**RMIT International University Vietnam**

**BUSM 3311 – International Business**  
**A3**

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“I declare that in submitting all work for this assessment I have read, understood and agree to the content and expectations of the assessment declaration”  
**Highlands Coffee Philippines Analysis**

1. **Introduction:**

In terms of business operations, globalization has transformed and played a crucial role in influencing the corporate organization in the 21st century. In addition, with the proliferation and evolution of globalization, enterprises gradually tend to conduct cross-border business in an open market, which leads to maximizing organizational advantages without harming society and violating the rights of people from different cultures (Ali, Abbas J 2001). After going through many issues and challenges in the late 1999s and early 2000s, Highlands Coffee has become one of the leading firms in the Vietnamese coffee market. Thanks to that, the company has a valuable opportunity to enter the Philippine market to popularize specialty Vietnamese coffee. This report will introduce the company, analyze some difficulties that Highlands Coffee faced, and then bring forward recommendations based on the concept of International Business to deal with the addressed issues.

1. **Company background:**

Highlands Coffee is an exclusive brand of Viet Thai International Joint Stock company which mainly serves many types of coffee products that not only bold phin Vietnamese coffee at café shops, but also instant coffee and coffee can be purchased at convenience outlets. Additionally, David Thai, who is a Vietnamese American founder, returned to Vietnam and established Highland coffee in 1999 because of the passion of Vietnamese coffee (Highland Coffee, News n.d). Particularly, Highland Coffee dramatically builds its reputation thanks to the store coverage, good services, and specialty items, bold phin coffee. Its pride is the step of collecting the finest coffee beans from the Bazan red soil of the highlands of Vietnam (Highland Coffee, News n.d). Because it realizes potential competition from international brands, for example, a hundred of young people waited for purchasing a cup of Starbucks coffee on the first opening day. Therefore, in 2012, a Viet Thai company decided to sell 49% of the shares for Jollibee Group with $25 million to strengthen its brand equity. Until now, Superfood is listed on owners of Highlands coffee with Jollibee Food Corp (Breen 2016). Furthermore, Highlands coffee achieved the highest market share, compared to both local and international supply chains such as Starbucks, The Coffee House, and Trung Nguyen Legend as the illustration of figure 1 (Ha 2018). Due to the advantage of being a pioneer in the coffee market over its competitors, this official website shows that there are 341 coffee shops throughout Vietnam, including 121 outlets at good locations in Ho Chi Minh city (Trang 2019). Based on the same psychic distance, Vietnam and the Philippine belong to the group of Southeast Asian countries, which is market-seeking motives for Highland Coffee to cooperate with Digital Paradise by joint ventures approach in March 2012. From that, it has opportunities to expand Vietnamese coffee and brand to the world. Otherwise, the company applied the international strategy for its drinks with limited local customized products. For instance, this brand changes its original taste to be sweeter to appreciate Filipinos' coffee taste. However, it keeps traditional Vietnamese traits such as the name of products in Vietnamese (Highlands Coffee, Menu n.d). Currently, Highland Coffee opened 43 coffee shops in the Philippines, which is not a huge number, but it also represents its success overseas.

1. **Analysis:**

**1. Human resources management (HRM):**

According to Downling, Festing & Engle (2017), international human resource management (IHRM) is defined as the selection, training, employment, and motivation of employees for international operations. The IHRM is more comprehensive when comparing to Domestic HRM since the management of the multinational company struggle with different obstacles in recruiting and managing staff within the distinctive cultural and legal frameworks that govern employee practices around the world (Cavusgil et al. 2017).

1. **Approaches to managerial staffing:**  
   At the time Highlands coffee decided to enter the market in the Philippines, the international human resource of Highlands coffee in Philippines was from host country nation (HCNs), which a local person residing in the Philippines was employed to work in the subsidiary situated in their hometown (Gupta 2013, p. 43). By hiring local managers, they might cooperate with the parent company of Highlands Coffee in Vietnam to be more adaptive to foreign context and avoid language barriers under the development of local HRM practice (Treven 2001, p. 177). Hence, the brand could understand the cultural identity, Filipino's habits and preferences for coffee taste. From that, they can adjust suitable strategies, approach the new market, and avoid as many mistakes that international companies often make as possible. However, there are also disadvantages when hiring local managers in foreign countries. Due to the polycentric-orientated model, the parent company could not assure whether local managers are well-trained for a specific job. Secondly, it seems hard for the Vietnamese parent company to keep track of how the Philippine counterpart is operating, which may result in internal conflicts (Scullion & Collings 2006).
2. **High turnover rate:**  
   Highlands Vietnam entered the Philippines market as a joint-venture in 2012, by cooperating with Digital Paradise- the largest and fastest-growing Internet Café chain in Philippines. However, at that moment, their partner-Digital Paradise did not have enough experiences and fundamental understanding in operating old-fashioned coffeehouse model, especially the recruitment and selection stages of HRM’s aspect. Since the recruitment stage is known as applications and actions carried out by the company for the main purpose of identifying and attracting potential employees (Barber 1998); Thus, ineffective recruitment and selection stages of Digital Paradise resulted in high accept error rates which leads to inadequate and impassioned employees, who are likely to change their job quickly (Downs, Farr & Colbeck 1978, p. 271), to work in Highlands Philippine’s environment. Eventually, Highlands Philippines had to deal with high turnover rate, which negatively impacted their profitability and operation since the voluntary turnover incurs both significant direct cost (replacement, recruitment and selection, temporary staffs) and indirect cost (product and service’s quality, morale) and the loss of social capital (Dess & Shaw 2001, p. 446).
3. **Philippine’s culture:**

According to Kessapidou and Varsakelis (2002, p. 268), national culture is crucial for the globalized business environment. The differences between national cultures affect not only the entry mode of the firm (Kogut & Singh 1998, p. 411; Shane 1994, p. 627) but also the perceived difficulty associated with the entrance of foreign personnel into the organization (Evans et al. 1987, p. 52).

1. **Communication:**  
   According to Griffith (2002, p. 256), effective communication between international business coordinators is crucial for global success. Since communication is the foundation of the effectiveness of international trading activities and founding strong relationships, which results in enhanced performance of multinational firms (Dwyer, Schurr & Oh 1987, p. 11; Nevin 1995, p. 327). Therefore, it is necessary for Highlands Philippines to assess national and cultural differences involved in its internalization activities. Regarding the cultural difficulties that Highlands has confronted with, Highlands managers mentioned communication issues with their foreign partners, who is Filipinos. According to Villar (2007, p. 59), the Philippines belongs to high-context culture, which makes Filipinos receptive and perceptive to the meanings embedded in non-verbal communication, and most of the communication is done indirectly. It is rare to receive a message, especially a sensitive one, in a directly blunt way since Filipinos will be overly polite and to avoid speaking harshly. Therefore, Vietnamese expatriates should pay close attention to listen to what their foreign partners say and do not say (implicit meaning) and double-check their understanding by reconfirming with their colleagues (Cultural Atlas n.d).
2. **Filipinos’ tastes in their drink:**   
   When Highlands Coffee initiated the Philippines market, the enterprise faced different cultural problems regarding taste in the new market. As Highlands operates under franchise system, when it penetrated the Philippines market, Highlands Coffee imported its entire ingredients and applied the same technique of making the beverages; hence this has encountered the lacked preference in taste from the Filipinos. Firstly, most drinks in the Philippines are sweeter than those in Vietnam, which they put the higher proportion of sugar in their drinks especially coffee and tea. This has led the company to adjust the whole menu of the beverages to make all the drinks suit better to the preference of the Filipinos (Gideon 2017). Secondly, the Filipinos were getting used to the taste of domestic Robusta coffee beans since they have the advantage of growing the coffee beans, which accounted for 65.2% of the national production mostly grown in Mindanao, while Highlands Coffee was using Vietnam-grown Robusta coffee beans in their beverages. As a result, Highlands Coffee found it challenging to meet the customers’ preferences and expectation by applying different coffee beans.
3. **Drinking habits in Philippines:**  
   Additionally, there is a remarkable difference in the drinking habits of Filipinos compared to the Vietnamese, which leads to the different approaches from Highlands Coffee as they conduct international business in Philippines. Owing to high traffic density, the majority of Filipinos purchase coffee during the working hours and early in the morning to consume while driving and working. Initially, Highlands Coffee did not approach the suitable strategy to introduce their products and sell them effectively since they opened standard coffee houses with services while the consumers in the Philippines prefer takeaway coffee within short purchasing time. Additionally, the Filipinos tend to drink instant coffee, accounted for 90% of coffee consumption, as it was inexpensive compared to branded coffee products (Penny, Jack & Gary 2017) ; hence, the company also dealt with high demand of instant coffee in the Philippines to attract consumers with the original Vietnamese coffee.
4. **Recommendation:**

Regarding Highlands Philippine’s high turnover rate, Highlands should reassess and improve its HRM policies to reduce employee’s turnover, especially the recruitment and selection stages, and staff’s compensation. Therefore, here are three recommendations for Highlands Coffee to enhance its HRM in Philippines:

**Realistic Job Preview as a recruitment tool:** Realistic job preview is a method which uses brochures, videos, or job presentation to offer the recruits with overall-detailed information, and balanced image of their considering job. Since applicants are equipped with a clear job description, they will understand exactly what tasks they will be assigned with and the acknowledgment of opportunities and obstacles they will experience from the job. Therefore, there will be no misconceptions about the job, which could significantly dissatisfy the applicants if it were misunderstood. Consequently, if Realistic Job Preview is effectively applied, Highlands Philippines can reduce their employee’s voluntary turnover by equipping the applicants with an accurate job expectation from the beginning (Roth & Roth 1995, p. 68).

**Weighted Application Blank (WAB) as selection tool:** a WAB is a form in which answers are assigned a score that interdependent to the skills, knowledge, and abilities needed to perform the job. The set scores are based on the expectation of each organization and remove the subjective evaluation’s error of the applicants. When the WAB is correctly developed, handled, and scored is a practical method to predict prospective employees’ job success, for instance, job tenure. Furthermore, the WAB is also useful for organizations to reduce recruiting-related cost and employee’s turnover, particularly in those industries that involve a large number of workers, such as hospitality, and food and beverage (Kaak et al. 1998, p. 18). Since Highlands Philippines are operating in the coffee chain industry, it should develop a WAB based on its expectations of essential skills needed for well-performed job’s tasks. The Highlands WAB’s scores should correlate to the elements that might contribute to a future successful career, such as years of working and the knowledge of the coffee retailing industry.

**Effective managerial staffing: :** To strengthen the coordination and control over their subsidiary, ethnocentric model is preferable that key management positions in both home and foreign countries are conducted by the parent company, experienced employees from headquarters are transferred to a foreign subsidiary (Harzing & Ruysseveldt 2004). For example, Coca-Cola approached this model by achieving their objectives through training expatriate who is in charge of transferring to a foreign subsidiary and absorb the company’s goals, hence performing well in a new market (Azar 2012, p. 73). However, to carry out this managerial model, the company should have the proper training for recruitment. Additionally, Coca-Cola spend time on taking steps to assess employees interested in working overseas and ensure they are competent. Regarding Highlands Coffee, their ambition is to bring Vietnamese coffee flavor to the world but still suitable for customers’ tastes. Thus, Vietnamese managers need to be trained and work overseas, delivering the message to Philippine counterparts. However, this also affects individuals in terms of their private lives, families, perceptions, and culture. Therefore, compensation and benefits for expatriates are essential. According to Briscoe & Schuler (2004), compensation programs for expatriates must be attractive enough so the company can encourage and maintain qualified employees for foreign assignments. The company should keep it fair and maintain it consistent and reasonable among the compensation of employees of both home-based and abroad companies.

Secondly, regarding the cultural differences, there are two recommendations for Highlands to adapt to Fillipinos’s taste and drinking habit as well as to take advantage of local resources:

**Applying a cross-selling approach for new product values**: As instant coffee such as Nestlé, Universal Robina dominates the Philippines coffee market, which accounted for over 65% of the value sales and estimated to increase to 1,5 billion USD in 2023 (Euromonitor International 2019). Therefore, Highlands Coffee enterprise ought to produce instant coffee with a unique taste and sell this product by applying a cross-selling strategy. Theoretically, cross-selling is defined to make customers purchase more by buying a product related to what they purchased; for the purpose of enhacing customers’ preference that leads to reduce the customer’s intention from changing to other brands (Vyas et al. 2018). Hence, this will assist cultural differences in drinking coffee between Vietnam and the Philippines as Filipino consumers prefer making instant coffee to carry to buying the beverages in the coffee stores. Additionally, there are several benefits that Highlands Coffee could achieve by conducting cross-selling, which not only keep relationships with customers, whether short-term or long-term, decrease expenditure on consumers but also reduce liability risks related to ineffective assets.

**Utilizing the domestic natural resources:** We suggest Highlands Coffee should apply Philippines homegrown resources. Firstly, the Highlands Coffee’s beverages are uniform products; they will confront insufficient preference from the local consumers as they introduce their product to the Philippines market owing to lacked localization in their products. Once the company applies the Philippines domestic grown coffee beans, the taste and scents will become more familiar to the local market. Therefore, Highlands should apply a transitional strategy to balance the conflict created by two pressures to achieve both global efficiency and local responsiveness (Barlett & Ghoshal 1993, p. 309). Secondly, the Philippines is estimated to be the potential local coffee production by experts, especially Robusta coffee beans, which accounted for 65.7% of the total national output, as it significantly attracted an ascending number of consumers (Maranan 2020). Additionally, the transportation fees, in this case, are regarded additional cost, which is significant as it made the productivity go down due to fewer opportunities and heavily damage the international relations since it forces Highlands coffee to pay consistently while being in a cross-cultural competence (Johnson et al. 2006, p. 525). Owing to that reason, using domestic resources will lower the risk of suffering transportation fees. Therefore, Highlands Coffee would benefit from utilizing the available Robusta coffee in the Philippines rather than using the same bean's type grown in Vietnam.

1. **Conclusion:**

To conclude, when a business intends to enter the market in a new international context, they should take several factors such as the international human resource management (training policies to find out qualified and passionate managers who are suitable for working in a foreign environment), cultural identity (communication, languages, tastes and preferences of local people), both of which will help a business approach the new market more consistently and effectively.

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1. **Appendix:**

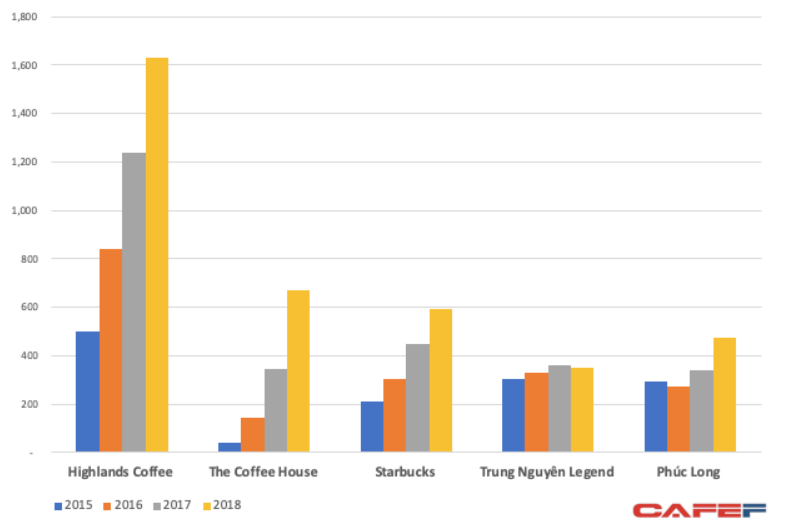


Figure 1: The annual revenue of 5 coffee brands in Vietnam. (Unit: billion VND)