

## 14.2: The Changing Role of Strategic Human Resources

### Management in International Business

#### Learning Objectives

1. Understand how human resources management is becoming a strategic partner.
2. Recognize the importance of an organization's human capital.
3. Learn the key elements of SHRM.

#### HR as a Strategic Partner

The role of human resources management (HRM) is changing in business, particularly in international business. Previously considered a support function, HRM is now becoming a strategic partner in helping a global company achieve its goals. The strategic approach to HRM—**strategic human resources management (SHRM)**—means going beyond administrative tasks such as payroll processing. Instead, as shown in the opening case on Enterprise, managers need to think more broadly and deeply about how employees will contribute to the company's success.

SHRM is not just a function of the human resources (HR) department—all managers and executives need to be involved because the role of people is so vital to a company's competitive advantage. Brian E. Becker and Mark A. Huselid, "Strategic Human Resources Management: Where Do We Go from Here?," *Journal of Management* 32, no. 6 (2006): 898–925. In addition, organizations that value their employees are more profitable than those that don't. Mark A. Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," *Academy of Management Journal* 38, no. 3 (1995): 635–72; Jeffrey Pfeffer, *The Human Equation: Building Profits by Putting People First* (Boston: Harvard Business School Press, 1998); Jeffrey Pfeffer and John F. Veiga, "Putting People First for Organizational Success," *Academy of Management Executive* 13, no. 2 (1999): 37–48; Theresa M. Welbourne and Alice O. Andrews, "Predicting Performance of Initial Public Offering Firms: Should HRM be in the Equation?," *Academy of Management Journal* 39, no. 4 (1996): 910–11. Research shows that successful organizations have several things in common: providing employment security, engaging in selective hiring, using self-managed teams, being decentralized, paying well, training employees, reducing status differences, and sharing information. Jeffrey Pfeffer and John F. Veiga, "Putting People First for Organizational Success," *Academy of Management Executive* 13, no. 2 (1999): 37–48. When organizations enable, develop, and motivate human capital, they improve accounting profits as well as shareholder value in the process. Brian E. Becker, Mark A. Huselid, and David Ulrich, "Six Key Principles for Measuring Human Capital Performance in Your Organization" (working paper, School of Management and Labor Relations, Department of Human Resources Management, Rutgers, State University of New Jersey, 2002). The most successful organizations manage HR as a strategic asset and measure HR performance in terms of its strategic impact. When each piece is in the right place, it creates a **high-performance work system (HPWS)**—a set of management practices that attempt to create an environment within an organization in which the employee has greater involvement and responsibility.

The following are some questions that HRM should be prepared to answer in this new world: David Ulrich, *Delivering Results* (Boston: Harvard Business School Press, 1998).

- **Competence.** To what extent does our company have the required knowledge, skills, and abilities to implement its strategy?
- **Consequence.** To what extent does our company have the right measures, rewards, and incentives in place to align people's efforts with the company strategy?
- **Governance.** To what extent does our company have the right structures, communications systems, and policies to create a high-performing organization?
- **Learning and Leadership.** To what extent can our company respond to uncertainty and learn and adapt to change quickly?

#### Crucial Role of SHRM in Global Firms

Developing an effective international workforce is much more difficult for a competitor to emulate than buying technology or securing capital. Dennis R. Briscoe, Randall S. Schuler, and Lisbeth Claus, *International Human Resource Management*, 3rd ed. (New York: Routledge, 2009). Besides, how well companies manage their HR around the world can mean the difference between success and failure. In a nutshell, firms that effectively manage their international HR typically outperform competitors in terms of identifying new international business opportunities, adapting to changing conditions worldwide, sharing innovation knowledge throughout the firm, effectively coordinating subsidiary operations, conducting successful cross-border acquisitions, and

maintaining a high-performing, committed overseas workforce. Mary Yoko Brannen and Mark F. Peterson, “Merging without Alienating: Interventions Promoting Cross-cultural Organizational Integration and Their Limitations,” *Journal of International Business Studies* 40 (2009): 468–89; Yaping Gong, “Toward a Dynamic Process Model of Staffing Composition and Subsidiary Outcomes in Multinational Enterprises,” *Journal of Management* 29, no. 2 (2003): 259–80; Dana Minbaeva, Torben Pedersen, Ingmar Björkman, Carl F. Fey, and Hyeon Jeong Park, “MNC Knowledge Transfer, Subsidiary Absorptive Capacity, and HRM,” *Journal of International Business Studies* 34, no. 6 (2003): 586–99; Gary Oddou, Joyce S. Osland, and Roger N. Blakeney, “Repatriating Knowledge: Variables Influencing the ‘Transfer’ Process,” *Journal of International Business Studies* 40, no. 2 (2009): 181–99.

### Did You Know?

Robert Half International (RHI), a professional consulting firm, has staffing operations in more than 400 locations worldwide. “About Us,” Robert Half International, accessed January 28, 2011, <http://www.rhi.com/AboutUs>. During the recession of 2009, RHI began hiring older, more experienced workers to add to its roster of temporary workers. Typically, temporary workers are low-level employees, but during the recession, many workers with fifteen or twenty years of experience lost their jobs or retired from full-time jobs. RHI hired older highly skilled workers, such as accounting and finance experts, to work on temporary projects—helping a company restructure or emerge from bankruptcy, for instance. The situation is a win-win: companies get access to experts they may not otherwise be able to afford, while retired workers earn extra money or income after a layoff. Zurich-based Adecco, a competitor to RHI, likewise hired older workers. “More companies are looking for flexible, highly skilled temporary employees because it’s much easier to end an assignment than terminate employment,” said Doug Arms, chief talent officer at Ajilon Professional Staffing, a unit of Adecco. Aili McConnon, “Temp Giant Robert Half Welcomes Boomers,” *BusinessWeek*, May 21, 2009, accessed January 28, 2011, [http://www.businessweek.com/magazine/content/09\\_22/b4133054601320.htm](http://www.businessweek.com/magazine/content/09_22/b4133054601320.htm).

In many multinationals, an important challenge is balancing the need to coordinate units scattered around the world with the need for individual units to have the control necessary to deal effectively with local issues. Randall S. Schuler, Pawan S. Budhwar, and Gary W. Florkowski, “International Human Resource Management,” in *Handbook for International Management Research*, ed. Betty-Jane Punnett and Oded Shenkar (Ann Arbor: University of Michigan Press, 2004), 356–414. Achieving this balance becomes more difficult as the level of diversity that firms are exposed to increases. For example, consider a situation where the parent firm’s national culture differs dramatically from the cultures in its overseas subsidiaries. In this case, it may be harder for the parent firm to share information, technology, and innovations between the home office and foreign outposts. It may also be more difficult to promote needed organizational changes and manage any conflicts that arise between employees in different countries.

Fortunately, international human resources management (IHRM) strategies can overcome such problems. For instance, IHRM professionals can help ensure that top executives understand the different cultures within the company workforce and around the world. They can also offer advice on how to coordinate functions across boundaries and develop outstanding cross-cultural skills in employees (e.g., through various training programs and career paths that involve significant overseas exposure). Dennis R. Briscoe, Randall S. Schuler, and Lisbeth Claus, *International Human Resource Management*, 3rd ed. (New York: Routledge, 2009); Carl F. Fey and Ingmar Björkman, “The Effect of Human Resource Management Practices on MNC Subsidiary Performance in Russia,” *Journal of International Business Studies* 32, no. 1 (2001): 59–75; Patrick M. Wright, Gary C. McMahan, and Abigail McWilliams, “Human Resources and Sustained Competitive Advantage: A Resource-Based Perspective,” *International Journal of Human Resource Management* 5, no. 2 (1994): 301–26.

Of course, these are general suggestions and a range of HR practices might be used to implement them. Companies should develop an international HR philosophy that describes corporate values about HR—this in turn, will shape the broad outline of what constitutes acceptable IHRM practices for employees all over the world. From there, individual units can fine-tune and select specific practices that best fit their local conditions. But this is easier said than done, especially for firms operating in dozens of countries. Multinationals typically find it extremely difficult, for example, to design a compensation system that is sensitive to cultural differences yet still meets general guidelines of being seen as fair by employees everywhere. Indeed, culture may impact local HRM practices in a variety of ways—from how benefit packages are constructed to the hiring, termination, and promotion practices used, just to name a few. Dennis R. Briscoe, Randall S. Schuler, and Lisbeth Claus, *International Human Resource Management*, 3rd ed. (New York: Routledge, 2009).

Nevertheless, selecting the right IHRM strategy can pay off, particularly in difficult foreign markets. Consider multinationals wanting to quickly enter countries with transitional economies—those that are moving from being state-dominated to being market-based (e.g., China and Russia). Choosing to enter those markets by buying local firms, building new plants, or establishing joint

ventures may create significant HR challenges that will undercut performance if not handled well. Consequently, global firms need to adopt an appropriate IHRM strategy to meet transition economy challenges.

## The Importance of Human Capital

Employees provide an organization's **human capital**. Your human capital is the set of skills that you have acquired on the job—through training and experience—which increase your value in the marketplace. The Society of Human Resource Management's *Research Quarterly* defined an organization's human capital as “the collective sum of the attributes, life experience, knowledge, inventiveness, energy, and enthusiasm that its people choose to invest in their work.” Leslie A. Weatherly, “Human Capital—the Elusive Asset; Measuring and Managing Human Capital: A Strategic Imperative for HR,” *2003 SHRM Research Quarterly*, March 2003, accessed November 2, 2010, [www.ispi.org/pdf/suggestedReading/6\\_Weatherly\\_HumanCapital.pdf](http://www.ispi.org/pdf/suggestedReading/6_Weatherly_HumanCapital.pdf).

## Focus on Outcomes

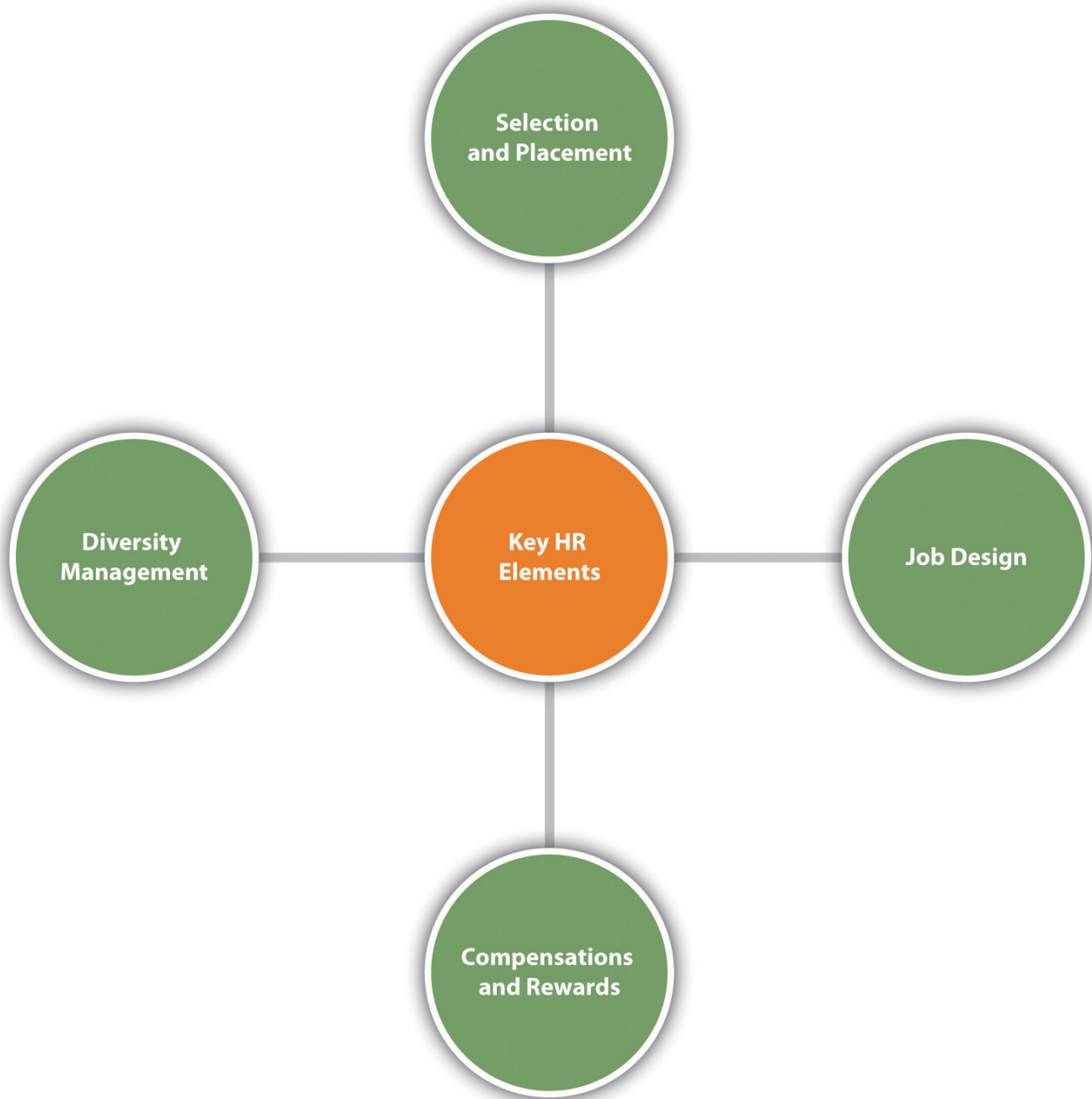
Unfortunately, many HR managers are more effective in the technical or operational aspects of HR than they are in the strategic, even though the strategic facet has a much larger effect on the company's success. Mark A. Huselid, Susan E. Jackson, and Randall S. Schuler, “Technical and Strategic Human Resource Management Effectiveness as Determinants of Firm Performance,” *Academy of Management Journal* 40, no. 1 (1997): 171–88. In the past, HR professionals focused on compliance to rules, such as those set by the federal government, and tracked simple metrics—for instance, the number of employees hired or the number of hours of training delivered. The new principles of management, however, require a focus on outcomes and results, not just numbers and compliance. Just as lawyers count how many cases they've won—not just how many words they used—so too must HR professionals track how employees are using the skills they've learned to attain goals, not just how many hours they've spent in training. David Ulrich, *Delivering Results* (Boston: Harvard Business School Press, 1998).

John Murabito, executive vice president and head of Human Resources and Services at CIGNA, says that HR executives need to understand the company's goals and strategy and then provide employees with the skills needed. Too often, HRM executives get wrapped up in their own initiatives without understanding how their role contributes to the business. That's dangerous, because when it comes to the HR department, “anything that is administrative or transactional is going to get outsourced,” Murabito says. Jessica Marquez, “On the Front Line: A Quintet of 2006's Highest-Paid HR Leaders Discuss How They Are Confronting Myriad Talent Management Challenges as Well as Obstacles to Being Viewed by Their Organizations as Strategic Business Partners,” *Workforce Management* 86, no. 5 (1997): 22. Indeed, the number of HRM outsourcing contracts over \$25 million has been increasing, with nearly 3,000 active company contracts recently under way. “TPI Counts 2700+ Outsourcing Contracts,” SharedXpertise Forums, December 2007, accessed January 30, 2009, [www.sharedxpertise.com/content/4301/tpi-counts-2700-outsourcing-contracts](http://www.sharedxpertise.com/content/4301/tpi-counts-2700-outsourcing-contracts). For example, Bank of America outsourced its HRM administration to Northgate Arinso. Northgate Arinso now provides timekeeping, payroll processing, and payroll services for 10,000 Bank of America employees outside the United States. “Annual Report 2006,” Arinso International, accessed March 10, 2011, [bib.kuleuven.be/ebib/data/jaarverslagen/Arinso\\_2006eng.pdf](http://bib.kuleuven.be/ebib/data/jaarverslagen/Arinso_2006eng.pdf). To avoid being outsourced, HRM needs to stay relevant and accept accountability for its business results. In short, the people strategy needs to fully align with the company's business strategy, keeping the focus on outcomes.

## Key Elements of HRM

Beyond the basic need for compliance with HRM rules and regulations, the four key elements of HR are summarized in Figure 12.1. In high-performing companies such as Enterprise Holdings, each element of the HRM system is designed to reflect best practices and to maximize employee performance. The different parts of the HRM system are strongly aligned with company goals.

Figure 12.1 Key HRM Elements



### Selection and Placement

It's good for firms to acquaint prospective new hires with the nature of the jobs they'll be expected to fulfill early in the hiring process. This includes explaining the technical competencies needed (e.g., collecting statistical data) and defining behavioral competencies. Behavioral competencies may have a customer focus, such as the ability to show empathy and support of customers' feelings and points of view, or a work-management focus, such as the ability to complete tasks efficiently or to know when to seek guidance.

In addition, an SHRM best practice is to make the organization's culture clear by discussing the values that underpin the organization. For example, firms can describe the "heroes" of the organization—those employees who embody the values of the organization. For example, a service company's heroes may be the people who go the extra mile to get customers to smile. In a software company, the heroes may be the people who toil through the night to develop new code. By sharing such stories of

company heroes with potential hires, the firm helps reinforce the values and behaviors that make the company unique. This, in turn, will help the job candidates determine whether they'll fit well into that organization's culture.

## Job Design

**Job design** refers to the process of combining tasks to form a whole job. The goal is to design jobs that involve doing a whole piece of work and that are challenging but ultimately doable for the employee. Job design also takes into account issues of health and safety of the worker. When planning jobs or assigning people to jobs, HR managers also consider training (ensuring that employees to have the knowledge and skills to perform all parts of their job) and giving them the authority and accountability to do so. Edward E. Lawler III, *The Ultimate Advantage* (San Francisco: Jossey-Bass, 1992).

One company that does training right is Motorola. As a global company, Motorola operates in many countries, including China. Operating in China presents particular challenges in terms of finding and hiring skilled employees. In a recent survey conducted by the American Chamber of Commerce in Shanghai, 37 percent of US-owned enterprises operating in China said that recruiting skilled employees was their biggest operational problem. Kevin Lane and Florian Pollner, "How to Address China's Growing Talent Shortage," *McKinsey Quarterly*, no. 3 (2008), accessed March 10, 2011, [www.mckinseyquarterly.com/How\\_to\\_address\\_Chinas\\_growing\\_talent\\_shortage\\_2156](http://www.mckinseyquarterly.com/How_to_address_Chinas_growing_talent_shortage_2156). Indeed, polled companies cited HRM as a problem more often than they cited regulatory concerns, bureaucracy, or infringement on intellectual property rights. This is because Chinese universities don't turn out candidates with the skills that multinational companies need. As a result, Motorola has created its own training and development programs to bridge the gap. For example, Motorola's China Accelerated Management Program is designed for local managers. Motorola's Management Foundation program helps train managers in areas such as communication and problem solving. Finally, Motorola offers a high-tech MBA program in partnership with Arizona State University and Tsinghua University, so that top employees can earn an MBA in-house. Kevin Lane and Florian Pollner, "How to Address China's Growing Talent Shortage," *McKinsey Quarterly*, no. 3 (2008), accessed March 10, 2011, [www.mckinseyquarterly.com/How\\_to\\_address\\_Chinas\\_growing\\_talent\\_shortage\\_2156](http://www.mckinseyquarterly.com/How_to_address_Chinas_growing_talent_shortage_2156). Such programs are tailor-made to the minimally skilled—but highly motivated—Chinese employees.

Figure 12.2 W. P. Carey and Motorola China High Technology MBA Program Graduation Ceremony





Source: W. P. Carey School of Business MBA China Programs.

## Compensation and Rewards

The SHRM function also includes evaluating and paying people on the basis of their performance—not simply for showing up to the job. Firms must offer rewards for skill development and organizational performance, emphasizing teamwork, collaboration, and responsibility for performance. Good compensation systems include incentives, gainsharing, profit sharing, and skill-based pay that rewards employees who learn new skills and put those skills to work for the organization. Employees who are trained in problem solving and a broad range of skills are more likely to grow on the job and feel more satisfaction. Their training enables them to make more valuable contributions to the company, which, in turn, gains them higher rewards and greater commitment to the company. William F. Barnes, “The Challenge of Implementing and Sustaining High Performance Work Systems in the United States: An Evolutionary Analysis of I/N Tek and Kote” (PhD diss., University of Notre Dame, 2001). Likewise, the company benefits from employees’ increased flexibility, productivity, and commitment.

When employees have access to information and the authority to act on that information, they’re more involved in their jobs, more likely to make the right decision, and more inclined to take the necessary actions to further the organization’s goals. Similarly, rewards need to be linked to performance so that employees are naturally inclined to pursue outcomes that will earn rewards and further the organization’s success at the same time. Mason Carpenter, Talya Bauer, and Berrin Erdogan, *Principles of Management* (Nyack, NY: [Unnamed Publisher](#), 2009), accessed January 5, 2011, [www.gone.2012books.lardbucket.org/printed-book/127834](http://www.gone.2012books.lardbucket.org/printed-book/127834).

## Diversity Management

Another key to successful SHRM in today’s business environment is embracing diversity. In past decades, “diversity” meant avoiding discrimination against women and minorities in hiring. Today, diversity goes far beyond this limited definition; diversity management involves actively appreciating and using the differing perspectives and ideas that individuals bring to the workplace. Diversity is an invaluable contributor to innovation and problem-solving success. As James Surowiecki shows in *The Wisdom of Crowds*, the more diverse the group in terms of expertise, gender, age, and background, the more ability the group has to avoid the

problems of groupthink. James Surowiecki, *The Wisdom of Crowds* (New York: Anchor Books, 2005). Diversity helps company teams to come up with more creative and effective solutions. Teams whose members have complementary skills are often more successful because members can see one another's blind spots. Diverse people will probably make different kinds of errors, which also means that they'll be more likely to catch and correct each other's mistakes.

### KEY TAKEAWAYS

- HRM is becoming increasingly important in organizations because today's knowledge economy requires employees to contribute ideas and be engaged in executing the company's strategy.
- HRM is becoming a strategic partner by identifying the skills that employees need and then providing employees with the training and structures needed to develop and deploy those competencies.
- All the elements of HRM—selection, placement, job design, and compensation—need to be aligned with the company's strategy so that the right employees are hired for the right jobs and rewarded properly for their contributions to furthering the company's goals.

### EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. What are the advantages of the new SHRM approach?
2. Name three elements of HRM.
3. What must HRM do to be a true strategic partner of the company?
4. What benefits does a diverse workforce provide the company?
5. If you were an HR manager, what steps would you take to minimize the outsourcing of jobs in your department?

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