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Human Resource Management

MHR501: Global Human Resources Management Trends

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Lecture 5

SHRM ACADEMICALLY ALIGNED

Lecture 3

Human Resource Management

GARY DESSLER

ELEVENTH EDITION

HR’s Strategic and Tactical Roles in Internationalization

Mergers and Acquisitions

Mergers and acquisitions (M&A) are a common way for an organization to develop a presence in a local market. However, there is also a significant risk of failure. Figure 1-17 lists some potential benefits and risks of the M&A strategy for expansion.

Due Diligence Topics

Management

- Talent of current managers at top and middle levels
- Anticipated level of post-M&A motivation of managers
- Likelihood of retaining top management
- Management pay structure
- Ability to recruit top managers

Management style

- Centralized versus decentralized
- Paternalistic, authoritarian, or collaborative
- Distance of management style from that of your organization
- Probability that managers will be able to adapt to a new style

Community labor environment

- Union climate
- Availability of necessary skills

Current HR function

- In-house or outsourced
- Future plan

HR policies and procedures

- Written or unwritten policies and procedures
- Compatibility with own policies and procedures
- Other required policies (for example, regulatory, such as affirmative action)

Due Diligence Topics

General employee information

- Types of employees (for example, full-time or part-time)
- Local customs of employment
- Retention plans, if applicable

Work environment

- Employee attitudes
- Type of worker representation and participation
- Rates of absenteeism and disability
- Safety records
- Complaints filed with regulatory agencies

Effect of future business strategy

- HR activities needed to support business strategy (for example, hiring, closing of operations)

Hidden costs of acquisition

- Special contract terms with management
- Benefit plans and transferability to new employees
- Pension plan status (adequacy of funding, distribution, retention of unvested percentage)
- Separation and incentive pay plans
- Compensation packages
- Pending lawsuits and judgments

Strategic Alliances and Partnerships

In **The Global Challenge: Frameworks for International Human Resource Management** (Evans, Pucik, and Björkman 2010), the authors note that HR can do the following to add value to strategic alliances and partnerships:

- **Identify and select partners.** HR can identify appropriate competencies needed in a partner, analyze the impact of the partner's organizational and ethnic cultures, and assess the strength of the partner's HR function.
- **Negotiate the relationship.** HR may help select and train the negotiation team and contribute its facilitation skills.
- **Implement alliances.** This may involve contributing to compensation/reward plans, development programs, and transfers that will improve alliance performance. HR may also help integrate cultures and enable collaboration.
- **Promote learning.** Transfer of knowledge may be an important goal in the alliance. HR can help ensure that learning opportunities are built into the arrangement and implement programs designed to stimulate learning.

Expanding Resources Across Borders

Offshoring, outsourcing, and open sourcing are ways to expand resources and increase efficiency by using opportunities across borders.

- **Offshoring** is transferring service or manufacturing operations to a foreign country with a skilled and less costly labor supply. ***For example***, a financial services company in the United Kingdom could open a facility in Thailand to perform back-office banking transactions.

Cost savings may be one of many attractions of offshoring. Organizations may also be attracted to the greater proximity that offshoring provides to growing markets or suppliers.

There has also been a trend toward offshoring to certain areas because of a greater availability of talent. India, China and Russia now provide more than half of the supply of young professionals. In 2003, there were 30% fewer engineers in low-wage economies than in mid- to high-wage economics, but by 2008 the gap had narrowed to 18%. As education improves in emerging and developing economies, the talent gap will continue to close (Farrell 2006).

Some factors for choosing one location over another relate to workforce and talent issues. Therefore, HR‘s early and close involvement is essential.

Due Diligence Topics for Offshoring

Cost and quality	Talent pool
•Wage structure relative to other options •Tax structures •Real estate •Infrastructure (for example, telecommunications networks, transportation, energy)	•Size of labor force with required skills •Size of offshore sector and share of exports •Availability of vendors for specific services (for example, IT)

Figure 1-19. HR Due Diligence for Offshoring (continued to next page)

Due Diligence Topics for Offshoring	
Sociopolitical environment	**Risk levels**
•Government receptivity, amount of regulation	•Political and labor unrest
•Ethical environment of political and business communities	•Natural disasters
•Quality of life	•Personal and property security, intellectual property rights
•Accessibility	•Economic stability
	•Regulatory stability

Outsourcing. Outsourcing occurs when a company contracts with a third-party vendor for the supply of products, services or component parts. Outsourcing can occur to a domestic firm or across borders. This practice is a common way to take advantage of global differences—for example, in cheaper labor or access to raw materials or end users.

Outsourcing is a way of accessing special skills and knowledge that can raise the quality level of an organization's products or services or enhance its ability to respond quickly to customer demands. However, organizations generally do not outsource their core competencies, the essential activities that create the organization's characteristic value.

The advantage of outsourcing lies in a company's ability to acquire value without a long-term investment in assets. Figure 1-20 lists reasons to outsource.

Figure 1-19. HR Due Diligence for Offshoring (Farrell 2006) (concluded)

Figure 1-20. Reasons to Outsource

Due Diligence Topics for Offshoring	
Sociopolitical environment •Government receptivity, amount of regulation •Ethical environment of political and business communities •Quality of life •Accessibility	**Risk levels** •Political and labor unrest •Natural disasters •Personal and property security, intellectual property rights •Economic stability •Regulatory stability

In a **co-sourcing** arrangement, an organization outsources only one part of a function—for example, by retaining the more strategic aspects of compensation but outsourcing the data-intensive activities.

The term **insourcing** has a variety of meanings, including the following:

- Contracting a function out to another entity that manages and performs the function on-site
- Transferring a previously outsourced function back in-house
- Hiring of local workers by foreign organizations operating subsidiaries locally

- The organization must define clear processes and parameters and establish efficient communication channels with the provider.

In **International Human Resource Management: Policy and Practice for Multinational Enterprises** (Briscoe, Schuler, and Claus 2008), the authors describe the internal challenges of outsourcing:

•Internal divisions must agree to use the service or product provider. Management may have to enforce the strategic decision to outsource.

•The organization must define clear processes and parameters and establish efficient communication channels with the provider.

- By developing strategic competencies
- By promoting the exchange of learning and experience throughout the organization

HR can take the following actions to support the implementation of the organization's strategy:

•Maintain a talent pool of innovative, literate leaders who can be assigned to strategically sensitive areas. This concept is discussed in Christopher A. Bartlett and Sumantra Ghoshal's **Managing Across Borders: The Transnational Solution** (Bartlett and Ghoshal 2002).

•Identify and develop key skills in the existing talent pool.

•Increase the pool of needed skills through targeted recruiting.

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- Help define the interconnected roles of different parts of the organization.
- Establish methods for communication and collaboration.
- Create strategies for decreasing competition between units and enhancing collaboration.

Strategy Evaluation

The **last stage in the strategic planning process** is evaluation, which involves the following three actions:

- Regularly review external and internal factors for changes.
- Review progress toward achieving strategic objectives and measurable outcomes.
- Take corrective action.

Evaluation can and should occur at any time. Evaluation impacts the organization in the following ways:

- Affects both the perceptions of external stakeholders and the behaviors of internal stakeholders (management and employees)
- Confirms the continued relevance of the organization's strategy
- Demonstrates progress toward achieving specific goals based on that strategy

Activity versus Results

Figure 1-21 compares activity measures to results measures.

Activity Measures	Results Measures
Activity measures focus on what an organization does (its processes).	Results measures focus on the output of those processes (improvements in time, money, quality, efficiency, effectiveness and credibility).
Activity measures identify problems and areas for improvement and lead to improved results.	Results measures are essential to success.
Example: An organization's strategy is to increase its ability to innovate. An activity measure tracks the number of employees who have attended workshops on creativity.	Example: An organization's strategy is to increase its ability to innovate. A results measure focuses on the number of new products in development.

Figure 1-21. Activity Measures versus Results Measures

Operations should examine what they are measuring and ensure the following:

- Results measures receive the most emphasis.
- The balance and the relationship between activity and results measures are appropriate.

Cost Control versus Value Creation

Cost control measures focus on the ratio of operating costs to income. Value creation measures focus on the following:

- Number of patents and product innovations
- Time to achieve competency

- Development time for new products
- Effectiveness of knowledge sharing and global collaboration
- Strength of the employment brand
- Opening of new markets and opportunities for revenue

Cost control and value creation are both valuable and contribute to the organization's financial goals. Leading organizations have a healthy balance between cost and value creation measures. A strong emphasis only on cost control or only on value creation can create challenges for strategic and organizational alignment.

Benchmarks

Benchmarks are measures or markers used to judge or measure something else. Here are examples:

- **For commercial enterprises:** inventory turn, profit margin
- **For nonprofits:** ratio of fund-raising costs to total expenses
- **For government agencies:** the number of transactions with citizens performed within a period

Additional benchmark information is presented in **Section 1.4: Change Management and Business Process Improvement for HR Professionals**.

Financial Measures

A variety of metrics—both financial and nonfinancial—are used to evaluate the effectiveness of organizational strategies. The choice of tactic depends on the nature of the strategy and the organization‘s priority. We will discuss typical financial and nonfinancial metrics and the balanced scorecard, beginning with financial measures.

Organizational Structure

Organizational structure is a way to align and relate the parts of an organization to get the most performance from all functions. Organizations must implement structures that fit their industries well, allowing the right balance of local responsiveness, efficiency, and learning and innovation sharing. The wrong organizational design can severely hamper the organization‘s ability to achieve its goals. HR professionals should be familiar with the elements of organizational structures so they can guide their organizations through choosing and implementing the elements that are right for them.

Organizations can be structured according to function, product, or geography. They can also use hybrid structures, such as front-back or matrix. We will discuss these five structures in more detail.

Functional Structure

The functional structure is the most common organizational structure. In this structure, departments are defined by the services they contribute to the organization's mission. For example, the departments can include HR, operations and marketing, and sales. Departments can also be defined by process. For example, the organization can be divided into design, manufacturing, distribution, and customer service departments.

Figure 1-23 shows a functional structure. In this example, some units in the structure are considered line units, and others are considered staff units. Line units are workgroups responsible for the organization's major business functions (such as production or marketing). Staff units help the line units by performing specialized services (such as HR) for the organization.

Figure 1-23. Functional Structure

Product Structure

In the product structure, functional departments are grouped under significant product divisions. For example, an automobile company can have separate

divisions for cars, trucks, and sports vehicles. Each division will have marketing, sales, manufacturing, and finance functions. More

employees are needed to staff this type of organization, but this need can be offset because of accumulated experience and expertise.

The truck division, for example, should be better than a generic vehicle operation at designing and manufacturing trucks.

Figure 1-24. Product Structure

Geographic Structure

A geographic structure is very similar to a product structure, except that geographic regions, rather than products, define the organizational chart.

Each region has its complete group of functions. Although more employees may be needed, each division can respond more to local markets.

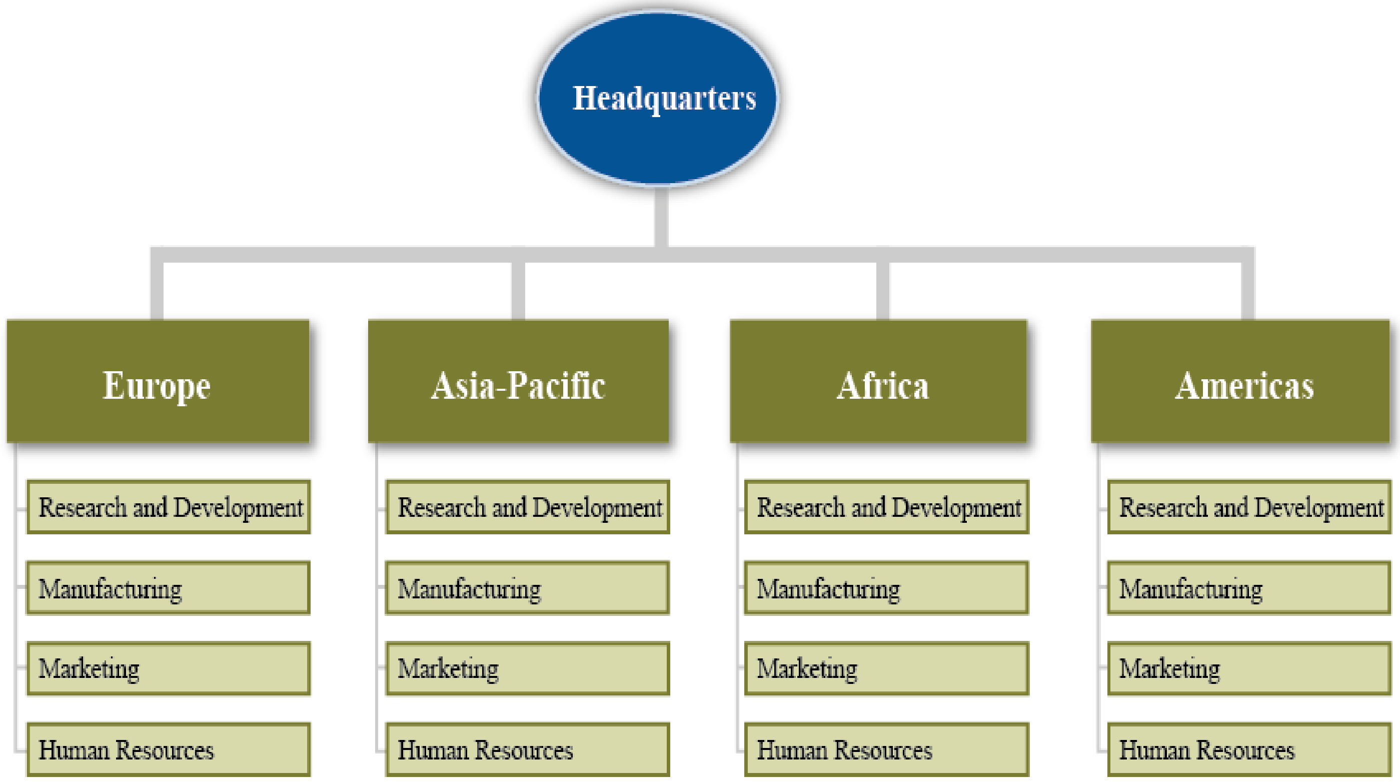

Figure 1-25. Geographic Structure

Front-Back Structure

The front-back structure is a hybrid structure that mixes elements of the functional, product, and geographic organizational structures. The front-back structure divides the organization into front functions (organized by geographic locations or customer types) and back functions (organized by product or business unit). For example, the front end of an athletic shoe corporation can be organized by geographic region (such as Europe, the Middle East, and Africa). The back end can be organized by product area (such as shoes for different sports).

Matrix Structure

The matrix structure is another hybrid structure. The matrix combines the functional and product structures to gain the benefits of both. This structure creates two chains of command in the organization. Some employees may report equally to two managers. For example, in Figure 1-26, the safety training manager reports to the vice president of manufacturing and product manager C.

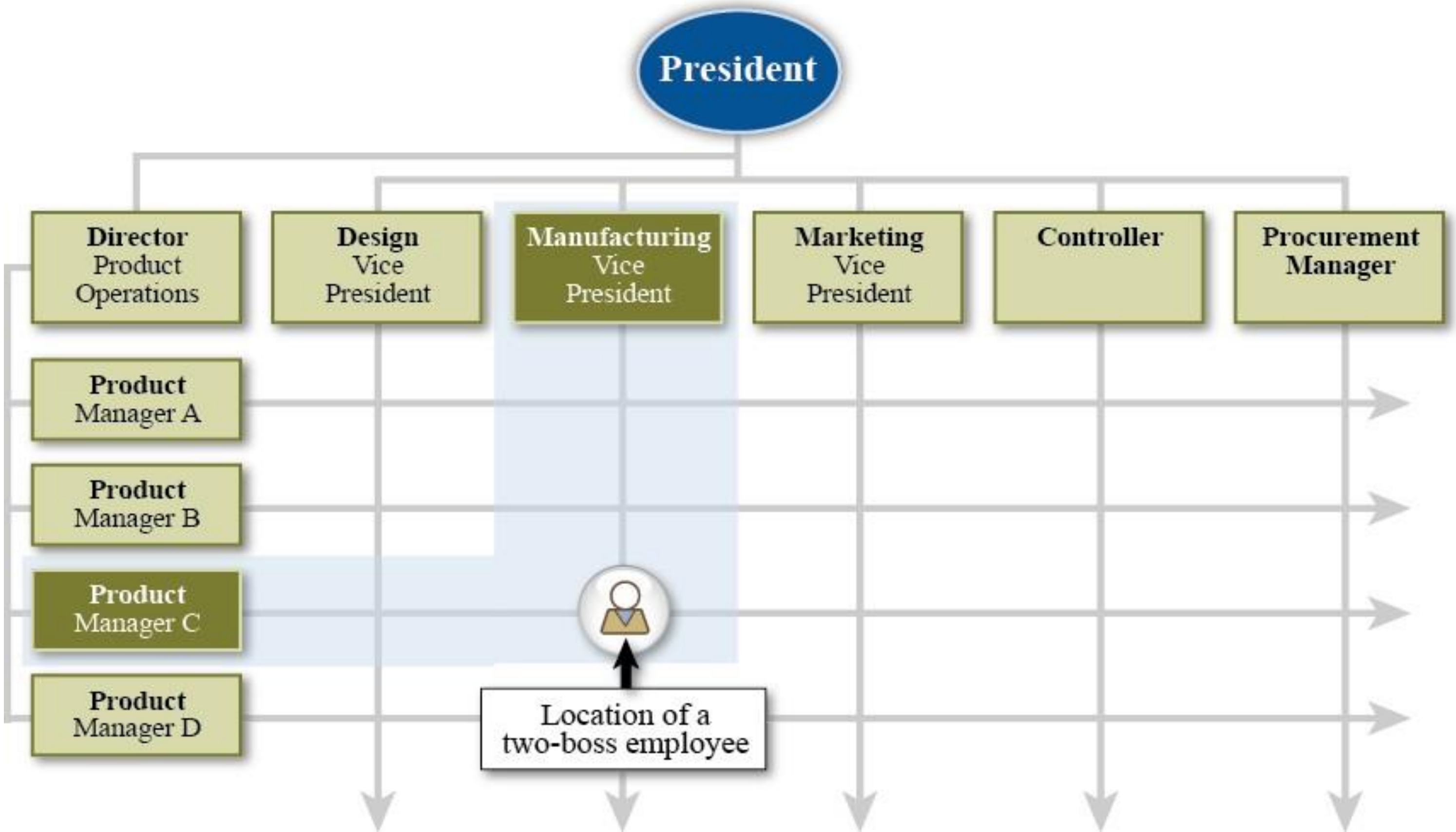

Figure 1-26. Matrix Structure with Two Chains of Command.

Type of Structure	Advantages	Disadvantages
Functional	• Easy to understand • Specializations develop • Economies of scale • Communication within functions • Career paths • Fewer people	• Weak customer or product focus • Potentially weak communication among functions • Weak grasp of broader organizational issues • Hierarchical structure

Figure 1-27. Advantages and Disadvantages of Organizational Structures (continued to next page)

Type of Structure	Advantages	Disadvantages
Product	• Economies of scale • Product team culture • Product expertise • Cross-functional communication	• Regional or local focus • More people • Weak customer focus
Geographic	• Proximity to customer • Localization • Quicker response time • Cross-functional communication	• Fewer economies of scale • More people • Potential quality control problems
Front-back	• High level of customer focus • Flexibility (units can be added to meet demand for new products or emergence of new customers)	• Potential for conflict between front and back (for example, explaining decreases in sales by mutual accusations of poor performance) • Necessity for developing new skills (customer/market focus) for all employees
Matrix	• Combines strengths of both functional and product structures • Blends technical and market emphasis • Develops managers who are comfortable with technical and marketing issues	• Can be expensive and difficult to explain to employees • May result in conflicting priorities when individuals have more than one superior

Figure 1-27. Advantages and Disadvantages of Organizational Structures (concluded)

Thank you