

Hr challenges of international business



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In this chapter we include the internationalization of business, inter country, differences affecting HR, improving international assignments through selection and training & maintaining international employees.

HR and the Internalization of the business

Now, the companies are increasingly expanding their business abroad. For example, big firms like IBM, Proctor & Gamble have extended their operations overseas to huge extent. Also with the expansion of the European Union into Eastern Europe and the huge surge in demand across Asian markets have lead to even small firms trying to go overseas and their success also depends on their overseas marketing abilities.

To compete on a world wide basis, the organization should be able to link the market, its product and the production plans. The firm must also be successful with its HR policies and systems so as to serve the staffing needs of abroad. For example, “ should we recruit the local offices with local or US managers?” “ How should we maintain relations with unions in abroad?”

The HR challenges of International Business

According to the research, the senior international HR managers consider three key factors that affect Human resource management process in an international environment:

Deployment: It means moving the person with right skills to the suitable positions irrespective of geographical boundaries.

Knowledge and innovation dissemination: It means spreading the best practices and knowledge through out the organization negating the place of its origin.

Identifying and developing talent on a global basis: It involves screening those candidates who can perform well in a global environment and also honing their abilities.

It is difficult to maintain global staffing needs as it involves addressing various activities like candidate selection, assignment terms and documentation, relocation processing and vendor management, immigration processing, cultural and language orientation and training, tax administration, compensation administration, carrier planning and development and handling of spouse and dependent matters. For example, in firms like Ford Motor, an HR manager needs to understand different cultures and the ways to motivate people from different section of the societies. While in China, special insurance should be provided to cover emergency evacuations for serious health problems. So for a global HR manager, the job is challenging not just because of the long distances involved but because of cultural, political, legal and economic differences among the people of different countries.

How inter country differences affect HRM

In a capitalist economy like the United States, the companies dealing within the border of the country encounter only a limited set of economic, cultural and legal variables. In US, there are some differences among the laws affecting HR across different states but basic federal guidelines help them to

solve such matters like discrimination, labor relation and safety and health easily.

But a company operating globally will encounter heterogeneity. For example, in UK the minimum legally allocated holidays are 0 while the same are 5 weeks per year in Luxembourg. In Denmark for a company having more than 30 employees need a representative on board of directors but the same requirement is not met in Italy. So, the HR managers need to regularly adapt to the personal policies of different countries. In general, there are following inter country differences.

Cultural factors: Different countries have different cultures- in other words; they adhere to different nation's art, social programs, politics and way of doing things. According to the difference in culture, the management practices vary among different countries. For example, the study of 330 managers in Hong Kong, the people's republic of China and the United States found that the US managers are most concerned about getting their tasks done. Chinese managers were more focused on maintaining a harmonious environment while the managers from Hong Kong were somewhere in between these two extremes. There are some other finding related to cultural differences which affect the HR policies. For example, Mexican workers expect their managers to keep distance rather than to be close in comparison to US employees. In Mexico, individualism is valued less than the United States. So, some workers expect a wider range of services and benefits from their employers although the lists of cultural differences are endless. For example, in Germany one is expected to arrive in time and

should address the seniors formally. So the people arriving from different countries need to be oriented in order to avoid cultural shock.

Economic Systems: The difference of economic systems also affects the HR practices. For example, France- a capitalist's society- has strict rules regarding the lay off of workers and also limits the number of hours an employee can work. The labor costs are also substantially different. For example, in US, the production workers normally get \$21. 33 while in Mexico it is \$5. 41, in United Kingdom it is \$17. 47, in Germany it is \$25. 08 while the same is only \$5. 41 in Taiwan. There are also other factors affecting labor costs. For example, the working hours differ across different nations. For example, annually the Portuguese workers devote 1, 980 hours of work annually but in Germany, the workers average at only 1, 648 hours. In other European economy, the employers are required to pay substantial severance pay to departing employees that varies from an amount equaling to the salary of last 2 years in United Kingdom to 1 year salary in Germany. In France, the workers get 2 and half days of paid holidays for every month of service per year compared to yearly 223 weeks vacation in the United States, Italians get around 4 to 6 weeks of per year while Germans get around 18 vacation days per year after 6 months of service.

Legal and industrial relations factor: The industrial relations (the relationship among the work, union and employer) also vary from country to country. For example, in US it is easy to hire and fire a worker but the same is time consuming and expensive in Europe. In several European countries, the work councils replace the Union based system of United States. Work councils are elected by the employees and they meet once a month to decide policies

related to the workers. In some countries like Germany, there is another principle called co determination. It means that employees can legally affect the policies of a company. Here, workers have their own representative in the in the top management of the employer. But in the United States, the employers decide the wage and benefit according to themselves or by negotiation with the labor unions.

European Union: in the 1990's the European Union was formed in order to provide a common market for goods, services, capital and even labor. There were several advantages like removal of tariffs as well as easy mobility among workers across different countries. In early 2002 with the arrival of Euro, further removed the differences among these countries. Now the European Union laws require multinationals to consult their workers in case of some events like mass lay offs. After 2008, the companies having more than 50 employees in the EU were required to consult their workers about all the employee related actions. But the intra EU differences remain. For example, some countries have minimum wages while the others do not have the same. There are also differences among the number of annual holidays, advanced notice of termination, employment contracts. There is also a different trend related to work contract in between the United States and the European countries. For example, a letter containing date, job title and initial compensation for the new hire is sufficient in United States, the EU laws ask for a much detailed statement of the job including the terms and conditions of work within the first two months of the employment. Even the rules vary within the EU, for example, in England the work contract needs details on rate of pay, date when the employment begins, work hours, the vacations

entitled, disciplinary rules and grievance process. But the same is not required in Germany and more emphasis is paid on the type and condition of work. Also like Germany, the Italy does not require written job agreements. But with tying these differences will fade away in EU and the cultural differences will be translated into different management practices.

Global differences and similarities in HR practices

HR practices are different for each country because of the difference in culture, legal/ political systems and economics. In 1990's, the best human resource scholars from 13 countries conducted a survey on international human resource management practices. They did the following analysis.

Personnel selection procedures: The selection criteria for employees are almost similar around the globe. In United States, the employees are ranked on their ability and skills to perform the required job as well as some work experience in some similar job. The same was true for countries like Australia, Latin America but in Mexico, “ having the right connections” were the top priority of being selected or being hired by employer. In Korea, Indonesia and People Republic of China, for selection the emphasis is paid on “ employee test”. But in Japan and Taiwan, the main consideration for job was “ the person's ability to get along well with others already working here”.

The purpose of performance appraisal: Different countries use different methods to do performance appraisal. For example, in Taiwan, United States and Canada the employers rank their employees to determine pay but the same is not important in Korea and Mexico. In Japan and Mexico, the main

purpose of the performance appraisal is “ to recognize sub ordinates”. In United States, Australia and Taiwan the employers use performance appraisal to evaluate the employee’s performance.

Training and development practices: Generally, all the countries share a lot of similarities when it comes to the purpose of providing training and development programs. All around the globe, the employers provide training programs in order to improve the technical abilities of their employees. But there is a variant in the form of the amount of training to be provided. The training expenditures is highest in United States with per employee expenditure of \$724 followed with Japan \$359 and the least expenditure per employee is for rest of Asia at \$241. Like wise, the total training hours per year for employees in Asia is at 26 but in Europe, it is at 49. All the employers in the world provide majority of the training as class room training programs.

The use of pay incentives: In United States, the employers prefer to pay employees for their performance in comparison to People’s Republic of China. Despite of these, the incentives play only “ moderate” role in US pay packages. In China, Japan and Taiwan, the incentives play a major role in the pay packages.

How to implement a global HR system

Despite of the fact that the cultural differences are present around the world, recent study suggest that standardized HR practices can be use around the world. According to a research where the HR personnel of six global companies- Agilent, Dow, IBM, Motorola, Proctor & Gamble, Shell Oil

Corporation, successful implementation of global HR systems lead to the adaptation of best international HR practices. This creates a global HR systems acceptable world wide & which can be developed and implemented effectively.

Making the global HR system more acceptable

There are three ways to make global HR system acceptable around the world.

Remind that global systems are more accepted in truly global organizations. The managers of such companies consider themselves in global perspective and all their business units operate on a truly global basis. For example, a global organization is not an aggregate of numerous local entities. For example, a global firm asks its manager to build a global team and recruit and place the employees globally. This makes the managers more acceptable towards a standardized HR system.

Investigate pressure to differentiate and determine their legitimacy. The local managers contradict the global managers on the issues of standardization of selection, training, compensation. For example, Dow face stiff resistant from the local managers when it decided to go for online employment recruitment and selection in a particular reason. But with time, it was realized that the online recruitment improved the quality of applicants.

Try to work within the context of a strong corporate culture. The geographical differences can be shed by the presence of a strong corporate culture. The companies like Proctor & Gamble easily implement standardized programs with the help of agreement among far- flung employees because

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of strong corporate culture. For example, Proctor & Gamble emphasizes orderly growth and its culture promote conformity among managers new recruits are promoted not to be individualists in approach and they learn to be consistence in self discipline thorough and methodical. As all the managers have similar values in Proctor & Gamble, it makes it easier to develop and implement a standardized HR practice world wide.

Developing a more effective global HR system

In short, the following practices can help to develop and effective world wide HR system.

Form global HR networks: A firm's HR manager should not limit himself locally but should consider himself a part of firm's global HR network. The above mentioned six big firms did this in various ways. For instance, they created global HR development teams and with their help formed new HR systems. The researchers found that in developing HR systems, the most important factors is “ to integrate all local HR managers and treat them as their partners”.

Remember that it's more important to standardize ends and competencies than specific methods: The researchers conclude that the companies should achieve to standardize what is assessed but to be flexible in how it is assessed. For example, in IBM managers use a standardized recruitment and selection process through out the world which emphasize on who conducts the interview or whether the pre screen is by phone or in person according to different countries.

Staffing the global organization

This involves identification and selection of people who will fill the vacancy is abroad and then to place them in those positions.

International staffing: Home or Local?

Multinational company employee both local and expatriates managers.

Expatriates are the people who are not the citizens of the country in which they are employed. Also, they recruit third country nationals who are citizens of a country different than the parent or the host country. For example, Nepali engineer working in the Tokyo branch of a US multinational automobile company. Till today, expatriates are only few in numbers in compared to the local or national managers. There are numerous reasons as why to have lesser number of expatriates. Not many people are interested to do projects outside their country and the costs of using expatriates are far higher than that of a local employee. A multinational firm can enjoy more respect if it employs local people. Some also fear that the expatriates may prioritize short term projects rather than long ones because they are posted for only few years. There is a tradition of using expatriates for technical competence. While some multinational develop their top managers by sending them to different locations abroad. For example, after a term abroad, the head of general electric Asia Pacific region was transferred back to a top executive position as Vice chairman at GE. Another reason to use expatriates is that they know the company's culture and policies and hence will be able to control in a better way.

Off shoring

Off shoring means transferring the jobs from the firm's domestic work force to the local employees abroad. According to the research of Forrester around 588, 000 US jobs were off shored between 2000 and 2005 and it was estimated to grow to around 1. 5 Million by 2010 and over 3 Million by 2015. Off shoring has been a controversial issue for some times now. First from 1980's to 1990's, mostly the manufacturing jobs were transferred abroad but in between 2000 and 2015, according to US Labor Department and Forrester research an expected of 288, 000 management jobs, 472, 000 computer jobs, 184, 000 architectural jobs, 75, 000 legal jobs and around 1. 7 Million office jobs went abroad. Off shoring is an HR centric process because it is the responsibility of human resource director to select high quality, low cost talent and to provide necessary background information on wage rates, working conditions and productivity. HR managers should be careful of off shoring because it involves not only finding a low paid, highly competent work force but also it should have an effective management structure in place to manage, train these employees. Despite of the challenges like the far distant locations, HR managers should ensure suitable compensation policies and working conditions.

Values and international staffing policies

Apart from the factors like costs and competency, the values of the firm's top executives play an important role in deciding whether to use locals or expats in an organization. Exerts have classified the values of top executives as ethnocentric, polycentric or geocentric. In ethnocentrically corporation, the home country management style, evaluation criteria are superior to the

same practices of the host country. In a polycentric corporation, there is a belief that only host country managers are familiar with the culture and the behavior of the host country market. So the firm's subsidiary should be managed by the local people. Geocentric executives believe that the best manager anywhere in the world in which the firm operates should be followed.

In ethnocentric firms like Royal Dutch Shell, majority of the financial officers around the globe are Dutch nationals. There are numerous reasons for ethnocentric staffing policies of an organization. For example, dearth of qualified senior management talent, a desire to maintain title control. While in a geocentric company, the staffing policies seek the best people for the key jobs from around the world. This can be found in most of the American companies like Ford Motor Company.