

# Challenges in human resource management faced by foreign businesses



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According to the figures established by the World Bank in 1996 there has been unmatched rate of economic growth in East Asian countries including China, Indonesia and Vietnam. The annual growth rate of the above mentioned countries was 7.8%, 6% and 8% respectively. The major reason for East Asian expansion was the foreign direct investment which by 1994 accounted for 54% of total foreign direct investment in developing countries by western companies. China had been on top by inviting 75% of total foreign direct investment made in 1994 in major East Asian countries. (World Bank, 1996) It has been the second largest country to invite maximum foreign direct investment. (UNCTAD, 1995)

Foreign direct investment not just came with huge amount of investments of western world into big Chinese companies but many mergers, acquisitions, subsidiaries and joint ventures came with it. When we see many advantages of foreign direct investment, which will likely to remain the reason for growth in East Asian countries in future, there are certain disadvantages which can't be overlooked. The major concern was and going to be the management of human resource. Matching business practices to those of conventional Chinese companies and gradually leading them in the direction of modern business practices and keeping the productivity as high as possible is one of the toughest challenges western managers face and sometime might not be able to deal with it. Training and development of expatriates and saving early repatriate is just another challenge companies face when they are conducting businesses overseas.

One of the biggest challenge for human resource managers is to understand the culture and to set up business practices and policies in accordance with <https://assignbuster.com/challenges-in-human-resource-management-faced-by-foreign-businesses/>

it because without having known the norms, traditions and values one just can't make decisions which can be fruitful and give good return on investments made. Chinese culture is intense so to speak. Least adaptive to the changes in modern world economy which requires quick addressing to rapidly changing needs and demands of the customers, implication of new skills, information sharing, etc. In late 1950s Iron Rice policy has been the foundation of Chinese personnel management which indicates the guaranteed job security, income and benefits for lifetime. (Warner, 1996; Korzec, 1992) Later in 2001 Iron Rice policy had to be broken when china joined world trade organisation due to issues raised by some economists. The biggest drawback of this policy if it had been in practice even now would be poor response to changing competition and low productivity because 50 years old can't be as efficient and competitive as 25 years old. In 1978, Chinese government introduced The Open Door policy which was to modernize Chinese industry and to introduce western technology and management skill and this was achieved by international equity joint ventures. (Warner, 1996)

One of the problems mentioned in above paragraphs is sharing of information which was noted even in extreme situations where there it was necessary to overcome the hindrances or to stop the business from demise. (Child, 1994) Behaviour which limits the quality of work and productivity can be reinforced by cultural values. Guanxi refers to personal relations or exchange of favours based on friendships. (Chen, 1995) It's like you give me something and I give you something back. Keeping a healthy and friendly relation with employees helped the expatriate managers do well at times but

it is sometimes not convenient to establish relationships and run the system based on universal values. (Sergeant, Frenkal: 1998) On the other hand Guanxi counters performance based values and systems as in most of western organisations.

HRM practices are more or less cultural sensitive. Lockett indicated four main features of Chinese culture to understand the business and management practices in Chinese firms. 1) Respect for age and hierarchy which results in centralised decision making system, 2) Face and harmony which is considered significant aspects of social life in china, 3) Group orientation refers to being a part of certain group, team or faction, Chinese people like to be represented on the basis of group they are part of, 4) Personal relationships (Guanxi) as explained above is return of favours based on friendships.

The above mentioned features of Chinese culture help us understand the long followed norms seen even now in some companies. The question arises whether to follow standard universalistic values or to focus on localization of human resource practices in order to keep business going. In a survey conducted by Bjorkman and Lu found out that the degree of standard globalisation was higher than localisation of human resource management. According to the findings standardisation was higher in companies with strong western partners. Due to the tension between MNC standardisation and localisation of HRM companies choose either of two. The distinction between MNC standards and human resource localization companies seems to be shifting away from implementing Chinese or western management

practices and rather focusing on what kind of techniques and practices are required in a certain company.

Sometimes companies hire groups of Chinese employees under the supervision of expatriate managers. This helps companies to successfully establish businesses in China but later find it difficult to change the work culture and practices due to strong interpersonal relations (Guanxi). In and out group is another aspect which give managers a hard time to establish good relations and to externally hired Chinese employees.

Foreign subsidiaries face double pressure to not only conforming to local environment and norms in which they operate but also to parent company expectations to maintain the internal consistency. (Westney, 1993) In order to keep the business going successfully companies should mix its global standards with the local policies and make a hybrid system in which some of the norms of Chinese culture can be accepted and some can be adapted.

Developing an effective work force is a major challenge in China. Achieving cheap labour is easy but to achieve good labour relation is a bit hard thing. This challenge comes with four main concerns as noted by Weldon and Vanhonacker. 1) Selecting local people who have potential to succeed, 2) Providing the learning and training experience they need for development, 3) Retaining the best employees, and 4) Managing day to day work relationships. It is difficult for expatriate managers to hire proactive people who can take an initiative in company related matters as happen in western companies. In a related study managers reported that Chinese employees keep avoiding the issue until it becomes difficult to ignore. When solutions

are addressed they are mostly based on precedents while in western companies managers appreciate employees who take an initiative to raise the issues and address them proactively. The solutions are mostly new ones based on the issue of the time and not on precedents. Continuous improvement and creativity is valued and rewarded in western companies.

People and companies when coming to china from west face an immense change in culture and life style of Chinese people. In Chinese education system students are taught what to think and not how to think which keep those stick to the same life style and thinking throughout their lives and the impact of which can be seen in the companies they work. Respect, precedents are highly valued in Chinese culture. Western managers come from a total different culture where they are brought up in an education system where liberty of thinking and thinking beyond the point it valued and when above two come together it is turbulent for western mangers to deal with Chinese employees. To deal with these issues Chinese government has formed Human resource centres to help the western staff get the better understanding of the culture and establish better relationships with the employees to keep the ship flowing smoothly.

In order to be competitive in the market a company need employees who are talented and take up the pressure and render tasks as they come in the way. Even with this realisation there is a shortage of talented people in china which is predicted to become a major barrier in current and future growth.

(Ma & Trigo, 2008) The shortage of talented people is because of the fact that china has invited huge sums of foreign direct investments. According to the estimates its shows that 50, 000 foreign companies enter china market <https://assignbuster.com/challenges-in-human-resource-management-faced-by-foreign-businesses/>

every year striving to find, recruit and retain talented people they need to run businesses. (Taylor, 2008; Zeng, Soosay & Hyland, 2008)

This brings the need for human resource talent management. China lacks world-class talent required by multinational corporations. The greater concern is the managerial skills. According to the study conducted china will need 75000 people in managerial positions and currently has only 5000 people on the labour market. (Farrell & Grant, 2005) Multinational corporations find themselves competing with restructured Chinese companies which have raised the need for effective human resource talent management strategies which makes it a major concern for western multinational corporations. (Cheung, 2008; Ma & Trigo, 2008; Taylor, 2007)

Talent management has become widely acknowledged concern of companies worldwide but most of the times the national differences are not taken into account. (Colling & Mellahi, 2009) Shweyer defines talent management as sourcing, screening, selection, retention and renewal of the workforce with analysis and planning. It also includes talent gap analysis, talent reviews and succession planning evaluation. (Mccauley & Wakefield, 2006) It is very necessary to understand the local system before starting the operations. Transferring of human resource management policies and practices from the headquarters to the subsidiaries is bit complicated. Companies need to counterbalance globally standardised human resource practices while responding to local demands. (Bjorkman, 2008) the hybrid set of policies often helps more than just trying to implement Chinese or western policies in the company, the hybrid system which has more Chinese practices and gradually shifting it toward the western system of policies. <https://assignbuster.com/challenges-in-human-resource-management-faced-by-foreign-businesses/>

The question is if western policies and practices are to be implemented than to what degree and to what extent they should be implemented and integrated in the system. (Bjorkman & Levrik, 2008) In order to transfer the human resource management practices from home country to china, institutional factors as well as cultural factors tend to influence the adaption and responsiveness of the human resource practices. (Gamble, 2003)

Collings and Mellahi explain that talent management is widely used term but in actual it is fragmented into various aspects of strategic human resource management. There are three different perspectives explained by Lewis and Heckman in this regard.

The first perspective focuses on gathering of basic human resource management practices. Researchers in this field have a broader view of talent management. The traditional human resource management practices can be distinguished from strategic human resource management by being more future-oriented by keeping in line with the overall strategy of the firm. (Blackman, Kennedy, 2008) The second perspective says that talented employees are valuable goods for the company which need to be sought after irrespective of some organisational needs. Researchers in this field categorise employees in top, middle and low performers. An argument was established that companies with more top level performers are stronger (Walker & Larroco, 2002) but this idea was questioned as it is not always desire able to fill all the positions with top level employees. (Collings & Mellahi, 2009)

The third perspective focuses on job flow of employees within the organization. This has more to deal with internal labour market than external  
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labour market. The fourth perspective which was recently established by Collings and Mellahi is the emphasis on the positions which put an impact on the competition, the positions which have direct relation to the competency of the organization. According to this perspective firms should focus on the pivotal positions rather than just filling talented employees. It's basically about the identification of key positions which have direct impact on competition.

To remain competitive it is essential to retain the talented employees. This could be achieved by continuous motivation and building a relation between employee and employer. This is one way to keep their commitment high with the organisation and stay with it for long term which in turn helps the company grow and remain competitive over the time.

To understand the human resource management in china expatriates should get an understanding about the political and economic structure of china. The businesses in china are classified as state-owned, collectives, subsidiaries or joint ventures. Joint ventures have become common in recent years. More and more employees want to work with companies came into existence as a result of joint ventures and subsidiaries for better remunerations and benefits for skills they provide. Due to china's higher education standards which lack many points which have become topics of concern these days it is hard for expatriate managers to deal with the issues and devise solutions to problems according to local environment.

In most cases the Chinese partner of joint ventures is state-owned company from the same industry. It is thus easy for the companies to higher staff as

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this is the most readily available source in the beginning and many companies try to tap this source. There is a disadvantage to this approach as well. Labour which is being transferred from the Chinese partner company may inherit the qualities of the old organization which might be an opposing force to the kind of environment joint venture wants to establish. Joint ventures in China are allowed to hire people from outside the organisation with or without the help of local labour department. The abundance of labour might make one think that employer is spoiled by choice which is only true if hiring non-skilled or semi-skilled employees. When it comes to hire skilled or talented labour its bit hard for the companies to deal with as explained earlier that talented employees are considered as commodities for a company.

Finding right employees not easy let alone getting skilled labour transferred from the old employers because it is more difficult to do so. One reason to hire fresh graduates from universities is that they don't bring bad management practices with them. It is easier to mould them according to organisational culture and make them work, think and perform in the organisation according to companies standards. If the labour department don't support a company for the transfer of the skilled labour, they will also refuse to reveal the recruit's file which has all the information regarding their past experiences, salary, ranks along with their educational and political histories. Failure to get the file it restricts employees to take up a new job. Getting employees transferred from other cities might require as many as twenty approvals. (Tsang, 2010)

With the foreign direct investment flooding into china there is a scarce of talented employees and it is inarguably becomes unacceptable for the recruit's work units to release them to new employers. Tsang quotes and example about how difficult it is to get an employee transferred from on company to another company. Guangdong Float Glass Company once placed vacancies in the newspaper. At the end thirty new employees were offered jobs but ten couldn't take up the job as their work units didn't allow them. Another case was when China Hewlett-Packard could heir only six engineers because rest of them were not allowed by their work units to take up a new job.

In order to get a recruit transferred a company can seek help from the local labour bureau. Even if the local labour bureau is willing to help the transfer of an employee completely depends on political clout of the recruit's work unit. If the work unit is state-owned large corporation the local labour bureau is no likely to help. If the work unit is a small enterprise then the local labour bureau will help to get an employee transferred but in that case the new company will have to compensate the old employer for all the education, training and development of the recruit.

In china firing is even more difficult than hiring an employee. If the fired employee comes from Chinese partner of the joint venture then they will have to go back to the same company which will be hard for it to allocate them a job again but there are certain regulations for joint ventures to fire a person. An employee can be dismissed if they become redundant as a change in production and technical conditions or who fails to live up to the expectations even after relevant training and development and not suitable <https://assignbuster.com/challenges-in-human-resource-management-faced-by-foreign-businesses/>

for transfer to other works. According to the regulations the company can take action which can be dismissal if the recruit has violated the venture's regulation which may have led it to severe consequences. The venture cannot dismiss an employee for its own purposes and thus needs to inform the in charge department and the local labour bureau. The labour union should be given an advance notice and time to protest about the discharge. These are some kind of barriers to dismissal a joint venture or foreign subsidiary faces.

Many companies are flooding in china for cheap labour and low cost productivity but in actual end paying more than the labour wages in other developing countries. The Chinese regulation says that wages in a joint venture must be 120% to 150% higher than state owned enterprise in the same line of business and locality. The reason behind this regulation explains that more skilled employees are required in joint ventures. Many investors later realise that they had been over charged by Chinese side. (Tsang, 2010)

Trade union is another aspect of Chinese businesses. Many trade unions have been established in many joint ventures. They are at times very helpful in accomplishing the tasks as they have the responsibility of carrying out necessary education, training and development of the workers. Another duty which trade unions perform and should be welcomed by foreign investors is to arrange technical and professional courses and recreational and cultural activities. The presence of trade unions is often helpful for Chinese as well as foreign joint ventures. Many foreign joint ventures found trade union's presence very helpful, in accomplishing the tasks, and less confronting.

To conclude my essay I would say that when conducting a business in china there are often many problems a firm faces. The cause to those problems can either be institutional or cultural. The institutional problems include issues related to political and economic structures of the country. These issues are mostly the result of government policies and the aftermath of Cultural Revolution. On the other hand culture changes at a slower pace than economic changes. It takes longer to change people's perception and their attitudes developed over centuries. If the human resource problem arises because of any economic issue it can be addressed and overcome but as far as cultural issues are concerned like explained above will take time to fix.

Human resource management does face a lot of challenges when working in china but the causes to most problems are not under their control but the parent company has all the freedom to choose who they want to assign the key positions in the joint ventures or subsidiaries. Possessing world-class managerial skills and qualification is one thing but adapting to change when send abroad and liking for the new culture is very important. The expatriate managers should be accommodating toward culture as well as concerns of Chinese which is very different from their own. Being cultural sensitive helps them save themselves from early repatriates and deal with the bureaucracy and know the hardships of working in developing country.

As for the education as per the western companies' standards, China according to my understanding has figured out the issue and importance of being competitive. They have sensed that there are loopholes in their higher education standards which lag them behind. We see hundreds of thousands of Chinese students flooding to western countries each year for higher

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education so that they can fulfil the educational demand of the multinational corporations entering in china every year.

Guanxi which has been discussed several times above in this essay still is very important to obtain scarce resource and benefits which can't otherwise be obtained. It also helps to tackle bureaucratic issues. In order to make their expatriate managers stay in china for long companies should conduct an extensive training and development program before sending them abroad and avoid extended overseas stay that don't often leave a good impact on productivity.