tariffs vary grammatically by city, by group of customers (such as family, education institution or healthcare groups); the tariffs are frequently changed due to the quickly upgrade cycle of the technology or discount strategies (Gartner 2015; Airtel 2015; VNPT 2015; Viettel 2015; Globe 2015.)

In the electricity sector, the tariffs vary by city, depending the amount of kilowatt-hour used and the purpose of consumption. Generally, the range of electricity price in Vietnam is fairly low compared to some other countries around the globe. Table 2 highlights the electricity tariffs in some developing countries: Vietnam, the Philippines, India and China.

Table 2. Electricity tariff in some developing countries (TuoiTre 2015; CEA 2015; Philstar 2015; Forbes 2015)

Country	Electricity tariff (EUR cents per kWh)	Date and Source
Philippines	8.4 – 10.5	02/2015 by the Philippine Star
India	1 – 18 (average 7)	03/2014 by Ministry of Power Report
China	8 – 10	07/2014 by Forbes
Vietnam	6 – 10	03/2015 By TuoiTre

Another essential cost should be considered in this section is rental cost. According to Ernst & Young (2013), the Land Law 2003 determined, most of the implementing

regulations for the ownership and use of land in Vietnam. It includes useful information for foreign investors regarding to land use rights and certificate, land lease term and prices as well as obligations about apartments owned by foreigners. For more information about the land use related regulations in Vietnam, readers can access page 92 and five following pages of the report. As ranked by Cushman & Wakefield in the 2014 research regarding to office space across the world, Ho Chi Minh City is placed at 29th most expensive locations compared to other 67 cities in different countries. Figure 20 and 21 will the ranking made by Cushman & Wakefield.

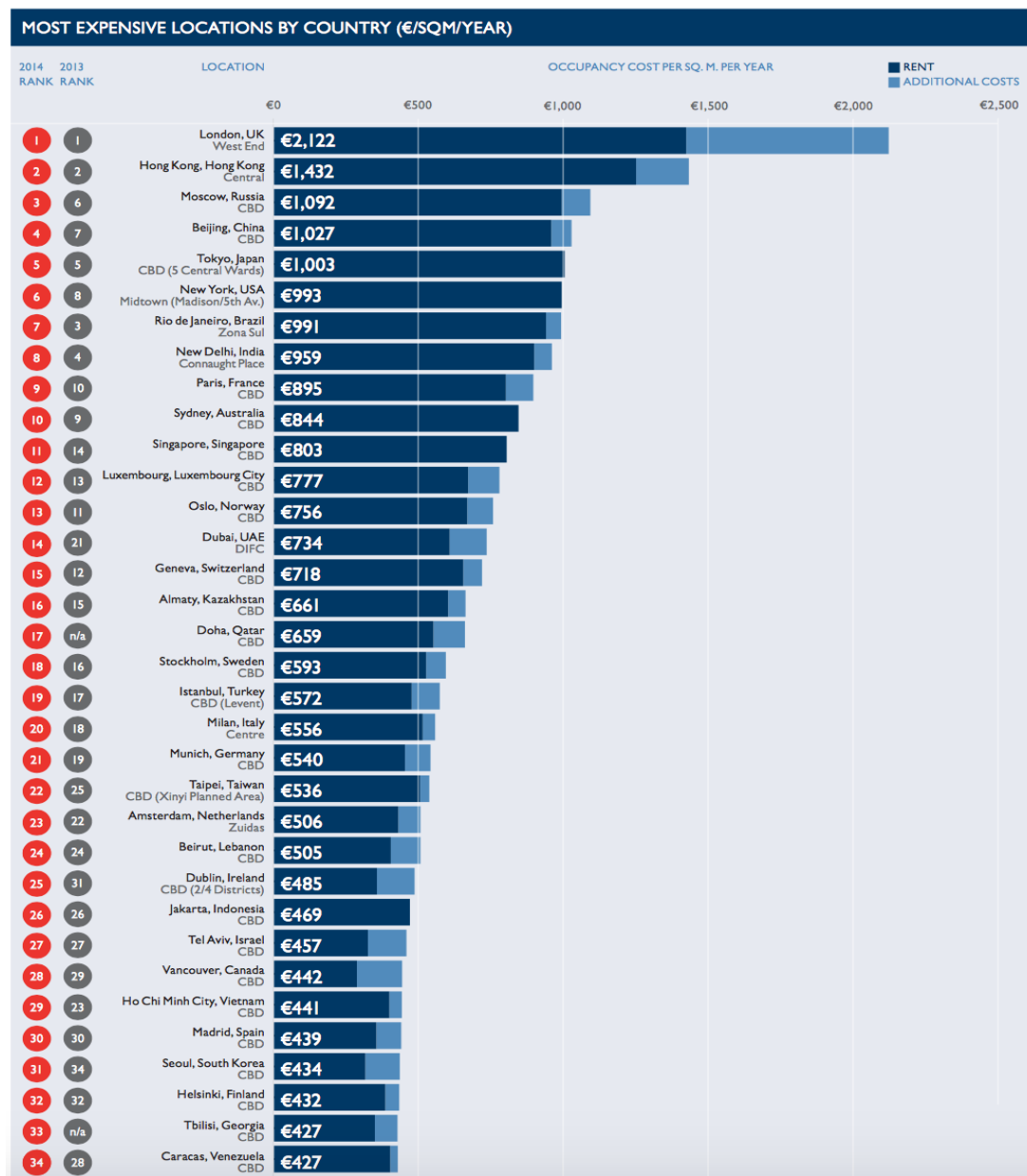


Figure 20. Most expensive location by country (Cushman & Wakefield, 2014)

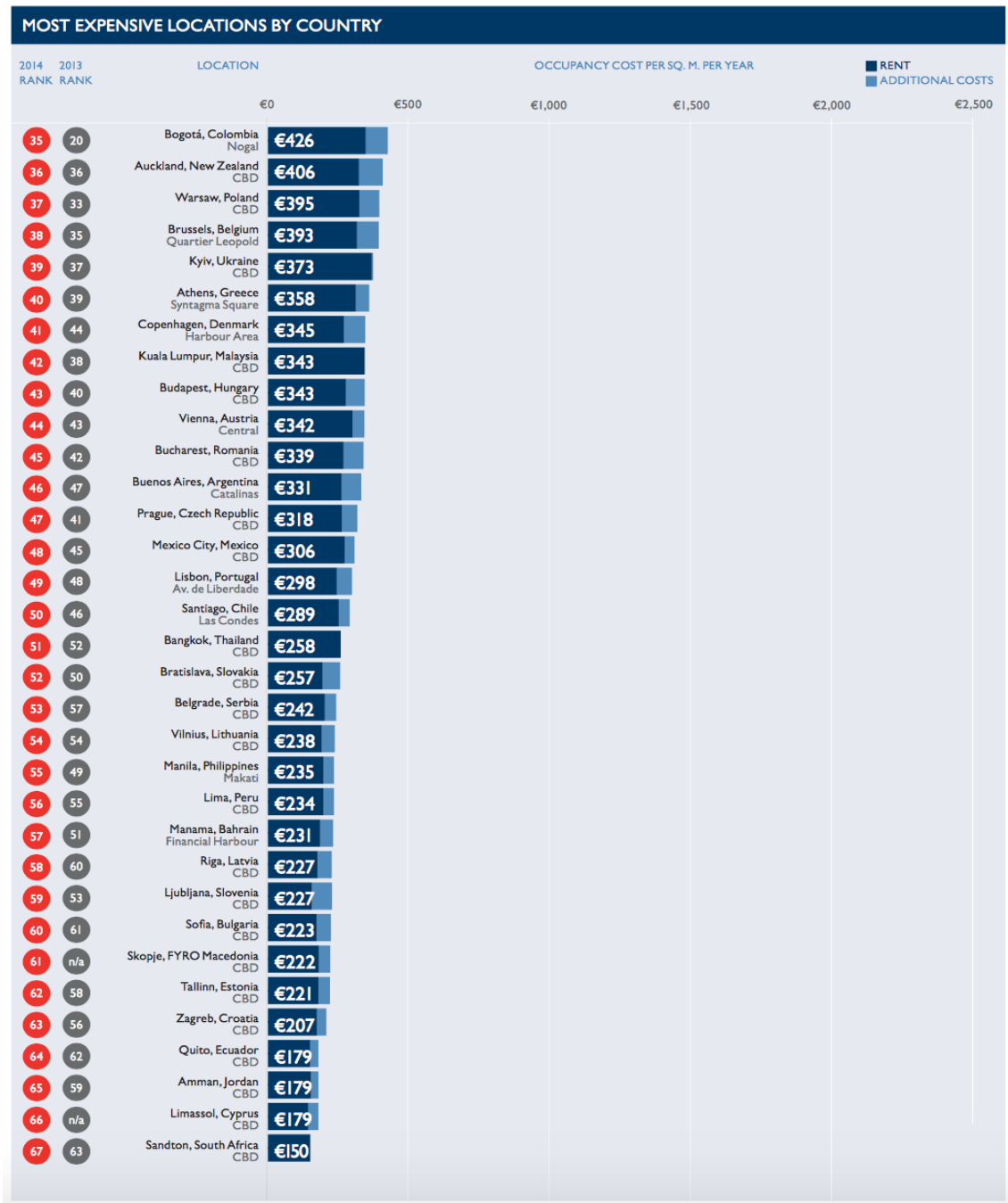


Figure 21. Most expensive locations by country (Cushman & Wakefield, 2014) (Continued)

Figure 22 presents in more details about the rental expenses in different cities in the Asia Pacific region including 2 biggest cities in Vietnam (Ho Chi Minh City and Hanoi).

COUNTRY SUMMARIES								
COUNTRY	CITY	MEASURING STANDARD	RENT QUOTED IN	RENT	ANNUAL RENTAL GROWTH (%)	NET INTERNAL AREA		RENTAL TREND 2014
						RENT USD/ SQ.FT/YR	RENT EUR/ SQ.M/YR NIA	
ASIA PACIFIC								
Australia	Sydney , CBD	NIA	AUD/sq.m/year	1,300.00	3	108.05	844.05	→
Australia	Melbourne, CBD	NIA	AUD/sq.m/year	800.00	0	66.49	519.41	→
Australia	Brisbane, Centre	NIA	AUD/sq.m/year	870.00	1	72.31	564.86	→
China	Beijing, CBD	NIA	CNY/sq.m/mth	665.00	-3	122.46	956.61	→
China	Shanghai, Lujiazui (Pudong)	NIA	CNY/sq.m/mth	579.63	5	106.74	833.80	→
China	Guangzhou, Pearl River New City	NIA	CNY/sq.m/mth	245.23	-10	45.16	352.76	↗
China	Chengdu, CBD	NIA	CNY/sq.m/mth	161.10	-11	29.67	231.74	↘
China	Shenzhen, Futian	NIA	CNY/sq.m/mth	329.00	9	60.59	473.27	↗
Hong Kong	Hong Kong, Central	NIA	HKD/sq.ft/mth	103.39	-1	160.01	1,249.92	→
India	Mumbai, Bandra Kurla Complex	GEA	INR/sq.ft/mth	285.12	0	82.42	643.81	↓
India	Mumbai, CBD	GEA	INR/sq.ft/mth	275.10	0	62.44	487.78	→
India	New Delhi, Connaught Place	GEA	INR/sq.ft/mth	414.39	0	114.96	898.03	→
India	Bengaluru, CBD	GEA	INR/sq.ft/mth	85.47	-3	23.69	185.04	→
India	Chennai, CBD	GEA	INR/sq.ft/mth	75.50	0	19.53	152.56	→
India	Hyderabad, Suburban (Madhapur, Gachibowli)	GEA	INR/sq.ft/mth	41.19	2	9.99	78.03	→
India	Pune, CBD	GEA	INR/sq.ft/mth	80.01	-4	20.70	161.67	→
India	Kolkata, CBD	GEA	INR/sq.ft/mth	133.27	4	38.52	300.93	→
Indonesia	Jakarta, CBD	GIA	USD/sq.m/mth	47.26	20	60.06	469.17	↗
Japan	Tokyo, CBD (5 Central Wards)	NIA	JPY/tsubo/mth	40,000.00	0	128.34	1,002.56	↗
South Korea	Seoul, CBD	GIA	KRW/sq.m/mth	32,299.00	6	40.26	314.50	→
South Korea	Seoul, Gangnam	GIA	KRW/sq.m/mth	26,933.00	-1	33.57	262.25	→
South Korea	Seoul, Yeouido	GIA	KRW/sq.m/mth	21,149.00	-5	26.36	205.93	→
Malaysia	Kuala Lumpur, CBD	NIA	MYR/sq.ft/mth	12.00	0	43.96	343.41	→
New Zealand	Auckland, CBD	NIA	NZD/sq.m/mth	45.00	5	41.29	322.54	↗
Philippines	Manila, Makati	NIA	PHP/sq.m/mth	1,006.00	12	25.27	197.39	↗
Philippines	Manila, Ortigas	NIA	PHP/sq.m/mth	650.00	0	16.33	127.54	→
Singapore	Singapore, CBD	NIA	SGP/sq.ft/mth	10.82	19	102.84	803.30	↑
Taiwan	Taipei, CBD (Xinyi Planned Area)	GEA	TWD/ping/mth	5,698.00	10	64.47	503.65	↗
Thailand	Bangkok, CBD	GIA	THB/sq.m/mth	900.00	20	32.98	257.60	↗
Vietnam	Ho Chi Minh City, CBD	NIA	USD/sq.m/mth	45.70	-7	50.95	397.97	↓
Vietnam	Hanoi, CBD	NIA	USD/sq.m/mth	37.60	-6	41.92	327.43	↓

Figure 22. Asia Pacific rental performance (Cushman & Wakefield, 2014)

Last but not least, taxation is one of the most important factors that companies concerns when making a comparison across offshoring countries. As being offshore subsidiaries, it is important for Captive Centers to know major taxes that they have to pay in Vietnam. Unfortunately to foreign investors in Vietnam, the country has not entered into any international social security agreements or treaties for the avoidance of double taxation. Therefore, companies should take into account the extra amount taxed for their operation in Vietnam (KPMG 2015). According to multiple sources including KPMG 2015 and Vietnam Briefing (2014), most firms and foreign investors are subject to the following main taxes:

- ***Business License Tax (BLT)***

This is an indirect tax paid annually by business entities when they run business in Vietnam. All types of businesses, which entry business registration license or investment license have to pay BLT. The amount of BLT paid by economic entities is calculated by their registered capital. Table 3 shows how much a Captive Center has to pay its BLT annually in Vietnam.

Table 3. Business License Tax for Economic Entities in Vietnam (Vietnam Briefing 2014)

Business License Tax (BLT) Rates for Economic Entities	
Registered capital (billion VND)	BLT/year (VND)
Over 10	3,000,000
From 5 to 10	2,000,000
From 2 to under 5	1,500,000
Under 2	1,000,000

- ***Corporate Income Tax (CIT)***

According to sources including KPMG’s report on Vietnam Tax Profile, from 1 January 2014, the CIT rate is 22 percent (previous was 25 percent). The rate will be reduced to 20 percent from 1 January 2016. This tax type is applied to all domestic and foreign entities that invest in Vietnam including Captive Centers. Readers can find further information on each specific CIT rate per industry in the mentioned report.

- ***Value Added Tax (VAT)***

Accordingly, the standard rate for VAT in Vietnam is 10 percent. It is applied on goods and services for the purpose of production, trading and consumption. The VAT has been added to all the mentioned tariffs such as telecommunication and electricity in Vietnam. The VAT is added to the price of furniture or production tools as well as daily goods and services that Captive Centers would be buying. There are still some other lower VAT rates or exemptions, which apply to certain categories. This is due to the reason the other taxes are not the focusing

area of the thesis, they are not stated here, audience can find it in the KPMG' report and Vietnam Briefing's site.

Labor

This aspect concerns with the availability of the labor and skills needed in Vietnam. Based on the offshored functions, companies have to search for and acquire people with the specific skill sets, as it is the major contributor to success or failure of any business. According to Oshri (2011), besides the current availability of skills needed, the scalability of labor resources of the location is relatively important when deciding an offshoring destination for the long-term. A clue to indicate the scalability of labor resources is to find the trend in number of high-education graduates with the required skills that the offshore country can produce by the time they are needed. To give an overview of the labor landscape in Vietnam, General Statistics Office has published the detailed report on labor force in 2013; the report summarizes the indicators relating to Vietnam's workforce in 2011, 2012, and 2013. These indicators are shown in Figure 23, 24, 25, and 26 (International Labor Organization 2013).

Indicator	2010	2011	2012	2013
1. Population (thousand persons)	86 933	87 840	88 776	89 716
Male	42 986	43 445	43 918	44 383
Female	43 947	44 395	44 858	45 332
Urban	26 516	27 888	28 810	29 032
Rural	60 417	59 952	59 966	60 683
2. Population aged 15+ (thousand persons)	65 711	67 165	68 195	68 687
Male	31 873	32 608	33 132	33 352
Female	33 838	34 557	35 063	35 335
Urban	20 491	22 023	22 701	22 813
Rural	45 220	45 142	45 495	45 875
3. Labour force (thousand persons)	50 837	51 724	52 348	53 246
Male	26 125	26 636	26 918	27 371
Female	24 712	25 088	25 430	25 875
Urban	14 231	15 349	15 886	16 042
Rural	36 606	36 375	36 462	37 203
4. Distribution of labour force (%)				
Sex	100.0	100.0	100.0	100.0
Male	51.4	51.5	51.4	51.4
Female	48.6	48.5	48.6	48.6
Residence	100.0	100.0	100.0	100.0
Urban	28.0	29.7	30.3	30.1
Rural	72.0	70.3	69.7	69.9
Age group	100.0	100.0	100.0	100.0
15-19	6.8	6.0	5.2	5.2
20-24	11.5	10.5	9.9	9.7
25-29	13.6	12.9	12.3	11.8
30-34	12.8	12.4	12.0	12.1
35-39	12.5	12.6	12.6	12.2
40-44	11.6	11.9	12.3	12.2
45-49	10.9	11.5	12.0	11.6
50-54	8.8	9.4	9.8	10.2
55-59	5.4	6.1	6.7	7.2
60-64	2.8	3.3	3.6	4.0
65+	3.3	3.5	3.7	3.9

Figure 23. Annual indicators of the labor market in Vietnam 2010-2013 (International Labor Organization, 2013)

Indicator	2010	2011	2012	2013
<i>Highest technical training and qualification attained:</i>	100.0	100.0	100.0	100.0
No technical training or qualification	85.3	84.4	83.2	81.8
Vocation training	3.8	4.0	4.7	5.4
Secondary vocation school	3.5	3.7	3.7	3.7
College	1.7	1.8	2.0	2.0
University and above	5.7	6.1	6.4	7.1
5. Labour force participation rate (%)	77.4	77.0	76.8	77.5
Male	82.0	81.7	81.2	82.1
Female	73.0	72.6	72.5	73.2
Urban	69.5	69.7	70.0	70.3
Rural	81.0	80.6	80.1	81.1
6. Employed population (thousand persons)	49 494	50 679	51 422	52 208
Male	25 536	26 194	26 499	26 830
Female	23 958	24 485	24 923	25 378
Urban	13 654	14 829	15 412	15 509
Rural	35 840	35 850	36 010	36 699
7. Distribution of employed population (%)				
Sex	100.0	100.0	100.0	100.0
Male	51.6	51.7	51.5	51.4
Female	48.4	48.3	48.5	48.6
Residence	100.0	100.0	100.0	100.0
Urban	27.6	29.3	30.0	29.7
Rural	72.4	70.7	70.0	70.3
Age group	100.0	100.0	100.0	100.0
15-19	6.5	5.8	5.0	5.0
20-24	11.1	10.1	9.5	9.2
25-29	13.5	12.8	12.2	11.7
30-34	12.9	12.5	12.1	12.2
35-39	12.7	12.7	12.7	12.4
40-44	11.8	12.0	12.5	12.4
45-49	11.0	11.6	12.1	11.7
50-54	8.9	9.4	9.8	10.2
55-59	5.4	6.1	6.7	7.2
60-64	2.9	3.3	3.7	4.1
65+	3.4	3.6	3.7	3.9

Figure 24. Annual indicators of the labor market in Vietnam 2010-2013 (International Labor organization, 2013) (Continued)

Indicator	2010	2011	2012	2013
<i>Highest technical training and qualification attained</i>	100.0	100.0	100.0	100.0
No technical training or qualification	85.4	84.6	83.4	82.1
Vocation training	3.8	4.0	4.7	5.3
Secondary vocation school	3.4	3.7	3.6	3.7
College	1.7	1.7	1.9	2.0
University and over	5.7	6.1	6.4	6.9
<i>Employment status</i>	100.0	100.0	100.0	100.0
Employer	3.4	2.9	2.7	2.5
Own account worker	43.3	43.9	45.1	45.5
Unpaid family worker	19.4	18.6	17.5	17.2
Wage worker	33.8	34.6	34.7	34.8
Member of cooperative	0.0	0.0	0.0	0.0
<i>Economic sector</i>	100.0	100.0	100.0	100.0
State	9.7	10.4	10.4	10.2
Non-State	86.8	86.2	86.3	86.4
Foreign investment	3.5	3.4	3.3	3.4
<i>Industrial sector</i>	100.0	100.0	100.0	100.0
Agriculture, forestry and fishing	48.7	48.4	47.4	46.8
Industry and construction	21.7	21.3	21.2	21.2
Services	29.6	30.3	31.4	32.0
<i>Occupation</i>	100.0	100.0	100.0	100.0
Leaders, managers and administrators of branches, levels and organizations	0.9	1.1	1.0	1.1
Professionals	5.1	5.3	5.5	5.7
Technicians and associate professionals	3.7	3.5	3.4	3.3
Clerks	1.4	1.5	1.6	1.7
Service workers and market sales workers	14.6	15.0	16.0	16.2
Skilled agricultural, forestry and fishery workers	15.5	14.1	12.7	12.0
Craft and related workers	12.6	12.1	11.8	12.0
Plant, machine operator and assemblers	7.0	7.0	7.3	7.0
Elementary occupations	39.1	40.4	40.6	41.1
8. Employment-to-population ratio (%)	75.3	75.5	75.4	76.0
Male	80.1	80.3	80.0	80.4
Female	70.8	70.9	71.1	71.8
Urban	66.6	67.3	67.9	68.0
Rural	79.3	79.4	79.2	80.0

Figure 25. Annual indicators of the labor market in Vietnam 2010-2013 (International Labor Organization, 2013) (Continued)

Indicator	2010	2011	2012	2013
9. Average monthly earning of wage workers (thousand dong)	2 519	3 105	3 757	4 120
Male	2 668	3 277	3 923	4 287
Female	2 297	2 848	3 515	3 884
Urban	2 940	3 629	4 466	4 919
Rural	2 183	2 687	3 166	3 476
10. Average weekly hours worked	45.0	45.6	45.2	44.3
Male	45.8	46.5	46.0	45.3
Female	44.1	44.6	44.3	43.3
Urban	47.3	47.6	46.7	46.5
Rural	44.1	44.7	44.5	43.4
11. Underemployment (thousand persons)	1 726	1 428	1 338	1 374
Male	877	753	742	770
Female	849	675	596	605
Urban	245	231	237	225
Rural	1 481	1 197	1 101	1 149
12. Underemployment rate of the statutory working age (%)	3.57	2.96	2.74	2.75
Male	3.50	2.99	2.93	2.96
Female	3.64	2.92	2.53	2.50
Urban	1.82	1.58	1.56	1.48
Rural	4.26	3.56	3.27	3.31
13. Unemployment population (thousand persons)	1 344	1 045	926	1 038
Male	590	442	419	540
Female	754	603	507	497
Urban	577	520	474	533
Rural	767	525	452	504
14. Unemployment rate of statutory working age (%)	2.88	2.22	1.96	2.18
Male	2.38	1.77	1.67	2.12
Female	3.43	2.73	2.30	2.24
Urban	4.29	3.60	3.21	3.59
Rural	2.30	1.60	1.39	1.54
15. Youth unemployment rate (thousand persons)	656	441	432	488
Male	288	199	198	236
Female	368	242	234	252
Urban	246	181	181	209
Rural	410	260	251	279
16. Youth unemployment rate (%)	7.03	5.17	5.48	6.17
Male	5.90	4.30	4.58	5.42
Female	8.26	6.21	6.57	7.08
Urban	12.03	9.04	9.17	11.12
Rural	5.63	3.98	4.25	4.62

Figure 26. Annual indicators of the labor market in Vietnam 2010-2013 (International Labor Organization, 2013) (continued)

Also reported by the World Economic Forum (2014), Vietnam comes at 74th with the overall 3.99 point in efficiency enhancers among 144 countries ranked. The ranking

focuses on contributors considered to the production efficiency (including high education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size). Table 4, which is extracted from the ranking, shows more details regarding to the current labor market of some specific countries.

Table 4. Efficiency enhancers (World Economic Forum 2014)

Country	High education and training (HE&T) score	Rank (HE&T)	Labor market efficiency (LME) score	Rank (LME)	Goods market efficiency (GME) score	Rank (GME)
Finland	6.22	1	4.69	23	5.03	18
India	3.86	93	3.81	112	4.13	95
Philippines	4.45	64	4.03	91	4.32	70
Vietnam	3.74	96	4.37	49	4.24	78

Environment and Market Potential

This chapter expresses the Vietnamese governance support, the business environment the living environment as well as the potential of market growth in the country. The potential factor is mentioned to Captive Centers because it can provide benefits if the parent firm consider a growth strategy for the Captive Center over time.

Regarding to governance support, the country is ranked 101st with 3.1 points by the Global Attractiveness in the burden of government regulation to businesses (the lower the value is, the more burdensome the government regulation for businesses. The mean value is 3.4). Table 5 shows how burdensome the Vietnamese regulation is, compared to some other countries’.

Table 5. Burden of government regulation in some countries (World Economic Forum 2014)

Country	Rank	Value
Finland	7	4.5

India	59	3.6
Philippines	73	3.4
Vietnam	101	3.1
France	121	2.8

As indicators to reduce the burdensome, the prime minister of Vietnam stated in his report to constantly improve the legal framework and institutions in business sector (Tan Dung, 2014). With the commitment to create a fair and attractive business environment, a Foreign Investment Law was promulgated in 1987 to develop rights of foreign companies, to make the country's business environment more supportive, and to shorten the policy gap between foreign and domestic investors; the Law gradually has undergone four improvements in 1990, 1992, 1996 and 2000 (Vo et al., 2012). As promised, more supports on legal framework and market economy institutions will be provided by 2020 (Tan Dung, 2014).

In term of business environment and the potential of the market, authors have highlighted the country annual GDP growth to be one of the fastest around the globe with the average on 7% until 2011 (Brady, 2013). As cited from UK Trade & Investment (UKTI) report, other strong developments include (UK Trade & Investment, 2013):

- Advanced engineering - Vietnam has the 3rd fastest growing aviation market in the world
- Energy (oil & gas) – Vietnam is Southeast Asia's third largest oil producer
- Education – Vietnamese culture attaches great importance to education as an investment in the future. There are over 7000 students in the UK, and great potential for partnerships in market too
- Retail - one of the world's fastest growing retail markets for over a decade - retail sales and service revenue to reach \$103 billion in the first 10 months of 2013
- Healthcare - Vietnam plans to invest up to \$1.5 billion in pharmaceutical production and \$1.8 billion to upgrade overcrowded hospitals and build new ones by 2020

- Mass transit – with ambitious programs in Hanoi and Ho Chi Minh City, an estimated \$120 billion investment is required over the next seven years

However, income inequality in the country also rises, and the boom has been accompanied by a wave of corruption scandals (Brady, 2013). Reported by Transparency International in 2014, Vietnam is ranked at 119th among 175 countries surveyed in term of corruption; the overall score 31 out of 100 on the scale of public sector corruption indicating high level of corruption in Vietnam has been remained the same for the past three years (Tranparency 2014).

Regarding living environment, a degraded environment will negatively influence the health, and thus the productivity of the labors. According to ExpatArrival (2015), Vietnam provides relatively high quality of life. As stated, the country is as safe as an average Western country and it easy to find living accommodations. There are a variety of options for accommodations in Vietnam with various prices depending on locations. It is believed that it is easier to find accommodation in big cities such as Ho Chi Minh or Ha Noi, however, the over-crowded population in these cities is also noted. Additionally, the Vietnamese cuisine is tasty and favored by many foreigners, and the diversity of foods is known as one of the country's best attractions for visitors. Unfortunately, small crimes such as pickpocketing still happen, usually tourists and Western people are the main victims in urban areas of Vietnam. In healthcare sector, there is a big difference between the public and private hospitals. Specifically, the public hospitals in Vietnam are usually over-crowded and poorly equipped, the standard of these hospitals is much lower than those found in developed countries; however, private hospitals generally provide excellent services and performances for patients. One minus point in living in Vietnam are the heavy traffic jams in major cities at rush hour. For more details regarding to the living environment, readers can access the ExpatArrivals (ExpatArrivals 2015; Touitre News 2014)

Quality of Infrastructure

Quality of infrastructure refers to telecommunication and IT, real estate availability and quality), transportation (scale and quality of road and rail networks), and power (reliability of power supply). To foreign companies, infrastructure is a weak point of Vietnam since it is classified in a lower group in overall infrastructure construction ranking by Kiel Institute in 2014 (regarding to transport infrastructure, ICT

infrastructure, energy infrastructure, financial infrastructure). More specifically, Vietnam is placed at 81st among 144 countries with the overall score of 3.74 in infrastructure (World Economic Forum 2014). The assessment of Vietnam’s infrastructure is 50 percent based on transport infrastructure (including quality of overall infrastructure, quality of roads, quality of railroad infrastructure, quality of port infrastructure, quality of air transport infrastructure and available airline seat kilometers), and 50 percent based on electricity and telephony infrastructure (including quality of electricity supply, mobile telephone subscriptions and fixed telephone lines) (World Economic Forum 2014; Kiel Institute 2014)

Based on the Global Ranking 2014 carried by the World Bank, some countries with their logistic infrastructure scores are listed in the Table 6.

Table 6. Infrastructure Score by country (The World Bank 2014)

Country	Rank	Infrastructure Score
Germany	1	4.32
China	23	3.67
Lithuania	39	3.18
Vietnam	44	3.11
India	58	2.88
Philippines	75	2.6
Somalia	160	1.5

Accordingly, the score Vietnam has been improved steadily in recent years with the previous scores of 2.5 and 2.68 in 2007 and 2012 to 3.11 in 2014 (the World Bank 2014)

In the energy sector, the monopoly supplier—Vietnam Electricity—provides electricity in Vietnam under 220 Volts standard. There has been an issue of blackouts in Vietnam, particularly in the dry season. This can be traced to at least two causes, which are (1) exceeding demand in the season and (2) the heavy dependence on hydroelectric power, according to case study by Harvard (Harvard Kennedy School 2013; EVN 2014). Thus, ranked in quality of electricity supply, Vietnam comes at 88th with the score of 4.2,

which is 0.3 lower than the average point. Table 7 will show the comparison in quality of electricity supply in some countries:

Table 7. Ranking in quality of electricity supply by country (World Economic Forum 2014)

Country	Rank	Value
Finland, Switzerland, Hong Kong SAR	1, 2, 3	6.8 (same value for 3 countries)
Philippines, Vietnam	87, 88	4.2 (same score for 2 countries)
India, Suriname	102, 103	3.4 (same score for 2 countries)

In terms of Information Communication Technology (ICT), there have been strong investments to improve the performance in this area in Vietnam. By UKTI, ICT has seen 20-25% average growth in recent years, and contributes 7% to the country's GDP (Global Information Technology). Figure 27 summarizes the Vietnam's and other Asian countries' Internet ecosystem.

Country	GDP per capital		Electric power production		International Internet bandwidth		Fixed broadband subscriptions		Internet users		Secure Servers		Mobile subscriptions	
	Current PPP\$	Rank	KWh per capital	Rank	Kb/s per user	Rank	Per 100 inhabitants	Rank	Per 100 inhabitants	Rank	Per million population	Rank	Per 100 inhabitants	Rank
Malaysia	22,280	1	4,523.5	1	16.4	3	8.4	2	65.8	1	65.7	1	141.3	2
Thailand	13,824	2	2,343.0	3	26.6	1	8.2	3	26.5	5	19.6	2	127.3	4
China	10,960	3	3,508.4	2	3.3	10	12.7	1	42.3	2	3.1	8	80.8	8
Sri Lanka	9,017	4	558.1	8	6.0	8	1.7	6	18.3	6	7.7	4	91.6	7
Indonesia	9,011	5	748.1	6	17.1	2	1.2	8	15.4	7	3.9	6	114.2	5
Philippines	6,110	6	727.8	7	14.3	4	2.2	5	36.2	4	8.6	3	106.5	6
India	5,138	7	861.7	5	5.3	9	1.2	7	12.6	8	3.6	7	69.9	9
Vietnam	4,998	8	1,129.1	4	13.4	6	4.9	4	39.5	3	6.7	5	147.7	1
Pakistan	4,437	9	540.7	9	7.3	7	0.5	9	10	9	1.3	10	67.1	10
Cambodia	2,838	10	72.1	11	13.6	5	0.2	11	4.9	11	3.0	9	128.5	3
Bangladesh	2,405	11	288.2	10	3.0	11	0.4	10	6.3	10	0.7	11	62.8	11

Figure 27. Selected ICT-related Indicators in 2012 of Vietnam and Asian countries (World Economic Forum, 2014)

2.7 Summary of literature review

In the modern business world, more countries have become opened to foreign investments; agreements set by global organizations such as World Trade Organization (WTO) have guided the path for local and international businesses to gain their competitiveness in offshore playing-yards. The globalization, which became a phenomenon as early as 1970s (International Monetary Fund), has encouraged the implementing of offshoring models including the Captive Center. Emerging in 1980s, Captive Centers have been a strategic tool for companies to acquire their desirable economic conditions with low in costs (Oshri, 2011). In general, the reasons of establishing Captive Centers come from (1) the drivers of the parent companies, and (2) the advantages of Captive Centers offered by offshore locations. Those reasons are mainly motivated by dynamics relating to cost, and skills or the ability and potential for growth. Accordingly, the thesis also presents main obstacles/disadvantages of setting up Captive Centers such as business registration, recruitment, office selection, as well as the issues occurred while managing the captives such as external and internal effects (political and legal changes, foreign exchange fluctuations etc.). This part is presented in chapter 2.4 of the report.

In practice, companies can perform Captive Centers under a several strategies namely Basic, Hybrid, Shared, Divested and Eliminated Captive Centers (Oshri, 2011). Each strategy is designed for the purpose of achieving a specific set of needs and wants of the parent companies. In short, among the strategies, *basic* captive is the simplest one; most of other strategies are developed from the *basic* form. Usually, after sometime of operating, Captive Centers would be transformed to hybrid and shared models, which serve the purpose of expanding the business. Finally, divested and eliminated strategies are considered as methods for escaping the captive canters involvement. Audience could find more information in the chapter 2.2.5.

Geographically, most of the earliest establishments of Captive Centers were located in India (Overby, 2011). With the emerging market potentials in other countries, companies can have more options to locate their Captive Centers. For many companies, the most attractive destinations for Captive Centers are developing countries which have large supplies on manpower, high GDP growths and much cheaper in costs. As

mentioned by sources including A. T. Kearney, Vietnam is gaining its position on providing offshore services. Being known as one of the world most populous countries, Vietnam has the advantages of its young population with a diversity of skills, and low operation costs. In addition, improvements have been seen on factors regarding to government supports, business environment, and potential for growth. However, beside the country's advantages, there are still disadvantages, which are concerned with high education and training, and the burden of government regulation or quality of the infrastructure. The detailed information about the country begins in chapter 2.6.2 of this thesis.

Since the theories about Captive Centers and the description of the business landscape in Vietnam have been mentioned, the authors will discuss more specifically into the implementing of Captive Centers through two companies cases in Vietnam. Chapter Discussion will discover real matters encountered by the companies after chapter Findings presents the companies and classifies their answers.

3 RESEARCH METHODOLOGY

3.1 Research methods and strategies

According to the selected research questions and the aim of the study, it is important for researchers to carefully consider which research methods are the most appropriate for the paper. As suggested by Kothari (2004), there are two basic research methods: qualitative approach and quantitative approach. The qualitative approach is used when one wants to observe and interpret reality with the aim of developing a theory that will explain what was experienced, while the quantitative approach is mainly used to test for confirmation or disconfirmation of the theory that is previously stated through the use of descriptive or inferential statistics. (Jha, 2008). As this research is designed not to examine a theory or any hypothesis, but to study the consequence (Pros and Cons) of setting up and managing an offshoring model (which is the Captive Center) in Vietnam for the purpose of providing foreign companies a better understanding about the new potential offshore location in both positive and negative sides, the authors have decided to adopt the qualitative approach and considered it as the most efficient and appropriate method for doing the research.

In qualitative research, there are five alternative strategies as suggested by Creswell (2009): ethnographies, grounded theory, case studies, phenomenological research, and narrative research. According to De Vaus (2001), although no research strategy is deemed superior to the other, case studies are frequently viewed as prime examples of qualitative research. Bryman & Bell (2011) also suggest that a case study often provides favorable instruments for qualitative method to obtain a detailed and exhaustive analysis of a research topic. Due to that helpful nature associated with qualitative research of the case studies and the purpose of this paper, the authors have decided to implement case studies, which are company KV and company WAV, for supporting the research work.

A case study, as defined by Gerring (2004), is an approach to research that involves “intensive study of a single unit for the purpose of understanding a larger class of similar units...observed at a single point in time or over some delimited period of time” (p. 342). The case study is popular and widely used in several areas of business research that concerns specific characteristics or requires in-depth investigation of a research

problem. The target in case study research can be a specific or a set of animal(s), individual(s), organization(s), location(s), or event(s) (Woodside, 2010).

There are several alternative types of case studies serving for different kinds of research purposes. An appropriate type of case study is an essential implement that contributes to the success of research results. Therefore, when conducting a case study research, researchers should take into careful consideration which type of case study is most suitable and provides the greatest supports for the investigation. According to Willig (2008) and Stake (1995), case study should be classified into four differing types as following:

- Single-case vs. multiple-case:
A single-case is a case of one particular individual, entity or event at a specific time. A multiple-case (collective case) is a case studied of more than one particular entity or event sometimes over different periods of time.
- Intrinsic case vs. instrumental case:
An intrinsic case is a case used to explore and gain insight understanding of a specific phenomenon rather than trying to acquire knowledge of generic issues. An instrumental case is often used to describe a specific case for the purpose of understanding a broader phenomenon.

The topic of this thesis is to study the advantages and disadvantages of establishing and running a Captive Center, one of the hottest trends in offshoring, in Vietnam. KV and WAV are the two foreign companies that have applied the basic Captive Center model to their businesses and had essential experiences in managing their Captive Centers in Vietnam for several years. Thus, the authors want to base their examination of the two-company cases obtain a better understanding about Vietnam as the new potential location for in-house offshoring model in both favorable and unfavorable sides. For that reason, the case study design will be placed between intrinsic case and instrumental case as well as the multiple-case is chosen to implement for this research to ensure the richness of relevant information required.

3.2 Data collections

3.2.1 Interview

There are several methods used for gathering information in qualitative research, but the interview is deemed as the most suitable and widely employed approach comparing to the others due to its flexibility and in-depth investigation of the subject. For that reason, the authors decided to adopt interview as the data collection technique for serving this research work.

Interviewing is the method that provides high interaction between the researcher and the respondent. According to Fontana & Frey (2005), based on the degree of structuring, qualitative interviews can be divided into two different categories: unstructured interviews and semi-structured interviews. An unstructured interview is basically very similar in character to a conversation in which the interviewer may ask one or two questions about the interesting topic and the interviewee is then allowed to respond freely according to that direction. Semi-structured interview, on the other hand, is more rigid. It requires researchers to carefully prepare a list of question or fairly specific topics beforehand as an interview guide. However, during the semi-structured interview, the researchers do not have to follow exactly the questions outlined, they are allowed to adjust the sequence of the questions to be asked or come up with other questions based on the context of participants' responds (Bryan & Bell 2011.)

In this study, the researchers decided to employ semi-structured interview for the purpose of collecting data. The interviews are conducted with representatives from both company KV and WAV in order to gain information about the process of how those companies establish a Captive Center in Vietnam, what benefits they gain from that offshoring model, and what challenges they have to deal with during the set-up phase as well as the management time. Since the researchers were conducting their study in Finland while the two company cases, KV and WAV, are both located at Hochiminh City (Vietnam), it is quite difficult for the researchers to arrange face-to-face interviews with representatives from those companies. Therefore, the interviews are finally decided to perform via emails. First, the authors contacted company KV and company WAV to present their intention and the objective of this thesis as well as to ask for acceptance of the interviews. After receiving the agreement and getting appropriate contacts from both companies, the authors sent a list of questions to those representative persons including Mr. Lennartz and Ms. Nguyen in the case of company WAV, and Mr. Le in the case of

company KV. Due to the busy schedules of the representatives, it took several weeks for the researchers to get full replies for the interview questions which include both the beginning scheduled questions and the additional ones. Although the email interview method can be time consuming due to some delayed time periods, this approach would help to increase quality of the interviews since it allows the researchers and the respondents to have more time to carefully reconsider the questions from the interviewers' side well as the answers from the respondents' side.

3.2.2 Secondary data

Along with the primary data obtained through the interviews with representatives from company KV and WAV, the authors also used materials from other information sources, which are often described as secondary data, to support for their thesis work. According to Sachdeva (2009), secondary data is information that is collected by persons or agencies for the purpose of providing relevant data for the research's study rather than solving a problem at hand. The secondary data is considered as one of the cheapest and easiest ways to access information. Since the amount of secondary data is very large and the sources are not always reliable, the researchers are suggested to be careful in selecting and utilizing the information that are relevant to their research.

In this paper, the authors made use of secondary data from both internal and external sources to acquire more information about the two companies KV and WAV. With the external sources, the authors collected information from the Internet or published data such as newspaper, annual reports, government's documents, etc. While data from external sources has to be obtained by the authors themselves, the data from internal sources is acquired with the help of representatives from both two companies. Those materials include work activity report, cost information, management reports, etc.

3.3 Credibility of research findings

3.3.1 Reliability

Reliability is the degree to which data are free from error and therefore achieve consistent results (Thanasegaran et al, 2005). In qualitative research, the most important feature used to measure the reliability of its content is its quality (Golafshani, 2003). To ensure the quality of the data, some terms including credibility, neutrality or

confirmability, dependability, and applicability or transferability are introduced as assisting tools for writing and measuring (Lincoln & Guba, 1985). Therefore, every observed test score is influenced by multiple sources of variability (Anastasi, 1988). In addition, the well and logical construction in framework as well as the preciseness in language used could enhance the reliability by reducing enigmatic or confusing levels (Eisner, 1991).

In any collection of data, there will be some amount of error. There could be environmental changes (such as government regulation) which occurred during the time of researching this thesis which led to some source of errors. At other points of time, the changes make other researchers not able to earn similar results compared to this work, even if the focusing area is the same.

For the reliability of this thesis, the authors have carefully tried to collect and compare data from different well-trusted sources. In terms of secondary data, a variety of sources were favored, and the content that is consistent with other data was chosen. To provide up-to-date information, authors tried to select the most current information among the available sources both by books and by data on the Internet.

Regarding to the interviews, some strategies were implemented to meet the requirement of quality for the thesis. Firstly, the involved companies correctly belong to the focusing industry (which is Offshoring Captive Center). Additionally, confirmation is acknowledged by hearing different people's perspectives from each company. Also, the interviewees were fluent in English so there was an accurate transformation of information.

3.3.2 Validity

The thesis would not be able to provide meaningful results if its validity was not acquired. As validity relates to the degree to which the instrument measures what it was purported to measure (Bui, 2013); it not only internally determines the worthiness for its recognition, but also generates external value for other researches carried within the field. Therefore, the qualitative findings of the thesis have to be carefully stated to avoid misleading from the original purpose.

Internal validity

Internal validity concerns about the question how research findings match reality (Merriam, 2014), and it only forms its appearance when the empirical findings correspond with the theoretical points provided (LeCompte & Goetz, 1982). Regardless of the type of research, validity can be approved through careful consideration to the findings, which is a result of the interaction between the interviews and other sources of data (Merriam, 2014). Since this thesis had three interviews from two company cases, the obtained information was cross-confirmed by two operating managers and one office leader of the companies; also the secondary data used to back up the findings are selected on multiple sources by multiple methods. Most importantly, the link between the secondary data and the information from interviews was critically examined by the authors. To acquire more accurate information, the interview questions were double checked, and requests were made of the interviewees to elaborate on information that they presented in the initial interviews.

External validity

External validity refers to the extent to which the findings of one study can be applied to other situations; in other words, authors should ask how generalizable their studies' results are? (Merriam, 2014). Accordingly, the ability to generalize to other situations comes from assumptions, control of sample size, random sampling and so on. The author also adds that generalizations are created within specified levels of confidence. Since the thesis is about Captive Centers in Vietnam, which is relatively similar to offshoring outsourcing or businesses environment in Vietnam, the findings of this thesis can be useful for those who are looking to do business or research in Vietnam by other sourcing types. To existing companies, this work can help to further investigation for business expansions to the region with respect to Captive Centers in Vietnam.

3.4 Scope of the study

The scope of this study refers to the restrictions under which the study was conducted. As a research for foreign companies to acknowledge the gains and losses when they determine to run a Captive Center in Vietnam, authors decide to carry a one-sided study - the foreign companies' side. Meaning that, factors relating the perspective from

Vietnam such as the Vietnamese employees' opinions, the negative or positive effects caused by Captive Centers etc. will be eliminated from this thesis. Therefore, issues (such as business ethics, pollution, effects on GDP or other related topics), which are influenced by the operation of Captive Center in Vietnam, will not be examined in the thesis.

3.5 Limitations

Some of the limitations the authors faced included the shortage of books relating to Captive Centers and the unwillingness for cooperation from some companies. The first issue to be mentioned is the limited sources on the topic. Although the operation of Captive Centers has been around for a long time, many people and authors still misunderstand and generalize it with the operation of offshore outsourcing or multinational business. The authors found out that the majority of needed data available derives from Oshri and his co-authors. As the variety of information from different authors necessitates building reliability for the thesis, it was much time-consuming for the authors to find other sources from both libraries and the Internet. The second limitation concerns about the highly sensitive level of information about real operations of the company cases, leading to more limitations of the interview. The authors have acknowledged that contacting more informants from different companies can increase the validity of the study (Eisenhardt al et., 2007; Palakshappa al et., 2006); therefore, effort had been spent to acquire four interviews within two companies in order for the answers to verify each other. However, due to the long distance between Finland and Vietnam, the authors could not meet the potential interviewees in person; as a result, the authors could only pursue three out of the four respondents. This was an uncontrollable factor facing the authors; but as a plus, the participants provided the truthful information and were very collaborative to give more details.

4 FINDINGS

4.1 Company K, Vietnam

General information about KV

KV provides cutting-edge digital media products and technologies to Media Owners, Content Publishers and Brands Advertisers engaging in the areas of digital advertising, marketing and publishing.

Until now, KV has worked with hundreds of top international and regional brands spanning across a wide spectrum of industries including property, finance/banks, automotive, travel/airlines, hotels/reports, retail, FMCG, government, IT/enterprise, education and more.

Established in 2010, KV has made their regional presence known in Australia, Hong Kong, Malaysia, Singapore, Thailand, Vietnam and Indonesia. KV has built products to support advertising, marketing and publishing. The company also provides services relating to implementing, managing, customizing their products as well as training and consulting services to ensure the customers receive the maximized benefits from their products. Vietnam is the newest country to contribute to the international presence of K.

KV Vietnam

KV Vietnam was established in 2013 with Mr. Le as a country manager. The two-year-old Captive Center is located in Binh Thanh district in Ho Chi Minh City (HCMC), and it has twelve employees at the moment. As a country manager, Mr. Le had graduated from a university in HCMC and then been working 1.5 years as a web developer for a France company in Vietnam before he started the career at KV Singapore in 2011. He shared that KV is generally similar to McDonalds in terms of standardization; the standard of the Captive Center in Vietnam must not be lower than the company's standard regarding to working environment, working styles etc. The captive is only responsible for providing services to the parent company. For several times, the captive had to work extra hours, even at night and weekends when the parent company had urgent projects.

4.1.1 Experience in setting up a Captive Center

This part presents what KV has undergone in the process of setting up their Captive Center in Vietnam.

Registration process

Since Mr. Le is a Vietnamese, he did not find it much difficult to set up the Captive Center in Vietnam. Besides receiving help from some friends, most of the steps he did on his own. The most difficult part of the registration is the preparation of the application documents.

Office selection

When coming to Vietnam for business, HCMC is the most attractive place for companies to locate their basement since it is the largest city in Vietnam, and KV also agrees with that. Mr. Le believes that it is not difficult to choose an office in HCMC due to the variety of leasing offers. The first thing he considered when locating the office was the price of the office and the renting durability. As Le is familiar with HCMC, he said that Binh Thanh district is not as expensive as District 1 and the surrounding areas, but it is still convenient for the employees to go to work; therefore he thinks it is a suitable location for a new Captive Center. It took him one week to complete the process of acquiring an office.

4.1.2 Experience in managing Captive Center

In this section, the authors will present the experience in the management of Captive Center, which has been provided by Mr. Le- the country manager of K Vietnam. He said issues relating to human resource (HR) management was the main challenge for him. As the authors have classified 3 main aspects relating to HR for the interview of Mr. Le, so in this section the answers would be also divided into 3 such groups namely *Access to talents, Swiftness and Expertise, Employees' Attitudes and Cultures*.

Access to talents

This phase describes how difficult it can be for a Captive Center can find suitable people and the realization of Le in his recruitment for the captive.

According to Mr. Le, since the establishment he has recruited 30 people and now 12 of them are qualified to work for the Captive Center. The selection of suitable candidates was very difficult at the beginning, as he stated, “at the beginning, most of the recruitment went through oral recommendation channel (between friends, friends of friends, relatives). It took about one month to find one suitable candidate (without considering whether they will pass probation and stay long term or not)”. However, he did not have experience in recruiting at first, he offered jobs to people who had a good knowledge of IT and wanted to improve their skills and abilities while working. As consequence, the team performed inefficiently, the productivity was very low, it was costly in time and money, and after some time, most of them quit or were fired.

It took a while for him to recognize a strategy which is still in practice. Instead of trying to improve the candidates’ weaknesses, he focused on recruiting people with their strength shown in specific fields needed. As responding to the question of how long the captive could find suitable people at the moment, he said, “Now, after two years, the competitiveness is much higher, since there’re more and more foreign companies setting up local offices in Vietnam. It takes on average two months to find a suitable person: including putting up job ads (ITViec), shortlisting resumes, conducting interviews and making offer. For some positions it might take more time (Research Engineer, Tracking & Analytic etc.)”

Generally, the country manager gave 7 out of 10 on the level of hardness to find a suitable people (easiest 1-10 hardest). He also said, “It’s not so hard, as long as we can design a suitable tests and apply them to the right candidates in each position.”

Swiftness and Expertise

Being an IT based Captive Center, the minimum skills and knowledge requirements for candidates to get employed are problem-solving and programing. The captive has a two-hour on-site programing test, which is a compulsory for any candidates to take in the recruitment process of the captive. Regarding to skills and knowledge, Mr. Le claimed that 2-3 out of 10 applicants could fulfill the working requirement in the captive. The fulfillment was explained as candidates had been performing similar tasks in similar working environments to KV before, and of course the candidates must pass the test. Since the captive has formed teams to perform different tasks, he also stated that “The

skills required depend on the position, since we recruit a variety of positions for different teams: Software Engineer, Web Developer, Research Engineer, Tracking and Analytics. If we're talking about common skills, I may name a few: programming, open source technologies, web & database development". The manager gave 8 out of 10 on the satisfaction of the employees' current skills (not satisfied 1-10 very satisfied).

Employees' Attitudes and Cultures

In this section, the manager addressed some bad-for-business characters as well as good ones that the employees share. The detailed examples given on the issues are listed below.

Communication related issues:

- Weak in English
- Not actively following up in discussion
- Usually not clarifying in details before execution
- Not bringing problems to the table when they arise

Mindset related problems have been described: "they don't believe in what we ourselves can achieve. They are not confident on what they can do themselves. So, on their own, they put a barrier in front of them even before they started trying".

In a positive perspective, all the employees share the characteristics of hard work, driven to succeed, and a passionate will to learn. As a conclusion, he gave 7 out of 10 for the performance attitudes of the employees to meet his expectations (not satisfied 1-10 very satisfied). Besides, there have not been any conflicts occurring concerning cultural differences or belief systems within the captive.

In comparison of level of effectiveness between an average employee in Vietnam and an average one in Singapore, Mr. Le wrote "it's about the same:

- First, some positions are hard to find and make more sense to recruit in Vietnam
- Second, Vietnamese staffs are generally strong in programming and technical skills, but communication, ability to manage, self-manage, lead are not there yet."

4.1.3 Infrastructure

The quality of infrastructure in Vietnam is fairly good, stated by the respondent. More specifically, the company office is located in district Binh Thanh of Ho Chi Minh City and it is in good condition. However, the streets are full of traffic, and there are usually traffic jams on some streets in rush hours due to the small size of streets and road maintenance.

Although there are some times when the electricity went out, they have been informed in advance by EVN. To deal with this problem, the electricity is guaranteed by a spared electric power machine provided by the building owner. With respect to the Internet connection, there are options on packages and providers; there are no complaints concerning the speed and the stabilization of the connection. However, the captive has experienced a few times when the connection speed was slow.

4.1.4 Additional costs

While managing the captive, regardless to regular costs such as rental, taxation, salary payment, Mr. Le also has seen some additional costs. These costs are listed below:

- Travel costs such as flight tickets if the manager has to attend meetings. Usually he communicates with the parent company via emails or Skype.

Celebration cost: holding parties or activities for the Captive Center's members to create a friendlier working environment. It is not done very often, and costs approximately VND 3,000,000 each.

4.2 Company WA, Vietnam

Because detailed information provided by the company may affect the sensitivity of its business, the authors were requested by the respondents not to mention the full name of the company. Also, some specific information was not disclosable, in case someone wanted to track back on the details to find the company.

WA is an architecture company, which was established in 2002 in England. The company provides architectural designs to all types of customers. WA has only one Captive Center, which is located in Ho Chi Minh City, Vietnam.

WA Vietnam

WA Vietnam was established in 2007 in District 1, HCMC, with Ms. Nguyen as the manager. It is only responsible for doing architecture projects assigned by the parent company. However, a certain amount of projects comes from contracting with some partners in England. Within eight years of operating, the captive has seen a shift in the management leaders. Specifically, Ms. Nguyen had been the country manager of the captive for the first three years before Mr. Lennartz assumed the position in 2010. The reason these positions shifted was because of the willingness to work in Vietnam for Mr. Lennartz, and the desire of Ms. Nguyen to stay close to her family in England. At the moment, WA Vietnam employs 10 people excluding the manager. Occasionally, some of the employees are selected by the manager to go to England. There, the employees can either participate in training programs or work in the parent company if face-to-face communication is essential.

Some background information about Ms. Nguyen: she moved to the UK with her family from Vietnam when she was young. Having a bachelor degree in business administration, Nguyen had worked for two local companies in Southampton before moving to Croydon to work as a HR assistant for WA in 2004. She became the company's HR specialist in 2006, and moved to Vietnam for the establishment of the Captive Center in 2007.

Mr. Lennartz is the current country manager of WA Vietnam. Previously, he graduated from England and had several years of experience in IT companies. He started to work for WA in 2006 and became the company's project manager in 2008. In 2009, he moved to Vietnam; then he became WA Vietnam country manager in 2010.

4.2.1 Experience in setting up a Captive Center

Because Mr. Lennartz was not there when the Captive Center was established, the data will be presented based only on the experience of Ms. Nguyen.

Registration process

According to Ms. Nguyen, the process of establishing the captive in Vietnam was complicated, so she had to get support from a law company. The law company provided

her a ten-day package, which included the necessary services for setting up the captive from document preparation to business registration and guidance for tax declaration for the first time. Even so, she still felt frustrated with following the work, “quite few foreign companies came to Vietnam at that time”, Ms. Nguyen claimed.

Office selection

As informed by Nguyen, she considered carefully the location to place the captive. She planned to test the productivity and skills of the local labor, and she expected to initiatively employ 5-8 employees. Before coming to Vietnam, she had done comparisons among central districts of HCMC, and discovered the tariffs were not much different for small size office among different locations of central districts. Also, she put professional working environment and convenience at top priority, so hired an office in District 1.

4.2.2 Experience in managing Captive Center

Since there are two respondents to answers this part (Ms. Nguyen and Mr. Lennartz), the data will be presented in first with respect to the experience of Ms. Nguyen, and then Mr. Lennartz’s experience will follow.

Experienced by Ms. Nguyen

Access to talents

As assigned by the parent company, Ms. Nguyen needed to “establish the Captive Center in HCMC, explore the performance of the local labor in term of skills and productivity, and if everything is possibly confirmed by the CEO, I need to get it runs stably”. With this-mission, she spent much effort in recruiting the first people by putting out job descriptions and looking for sites for the company. As stated by Ms. Nguyen, “I had to distantly communicate with the project team in the UK frequently to update what were the needed skills to look for.” With the advantage of her HR experience as well as having learned Vietnamese, she recruited the first suitable candidate from dozens of applicants within two weeks. The following recruiting process was easier because the employees introduced their friends who had relevant skills so she could save time and effort. At the time she left, there were six employees in the Captive Center.

Swiftness and Expertise

According to Ms. Nguyen, it was hard to answer in general what percent of the candidates were qualified regarding their skills and knowledge. At the beginning it was one suitable person selected from ten interviewees, but the ten interviewees had been filtered among about thirty applicants. Later when the employees were trusted to recommend their friends, it was approximately 25 percent of recommended people were selected. To be employed, candidates had to have at least good sense of design, skills such as drawing, sketching, drafting and knowledge of Photoshop and Revit. She gave the employees 8 out of 10 point for the quality of their skills, and explains “the people’s skills were good. The reason I give an 8 is that they didn’t interact effectively with each other”.

Employees’ Attitudes and Cultures

According to Ms. Nguyen, the employees were very hard working, friendly, flexible in working time, and willing to learn. However, they were also not punctual in the morning, and not active. As compared to an average architect in the UK, Ms. Nguyen says Vietnamese staffs were somehow more effective, because they worked with less breaks than people in the UK. However, architects in the UK gave more quality in their assignments. She gave the score of 8/10 on the employees’ performance to meet her expectations. Additionally, no conflicts occurred while she was managing the captive.

Experience by Mr. Lennartz

Access to Talents

With five years of experience from managing WA’s Captive Center in Vietnam, Mr. Lennartz claims it is not hard to find the people with needed skills. Since Mr. Lennartz has been learning how to operate the captive from Nguyen for four months, he says that “the recruitment process is smoothly carried even though there it is a challenge in language difference”. Within the time of being the country manager, Mr. Lennartz has increased the number of employees to 35 people by recruiting an addition of 47 people in total (including people who left). He stated that it takes about one week on average for him to find a suitable person for the captive, and gives it a 6/10 for the hardness to access talents in Vietnam. As cited from Mr. Lennartz “It’s kind of easy, there are plenty of skilled architects in the market”.

Swiftness and Expertise

According to Mr. Lennartz, it ranges from 10 percent to 20 percent of candidates who are qualified to take the job in term of their skills and knowledge. To be employed, candidates have to be able to perform some of the skills that they have written in their CVs when Mr. Lennartz requests. To most of the employees, the minimum requirement for them regarding to skills and knowledge is good understanding of Revit and Auto Cad; also, they have to hold a bachelor degree on design from an architectural university. For joining the captive's 3D team, candidates must know at least how to use 3D Studio Max. Also he has given detailed information of his assessment on 2D teams and 3D teams as the following:

- The 2D teams receive an average of 7/10 for the quality of their skills due to the reason that half of the teams are performing not very well (5/10), while the other half have been carrying tasks excellently (9/10)
- The 3D teams also get an average of 7/10 for their skills assessment. Mr. Lennartz explained that although everyone has the ability to understand architectural drawings, about half of the teams needed to analyze the information on the assignments more quickly.

Employees' Attitudes and Cultures

As Mr. Lennartz sees it, the employees are not punctual and easily distracted which is considered to negatively impact the captive performance. However, the staffs are also hard working, creative and have good teamwork. As compared in effectiveness to an average architecture employee, he stated that Vietnamese employees are not confident enough; "although Vietnamese people are creative and have good skills, many of them are hesitant to show their creativity. They are also scared of asking questions when they don't understand, especially new ones". Moreover, some of the employees are not good in English. In term of working attitude, the Captive Center's employees can fill 80 percent of Mr. Lennartz's expectations. With respect to conflicts in the company, he says that even though the competitiveness level in different teams within the captive is high, he has not seen any confliction occurred.

4.2.3 Infrastructure

As experienced by Ms. Nguyen, the infrastructure was in normal standard. The office was in good condition and the Internet connection was good enough, but there were problems with the supply of electricity. The blackouts unexpectedly happened even in weekdays causing interruption at work. Besides, Ms. Nguyen gave no complaint regarding to transportation infrastructure.

Mr. Lennartz feels that the overall infrastructure is good. Due to the expanding in the number of employees, Mr. Lennartz has moved the office to District 3, and he said that both offices are quite new. However, there are blackouts sometimes, which are annoying for the business even when the captive gets informed in advance and there is an electric generator.

4.2.4 Additional costs

According to Ms. Nguyen, besides basic costs, there were additional costs including office cleaning, computers maintenance, and rewards for excellent persons. However, the costs of cleaning and maintaining are later included to the regular expenses.

As stated by Mr. Lennartz, along with regular costs, the captive also rewards some of the best performing teams with cash.

5 DISCUSSION

In this chapter, the factors experienced by the Captive Centers are classified into two categories, which are advantages and disadvantages regarding to how they affect the Captive Centers. Also, the preview of literature will be used to analyze and discuss the advantages and disadvantages.

5.1 Advantages in setting up and managing a Captive Center in Vietnam

In this section, the constituents that bring benefits to the Captive Centers will be presented. These constituents are gathered from the answers of the respondents and will be displayed in the order of Setting up Captive Centers and Managing Captive Centers.

5.1.1 Setting up Captive Centers

In the process of setting up their Captive Centers in Vietnam, KV and WAV only had minor advantages due to the complication of the establishment process. The first thing to be noted that both KV and WAV have located their offices in HCMC, where they could be able to find the most opportunities compared to other cities in Vietnam. Basically, the selected locations provide the Captive Centers with the following features:

- The most populous city with approximately 8 million people (Tuoitre 2014),
- The country's central place for economic activities (Hochiminhcity 2015)
- Strategic geographical location for transportation to other major cities (Hochiminhcity 2015)
- Average GDP growth is above 8 percent from 2012 (Hochiminhcity 2015)
- About 58 universities and 28 colleges (Thongtintuyensinh 2008)

Moreover, because many foreign companies have invested in HCMC, local services for assisting business establishment are well-developed. The authors found there are many service providers in HCMC who assist in business establishment with flexibility in length and price. Hiring services normally cost from VND 2-5 million equal to EUR 80-200 (providers such as Thanhlapdoanhnghiep, Luathungphat, Tuvanvietluat etc.). It is indicated by the case of WAV, in 2007 they hired a law company to get help with the Captive Center establishment process.

Also the city offers a variety of choices for the selection of an office. As it shows in the responses by KV and WAV, the chosen location for KV's office was prioritized by price then convenience, while WAV picked up the office as driven by professional working environment and convenience. Also quality of KV's office is quite good, claimed by Mr. Le.

5.1.2 Managing Captive Centers

There are several elements benefiting the parent companies operating their Captive Centers, most notably related to HR. When looking for HR factors in an offshore location, foreign investors would probably want to know aspects such as costs, skills and availability of the local labor. However, due to the fact that information on salary payment is highly sensitive, the author could not acquire any of the labor cost from the respondents. Therefore, to fill the void from the answers regarding to labor costs, the authors found several trustful forums for architecture graduates, including huongnghiep24, which discusses their incomes. Specifically, the incomes range from VND 4-15 million per month for graduates with different experience background (Huongnghiep24 2013), generally could be described as follow:

- Fresh graduates: VND 4-6 million monthly (approx. EUR 160-240)
- 1 year of experience: VND 7-8 million monthly (approx. EUR 280-320)
- 2-3 years of experience: VND 9-10 million monthly (approx. EUR 360-400)
- More than 5 years of experience: about VND 15 million monthly (approx. EUR 600)

(Disclaimers provides the foreign exchange rate)

According to Jobstreet (2015), salaries in IT field normally range from VND 6-14 million equal to EUR 240-550 depending on experience and position of the job. Hence, multiple reports including those from Mercer and Adecco have listed Vietnam in the lowest HR cost countries in Southeast Asian region. The salaries are a few times cheaper compared to those in developed countries. The low labor cost would make a big difference in large scales; for instance, the monthly amount to pay for three or four people in developed countries could be used to hire ten people in Vietnam. For this reason, foreign companies can exploit the advantage of low cost of labor for boosting their productivity or saving expense for other investments.

Another advantage of managing Captive Centers in Vietnam relates to a vast amount of labor supply with various skills. According to the respondents, it is not difficult to find persons with needed skills in HCMC. The respondents assessed as 7/10 by Mr. Le and as 6/10 by Ms. Nguyen and Mr. Lennartz. Ms. Nguyen claimed it was very challenging at the beginning with 9/10 (easiest 1-10 hardest). The authors conclude that one of the biggest advantages of the excellent talent access in HCMC is the closeness of the offices to universities with related, and needed, majors. More specifically, WAV's office is located as ten minutes away from the HCMC University of Architecture, which tops the country in providing architectural people. Also most of the other universities located in the city area teach IT relating majors, which benefits the recruitment from KV. Due to the dynamic environment in the city, almost all the students who come from other provinces to study would like to stay after graduation to seek for employment opportunities.

Additionally, according to all of the respondents, there are little to no problems with respect to conflicting cultural differences and belief systems. They also pointed out that the employees are hard-working, creative, teamwork, passionate and willing to learn.

5.2 Disadvantages in setting up and managing a Captive Center in Vietnam

In this part, any mentioned negative impacts to the setting up and managing Captive Centers will be analyzed and discussed.

5.2.1 Setting up Captive Centers

Complication in the establishment process is the most concerning factor for setting up Captive Centers in Vietnam. As stated by Ms. Nguyen, even though a service supplier was hired to assist the establishment of WAV, she still spent much effort to follow along the process. On another hand, the country manager of KV did not find any trouble while setting up KV. To account for these differences, the authors studied the two managers' background and found that Mr. Le has been living in Vietnam, while Ms. Nguyen has been living in England for a long time. In comparison, Mr. Le is more familiar with the local environment and has more networking than Ms. Nguyen. In the authors' perspective, the establishment of Captive Centers seems to be easier for those

who know the local habitat well. That is why Ms. Nguyen found it difficult while Mr. Le did not.

5.2.2 Managing Captive Centers

The majority of disadvantages deal with employees' skills and characteristics. The skills of local labors do not achieve 100% satisfaction from the employers; in the two company cases, the respondents claimed that the employees could fill 70%-80% of their satisfaction regarding to expertise and swiftness. A detailed analysis reveals that although the employees' skills are good and have experience working in similar environments, they do not actively interact with each other. Additionally, half of the employees in WAV have excellent skills (9/10) but the other half are relatively good (7/10). As a solution for improvement in swiftness and expertise, the authors think that the employees need to participate in specific training programs to improve their weaknesses. This requires a generous effort to be spent from the country managers. According to the respondents, it ranges from 10-25 percent of candidates who are suitable to work for the captives regarding to their skills and knowledge. The people recommended from existing employees are more likely to have enough skills and knowledge.

In term of employees' attitudes and cultures, there are complaints from the managers. As KV's manager saw it, the employees are not good in English, weak in communication before and during the working times, and are pessimistic even before they are asked to complete a project. Also the respondents have similar opinions on assessing the employees that is the employees are generally not confident in asking questions relating to their assignments when they do not understand. Additionally, Mr. Lennartz claimed that the employees are unpunctual and easily distracted, they are hesitant to show their creativity in the field. As a result, the employees receive 7/10 and 8/10 for their working attitudes.

In regard to the infrastructure of the area, the respondents repeatedly mentioned problems that included unexpected and expected blackouts, and the heavy traffic jams in rush hours. Even though each Captive Center is backed with an electric generator in case of power outages, it is still claimed as interruptions to the operation of the captive. The traffic jams are blamed on the massive amount of vehicles travelling on small

streets poor road maintenance. These are uncontrollable factors influencing the operation of Captive Centers that people should take into account.

6 CONCLUSION

Based on the literature review and the case studies, the economic conditions in Vietnam, specifically in HCMC, offer a mixture package including both advantages and disadvantages to Captive Centers. To sum up, the advantages and disadvantages are presented within the upper part of the Table 8. In the lower part of the table, there are factors considered as advantages and disadvantages of Captive Centers in Vietnam, but they are not proven by the case studies.

Table 8. Advantages and disadvantages of operating Captive Centers in Vietnam

	Advantages	Disadvantages
Shown from the Company Cases	<ul style="list-style-type: none"> • Low labor cost • Large pool of labor supply • Relatively good in working attitudes, swiftness and expertise • Good in condition of office • High market potential • Increasing government support 	<ul style="list-style-type: none"> • Complication in business establishment • Challenging for initiative recruitments • No excellence in the labor's attitudes, swiftness and expertise • Not good in electricity supply • Not much government support at the moment • Some are not good in English
More from the literature review	<ul style="list-style-type: none"> • Social and Economic stability • Political stability • Reducing time-to-market • More security & privacy than outsourcing • Support on planned supply and demand 	<ul style="list-style-type: none"> • Fluctuation in currency • Threats in intellectual property • Longest time to achieve maturity and generate savings

Disadvantages to Discuss

In practice, there are methods that one can apply on some of the controllable disadvantages to reduce impacts. For example, as the establishment process was complicated, WAV hired a law company to get assistance for the problems they encountered. Moreover, the strategic action from WAV of inviting local employees to England for attending training programs and working could improve their English as well as the quality of their performance regarding to attitudes, swiftness and expertise. Also, the difficulty in initiative recruitments to find suitable people could be reduced by time. As shown from the experience of the two Captive Centers, the recruitment becomes easier when the managers are familiarized with the environment. Therefore long-term-engagement Captive Centers would bring more benefits to the parent companies compared with short-term ones.

Factors such as not much government support or weak infrastructure belong to uncontrollable disadvantages. Foreign companies should be aware of these factors when coming to Vietnam, since these could not quickly improved because things change very slowly in Vietnam.

Advantages to Discuss

With respect to advantages, foreign companies can boost their productivity by having more staff, also with low labor and operation costs they can save up for other investments. Also they could present their existences in the high market potential in Vietnam for opportunities to cooperate with local companies and expand the business.

Lessons

There are well-practiced activities which could be learned from the operation of WAV and KV in Vietnam. First, in the recruitment process, it is a clever idea to ask the existing employees whether they could recommend someone with relevant skills to an open position of the captive. Since the employees have been working for the captive they could quickly understand the requirements for the position with only little descriptions from the manager. Plus, they have a certain networking within the field (their friends, relatives etc.), therefore they could possibly find suitable people from their networking. This idea has been practiced by WAV to ease the process as well as

saving time and effort in selecting a large-amount of applicants. Another practical aspect learned from both captives is to administer on-site testing during the interview process. Besides reading the resumes, KV and WAV could ask the interviewees to complete some on-site tests. This activity could prevent the hiring of unsuitable people and those who have lied about their skills.

Assumptions

For WAV:

According to Oshri (2011), basic Captive Centers should be transformed to shared or hybrid models to either serve the purpose of business extension or earn income to share the costs with the parent companies, as well as create reputation in the offshore location if the parent companies plan on selling the captives (divested or eliminated models). Based on the theory, the authors assume that a slow transformation to a shared model is a good strategy for WAV due to the following reasons.

- First, due to the long-term operating in HCMC, WAV is somehow familiar to the environment, and the operation becomes increasingly stable.
- The ease in recruiting people in WAV (currently one week)
- The encouragement from high market potential in HCMC.
- At the moment, the captive employs more than 30 people to provide services to parent company and the parent company's partners, the shared model could prevent the wasting of manpower in sudden cases when the Captive Center's productivity exceeds the demand from the partners.

For KV:

Due to its new operation in HCMC (about two years) and the relatively small number in staffs (12 people), it would be good for KV to develop a shared or hybrid model after the next one or two years of operating and the size of the staff is doubled. Moreover, it also would be good for KV to send core employees to work or get trained in other branches in a more professional country, like WAV have been doing with their staff.

Recommendation for further research

This thesis does not explore some of the advantages and disadvantages that have been mentioned in the literature review, and those could be used for further research. Those unexplored factors are shown in the Table 9.

Table 9. Unexplored factors of the thesis

	Advantages	Disadvantages
More from the literature review	<ul style="list-style-type: none"> • Social and Economic stability • Political stability • Reducing time-to-market • More security & privacy than outsourcing • Support on planned supply and demand 	<ul style="list-style-type: none"> • Fluctuation in currency • Threats in intellectual property • Longest time to achieve maturity and generate savings

For example, researchers could study on smart-phone application maker companies to find out whether it is true that Captive Centers help to reduce time-to-market and provide more protection to security and privacy. Moreover, researchers could cover more specific objects in the field of Captive Centers such as “Captive Centers support the Supply Chain Management”, “Threats in intellectual properties with Captive Centers”. Also, it is not necessary to carry further researches in Ho Chi Minh City, the researchers could choose another city or country that emerges to the ranking of offshoring services.

Besides the uncovered aspects mentioned above, researchers could also repeat this thesis question and do it in a larger scale. In order to achieve the best results, it should involve more companies that operate within a same city. When the amount of participating companies is big, researchers could group them by location such as companies operating in same districts or the scale of these companies such as below ten-employee companies, 10-20-employee companies etc. to make the report clearer and

easy to make comparison. In addition, researchers should try to acquire at least two participants in each company to enhance the credibility of the research.

Since the mentioned advantages and disadvantages are changeable by time and this work only measures on small scale, it would be more accurate for other researches to confirm the information again, especially when this thesis is more than two years old.

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APPENDICES

APPENDIX 1 – INTERVIEW TRANSCRIPT WITH COUNTRY MANAGER OF COMPANY K, VIETNAM

Interviewer: An Nguyen (Author)

Interviewee: Mr. Le

Interview method: Emails

Language: English and Vietnamese (Since the interviewer and interviewee are both Vietnamese, thus Vietnamese is also used along with English so the interviewee can answer the questions in the most comfortable way in order to increase the quality of the interview)

Time:

- Interview questions sent: 21 May 2015 at 01:57 am
- Answers received: 16 August 2015 at 09:24 am

Introduction

1. Could you please introduce a bit about yourself?

You can find the information about myself from an interview from website X (Due to the information protection of the Interviewee, the Website will not be visible)

Access to talents

1. How many people are there in your team now? How long have you been working as a country manager for KV?

12

2 years

2. How many people have you recruited so far? (including people who left)

30

3. How long does it take you to find a suitable person for an open position?

- *At the beginning?*
- *Now?*

At the beginning, most of the recruitment went through oral recommendation channel (between friends, friends of friends, relative). It took about 1 month to find one suitable candidate (without considering whether they will pass probation and stay long term or not).

Now, after two years, the competition is much higher, since there're more and more foreign companies setting up local office in Vietnam. It takes in average two months to find a suitable person: including putting up job ads (ITViec), shortlisting resume, conducting interviews and making offer. For some positions it might take more time (Research Engineer, Tracking & Analytics...)

4. From 1-10, how hard to access the skilled people from recruiting? (easiest 1-10 hardest).

7

It's not so hard, as long as we can design suitable tests and apply them to the right candidates in each position.

Swiftness and Expertise

1. Regarding to the skills, knowledge required, how many percent of candidates are qualified to do the job? (Em ví dụ như anh chỉ xét 2 yếu tố về khả năng và kiến thức, vậy trong 10 người nộp hồ sơ thì anh có thể chọn được bao nhiêu người ạ?. Em muốn đề cập tới trình độ và khả năng của nhân lực Việt Nam ạ)

Thông thường trong 10 resume sẽ có khoảng 2, 3 resume tương đối phù hợp và công ty sẽ gửi lời mời phỏng vấn đến các ứng viên này. "Phù hợp" chủ yếu về skills và kinh nghiệm của ứng viên ở những công việc, môi trường tương tự KV.

2. From 1-10, what number can reflect the quality of the skills needed to do the job of your team members? Can you please explain a bit about your assessment? (Not satisfied 1-10 very satisfied). (Em ví dụ như 1 accountant có kiến thức rộng, hiểu biết về cách nhập dữ liệu 1 cách chính xác, nhưng tốc độ nhập dữ liệu chậm là 1 điểm yếu ạ. Em nghĩ IT cũng giống như vậy, sẽ có người thiên về lý thuyết mà yếu về thực hành. Hoặc có những vấn đề khác mà em chưa rõ, thế nên em mới đề cập tới phần explain ạ.)

8

The skills required depend on the position, since we recruit a variety of positions for different teams: Software Engineer, Web Developer, Research Engineer, Tracking and Analytics.

If we're talking about common skills, I may name a few: programming, open source technologies, web & database development.

3. What skills or knowledge are the minimum requirements in your recruiting process? (Em VD như lập trình C+...)

Programming. We have a 2-hour on-site programming test. It is a compulsory step in our interview process.

Employees' Attitudes and Cultures

1. What are the bad-for-business characters that most of your employees share?

(For example: un-punctual, aggressive, disagreed, separated, and easily distracted, etc.)

Communication: especially in English. However, without the language issue, the communication is still there somehow: staff does not actively follow-up, and there is not much clarify in details before execution, and employees do not bring up problems when they arise and make management aware of them.

Mindset: they don't believe in what we ourselves can achieve. Not confident on what they can do on themselves. So, on their own, they put a barrier in front of them even before they started trying.

2. What are the good-for-business characters that most of your employees have?

(For example: hard working, punctual, flexible, creative, negotiable, teamwork, etc.)

Hard-working

Driven, passionate, willing to learn

3. From 1-10, how much does your employees' performance fulfill your expectation at work?

(Not satisfied 1-10 very satisfied)

7

4. From 1-10, can you compare the effectiveness of an employee in Vietnam to an average one in Singapore?

It's about the same:

- First, some positions are hard to find and make more sense to recruit in Vietnam
- Second, Vietnamese staffs are generally strong in programming and technical skills, but communication, ability to manage, self-manage, lead are not there yet.

5. *Have you ever experienced any conflict among employees: (anh chỉ cần ghi số conflicts từ lúc bắt đầu làm country manager ạ?)*

- *Between employees themselves*
- *Between you and employees*
- *What are the main causes of conflicts*

I haven't observed any conflict among staffs in VN office.

Additional costs while running

1. *Beside regular costs such as rental, taxation, payments to workers, can you name the costs rarely occurred during the running, or those were not expected before?*

Travel expense like flight tickets to attend face-to-face meetings. But it's occasional; usually we communicate by email and Skype. Sometimes to improve the working atmosphere, we celebrate by small parties, it could cost VND 3 million each time.

Infrastructure

1. *Could you please describe about the local infrastructure regarding to road office, power and Internet supplies?*

In general, the most annoying issue is traffic jams, it happens almost every day because many bikes travel in small streets. Especially from 16:00-18:00 and on maintained roads.

A few times the electricity went out so we must use the electric power-generating machine from the building, because we know the blackouts schedules in advance so at least we can prepare it. The Internet is depending; I choose this option from many offers from different operators and this work well enough. But sometimes it's quite low in speed.

Văn phòng thì trong điều kiện tốt, K chọn đặt văn phòng ở HCMC vì đây là thành phố lớn nhất nước. Giá cả và thời gian thuê được coi trọng nhất, cho nên anh chọn Bình Thạnh thay vì những quận khác với lại BT cũng tiện cho việc đi lại của mọi người. Khi chọn được địa điểm, anh hoàn tất thủ tục để thuê văn phòng trong 1 tuần.

APPENDIX 2 – INTERVIEW TRANSCRIPT WITH HUMAN RESOURCE MANAGER OF COMPANY WA

Interviewer: Thanh Nguyen (Author)

Interviewee: Ms. Nguyen

Interview method: Emails

Language: English

Time:

- Interview questions sent: 2 September 2015 at 12:20 am
- Answers received: 5 September 2015 at 5:39 pm

Introduction

1. Can you describe a bit about yourself before the time you were WAV's manager?

My family and I moved to the UK when I was quite young. I earned my bachelor in 2003 and moved to Croydon to work for WA as a HR assistant in 2004. In late 2006, I was promoted to take a role in HR specialist of the company.

Access to talents

1. How many people are there in your team when you left? How long have you been working as a country manager for WA?

6 people

From 2007- 2010

In 2010, I asked WA for someone to replace my role in Vietnam due to my personal reasons and they accepted it.

2. How many people have you recruited for the WA Vietnam? (Including people who left)

11 people

3. How long does it take you to find a suitable person for an open position?

- *At the beginning?*
- *When you was about to leave?*

Beginning: It was quite difficult when it was all new. WA gave me a mission to establish the Captive Center in HCMC, explore the performance of the local labor in term of skills and productivity, and if things go well, I need to get it running and stable. That's why I recruited

the first people carefully; first I put job advertisements to sites and to job agency companies. In the recruitment process, I had to communicate with the project team in the UK frequently to update what were the needed skills to look for. I found out that knowledge in HR and Vietnamese is important in the case, because it would have been much harder if I didn't know these. I recruited the first person for WAV in the second week.

After two years: If the employees worked well, they could introduce their friends to the interview when the company needed. Then, the recruitment was more effective with much time and effort was saved.

4. From 1-10, how hard to access the skilled people from recruiting? (Easiest 1-10 hardest).

At the beginning: 9

Later: 6

Swiftness and Expertise

1. Regarding to the skills, knowledge required, how many percent of candidates are qualified to do the job?

It's hard to say because it was completely different between first and later. It was 1 candidate selected out of 10 interviews. But the amount of applicants was like 30. Later, when the employees gain their reliability at work, they could recommend their friends, it was about 1/4 recommended people selected.

2. From 1-10, what number can reflect the quality of the skills needed to do the job of your team members? Can you please explain a bit about your assessment? (Not satisfied 1-10 very satisfied).

8

The people's skills were good. The reason I give an 8 is that they didn't interact actively with each other.

3. What skills or knowledge are the minimum requirements in your recruiting process?

Good sense of design

Drawing skill

Sketching skill

Drafting skill

Fluent in Photoshop

Employees' Attitudes and Cultures

1. What are the bad-for-business characters that most of your employees share?

Not very punctual in the morning, not active.

2. What are the good-for-business characters that most of your employees have?

Very hard-working, friendly, flexible in working time and willing to learn.

3. From 1-10, how much does your employees' performance fulfill your expectation at work?

(Not satisfied 1-10 very satisfied)

8

4. From 1-10, can you compare the effectiveness of an employee in Vietnam to an average one in England?

8

They worked with less breaks so somehow it could be more effective. But the skills need to be improved to give more quality.

5. Have you ever experienced any conflict among employees: Between employees themselves:

- *Between you and employees:*
- *What are the main causes of conflicts: (such as stress from work, religion differences, belief systems...)*

Not any confliction.

Infrastructure

1. Could you please describe about the local infrastructure regarding to road office, power and Internet supplies?

It was like everything was OK to me. The office was new; I was satisfied with its condition. The Internet connection was good enough for working, but electricity supply has been cut sometimes even in weekdays making interruptions at work.

Additional costs while running

1. Beside regular costs such as rental, taxation, payments to workers, can you name the costs rarely occurred during the running, or those were not expected before?

At first there were costs such as cleaning, computer maintenance and the cost of rewarding excellent performing people. But cleaning and maintenance costs later were counted in regular expenses.

APPENDIX 3 – INTERVIEW TRANSCRIPT WITH COUNTRY MANAGER OF COMPANY WA, VIETNAM

Interviewer: Thanh Nguyen (Author)

Interviewee: Mr. Lennartz

Interview method: Emails

Language: English

Time:

- Interview questions sent: 2 September 2015 at 01:31 am
- Answers received: 13 September 2015 at 3:14 pm

Introduction

1. Can you please introduce a little bit about yourself?

I had graduated in the UK and a few years of working experience in two IT companies before coming to work for WA in 2006. In 2009, I decided to come to Vietnam to explore a new working life and culture.

2008-2009: WA's project manager

2009: working in WA Vietnam

Access to talents

1. How many people are there in your team now? How long have you been working as a country manager for WAV?

5 years

35 people

2. How many people have you recruited so far? (Including people who left)

47

Some of them left due to different reasons

3. How long does it take you to find a suitable person for an open position?

- *At the beginning?*
- *Now?*

At the beginning: 1 week

Now: 1 week

The recruitment process is smoothly carried even though there it is a challenge in language difference.

4. From 1-10, how hard to access the skilled people from recruiting? (Easiest 1-10 hardest).

6

It's kind of easy, there are plenty of skilled architects in the market.

Swiftness and Expertise

1. Regarding to the skills, knowledge required, how many percent of candidates are qualified to do the job?

10%-20%

They need to prove their skills in the interview

2. From 1-10, what number can reflect the quality of the skills needed to do the job of your team members? Can you please explain a bit about your assessment? (Not satisfied 1-10 very satisfied).

- 2D teams: 7

Some are not very good: 5

Some are excellent: 9

- 3D teams: 7

They can understand the architecture drawings but they need to proceed the reading quicker.

3. What skills or knowledge are the minimum requirements in your recruiting process?

Good at Revit, auto cad, and design graduates from Architecture University.

For doing 3D: 3D studio max

Employees' Attitudes and Cultures

1. What are the bad-for-business characters that most of your employees share?

Unpunctual, not fluent in English, easily distracted

2. *What are the good-for-business characters that most of your employees have?*

Hard working, creative, good teamwork

3. *From 1-10, how much does your employees' performance fulfill your expectation at work?
(Not satisfied 1-10 very satisfied)*

8

4. *From 1-10, can you compare the effectiveness of an employee in Vietnam to an average one in the UK?*

They are shier. Although Vietnamese people are creative and have good skills, many of them are hesitant to show their creativity. They are also scared of asking questions when they don't understand, especially new ones

5. *Have you ever experienced any conflict among employees?*

- *Between employees themselves:*
- *Between you and employees:*
- *What are the main causes of conflicts: (example: stress from work, religion differences, belief systems...)*

WAV creates a high competitive working environment to continuously improve the employees' performance, so it's much stressful sometimes. But, not any conflictions or arguments witnessed

Infrastructure

1. *Could you please describe about the local infrastructure regarding to road office, power and Internet supplies?*

I need to mention that we have moved to a bigger office located in District 3 due to an increase in the number of employees, and they are good offices. Occasional blackouts are annoying though the electricity provider informs in advance and there is a spare electricity generator.

Additional costs while running

1. *Beside regular costs such as rental, taxation, payments to workers, can you name the costs rarely occurred during the running, or those were not expected before?*

Cost of rewarding in cash for excellent teams