Functional Area 01 Strategic Global Human Resources

GLOBAL PROFESSIONAL IN HUMAN RESOURCES (GPHR)

2021 EDITION

International Human Resource Certification Institute

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Global Professional in Human Resources (GPHR) Workbook

Module One: Strategic Global Human Resources

2021 Edition

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Introduction

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Part One: Global HR Strategic Planning

1. Strategic Planning

1.1. Definition

Strategy is about positioning an organization to have a competitive advantage by making choices about: 1).which countries/industries to participate in; 2).what products/services to offer; 3).how to allocate corporate resources.

The primary goal of strategy is creating value for shareholders and the other stakeholders by providing customer value. In a global organization, this may be a challenge, since stakeholder expectations may differ from one society to the next.

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Strategic planning is a function of strategic management, which is the continuing process of pursuing a favorable competitive fit between the firm and its dynamic environment. A strategic plan is a document used to communicate with the organization the organizations goals, the actions needed to achieve those goals and all of the other critical elements developed during the planning exercise.

Change is an essential component of strategic planning. This involves moving the organization or program forward to create or change something. Some plans are created out of the need for the organization to move in a certain direction, and other plans develop organically. Vision, mission and value statements will be important to help communicate the goals of the plan to employees and the public.

Vision is a vivid, guiding image of the organization's desired future. Mission statement is a formal, written document that defines the organization's purpose in society. Core value is referring as the attitude and character of an organization, and often dictates employee behavior. Also, core value is at the heart of the culture of an organization.

In other word, knowing why you're doing what you're doing (your mission), where you're trying to go (your vision), and how you're going to go about it (your values) are the glue that holds an organization together. It is an essential part to building a company's strategic foundation and developing a strategy.

1.2. Vision, Mission, and Value

1.2.1. Vision

Your vision communicates what your organization believes are the ideal conditions for your organization – how things would look if the issue important to you were perfectly

addressed. This utopian dream is generally described by one or more phrases or vision statements, which are brief proclamations that convey the organization's dreams for the future. By developing a vision statement, your organization makes the beliefs and governing principles of your organization clear to the greater community (as well as to your own staff, participants, and volunteers).

1.2.2. Mission

Developing mission statements are the next step in the action planning process. An organization's mission statement describes what the group is going to do, and why it's going to do that. Mission statements are similar to vision statements, but they're more concrete, and they are definitely more "action-oriented" than vision statements. The mission might refer to a problem without going into a lot of detail. They start to hint - very broadly - at how your organization might go about fixing the problems it has noted.

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While vision and mission statements themselves should be short, it often makes sense for an organization to include its deeply held beliefs or philosophy, which may in fact define both its work and the organization itself. One way to do this without sacrificing the directness of the vision and mission statements is to include guiding principles as an addition to the statements. These can lay out the beliefs of the organization while keeping its vision and mission statements short and to the point.

1.2.3. Value

Whether written to be effective or ineffective, Mission Statements and Vision Statements are relatively common in this sector. But that is where most organizations stop. Vision and Mission Statements of where we are headed, and what we will do to get there. It is the rare organization that takes the time to then define HOW they will do that work - the talk they want to walk.

The only way we can create an amazing future for our communities is if we do our work in a way that reflects universally shared values. This ensures we do not squander our time and resources rationalizing our actions. It helps to ensure we are not potentially squandering our community's goodwill.

Further, if your goal is to create the future of your organization - the lofty goals of your vision statement - then you will want to ensure your work reflects the values you want to see in your organization.

A Values Statement provides the tools for the organization to accomplish that. First, the Values Statement will look outside the organization, to the visionary outcomes

you want to create for your community, such as “what values will need to be present in the community for your vision to come to pass?”, “what values would the community need to emphasize?”, and “what values would have to be the norm?”

1.3. SWOT Analysis

The primary aim of strategic planning is to bring an organization into balance with the external environment and to maintain that balance over time. Organizations accomplish this balance by evaluating new programs and services with the intent of maximizing organizational performance. SWOT analysis is a preliminary decision-making tool that sets the stage for this work.

SWOT analysis is an approach to consider global organizational strengths (S) and weaknesses (W) and their interactions with opportunities (O) and threats (T). Strengths and weaknesses are inherent in the organization’s internal environment; opportunities and threats are aspects of the external environment.

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The aim of any SWOT Analysis is to identify the key internal and external factors that are important to achieving the objective. These come from within the company’s unique value chain.

Internal Analysis: This team examines the capabilities of the organization (or of the strategy, if the group has already developed and prioritized strategies). This is done by identifying the **strengths** and **weaknesses**.

External Analysis: This team will examine the context or environment in which the organization operates, such as partner agencies, authorizing environment, stakeholders, and the influence of economic or other demographic trends. The purpose of this analysis is to identify external factors that could in the future create **opportunities** for the organization (or the proposed strategy) and those that pose **threats** or obstacles to performance.

1.3.1. **Strengths** characteristics of the business or team that give it an advantage over others in the industry. Strengths must focus upon what the firm can do with its internal resources. Any asset that the firm owns could certainly be classified as strength, but the degree of each asset’s contribution to the competitive position of the firm may vary greatly. Newer assets such as state-of-the-art production line machinery would provide greater strengths to the firm than older assets such as an aging truck fleet. Not all strengths are physical in nature. A strong brand-name presence, recognized customer service excellence, and/or exclusive access to a strong supply chain network are all examples of nonphysical asset strengths.

One type of strength that is often overlooked is well-trained and experienced staff. Good employees can substantially benefit the firm. An example of an HR practice weakness could be if a firm has a poor reputation as an employer. This poor reputation will have a negative effect on recruitment activities and place the firm at a disadvantage when it comes to staffing.

1.3.2. **Weaknesses**: are characteristics that place the firm at a disadvantage relative to others. Weaknesses can include any area in which the company lacks strength. Poor product positioning, deteriorating physical assets, out-of-date production equipment, and poor customer service all are among the weaknesses of the firm. High employee turnover that causes the firm to lose talented people can be a major weakness of the firm. Talent is hard to replace, especially in the innovative environment of today. Sometimes a strength can be a weakness, such as if the firm's physical plant is state of the art but saddles the firm with a large amount of debt that limits what the company can invest in to improve earnings.

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Example of weakness might include unmotivated employees in service industry. This is the industry you have to take care and satisfy every customer. An unmotivated staff can ruin your reputation within no time. You can lose your customer right and left for lifetime while having this weakness you should address this issue on priority basis. By this way, you can retain your customers.

1.3.3. **Opportunities**: external chances to make greater sales or profits in the environment. Opportunities can be subject to interpretation. In general, any changes in the external environment can be an opportunity to the firm. If competitors are weakened by a poor cash-flow position, it is an opportunity for the firm to capture market share. Changes in tax structure, improvements in economic trends, or the passage of favorable laws can all be opportunities of which the firm should take advantage. Market positioning, new technologies, and international trade agreements can provide substantial opportunities as well.

Examples of new opportunities might include new geographic markets to recruit from or new technologies to improve recruitment efforts for example. A firm should try to use its strengths to capitalize on potential opportunities for HR practices. For instance, if a firm has strong technological capabilities, it may want to exploit new technological opportunities to improve its recruitment, such as building a database of potential recruits.

1.3.4. **Threats**: external elements in the environment that could cause trouble for the business. Threats arise from a lack of opportunities or from the strengths of competitors that may place the firm at an extreme disadvantage. Changes in

consumer preferences, new competitor innovations, restrictive regulations, and unfavorable trade barriers are all examples of threats. Loss of favorable distribution networks and the restrictions on the firm's cash flows can threaten the firm's market position. Changes in the economic climate can also put a substantial strain on the firm.

A threat to an HR practice is the possibility that the practice may no longer be viable. This can happen due to changes to the workforce, economic changes and even political changes. For example, if a firm uses the HR practice of recruiting highly educated university graduates, a threat to this practice could be a dwindling supply of qualified graduates or increased competition for graduates. Firms must be able to recognize these threats so that they can prevent them or adjust their HR practices accordingly.

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After completing the SWOT analysis, the firm should try to configure its overall position in the global market by seeking the best combination of strengths and opportunities that can optimize returns. Not every opportunity can be pursued, and not every strength can be defined as an advantage to the firm. Choices need to be made by the firm to take complete advantage of its position; likewise, the firm should seek to improve its weaknesses and minimize its threats. Therefore, identifying opportunity and threats is required for entering global markets.

1.4. PESTLE Analysis

Each global market provides unique **opportunities** and **threats** for doing business. A commonly used framework for examining these factors is the PESTLE analysis. The PESTLE framework includes *political, economic, social, technological, legal, and environmental issues* that impact a company, industry, or target location.

There are three steps in the PESTEL analysis. First, consider the relevance of each of the PESTEL factors to your context. Next, identify and categorize the information that applies to these factors. Finally, analyze the data and draw conclusions. Common mistakes in this analysis include stopping at the second step or assuming that the initial analysis and conclusions are correct without testing the assumptions and investigating alternative scenarios. The framework for PESTEL analysis is presented below.

1.4.1. Political

The political environment can have a significant influence on businesses. In addition, political factors affect consumer confidence and consumer and business spending. For instance, how stable is the political environment? This is particularly important for

companies entering new markets. Government policies on regulation and taxation can vary from state to state and across national boundaries. Political considerations also encompass trade treaties, such as NAFTA, ASEAN, and EU. Such treaties tend to favor trade among the member countries but impose penalties or less favorable trade terms on nonmembers.

- How stable is the political environment in the prospective country?
- What are the local taxation policies? How do these affect your business?
- Is the government involved in trading agreements, such as the European Union (EU), the North American Free Trade Agreement (NAFTA), or the Association of Southeast Asian Nations (ASEAN)?
- What are the country's foreign-trade regulations?
- What are the country's social-welfare policies?
-

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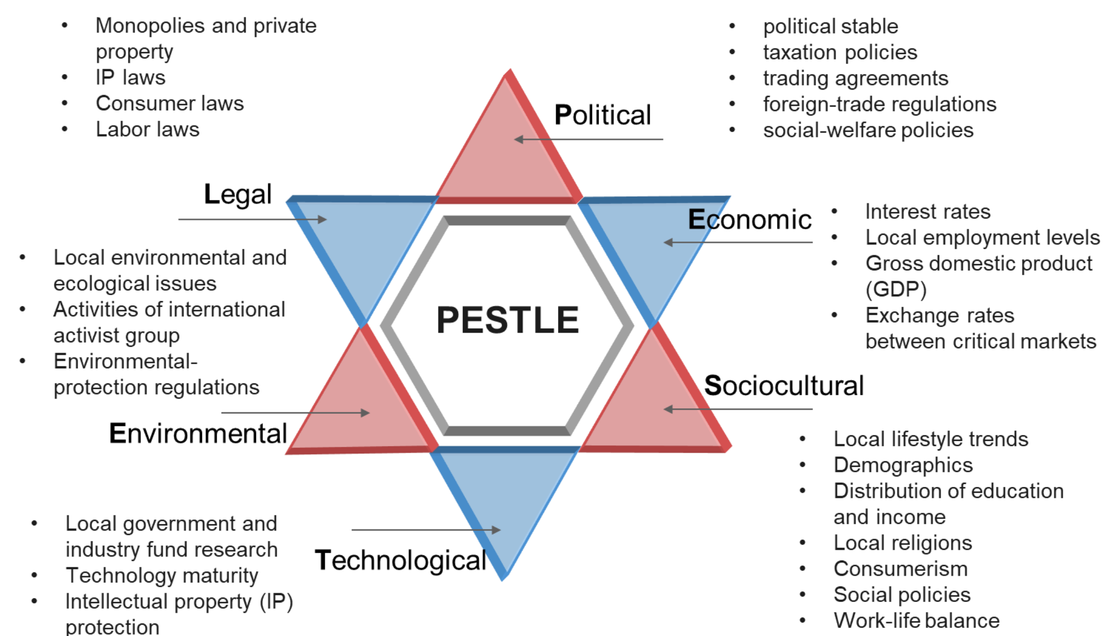

Source: Carpenter, M., Bauer, T., & Erdogan, B. (2016). *Principles of Management (Version 3.0)*. FlatWorld.

1.4.2. Economic

Managers also need to consider macroeconomic factors that will have near-term and long-term effects on the success of their strategy. Inflation rates, interest rates, tariffs,

the growth of the local and foreign national economies, and exchange rates are critical. Unemployment, availability of critical labor, and the local cost of labor also have a strong bearing on strategy, particularly as related to the location of disparate business functions and facilities.

- What are the current and forecast interest rates?
- What is the current level of inflation in the prospective country? What is it forecast to be? How does this affect the possible growth of your market?
- What are local employment levels per capita, and how are they changing?
- What are the long-term prospects for the country's economy, gross domestic product (GDP) per capita, and other economic factors?
- What are the current exchange rates between critical markets, and how will they affect production and distribution of your goods?

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1.4.3. Sociocultural

Managers also need to consider macroeconomic factors that will have near-term and long-term effects on the success of their strategy. Inflation rates, interest rates, tariffs, the growth of the local and foreign national economies, and exchange rates are critical. Unemployment, availability of critical labor, and the local cost of labor also have a strong bearing on strategy, particularly as related to the location of disparate business functions and facilities. Making assumptions about local norms derived from experiences in your home market is a common cause for early failure when entering new markets. However, even home-market norms can change over time, often caused by shifting demographics due to immigration or aging populations.

- What are the local lifestyle trends?
- What are the country's current demographics, and how are they changing?
- What is the level and distribution of education and income?
- What are the dominant local religions, and what influence do they have on consumer attitudes and opinions?
- What is the level of consumerism, and what are the popular attitudes toward it?
- What pending legislation could affect corporate social policies (e.g., domestic-partner benefits or maternity and paternity leave)?
- What are the attitudes toward work and leisure (work-life balance)?

1.4.4. Technological

The critical role of technology is discussed in more detail later in this section. For now, suffice it to say that technological factors have a major bearing on the threats and opportunities firms encounter. For example, new technology may make it possible for products and services to be made more cheaply and to a better standard of quality. New technology may also provide the opportunity for more innovative products and services, such as online stock trading and remote working. Such changes have the potential to change the face of the business landscape.

- To what level do the local government and industry fund research, and are those levels changing?
- What is the local government's and industry's level of interest and focus on technology? How mature is the technology? Are potentially disruptive technologies in adjacent industries creeping in at the edges of the focal industry?
- What is the status of intellectual property issues in the local environment?

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1.4.5. Environmental

The environment has long been a factor in firm strategy, primarily from the standpoint of access to raw materials. Increasingly, this factor is best viewed as both a direct and indirect cost for the firm.

Environmental factors are also evaluated on the footprint left by a firm on its respective surroundings. For consumer-product companies like PepsiCo, for instance, this can encompass the waste-management and organic-farming practices used in the countries where raw materials are obtained. Similarly, in consumer markets, it may refer to the degree to which packaging is biodegradable or recyclable.

- What are the local environmental issues? Are there any pending ecological or environmental issues relevant to your industry?
- How do the activities of international activist groups (e.g., Greenpeace, Earth First!, and People for the Ethical Treatment of Animals [PETA]) affect your business?
- Are there environmental-protection laws?
- What are the regulations regarding waste disposal and energy consumption?

1.4.6. Legal

Finally, legal factors reflect the laws and regulations relevant to the region and the

organization. Legal factors can include whether the rule of law is well established, how easily or quickly laws and regulations may change, and what the costs of regulatory compliance are.

- What are the local government's regulations regarding monopolies and private property?
- Does intellectual property have legal protections?
- Are there relevant consumer laws?
- What is the status of employment, health and safety, and product safety laws?

1.5. Strategy Formulation

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As the Company's vision, mission, core value statements, and SWOTs are defined, core strategy is specified. Michael Porter suggested that businesses can secure a sustainable competitive advantage by adopting one of three generic strategies as follows:

1.5.1. Cost leadership Strategy

Cost leadership is to drive cost down through all the elements of the production of the product from sourcing, to labor costs. This strategy involves the organization aiming to be the lowest cost producer and/or distributor within their industry. The organization aims to drive cost down for all production elements from the sourcing of materials, to labor costs. To achieve cost leadership a business will usually need large scale production so that they can benefit from "economies of scale". Large scale production means that the business will need to appeal to a broad part of the market. For this reason a cost leadership strategy is a broad scope strategy. A cost leadership business can create a competitive advantage:

- by reducing production costs and therefore increasing the amount of profit made on each sale as the business believes that its brand can command a premium price or
- by reducing production costs and passing on the cost saving to customers in the hope that it will increase sales and market share

1.5.2. Differentiation Strategy

Differentiation is to focus its effort on particular segments and charge for the added differentiated value. To be different, is what organization striving for; companies and product ranges that appeal to customers and "stand out from the crowd" have a

competitive advantage. Porter asserts that businesses can stand out from their competitors by developing a differentiation strategy. With a differentiation strategy the business develops product or service features which are different from competitors and appeal to customers including functionality, customer support and product quality. New concepts which allow for differentiation can be protected through patents and other intellectual property rights; however patents have a certain life span and organization always face the danger that their idea which gives them a competitive advantage will be copied in one form or another.

1.5.3. Focus (Niche) Strategy

Focus or Niche is to form a competitive advantage for this niche market and either succeeds by being a low cost producer or differentiator within that particular segment. Under a focus strategy a business focuses its effort on one particular segment of the market and aims to become well known for providing products/services for that segment. They form a competitive advantage by catering for the specific needs and wants of their niche market. A focus strategy is known as a narrow scope strategy because the business is focusing on a narrow (specific) segment of the market.

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1.5.4. "Middle of the road" strategy

Some businesses will attempt to adopt all three strategies; cost leadership, differentiation and niche (focus). A business adopting all three strategies is known as "stuck in the middle". They have no clear business strategy and are attempting to be everything to everyone. This is likely to increase running costs and cause confusion, as it is difficult to please all sectors of the market. Middle of the road businesses usually do the worst in their industry because they are not concentrating on one business strength. In other word, try to do all three would become stuck in the middle and danger.

1.6. Strategy Execution

When companies fail to deliver on their promises, the most frequent explanation is that the CEO’s strategy was wrong. But the strategy by itself is not often the cause. Strategies most often fail because they aren’t executed well. Things that are supposed to happen don’t happen. No worthwhile strategy can be planned without taking into account the organization’s ability to execute it.

1.6.1. Balanced Scorecard (BSC)

The Balanced Scorecard concept was created by Drs. Robert S. Kaplan and David P. Norton and their colleagues at Palladium Group. It is the philosophical underpinning of the Palladium Execution Premium Process™ (XPP). Besides helping organizations articulate strategy in actionable terms, the Balanced Scorecard provides a road map for strategy execution, for mobilizing and aligning executives and employees and making strategy a continual process. We will discuss the BSC in following text.

1.6.2. Management by Objectives (MBO)

MBO was first introduced to businesses in the 1950s as a system called “management by objectives and self-control” by Peter Drucker. Drucker states that the basis for this system is that an organization will be more successful if: “their efforts ... all pull in the same direction, and their contributions... fit together to produce a whole, without gaps, without friction, without unnecessary duplication of effort...” This focus on goal alignment as a way to improve organizational performance was, at the time, thought to provide the best path to increased profitability. The management processes described for the Balanced Scorecard are very similar to the MBO system elements. In essence, both systems are based on goal congruence throughout an organization, and each detail an iterative process based on collaboration between and within all levels of an organization.

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1.6.3. Budgeting

Budgeting has the potential to be one of the most productive and essential management activities in implementing strategy. Through it management can ensure that key strategic initiatives essential for success are properly resourced and can be implemented in agreed timescales. Once set, the budgeting system can then go on to warn if those activities are behind schedule; are not achieving the success envisaged; and can be used to safely allocate or redistribute resources to put plans back on track.

A budget is a plan that contains a quantitative statement of expected results. A budget may be defined as a quantified program, whereas budgets serve multiple functions, e.g., they quantify objectives and the means for achieving them and provide a means for communicating the organization’s objectives to all levels of personnel.

The ***master budget***, also called the comprehensive budget or annual profit plan, encompasses the organization’s operating and financial plans for a specified period (ordinarily a year or single operating cycle). In the operating budget, the emphasis is on obtaining and using current resources. In the financial budget, the emphasis is on obtaining the funds needed to purchase operating assets.

A ***project budget*** consists of all the costs expected to attach to a particular project, such as the design of a new airliner or the building of a single ship.

Activity-based budgeting (ABC) applies activity-based costing principles to budgeting. It focuses on the numerous activities necessary to produce and market goods and services and requires analysis of cost drivers. Activity-based management (ABM) is a method of identifying and evaluating activities that a business performs using activity-based costing to carry out a value chain analysis or a re-engineering initiative to improve strategic and operational decisions in an organization.

Zero-based budgeting (ZBB) is a budget and planning process in which each manager must justify his/her department's entire budget every budget cycle.

A continuous (rolling) budget is one that is revised on a regular (continuous) basis. Typically, a company continuously extends such a budget for an additional month or quarter in accordance with new data as the current month or quarter ends.

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The Japanese term ***kaizen*** means continuous improvement, and kaizen budgeting assumes the continuous improvement of products and processes. Accordingly, kaizen budgeting is based not on the existing system but on changes yet to be made.

A ***static budget*** is based on only one level of sales or production. The level of production and the containment of costs are, though related, two separate managerial tasks. Contrast this with a flexible budget, which is a series of budgets prepared for many levels of activity. At the end of the period, management can compare actual performance with the appropriate budgeted level in the flexible budget.

A ***life-cycle budget*** estimates a product's revenues and expenses over its entire life cycle beginning with research and development and ending with the withdrawal of customer support. Life-cycle budgeting is intended to account for the costs at all stages of the value chain (R&D, design, production, marketing, distribution, and customer service).

1.6.4. Hierarchical level of Strategy

Strategy king is not just asking for top executives. Middle and lower level managers too must be involved in the strategic planning process to the extent possible. In a large company / firm actually four level of strategies (corporate level, divisional / business level, functional level and operational level) where as in small farm strategies are actually in three level – Company / Corporate, Business, and Functional or Operational level.

The ***Corporate/organization Strategy*** comprises a directional strategy through a

corporate vision and a mission statement.

The ***Business Strategy*** ensures that individual business units are able to increase their effectiveness while remaining jived with the corporate strategy.

The ***Functional Strategy*** has to be customized to ensure the business strategy to succeed. These could be HR, Marketing and/or Finance strategy.

1.6.5. Strategic Planning Horizon

The term planning horizon refers to the time that elapses between the strategy formulation and the execution of a planned activity. In general, its length is dictated by the degree of uncertainty in the external environment: higher the uncertainty, shorter the planning horizon.

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1.6.6. McKinsey 7-S

The McKinsey 7-S framework is a guide to the effective implementation of strategy, which involves seven interdependent factors which are categorized as either "hard" or "soft" elements. "Hard" elements are easier to define or identify and management can directly influence them; "Soft" elements, on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture.

Hard elements: Strategy, Structure, and Systems

Soft elements: Shared Values, Skills, Style, Staff

1.6.7. Strategy Implementation Activities

Establish short-term organizational objectives

Develop action plans or tactics to achieve objectives

Allocate resources

Communicate and train employees

1.6.8. Location Considerations for Implementation

The Country: Traditionally, MNCs have invested in highly industrialized countries and research reveals that annual investments have been increasing substantially.

Once the MNC has decided the country in which to locate the firm must choose the specific locale. Common considerations include access to markets, proximity to competitors, availability of transportation and electric power, and desirability of the location for employees coming in from the outside.

The relative attractiveness of different country locations for a given activity and the firm-level strengths that can be leveraged in country-specific advantages (CSAs) and firm-specific advantages (FSAs). CSAs are based on natural resource endowments, the labor force, or less tangible factors; FSAs are unique capabilities proprietary to the firm.

1.6.9. Obstacles to Implementing a Global Strategy

Strategic obstacles result from a poor fit between the organization and the strategy it has chosen.

Organizational barriers include both structure and systems which are not fit in the global strategy. An organization's structure can have an enormous impact on strategy, especially in enterprises that are in the process of transforming from domestic to multinational, global, and international.

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Interpersonal obstacles mean the extent to which a dominant culture is ingrained in key decision makers and managers. The strength of the marketing managers was difficult to manage in implementing a global strategy that required more flexibility in product development.

1.7. Strategy Evaluation

Strategic evaluation occurs as the final step in the final step in a strategic management cycle. Without it, a business has no way to gauge whether or not strategic management strategies and plans are fulfilling business objectives. Strategic evaluations provide an objective method for testing the efficiency and effectiveness of business strategies, as well as a way to determine whether the strategy being implemented is moving the business toward its intended strategic objectives. Evaluations also can help identify when and what corrective actions are necessary to bring performance back in line with business objectives. The process of Strategy Evaluation consists of following steps:

1.7.1. Fixing benchmark of performance

While fixing the benchmark, strategists encounter questions such as - what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria include

determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.

1.7.2. Measurement of performance

The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as manager's contribution are difficult to measure. Similarly divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done. The measurement must be done at right time else evaluation will not meet its purpose. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.

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1.7.3. Analyzing Variance

While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

1.7.4. Taking Corrective Action

Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

1.8. Strategy Evaluation Methods

1.8.1. Cost and Variance Measures

The static budget variance measures the difference between the static (master) budget amount and the actual results for a foreign subsidiary or affiliate. The static budget variance consists of two components:

The flexible budget variance measures the difference between the actual results and the amount expected for the achieved level of activity (the flexible budget).

The sales volume variance measures the difference between the static budget and the amount expected for the achieved level of activity (the flexible budget).

1.8.2. Responsibility Centers and Reporting Segments

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A well-designed responsibility accounting system establishes responsibility centers (also called strategic business units) within a global organization as follow:

A cost center, e.g., a maintenance department, is responsible for costs only.

A revenue center, e.g., a sales department, is responsible for revenues only.

A profit center, e.g., an appliance department in a retail store, is responsible for revenues and expenses.

An investment center, e.g., a branch office, is responsible for revenues, expenses, and invested capital.

A segment is a product line, geographical area, or other meaningful subunit of the organization. Allocation of central administration (such as HR department) costs is a fundamental issue in responsibility accounting.

1.8.3. Financial Measures

Return on investment (ROI): Net Income ÷ Average total Assets

Residual income: Net Income-(Total Investment * Target rate of Return)

Cost-volume-profit analysis: also called breakeven analysis (BEP), is a tool for understanding the interaction of revenues with fixed and variable costs. BEP is the level of output at which total revenues equal total expenses; that is, the point at which operating income is zero.

Economic value added (EVA) can represent a foreign business unit’s true economic profit primarily because a charge for the cost of equity capital is implicit in the cost of

capital.

2. Strategic HR Management

2.1. The roles of HR in strategic planning

Strategy in an international context is a plan for the organization to position itself vis-a-vis its competitors, and resolve how it wants to configure its value chain activities on a global scale. Its purpose is to help managers create an international vision, allocate resources, participate in major international markets, be competitive, and perhaps reconfigure its value chain activities given the new international opportunities. The HR roles in global strategy development and formulation including:

- Align the organization's global business strategy and global HR strategy based on the mutual recognition of the sustainable competitive advantage that skilled employees potentially create for the global organization.
- Assemble an internal team with appropriate skills, knowledge, and cultural expertise.
- Complete a SWOT analysis and develop an HR start-up strategy that recognizes not only weaknesses and threats but also strengths and opportunities that this transnational entity provides.
- Determining the best mix of employees in the new location-balancing local nationals, short-term and long-term international assignees, outsourcing, and contractors.
- Identifying obstacles to integration with the HR information system and learning management system and implementing integration or alternatives.
- Identifying and purchasing or creating employment documents, such as job descriptions, contracts, and offer letters.
- Establishing policies, practices, and guidelines and deciding an approach to standardization and localization.

In strategy execution, HR can:

- Organize cross-functional teams to meet the start-up's strategic objectives
- Manage the HR portfolio through identifying high-potential talent, prioritizing HR programs to align with the start-up strategy, developing talent, and tracking the need for succession planning and retirement.
- Implements communication technology and processes to promote integration and execution of the organization's global strategy.

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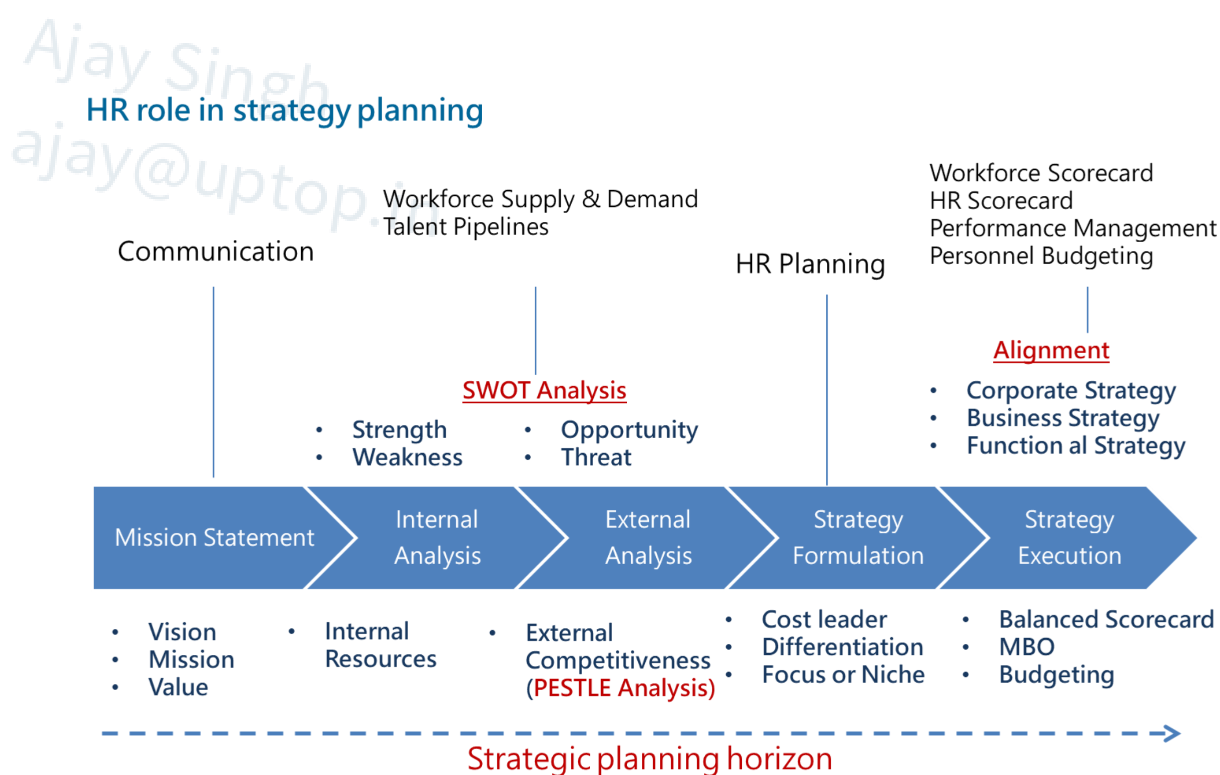
- Monitors and evaluates the effectiveness of the start-up strategy.
- All strategies are subject to future modification because internal and external factors are constantly changing. In the strategy evaluation and control process managers determine whether the chosen strategy is achieving the organization's objectives. HR can:
- Align global strategy metrics included workforce metrics like global leadership development, retention, worldwide employee satisfaction and diversity ratios, as well as, the global HR metrics such as customer satisfaction surveys, headcount, budget/employee ratios and host per hired should be included in the evaluation process.



2.2. Strategic Workforce Planning

Strategic Workforce planning, “having the right number of people with the right skills in the right jobs at the right time.”, is the critical part that can bridge the HR functions and the business strategy. The role of HR management is to ensure that an organization has the talent—the right combination of skills, knowledge, abilities, and characteristics—to achieve its strategic goals. The organization’s strategy, including its mission or “why,” core values and culture as well as its competitive strategy, has implications for not only human resource structure, policies and practices but how roles are designed and valued.

Workforce planning is not simply a matter of filling open requisitions, it is a complex research and design problem that involves developing a detailed understanding of a role, it's requirements and how that role relates to organizational strategy and to other roles within the organization. Workplace planning is generally done based on a multi-year horizon (for example, 3–5 or 5–10 years) and consists of a six step process, as illustrated in the following Figure, according to Chartered Institute of Personnel and Development (CIPD). Workforce planning is begin with corporate and business strategies and the annual business plans to support achievement of long-term (strategic plan) and short-time (annual performance) goals and objectives.

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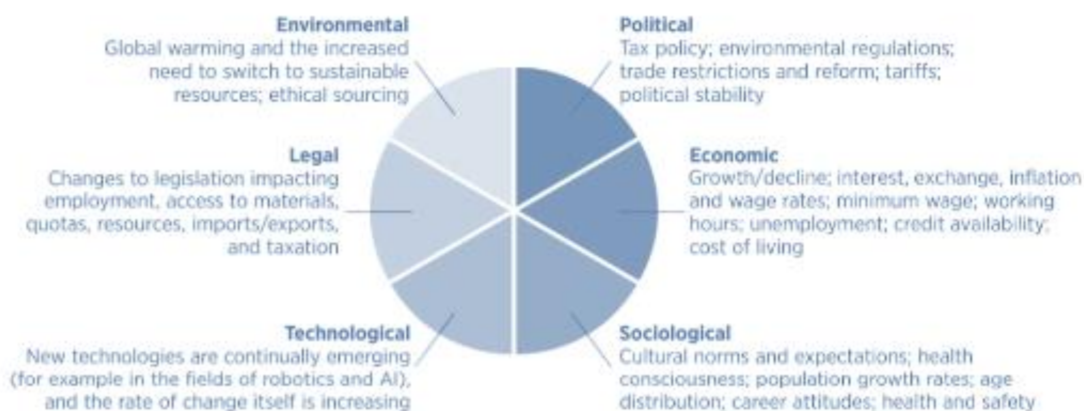
Source: CIPD (2018). Workforce planning guide.

Strategic workforce planning is that there is no standard model that can be used across all companies. The particular status, goals and culture of the organization will determine their specific journey. At the same time, workforce planning must be integrated with other planning processes, including strategic business planning and budgeting, due to the constantly changing workplace and workforce.

2.2.1. Understanding the organization and its environment

Practitioners should have a clear understanding of the external factors impacting their

organizations and a PESTLE analysis can provide that insight. A PESTLE analysis is one of the most effective frameworks for understanding the 'big picture' in which an organization operates. It looks at six key factors – political, economic, sociological, technological, environmental, and legal as below.



Source: CIPD (2018). Workforce planning guide.

As well as using in business strategic planning, a PESTLE analysis allows HR and senior managers to assess any risks specific to their industry and organization, and use that knowledge to inform their decisions.

Understanding your labor markets

A labor market refers both to what the people who might join your organization to do a certain type of work are currently doing and the geographical area from which they are likely to come. This will include considering key questions about particular workforce groups, especially for critical roles and those where you feel you may have difficulty recruiting. For some workforce groups you may only need to understand a very local labor market. For others, the market can be regional, national or international.

Understanding your operating model

An operating model is the combination of roles, skills, structures, processes, assets and technologies that enable any organization to provide its service or product promises. The operating model of an organization can be split into five categories. A clear understanding of the contributions and needs of each of these will be key to a fit-for-purpose workforce planning process.

Know your organizational strategy

Knowledge of the organization's strategy for the future will also be essential to undertake workforce planning. The workforce implications of strategic plans may be explicit, but often need teasing out. Alongside the numerical impact of strategic plans, you should not neglect changes to the skills and competencies of the workforce, and implications for culture and leadership.

Strategic plans also influence the timeframe for workforce planning. In some organizations, there are long product cycles while others operate over much shorter periods – some companies will have a mix of timeframes in different divisions, functions or locations. So changes to organizational direction can affect not only the number and kinds of people needed but how far ahead the organization needs to plan.

2.2.2. Analyze your current and potential workforce

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In linking the environment to workforce plans, we need to ask about the likely or possible effects of such factors on workforce numbers, skill requirements, geographical locations, work patterns and contracts of employment.

Workforce segmentation

Having analyzed the internal environment of your organization, you can then use workforce segmentation techniques and processes to identify the knowledge, skills, abilities and other factors required for current and future workforce roles.

There are two approaches to workforce segmentation. The first identifies different types of job families, functions, roles and competencies within the organization. The second segments roles by value or type of work performed to focus on the most critical roles. This will vary upon the size, sector and industry of your organization.

A good place to start is to group different job functions into job families where people in these roles share a similar level of competence such as skills, knowledge and capabilities. The benefits include:

- streamlining of your job and pay bands
- improvement to talent management by defining potential measures
- quick evaluation of jobs
- determination of pay structures
- identification of training needs
- clear explanation of roles and responsibilities.

Workforce analytics

It is also important to examine other parameters for such groups, for instance, geographical location or business division (some functions stretch across divisions) as well as the demographic differences within the workforce or contract types with regards to how work is resourced.

In a fast-paced business environment, innovation, agility and resilience are essential for organizations to retain their competitive advantage. Collecting and analyzing workforce data can provide organizations with the information they need to increase or develop capability in these areas.

2.2.3. Determine future workforce needs

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Before comparing the workforce you have with your future people needs, it will be necessary to take account of the likely natural wastage, retirement and other losses or moves from one area of work to another. Obviously if your needs for people are reducing, you will need fewer recruits and may not always fill vacant jobs. So for example, if you are looking two years ahead at business needs, you'll need to consider how many of your current people will still be with you then, when estimating recruitment and development actions needed over that two-year timeframe.

Succession planning also feeds into your understanding of available people supply. If you have succession cover and strong talent pipelines, you can make assumptions about developing these people to meet future needs. If your internal talent pipelines are weak, you are more likely to have to fill key roles externally.

Key dimensions of the 'right' principle

If workforce planning is about getting 'the right people, with the right skills, in the right roles, at the right time and at the right cost', what does this look like in practice? The 'right' principle can be applied when translating organizational strategies into what is required from the future workforce. Companies can adapt the principle by examining the five 'rights' of workforce planning:

Right skills: capabilities necessary to meet future goals and bridge current gaps.

Right size: the number of people for the jobs and skills needed to achieve your goals efficiently and effectively.

Right cost: an effective employee/cost ratio, benchmarking pay and reward, training budgets, the cost of recruitment, development and mobility costs.

Right location: availability of people with the right capabilities at the right locations to

meet changing requirements.

Right shape: the right workforce composition in terms of structure, purpose, ratio of managers to professional and administrative staff, the right demographic mix.

Methods for estimating workforce requirements

There are a wide range of methods for estimating workforce requirements and the approaches used will very much depend on the size and nature of your organization:

Asking: simply asking managers and department heads what they think will be needed and when is always a sensible starting point.

Budget-based: using cost per employee to work out how many people you can afford to employ if the budget for an area of work has already been set. Easy to use for annual planning in support functions, for example, but it does not challenge how resources are being allocated or link to levels of activity.

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Ratios: proportion of employees to activity levels or of one group of employees to another. Works well in stable circumstances, where employee demand moves in line with activity levels.

Benchmarking: looks at ratios or costs in other organizations or between parts of the same organization. It can stimulate questions but does not necessarily represent good practice or take account of different work contexts.

Extrapolating trends: for example, forecasting based on past increases in productivity, assuming these trends continue into the future. A good method to use for longer product/service cycles and where technology is not changing too rapidly.

Forecasting: based on more sophisticated models, taking into account a range of factors including variations in demand across the year. This is helpful for broad-brush planning, but is only as good as the assumptions put into the model.

Workflow analysis: based on a detailed analysis of the activities taken for each task. This activity is useful if your organization is undergoing transformational change where the roles, responsibilities and capability requirements of individuals/job families are likely to change.

Defining job families: employees working in positions belonging to the same job family require little training to perform one another's jobs. Therefore, job functions within the same job family require similar competencies, such as knowledge, skills and capabilities.

Zero-base demand estimation: estimates the workforce you might ideally need rather

than based on what you have now, informed by a mix of the methods above. Organizations are often so blinkered by their historical job design, staffing patterns and numbers that they avoid the need to change these assumptions. Zero-base approaches can help to unlock new thinking about work design, productivity and flexibility.

Scenario planning: tackles uncertainty directly by looking further ahead at alternative views of the future. It is useful in assessing the risks of different organization futures, but cannot predict what will happen. We look at scenario planning in more detail below.

Above methods have different strengths and weaknesses and may suit different workforce groups or circumstances. They can also be used in combination. Most organizations need a handle on understanding workforce costs, but should not simply extrapolate costs without considering possible changes in work methods and productivity

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2.2.4. Identifying workforce gaps against future needs

The information you have obtained on your current and available workforce as well as your future requirements will help you identify the gaps you need to address. These include:

- gaps where the likely availability of people is lower than the needs, so more staff need to be brought in or developed
- negative gaps where there are more people in certain groups than needed, so you may need to consider retrenchment or redeployment
- gaps in skills but not in numbers. Training or re-skilling might be able to address these kinds of gaps, but you may also need to shift the kind of workforce you are employing over time.

This kind of gap analysis can then help to identify action areas as follows:

- ‘Business-as-usual’ action areas where recruitment, staff development and redeployment will be needed to keep additional needs in line with emerging changes in business requirements. It is helpful here to make a note of changes to skills needs which influence the more bottom–up process of individual development planning. It is also important to take account of estimates of likely losses when assessing likely gaps between available workforce and future needs.
- Workforce groups where recruitment, retention or both present resourcing challenges and alternative resourcing options may therefore need to be considered. These gaps may cover all jobs in a particular group or they may apply especially to some locations or teams.

- Workforce groups and/or parts of the business where workforce reductions may be necessary and which must be well managed.
- Change in the business strategy could lead to radical change in people and skills needs. Strategy change may be the result of competitive pressures, a new approach to product manufacturing or marketing, caused by emerging technology or the desire to reduce costs (as in offshoring).
- In extreme cases, resourcing difficulties may challenge the overall business strategy or prompt major areas of work for relocation or outsourcing. A combination of skills shortages, together with labor costs and different rates of market growth, may also drive companies to rebalance their global footprint towards different markets.

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2.2.5. Actions to address shortages, surpluses or skill mismatches

Having identified the needs gaps and action areas, the next stage is to determine the specific actions needed to close those gaps and to design structured ways to carry out the relevant activities. This will form your action plan. There are three key steps:

- A. Select the most critical gaps

Gap analysis can uncover different actions relevant to different scenarios or varying paces of change. You may also need to plan for greater flexibility, especially to help in responding to uncertainty.

Functional flexibility across a range of tasks can be increased through recruitment, training, job design, deployment and reward mechanisms, for example through multiskilling and job rotation.

Numerical flexibility is provided by contracts of employment that flex the numbers employed, for example temporary, seasonal, 'gig economy' employment, agency or outsourced staffing. It is important to ensure people are employed on the right type of contract so your organization has the flexibility it needs but also as there will be pay and benefit obligations, employment law and taxation implications to consider.

Temporal flexibility is flexibility in regards to working time, its organization or duration,

for example part-time, overtime, shift work, annual hours.

Talent flexibility can come via alternative educational pathways to provide varied sources of talent supply with different characteristics. Encourage continuous professional development throughout the organization and create opportunities for skills and

knowledge development via secondments, projects, sprints, deployment, and so on.

Adaptive flexibility or increasing change-readiness in the workforce entails having managers who pay attention to the development of the individuals in their teams. Involving employees in change management keeps them in touch with changing business needs, so when they are asked to adjust this does not come as a surprise and they understand why change is being made.

- B. Identify potential actions

In the context of workforce planning, recruitment and training will often be front of mind. Methods may be based on what has been done before, or they may include training alternative sources of talent supply. What is also needed are better ways of designing work or organizational structures so that people and their skills are used more effectively. Sometimes actions will be about more radical changes in how work is delivered, for example through contracting out or working with partner organizations either for business reasons (cost or quality) or for reasons of inability to secure the necessary skills.

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Build, buy, borrow strategy mix

Management guru David Ulrich's 'build versus buy versus borrow' resourcing approach is about whether an organization prefers to develop skills internally ('build') and fill jobs by movement within the workforce, or via recruitment from outside the organization ('buy') or from a contingent labor supply ('borrow'). The choice depends in part on the internal and external supply of the skills needed, but is also affected by whether the organization has the capacity and commitment to train people internally.

While each organization must decide whether providing such opportunities is part of its ethos and employer proposition, as well as whether investment in home-grown talent will return a competitive advantage, 'build' generally has a positive effect on retention by creating internal opportunities for existing employees. For job roles seen as 'critical' to an organization, build strategies are usually required.

'Buy', or recruitment, brings advantages too, in terms of fresh ideas and practices developed elsewhere.

With the rise of the 'gig economy' in recent years, there are added options to 'borrow'

contingent labor, which can be beneficial when there is an urgent need to temporarily boost capability.

By planning for a strategic mix, organizations can look to optimize employee costs, flexibility and effectiveness for the long term.

To back-fill or not to back-fill?

When an employee leaves, there is frequently a reaction to either replace like for like or to redistribute work among existing staff. Whether your organization is in a state of growth or contraction would of course influence that reaction. However, if the workforce is changing significantly, this will likely need a bigger rethink. Where technological change is also a factor, skill requirements will invariably change as well.

It may be necessary to have people to do different work with different skills, to look for talent in different places, replace for example a full-time role with a part-time one, or to undertake a significant retraining of your workforce.

Diversity and inclusion (D&I)

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Interest in increasing workforce diversity can influence planning choices and now extends to beyond the well-established demographics of gender, race and disability. Organizations facing uncertain times may be more likely to succeed if they vary their workforce by age, gender, social and educational background and previous experience.

- C. Priorities actions

In this crucial step, the analysis should be summarized to help determine priority action areas, before embarking on specific resourcing and development activities. These link back to offsetting risk – effort being most needed where the business risk of inappropriate resourcing is greatest. It may be necessary to revisit assumptions about your buy/build/borrow strategies once it becomes clear that meeting people resourcing goals could be challenging.

2.2.6. Actions to address shortages, surpluses or skill mismatches

Workforce planning and its application should be followed up with monitoring and evaluation, to ensure actions are being taken and gauging if those actions are having the desired effect.

Responding to change

Workforce plans should be reviewed by management teams on a regular basis – certainly more than once a year. Some organizations include a people review component in regular business reviews, often at divisional or unit/function level. These reviews are partly there to see if the planned actions are taking place, but also to check that the plans themselves are still relevant. Many organizations have turned to using people analytic dashboards to display key targets visually.

The HR function, often through HR business partners, needs to stay in touch regularly

with local management teams to check progress and respond to any important changes, whether internal or external. Managers will appreciate and benefit from briefing on the possible impact and risks associated with external changes in employment law, tax regimes and so on. Critical issues to monitor and report on include:

Consider the psychological contract

The outcomes of workforce planning can also affect the psychological contract with employees (what the organization offers the workforce and expects from them and vice versa), as well as how you attract, communicate with and deploy your workforce. The specifics of the psychological contract might vary over time and with different people. For instance, job security may no longer be the main offer – and indeed some individuals may not desire it – so organizations might offer and leverage the employability of their workforce instead. In practice, the employer brand can be seen as an attempt to define the psychological contract with individuals so as to help in recruiting and retaining talent by clearly defining how people are valued.

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3. Value Chain

3.1. Introduction

The value represents how well the organization has been able to accomplish its strategic goals-which may be higher profit margins or industry position. The key value that global HR contributes is the quality and availability of pivotal talent pools whose competencies are critical to organization’s strategy.

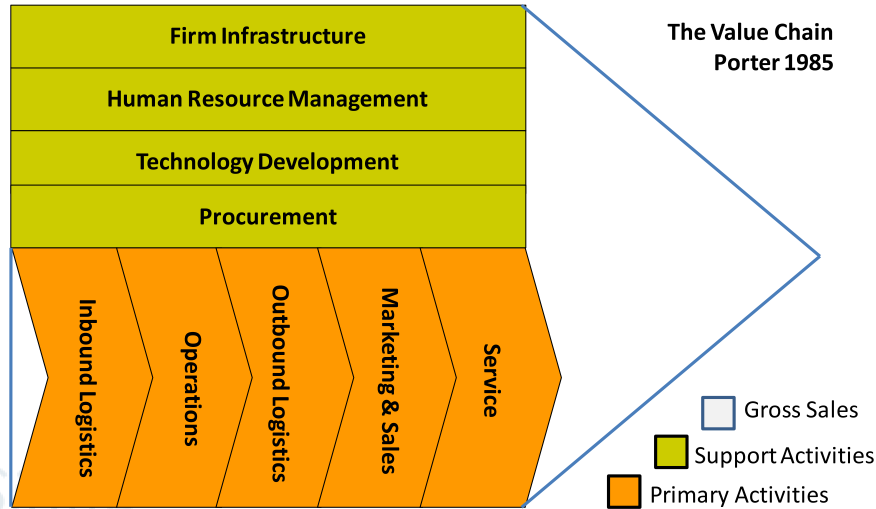
The value chain represents the process by which an organization creates the product or service it offers to the customer. It is described as a chain because it represents the sequential and simultaneous contributions of a number of internal and external participants.

The chain consists of a series of activities that create and build value. The primary activities (which may vary according to the enterprise's activity) contribute directly to the value created, such as Operations, Logistics, Marketing and Sales, and Service. The secondary activities provide essential services to the line functions, such as Procurement, Technology, Infrastructure, and Human Resources.

3.2. Elements in Value Chain

As the following figure, Porter's Value Chain focuses on systems, and how inputs are changed into the outputs purchased by consumers. Using this viewpoint, Porter described a chain of activities common to all businesses, and he divided them into primary and support activities:

Cost Leader, Differentiation, or Focus or Niche?



International production, trade and investments are increasingly organized within so-called global value chains where the different stages of the production process are located across different countries.

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Value Chain

Source: Porter, M. (1985). Competitive advantage: creating and sustaining superior performance. The Free Press.

3.2.1. Primary Activities

Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service. They consist of the following:

- **Inbound logistics:** These are all the processes related to receiving, storing, and distributing inputs internally. Your supplier relationships are a key factor in creating value here.
- **Operations:** These are the transformation activities that change inputs into outputs that are sold to customers. Here, your operational systems create value.
- **Outbound logistics:** These activities deliver your product or service to your customer. These are things like collection, storage, and distribution systems, and they may be internal or external to your organization.
- **Marketing and sales:** These are the processes you use to persuade clients to purchase from you instead of your competitors. The benefits you offer, and how well you communicate them, are sources of value here.
- **Service:** These are the activities related to maintaining the value of your product

or service to your customers, once it's been purchased.

3.2.2. Support Activities

These activities support the primary functions above. In our diagram, the dotted lines show that each support, or secondary, activity can play a role in each primary activity.

- **Procurement (purchasing):** This is what the organization does to get the resources it needs to operate. This includes finding vendors and negotiating best prices.
- **Human resource management:** This is how well a company recruits, hires, trains, motivates, rewards, and retains its workers. People are a significant source of value, so businesses can create a clear advantage with good HR practices.
- **Technological development:** These activities relate to managing and processing information, as well as protecting a company's knowledge base. Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation.
- **Infrastructure:** These are a company's support systems, and the functions that allow it to maintain daily operations. Accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to their advantage.

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Companies use these primary and support activities as "building blocks" to create a valuable product or service.

3.3. Stakeholders

An organization's stakeholders are the receivers of the organization's value, and they perceive that value in distinctive ways. Despite the difficulty in balancing stakeholder needs, many global organizations now reflect the stakeholder concept in their stated business objectives.

4. Competitiveness Advantage

Competitiveness advantage is a comparative concept of the capability and performance of a firm, sub-sector or country to sell and supply goods and/or services in a given market.

4.1. Five Forces Model

According to Michael Porter’s Five Forces Model, firms create competitive advantage by lower cost or differentiation (or innovation) compared with the competitors. These five forces are summarized as following: 1). Barriers to Entry, 2). Rivalry Determinants. 3). Threat of Substitutes, 4).Bargaining Power of Buyers, and 5).Bargaining Power of

Suppliers.

4.1.1. Barriers to Entry

The threat of new companies entering a market adds to the level of competition. Existing competitors and governments will often take action to inhibit the entrance of new competitors. These actions act as market entry barriers.

4.1.2. Rivalry Determinants

Competitors in a market will always be attempting to gain a competitive advantage. The effect of competition is often to reduce profits. Markets with few competitors will experience less rivalry. High fixed costs, high exit costs, and slow market growth all increase the level of rivalry between competitors in the market.

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4.1.3. Threat of Substitutes

Substitute products are those products that can replace a product but are not a direct competitor. For example, plastic bottles can be substituted for aluminum cans. A drastic reduction in the price of plastic bottles will create competitive pressures on the aluminum can industry. When a product has many potential substitutes in a market, its competitiveness is reduced.

4.1.4. The bargaining power of buyers

When buyers in a market are powerful, they can determine the price paid for supplies. This will increase the level of competition among suppliers. Buyers are powerful when there are few of them or when they are powerful enough to purchase suppliers.

4.1.5. The bargaining power of suppliers

If suppliers in a market are powerful, then they can exert pressures on buyers. These pressures will include high prices that will make buyer companies less competitive. Suppliers are powerful in markets when they are concentrated or integrated or when there are significant costs associated with switching suppliers. Suppliers are weak when there are many of them competing against each other.

Porter describes three choices of strategic position that influence the configuration of a firm's activities:

Variety-based positioning: based on producing a subset of an industry's products or services; involves choice of product or service varieties rather than customer segments. It makes economic sense when a company can produce particular products or services using distinctive sets of activities.

Needs-based positioning: similar to traditional targeting of customer segments. Arises when there are groups of customers with differing needs, and when a tailored set of activities can serve those needs best.

Access-based positioning: segmenting by customers who have the same needs, but the best configuration of activities to reach them is different.

All the activities in the value chain contribute to buyer value, and the cumulative costs in the chain will determine the difference between the buyer value and producer cost.

4.2. Resource Based Model

According to the Resource-Based model, a company's resources and capabilities are more critical to determining the appropriateness of strategic actions than are the conditions and characteristics of the external environment. The potential to achieve a sustainable competitive advantage will be realized when company resources and capabilities are:

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- Valuable, allowing the company to exploit opportunities or neutralize threats in the external environment.
- Rare or possessed by few, if any, current and potential competitors.
- Costly to imitate such that other companies will be able to obtain them only at a cost disadvantage relative to companies that already have them.
- Non-substitutable as there are no strategic equivalents.

4.3. Transient Advantage

Rita Gunther McGrath argued that for too long the business world has been obsessed with the notion of building a sustainable competitive advantage. That idea is at the core of most strategy textbooks; it forms the basis of Warren Buffett's investment strategy; it's central to the success of companies on the "most admired" lists. I'm not arguing that it's a bad idea—obviously, it's marvelous to compete in a way that others can't imitate. And even today there are companies that create a strong position and defend it for extended periods of time. But it's now rare for a company to maintain a truly lasting advantage. Competitors and customers have become too unpredictable, and industries too amorphous. The forces at work here are familiar: the digital revolution, a "flat" world, fewer barriers to entry, globalization.

Strategy is still useful in turbulent industries like consumer electronics, fast-moving consumer goods, television, publishing, photography, and ...well, you get the idea. Leaders in these businesses can compete effectively—but not by sticking to the same

old playbook. In a world where a competitive advantage often evaporates in less than a year, companies can't afford to spend months at a time crafting a single long-term strategy. To stay ahead, they need to constantly start new strategic initiatives, building and exploiting many transient competitive advantages at once. Though individually temporary, these advantages, as a portfolio, can keep companies in the lead over the long run.

Any competitive advantage—whether it lasts two seasons or two decades—goes through the same life cycle. But when advantages are fleeting, firms must rotate through the cycle much more quickly and more often, so they need a deeper understanding of the early and late stages than they would if they were able to maintain one strong position for many years.

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A competitive advantage begins with a launch process, in which the organization identifies an opportunity and mobilizes resources to capitalize on it. In this phase a company needs people who are capable of filling in blank sheets of paper with ideas, who are comfortable with experimentation and iteration, and who probably get bored with the kind of structure required to manage a large, complex organization.

In the next phase, ramp up, the business idea is brought to scale. This period calls for people who can assemble the right resources at the right time with the right quality and deliver on the promise of the idea.

Then, if a firm is fortunate, it begins a period of exploitation, in which it captures profits and share, and forces competitors to react. At this point a company needs people who are good at Merger and Acquisition (M&A), analytical decision making, and efficiency. Traditional established companies have plenty of talent with this skill set.

Often, the very success of the initiative spawns competition, weakening the advantage. So the firm has to reconfigure what it's doing to keep the advantage fresh. For reconfigurations, a firm needs people who aren't afraid to radically rethink business models or resources.

In some cases the advantage is completely eroded, compelling the company to begin a disengagement process in which resources are extracted and reallocated to the next-generation advantage. To manage this process, you need people who can be candid and tough-minded and can make emotionally difficult decisions.

For sensible reasons, companies with any degree of maturity tend to be oriented toward the exploitation phase of the life cycle. But they need different skills, metrics, and people to manage the tasks inherent in each stage of an advantage's

development. And if they're creating a pipeline of competitive advantages, the challenge is even more complex, because they'll need to orchestrate many activities that are inconsistent with one another.

In a world that values exploitation, people on the front lines are rarely rewarded for telling powerful senior executives that a competitive advantage is fading away. Better to shore up an existing advantage for as long as possible, until the pain becomes so obvious that there is no choice. To compete in a transient-advantage economy, you must be willing to honestly assess whether current advantages are at risk.

Companies that want to create a portfolio of transient advantages need to make eight major shifts in the way that they operate:

4.3.1. Think about arenas, not industries.

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One of the more cherished ideas in traditional management is that by looking at data about other firms like yours, you can uncover the right strategy for your organization. Indeed, one of the most influential strategy frameworks, Michael Porter's five forces model, assumes that you are mainly comparing your company to others in a similar industry. In today's environment, where industry lines are quickly blurring, this can blindside you.

Today strategy involves orchestrating competitive moves in what McGrath called "arenas." An arena is a combination of a customer segment, an offer, and a place in which that offers is delivered. It isn't that industries aren't relevant anymore; it's just that industry-level analysis doesn't give you the full picture. Indeed, the very notion of a transient competitive advantage is less about making more money than your industry peers, as conventional definitions would have it, and more about responding to customers' "jobs to be done" in a given space.

4.3.2. Set broad themes, and then let people experiment.

The shift to a focus on arenas means that you can't analyze your way to an advantage with armies of junior staffers or consultants anymore. Today's gifted strategists examine the data, certainly, but they also use advanced pattern recognition, direct observation, and the interpretation of weak signals in the environment to set broad themes. Within those themes, they free people to try different approaches an d business models.

4.3.3. Adopt metrics that support entrepreneurial growth.

When advantages come and go, conventional metrics can effectively kill off innovations by imposing decision rules that make no sense. The net present value rule,

for instance, assumes that you will complete every project you start, that advantages will last for quite a while, and that there will even be a "terminal value" left once they are gone. It leads companies to underinvest in new opportunities.

Instead, firms can use the logic of "real options" to evaluate new moves. A real option is a small investment that conveys the right, but not the obligation, to make a more significant commitment in the future. It allows the organization to learn through trial and error. Consider the way Intuit has made experimentation a core strategic process, amplifying by orders of magnitude its ability to venture into new spaces and try new things.

4.3.4. Focus on experiences and solutions to problems.

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As barriers to entry tumble, product features can be copied in an instant. Even service offerings in many industries have become commoditized. Once a company has demonstrated that demand for something exists, competitors quickly move in. What customers crave—and few companies provide—are well-designed experiences and complete solutions to their problems. Unfortunately, many companies are so internally focused that they're oblivious to the customer's experience. You call up your friendly local cable company or telephone provider and get connected to a robot. The robot wants to know your customer number, which you dutifully provide. Eventually, the robot decides that your particular problem is too difficult and hands you over to a live person. It's symptomatic of the disjointed and fragmented way most complex organizations handle customers. Companies skilled at exploiting transient advantage put themselves in their customers' place and consider the outcome customers are trying to achieve.

4.3.5. Build strong relationships and networks.

One of the few barriers to entry that remain powerful in a transient-advantage context has to do with people and their personal networks. Indeed, evidence suggests that the most successful and sought-after employees are those with the most robust networks. Realizing that strong relationships with customers are a profound source of advantage, many companies have begun to invest in communities and networks as a way of deepening ties with customers. Intuit, for example, has created a space on its website where customers can interact, solve one another's problems, and share ideas. The company goes so far as to recognize exemplary problem solvers with special titles and short profiles of them on the site.

5. Supply Chain

5.1. Supply Chain Management

A "supply chain" refers to the collection of steps that a company takes to transform raw material components into a final product that is delivered to customers. A supply chain is the network of all the individuals, organizations, resources, activities and technology involved in the creation and sale of a product, from the delivery of source materials from the supplier to the manufacturer, through to its eventual delivery to the end user. The supply chain segment involved with getting the finished product from the manufacturer to the consumer is known as the distribution channel.

Supply chain management (SCM) is the oversight of materials, information, and finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer. Typically, supply chain management has five stages: plan, make, source, deliver and return. The three main flows of the supply chain are the product flow, the information flow and the finances flow. SCM involves coordinating and integrating these flows both within and among companies. The following definition of supply chain management from the Council of Supply Chain Management Professionals is employed:

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Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all Logistics Management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, Supply Chain Management integrates supply and demand management within and across companies.

Supply chain management touches all of an organization's functions. To be successful, it requires focused effort across the entire company and collaboration with all outside suppliers and service providers. This means that supply chain management must have a multidimensional approach, involving people, processes and technology.

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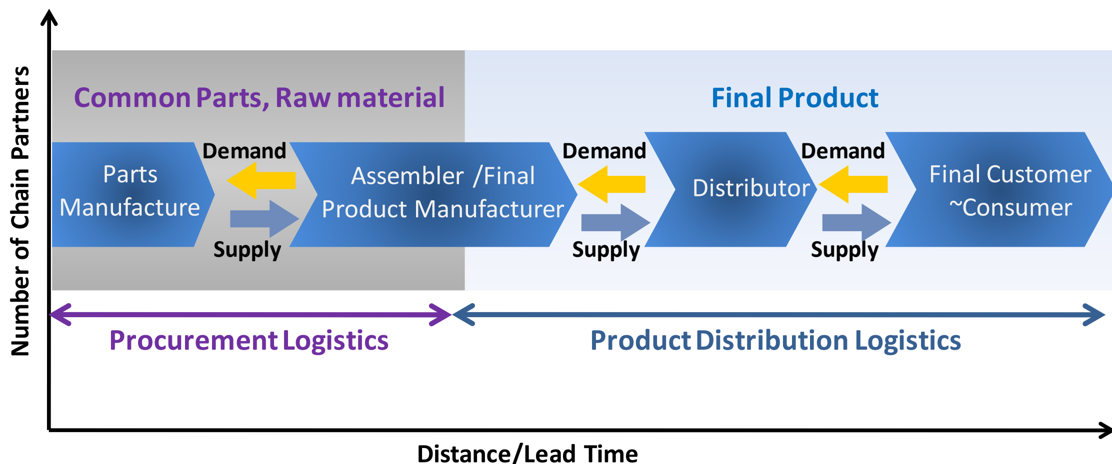
‘Make every supply chain cycle “synchronized” with final customer’s demand’



With increased globalization and offshore sourcing, global supply chain management is becoming an important issue for many businesses.

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The Ultimate Goal of Supply Chain Management

Source: Harvey, et al. (2013). Aligning global organizations' human capital needs and global supply-chain strategies. Asia Pacific Journal of Human Resources, 51(1), 4-21.

5.1.1. People

People are key to supply chain management because they are the core of organizations. For successful supply chain management, the people involved must have the skills and knowledge to manage sourcing, manufacturing, storage and transportation of products. They must have a solid view of the company’s strategic business vision and know how their role fits into the overall functioning of the supply chain.

5.1.2. Processes

The processes in supply chain management are the actions taken with the aim of satisfying customers. They include all functions involved in the supply chain: sourcing, distribution, transportation, warehousing, sales and customer service. They also include all actions performed by external companies that are part of the supply chain.

5.1.3. Technology

Technology is used in the supply chain to connect people and processes. However, people involved in the supply chain will not use technology unless they find it easy to adopt. Careful selection and implementation of the supply chain technologies a

company uses is essential for supply chain success.

5.2. Global Supply Chain Management

Global supply chain management involves planning how the entire supply chain will function as an integrated whole, with the aim of generating an optimum level of customer service while being as cost efficient as possible. Other aims include increasing the speed by which your product reaches your customers, as well as flexibility in dealing with customer transactions.

It incorporates management processes that integrate the network of suppliers, manufacturers, warehouses and retail outlets so that the right type of goods are sourced, supplied, produced and shipped in the right quantities, to the right locations, at the right time and are received in sound condition. To achieve successful integration, flows of information (such as purchase orders, shipping notices, waybills and invoices), materials (including raw and finished products) and finances (payments and refunds) through the supply chain must be coordinated effectively.

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In the modern global marketplace, advances in communications and transportation technologies have led customers to expect a steady and regular supply of products in good condition at the lowest possible price, despite the long distances most products, commodities and foodstuffs are shipped. Companies must always be looking for ways to improve the functioning of their supply chains to ensure that their supply meets projected demands cost effectively. If they do not produce sufficient product to meet demand, they will lose customers. If they produce too much product, they must pay for expensive warehousing of the excess inventory, which they might not be able to sell. If supplies are not sourced carefully and production is not monitored, companies might be faced with mass product recalls or returns. These can result in financial ruin for a company.

The cost savings provided by supply chain management enhance additional cost-cutting manufacturing methods and strategies that many international companies have already instituted. These strategies include the following:

5.2.1. Just-in-time (JIT) manufacturing

Reducing inventory levels, overall costs, product variability and production times, and also improving product quality.

5.2.2. Lean manufacturing

Producing goods using less manpower, raw materials, time and space.

5.2.3. Total quality management (TQM)

Embedding awareness of quality in all operational strategies.

Global supply chain management has many benefits for a company. It enables business processes to be organized using international organizations that be reduced, companies can react rapidly to unforeseen market conditions, transport strategies can be improved, costs can be minimized and waste can be eliminated.

5.3. Human Resources in SCM

Although most organizations recognize the importance of strategically managing their supply chains, they are less likely to capitalize on the fact that successful supply chain management rests on the performance of the people in the supply chain. At the same time, human resource practitioners have established practices and processes that improve worker and firm performance – but rarely do they consider the implications of those practices for the company's supply chain.

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Traditionally, HR strategy involves developing flexible systems of HR best practices that promote an organization's business strategies. Applying these activities to the supply chain context produces these progressively broader benefits:

5.3.1. Considering supply chain strategy, characteristics and partners when developing the HR strategy.

5.3.2. Using HR systems (e.g. incentives, performance management, long-term relationships) to manage supply chain partners.

5.3.3. Collaborating with the supply chain partners to develop and coordinate HR systems for the supply chain as a whole.

5.3.4. Aligning recruitment practices among the supply chain firms.

5.3.5. Sharing applicant pools.

5.3.6. Forecasting labor demand and supply across the entire supply chain.

5.3.7. Identifying training needs and objectives specifically for supply chain positions, and designing training to meet those needs.

5.3.8. Identifying the training needs of the supply chain partners, and training those partners (or vice versa).

5.3.9. Joint training and cross-organizational training of workers across the supply chain.

5.3.10. Developing performance metrics for the supply chain.

5.3.11. Aligning performance appraisal dimensions across supply chain partners.

5.3.12. Learning from supply-chain partner feedback on individual and group performance.

Today's increasingly complex business environments – which are characterized by shorter product life-cycles, product proliferation, ongoing outsourcing, and the globalization of the supply base and markets – magnify the challenges of human resource management in supply chain settings.

But meeting these challenges is well worth the effort. HRM practices can be used to encourage supply chain partners to develop valuable inter-firm relationships and to create knowledge-sharing routines. The result is a better coordinated, streamlined supply chain and, ultimately, new competitive advantage.

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6. Global Expansion

6.1. Motives

6.1.1. Expand Markets and Increase Sales

Global expansion is the crossing of international borders to perform upstream and downstream value chain activities. Expanded markets and increased sales mean more profits. Profits mean success for a business. They also mean that a business can make contributions to causes that they believe in. Every business wants to have low expenses; so some companies will therefore enter the global arena to minimize their costs.

6.1.2. Controlling Expenses

Companies will examine the resources they need and where they can get them at the lowest price. By searching outside of their own borders, companies hope to find more economical solutions to the production and manufacturing problems they have. Business might choose to take advantage of lower labor costs, they might move manufacturing plants closer to natural resources, invest in new and more efficient technology, or profit from another countries innovations or tax structures.

6.1.3. Diversification

In order to diversify a company's product line they may choose to enter a specific international market. This will apply to both a large scale international business along with a small company.

Companies have a foothold in a number of countries so they don't have to depend on the economy of one country. Companies engaged in international business can protect their investments and their markets by dealing with countries in a variety of countries. A recession in one county won't have a huge effect if business is doing well in another country.

6.1.4. Competitiveness

Many companies expand globally for defensive reasons-to protect themselves from competitors or potential competitors, or to gain advantage over them.

6.2. Considerations

6.2.1. Location economies

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Realized by performing a value creation activity in an optimal location anywhere around the globe

Often arise due to differences in factor costs

It can lower costs of value to enable low cost strategy and/or

Help in differentiation of products from competitors

Global web: different stages of value chain are dispersed to those locations where perceived value is maximized or costs of value creation are minimized

6.2.2. Cost economies from experience effects

The firm that moves down the experience curve most rapidly has a cost advantage over its competitors

Serving the global market from a single location helps to establish low cost strategy

Aim to rapidly build up sales aggressive marketing strategies and first-mover advantages

6.2.3. Leveraging core competencies

Core competence: Skills within the firm that competitors cannot easily match or imitate

Earn greater returns by transferring these skills and/or unique product offerings to foreign markets that lack them

6.2.4. Leveraging subsidiary skills

Value created by identifying firm skills and applying them to its global network of operations

6.3. Global Entry Approaches

6.3.1. International strategy

Create value by transferring valuable core competencies to foreign markets that indigenous competitors lack

Centralize product development functions at home

Establish manufacturing and marketing functions in local country but head office exercises tight control over it

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Limit customization of product offering and market strategy

6.3.2. Multidomestic strategy

Main aim is maximum local responsiveness

Customize product offering, market strategy including establishing production and - R&D facilities according to national conditions

Generally unable to realize value from experience curve effects and location economies

Possess high cost structure

6.3.3. Global strategy

Focus is on achieving a low cost strategy by reaping cost reductions that come from experience curve effects and location economies

Production, marketing, and R&D concentrated in a few favorable functions

Market standardized product to keep low cost

Effective where strong pressures for cost reductions and low demand for local responsiveness

6.3.4. Transnational strategy

To meet competition firms aim to reduce costs, transfer core competencies while paying attention to pressures for local responsiveness

Global learning through: valuable skills which develop in any of the firm’s worldwide operations, and transfer of knowledge from foreign subsidiary to home country, to

other foreign subsidiaries.

Transnational strategy difficult task due to contradictory demands placed on the organization

6.4. Market Entry and Growth Tactics

6.4.1. Export/Import: Exporting and importing often are the only available choices for small firms wanting to go international.

6.4.2. Strategic alliances: A number of companies loosely or tightly joined for a variety of purposes, including manufacturing, marketing, or sales. Some alliances involve customers, partners, and competitors.

6.4.3. Joint venture: A form of strategic alliance with two or more companies producing a product or service together.

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6.4.4. Equity partnership: Acquiring partial ownership through purchase of shares. May be general (sharing proportionally in control, profits, and liabilities) or limited (no managerial authority, liability limited to investment). Partnership agreement defines such issues as leadership and division of profits and losses.

6.4.5. Licensing: Firm in the host country is granted the rights to produce or sell a product. A low-risk entry strategy; avoids tariffs and quotas imposed on exports. However, there is little control of the licensee's activities and results.

6.4.6. Franchising: A trademark, product, or service is licensed for an initial fee and ongoing royalties. Often used in the fast-food industry.

6.4.7. Contract manufacturing: Contracting for the manufacture of components or products as a means of lowering labor costs.

6.4.8. Turnkey operation: A company designing and building a facility and then turning over operation to local management.

6.4.9. Management contract: Foreign Company brought in to manage and run the daily operations of the business. Decisions about financing and ownership reside with the host-country owners.

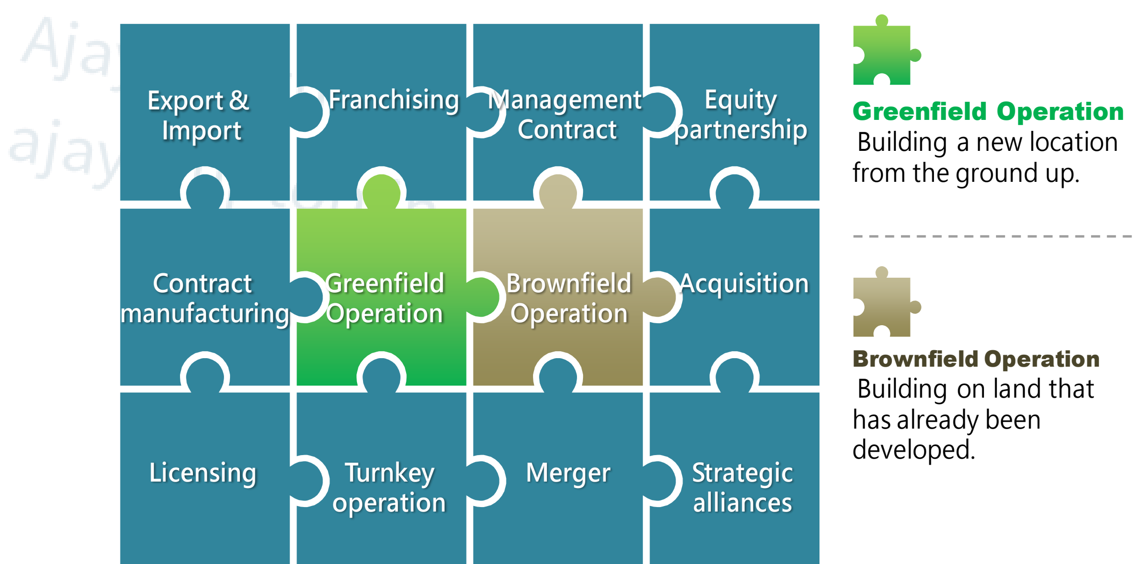
6.4.10. Greenfield operation: Refers to the company building a new location from the ground up. A major task and commitment to completely staff and equip the new location are required.

6.4.11. Brownfield operation: like in Greenfield, originates in the construction industry where it refers to projects built on land that has already been developed. In business,

a Brownfield operation is a method of starting a company by using a pre-existing company.

6.4.12. Acquisition: like in Brownfield, involves purchasing a company to start a business. Unlike the Brownfield operation, however, it normally involves purchasing a well-performing firm with potential for growth and results in expansion of company's employee base and facilities. Data privacy can be a big issue.

6.4.13. Merger: In a global merger, partner with another company while gaining access to new markets. Global mergers and acquisitions (M&A) make sense sometimes; it depends on the company's global business plan, and the product or service needs to transcend borders.



Global Expansion Strategies

Source: Twarowska, K. & Kąkol, M. (2013). International business strategy-reasons and forms of expansion into foreign markets. Knowledge Management & Innovation, 19-21.

6.5. Specialized Strategies

Specialized strategies are necessary in certain situations. Recently, firms have been using specialized strategies for developing and emerging markets, and for international entrepreneurship and new ventures.

6.5.1. **First Mover Strategies**: In some emerging markets, significant economies associated with early entry include learning effects, scale economies, opportunities for developing alliances, government support, and advantages over competitors. These

advantages are particularly prevalent in privatization situations. Risks include premature entry.

6.5.2. **Base of the Pyramid:** An area of increasing focus for MNCs is the 5 billion plus potential customers around the world who have heretofore been mostly ignored by international business, even within emerging economies, where most MNCs target only the wealthiest consumers.

6.5.3. **International entrepreneurship** is a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations.

7.5.4. **Born global firms** are firms that engage in significant international activity a short time after being established for international new venture.

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7. Mergers and Acquisitions (M&A)

Mergers and acquisitions (M&A) have become the dominant mode of growth for firms seeking competitive advantage in an increasingly complex and global business economy. Nevertheless, M&As are beset by numerous problems, with 50 per cent of domestic acquisitions – and 70 per cent of cross-border acquisitions – failing to produce intended results.

7.1. Strategies for M&A

Joseph L. Bower proposed five distinct M&A strategies: (1) the overcapacity M&A; (2) the geographic roll-up M&A; (3) the product or market extension M&A; (4) the M&A as R&D; and (5) the industry convergence M&A. We discuss each of them in turn, highlighting the potential general HRM implications in terms of resources, processes and values.

7.1.1. **An overcapacity M&A** occurs when an acquiring company seeks to eliminate excess capacity to create a more efficient corporation. In effect, the acquiring company's strategic goal is to achieve economies of scale in order to gain market share, doing so in part by eliminating human resources. This type of M&A often arises in oligopolistic industries characterized by excess capacity and involves firms of similar size. For example, there have been a number of overcapacity M&A in the petroleum sector (e.g. British Petroleum's acquisition of Amoco) and the automobile sector (e.g. Daimler's acquisition of Chrysler). An important concern in this type of M&A is that, although processes and values of the merging entities are frequently similar, relative status differences stemming from a merger of near equals can create problems in M&A integration.

In overcapacity M&A, large-scale lay-offs are inevitable. Thus, the HRM function will have to decide quickly upon a downsizing strategy, with planning and staffing duties – such as outplacement programs – critical to the success of the merger. In addition to national culture differences (e.g. having wine with lunch), variation in ways of managing and organizational values created problems in the human dimension of this merger. Also, the important role of both trust and communication play in the merger process, particularly in M&A across market economies.

7.1.2. **A geographic roll-up M&A** takes place when companies seek to expand geographically, often with operating units remaining at the local level. In many instances, large companies acquire smaller companies that they try to keep intact and therefore these firms tend to retain local managers.

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Although these M&As are similar to overcapacity M&As in that both involve consolidation of businesses, they differ significantly in that geographic roll-up M&As are more likely to occur at an earlier point in an industry's life-cycle. Strategically, roll-ups are designed to achieve economies of scale and scope and are associated with the building of industry giants', while overcapacity M&A seek to reduce capacity and duplication. Although in geographic roll-up M&A human resources are less disposable, the processes and values of the merging entities are likely to differ more than in the overcapacity M&A. Nevertheless, since the size of the acquirer tends to be greater than that of the acquired firm, conflict stemming from status differences is possibly not as prevalent as in the overcapacity M&A.

While holding on to the target company's resources (local managers, brands, and customers), the acquirer nearly always imposes its own processes (purchasing, IT, and so on). Quite often, the deal makes sense because of the acquirer's processes: they turn the target company into a far more efficient business. But acquirers don't need to rush this second step along; in fact, they should go easy in the beginning. Target-company managers often need time to familiarize themselves with the new processes.

7.1.3. **A product or market extension M&A** involves expanding product lines or expanding geographically across borders. This type of M&A occurs when the acquiring and acquired companies are functionally related in production and/or distribution but sell products that do not compete directly with one another, or when a company seeks to diversify geographically, such as when two companies manufacture the same product, yet sell it in different markets. In effect, in this type of M&A, firms seek to achieve long-term strategic goals by investing in less saturated markets – often doing so to obtain economies of scale necessary for global competition. The likelihood of success of product or market extension M&A depends on the relative size of the

merging firms and the experience of the acquired firm in M&As. For example, large firms such as GE acquire many relatively small firms, thereby increasing their chances of subsequent successful mergers.

Similarly to in the geographic roll-up M&A, human resources in product or market extension M&As frequently remain unchanged in the new entity. However, in product or market extension mergers, some firms have difficulties in changing the processes and values of acquired firms, particularly in cross-border M&As.

HRM strategies in product or market extension M&As often involve lay-offs, although the focus will be primarily on retention. Lay-offs will not be the overriding goal of acquiring firms since there tends to be little overlap between firms due to the strategic intent of the merger, which involves purchasing new product lines or expanding into new markets.

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7.1.4. **An M&A as a substitute for R&D** occurs when acquisitions are used as a means of gaining access to new R&D knowledge or technological capabilities by acquiring innovative firms rather than producing the knowledge in-house. Acquiring firms in this type of M&A tend to be larger than the acquired firm, and sometimes have significant practical merger experience, as in the case of Microsoft and Cisco Systems.

In an M&A as a substitute for R&D, the retention of human resources and knowledge is a paramount goal. Processes and values of the newly formed entity will, however, probably need to be changed, a complex proposition since the entrepreneurial employees often feel their values are constrained by the more bureaucratic structure of the acquiring firm. The success of this type of cross-border M&A will therefore depend on the acquired firm's integration capabilities and the acquiring firm's learning capacity. Integration issues will, however, be industry contingent. Therefore, a critical component of the HRM function is to retain valued employees.

A key factor in obtaining a successful M&A as a substitute for R&D is that HRM will be called on to set up systems to facilitate the transfer of knowledge from the acquired firm to the acquiring firm. Specifically, the HRM function should enable the lines of communication and develop learning processes.

Also, assimilation in an M&A as a substitute for R&D can be challenging since the acquiring firm is likely to be more bureaucratic than the acquired firm, and because the values of the merging firms, while similar, can create negative effects. Nevertheless, in general, firms involved in an M&A as a substitute for R&D may hold similar values irrespective of the countries in which the firms are headquartered, particularly in IT firms. This similarity in values reflects the importance of knowledge

and ideas in the production process, to the extent that industry values reduce problems resulting from differences in country-specific values.

7.1.5. **An industry convergence M&A** involves creating a new industry from existing industries whose boundaries are eroding. An example of this type of M&A is the Viacom acquisition of Paramount and Blockbuster. Although this type of merger will probably increase in the future, it is rare and not yet fully understood, making it difficult to analyze. In addition, acquired companies in this type of merger are typically given wide berth, perhaps to a greater extent than in the M&As as a substitute for R&D, with integration driven by a need to create value rather than a desire to create a symmetrical organization.

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This M&A approach entails inventing an industry and a business model based on an unproven hypothesis: that major synergies can be achieved by culling resources from existing industries whose boundaries seem to be disappearing. The challenge to management is even bigger than in the other categories. Success depends not only on how well you buy and integrate but also, and more importantly, on how smart your bet about industry boundaries is.

Global Mergers and Acquisitions (Global M&A)

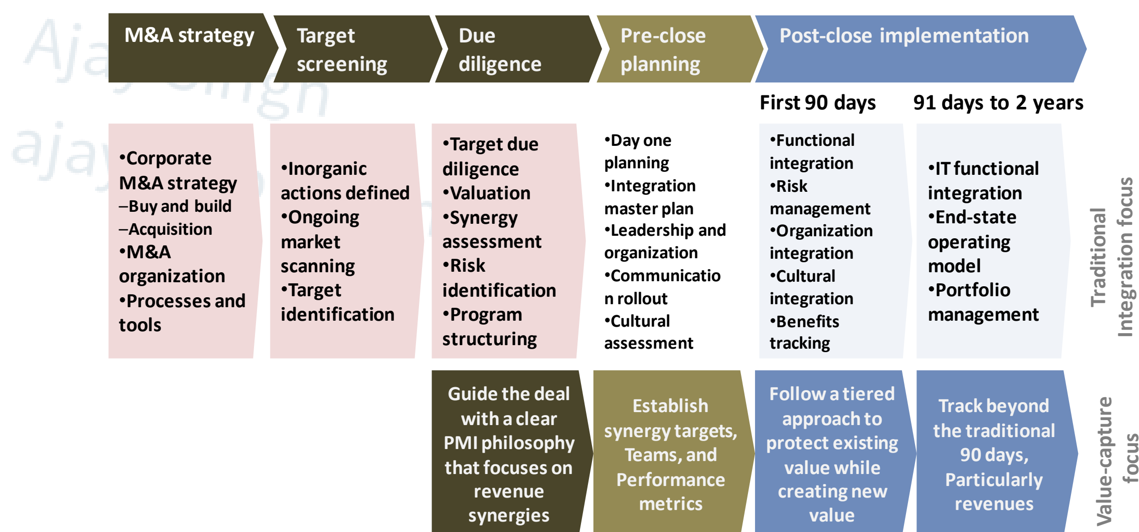
Source: Aguilera, R.V. & Dencker, J.C. (2004). The role of human resource management in cross-border mergers and acquisitions. International Journal of Human Resource Management, 15(8), 1355-1370.

An important consideration for HRM in implementing M&A is the level and speed of integration. With respect to cross-border M&A, researchers found differing levels of integration across countries, ranging from no integration, to partial integration, to full

integration. For example, they demonstrate that firms in the US and the UK integrate their subsidiaries to a greater extent than do firms in Japan, Germany and France. Similar cross-country variation may be found in terms of integration speed, gradual integration is important for success in mergers between professional service firms.

7.2. M&A Process

"JumpStart" (As the figure shown below) is a way to reach aggressive revenue targets in an accelerated time frame through M&A. The underlying philosophy, deployed across several successful mergers, is that a focus on capturing synergies is the most important aspect of a merger and can help override several integration-related distractions.



Source: A.T. Kearney's JumpStart approach to value capture

7.2.1. During due diligence: Articulate a clear PMI philosophy

We all know of companies that consistently deliver M&A value. What these companies have that others do not is often a post-merger integration philosophy—one that goes beyond traditional PMI (Post-Merger Integration) planning and execution and helps guide the entire deal. Creating a handful of guiding principles before planning is underway is a good way to anchor integration goals and processes. Some important areas articulated by PMI philosophy are:

- Clarify sources of value

During the due diligence stage, it is important to define the sources and stretch targets that can be generated from the merger through both revenues and cost synergies, and

what it will take to capture those. A more conservative view can still be used for valuation and other elements of the deal structure.

- Extent of standardization and integration

Defining an appropriate level of standardization across different functions early in the process helps avoid integration overkill of shared functions. At this stage, set the pace of integration based on the minimum amount of integration required on day one (such as addressing all legal and financial compliance aspects). After day one, integration efforts are based on the source of value and the size and complexity of the deal. Both of these aspects of depth and pace of integration are particularly important when the target is smaller than the acquirer and when value is in the market and in customer-facing parts of both organizations.

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- Cultural integration

Breaking down cultural barriers is an important element in integrating programs and a prerequisite for capturing revenue synergies, especially in a people-centric business such as IT-BPO. It is important to take a balanced view on the cultural differences of each merger and how they need to be addressed, and not to overplay the sensitivities, which we find to be the case in many cross-border mergers by Indian companies.

7.2.2. Pre-close planning: Establish synergy targets, teams, and performance metrics

The pre-close planning phase is a time for acquirers to translate their understanding of sources of value into explicit goals. It is the ideal time to set a high bar because there is a clear case for change, top management is paying attention, and stakeholders are committed. Successful pre-close planning consists of three main factors:

- Set aggressive targets

The most successful integrations take an expansive view, establishing aggressive synergy targets through a bottom-up approach. Three top line areas deserve focus; protecting existing accounts and revenues, protecting the acquired company's revenue trajectory, and taking advantage of the joint capabilities to drive cross-selling and enhance go-to-market offerings.

- Establish teams

Make sure dedicated cross-functional teams are assigned to different synergy work streams and are ready to hit the ground running with a clear plan that details the resources and milestones.

- Align targets and KPIs

Among the most important elements for realizing synergies is aligning synergy targets and key performance indicators (KPI) for leadership teams and involved business units. It is important to recognize that cross-sell and development of new products/ solutions will not happen through a business as usual approach.

7.2.3. Post-close implementation: Follow a tiered approach

Because revenue synergies are the most important yet most difficult to capture, most successful IT-BPO deals are performed in a tiered approach. The approach consists of protecting existing value while creating added value:

- Protect existing value

Immediately after the merger, both the acquirer and the target are at risk of losing highly valuable sales resources and customers to competitors. Early, frequent, and positive communication can help retain customers and sales staff, as can being thoughtful about realigning people and their incentive structures. At the same time, the right resources from both companies must be deployed and focused on achieving the sales trajectory for the acquired company. Ideally, tracking the pipeline of existing business continues in the same aggressive manner as before the acquisition.

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- Create added value

Making the most of transformational value-creation opportunities—such as innovative product development, cross-selling, and upselling—requires a focused pursuit of early wins in existing accounts, removal of organizational barriers, and risk protection for sales teams. Remember, capitalizing on both companies' capabilities to develop new solutions will never come to fruition unless high-quality teams and resources are dedicated to the task.

Clearly, setting aggressive synergy targets for the integration team and for leadership post- closure is essential to capturing a merger's full value.

7.2.4. Beyond 90 days: Continue tracking progress, particularly revenues

More than 80 percent of cost synergies are realized within one year after a merger, and revenue synergies typically within two years. After this window closes, synergies that haven't been achieved are not likely to materialize. Therefore, capturing the full potential of synergies, especially revenue synergies, requires rigorous tracking for up to two years after the merger. After the initial burst of energy subsides, it is not unusual for team members to get consumed meeting the day-to-day demands of their jobs. We find that within three months, synergy initiatives are likely to slip well down the list of priorities. It is essential to maintain a continued focus on the program,

especially revenue synergies, beyond the traditional 90 or even 180 days.

7.3. HR Issues in M&A

The human side of M&A activity, however, based upon the failure rates of M&As. So if people issues are so critical, why are they neglected? Possible reasons include:

- The belief that they are too soft, and, therefore, hard to manage
- Lack of awareness or consensus that people issues are critical
- No spokesperson to articulate these issues
- No model or framework that can serve as a tool to systematically understand and manage the people issues; and therefore
- The focus of attention in M & A activity is on other activities such as finance, accounting, and manufacturing

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Research, however, indicates that people issues occur at several phases or stages of M&A activity. More specifically, people issues in just the integration phase of mergers and acquisitions include: (1) retention of key talent; (2) communications; (3) retention of key managers; and (4) integration of corporate cultures. From these flow numerous, more detailed people issues, e.g., evaluation and selection of duplicate managerial talent to determine who remains and who departs after the merger or acquisition.

In the process of integrating corporate cultures, entire sets of human resource policies and practice from both companies may be subject to evaluation, revision, or replacement. While these human resource issues are important in M&A activity throughout the world, their importance tends to vary by the type of M&A combination. For example, if it is an acquisition that will allow for separation of the acquired company, there may be fewer evaluation, selection, and replacement decisions than in acquisitions that result incomplete integration of the two companies.

In addition to these people issues in the integration phase of M&A activity, there are several other people issues that are evident in the phases before and after integration. Those become more evident and more manageable by detailing a model of M&A activity.

The experiences of companies in merger and acquisition activity suggest a model of M&A activity that has three stages: (1) pre-combination; (2) combination — integration of the partners; and (3) solidification and advancement — the new entity. While these three stages are applicable to and encompass the larger set of business functions such as business strategy, finance, marketing, distribution, IT, and manufacturing, the issues

highlighted here are those that reflect issues most closely associated with human resource management. Then to provide further focus and detail for these human resources (HR) issues in M&A activity.

HR Issues in M&A

1. Pre-Combination	2. Combination — Integrating the Companies	3. Solidification and Assessment of the New Entity
• Identifying reasons for the M&A • Forming M & A team/leader • Searching for potential partners • Selecting a partner • Planning for managing the process of the M and/or A • Planning to learn from the process	• Selecting the integration Manager • Designing/implementing teams • Creating the new structure/strategies/ leadership • Retaining key employees • Motivating the employees • Managing the change process • Communicating with and involving stakeholders • Deciding on the HR policies and practices	• Solidifying leadership and staffing • Assessing the new strategies and structures • Assessing the new culture • Assessing the new HR P&P • Assessing the concerns of stakeholders • Revising as needed • Learning from the process

Source: Schuler, R. & Jackson, S. (2001). HR Issues and Activities in Mergers and Acquisitions. European Management Journal, 19(3), p.239–253.

7.3.1. Stage 1: Pre-Combination

There are several human resource issues in this first stage of the M&A activity. While

discussed together, the differences that may accompany a merger rather than an acquisition are noted. Because of the wide variation of mergers and acquisitions that are possible, however, details of all such possible differences are not fully articulated here. In this Pre-Combination stage the most significant HR issues for M&A activity are illustrated in the above table.

An important HR issue in the Pre-Combination stage of any M&A activity is identifying the reasons to initiate the activity. A substantial number of the many possible reasons for an M&A, are human resource related, e.g., acquisition of key talent. Here the M&A is announced because a major reason for the combination is to obtain that talent in the first place.

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Another important HR issue is the creation of a dedicated senior executive and a team to head the M&A process. A key reason for M&A failure is the lack of a capable leader who can focus completely on all the aspects of the M&A process, one of which is seeking out potential companies to merge with or acquire. Then after the identification of potential companies, comes the selection discussion of which one to choose. Regardless of how well the two other stages may be planned for and done, selection of the wrong partner is likely to diminish the possible success of the combination. Alternatively, selection of the right partner without a well-thought plan for managing the rest of the M&A process is also likely to diminish the possible success of the combination.

A final HR issue highlighted is the 'planning to learn from the M&A process.' According to a global survey company's recent global survey:

"Companies that embark on a program of M&A should build up a pool of talent, which they can redeploy to share and apply the learning gained around the organization. Similarly, they could and should be turning the knowledge and experience acquired in each deal into comprehensive, streamlined and pragmatic processes and knowledge centers, which can be applied to future deals.

HR Implications and Actions. An immediate HR implication of this last HR issue is that organizations have a better understanding and knowledge base of the M&A process are likely to be more successful in their M&A activities. This understanding and this knowledge base, however, have to be shared and disseminated to have maximum impact because M&A activity is likely to affect everyone in the company, particularly if the combination results in extensive integration of the two companies. Significant HR implications result from the need to have a dedicated and skilled leader and team for M&A activities. This need is likely to be best served through the best use of a variety of HR practices working in concert, namely, recruitment, selection, development,

appraisal, compensation, and labor relations.

Conducting a thorough due diligence in the M&A process also has critical HR implications: Many CEOs gloss over softer HR issues, including potential cultural problems, only to realize later that they've made a huge mistake. Consequently, cultural assessments, as an element of soft due diligence, are also becoming common.

7.3.2. Stage 2: Combination — Integrating the Companies

Although we are now at the second stage of the M&A process, it is important to acknowledge the base that has been established by the activities in the first stage. For example, for Stage 2 to be effective, it is important that planning for their integration activities be skillfully prepared in Stage 1: 'lack of integration planning is found in 80% of the M&A's that underperform' indicated by a scholar. This crucial second stage incorporates a wide variety of activities as shown in the above table. In general, integration is the process by which two companies combine after a merger or an acquisition is announced and pre-combination activities are completed.

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This crucial second stage incorporates a wide variety of activities. In general, integration is the process by which two companies combine after a merger or an acquisition is announced and pre-combination activities are completed.

HR Implications and Actions. Perhaps the most critical HR issue for the success of this integration stage is selection of the integration manager. Combinations that were guided by the integration manager:

- Retained a higher % of the acquired companies' leaders
- Retained a higher % of the total employees
- Achieved business goals earlier
- There are several things about the integration manager:
- It is important to have an integration manager to focus exclusively on the particular acquisition or merger.
- This person is not one of the people running the business.

Usually it is someone on loan to the business for a period of time to focus solely on integration issues.

This person helps to provide continuity between the deal team and management of the new company. Such people 'understand the company,' 'feel ownership,' and 'are passionate about making it work'.

The integration manager may be part of a 'steering committee' along with other top executives. This is the group responsible for setting the role, process and objectives of the integration and overseeing the progress of integration teams across various M&A projects.

Another critical HR issue is the selection of a leader who will actually manage the new business combination. If an acquired business has unclear or absent leadership, the result will be crippling uncertainty, lack of direction, stalled new product development, and the postponement of important decisions. Strong leadership is essential to acquisition success — perhaps the single most important success factor. A strong leader's influence will be quickly recognized and praised.

Managing integration involves preparing the staff for the change, involving them to help ensure understanding, preparing a schedule for the changes, making the changes, and then putting in place all the structures, policies and practices to support the new operation.

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Managing the communication process is also a valuable way to retain and motivate key employees. It also plays a critical role in the process of change and the entire stage of integration.

A final HR issue is the need to create policies and practices for learning and knowledge sharing and transfer. Many of the same lessons were learned repeatedly and simultaneously across business units as well as from other companies. Thus, sharing those lessons enhances integration and improves the likelihood of success. Forums for information sharing and the Intranet are tools that companies can use to facilitate the sharing knowledge.

Helping ensure that knowledge and learning are shared across units are HR policies and practices that appraise and reward employee sharing, flexibility, development and long-term orientation.

Overall, this second stage of integration in an M&A activity is extensive and complex. Whereas Stage 1 activities set the scene for M&A activity, those in Stage 2 are the ones that make the activity come to life. Clearly there are differences here between a merger and an acquisition, differences between a merger of equals and non-equals, and differences between an acquisition with inclusion and an acquisition with separation.

7.3.3. Stage 3: Solidification and Assessment of the New Entity

Particularly for a merger of equals with high levels of inclusion, there is a clear and

specific new entity that is created.

HR Issues and HR Implications and Actions. As the new combination takes shape, it faces issues of readjusting, solidifying and fine-tuning. These issues take on varying degrees of intensity, although not importance, depending upon whether it is a merger of inclusion rather than one of separation or an acquisition of relative equal versus unequal.

The strategy and structure have to be assessed and revised. The new top management is being given more control to develop a new strategy as cost cutting by reducing supplier costs and reducing product offerings. Consequently, staff may be reduced as well. Along with this the culture changes, both to reflect the new strategy and the new leadership. This new culture, combined with the new strategy and structure, is reshaping the thrust of performance appraisal and compensation to focus more on cost cutting objectives, supplier management, and flexibility and employee morale.

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These illustrate the HR issues and activities that can be expected to occur after the Combination Stage has been completed. Of course, change is a constant in almost any company today, as the macro factors in the global environment continue to change and present new conditions for all companies.

7.4. HR Due Diligence

According to an article published on "Harvard Business Review" by David Harding and Ted Rouse, the most obvious consequence of making a deal without conducting human due diligence is a significant loss of talent right after the deal's announcement. Less obvious is the problem of long-term attrition: Research shows that companies continue to lose disproportionate numbers of executives years after their merger deals have closed. For those who remain, confusion over differences in decision-making styles leads to infighting. Managers postpone decisions or are blocked from making them. Integration stalls and productivity declines.

That's the bad news. The good news is that HR due diligence can help acquirers avoid these problems. When they have done their homework, acquirers can uncover capability gaps, points of friction, and differences in decision making. Most important, they can make the critical people decisions—who stays, who goes, who runs the combined business, what to do with the rank and file—when a deal is announced, or shortly thereafter.

HR due diligence lays the groundwork for smooth integration. Done early enough, it also helps acquirers decide whether to embrace or kill a deal and determine the price they are willing to pay. In hostile situations, it's obviously more difficult to conduct due

diligence. However, there is still a certain amount of HR due diligence that companies can and must do to reduce the inevitable fallout from the acquisition process and smooth the integration.

So what does good HR due diligence actually involve? In our experience, an acquiring company must start with the fundamental question that all deals should be built on: What is the purpose of the deal? The answer to that question leads to two more: Whose culture will the new organization adopt, and what organizational structure should be adopted? Once those questions are answered, HR due diligence can focus on determining how well the target's current structure and culture will mesh with those of the proposed new company, which top executives should be retained and by what means, and how to manage the reaction of the rank and file.

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In public, deal-making executives routinely speak of acquisitions as "mergers of equals." That's diplomatic, but it's usually not true. In many, if not most, deals, there is not only a financial acquirer; there is also a cultural acquirer, who will set the tone for the new organization after the deal is done. Often they are one and the same, but they don't have to be.

The big problem with saying that an acquisition is a merger of equals is that it allows management to postpone acknowledging which firm is the cultural acquirer, which makes pre-deal HR due diligence all but impossible. Before you can evaluate potential people problems, you have to know which culture you want to end up with. Who the cultural acquirer is depends on the fundamental goal of the acquisition. If the objective is to strengthen the existing business by gaining customers and achieving economies of scale, then the financial acquirer normally assumes the role of cultural acquirer. In such cases, the acquirer will be less interested in the target's people than in its physical assets and customers, though that shouldn't discourage the acquirer from cherry-picking the best talent the target has to offer. The main focus of HR due diligence, therefore, will be to verify that the target's culture is compatible enough with the acquirer's to allow for the building of necessary bridges between the two organizations. But, if the deal is intended to transform the financial acquirer's business, then the target firm is likely to be the cultural acquirer.

It's rare that two firms can be combined without making hard decisions about whose structure to adopt (should business units be based on our products or their geographies?), who should report to whom, how decisions will be made, and so on. In most cases, executives looking at a deal will have ideas about which structure they prefer, but they need to know whether the proposed structure makes sense given the organizational realities of the target.

The first issue to diagnose is whether the target has a coherent, functioning organizational structure that allows it to make and execute decisions effectively. How and where are the business units deployed? What is the reporting structure? How many levels of authority stand between the top of the organization and the front line? How is authority distributed between layers? Think of this as the "hardware" of the organization.

The second issue to address is the internal dynamics of the target, or its "software." What process do the target's executives use to make strategic and operating decisions? How effective are the checks and balances on the key decision makers? Where will the most significant points of friction emerge in combining the target's functions or divisions with those of the acquirer?

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To address these questions, the acquirer's HR due diligence team should begin by looking at the hard data: organization charts, head counts, and job descriptions. From this research, the team should be able to create a profile of the target's basic organization, identify the reporting lines, lay out flowcharts that track how decisions are made and implemented, and describe the various official mechanisms for controlling the quality of decision making (board reviews, steering committees, and the like).

This data-based exercise, however, can take the team only so far. As any manager worth his or her salt knows, the organization chart reveals little about how effective a company's structure is. In friendly deals, therefore, the HR due diligence team should approach decision makers and their reports to compare practice to theory and uncover the strengths and weaknesses of the organization: Are decisions really made through the official channels? Which departments and functions are best at making decisions? The output could consist of an additional set of flowcharts diagramming the decision-making process. Clearly, this assessment is only feasible in a friendly deal—and usually only after the intention to make the deal has been announced.

The final task for the acquirer's HR due diligence team in addressing organizational issues is to take stock of the target's assets and capabilities and determine which departments and functions possess those capabilities. This, obviously, is especially important for deals where the point is to acquire assets and capabilities. The unit of analysis at this stage is not individuals, but entire business units, functions, or technical departments. The team will begin by reviewing the roles, goals, and job descriptions of key areas of the company. What is the scope of the units' responsibilities, and how well have they delivered? How does the quality of the output of the target compare with that of the acquirer? Team members should supplement

these observations with a careful reading of the various units' management accounts (an exercise that will overlap with financial due diligence). It may also help to approach managers at key customers directly to ascertain their perspective on where the target excels or falls down.

In many deals, it isn't always obvious which firm is the cultural acquirer. Even when it is obvious, changing cultures is not simple. So it's critical that the acquirer get a sense of the similarities and differences between two organizations' cultures and just what the cultural transition will involve. This is so, even if the investment thesis downplays the importance of the culture.

HR due diligence efforts focused on culture have to begin with a clear understanding of what the target company's culture actually is. The acquirer should start by looking at the business press to see what the target's key stakeholders have to say about the matter and supplement that research with interviews with representatives from each group of stakeholders, if possible. The target's executives can explain how they view their mission, their values, and their own cultural style. The decision-making diagnosis we talked about above is another tool the acquirer can use to identify differences in the two organizations' processes that actually reflect fundamental cultural differences. For example, is decision making centralized or decentralized at the target company? Customers can shed light on how the target goes to market and responds to change. Competitors and suppliers can provide information on how the target is perceived in its industry. With this information, the acquirer can begin making decisions about the desired culture and put ground rules in place even before the deal is announced.

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But the really useful cultural work of HR due diligence starts after the deal is officially on the table. Then it becomes easier for the companies to work together openly. There's a lot a HR due diligence team can learn simply by spending time at the target. Team members can see firsthand what the company's norms are about space, communication, meeting management, and dress—all important cultural symbols. They can talk to the company's "heroes" and decipher what they stand for. And they can review compensation, performance management, and other systems to get an idea of the values and behavior the company promotes.

After an announcement, a company can also start applying a useful cultural assessment tool: the employee survey. In this kind of survey, employees from both companies are asked to rate their own company's culture along a host of dimensions. They are also asked what they would like the combined company to look like in each of those categories. Along with face-to-face interviews, these survey data can reveal where friction and clashes are likely to spring up.

While it's helpful for the acquirer to take stock of data from employee culture surveys, it's even more useful to get the managers from both companies to examine the data together in workshops. Indeed, the process of a joint review is as valuable as the data it produces. Executives participating in such workshops immerse themselves at first in the distinctions between the two cultures highlighted by the data. Then the floodgates open, and they often find they agree on many elements of the culture for the new organization, which becomes a rallying point.

Defining the values of the new culture, translating those values into specific expectations for behavior, and coming up with a plan to move both organizations to the new culture goes a long way toward understanding how each side works and what each assumes to be normal. The process also knits together the leadership team, turning its members into role models for the new culture.

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If the financial acquirer is also the cultural acquirer, the company is likely to want to retain its own people in the top jobs. But keeping great talent from an acquired organization not only can upgrade the effectiveness of your company; it can also send a powerful message to those in the target firm about how they will be treated in the merger. What the acquirer really needs to do is get to know the management team of the target, so that it can judge who are the most talented leaders and then put the best people in each position.

Not every company, of course, wants to retain all its target's managers, and most will need to determine who goes and who stays. Working that out requires the same kind of detailed assessment that goes into any high-level hiring effort. Acquisition team members should gather performance reviews, interview third parties (headhunters and former executives, for instance), and assess the executives' track records. They should probe the executives' leadership styles and evaluate how they have dealt with difficult decisions. Most of all, acquisition team members should simply spend time with their counterparts in the target company, preferably on the target's turf, getting to know them as individuals.

The acquirer can then make judgments about which individuals in those units to keep on. If it is the people in sales who are essential to the acquisition's success, the team should talk to customers about which sales reps are the best, possibly combining this with the cultural interviews we described earlier. If the acquirer is buying research and development capabilities, it needs to bring in outside experts capable of evaluating the target's scientists and engineers. A particularly useful tool for assessing talent at a target is forced ranking. This needs to involve some combination of HR and key senior employees who will be part of the new organization. Using performance reviews and

input from senior executives, the acquisition team can usually rank every employee in the critical departments from top to bottom. These results can be cross-checked against individual bonus awards, which are often a good guide to past performance.

Once key people are identified, the acquirer must face the challenge of retaining them. Those at the top may have an ownership stake in the company, which could generate a big payout as a result of the acquisition, and they may feel they can safely leave the company or retire. Even those without an ownership stake may decide it's time to seek greener pastures. To complicate the situation, the acquirer may want to keep some of its new employees over the long term while retaining others only for six months or a year. The best way to solve this puzzle, typically, is to put your cards on the table: Tell people exactly what you're hoping they will do, be it stay for a short while or stay on long term, and design incentives to encourage just that. Nonfinancial rewards and aspirations are important as well. If you can convince people that they'll now be part of a bigger, more exciting organization, they'll be more likely to stay on.

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Intimately linked with the question of whom you want to retain is the question of post-merger morale. The success of pretty much any deal (except perhaps those in which the acquirer is really only after a specific physical asset or patent) depends on what the target's employees think about the deal. Are they pleased or are they horrified to be acquired? Are they afraid? Will they actively undermine efforts to change the organization? Their attitudes will determine whether the acquirer can retain key employees, how difficult it will be to acculturate them, and whether they will accept new structures and processes.

If the deal is hostile, of course, you will not be well placed to gauge employee morale. Incumbent management at the target will be telling employees that the deal is a nonstarter and will be bad for the company. For that reason, pulling off a hostile acquisition whose investment thesis is based on the people is extremely challenging. But if the deal is a friendly one, then there's a lot you can do to gauge and even manage the attitudes of the target's people.

The obvious starting point is employee surveys. Most companies keep track of their employee satisfaction levels, and the results of these surveys can tell you a lot about employees' attitudes toward their company. Do they feel that there is a free flow of information up and down the hierarchy? Do they believe that they are rewarded on the basis of merit and hard work? You can also find out which units are happy with the status quo and which are not, thereby indicating where the main communication challenges will lie. Units that are happy with the status quo may resist the changes you propose, while those that are dissatisfied may look on you as a white knight. In

addition to reviewing past surveys, you can work with the target to directly survey employees about their attitudes toward your company as an acquirer. And you can monitor industry and employee placement chat rooms to see what's being posted by your employees and by competitors. As you build a picture of employee attitudes at your target, you will probably want to move beyond surveys to spend time with frontline employees on their coffee breaks and lunch hours, walking through plants and offices, talking with people at the operating level.

Conducting HR due diligence requires both sustained commitment from senior executives and the allocation of the necessary resources. It is particularly hard to do when, as too often happens, executives of a would-be acquirer are hastily responding to an opportunity that has suddenly appeared on their radar screen. There is little time even to create a cogent deal thesis to test, let alone find the time to do the kind of due diligence on people issues that a successful deal entails. But there's another way to go about it. The most successful acquirers have a strategic rationale behind their deals. They build a pipeline of potential acquisitions that fit the rationale, on which they can conduct ongoing due diligence, both financial and human, before any merger opportunities ever arise.

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With that kind of approach, acquirers usually have plenty of time and opportunity to pursue thorough human due diligence over a period of months or even years. When formal due diligence kicks off, these acquirers already know a lot about the target, including the strengths and weaknesses of its key people. They have a good idea from the outset of who is going to be the cultural acquirer in the deal, reducing the odds of misunderstandings or culture clashes. Done this way, HR due diligence can turn people issues from a potential liability into a solid asset. We highlight some important issues regarding HR due diligence as follows:

7.4.1. Beyond securing financing and readying one's own financial records, a company should have a clear sense of the strategic purpose of a merger or acquisition, the desired characteristics in the acquired company.

7.4.2. Identifying appropriate candidates for merger/acquisition. Physical, cultural, and sociopolitical distances may be significant factors in choosing candidates, since these differences will affect the length of time and the resources required to achieve integration after the merger.

7.4.3. Initial expectations are defined and a letter of intent is created through preliminary meetings.

7.4.4. Due diligence is time-consuming but critical. Usually, an M&A team representing

different functions, including HR, are assembled. The information assembled (through close review of the company's records, public information, and industry knowledge) forms the basis for the final agreement.

7.4.5. There are three main areas that HR should focus on during due diligence:

HR practices & policies

- Employee contracts, past or pending employment litigation, benefits, compensation, change in control provisions, entity and employment structure, policies, union or bargaining agreements, org charts, immigration and performance management.
- Identify any potential risks or impacts to the deal

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Talent & Culture

- Walk through their leadership style, what makes a successful employee in their company, who the critical employees and any risks or concerns
- Look at the three layers of culture: the geographical cultural differences, the work style difference, and the business impacting differences.

Source: Harding, D. & Rouse, T. (2007). Human Due Diligence. Harvard Business Review, April, p.124-131.

- HR employment practices and policies

Employment practices and policies, which is a rather large bucket of work, captures all of the detailed HR work. This is the traditional part of diligence that requires digging through piles of data to gain a grasp of everything happening within the company. Key areas for review include employee contracts, past or pending employment litigation, benefits, compensation, change in control provisions, entity and employment structure, policies, union or bargaining agreements, org charts, immigration, and performance management. The goal is two-fold: (a). understand what they are doing and; (b). identify any potential risks or impacts to the deal.

- Talent

The next key area to review is talent. As the HR leader for diligence, you will want to set up time to meet with the CEO and key leaders to talk through the talent in the organization. This should be a small group so that each person is able to speak freely. Walk through their leadership style, what makes a successful employee in their company, who the critical employees are, and any risks or concerns.

- Culture

The final key area of diligence is a review of the company's culture. Culture diligence has become a normal and accepted part of the process over the last few years. Earlier, it was brushed off by the business, but after numerous articles and real life examples in which acquisitions have failed due to companies turning a blind eye to cultural challenges, business leaders are much more receptive to the discussion of culture.

7.5. HR Integration in cross border context

Global HR will perform due diligence on people dimension. In digesting the results of due diligence, global HR can begin to map and compare the two organizations' structures and processes and decide how to manage differences. Key talent can be identified and plans laid for retaining it.

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Future, global HR should develop a post-M&A strategy for integrating global and local HR staff and processes as soon as the strategic goals for the M&A and the information from the due diligence are available.

In order to obtain meaningful data on an organization's culture. It is often necessary to look below the surface. An informant is someone who provides information on how the organization operates; but it is often necessary to probe more deeply to get beyond a standard response. The interviewer should recognize that the individual may be operating from a position of uncertainty, fear or hostility. That may affect his or her answers. Certainly the ability to understand the interviewer's language would be a prerequisite to participation, and a written report is preferable to an oral summary. But without obtaining in-depth information, the cultural due diligence exercise is meaningless. Finally, there is a good chance that informants from different parts of the organization may give very different responses. And a group consensus may be neither achievable nor desirable.

The speed of integration will depend on how well the management and employees of both groups are informed and prepared. The global HR integration plan should include:

- Designating integration leaders
- Securing management support and resources
- Developing integration and communication plans, setting measurable objectives for integration, and establishing a realistic time line

The key to implementing the integration is speed. The longer the process of

integration, the less value the acquisition delivers. Since post-M&A integration generally means streamlining the workforce and reconciling multiple compensation systems, global HR focuses on:

- Communicate honestly and quickly, before incorrect rumors spread and take hold
- Make required changes quickly-where this is possible. Part of the due diligence process is identifying restrictions on implementation, such as laws affecting acquired rights, workforce terminations, and job reassignments
- Support efforts to blend or revise work processes-perhaps by using cross cultural task forces
- Providing training in new jobs and processes
- Ensures that stakeholders- such as vendors or supply chain partners and affected communities-are included in both planning and implementation.

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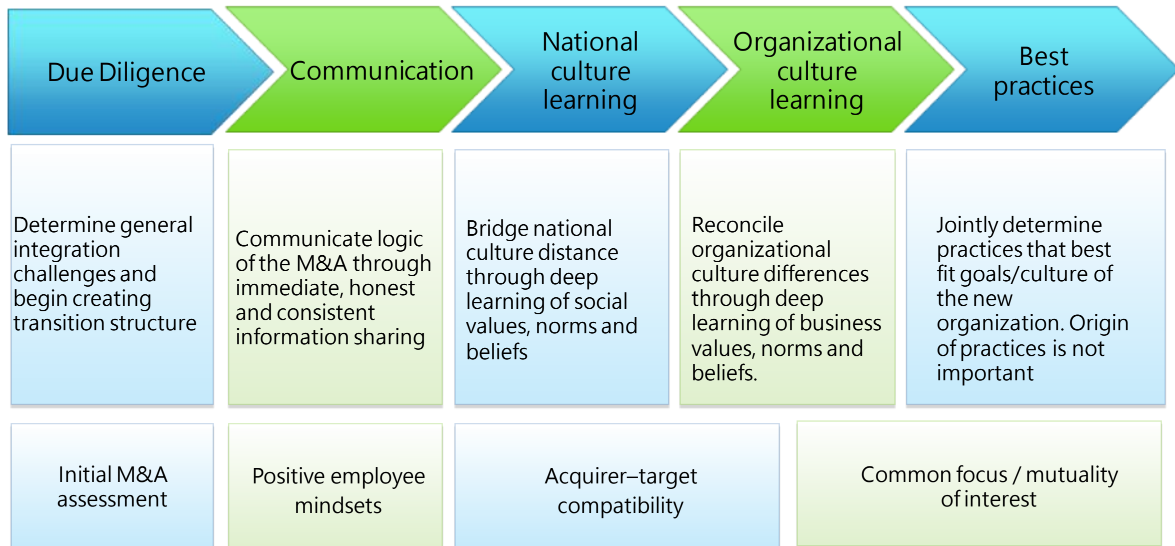
The M&A should be considered a strategic business activity that must be evaluated, so that the organization can learn from the process. In the period after the merger, HR monitors for signs of problems and responds appropriately. It implements various aspects of "glue technology," such as communicating mission and values, to build cohesion. It begins the process of analyzing its strategy and evaluating its success, with an eye toward identifying best practices for future M&As.

8. HR Integration in global M&A

Human resource management policies are frequently neglected as a functional strategy to help companies integrate M&As. More salient have been policies associated with business strategy, structure, market selection and product development. Researcher proposed a process model that focuses on human resource integration in cross-border M&As, based on a synthesis of the above literature reviews. The model is designed to advance discourse on the nature and sequence of integration interventions in promoting favorable M&A outcomes.

The cross-border M&As has five stage process for HR integration as following: performing culture and human resource due diligence, communicating the logic of the M&A, bridging national culture distance, reconciling organizational culture differences and determining best practices to be implemented.



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HR Integration Process in Global M&A

Source: Goulet, P.K. & Schweiger, D.M. (2006). Managing culture and human resources in mergers and acquisitions at Günter K. Stahl and Ingmar Björkman "Handbook of Research in International Human Resource Management', 2006, p405-429.

8.1. Performing culture and human resource due diligence

As soon as it is known that there is an interest in acquiring a company, a closed course of negotiation is usually begun; most of the flow of information between the two partners ends, apart from what the negotiators discuss among themselves and the publicly available information. In addition often only a few specialist employees are involved in the negotiations, making it difficult to conduct a broader, pre-M&A study of culture in the companies involved. Therefore, although the effects of cultural differences can be present as early as the negotiation stage of an M&A, they will be perceived more clearly and will be more accurately assessed during the period of post-M&A management.

Even so, there are a few actions that the acquirer can take prior to the deal announcement to get the integration process off on a good footing. A general national culture analysis can be performed by acquirers to determine, for example, how each firm may be culturally predisposed in their approach to problem solving. Understanding the implications of these types of cultural differences will help determine the effectiveness of alternative integration strategies.

Although organizational culture is unique to each firm and less transparent than national culture, organizational culture differences can also be generally assessed

through a variety of secondary and primary sources. Secondary sources include information gleaned from the Internet, publications, and speeches by target management, and interviews with acquirer employees and other trusted business brokers who are knowledgeable about the target firm. Primary sources include observation of target management behaviors during M&A meetings and negotiations, examination of target documents (for example, organizational charts, human resource management policies, meeting minutes) and interviews with and surveys of target managers and employees. However, at this stage, access to primary sources and depth of cultural assessment may be very limited, requiring the acquirer to settle for a more generalized view of the target's culture in assessing cultural differences and determining the effectiveness of alternative integration strategies.

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Additionally acquirer middle managers should be involved at this early stage of the M&A process to generate buy-in of integration problems and process. It also helps acquirer top managers to assess further the nature of integration and potential synergies, and to further refine the strategic vision for the M&A. An integration manager, preferably an acquirer executive, who has a deep understanding of the acquirer and is well-connected to key resource holders, should also be selected at this stage. This individual should have strong communication and networking skills, which will be used to forge social connections between the merging firms and to establish integration teams of acquirer and target employees once the deal is announced. The integration teams will be responsible for integration at the functional level within the new organization.

8.2. Communicating the logic of the M&A

Immediately following the deal announcement, the acquirer should communicate the logic of the M&A to employees of both firms to mitigate negative pre-integration mindsets. Employees need to understand the rationale, or vision, behind this strategic transaction, given that it will affect their work environment, and possibly how they perform their jobs. Acquirer communication that is honest and consistent will help to allay some of the initial uncertainty and anxiety that M&As create, and begin to elicit employee trust and confidence in acquirer management that is needed to influence favorably employee mindsets. Merger previews and workshops should be used as interventions to ensure complete and accurate communication, and to encourage employees to explore opportunities in the M&A. Identifying, retaining and supporting integration entrepreneurs should begin in this stage, as should training for both firms in national intercultural understanding.

8.3. Bridging national culture distance and reconciling organizational culture differences

No two firms have the same organizational culture, because each firm's culture is uniquely shaped by its members' shared history and experiences. Cultural differences and the need to reconcile those differences will therefore exist in all M&As. Cross-border M&As create an additional dimension of complexity in that national culture distance between the acquirer and target will also need to be managed.

Research indicates that national and organizational culture should not be treated in isolation, which further complicates the integration process. Performance was an outcome of access to diverse routines and practices (organizational culture characteristics) that are embedded in national culture. Moreover, in domestic M&As, differences in organizational culture have been found to affect adversely attitudinal and behavioral variables that are believed to cause conflict and poor post-M&A performance, whereas, in cross-border M&As, differences in organizational culture have been found to have a positive effect on variables believed to aid synergy realization.

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Some cultural problems associated with M&As are amplified in domestic, rather than cross-border, settings. Cross-border M&As have even been found to reduce marginally employee resistance. Combination potential may be more complementary and, thus, less threatening in cross-border M&As than in domestic M&As with overlapping operations. Cultural differences that can negatively affect integration in domestic M&As may be more carefully attended to in cross border M&As.

Early on during integration, differences in national culture are perceived to be more acceptable to M&A partners than differences in organizational culture: whereas in the former these differences may be perceived as complementary or perhaps tolerable, in the latter they may be perceived as a form of risk that needs to be controlled. Differences s in national culture are also more evident to the acquirer at the time of the deal. Therefore they may be factored into the M&A decision and given greater attention early on during integration.

M&A partners are more accepting of and more attentive to national culture distance, and therefore are predisposed to working toward developing shared understandings involving these cultural differences. An initial focus on national culture distance will be a good starting point for engaging employee involvement in the new organization, promoting employee understanding of the new organization's business reality, encouraging employee cooperation between firms and developing employee trust in the new organization's management. More important, given that some organizational

values are rooted in values of national culture, it is necessary to gain an understanding of differences in national culture before differences in organizational culture can be understood and reconciled.

Understanding why values of national culture are important to each M&A partner will help the two merging firms perceive national culture differences to be more complementary in nature, and therefore more capable of providing a foundation upon which the new organization's culture can be constructed. National culture learning interventions involving cultural learning mirroring exercises at all levels of anticipated human integration should be implemented early after the M&A to communicate to employees in both firms that bridging national culture distance is a serious matter and fully supported by top management.

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Organizational culture learning interventions should be implemented once shared understandings of national culture differences are achieved. Cultural learning mirroring exercises as well as metaphor exercises to support the cultural identity-building process should be implemented at all levels and across each department of anticipated human integration. The depth at which these interventions are implemented supports subsequent learning required at the departmental level to determine best practices in the new organization. Shared understandings of differences between organizational cultures, and how national culture affects these differences, will help the acquirer and target develop a common focus for, and mutual interest in, the new organization. Both firms will be working effectively toward a shared identity and acculturation. Difficulties reconciling organizational culture issues may indicate the need for additional work identifying and reconciling issues of national culture.

It is not the objective of cultural learning interventions to dilute national culture values, but to merge effectively values of organizational culture that drive employee perceptions of acceptable business practices. National culture is less malleable than organizational culture, because it is based on social values individuals learn from birth, and these values continue to play a key role in establishing context for employees of both firms after the M&A. As a result, acculturation in cross-border M&As represents organizational culture integration supported by national culture compatibility.

8.4. Determining best practices

Although managers have been found to focus on task-related criteria when making integration decisions, studies indicate that reconciling cultural issues prior to technical

issues smooth the integration process. When the acquirer and target management teams fist reconcile interpersonal issues (for example, values, philosophy, perceptions of one another), they are better able to manage technical issues and that, when they focus only on the task issues associated with integration early in the integration process, ethnocentric attitudes and defensiveness develop. These negative outcomes contribute to the failure of integration teams. Teams that address interpersonal issues early on perform well.

Once cultural learning has occurred, and a common focus and mutual interest in the new organization have been achieved, the process of reconciling technical issues associated with the tasks of identifying and implementing best practices will be more manageable. Whereas the prior two stages of integration involve deep learning to develop shared understandings of cultural differences, this stage of integration involves shared understandings in action. Departmental meetings involving employees from both firms should be used to identify best practices at the work-unit level. The practices adopted should complement those aspects of culture that have been chosen to achieve the new organization's goals; however no constraints should be placed on the origin of those practices. Furthermore positions granted to employees to manage the implementation and operation of these practices should be based on capability, not parity. This should minimize the negative effects of autonomy removal during integration by making changes that may affect personal freedoms appear as just. Difficulties determining best practices may indicate the need for additional work identifying and reconciling cultural issues at the organizational and national levels.

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Currently many companies with multinational operations have begun to consider diversity as a global initiative, have developed a global business case, and have extended some programs outside the headquarters country. They often have a dedicated global diversity staff that provides assistance worldwide. But while there is clearly increased focus on diversity outside the headquarters country, for many companies it is less apparent how to approach the challenge, and many organizations struggle with how to expand their ongoing domestic efforts outside the headquarters country.

More advanced companies have taken the further steps of translating their steps of translating their diversity definition so that it resonates locally, and have diversity staff outside the headquarters country. These companies have a global diversity council, and host global diversity conferences and events in which staff from various countries regions come together. Often diversity and inclusion issues are integrated into external reports on social responsibility (CSR) issues.

Best practice companies take global diversity to the local level and adapt programs and policies for each region or country. Additionally, the business case is tailored to and translated for each region, and there is a dedicated diversity officer and council in each region. Senior leaders in each country or region are also outwardly supportive of the initiatives, as global diversity competencies are defined for managers. These companies may also sponsor affinity groups outside the headquarters country, as well as regional or country-specific conferences. Finally, best practice companies in global diversity realize that they can improve their headquarters policies and practices by benchmarking with and learning from global initiatives.

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Part Two: Global HR Organizations

1. Globalization

1.1. Definition

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology.

1.2. The Causes of Globalization

The accelerated pace toward a globalized economy has been attributed by Friedman and other globalization experts to numerous political changes, technological advances, removal of economic barriers, and social facilitators of change, such as investment in telecommunication and education, advanced business process, etc.

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Enterprises have moved toward globalization for both proactive and reactive. For example, search for new markets, increased cost pressures and competition, short falls in natural resources and labor supply, government policies, trade agreements, greater strategic control, a globalizing supply chain and so on.

A supply chain consists of all parties involved, directly or indirectly, in fulfilling a customer request. The supply chain not only includes the manufacturer and suppliers, but also transporters, warehouses, retailers, and customers themselves. Supply chain globalization is the natural outcome of today’s expanding consumer markets as companies struggle to meet the dynamic needs of growing markets and new consumer segments.

Like traditional, supply chain management, the underlying factors behind the trend are reducing the costs of procurement and decreasing the risks related to purchasing activities. The big difference is that global supply chain management involves a company's worldwide interests and suppliers rather than simply a local or national orientation.

1.3. The Breath of Globalization

The Swiss Institute for Business Cycle Research (KOF) indexes countries measured by three dimensions as follow:

1.3.1. **Economic**: the extent of the flow of trade and investment across borders and reactions to that flow. (i.e., whether a country decides to restrict trade or investment)

1.3.2. **Social**: the spread of ideas, exchange of knowledge, the free passage of citizens

across borders.

1.3.3. **Political**: the growth of government policies and institutions that support cross-border economic and social activity. (e.g., regulations that control corruption)

1.4. Pros and Cons

Advantages of globalization include: lower prices, greater availability of goods, better jobs, and access to technology.

Disadvantages of globalization include: homogeneity of culture, global warming, inadequate and unsafe water, the off-shoring of jobs to low-wage countries, growing trade deficits, slow wage growth, a lack of responsiveness to the economic effects of the process, and the potential for a "race to the bottom" in which companies and countries place downward pressure on wages and working conditions.

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1.5. International business

International business refers to business activities that involve the transfer of resources, goods, services, knowledge, skills, or information across national boundaries. The resources that make up this flow are raw materials, capital, goods, services and people.

International transactions are manifested mainly in international trade and investment. International trade occurs when a company exports goods or services to buyers (importers) in another country. International investment occurs when the company invests resources in business activities outside its home country.

Any firm, regardless of size, that is engaged in international business is defined as an international firm. A firm that has directly invested abroad and has at least one working affiliate in a foreign country (e.g., a factory, a branch office) over which it maintains effective control is defined as a multinational enterprise (MNE) or multinational enterprise company (MNC).

While many firms still follow the traditional route of domestic growth first, international expansion second, we increasingly see firms that target international markets when launching their operations. These firms are called born global, global startups, or international new ventures (INVs).

1.6. Why Do Firms Expand Internationally

Generally speaking, the motivations for conducting international business include market motives, economic motives, and strategic motives.

Market motives can be offensive or defensive. An offensive motive is to seize market opportunities in foreign countries through trade or investment. A defensive motive is to protect and hold a firm's market power or competitive position in the face of threats from domestic rivalry or changes in government policies.

Economic motives apply when firms expand internationally to increase their return through higher revenues or lower costs. International trade and investment are vehicles enabling a firm to benefit from inter-country differences in costs of labor, natural resources, and capital, as well as differences in regulatory treatments, such as taxation.

Strategic motives lead firms to participate in international business when they seek, for instance, to capitalize on distinctive resources or capabilities developed at home (e.g., technologies and economies of scale). By deploying these resources or capabilities abroad or increasing production through international trade, firms may be able to increase their cash inflows. Firms may also go international to be the first mover in the target foreign market before a major competitor gets in, gaining strategic benefits such as technological leadership, brand recognition, customer loyalty, and competitive position.

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2. Stages of Globalization

No company can become a global giant overnight. Managers have to consciously adopt a strategy for global development and growth. Organizations enter foreign markets in a variety of ways and follow diverse paths. However, the shift from domestic to gl obal typically occurs through stages of development. Successful domestic organizations follow four distinct and progressively complex stages of evolutionary growth before reaching, if ever, the final stage of the Transnational Corporation.

2.1. Stage 1: Domestic

The product or service is developed in the home country and produced and sold there. The strategy focuses only on the home market; the organization is mono-cultural (as defined by the home country).

In this stage, the company is domestically oriented, but managers are aware of the global environment and may want to consider initial foreign involvement to expand production volume and realize economies of scale. Market potential is limited and is primarily in the home country. The structure of the company is domestic, typically functional or divisional, and initial foreign sales are handled through an export department. The details of freight forwarding, customs problems, and foreign exchange are handled by outsiders.

Four Stages of International Involvement

	I. Domestic	II. International	III. Multinational	IV. Global
Strategic Orientation	Domestically oriented	Export-orientated, multi-domestic	Multinational	Global
Stage of Development	Initial foreign involvement	Competitive positioning	Explosion	Global
Structure	Domestic structure, plus export department	Domestic structure, plus international division	Worldwide geographic, product	Matrix, transnational
Market Potential	Moderate mostly domestic	Large, multi-domestic	Very large, multinational	Whole world

Source: Daft, R.L. (2013). Organization Theory and Design. Cengage Learning.

2.2. Stage 2: International

A company begins to export a product or service to foreign countries, call International Corporation. The company may open production facilities or service centers, but the product/service, processes, and strategy are developed in the home country.

In this stage, the company takes exports seriously and begins to think multi-domestically. Multi-domestic means competitive issues in each country are independent of other countries; the company deals with each country individually. The concern is with international competitive positioning compared with other firms in the industry. At this point, an international division has replaced the export department, and specialists are hired to handle sales, service, and warehousing abroad. Multiple countries are identified as a potential market.

2.3. Stage 3: Multinational

The Multinational Corporations (MNCs) has its facilities and other assets in at least one country other than its home country. Gradually, perhaps in response to the needs of local markets, operations in host countries become more autonomous. The organization is a decentralized portfolio of subsidiaries. Knowledge is developed

within the subsidiary and remains there. Many MNCs are staffed by host-country nationals, but key managers come from headquarters. Key decisions are made at headquarters as well.

In this stage, the company has extensive experience in a number of international markets and has established marketing, manufacturing, or research and development (R&D) facilities in several foreign countries. The organization obtains a large percentage of revenues from sales outside the home country. Explosive growth occurs as international operations take off, and the company has business units scattered around the world along with suppliers, manufacturers, and distributors.

2.4. Stage 4: Global

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The global corporation views the world as a single, global market and offers global products that have little or no national variation or that have been designed with customizable elements. Strategy, ideas, and processes emanate from headquarters.

In this stage, the company transcends any single country. The business is not merely a collection of domestic industries; rather, subsidiaries are interlinked to the point where competitive position in one country significantly influences activities in other countries. Truly global companies no longer think of themselves as having a single home country, and, indeed, have been called stateless corporations. This represents a new and dramatic evolution from the multinational company of the 1960s and 1970s. Global companies operate in truly global fashion, and the entire world is their marketplace. However, the structural problem of holding together this huge complex of subsidiaries scattered thousands of miles apart is immense. Organization structure for global companies can be extremely complex and often evolves into international matrix or transnational model.

2.5. Transnational

The transnational corporation (TNC) blends standardization used by global organizations with the localization approach of MNCs. The result is “glocalization”-an organization with a strong global image but an equally strong local identity. The organization's production or service process becomes more globally dispersed and interconnected. Some facilities may become "experts" in certain areas. Strategy is developed globally; innovation and best practices are freely exchanged among countries. Involved in strategy formulation, development and organizational, and development and change to support organization’s strategic objectives.

3. Global Orientations

3.1. Global Integration and Local Responsiveness

Industries in which competition takes place on a country-by-country basis are known as multi-domestic industries. In such industries, each country tends to have a unique set of competitors. Companies in the food and beverage, consumer products, and clothing and fashion industries may often resort to a country by-country approach to marketing to specific needs and tastes, laws, and regulations.

By contrast, industries such as aerospace, automobiles, telecommunications, metals, computers, chemicals, and industrial equipment are examples of global industries, in which competition is on a regional or worldwide scale.

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Formulating and implementing strategy is more critical for global industries than multi-domestic industries. Most global industries are characterized by the existence of a handful of major players that compete head-on in multiple markets.

Global integration refers to the coordination of the firm's value-chain activities across countries to achieve worldwide efficiency, synergy, and cross-fertilization in order to take maximum advantage of similarities between countries. The flexibility objective is also called local responsiveness. Local responsiveness refers to meeting the specific needs of buyers in individual countries.

The discussion about the pressures on the firm to achieve the dual objectives of global integration and local responsiveness has become known as the integration-responsiveness (IR) framework to help managers better understand the trade-offs between global integration and local responsiveness.

In companies that are locally responsive, managers adjust the firm's practices to suit distinctive conditions in each market. They adapt to customer needs, the competitive environment, and the local distribution structure. Thus, Wal-Mart store managers in Mexico adjust store hours, employee training, compensation, the merchandise mix, and promotional tools to suit conditions in Mexico. Firms in multi-domestic industries such as food, retailing, and book publishing tend to be locally responsive because language and cultural differences strongly influence buyer behavior in these industries.

In contrast, global integration seeks economic efficiency on a worldwide scale, promoting learning and cross-fertilization within the global network and reducing redundancy. Headquarters personnel justify global integration by citing converging demand patterns, spread of global brands, diffusion of uniform technology, availability

of pan-regional media, and the need to monitor competitors on a global basis. Thus, designing numerous variations of the same basic product for individual markets will only add to overall costs and should be avoided. Firms in global industries such as aircraft manufacturing, credit cards, and pharmaceuticals are more likely to emphasize global integration.

3.2. Global Integration Strategy

Global integration (GI) emphasizes consistency of approach, standardization of processes, and common corporate culture across global operations. The following steps help organizations achieve global integration:

3.2.1. Aligning decision making

This focus on alignment helps to ensure that even decisions made locally reflect the global perspective. Expatriates, employees sent from their home countries to work abroad, play a significant role in this global alignment, as do performance management systems.

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3.2.2. Standardizing processes

Standardized processes are designed to achieve efficiencies, economies of scale, consistent expectations, and control over strategic parts of the value chain.

3.2.3. Socializing key individuals

This socialization effort ensures that top managers have a consistent perspective, whether at the headquarters or at dispersed field locations.

3.3. Pressures for Global Integration

Another set of factors compels the firm to coordinate its activities across countries in an attempt to build efficient operations. These are:

3.3.1. Economies of scale.

Concentrating manufacturing in a few select locations where the firm can profit from economies of mass production motivates global integration. Also, the smaller the number of manufacturing and R&D locations, the easier it is for the firm to control quality and cost.

3.3.2. Capitalize on converging consumer trends and universal needs.

Standardization is appropriate for products with widespread acceptance and whose features, quality, and cost are similar worldwide. Examples include computer chips

and electronic components. Companies such as Nike, Dell, ING, and Coca-Cola offer products that appeal to consumers everywhere.

3.3.3. Uniform service to global customers.

Services are easiest to standardize when firms can centralize their creation and delivery. Multinational enterprises with operations in numerous countries particularly value service inputs that are consistent worldwide.

3.3.4. Global sourcing of raw materials, components, energy, and labor.

Firms face an ongoing pressure to procure high-quality input goods in a cost-efficient manner. Sourcing of inputs from large-scale, centralized suppliers provides benefits from economies of scale and more consistent performance outcomes. Sourcing from a few well-integrated suppliers is more efficient
than sourcing from numerous loosely connected distributors.

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3.3.5. Global competitors.

Competitors that operate in multiple markets threaten firms with purely domestic operations. Global coordination is necessary to monitor and respond to competitive threats in foreign and domestic markets.

3.3.6. Availability of media that reaches consumers in multiple markets.

The availability of cost-effective communications and promotion makes it possible for firms to cater to global market segments that cross different countries. For example, firms now take advantage of the Internet and cross-national television to simultaneously advertise their offerings innumerous countries.

3.4. Local Responsiveness Strategy

Local responsiveness (LR) emphasizes adapting to the needs of local markets and allows subsidiaries to develop unique products, structures, and systems. The following steps help organizations achieve local responsiveness:

3.4.1. Understanding diversity

Local responsiveness organizations must learn the cultures and institutions (e.g., legal, economic, educational) of the areas in which they operate, but they must also become more fully aware of their own cultural perspectives and how those may affect organizational decisions and practices.

3.4.2. Responding to diversity

Local culture and institutions should shape local strategy regarding where to internationalize and how to enter the local market and identifying what needs to be adapted.

3.4.3. Capitalizing on diversity

Local responsiveness strategies may blend perspectives and talents throughout the organization to create cultural synergy. They may also cluster functions geographically according to the availability of appropriate skills and resources and levels of local competition.

3.5. Pressures for Local Responsiveness

There are various factors that compel the firm to become locally responsive in the countries where it conducts business. These factors are:

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3.5.1. *Unique natural endowments available to the firm*. Each country has national endowments that the foreign firm should access.

3.5.2. *Diversity of local customer needs*. Businesses, such as clothing and food, require significant adaptation to local customer needs.

3.5.3. *Differences in distribution channels*. These vary considerably from market to market and may increase the need for local responsiveness. For example, small retailers in Japan understand local customs and needs, so locally responsive MNEs use them to distribute products in that country.

3.5.4. *Local competition*. When competing against numerous local rivals, centrally controlled MNEs will have difficulty gaining market share with global products that are not adapted to local needs.

3.5.5. *Cultural differences*. Cultural characteristics influence consumer buying decisions. The influence of cultural differences may vary considerably, depending on the type of product. For those products where cultural differences are important, such as clothing and furniture, local managers require considerable freedom from headquarters to adapt their product and marketing practices.

3.5.6. *Host government requirements and regulations*. When governments impose trade barriers or complex business regulations, they can halt or reverse the competitive threat of foreign firms. The MNE may establish a local subsidiary with substantial decision-making authority to minimize the effects of protectionism.

3.6. Global Integration vs. Local Responsiveness

Globalized company achieves greater business efficiency, uniformity, and control of its brand and image. Localized company has more ability to be customer-focused and meet legal and cultural requirements. When the company becomes part of local networks, it is more likely to enjoy the support of authorities and public opinion, becomes active in local workforce development, and benefits from lower cost of operations. Moreover, the use of a local workforce is less expensive than use of a large expatriate workforce, and it reduces tensions between different workforces. The integration-responsiveness framework presents four distinct strategies for internationalizing firms as follows:

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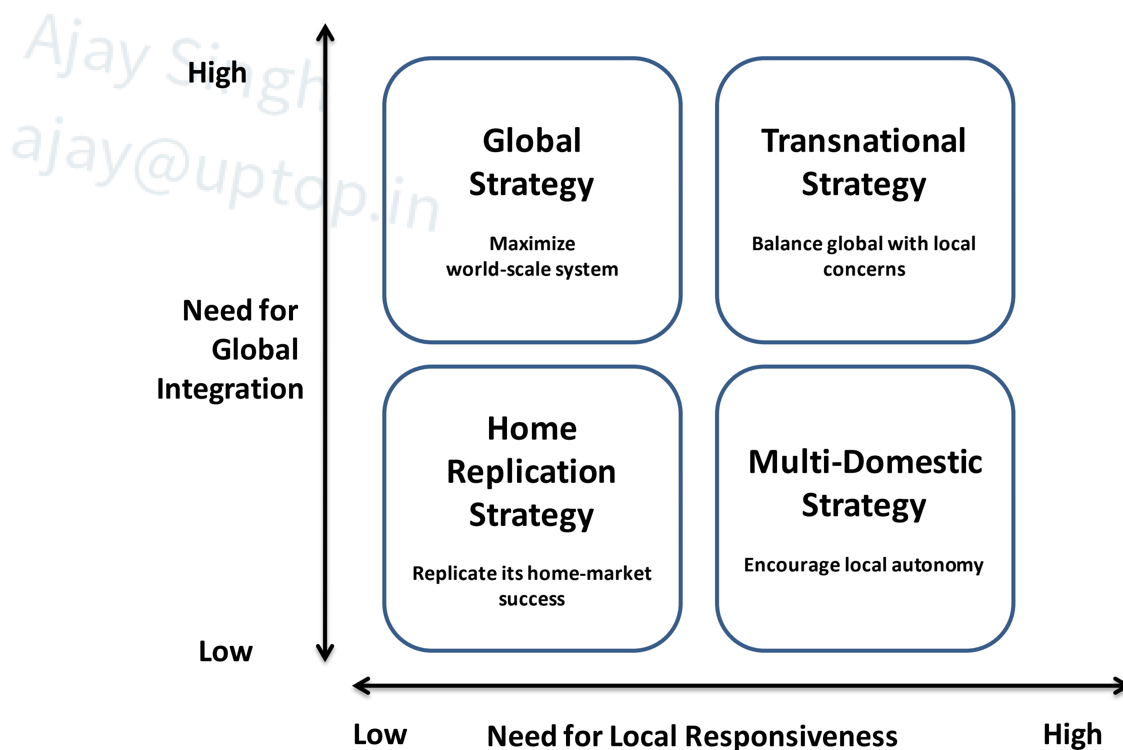

Global Integration/Local Responsiveness Grid

Source: Briscoe & Schuler (2011). International Human Resource Management

4. Global Organizational Structure

Organizational structure is not simply an organization chart. Structure is all the people, positions, procedures, processes, culture, technology and related elements that comprise the organization. It defines how all the pieces, parts and processes work together (or don't in some cases). This structure must be totally aligned with strategy for the organization to achieve its mission and goals. Structure supports strategy.

If an organization changes its strategy, it must change its structure to support the new strategy. When it doesn't, the structure acts like a bungee cord and pulls the organization back to its old strategy. Strategy follows structure. What the organization does defines the strategy. Changing strategy means changing what everyone in the organization does.

When an organization changes its structure and not its strategy, the strategy will change to fit the new structure. Strategy follows structure. Suddenly management realizes the organization's strategy has shifted in an undesirable way. It appears to have done it on its own. In reality, an organization's structure is a powerful force. You can't direct it to do something for any length of time unless the structure is capable of supporting that strategy.

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Global organizations in the 21st century must compete with a much wider array of companies than their domestic counterparts do, and have therefore evolved several strategies to become as efficient and cost-effective as possible. The choice of organizational structure reflects where decisions are made, how work gets completed, and ultimately how quickly and cheaply the firm's products can be made.

Developing an organizational structure involves defining the framework around which the business operates and provides guidance to all employees by laying out the official reporting relationships that govern the workflow of the company. It is therefore important for every organization to have a well-structured organization chart indicative of how an organization functions, how it is managed, how information flows and is processed within an organization, and how flexible or responsive the organization is.

4.1. Decision Making Authority

In an organizational structure, "chain of command" illustrates a company's hierarchy of reporting relationships -- from the bottom to the top of an organization, who must answer to whom. The chain of command not only establishes accountability, it lays out a company's lines of authority and decision-making power. A proper chain of command ensures that every task, job position and department has one person assuming responsibility for performance. Chain of command refers to a line of authority within an organization. Authority relates to the scope of responsibilities that define the area in which a manager is empowered to make decisions. Decisions are made at headquarters (centralized) or delegated to other parts of the organization (decentralized). Global organizations often value nimbleness or agility since their interconnectedness and global exposure may often call for rapid organizational response.

In initial stage of globalization, exporting is usually the first foreign market entry

mode. It rarely involves much of a structured organizational response at first. As export sales reach a substantial proportion of the firm's total sales, however, senior managers will usually establish a separate export department whose manager may report to senior management or the head of domestic sales and marketing.

The decision to create a separate international unit is usually accompanied by a significant shift in resource allocation and increased focus on the international marketplace. Managers in the division typically oversee the development and maintenance of relationships with foreign suppliers and distributors. Licensing and small-scale foreign investment activities may also be performed.

4.2. Functional Structure

Organizations in the domestic and international stage of globalization are far more likely to have a functional structure than those in the later stages. The structure is most efficient in terms of economies of scale and fewer numbers of employees. The management approach to staffing in functional organizations is largely ethnocentric.

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4.3. Product Structure

The world is viewed as one market and talent pool, and employee and systems cross borders to provide economies of scale in developing and distributing worldwide product. The approach to staffing is geocentric, and decision making is dispersed and decentralized to the product groups.

4.4. Geographic Structure

Each region or country has its own division, the staffing is polycentric or regiocentric, and decision making is decentralized. The region must be sufficiently large to support this structure. By being closer to markets, a geographic structure can tailor and localize products and services more easily than is possible using other organization designs.

In polycentric staffing, a company will hire host-country nationals for positions in the company from mail room clerks all the way up to the executive suites. Polycentric staffing is particularly feasible in developed countries, such as European countries, Canada, Australia and Japan, where highly educated and trained employees can be easily located.

Regiocentric staffing is a lot like polycentric staffing in that host-country nationals staff each foreign subsidiary to a high degree. However, company offices and facilities are grouped into regions and work as a single unit with a fair degree of autonomy from the home headquarters.

4.5. Hybrid Structure

The hybrid structure mixes elements of the functional, product, and geographic organizational structures. It is very likely that, during the domestic and international stage of globalization, an export department or international division will be attached to a functional organizational structure.

4.6. Front-Back Structure

The front-back structure is a form of hybrid structure, divides the organization into “front” functions, which are defined by geographic locations or customer types, and “back” functions, which are organized by product or business unit. The front end focuses on customers or market groups, while the back end designs and develops products and services. However, there is potential for conflict between "front" and "back" in this structure.

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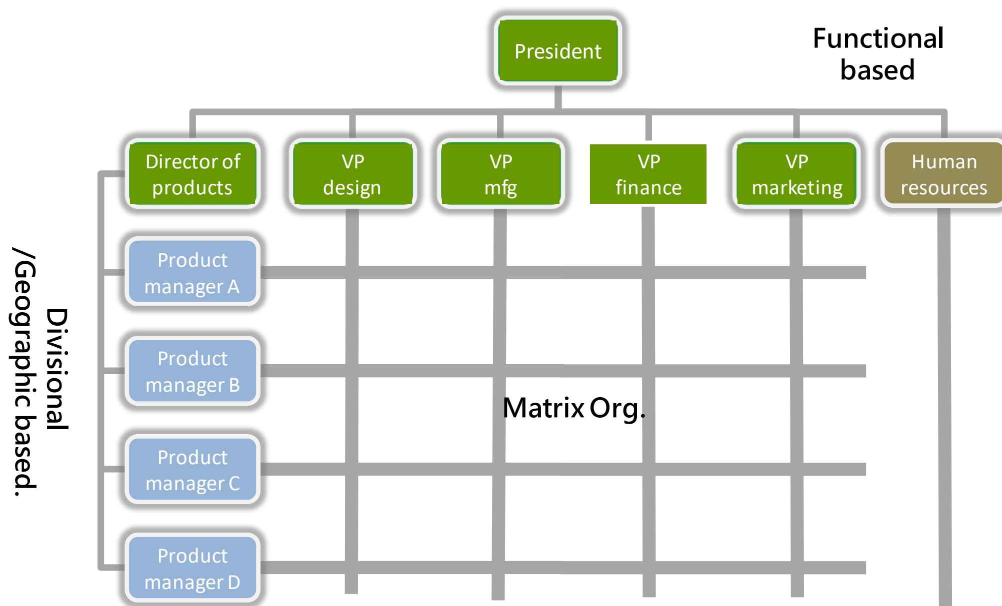
4.7. Matrix Structure

It is another form of hybrid structure and can be seen in global and transnational enterprises with geocentric approaches to staffing. The matrix has ties to both product and geographic divisions. It therefore attempts to balance local needs with global efficiencies and economies of scale. The worldwide matrix attempts to operate "think globally, act locally" and to balance the needs of both.



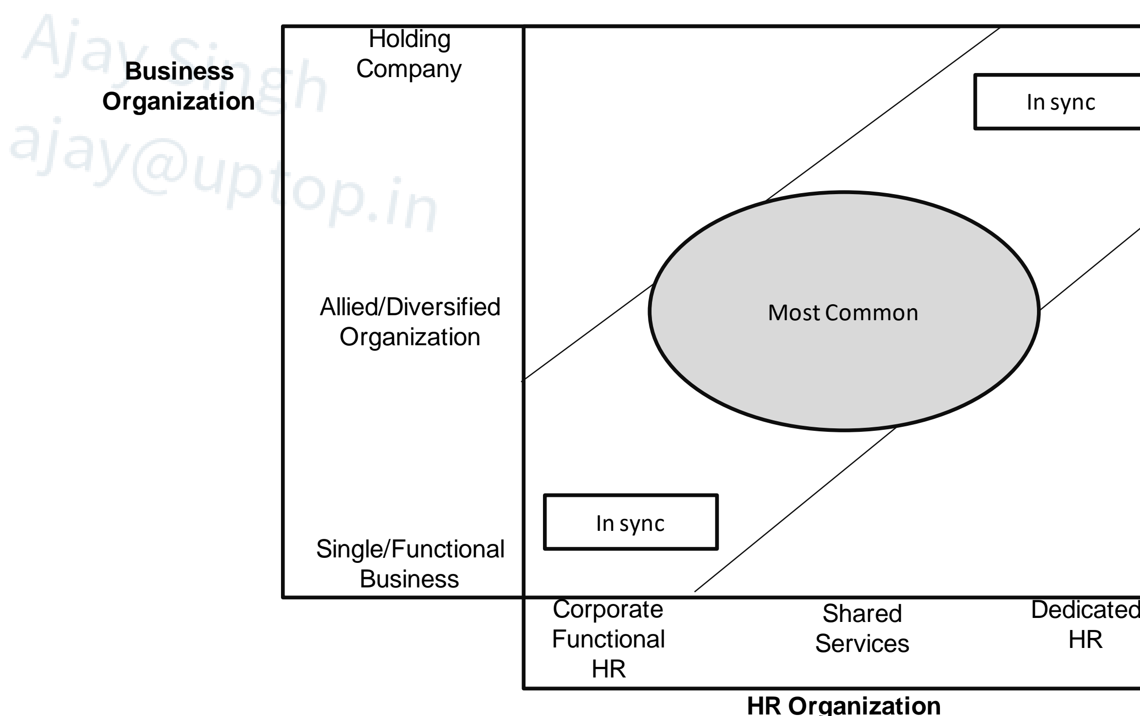
Matrix Structure

In this structure, decision making is decentralized and an employee participating in a

project may have two bosses: one from the product side and one from the geographic side. The matrix structure requires a great deal of communication and coordination among managers because lines of authority are not always clear.

5. Global HR Organization

As a business within a business, the HR organization should be structured to reflect the structure of the larger business. Business organizations align with the strategies of the business they support, and HR should follow suit. According to Dave Ulrich et al., companies typically organize along a grid of centralization - decentralization, which leads to three basic ways in which a company operates holding company, allied/diversified organization, or single/functional business.



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Alignment of Business Organization and HR Organization

Source: Ulrich, D., Young, J., & Brockbank, W. (2008). The twenty-First-Century HR Organization, Human Resource Management, 47(4), 829-850.

When the company is a single business, it competes by gaining leverage and focus. HR's role in the single/functional business is to support that business focus in its people practices. Generally, start-ups and small companies have little or no HR staff. Until a company has 50 to 75 employees, it hardly needs a full-time HR professional; a line manager can usually handle required basic HR activities. As the business grows, so does

the HR workload. The business eventually hires someone to oversee HR; set basic policies and practices for hiring, training, and paying employees; and perhaps also run the office and administrative side of the business. This HR generalist will normally be part of the management team and will be consulted on organization needs and changes.

As companies grow, HR departments and staffs grow as well. But as long as the organization remains primarily a single line of business, HR expertise most logically resides at corporate, establishing companywide policies, with HR generalists implementing these policies in the plants or divisions since there is no meaningful differentiation between the business and the corporation.

5.1. Single/Functional Business

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In a single/functional business organization, a strong HR functional organization usually makes the most sense. This means identifying staff specialists who can design HR practices that match the needs of the business and deliver them to all corners of the company. Employees who move from site to site want to find familiar terms and work conditions. Managers want to know what is expected of them regardless of where they work. HR professionals in local plants or operations need a solid line to their HR hierarchy while supporting the business leaders in these local plants or operation.HR departments in single/functional business companies are susceptible to the following common mistakes:

5.1.1. **Hyper-flexibility**. Many HR professionals want their work to be flexible, with unique HR systems and practices for their unit rather than standardized, even though flexibility can do more harm than good when the basic business is similar across the organization. Flexibility in HR should match diversity of business operations.

5.1.2. **Separating corporate and operating-unit HR**. As single businesses expand, the increasing workforce seems to generate a need for operating-unit HR specialists. Both corporate and operating units add HR staff, creating a financial and administrative burden and leading to unnecessary proliferation and redundancy of HR practices.

5.1.3. **Isolation**. Corporate staff specialists who distance themselves from business realities respond slowly to business changes. Barricaded in corporate offices, they are at risk of designing HR practices that worked in the past but not for the future.

5.1.4. **Disintegration**. Functional HR specialists often settle into silos that separate them from one another. When recommendations for new HR policies and/or procedures come from separate specialties, it may become difficult to weave the resulting practices into a unified whole. Too many companies hire based on one set of criteria, train based on a different set, and evaluate performance on yet a third. Then,

their leaders wonder why employees lack a common set of goals and objectives.

The HR functional organization suits a single business strategy. It should not be abandoned in favor of the more popular shared service organization unless the structure and strategy of the business mandate the choice. We see only about 10% of large organizations following this functional organization alignment.

5.2. Holding Company

A company composed of multiple, unrelated, independently managed businesses is best described as a holding company. In a holding company, there is often little or no HR at a corporate level and little impetus to implement HR. Each business is expected to create and manage its own autonomous HR practices based on the specific needs of the business. Therefore, HR is embedded within the businesses. Realistically, as long as the corporation is managed as a group of independent businesses tied together only by a common treasury function (how investment funding is raised) and perhaps investor relations (if the company is publicly traded), HR requirements and the benefits of interaction among subsidiary HR groups are minimal. Even in those cases where there is a corporate HR function, it is likely to be small and focused primarily on executive talent recruiting and managing executive compensation.

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While each independent organization may work well, the corporate value is by definition no more (and often less) than the sum of the independent parts. If organizing HR for a holding company, the requirement is to embed dedicated HR departments within business units and ensure they are appropriately focused and well led. Here are some of the common mistakes to avoid:

5.2.1. **Corporate interference.** A true holding company should have limited corporate involvement in the HR work done at the business-unit level. Corporate should set general directions and philosophy, but HR policies, practices, and priorities belong to the business units.

5.2.2. **Lack of sharing.** Diverse business units find it easy to slide from autonomy into isolation. In the absence of a business imperative for coordination, HR leaders and professionals need to make extra efforts to stay in touch with one another, sharing lessons through learning communities, technology, or other forums. Without a corporate HR function to host and sponsor such meetings, HR departments within independent businesses need to take extra efforts to avoid the "out of sight, out of mind" trap.

5.2.3. **Repatenting the wheel.** Even when business-unit HR departments are in touch with one another, they often prefer to develop programs on their own. In the holding

company context, the “not invented here” syndrome is especially alive and well, and many professionals are reluctant to utilize programs they did not create. Business HR units in holding companies should consider some form of regular communication that facilitates coordination in areas when unique business solutions are not needed.

5.2.4. **Linearity.** A danger for HR professionals in holding companies is that they may become overly focused on the short-term needs of the business and may overlook long-term business implications of HR’s involvement and potential for contribution. HR must not only focus on those issues central to market share growth and short-term profitability, but must also ensure that the business is operating within a long-term vision and strategy and is complying with regulatory mandates such as domestic labor law.

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While relatively few true holding companies exist, the closer a firm comes to that model, the more its HR work needs to be located in dedicated business-unit operations.

5.3. Allied/Diversified Businesses

The choice between functional and dedicated HR is often put as an either/or question: HR exists either at corporate or business-unit levels; is centralized or decentralized; efficient or effective; standardized or flexible. Business units have similar or dissimilar HR practices: the flow of decision making and operational influence is top-down or bottom-up, and so forth. In the kind of reorganization that only looks like progress in aligning the structure with business requirements, companies often shift from one extreme structural configuration to another, not realizing that the key requirement is not the appearance of structural improvement per se but, rather, organizing to reflect the requirements of the business organization.

5.4. Types of HR Organization

Most large companies are not pure and single businesses and do not operate as holding companies. They lie somewhere in between, either in related or unrelated spectra of diversification. They create operating units or business units to compete in different markets yet try to find and exploit the synergies among them. The best of these organizations align their portfolio of businesses around a core set of strategic capabilities that are leveraged across operations. For these business organizations, a relatively new way to organize HR resources has emerged called shared services. From a distance, shared services looks a lot like centralization, but it is not. The following table points out some of the ways functional HR, shared services, and dedicated HR differ from one another.

Types of HR Organization

Dimension	Functional	Shared Services	Dedicated
Business organization	Single business	Related or unrelated diversification	Holding company
Design of HR policies	Performed by corporate functional specialists	Alternatives created by specialists in centers of expertise	Designed and delivered by functional specialists within a business
Implementation of HR practices	Governed by corporate specialists	Governed by local HR professionals who select options from center of expertise menu	Governed by local HR specialists embedded in the businePss
Accountability	Corporate HR	Split between operations and HR	Local business leader
Services orientation	Standardized services across the corporation	Tailored to business needs with consistency through learning and sharing	Unique services for each business
Flexibility	Mandates use of internal resources	Has flexibility as governed by the centers of expertise	Each business creates what is required
Charge backs	Business units pay an allocation of HR costs	Business units pay for use of service	Business units fund their own HR costs
Location	Strong corporate presence with HR generalists on site	Wherever it makes sense	Small (or no) corporate HR office, with HR staff at the local business level
Skill requirements for HR	Technically expert in functional design and delivery	Design expertise but also consulting and support	Business expertise and technical specialty in business
Wealth creation criteria	Corporate shareholder value	HR value creation for line managers, employees, customers, and investors	Business-unit growth and profitability

Source: Ulrich, D., Young, J., & Brockbank, W. (2008). The twenty-First-Century HR Organization, Human Resource Management, 47(4), 829-850.

5.5. Shared Service Center

Shared services became popular among most staff groups, not just HR, beginning in the late 1990s as a response to general cost pressures. Staff leaders could not simply choose the cheapest and most efficient approach—centralize and standardize all processes—because centralized staff work cannot keep up with the differentiated needs of units within a diversified/allied business. In a world where corporate growth and industry consolidation lead to the increased presence of diversified/allied organization structures, shared services has become a useful means by which organizations balance the efficiencies of centralization with the flexibility required for competing in different markets and/or geographies.

The HR organization is positioned to create value and deliver strategically relevant organization capabilities when it reflects the structure of the business. This leads to questions about how to specifically organize an HR department to fulfill these needs.

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Service centers emerged in the late 1990s as HR leaders (and other functional organizations such as purchasing) realized that many administrative tasks are more efficiently performed in a centralized, standardized way. The maturation of information technology has also contributed to the growth of service centers and the ability to locate them in lower-cost geographies (e.g., Southeastern Asia). There is no real limit to centralization. Technology enables these centers to access employees and meets basic transactional needs as well or better than other methods.

Service centers enjoy economies of scale, meeting employee needs and resolving concerns by fewer dedicated HR resources. In addition, service centers require a standardization of HR processes, thus reducing redundancy and duplication. For example, a global oil services firm had more than ten separate ways to register for training; its new service center created a single, standard procedure that increased efficiency and reduced costs. Because of technology, service centers can also be accessible 24 hours a day, 7 days a week, from inside or outside the company. This enhances the service level to employees and retirees.

Service centers offer new ways to do traditional HR work such as employee assistance programs, relocation administration, benefits claims processing, pension plan enrollment and administration, applicant tracking, payroll, and learning administration. Employee-related transactional processes need to be performed well; performed poorly they have the potential to damage employee morale and destroy HR's reputation. (As one HR executive pointed out, "If we drop the ball on paying people, we will have a very difficult time recovering.") But it is work that we think of as "table stakes," work that must be done to be in the game but certainly not work

that is the basis of winning the game. HR organizations are increasingly addressing their transactional needs primarily through technology-enabled employee self-service and through outsourcing.

Properly designed technology enables employees to manage much of their own HR administrative work. The popular emerging term for this trend is self-service. They can access HR policy and usage, such as vacation days allotted, and take retirement provisions, career opportunities and qualifications; and their own skill levels (via self-assessment surveys). They can also take care of many routine transactions whenever they wish, because automated systems don't keep office hours.

Relying on technology to perform HR transactions offers a number of benefits. First, it requires standardized HR practices, which avoids duplication, reduces costs, and ensures consistency. Since employees can access HR transactions at their convenience, their perception of service quality also increases. In addition, accuracy improves because employees update and modify their own records. As a result, managers have access to personnel information (such as training and salary history) and are often able to make better decisions about personnel-related matters. As technology-based solutions to routine HR administration increase, a few trends are worth considering—and some emerging pitfalls are well worth avoiding:

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Building from scratch or excessive customization. Companies often regard themselves as unique, but it is best to avoid designing and implementing a unique HR data portal and service or to significantly customize one. One company spent thousands of hours creating its unique human resources information technology (HRIT) system only to find that it did not match the capabilities of available marketplace systems. There are many effective HRIT products on the market, and adapting one of them is much simpler and less expensive than building something new or massively customizing a purchased system.

Believing that channel is content. Occasionally, IT specialists become more enamored with the design and implementation of their technology than with the business success that they should be trying to create. This was a fundamental cause in the dot-com boom and bust of the late 1990s. They fail to remember that information technology is a channel for providing and disseminating information, but the information itself ultimately drives business performance. They need to maintain their business focus and not just their technology focus.

Forgetting the importance of the employee relationship. The employee's goal for many HR transactions is to finish as quickly and easily as possible. Nonetheless, HR is not like retail banking where customers happily manage transactions by ATM and do

not want a personal relationship with the bank. It is more like investment banking where relationships still offer the best long-term approach to customer share. Relationship HR, designed to build loyalty between individual employees and the firm, likewise offers the best long-term approach to employee care.

Data without insight. One clear benefit of self-service is the ability to collect data on trends and needs. For example, knowing the differences between how many younger and older employees use e-learning can help in planning and employee communication. But data does not improve decision making unless it is used. Data that is warehoused in files and never fully deployed might as well not exist. Good business decisions start with good questions that require managerial insight and foresight; then, data collected through technology-based self-service can be used to assess alternatives and test hypotheses.

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Intrusiveness. Concerns over privacy continue to be a major challenge. The more data accumulates, the more the firm knows about the employee, and the harder it is to keep the data secure. As useful and convenient as 24/7 access to employee data can be, it blurs the boundaries between work and social life. While each employee needs to find ways to manage this balance, technology may become increasingly intrusive and inhibit work-life balance that helps to give employees purpose and meaning at work and at home.

Even with these concerns and challenges, technology will increasingly be used to facilitate employee transactions. As the technology becomes more user-friendly and accessible, it will help employees manage their personal careers and will help leaders use employee data and resources to produce value for the company.

Organizations are taking two distinct approaches to dealing with routine transactional HR tasks. The preceding section describes how organizations insource HR transactions through technology-enabled self-service. Other firms use outsourcing.

Outsourcing draws on the premise that knowledge is an asset that may be accessed without ownership. HR expertise can be shared across boundaries by alliances in which two or more firms create a common service or by outright purchase from vendors who specialize in offering services.

Vendors take advantage of economies of knowledge and scale. Economy of knowledge allows them to keep up with the latest research on HR issues and with the latest technology to offer transaction support that accesses the most recent ideas and is delivered in the most efficient way. Economies of scale make it possible to invest in facilities and technologies beyond what is realistic for a single company.

Companies using HR outsourcing increasingly seek integrated solutions rather than isolated practices. For example, HR information systems (HRIS) can identify the skills required in hiring for certain jobs and then use these skills to source and screen talent. When considered as an integrated solution, the skill requirements can also be applied to training, compensation, and job assignments. Integrated solutions require vendors with expertise in multiple HR practice areas. Though outsourcing on this scale is too new for results to be definitive, these firms have experienced several potential benefits of outsourcing:

Cost savings. Savings have been in the 20 to 25% range—a substantial amount for large companies, which spend an average of $1,600 per employee, per year on administration. Firms with 10,000 employees, for example, could estimate saving $3,200,000 per year (20% of $1,600 per employee × 10,000 employees).

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Standardization. Outsourcing requires consistent HR transactions. Many large firms have grown through mergers and acquisitions, accumulating diverse HR systems. Simply contracting out this work forces a level of consistency that might have taken years to accomplish internally.

Increased speed and quality of service. As we mentioned, outsourcing vendors generally rely on technology and have the economies of scale to stay up to date with new developments that continuously improve their services. Employees often perceive service as actually improving with effective outsourcing.

HR focus. Outsourcing enables HR professionals to focus on more strategic work. Thus, outsourcing increases the likelihood that HR professionals will become more strategic in thought and action.

These benefits need to be analyzed over a longer period to assure the value of outsourcing. Nonetheless, while early indicators suggest that outsourcing offers positive returns, exist risks and pitfalls as well:

Picking the wrong vendor. As with any new business, not everyone who offers the service is really able to deliver excellent work, keep up with the volume, and ensure continuity of service. However, it seems likely that increasing competition will winnow vendors to those who can meet these criteria.

Unbalanced contracts. The contract between the outsourcing provider and the organization may be skewed toward one party or the other, and contractual terms may make dispute resolution difficult. It is essential to specify current and desired service levels in mutually agreeable terms, outline a procedure for dispute resolution that both parties find fair and equitable, and include incentives for performance for

the vendor and cooperation for the company.

Lack of change management. The changeover from internal to external vendors is often difficult, time-consuming, prone to early errors, and therefore upsetting to employees, line managers, and HR professionals. While some confusion is inevitable, change processes that plan for alternative scenarios, engage employees and other affected parties in the process, and learn from self-correcting systems are important in increasing the probability of successful change.

Sprawling efficiency. Outsourcing firms that want to expand their revenues sometimes do so by convincing a line manager who has an antiquated view of HR that the outsourcing firm should take over all of the HR functions and design and implement them against the primary criterion of transactional efficiency instead of business sensitivity. Such thinking moves HR back a generation when we saw ourselves as a cost to be reduced instead of partners who drive the business. Internal HR professionals should be on guard for this tendency among some HR outsourcing firms.

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HR role conflict. Outsourcing changes HR‘s role in the company. Employees who used to know who to see and how to get things done now have to rewire their expectations and work norms. HR professionals who developed an identity and reputation based on effectively serving the transactional needs of employees and managers now need to reorient themselves to higher value-added activities and agendas.

Loss of control. The firm surrenders control of outsourced transactions—but the need for the transactions will not diminish. If outsourcing vendors have business problems, they will dramatically affect the firm‘s ability to relate to its employees.

Despite these risks, large firms will continue to outsource bundles of HR transactions to increasingly viable vendors. Smaller firms will probably outsource discrete HR practices such as payroll and benefits administration. Both types of outsourcing reflect the collaborative work across boundaries that will characterize the organizations of the future.

5.6. Corporate HR

HR professionals who perform corporate HR roles address six important areas of need within the emerging HR organization as follows:

- They create a consistent firm wide culture face and identity.
- They shape the programs that implement the CEO‘s agenda.

- They ensure that all HR work done within the corporation is aligned to business goals.
- They arbitrate disputes between centers of expertise and embedded HR.
- They take primary responsibility for nurturing corporate level employees.
- They ensure HR professional development.

First, corporate HR professionals create a consistent cultural face and identity for the corporation. No matter how diversified the business strategy, a variety of important external stakeholders form broad relationships with the entire firm. Shareholders tend to care mainly about overall performance, and large customers who do considerable business with the firm tend to engage with many different divisions. Likewise, the image of the entire firm is often what attracts potential employees to specific divisions. Corporate HR professionals build the firm's culture and reputation by focusing on values and principles.

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Second, corporate HR professionals shape the programs that implement the CEO's agenda. Most CEOs have a corporate strategic agenda—for example, globalization, product innovation, customer service, or social responsibility. Corporate HR professionals are expected to convert this agenda into a plan for investment and action and build organizational readiness to deliver this agenda through a three-step process:

Step 1. Determine what capabilities are required to deliver the strategy.

Step 2. Choose HR practices from the flows of people, performance management, information, and work that would best deliver those capabilities.

Step 3. Build an action plan for designing and delivering those HR practices throughout the organization.

This action plan does not involve corporate HR in doing all the work or even in refining all the details. Instead, it will call on centers of expertise to create menus of specific choices, embedded HR professionals to appropriately tailor solutions to each business, and line managers to accomplish strategic goals through the HR service. However, corporate HR ensures that the work is done well and coordinated effectively to achieve the goals.

Third, corporate HR has responsibility to make sure that all HR work done within the corporation is aligned with business goals. This means that corporate HR should not mandate business-unit initiatives since they probably do not understand the business-

unit realities as well as the embedded HR professionals. But they should mandate a clear and definitive linkage between business strategy and HR within the business units. One metaphor we have found helpful is to describe corporate HR as playing the role of devil's advocate for strategic HR, challenging the need for both sameness and difference in HR practices across operations and specific businesses. In addition, corporate HR should ensure that business-unit HR is involved in setting measurable objectives. They should also be actively involved in facilitating the measurement process to eliminate the conflict-of-interest problems that would occur in business-unit HR doing its own measurements.

Fourth, corporate HR professionals arbitrate disputes between centers of expertise - CoE (HR program ownership, policy and process development and oversight, and vendor management) and embedded HR (HR professionals within the businesses or operations). The former naturally lean toward consistency; the latter prefer flexibility and choice. Corporate HR will not have a magic answer or uniform formula for deciding when to standardize practices and when to vary them, but it can focus on value creation for multiple stakeholders and shift HR practices to create that value in each specific instance. We call this managing the push (centers of expertise) and pull (embedded HR) that requires conversation and, at times, arbitration.

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Fifth, corporate HR professionals take primary responsibility for nurturing corporate level employees—a role both like and unlike that found elsewhere in the firm. Like all employees, corporate employees should perform their transaction HR work through service centers or technology. However, some corporate employees are unique in that their relationship with the firm is visible and symbolic. Public reports of executive compensation, for example, require extra care to ensure the right messages are communicated to all internal and external stakeholders. Senior HR professionals also frequently play significant roles in coaching senior executives, offering advice ranging from personal leadership style to dealing with key employee transitions and succession issues to observations and assistance in evolving the corporate culture.

Finally, corporate HR is responsible for HR professional development. Too often, HR professionals are the cobbler's barefoot children—designing learning experiences for others, for example, while going without a similar investment in their own development. HR corporate staff should help HR professionals grow, unlearn their old roles, and learn new ones. This may require hiring a new type of HR professional with new knowledge, skills, agendas, and aspirations. This may require moving established HR professionals to different roles and increasing investment in HR development and training.

5.7. Embedded HR

In shared service organizations, some HR professionals work in organization units defined by geography, product line, or functions such as research and development or engineering. These HR professionals, whom we call "embedded HR," go by many titles: relationship managers, HR business partners, or HR generalists. Whatever their specific title, they work directly with line managers and each organizational unit leadership team to clarify strategy, perform organization audits, manage talent and organization, deliver supportive HR strategies, and lead their HR function. Embedded HR professionals play a number of important roles that include the following:

- They engage in and support business strategy discussion.
- They represent employee interests and implications of change.
- They define requirements to reach business goals and identify where problems may exist.
- They select and implement the HR practices that are most appropriate to the delivery of the business strategy.
- They measure and track performance to see whether the HR investments made by the business deliver the intended value.

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In the first role, embedded HR professionals engage in and support business strategy discussions, offering insights and helping leaders to identify where their organization can and should invest resources to win new business ventures or increase existing investments' performance. They should help to frame the process of business strategy development, should be proactive in providing insights into business issues, and should facilitate effective strategy development discussions within the management team. From the results of the most recent HR competency survey, this role reflects a competency we have elsewhere called the "strategic architect".

In supporting strategic decision making, HR professionals also represent employee interests and highlight implications that follow from the inevitable changes or developments as a result of strategy decisions and changes. For example, how much of the workforce needs to be retrained, reorganized, or resized? HR professionals help develop a clear strategic message that can be communicated to employees and translated into action. In the process, they watch out for the tendency to groupthink, encouraging everyone to participate and clearly valuing dissent while seeking consensus.

As strategies are being set, and once they are established, embedded HR professionals

are to audit the organization to define what is required to reach the goals and where problems may exist. Sometimes this is an informal process whereby HR professionals reflect on and raise concerns about strategy delivery. Other audits may involve a formal 360° to determine what capabilities are required and available given the strategy. These audits will help to identify if the corporate culture on the inside is consistent with the culture required to make customers happy on the outside. In doing these organization audits, embedded HR business partner with line managers and collect data that lead to focused action.

Based on organization audit information, embedded HR professionals select and implement the HR practices most appropriate to delivering business strategy. In doing so, they are expected to bring their unique knowledge of the business and its people in selecting practices that add value, integrating them to deliver capabilities, and sequencing them to ensure implementation. Embedded HR professionals acquire guidance and support from HR specialists who reside in centers of expertise and adapt both to the requirements of the business. This process of accessing rather than owning resources means that embedded HR professionals must be adept at influencing and working collaboratively with colleagues, because centers of expertise have corporate agendas. They must be effective at managing temporary teams, and often multiple teams.

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Finally, embedded HR professions measure and track performance to see whether the HR investments made by the business deliver their intended value. In essence, embedded HR professionals diagnose what needs to be done; broker resources to get these things done; and monitor progress to ensure things are accomplished.

5.8. Centers of Expertise (CoE)

Centers of expertise, also called “Centers of excellent”, operate as specialized consulting firms inside the organization. Depending on the size of the enterprise, they may be corporate wide or regional (e.g., Europe) or country-based (e.g., Germany). They often act like businesses that have multiple clients (business units) using their services. In some cases, a fee for use or a “chargeback” formula plus an overhead charge for basic services may fund them. The financing of centers of expertise is sometimes set to recover costs and, in other cases, is comparable to market pricing. Typically, businesses— through their embedded HR units—are directed to go to the center before contracting for independent work from external vendors. If, in working with the center experts, the business decides to go to outside vendors, the new knowledge the vendors provide is then added to the current menu for use throughout the enterprise. Centers are demand-pull operations—if businesses do not value their

services, they will not continue. Center of expertise HR professionals play a number of important roles:

- They create service menus aligned with the capabilities driving business strategy.
- They diagnose needs and recommend services most appropriate to the situation.
- They collaborate with embedded HR professionals in selecting and implementing the right services.
- They create new menu offerings if the current offerings are insufficient.
- They manage the menu.
- They shepherd the learning community within the organization.

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As internal design and process consultants, HR professionals in centers of expertise create menus of what can be done that are aligned with the capabilities driving business strategy. The menus are finite. Embedded HR professionals are expected to choose from these menus, which legitimizes the HR practices in use companywide. Process experts consult with embedded HR to help pick the options that best solve specific business problems.

This also points out the second role of the center of expertise HR professional —to work with embedded HR professionals to select the right practice or intervention for a particular situation. For example, say an embedded HR generalist realizes the need for a first-line supervisory training program in his/her organization. The center of expertise should already have a menu of choices, perhaps including an in-house workshop, relationships with externally provided workshops (through consultants or a local university), a video program, a self-paced computer learning exercise, a 360° feedback exercise, and other development experiences. If a current menu doesn’t exist, the design experts will assemble one based on their knowledge of the field and the company. A process expert takes this menu to the embedded HR professional and helps him or her diagnose the need and select the services most appropriate for the business and situation, offering advice on how to implement the selected choices.

The embedded HR professional is responsible for the selecting and implementing the right development experiences to improve first-line supervision. However, as a third important role, the center is expected to collaborate in making the selection and in supporting the implementation.

If the embedded HR and center expert agree that existing menu items are not sufficient, the design experts create new solutions that will then be added to the

menu for the enterprise. Hence, the fourth role is the creation of new offerings when the current slate is insufficient or inadequate for the need. In many cases, the need for additional menu offerings will be prompted by a company acquisition or decision to diversify and invest in new businesses.

This points out the next role of the center of expertise—to manage the size and breadth of the process or service menu. In general, the size of the menus will depend on the degree of business diversification. In related diversification, the menus will be smaller, ensuring that different businesses use similar management practices; in unrelated diversification, the menus will be larger, allowing more flexibility. In all cases, there is an important need for the center of expertise to manage the boundaries of what is helpful, acceptable, and permitted.

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Finally, centers of expertise also shepherd the learning community within the enterprise. They initiate learning when design experts generate new ideas for the menu; then, process experts generalize learning by sharing experiences across units. For example, they share the experiences of supervisory training from one unit to another so that each business does not have to recreate its own training programs. The process experts may transfer the learning, or they may have the requesting organization unit communicate directly with those who have previously done the work.

Centers of expertise provide a number of very important benefits to the HR organization and can be found in many companies. However, they also create a number of risks that the HR leadership teams need to manage:

One size fits all. Center experts tend to fall into routines and push programs that are familiar to them; left to themselves, they may fail to adapt their programs to the needs of each business. It takes careful attention to the needs of the business and to state-of-the-art HR practices in order to ensure that menus continue to evolve.

Out of touch with reality. If center experts isolate themselves from day-to-day business problems, their menus are apt to offer solutions that are academically rigorous but irrelevant to business needs. HR functional experts must bridge future ideas to present problems. They need to turn theory and best practice into effective action. The centers need to bring more than a fixed menu. They need expertise, knowledge base, and foresight to address specific issues (i.e., loss of talent in quickly and unpredictably developing markets such as China and India, for instance). Their work and contribution have to be differentiated enough from the normal solution so that the "We have already done this. What else can you bring?" syndrome does not emerge.

Canned solutions. It is much easier to have a solution in search of a problem than to design a solution for a problem. Like independent consultants, center experts are often tempted to craft single solutions that they sell to multiple businesses. This is particularly true when centers service global operations. Tailoring solutions to diverse global markets requires agility and thoughtfulness.

Not invented here. Embedded HR professionals who worry more about personal credibility than impact may be reluctant to use the best practices proposed by center experts. If either center experts or embedded HR professionals declare themselves more important to the business and are, therefore, now willing to learn from each other, then the entire process falters.

Unquestioned authority. When business units are required to use the center, the experts there find it easy to assume the units are happy to do so. They need to monitor their customer service scores as measured by embedded HR professionals and pay attention to the response.

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Excess demand. Given that centers serve multiple businesses, demand can easily exceed capacity, leaving neglected businesses to flounder on their own or reinvent the wheel on the fly.

Seduction of power. In some HR functions, centers of expertise have had a tendency to become a law unto themselves. That is, instead of framing their role as consultants whose role it is to help embedded HR drive business-unit agendas, they may be inclined to arrive in the business units brandishing corporate authority and the intent to drive their functional agenda instead of the business units' needs.

While none of these risks is insurmountable, they indicate that centers will inevitably evolve as they refine their approach to delivering HR resources.

5.9. Operational Executors

A large number of HR departments have attempted to operationalize the above model with shared services (service centers and centers of expertise) and embedded HR. But many of these departments are finding that some work continues to fall through the cracks.

While embedded HR professionals are asked and expected to be strategic and conduct organization diagnosis, they often find themselves overwhelmed by operational HR work that conflicts with their main purpose. This renders them unable to make time to be strategic. They report that they spend a growing amount of time doing individual casework (e.g., handling disciplinary issues), performing operational tasks (e.g., setting

up and attending recruiting interviews), doing analysis and reporting (e.g., managing compensation reviews), delivering initiatives (e.g., creating development experiences), or implementing business initiatives (e.g., doing the analysis and execution for a new organization structure).

Service centers typically do not perform these operational tasks because they require personal attention; centers of expertise do not do them because they usually require deep and unique knowledge of the business and strong internal business relationships. Line managers do not do them because they lack the technical expertise. Hence, embedded HR professionals feel drawn into this operational work by the volume of it, even when they have the skills and self-confidence to be more strategic and are encouraged to focus on their transformational role.

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A second driver is the velocity of program change emanating from corporate HR or centers of expertise. Particularly in times of corporate change and transformation, embedded HR professionals are expected to keep up with a wide number of corporate initiatives—from new measures and measurement to required corporate training and communication programs to new modifications to the performance management and development system. As a result, many embedded HR people are encouraged to do strategy by their line management but required to do implementation by corporate HR. Some HR executives might be led to say, “We are asked to be business partners and strategists, but we end up acting as ‘pairs of hands’ for corporate HR.”

It is also the case that often these embedded HR professionals come from an implementation background and lack the skill or self-confidence (or both) to comfortably function at a more strategic level. For these individuals, the urgency (and comfort) of immediate operational requirements outweigh the importance (and developmental interest) of the more strategic future. Too often HR professionals in centers of expertise offer insight and menus of choice, but they do not facilitate or partner in the operational implementation of these ideas. Service centers deal with administrative challenges, but they, too, do not deal with implementation of new administrative systems and practices at the business level.

What has been missing in some HR restructurings is the capacity to deliver and implement the ideas from the center, while maintaining focus on the business and its customers. While this work ideally occurs through an integrated team, someone needs to be charged with this team and how it works. We are finding that companies are responding to these missing implementation requirements in different ways:

One company established the role of junior business partners to be assigned to the HR generalists or business partners. These individuals would be required to turn the

strategic ideas into operational practice within the business.

Another company created a team of HR operational consultants who were assigned to a business to help turn the strategy into action. They were focused on project work with an emphasis on implementing specific projects within the business. The consulting pool had HR professionals who were gifted at making HR initiatives happen, and it secondarily served as a preparatory and testing ground for individuals slated as potential incumbents for senior embedded HR professional roles.

Another company uses a case advisor who comes from the service center to follow through on employee requests.

As an international company transforms into a truly global company, there is a greater need for common practice in how people are developed for succession management and for the development of leadership competencies. Thus, the centers of excellence deliver a steady flow of innovative HR practices with the expectation that embedded HR groups within business units will implement them. But embedded groups are already extremely busy managing the strategic and day-to-day requirements of their business units. Tensions have inevitably arisen. The company may begin to think through how it might establish an operations HR unit that would provide support to both the centers of expertise and to embedded HR units.

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Some companies create a fifth leg called the HR consulting pool. The consulting pool operates as a team of high-performing midlevel HR professionals and is managed as a cohesive unit. The unit reports to the head of regional (e.g., embedded) HR. Team members are deployed to assist joint center and embedded HR teams to implement solutions to important HR projects—for example, to develop and implement a strategy to reduce workforce turnover rate. Historically, center and embedded HR professionals would have worked together to scope the need but would not have had the resources to actually implement. Inevitably, the problem—while well defined—would not be effectively addressed and would often be delegated to line management, the worst possible outcome. The operational HR pool solves this problem and has been responsible for a number of important deliverables.

Each of these companies, and many others, are experimenting with how to solve this common problem: how to make sure that HR implements state-of-the-art strategies tailored to the needs of the business. Dave Ulrich and the other scholars call this an operational executor role. These HR professionals will be required to meld what the business requires for success (driven by the embedded HR professionals) with innovative and state-of–the-art HR practices (driven by the centers of expertise) into an operational plan that can be executed in a timely way.

Operational HR roles require a particular set of competencies. These roles are best for people who are execution and implementation oriented rather than focused on strategic relationships (embedded HR) or new knowledge creation (centers of expertise). However, operational HR roles can also be excellent developmental opportunities for both embedded and center professionals. Over time, HR organizations will find that operational HR is best considered a mix of long-timers (people who like to do this work) and rotational resources. The following indicates the skill sets that will be required of HR professionals in operational roles.

Applying project management skills. Project and implementation management skills are crucial for operational HR professionals. They will need team skills to bring together the relevant players to create operational results. They must quickly understand what is expected; bring together the embedded, business, and center HR professionals in clarifying goals, roles, specific actions, and measures; and make the changes happen. Some diagnostic skills are also important; the structure of a project plan must, for example, be cognizant of situational (and often political) dynamics, and mindful of other competing activities. Operational HR resources should not be seen as simply pairs of hands to implement but rather as involved early in the development of solutions.

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Managing priorities and workloads. Choosing what projects are appropriate for operational HR is an important process task. HR does not have infinite resources, and it could be easy for HR to use its precious operational resources on lower-priority work that other HR professionals do not want to do. This would be a mistake and would both trivialize the operational HR work and operational HR resources. As a result, these resources would leave. It would also be a mistake to employ operational HR resources for implementation when the involvement of line leaders and employees builds commitment to the goals of the intervention.

Maintain business focus. In all considerations, operational HR must maintain an unrelenting focus on a business logic that is consistent with the logic of the corporate business portfolio. Regardless of whether the corporation is a single business unit, diversified, or a holding company, HR should maintain its focus on making the corporate business logic successful.

Getting the structure right. Organizations are trying out different structures for operational HR. Sometimes they are a distinct unit, other times they are distributed in embedded HR as junior professionals or in centers of expertise. Smart organizations have found ways to connect these resources to one another and provide common training and teambuilding experiences.

Measuring contribution. Because operational HR is project- and implementation-oriented, how performance is measured should also be project-based and implementation-based.

This operational executor role will continue to become clearer as HR professionals ensure that HR investments turn into capabilities that deliver on HR's vision and goals.

5.10. HR Delivery in Global Organization

As companies expand into new markets, the complexity and scope of HR issues increase dramatically. A lot of companies have made great strides in developing globally coordinated approaches to service delivery that include global strategies and governance structures. Few companies are operating global shared service centers, and most companies are processing in regional (or country) shared services centers.

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The decision to develop regional versus country-specific shared services is based on the size and locations of the employee base, as well as cost. In countries with large numbers of employees, companies may choose to set up country-specific service centers, while those operating in smaller countries may opt to coordinate through one regional location. In the European Union, more companies are aggregating services in lower-cost countries, such as those in Eastern Europe.

In order to compete successfully in diverse markets, companies should recruit, train, and manage people locally—reflecting local culture, local labor markets, and the needs of diverse local business units. Creating global standards, platforms, and service centers addresses only part of the challenge. Leading companies are developing HR operating models that are flexible enough to allow for local implementation and agile enough to adapt to local markets and business needs. The ultimate goal: to combine scale and agility to optimize talent management in every market where the company does business.

While each company's HR strategy is unique, top global organizations use a framework to determine the appropriate balance between global, regional, and local HR roles as below:

Global HR Structure

Global	Regional	Local
Global HR leadership Senior-level geographic and/or operating unit HR representation		
Global centers of expertise Global centers for each key specialized functional area	**Regional centers of expertise** Experts in each of the COE functional areas with regional and local knowledge	
HR business partners Strategic partners to business leaders, generally organized by business unit		**Local HR service delivery** HR generalists and support to deliver HR services locally
	HR shared service centers Employee transaction and customer service centers based regionally, provided internally, externally or using a combination of both	**Line managers** Supervisors conducting HR processes and transactions for their employees
Global technology platform Globally consistent systems, employee and manager self-service, analytics and reporting		

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Source: Mercer Point of View (2009). Raising its game: HR transforms to play a central role in global business success, **Human Capital Perspective, issue 1**.

5.10.1. Functional HR

With the functional HR organization, headquarters HR is staffed with specialists who craft policies. HR generalists may be located within divisions or other locales to implement these policies, adapt them as needed, and interact with employees. This type of organization is often found in the least diversified businesses but not necessarily small businesses.

5.10.2. Dedicated HR

Dedicated HR-the HR business partner (HRBP) allows businesses with different strategies in multiple units to apply HR expertise to each unit's specific strategic needs. This is in some ways a "corporatized" HR with an HR function at headquarters and separate HR functions located (or "embedded") in separate business units.

5.10.3. Shared services HR

The HR shared services Center is frequently constructed in organizations with multiple business units. Each country or unit, rather than having to develop its own expertise in every area, can supplement its resources by selecting what it needs from a menu of shared services (usually transactional operation with HRIS supported), which the units agree to share.

5.10.4. Centers of Expertise

Over time, some shared service centers may develop into centers of expertise, sometime call "center of excellence"). A center of expertise is established as an independent department that provides services within a focused area to internal clients; it is funded by fees cross-charged to other functions.

Leading companies are developing HR organizations and operational models that are flexible enough to allow for local implementation and agile enough to adapt to local markets and business needs. The ultimate goal: to combine scale and agility to optimize human resource management in every market where the company does business. Here suggests a clear set of starting points:

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Develop a strategic view of the organization. Understand and determine ways to benefit from globalization, and constantly scan the environment to identify global and local trends and identify new skills and tools that the organization will require.

Rationalize core global services. Establish a core set of services for HR administration and talent communities of expertise. Encourage communities of expertise to learn from local business partners to determine leading practices in the field.

Use and adapt HR technology. Move HRIS/e-HRM from domestic to global operations, keeping in mind different input requirements, attitudes toward and regulation of employee data and privacy, differing technology platforms, and cultural issues.

Encourage country initiatives within global processes. Once global processes, roles, and expectations are created, expand the team to include communities of expertise and let local HR leaders create, customize, and deliver local programs. They can leverage the corporate infrastructure and standards to optimize talent strategies and HR programs in each business and geography, driving impact at the country level.

Develop policies and practices to manage risks. Protect the physical assets, intellectual property, and intangible assets of the organization, while monitor breaches of compliance: financial (violations of law related to corporate governance), ethical (environmental or consumer safety regulations), employment-related (discrimination laws, requirements to inform workforces) and so on.

There is no absolute right or wrong way to proceed. Unfortunately, there is not one "universal standard" that can be applied in making ethical decisions on a global basis. Behavior that is considered unacceptable in one country is tolerated or perhaps even encouraged elsewhere. HR policies that apply well in one culture may not translate

with the appropriate results in another. For that reason, neither the headquarters nor the local point of view is always the best one. The challenge for a multinational organization is to consider the underlying purpose of an ethical position and to ask what variations to recognize cultural differences are possible without sacrificing the ultimate objective.

Build Global HR Competencies. Invest in training, certifying, and developing the global HR team to ensure that each member knows how to use all tools and data and feels connected to the larger community of leading practices and new ideas in the marketplace. Deep expertise belongs in HR no less than in other functions.

6. Workforce Restructuring

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Expanding your business abroad often requires significant changes to the way you run your company. You'll need to dedicate a lot of time, money and energy to your new target market, and wworkforce restructuring (or "reorganization") can help you use your resources wisely both at home and overseas. Workforce restructuring is the process of changing the organizations' delivery infrastructure, including office locations, organizational structure, and staffing configurations, in both field and headquarters. The purpose of workforce restructuring is to realign the organizational resources and staffing to meet workload demands more efficiently and effectively.

Creating the right environment for realigning and restructuring a company's global operations and workforce, at a minimum, requires (a) a strong commitment by the right top management, (b) a clear statement of vision and a delineation of a well-defined set of global decision-making processes, (c) anticipating and overcoming organizational resistance to change, (d) developing and coordinating networks, (e) a global perspective on employee selection and career planning.

6.1. A strong commitment by the right top management.

Shaping a global mind-set starts at the top. The composition of the senior management team and the board of directors should reflect the diversity of markets in which the company wants to compete. In terms of mind-set, a multicultural board can help operating managers by providing a broader perspective and specific knowledge about new trends and changes in the environment.

6.2. Clear vision

For decades, it has been general management's primary role to determine corporate strategy and the organization's structure. In many global companies, however, top management's role has changed from its historical focus strategy, structure, and systems to one of developing purpose and vision, processes, and people. This new philosophy reflects the growing importance of developing and nurturing a strong corporate purpose and vision in a diverse, competitive global environment. Under this new model, middle and upper-middle managers are expected to behave more like business leaders and entrepreneurs rather than administrators and controllers. To facilitate this role change, companies must spend more time and effort engaging middle management in developing strategy. This process gives middle and upper-middle managers an opportunity to make a contribution to the (global) corporate agenda and, at the same time, helps create a shared understanding and commitment of how to approach global business issues.

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6.3. Manage change

The globalization of key business processes such as IT, purchasing, product design, and R&D is critical to global competitiveness. Decentralized, siloed local business processes simply are ineffective and unsustainable in today's intense, competitive global environment. In this regard, creating the right "metrics" is important. When all of a company's metrics are focused locally or regionally, locally or regionally inspired behaviors can be expected. Until a consistent set of global metrics is adopted, designed to encourage global behaviors, globalization is unlikely to take hold, much less succeed. Resistance to such global process initiatives runs deep, however. As many companies have learned, country managers will likely invoke everything from the "not invented here" syndrome to respect for local culture and business heritage to defend the status quo.

6.4. Networking culture

Globalization has also brought greater emphasis on collaboration, not only with units inside the company but also with outside partners such as suppliers and customers. Global managers must now develop and coordinate networks, which give them access to key resources on a worldwide basis. Network building helps to replace nationally held views with a collective global mind-set. Established global companies have developed a networking culture in which middle managers from various parts of the organization are constantly put together in working, training, or social situations. They range from staffing multicultural project teams, to sophisticated career path systems encouraging international mobility, to various training courses and internal conferences.

6.5. Global perspective

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Recruiting from diverse sources worldwide supports the development of a global mind-set. A multicultural top management, as described previously, might improve the company's chances of recruiting and motivating high-potential candidates from various countries. Many companies now hire local managers and put them through intensive training programs.

Similarly, a career path in a global company must provide for recurring local and global assignments. Typically, a high-potential candidate will start in a specific local function, for example, marketing or finance. A successful track record in the chosen functional area provides the candidate with sufficient credibility in the company and, equally important, self-confidence to take on more complex and demanding global tasks, usually as a team member where he or she gets hands-on knowledge of the workings of a global team. With each new assignment, managers should broaden their perspectives and establish informal networks of contact and relationships. Whereas international assignments in the past were primarily demand-driven to transfer know-how and solve specific problems, they are now much more learning-oriented and focus on giving the expatriate the opportunity to understand and benefit from cultural differences as well as to develop long-lasting networks and relationships. Exposure to all major functions, rotation through several businesses, and different postings in various countries are critical in creating a global mind-set, both for the individual manager and for the entire management group. In that sense, global human resource management is probably one of the most powerful medium- and long-term tools for global success.

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Part Three: Global HR Outsourcing

Human resource outsourcing refers to a process in which the employer transfers responsibilities and risks for HR functions to the external provider which performs this tasks for the company. Many firms are realizing that they can gain massive advantages from outsourcing non-core HR functions to specialists. Rather than keeping a number of HR employees on staff in-house, HR outsourcing provides employers with flexibility and maneuverability in administering non-core HR activities.

1. HR Roles & Responsibilities

Human resource management deals with any aspects of a business that affects employees, such as hiring and firing, pay, benefits, training, and administration. Human resources may also provide work incentives, safety procedure information, and sick or vacation days.

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1.1. Human Resource Management (HRM)

Micro HRM covers the functions of HR policy and practice and consists of two main categories: one with managing individuals and small groups (e.g., staffing, training and development, performance management, and total rewards) and the other with managing work organization and employee voice systems (including union-management relations).

1.2. Strategic Human Resource Management (SHRM)

Strategic human resource management (strategic HRM, or SHRM) may be regarded as an approach to the management of human resources that provides a strategic framework to support long-term business goals and outcomes. The approach is concerned with longer-term people issues and macro-concerns about structure, quality, culture, values, commitment and matching resources to future need. SHRM covers the overall HR Strategy and Human Resource Management System adopted by business units and companies, and impacts the business performance.

1.3. International Human Resource Management (IHRM)

International Human Resource Management (IHRM), called Global HRM, covers HRM in companies operating across national boundaries. International Human Resource Management (IHRM) as ‘concerned with the human resource problems of multinational firms in foreign subsidiaries (such as expatriate management) or more broadly, with the unfolding HRM issues that are associated with the various stages of the internationalization process.

1.4. Human Resource Strategies

HR strategies define how the HRM function and the organization's human resources are to contribute to the attainment of organizational goals and objectives. The degree of vertical structural alignment (vertical linkage) is expected to be greatest when HRM provides feedback and input regarding the ability of SHRM to contribute to the attainment of the goals.

1.5. Human Resource Management System

Horizontal structural alignment (horizontal linkage) is enhanced when an organization implements, via its HRM systems (i.e., the actual HRM activities and deployments of the organization), unified sets of HRM practices that staff, develop, retain, and motivate the organization's human resources to exhibit those behaviors (i.e., produce those outcomes) which enable the organization to enact their strategies and meet organizational goals and objectives.

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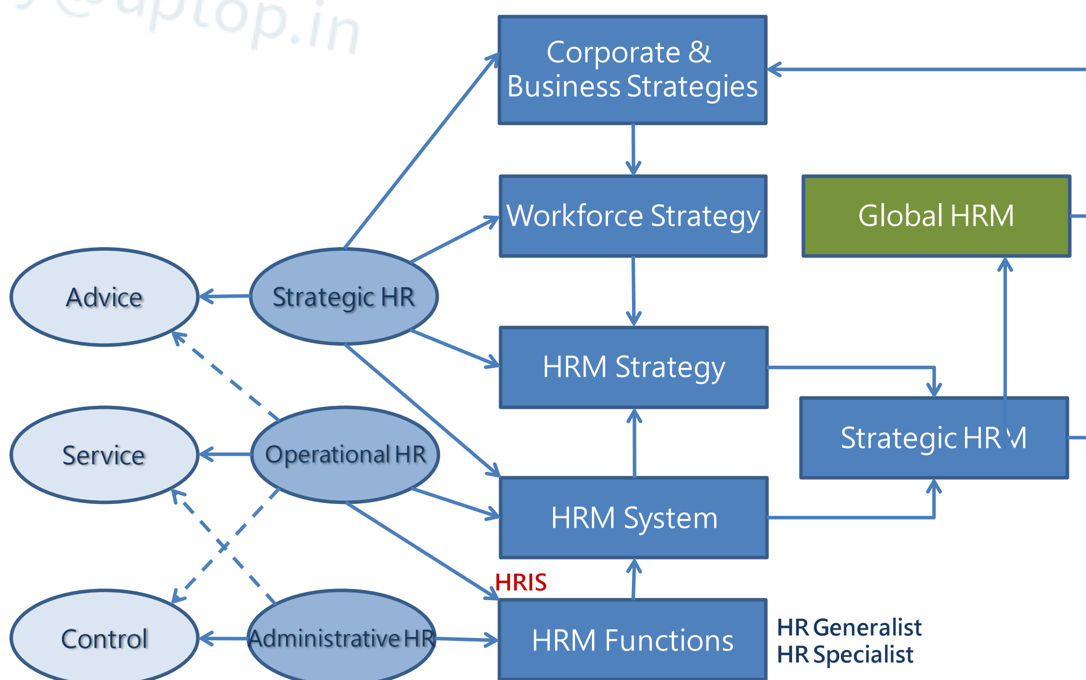

HR Roles & Responsibilities

1.6. HR roles

1.6.1. Strategic

Involved in strategy formulation/development and organizational development and change to support organization's strategic objectives

1.6.2. Operational

Involved in day-to-day traditional HR tasks, such as recruiting, compensation, training, performance management, and employee relations

1.6.3. Administrative

Involved in compliance issues and personnel record keeping through technology, such as human resource information systems, (HRIS)

1.6.4. Generalist versus Specialist

A HR professional who is responsible for one domain area is an HR specialist. HR Generalist is responsible for two or more major HR functions

1.7. HR Responsibilities

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1.7.1. Advice

Gathering information, diagnosing problems, providing solutions, and offering objective assistance and guidance on HR issues

1.7.2. Service

Serving personnel day-to-day administration and answering questions

1.7.3. Control

Designing and evaluating workforce performance management system to make sure the required objectives should be met and aligned with corporate strategy

2. Theoretical Foundations of HR

2.1. Resource-Based View (RBV)

The RBV proposes that internal organizational resources include human resources, that are valuable, rare, inimitable, and without a strategically equivalent substitute are a source of sustainable competitive advantage. The RBV facilitates how Strategic HRM activities could influence knowledge creation and organizational renewal.

2.2. The Multiple Stakeholder Perspective

A stakeholder can be defined as any group that can affect or is affected by the achievement of organizational goals and objectives. When adopting a multiple stakeholder perspective, the focus is on external and internal stakeholders with common attributes such as investors, customers, suppliers, government, society, employees, managers, owners, etc. Specifically, the multiple stakeholder perspective provides a framework that allows for the consideration of (1) the influence that

Strategic HRM has on stakeholders, (2) the influence of stakeholders on Strategic HRM and organizational effectiveness, (3) the influence of stakeholders on how organizational effectiveness is measured, and (4) the influence of stakeholders on how Strategic HRM and the organization are evaluated.

2.3. Vertical and Horizontal Linkage

The value of Strategic HRM, and the impact of Strategic HRM on organizational effectiveness, will be enhanced when an organization has deployed an HRM strategy and system comprised of practices that are consistent with each other and work to elicit those behaviors (outcomes) from the organization's human resources, necessary for the achievement of organizational goals and objectives. Vertical linkage typically refers to the degree to which Strategic HRM is consistent with other key organizational processes, while horizontal linkage typically refers to the degree to which the HRM practices deployed by Strategic HRM elicit congruent behaviors (outcomes) from the organization's human resources.

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2.4. Systematic Agreement Theory (SAT)

SAT is a theory of organizational alignment. SAT provides a framework in which organizational alignment proposed to enhance organizational effectiveness and create competitive advantage:

2.4.1. Structural alignment relates to the congruency between the goals of different activities (processes) within the organization and how Strategic HRM is designed to elicit the behaviors necessary to meet these goals.

2.4.2. Cultural alignment relates to how an organization's leadership as well as Strategic HRM engenders an organizational culture that supports organizational strategies and the achievement of organizational goals and objectives.

2.4.3. Performance alignment relates to the extent to which the organization's actual outcomes match those outcomes necessary for the organization to meet its goals and objectives. Strategic HRM can have a direct impact on HR outcomes.

2.4.4. Environmental alignment reflects the strategic fit between the demands of the external environment and the selected vision, goals, and tactics of the organization.

3. HR Shared Service Alternatives

The true business case for Shared Services involves providing employees and customers with the services they need at the lowest possible cost. Howeve r, numerous studies show that only about half of shared services centers in operation deliver services to their entire

population, leaving considerable opportunities on the table. Mature organizations may support as much as 80% of their population yet leave many business functions untouched – disparate and fragmented across the enterprise.

Shared Services have proven to reduce costs and improve processing efficiencies by up to 40%. So why don't more organizations move to a Shared Services model? Lack of know-how, concerns over deployment, and fear of customer dissatisfaction should not be reasons to avoid the shared services approach.

The first step in building a Shared Services Strategy (SSS) is to conduct an assessment of the organization's current processes and identify where efficiencies can be gained while maintaining high levels of service and service quality. It focuses on selecting appropriate functions to consolidate that align with the company's strategic direction and building the business case by leveraging economies of scale. Once defined, a plan can be developed that meets the organization's budget and time frame. Shared service is one sure-fire way to gain the competitive advantage needed to succeed in today's challenging marketplace. Please find below table to know items to assess the effectiveness of your Shared Services function.

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HR Shared Service Alternatives

Strategic Value to Organization	Common	Unique
High	**Priority 2 : Likely to be Shared** 10. Performance Management Administration 11. Metrics/Analytics 12. HR Policies Development 13. HR Program and Service Definition 14. Compensation/Benefits Planning 15. Training Program Development 16. Rewards and Recognition 17. Succession Planning 18. Skills/Competency Management	**Priority 4 : Unlikely to be Shared** 26. HR Strategic Initiatives 27. Feedback Mechanisms and Coaching 28. Work-Life Initiatives 29. Diversity Initiatives 30. Employee Relations 31. Collective Bargaining
Low	**Priority 1 : Likely to be Shared** 1. Payroll/Benefits Processing 2. Recruiting/Applicant Tracking 3. Stock Program Administration 4. Regulatory Compliance 5. Onboarding/New Hire Process 6. HR Admin/Program Support 7. Employee/Manager Inquiries 8. HR Reporting 9. Disability Management	**Priority 3 : Unlikely to be Shared** 19. Training/Development Administration 20. Career Development 21. Knowledge Management 22. Time and Attendance 23. Employee Assistance Programs 24. Orientation Programs

Commonality Across Businesses

Shared Services Potential
- High
- Medium
- Low

4. HR Outsourcing

4.1. Outsourcing

Managing different aspects of employee management processes on a day-to-day basis is a complicated task—one that requires a substantial amount of energy, time, and expertise. By adopting a sound and cost-effective human resources outsourcing solution, HR can transfer this responsibility to a third party and focus solely and completely on what HR do best- managing and growing your business!

Many large and midsized companies turned to outsourcing as a way to realize the future state of HR service delivery. They transferred a large portion of the HR department's processes, technology, and people to outsourcing providers with the expectation that those firms would effectively transform the delivery of HR by providing an outsourced shared services model.

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4.1.1. Why outsourcing

There are clear advantages to outsourcing non-core HR functions. First and foremost, you're contracting with a specialist provider, which means that you're tapping into a talent network with expert skill and knowledge. That means fewer mistakes and more streamlined processes, which can cut down on your costs. Imagine a payroll error that accidentally paid your employees too much, and you then had to claw back payments—and your HR staff had to spend their time fixing the mistake. That means lost productivity and higher costs for you. While mistakes can still happen, specialists are more likely to have the know-how and the tools to keep errors to an absolute minimum.

Next, outsourcing non-core functions means you can keep a smaller HR contingent in-house. That means costs savings for your business, as you have fewer staff members and fewer benefits to pay out. Subcontracting some HR functions also means more flexibility for you; during busy times, the specialist can devote more resources to your business—and they can pare back when things are slow. For most businesses, scaling up during busy times and scaling back during slower periods can be hampered by cumbersome hiring and firing processes, which can make it much more difficult to maneuver in an ever-changing business environment.

4.1.2. What about cost?

Most businesses are, understandably, concerned about the costs of subcontracting their HR functions. But outsourcing is often a more cost-effective solution. First and foremost, you have more flexibility, which means scaling up and down is simplified.

Your cost commitments are often less for outsourced HR than if you had an expanded HR department, in part because you pay for staff based either on a flat fee —which means you pay the same even when you're busy—or based on the resources you're using, which means paying more when business ramps up and less during lull times. You also don't need to pay for benefits, which can rack up on your bottom line.

There are also cost-savings in terms of productivity. Outsourcing non-core functions means your in-house team can focus their attention on core functions— (such as global talent management) and get more done. The subcontracted specialist also uses more streamlined processes and makes fewer errors due to their specialized tools and knowledge, which translates into higher productivity for you.

4.1.3. What to outsource?

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Many companies look to outsource non-core functions such as payroll, benefits administration, and even tax filings. Many of these processes are complex and even well-trained HR staff may encounter difficulties—which can mean spending lots of time and effort on one task, and making costly mistakes. By outsourcing, you allow your staff to focus on the organization's core competencies. You may even opt to outsource recruitment functions since the applicant search process can be so intensive.

If a company choses to partially outsource HR, the company shares responsibilities with the vendor, sharing information and control over the functions. If the company decides to completely outsource, the vendor takes on all HR responsibiliti es. The owner or HR manager in the original company takes on a new role, liaison with the vendor, focusing only on HR in order to manage the vendor-company relationship. Whether partially or completely outsourcing, companies frequently outsource the following HR functions:

- Background Screening
- Payroll Services
- Risk Management
- Temporary Staffing
- Employee Assistance/Counseling
- Health Care Benefits
- Retirement Planning

- Performance Management
- Drug Screening
- International mobility
- Compliance
- Tax returns

4.2. Offshoring

Outsourcing HR is gaining momentum both locally and overseas. Offshoring is the process by which companies undertake some activities at offshore location instead of in their country or origin. The biggest reasons for outsourcing offshore are lower administrative costs and increased access to a highly skilled workforce. More and more organizations are handing over back office operations and transactions processes, offshoring payroll, paperwork, processing and administration, among other HR functions. Among the factors that often attract companies to offshore outsourcing is the opportunity to access best HR practices, as well as critical mass expertise and technology.

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Not surprisingly, global outsourcing is not without controversy – and consequently not without risks. Exchange rates can be volatile so cost advantages often fluctuate along with them. Also, one of the biggest issues companies face is potential backlash from the public and unions, as well as opposition from politicians. People are fe arful of job losses and offshoring can sometimes create a publicity nightmare.

And sometimes the day-to-day running of the business can also be difficult from abroad. There can be issues with infrastructure in terms of finding consistent telephones and power and water supplies that are reliable. With offshoring there's a number of key decisions that have to be made, ranging from deciding where best to locate the offshore operation to how best to resource and manage it and how best to operate and deliver the services.

Extensive research, transparency, a solid understanding of the scope of the project, the capabilities of the workers and the global reach and a well-planned transitional approach are keys to making offshore outsourcing run smoothly.

4.3. HR outsourcing services

HR outsourcing services generally fall into four categories: PEOs, BPOs, ASPs, or e-services. The terms are used loosely, so a big tip is to know exactly what the outsourcing firm you are investigating offers, especially when it comes to employee

liability.

4.3.1. Professional Employment Organization (PEOs)

A Professional Employement Organization (PEO) assumes full responsibility of your company's human resources administration. It becomes a co-employer of your company's workers by taking full legal responsibility of your employees, including having the final say in hiring, firing, and the amount of money employees make. The PEO and business owner become partners, essentially, with the PEO handling all the HR aspects and the business handling all other aspects of the company.

By proper definition, a service is only a PEO when it takes legal responsibility of employees. But take note--some HR outsourcing services like to use the recognized term "PEO" when they handle the primary aspects of HR like payroll and benefits, yet they do not take this legal partnership.

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While the PEO manages and maintains a global payroll service and record keeping for the client employees, the client is able to direct the daily tasks of the employees, focusing on the key priorities that impact the business. This arrangement clearly has benefits for the client, as it allows the firm to keep its customers and business needs at the top of the agenda. In addition to that focus, there are four areas clients benefit from leveraging a global PEO: flexibility, in-country awareness, cost, and time.

Flexibility: PEOs allow clients to hire full-time employees (not contractors) risk free without having to set up a legal entity in the country they are looking to expand to. Instead of trying to manage the complexities of each country's limitations on contractors, PEOs allow firms to hire employees that can get the job done, creating a stronger employment relationship and more stability than a flood of temporary workers could provide.

In-country awareness: One of the biggest challenges for employers is understanding the local customs, culture, and legal requirements. Using a PEO allows employers to sidestep these tricky issues, **placing the compliance requirements and international payroll solutions** in the capable hands of the local organization.

Cost: Setting up local entities i.e. registered companies in foreign countries is a process riddled with challenges as well as being expensive. With global employee leasing, PEOs allow employers to hire local workers without going through the expense and hassle of setting up a local, permanent establishment.

Time: The preliminary findings of Global HR Practices Survey point to one clear fact: the number one reason employers hire global talent is to create a global footprint

close to their target market. And in instances where firms are seeking global talent to meet the needs of their customers, time is of the essence. A PEO gives employers an opportunity to leapfrog the competition, putting workers in place in a fraction of the time it takes to hire through more traditional means.

4.3.2. Business Process Outsourcing (BPOs)

Business Process Outsourcing is a broad term referring to outsourcing in all fields, not just HR. A BPO differentiates itself by either putting in new technology or applying existing technology in a new way to improve a process. Specifically in HR, a BPO would make sure a company's HR system is supported by the latest technologies, such as self-access and HR data warehousing.

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Despite these benefits, even this employment approach has a downside. Many PEOs are entirely service-based, which means that there is no technology in place to keep resources aligned. In addition, there is often broken communication between suppliers, PEOs, and employers.

This entire process is challenging to oversee from a business perspective, offering little transparency into operations. In fact, more than half of respondents to the Global HR Practices Survey said that a lack of transparency is one of the most challenging aspects of managing a global workforce.

When a company contracts with a PEO, the PEO becomes a co-employer. The term “co-employment” can be very unsettling for business owners. Losing control is one of the top concerns expressed by potential PEO clients.

Therefore, many organizations also prefer to keep the human resources function in-house, opting to invest in technology tools to increase the efficiency of the team. Companies who are thinking of using a PEO for HR services must ask:

- Will the PEO make a commitment on the number of hours a week they will provide HR support?
- Would they come on-site for an emergency?
- Will they provide a dedicated contact, or will your employees have to communicate with several different people?
- Do they truly have the best interests of your employees at heart?
- Will they be able to make impartial recommendations, knowing that they could be legally liable for their advice?

The answers to the above questions will determine whether outsourcing HR is the best choice for your organization.

In addition to these challenges, some companies struggle with the delineation of employer responsibilities between them and the PEO. If the PEO makes a mistake when filing taxes, is the employer responsible? Who would the IRS penalize? What are the employer’s options for recourse?

The last disadvantage to working with a PEO is often the pricing structure. PEOs frequently bundle services together and charge a flat rate. Employers should be sure to ask about what services are included in the bundle to ensure they are getting exactly what they need—no more and no less.

4.3.3. Application service providers (ASPs)

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Application service providers host software on the Web and rent it to users-some ASPs host HR software. Some are well-known packaged applications (People Soft) while others are customized HR software developed by the vendor. These software programs can manage payroll, benefits, and more.

There are no clear-cut price ranges with HR outsourcing. The fees range greatly between services, as well as within the services. Aspects like number of employees, the options you choose to use, and even geography, will affect your overall cost. Contracts with HR outsourcing firms will usually run a year. But you should work in a clause in which you can give 30 days' notice to break the contract if you are dissatisfied with the services or don't need the services anymore.

There are some definite drawbacks to not having an HR manager in-house. An in-house HR person handles perks that you can't necessarily count on an outsourcing service to carry out-like looking into group offerings, building employee incentive programs, even taking care of recognition for employees' birthdays. And employees may want someone in-house--an impartial co-worker they can trust and see daily--to turn to if they have a work-related problem or dispute with another co-worker.

Because an in-house HR person interacts daily with your employees, they will likely have more of an interest in your employees. Also, in the case of using a PEO, giving up the right to hire and fire your employees may not be desirable for your particular business. Most PEOs insist that they have the final right to hire, fire, and discipline employees. While having the extra time and not having to deal with the stress of this may be appealing, you may not want this responsibility out of your hands.

If you have fewer than 100 employees, you should consider outsourcing HR. At this

size, you often don't have the resources for an in-house HR staff, so outsourcing is just right for you. You don't have to worry about managing all the details that are so critical to HR in your business, and most small-business owners just don't have the skills and experience to do so. Remember, HR functions must be handled correctly as close to 100 percent of the time as possible; slip-ups can cause your business major problems.

If you're uncertain about outsourcing everything but know you don't have the staff or experience to keep it in-house, try outsourcing only certain parts, such as payroll and benefits. You can also purchase HR software right off the shelf to support any in-house efforts. And if you decide to use an e-service, the same issues you'd have with any ASP remain. When everything is stored and handled online, there are concerns about security as well as potential crashes, both of which can be detrimental to your business.

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4.4. Cosourcing and Insoucing

Cosourcing arrangement refers to an enterprise outsources only one part of a function. Co-sourcing is a way of attacking the problem by providing a service without having to be fully outsourced RPO.

Insourcing refers to contracting a function out to another entity that manages and performs the function on-site, transferring a previously outsourced function back in-house, or the hiring of local workers by foreign companies operating subsidiaries locally. Open sourcing is a way of eliciting innovative ideas from nonemployees or contractors.

4.5. Outsourcing Process

4.5.1. Analyze needs and objectives

A thoughtful needs analysis is the most critical stage in which project goals and expectations of the potential third-party contractor are defined.

4.5.2. Plan the budget

Know what can be spent for the outsourced service and what it costs to provide that service ill-house. This information provides a look at the expected financial return on investment.

4.5.3. Develop request for proposal (RFP)

An RFP is a written request asking contractors to propose solutions and prices that fit the customer's requirements. The purpose of all RFP is not only to ensure that responses actually meet HR's needs but also to ensure some consistency among

responses so that the responses may be more easily compared.

4.5.4. Forward RFPs to potential vendors

Instructions on the manner and date for submission should be included in this request.

4.5.5. Evaluate vendors

These variables differ based on the organization's size, priorities, and industry. For procuring HRIS, their ability to meet specifications, customization options, and price should be considered.

4.5.6. Choose vendor

Get the names of possible contractors, state contractor licensing, ask to see their certificates for insurance, and assess their business longevity.

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4.5.7. Set up contract

This written contract will describe not only the key deliverables of the project but will include additional information such as implementation time frames, payment terms, performance standards, training expectations, and upgrade costs and responsibilities.

4.5.8. Develop and execute project plan

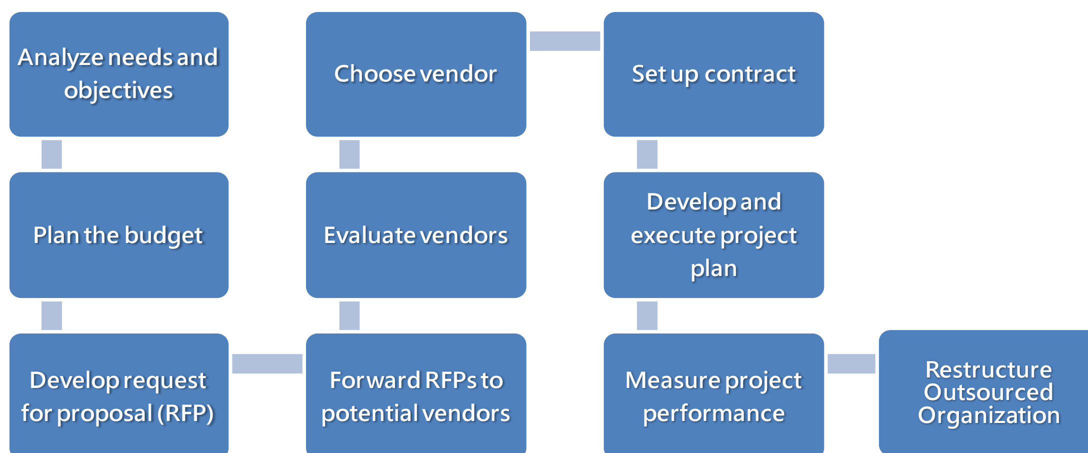
Conduct an initial project planning meeting to review and refine implementation targets in the project schedule. Outsourcing may curtail loss of morale, and therefore it is important to have an employee briefing when an outsourcing partner is announced. This enables employee questions to be answered, and it provides the business rationale for the outsourcing decision in a consistent manner for all employees.

4.5.9. Measure project performance

All payment terms are -usually settled and the contractor could ask for an evaluation of its services.

4.5.10. Restructure Outsourced Organization (if applicable)

It challenges management to build a more flexible organization structured around core competencies and long-term relationships.



Focus on Core Competencies and Outsource the Rest.

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5. Follow-the-sun

The "follow-the-sun" support model was originally developed to provide round-the-clock customer service and has by now been widely adopted by companies around the globe. Follow-the-sun" means that support literally follows the sun—it's a type of global workflow in which issues can be handled by and passed between offices in different time zones to increase responsiveness and reduce delays. In the early days of follow-the-sun, the approach only seemed feasible for large companies with multiple offices and teams of employees around the world. It turns out, however, that the method scales down to satisfy a specific goal: providing superior customer support. While that can mean different things for different companies, anyone who wants to provide 24 x 7 support 365 days of the year—or more loosely, "anytime, anywhere" support—can adopt the model. You just have to determine whether it's right for you.

There are three big challenges facing companies and three main things you need to make 24/7/365 availability of your company.

5.1. Challenges in following the sun

5.1.1. Coordination

Depending on where you and your employees are located, you might run into difficulties finding times for one team to overlap with another; this could cause delays in responses. Since you and your team are separated in space and time, it can sometimes be difficult to provide everyone with a clear overview of the process and the status of each task. Clarifying handoff cycles or handing off tasks can be difficult across time zones, especially if one team wants to work late or get a head start on a project.

And don't forget to account for national holidays! Thanksgiving in Canada and

Thanksgiving in the US aren't celebrated on the same day, and Americans will never understand the number of Spanish religious holidays.

5.1.2. Communication

Like any long-distance relationship, Skype or WebEx is no replacement for face-to-face communication. When you and your team communicate mostly by technology, you might lose some of the richness of communication that in-person conversations have. Glitches, bad connections, and the awkwardness of hearing your own voice on the computer can slow down conversations and make people more self-aware than they normally would be. And if you and your team overlap for only a few hours, you have very little room for answering any questions that may arise.

5.1.3. Culture

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It can be hard enough to build a team when you're all together, but when your team is dispersed across time zones, you'll likely need to navigate cultural differences. This includes how to address people, how to use humor effectively without being face to face with other team members, and how deal with different technical backgrounds. You need to work that much harder to build a sense of "teamness."

The challenges might seem daunting, but not to worry—with the right people and tools, you can implement 24-hour service at your company.

5.2. Key success factors in following the sun

5.2.1. Location

In order to follow the sun and not leave anyone behind, you need a robust team in each time zone, and ideally you want teams that are more or less the same size in each place. That way, when you attribute tasks to a new team, one person doesn't end up doing the work of three people. You might also attribute tasks to one team in a single time zone, rather than transferring all tasks across zones. For example, maybe the London team creates content, and the San Francisco team translates it while the Londoners sleep. In most cases, a follow-the-sun service will mean that each team works 8 hours in their respective time zones, and then hands over the project to the next zone in the short end-of-day overlap. In order for this to work, though, you need the right mix of people.

5.2.2. People

When considering whether your company can implement a follow-the-sun service, you want to make sure your team is flexible, collaborates well, is organized, and decisive. Flexibility matters because things will happen–your team needs to be ready and willing to adjust when needed (this means upper management, too!). For example, let's say that it is a national holiday in Germany. On that day, your people in other timezones or countries will have to adapt, cover for them, or adjust deadlines slightly. You also want people who can collaborate well, and this requires an inherent flexibility of personality.

You are all one team, even if you're not sitting next to each other, and this means that there can't be silos between countries. In order to keep work moving across the world, hire decisive people. Your employees need to be able to make decisions for their own projects. They might be the only person in their location, and if they have to run things by a bunch of other people, your service will bottleneck. A lot of this can be developed through training: a company can empower its employees to be competent and decisive in their positions.

Good decisions run on good information, and in a follow-the-sun company, good information comes from excellent organization. Passing projects off from one location to another requires that everything–process, questions, ideas–are documented and organized thoroughly. Your teams can write copious notes about what happened in one timezone so that when the next picks it up, they do not spend too much time catching up on what is going on.

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And finally, build teams who are comfortable with delegation. That project that you started? You might not get to be the one who delivers, and that is ok. It is important to know when to pass off something (and the responsibility that goes with it) to someone else. Otherwise, your teams will try to work all hours of the day and burn out quickly. On the other hand, it is important not to just pass something off to the next person, just because it would make your life easier. Trust in the people in your team is key.

5.2.3. Technology

Strategic use of automation and co-working tools can keep things running smoothly. Machines don't sleep and your software doesn't care what time it is, so relying on automation where possible will help you get more done in the background. If you remove or automate any manual steps that you can, your teams will be able to focus only on what they can do in their active time.

Guerrero, R. (2018). Global Workforce: Tips for Creating a "Follow-the-sun" Service. https://www.gala-global.org

Part Four: Global HR Measures

1. Balanced Scorecard (BSC)

1.1. Introduction

The Balanced Scorecard Concept (BSC) was first introduced in a 1992 Harvard Business Review article. The BSC concept is that an organization's strategy must be translated into terms that can be understood and acted upon. It also uses the language of measurement to more clearly define the meaning of strategic concepts like quality, customer satisfaction and growth. A scorecard that accurately describes the strategy can serve as the organizing framework for the management system.

A typical balanced scorecard classifies objectives into one of four perspectives on the business: financial, customer satisfaction, internal business processes, and learning and growth. Each objective is associated with one or more measures that permit the organization to gauge progress toward the objective. Achievement of the objectives in each perspective makes it possible to achieve the objectives in the next higher perspective.

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Vision	Transforming society through ease of access to ultra-high-speed information services		
Purpose	Delivering mobile services that contribute to society while acting lawfully, ethically and with integrity wherever we operate		
Strategic Priorities	Content Partnerships	Customer Service	Brand Awareness
Strategic Results	Strong supply chain for content and information services, exclusive agreements	Clarity in offering that surpasses anything in the market today, best user interface	Reinvigorated brand based on successes, attract a wider and younger audience

	Strategic Objectives	KPIs	Targets	Projects
Financial	Increase Revenue; Increase Profitability; Decrease Operating Costs	• Net profit • Operating costs • Revenue in target markets	• ↑ 5% per year • ↓ 3% per year • ↑ 12% per year	• Implement new financial accounting system • Simplify billing operations • Competitive end user requirements market studies for new UK regions
Customer	Improve Clarity of Offering; Improve Market Perception; Improve Customer Satisfaction	• % Market share index • % Customer satisfaction index • % Focus group user index	• ↑ 3% per year • 85% this year • > 90% each focus session	• "Improve the Offering" two year programme • Create improved offering selection process • Hook into 'Improve the Offering' programme
Internal Processes	Improve Offering Selection; Improve Information Services; Improve Stock Reliability; Improve Cost Control	• New products as % of sales • Brand awareness score • Cost efficiency index	• 12% this year • ↑ 5% per year • > 90% every reporting period	• Training programme for new offerings and user interface • Product and marketing training programme
Organisational Capacity	Improve Knowledge and Skills; Improve Technology; Improve Supply Chain	• Employee development plans • Technology training index • Supply chain efficiency index	• 95% in place • 90% efficient • 95%	• 2 year content supply agreements • Technology improvement programme including data centre upgrade

Customer Focus - Integrity - Quality - Helpfulness - Community - Efficiency

An example of a completed Balanced Scorecard (www.intrafocus.com)

Source: Kaplan, R. & Norton, D. (2001). Building a strategy-focused organization. Ivey Business Journal.

1.2. Strategy Implementation Process

Companies that successfully implement scorecards reinvent every part of their management system to focus on strategy. This is a significant departure from traditional management programs that link performance to financial frameworks — budgets or even newer shareholder value approaches (or non-financial frameworks like Total Quality). The successful organizations created a performance-management program that put strategy at the center of its management processes. Our continuing research has revealed a set of five principles (see the Figure below) that permit organizations to become strategy-focused, enabling them to execute their strategies rapidly and effectively.

1.3. Mobilize Change through Executive Leadership

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A successful BSC program starts with the recognition that it's not a "metrics" project, but a "change" project. The single, most important condition for success is the ownership and active involvement of the executive team. Strategy requires change from every part of the organization. If those at the top are not energetic leaders of the process, change will not take place and the opportunity will be missed.

John Kotter describes how transformational change must begin at the top, with three discrete actions by leaders. The leaders of successful BSC programs clearly followed this model.

1.3.1. Establish a sense of urgency.

Before change can occur, the organization must be "unfrozen" to understand why dramatic change is needed. In the case studies presented above, the companies were experiencing difficult and challenging times. The need for change, apparent to executives at the top, was not always apparent to the rest of the organization. People were comfortable with the status quo. They needed to accept that change was necessary and inevitable if they were going to be able to generate the benefits of a new strategy. The first step in the change process for each of these organizations was making the need obvious to all.

1.3.2. Create the leadership team.

The dynamics of the executive leadership team usually determine whether the BSC succeeds. The leaders of successful BSC adopters recognized that their current collection of functional specialists had to be transformed into a strategically focused, cross-functional, integrated team. Members of executive teams tend to view management issues from their individual, functional perspectives. These executives

often have surprisingly little awareness of how other functions work.

Each of the early adopters supplemented their traditional executive team with managers who were experts on the strategic issues. The new strategies at Mobil and Chemical Bank were based on customer segmentation. Both companies added a marketing executive to an executive leadership team that had previously consisted of functional and business unit heads. The addition of new perspectives was critical in breaking down the traditional barriers to teamwork that had existed at the top.

1.3.3. Develop the Vision and Strategy.

The creation of a shared vision and strategy was an effective way to build an executive leadership team (in contrast to a collection of individual business unit heads who met periodically to discuss business issues). The framework of the BSC guided the team in its development of a new vision and strategy. A tremendous amount of cross-fertilization took place as each element of the strategy was adapted to the score card format. At Mobil, the strategic issues surrounding customer segments (marketing), yield optimization (manufacturing), cost of capital (finance), and supply-chain management (transportation, pipeline) became the shared issues of the executive team. Historically, each of these issues was considered the domain of a single functional executive.

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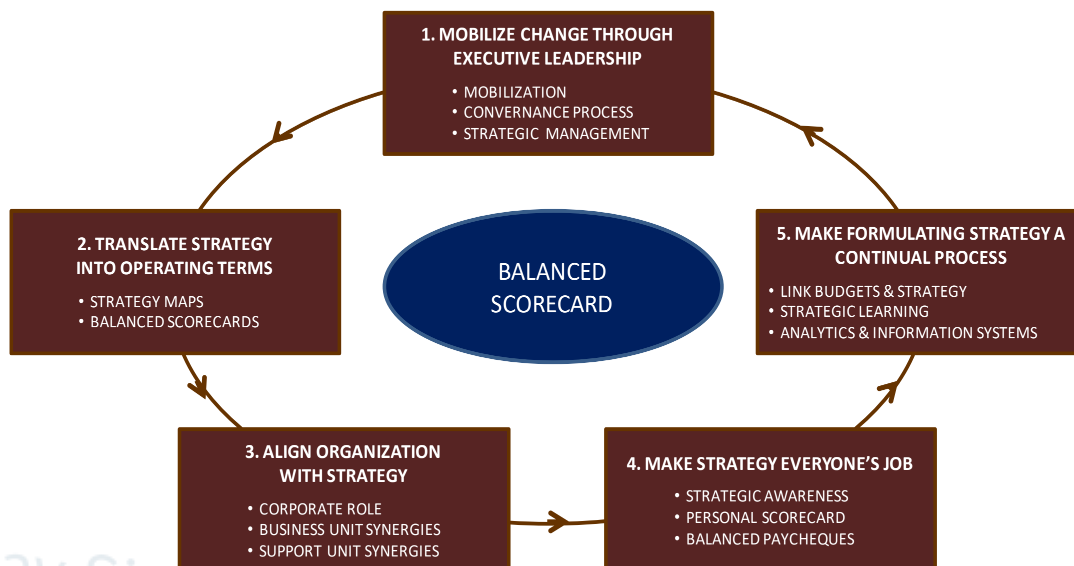
1.4. Translate Strategy into Operating Terms

Putting strategy at the center of the management system implies that strategy can be described so that it can be understood and acted upon. Unfortunately, there are no standards for strategy. If we are going to build management systems around strategies, we need a discipline for describing strategy that is both reliable and consistent.

The Balanced Scorecard provided that discipline for the successful organizations. In addition to building scorecards, the process helped executive teams to better understand and articulate their strategies. The foundation of the design is a Strategy Map (as shown in below figure), which defines the “architecture” of the strategy. The description begins with the financial perspective of the shareholder (or appropriate key constituent in non-profits). It defines the relevant long-term indicators of success (e.g., ROI, shareholder value) and divides it into a long-term (growth) and a short-term (productivity) component.



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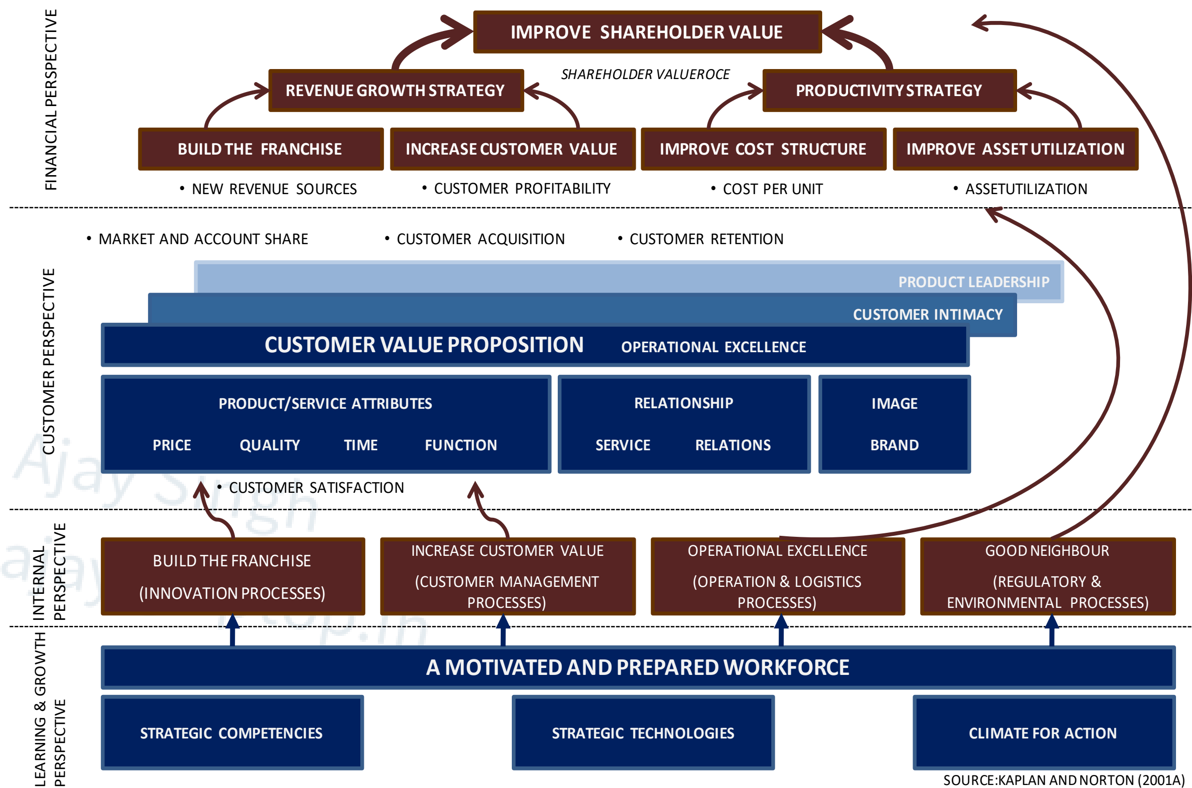
The Principles of a Strategy-Focused Organization

Source: Kaplan, R. & Norton, D. (2001). Building a strategy-focused organization. Ivey Business Journal.

The revenue-growth strategy requires a specific value proposition, in the customer perspective, that describes how the organization will create differentiated, sustain-able value for targeted segments. Different value propositions and different target customers result from different strategies. In general, we find three types of value propositions in practice: price, relationship and innovation. The design of the internal perspective links internal business processes to the customer value proposition. The value chain of the organization can be divided into three or four generic processes: innovation, customer management, operations/logistics and regulatory/society. Finally, the learning and growth perspective defines the competencies, technologies and climate required to support the unique demands of the customer value proposition and the internal processes.

Once the Strategy Map has been defined and agreed on by the executive team, designing a scorecard that measures and targets is a straightforward process. The Strategy Map approach highlights the fact that Balanced Scorecards should not just be collections of financial and non-financial measures, organized into four perspectives. In fact, Balanced Scorecards should reflect the strategy of the organization. A good test is whether you can understand the strategy by looking only at the scorecard and it's Strategy Map. Strategy scorecards, along with their graphical representations on strategy maps, provide a logical and comprehensive tool to describe strategy. It

communicates clearly the organization's desired outcomes and its hypotheses about how these outcomes can be achieved.



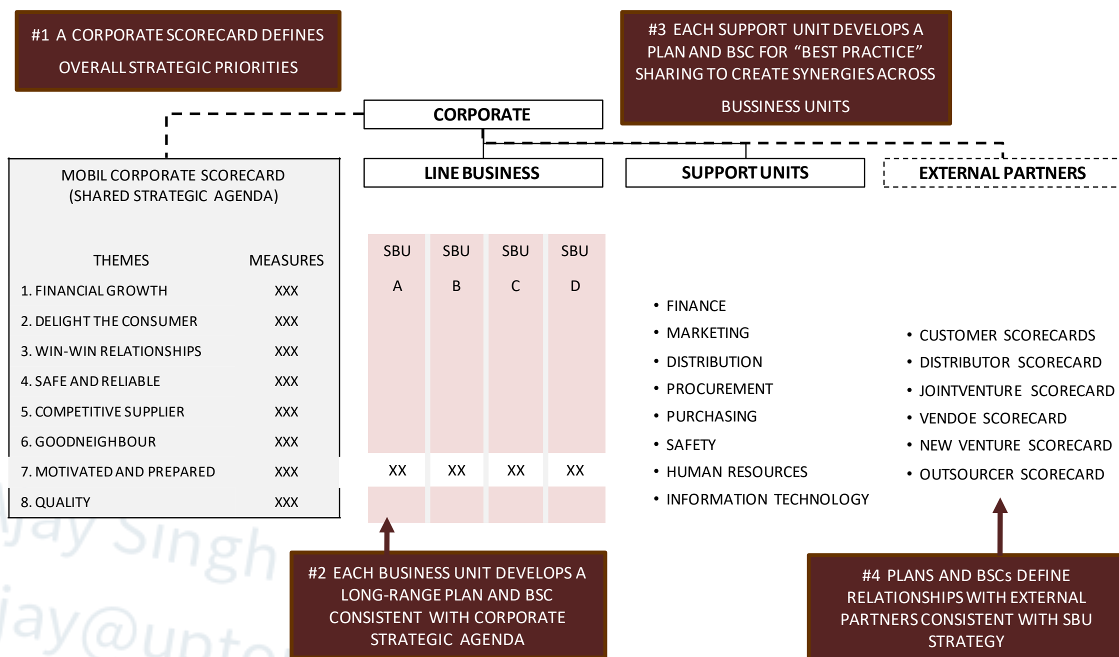
The Balanced Scorecard Strategy Map

Source: Kaplan, R. & Norton, D. (2001). Building a strategy-focused organization. Ivey Business Journal.

1.5. Align the Organization with the Strategy

The BSC is a powerful tool to describe a business unit's strategy. But organizations consist of numerous sectors, business units and specialized departments, each with its own operations and often its own strategy. If synergy is to occur, the strategies across these units should be coordinated. The BSC can and should be used to define the strategic linkages that integrate the performance of multiple organizations. This is not an easy task. Functional departments, such as finance, manufacturing, marketing, sales, engineering and purchasing, have their own bodies of knowledge, language and culture. Functional silos arise and become a major barrier to strategy implementation, since most organizations have great difficulty communicating and coordinating across these functions. For organizational performance to be more than the sum of its parts, individual strategies must be linked and integrated. The corporate role defines the

linkages expected to create synergy and ensures that the linkages actually occur.



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Alignment the Organization with its Strategy

Source: Kaplan, R. & Norton, D. (2001). Building a strategy-focused organization. Ivey Business Journal.

The figure shows the linkages at the researched unit of the organization. The high-level strategic themes (in #1 of the Figure) guide the development of the Balanced Scorecards in the business units (in #2 of the Figure) that are either geographic regions or product lines, such as lubricants. Each unit formulates a strategy appropriate for its target market in light of the specific circumstances it faces (competitors, market opportunities and critical processes) but that is consistent with the themes and priorities of the unit. Without corporate prompting, these joint activities typically don't take place. The Corporate Scorecard provides the communication and coordination mechanism across business unit scorecards. The measures at the individual business unit levels do not have to add to a corporate or divisional measure, unlike financial measures that aggregate easily from subunits to departments to higher organizational levels. The business unit managers choose local measures that influence, but are not necessarily identical to, the corporate scorecard measures.

Beyond aligning the business units, strategy-focused organizations must also align

their staff functions and shared service units, such as human resources, information technology, purchasing, environmental and finance (#3 of the Figure). Often, this alignment is accomplished with a service agreement between each functional department and the business units. The service agreement defines the menu of services to be provided, including their functionality, quality level and cost. The service agreement becomes the basis of the Balanced Scorecard constructed by the functional department. The department's customers are the internal business units, the value proposition is defined by the negotiated service agreement, and the financial objectives are derived from the negotiated budget for the department. Next, the department identifies the internal process, and learning and growth objectives that drive its customer and financial objectives.

When this process is complete, all the organizational units—line business units and staff functions—have well-defined strategies that are articulated and measured by Balanced Scorecards and strategy maps. Because the local strategies are integrated, they reinforce each other. This alignment allows synergies to occur so that the whole exceeds the sum of the parts. Linkages can also be established across corporate boundaries (as #4 of the Figure). Several companies constructed Balanced Scorecards to define their relationships with key suppliers, customers, outsourcing vendors and joint ventures. Companies use such scorecards with external parties to be explicit about (1) the objectives of the relationship, and (2) how to measure the contribution and performance of each party in the relationship by factors other than price or cost.

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1.6. Make Strategy everyone's Job

Sources have estimated that approximately 50 percent of all work performed in industrialized countries today is knowledge work. Workforce knowledge represents an asset that we are just beginning to use effectively. In this structure, strategic information and decision-making can no longer be limited to executives and senior managers. Knowledge workers make strategic choices every day. Successful BSC users took steps to ensure that everyone in the organization understood the strategy, was aligned with it, and capable of executing it. Traditional human resource systems and processes played an essential role in enabling this transition.

1.6.1. Communication and education to create awareness:

A prerequisite for implementing strategy is that all employees understand the strategy. A consistent and continuing communication program is the foundation for organizational alignment. No single medium is sufficient to transform everyone's understanding of the strategy. It must be conveyed in all communication media and vehicles and reinforced by the personal behavior of executives.

1.6.2. Personal alignment:

All of the successful BSC users aligned individuals with the strategy through personal goal-setting processes; some have even created personal scorecards. Setting objectives for individuals, of course, is not new. Management-by-Objectives (MBO) has been around for decades. But MBO is distinctly different from the kind of alignment achieved with the BSC. The objectives in an MBO system are established within the structure of the individual's organizational unit, reinforcing narrow, functional thinking. The individual objectives established within the framework of the BSC are cross-functional, longer-term and strategic.

1.6.3. Incentive compensation:

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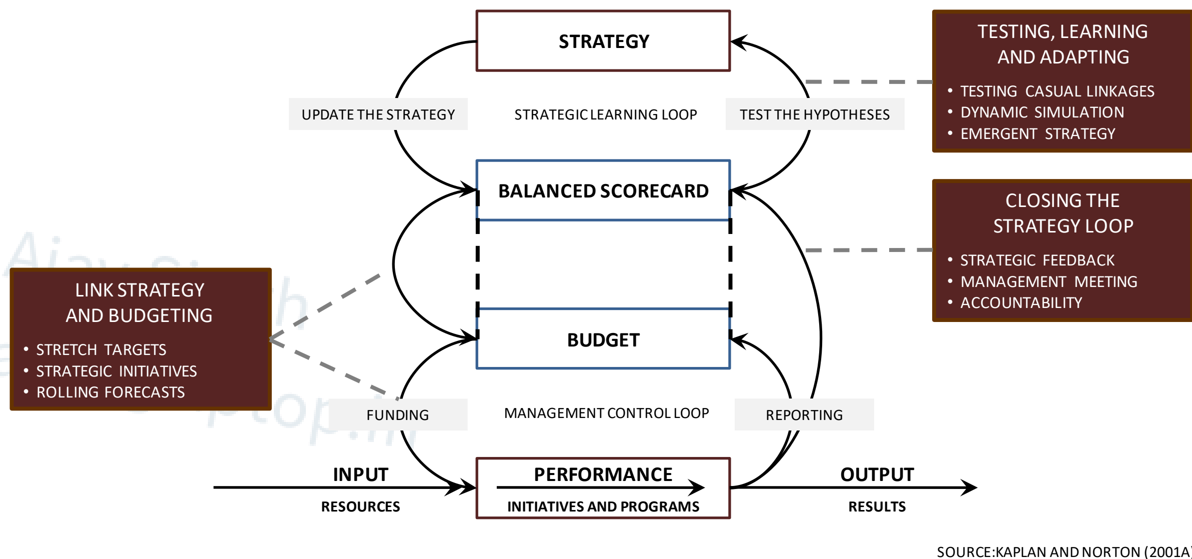
Those who implemented the BSC successfully moved quickly to link incentive compensation to targeted scorecard measures. This linkage unleashed powerful forces. Most successful BSC users ultimately conclude that, to modify behavior as required by the strategy and as defined in the scorecard, change must be reinforced through incentive compensation. When the BSC is linked to the incentive compensation program, there is a visible increase in the level of interest in the details of the strategy.

1.7. Make Formulating Strategy a Continual Process

Most organizations build their management processes around the budget and operating plan. The monthly management meeting reviews performance versus plan, discusses variances from past performance, and requests action plans for dealing with short-term variances. Such tactical management is necessary, but in most organizations that is the only thing management does. Besides the annual strategic planning meeting, no meeting occurs where managers discuss strategy. We surveyed participants at conferences and learned that 85 percent of their management teams spend less than one hour a month discussing strategy. Companies with the BSC adopt a new “double-loop process” to manage strategy. The process integrates the management of tactics with the management of strategy, using three important processes, as depicted in the following figure.

First, organizations link strategy to the budgeting process. They use the Balanced Scorecard as a screen for evaluating potential investments and initiatives. Companies usually have an operating budget that authorizes spending for producing and delivering existing products and services, and marketing and selling them to existing customers. These organizations now introduce a strategy budget to fund initiatives that will develop entirely new capabilities, reach new customers and markets, and

make radical improvements in existing processes and capabilities. This distinction is essential. Just as the Balanced Scorecard attempts to protect long-term objectives from short-term sub-optimization, the budgeting process must protect the long-term initiatives from the pressures to deliver short-term financial performance.



Making Strategy a Continual Process

Source: Kaplan, R. & Norton, D. (2001). Building a strategy-focused organization. Ivey Business Journal.

The second step in making strategy formulation continual is to introduce a management meeting to review strategy. As obvious as this step sounds, such meetings didn't exist in the past. Now, management meetings are scheduled on a monthly or quarterly basis to discuss the Balanced Scorecard, so that a broad spectrum of managers come together to monitor organizational performance against the short-term targets for the scorecard's financial and non-financial measures. The managers check whether strategic initiatives are being implemented as planned. On the surface, the process is similar to the typical monthly operating reviews. However, instead of reviewing only financial performance, managers now review the performance of, and take corrective actions for, all the measures on the Balanced Scorecard. The process creates a focus on strategy that did not exist before.

Information feedback systems change to support the new management meetings. Many organizations create an open reporting environment in which performance

results are made available to everyone in the organization. Building upon the principle that "strategy is everyone's job," they empower "everyone" by giving them the knowledge needed to do their jobs.

The third and final step for making strategy development continual sees a process evolve for learning and adapting the strategy. The initial Balanced Scorecard represents hypotheses about the strategy; at the time of formulation, it is the best estimate of the actions expected to create long-term financial success. The scorecard-design process makes the cause-and-effect linkages in the strategic hypotheses explicit. As the scorecard is put into action and feedback systems begin their reporting on actual results, an organization can test the hypotheses of its strategy to see whether its strategy is working.

1.8. Being Strategy-Focused

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The Balanced Scorecard has enabled organizations to introduce a new governance and review process, one focused on strategy, not tactics. The new governance process emphasizes learning, team problem-solving and coaching. Review meetings now look into the future, exploring how to implement strategy more effectively, and identifying the changes that need to be made in the strategy—based on what has been learned from the past.

This is a management process attuned to the needs of contemporary businesses. The essential ingredient is a simple framework and tool that allows strategy to be articulated clearly. Without such a strategic framework, there can be no strategic management system. The Balanced Scorecard is the heart of the management system that strategy-focused organizations will use to build their future.

2. Workforce Scorecard

As described, the Balanced Scorecard helps managers define the performance categories that relate to the company's strategy. The managers then translate those categories into metrics and track performance on those metrics. Besides traditional financial measures and quality measures, companies use employee performance measures to track their people's knowledge, skills, and contribution to the company.

Because the Balanced Scorecard focuses on the strategy and metrics of the business, Mark A. Huselid, Brian E. Becker, and Richard W. Beatty developed the HR and Workforce Scorecard to provide framework specific to HR. A firm needs a business strategy, a workforce strategy, and a strategy for the HR function. These strategies are operationalized in Balanced Scorecard, the Workforce Scorecard, and HR Scorecard, respectively. As a result, the Workforce Scorecard is a crucial lever in the strategy execution process. The key dimensions of that process include operational and customer success, which in turn help create financial success. Workforce success is often the key performance driver, directly or indirectly, for these other elements of strategic success.

The Workforce Scorecard offers a framework that identifies and measures the outcomes, behaviors, competencies, mind-set, and culture required for workforce success and reveals how each dimension impacts the bottom line. The lynchpin of this perspective is an emphasis on looking at the role of "human capital" from the "outside in" (or customer back), not from the "inside out" (starting with the HR function).

Effective workforce management strategies and practices can have a powerful effect on business outcomes, including productivity, profitability, and shareholder value, while firms with highly differentiated product strategies but generic or undifferentiated workforce strategies. Workforce Scorecard offers an approach to developing a workforce strategy as well as a BSC designed to assess the success of corporate and SBU strategies. Thus, workforce Scorecard is used to bridge the gap between the development of a business strategy and its implementation through people.

2.1. Workforce Strategy

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2.1.1. Generic Best Practices

The fundamental problem with doing this is that while a particular practice may well be "best in class" in its "native" firm, there is no reason to expect that the "best practices" taken from a wide variety of firms and industries will work together in a synergistic manner, let alone do a good job in helping to execute the firm's strategy. From the perspective of the workforce, this type of misalignment can be painfully obvious.

In order for a firm to transform its system of managing work- force performance into a strategic asset, that system must contribute more directly to strategy execution. Instead of relying on best practices, this requires the development of workforce strategies that are increasingly differentiated between firms and within firms. It is this increasing differentiation that is the hallmark of the workforce systems we describe next.

2.1.2. Core Workforce Differentiation

Firms that exhibit core workforce differentiation attempt to match each of the elements of the workforce strategy to this overarching business strategy. As a result, the defining characteristic of a core workforce strategy is its homogeneity or consistency within a particular firm. Focusing the workforce system at that level implies a core set of skills, competencies, and behaviors that when taken together will achieve this goal.

Workforce differentiation in this framework is similar to the notion of core competencies in that it delivers a comprehensive work- force capability for this overarching value proposition. The focus is on one company-wide description of the workforce capabilities required for the particular core strategy.

2.1.3. Strategic Workforce Customization

Strategic workforce customization involves a more explicit linkage between the workforce strategy and the strategy performance drivers. It means that there is no one homogeneous workforce strategy for a particular corporate strategy, but rather the workforce strategy will be differentiated across the firm's strategic performance

drivers. Unlike core workforce differentiation, which differentiates the workforce strategy on just two or three core strategies, performance drivers within those core strategies are also potential points of differentiation. The point is that not only will workforce strategies differ across firms that have different core strategies, but they will differ within firms as well.

The Workforce Scorecard identifies and measures the behaviors, skills, mind-sets, and results required for the workforce to contribute to the company's success. The Workforce Scorecard has four key sequential elements:

2.2. Workforce mind-set and culture

First, does the workforce understand the strategy, embrace it, and does it have the culture needed to support strategy execution?

Workforce mind-set and culture are important because they influence how everyone behaves. To be able to execute the firm's preferred strategy, everyone must understand what they are expected to do. You need measures here that show how well everyone understands the firm's business model and the role of the workforce.

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- % of the workforce that understand the firm's business model and underlying commercial strategy
- % of the workforce that have demonstrated their commitment to the firm's strategy
- % of the workforce that currently have the skills required to execute the strategy
- % of the workforce currently undergoing training in order to gain the requisite skill sets
- % of the workforce that feels the firm's culture supports strategy execution
- The degree of consistency and clarity which is associated with messages provided by top management and HR
- The extent to which the firm's culture supports "A" players and makes it possible for superior performance to be delivered by talented individuals
- The extent to which all necessary business information (including real-time performance data) is made available to the workforce in order to facilitate better decision making and performance tracking

2.3. Workforce competencies

Second, does the workforce, especially in the strategically important or "A" positions, have the skills it needs to execute strategy? ("A" positions are those job categories most vital to the company's success.)

Workforce competencies show what people are capable of doing. Competencies without motivation will get you nowhere. Similarly, if your people are highly motivated but lack the basic competencies required, nothing much will happen either. You need both the right competencies and the right motivation to succeed and ideally excel.

- Total % of workforce who are recognized as "A" players
- % of workforce who are currently "B" players with the potential to grow and evolve into "A" players
- Average % of total remuneration packages which are performance based for "A" players.
- % of "A" players who have the opportunity to earn share options
- % of "A" players who earned their bonuses in the last financial year
- % of the overall training and development budget spent on "A" players.
- Average ranking for executives on the standardized skills and proficiency test
- Determination of how many qualified people would be eligible to fill any executive openings which arise
- % of exit rate for "A", "B" and "C" players.
- Extent to which people have the opportunity to be exposed to assignments that will enhance skills

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2.4. Leadership and workforce behaviors

Third, are the leadership team and workforce consistently behaving in a way that will lead to attaining the company's key strategic objectives?

Are the leadership team and workforce consistently behaving in a way that will lead to achieving our key strategic objectives? Have we identified and nurtured "A" Players in "A" Positions?

"A" positions describe those positions that have a significant on the execution of the firm's strategy. "A" players are star performers with high potential in their professional fields.

Leadership and workforce behavior measures whether or not the workforce is behaving in a way which is consistent with achieving the key objectives. Managers especially have to be clear about what the workforce should be doing or there will be significant negative impact on results actually achieved.

- Average score on a consistently applied leadership survey
- % of executives who are actively engaged in knowledge sharing and training programs
- Changes in the team performance index which measures the effectiveness of teams
- Estimates of how effective the firm is in retaining its best "A" players
- Estimated exit rate of "C" players

- Average changes in performance appraisal ratings over an extended period of ti me
- % of employees who have met goals for customer satisfaction
- % of employees who have skills and experience outside those used in their current job functions
- % of improvement in key indicators of customer satisfaction
- Number of requests submitted for transfers

2.5. Workforce Success

Fourth, has the workforce achieved the key strategic objectives for the business? If the organization can answer "yes" to the first three elements, then the answer should be yes here as well.

Workforce success focuses specifically on whether or not the workforce have executed the firm's strategy. In practical terms, your biggest and most profitable customers will determine whether or not your workforce is a success. If you deliver on the factors they value the most highly, you've executed your strategy adequately. Fail to deliver in those key areas and nothing else will compensate.

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- Average market share period-to-period
- Price premium achieved versus the competition
- Customer complaints as a % of sales
- Customer repurchases intent
- Number of new products offered this financial period
- %of customers who have indicated they are satisfied with our products and services
- % of new shareholders added this financial period
- % of orders which are shipped on time

3. HR Scorecard

The workforce scorecard is designed to solve the problem about the value creation process from the workforce success. At the other end of the value creation process is the HR function and the role played by the HR professionals. The HR Scorecard highlighted the strategic role HR professionals and the HR management system play in the successful implementation of an organization's strategy. Also, The HR Scorecard is a strategic HR measurement system that will help you measure, manage and improve the strategic role of your HR department.

The HR Scorecard consists of measurements of HR deliverables and cost, right HR alignment, right HR practices, and right HR professionals.

3.1. Right HR Deliverables and Costs

Have we achieved the right levels of Workforce Success, Workforce Behaviors, Workforce Competencies, and Workforce Mindset with cost-benefit efficiency?

Measures of HR deliverable are taken directly from the workforce scorecard, Workforce Success, Workforce Behaviors, Workforce Competencies, and Workforce Mindset, which is intended to demonstrate that line and HR managers need to be held accountable from the same outcomes.

In developing metrics to help track the right HR deliverables and workforce cost, the key question to be asked is: Is our total investment in the workforce (not just HR function) appropriate (not just minimized)? The key challenge is to select useful metrics, which should be guided by the firm's strategy.

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When choosing HR efficiency measures, you must separate measures that impact a company's strategy from those that don't. Core efficiency measures are those HR expenditures that make no direct contribution to the company's strategy implementation, but must still be taken care of. Examples include workers' compensation cost per employee and the percent of correct entries made to the HR information system. Strategic efficiency measures assess the efficiency of HR activities the produce HR deliverables. Although it is important to know the costs of workers' compensation benefits and the accuracy of internal data entry, these items don't add to the overall strategic value of HR to the company. However, strategic efficiency measures, such as the cost per hire, cost per training hour and HR expense per employee, can yield considerable strategic value.

Finally, many HR managers are tempted to think of HR deliverables only in terms of organizational capabilities, such as corporate leadership. However, the HR deliverables in the Scorecard can have a more concrete, measurable impact on the success of the company's strategy. HR enablers (such as employee stability) that are tied to specific performance drivers (such as R&D cycle time) make a more compelling case for HR's strategic importance. Here are some indicators that can be used to measure HR delivery:

- Absence rate= days absent in month ÷ (average # of employees during a month x # of workdays)
- Benefit or program costs per employee = total cost of employee benefit or program ÷ total # of employees
- Benefits as a percent of salary = annual benefits cost ÷ annual salary
- Compensation as a percent of total compensation = annual salary ÷ total compensation (salary + benefits + additional compensation)
- Compensation or benefit revenue ratio = compensation or benefit cost ÷ revenue
- Cost per hire = [(External Recruiting Costs) + (Internal Recruiting Costs)] / Total

Number of Hires in a Time Period

- Engagement or satisfaction rating = percent of employees engaged or satisfied overall or with a given aspect of the workplace
- Percent of performance goals met or exceeded = # of performance goals met or exceeded ÷ total # of performance goals
- Percent receiving performance rating = # of employees rated under a given score or rating on their performance evaluation ÷ total # of employees
- Revenue per employee = revenue ÷ total # of employees
- Return on investment (ROI) = (total benefit / total costs) x 100
- Time to fill (average) = total days taken to fill a job ÷ number hired
- Training/development hours = sum of total training hours ÷ total # of employees
- Tenure = average # of years of service at the organization across all employees
- Turnover (annual) = # of employees who left the job during 12 month period ÷ average actual # of employees during the same period
- Turnover costs = total costs of separation + vacancy + replacement + training
- Utilization percent = total number of employees utilizing a program/service/benefit ÷ total number of employees eligible to utilize a program/service/benefit
- Workers' compensation cost per employee = total workers compensation cost for year ÷ average number of employees
- Workers' compensation incident rate = (number of injuries and/or illnesses per 100 full-time employees / total hours worked by all employees during the calendar year) x 200,000
- Yield ratio = percentage of applicants from a recruitment source that make it to the next stage of the selection process
- Employee Net Promoter Score (eNPS) = a measure of how likely your staff members are to recommend your company as a place to work. It comes from the NPS measure more typically associated with customer satisfaction surveys and it asks employees how likely they are to 'promote' you on a scale from 0 to 10.

3.2. Right Types of HR Alignment

The HR system alignment measures must be directly linked to the HR deliverables that impact company strategy. As discussed above, start by identifying the strategic HR deliverables, then identify and measure the system elements that make a significant contribution to particular HR deliverables. Are our HR practices aligned with the business strategy and differentiated across positions, where appropriate?

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Alignment can take two forms. Internal alignment reflects the extent to which our workforce management practices fit together in a cohesive whole and are mutually reinforcing. External alignment reflects the extent to which the firm's entire bundle of workforce management practices effectively helps to execute strategy. Because HR practices are often developed and managed independently by various sub-functions within the HR department, we would not expect (and in fact do not often find) those elements to work together in a way that makes sense to the workforce. Alignment proceeds in two successive phases: alignment of HR practices; alignment of HR practices with the HR deliverables and costs. We can measure HR alignment as follows:

- Extent to which customer expectations are addressed by learning programs
- Extent to which employees are rewarded and promoted by performance and competencies
- Extent to which employees understand what is expected of them throughout the performance management process
- Extent to which hiring, evaluation, and compensation practices seek out and reward competencies and knowledge sharing
- Extent to which HR measurement systems are seen as credible
- Extent to which level of reward is appropriately matched with level of accomplishment
- Extent to which required workforce competencies are reflected in staffing and compensation
- Extent to which the firm's training and development programs effectively support organization strategy and performance results (e.g., ISO 10015)
- Extent to the firm's organizational design (i.e., the way in which jobs and work are structured) effectively support the firm's strategy
- Extent to which the firm has developed a competency model for hiring, rewarding, and developing people
- Internal (consistency of HR policies and practices) alignment index (e.g., P-CMM)
- Ling managers' satisfaction with HR activities' outcome
- Magnitude of correlation with business outcome and HR programs

3.3. Right HR Practices

The key question is: Have we designed and implemented strategically aligned world-class HR management policies and practices with the business values? While this question might seem quite basic, firms actually differ dramatically in the quality with which they manage the workforce. Here are some example HR practice metrics:

- Acceptance per offer ratio

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- Number of applicants contacted compared with those reporting for job interviews
- Time to fill a job or Cost of filling a job
- Percent of jobs filled with candidates on succession plan
- Selection Ratio: number of qualified applicants per hire
- Ratio of backup talent (number of prepared backups in place for top "X" jobs)
- Percent of "A" positions filled with "A" players
- Exit rate of "C" players in "A" positions
- Percent "A" players promoted per year
- Percent of employee in "C" positions with temporary (outsourced) contracts
- Percent of new hires selected based on the results of a validated selection test
- Percent of the workforce for which "A" and "C" performance appraisals have been accurately accessed
- Percent of the workforce that has its merit increase or incentive pay determined by a performance appraisal
- Acceptance of appraisal processes by employees
- Average differential in merit pay awards between high performers and other workforce
- Percent of payroll spent on training
- Comparison: those who did and did not attend training
- Ratio of advanced to remedial education
- Time for new T+D program design
- Total rewards market percentile for "A" players
- Speed of payroll processing
- Ratio of salary to competitor salary for "A" positions
- Personnel costs per revenue dollar
- Lost work days or Almost lost work days
- Incidence and Cost of injuries
- Percent of unionized employees on problem solving
- Acceptance of messages from management and HR
- Speed and effectiveness of responses to employee complaints

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- Percent of suggestions implemented
- Extent of meaningful jobs to handicapped employees
- Percent of compliance with regulated employment practices
- Percent of nontraditional workers in applicant pool
- Percent regrettable turnover
- Percent retention of “A” players
- Retention rate of “A” players in “A” positions
- Time to promotion for “A” players

3.4. Right HR Professionals

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The world-class HR management systems and practices do not just happen-they are developed specifically by HR professionals who have a deep understanding not only of the firms’ strategy, and goals, but also of the field of evidence-based Human Resource Management (HRM) and the allied social sciences. The key question is “Do our HR professionals have the skills they need to design and implement a world-class HR management system?”

There is a significant and increasing body of professional knowledge in the field of HRM, and insuring that HR mangers understand the latest developments in the field is an important opportunity for improvement many organizations. Measures of HR professional competencies can be found as follows:

- HR managers’ ratings on validated 360 degree competency-assessment tool
- Rating of HR competency scale developed by Dave Ulrich:

  -Strategic positioners who understanding evolving business contexts

  -Credible activists who build relationships of trust

  -Capability builders who define, audit and create organization capabilities

  -Change champions who initiate and sustain change

  -HR innovators and integrators who look for new ways to do HR practices

  -Technology proponents who use technology for efficiency to connect employees
- Percent of HR budget devoted to “HR for HR” certified programs for HR staff
- Percent of HR professionals with graduate degrees in HR, Industrial and Labor Relations, I/O psychology, or MBA
- Percent of HR professionals with aPHRi, PHRi, SPHRi, GPHR, or other global recognized HR certifications (e.g., CPLP, GRP, HRIP, IPMA-HR)

The relationships among BSC, workforce scorecard, and HR scorecard are illustrated as follow:

HR Scorecard ← Workforce Scorecard ← Balanced Scorecard			
		Customer Success What specific customer desires and expectations must be satisfied?	**Financial Success** What specific financial commitments must be met?
	Leadership and Workforce Behaviours Are the leadership team and workforce consistently behaving in a way that will lead to achieving our strategic objectives?	**Workforce Success** Has the workforce accomplished the key strategic objectives for the business?	**Operational Success** What specific internal operational processes must be optimized?
HR SYSTEMS • Align • Integrate • Differentiate	**Workforce Mindset and Culture** Does the workforce understand our strategy and embrace it, and do we have the culture we need to support strategy execution?	**Workforce Competencies** Does the workforce, especially in the key or 'A' positions, have the skills it needs to execute our strategy?	
HR Workforce Competencies • Strategic partner • Change agent • Employee advocate • Administrative expert	**HR Practices** • Work design • Staffing • Development • Performance management • Rewards • Communication		

Huselid, M.A., Becker, B.E., & Beatty, R.W. (2005). *The Workforce Scorecard: Managing Human Capital To Execute Strategy*. Boston, MA: Harvard Business Review Press.

4. HR Cost Benefit Analysis

A complementary process to the HR Scorecard is an HR cost benefit analysis. While the Scorecard identifies where your company's HR department wants to be to achieve strategic goals, HR cost benefit analysis helps your company choose how it will get there by looking at the Return on Investment (ROI) of HR programs and policies.

4.1. HR ROI

Determining the ROI of a particular HR policy or practice isn't complicated. Essentially, you need to assess the total costs and total benefits associated with the investment and then calculate benefits less costs. Due to costs are borne today, but benefits are most likely going to show up in the future. The challenge lies in collecting or estimating data.

4.2. Costing

To generate estimates, you need to know what to count as cost and what to ignore. There are two major types of cost — fixed and variable. Fixed costs are those that don't vary with the level of production. For example, if your company has a training center, some costs associated with the building are fixed — they don't change whether

you have one class a week or ten in the facility. But other costs are variable — they increase or decrease depending on how many classes use the building. It takes more electricity to run the computers and the restrooms require more supplies when usage goes up.

Again using the training center as an example, how would you estimate the cost of providing a new training program for mid-level managers? Suppose the training center is operating at 60 percent capacity and your proposed program would boost that to 80 percent? Do you take the fixed costs of running and maintaining the center and add them to your cost estimate? Using conventional accounting principles, you would. But that will increase the costs of your project and decrease the ROI. Instead, it may make more sense to just add in the additional variable costs.

Don't be so enamored of projects that you persist in pouring more assets into them only to get diminishing returns. Suppose you had begun restoring an old car and have invested $25,000 in it. These are your sunk costs. If you sold it today, it would fetch you $15,000, a $10,000 loss. If you finish the car, it will cost an additional $20,000 and be worth $30,000 and your loss would increase to $15,000. The same applies to programs you have begun but which are obviously not going to pay off as you expected. Don't throw more resources at the project, only to guarantee that the loss will be greater.

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4.3. Workforce Performance

You also have to understand the financial impact of workforce performance. Determining the ROI in people requires comprehending the impact of high- and low performing workforce on the firm. The question is whether, on average, workforces in a particular job contribute a little or a lot to the firm's success.

Assuming workforces in a category contribute to profitability, you next need to gauge the variability of the impact of workforce performance on firm financial performance. For example, if the very best employees in a job category only contribute a little more than the average employee, there is no need to invest additional resources in attracting, selecting and developing people like the best employee. But if the difference on the bottom line is great, you will want to consider making the investment.

4.4. Net Present Value (NPV)

Assuming you have determined that training will make an average worker into an excellent worker, you can finish calculating the ROI of your proposed training program. The hardest part of the calculation is that much of the benefit you will reap won't occur immediately. You will need to calculate the Net Present Value (NPV) of the benefit the company will reap over the years. NPV analysis draws together costs and benefits over multiple time periods, and compensation for uncertainty, lost opportunity costs, and costs of capital to assess the overall potential value of a proposed HR program.

For example, assume that you are planning a new integrated performance management and incentive compensation program. The total program cost will be $250,000. You estimate that the program will increase annual profits $270,000 per

year for five years. Because the program involves incentive pay, it will also increase wages by $130,000 per year. (5 years NPV factor= 3.433) The NPV is 280,620 as calculated as follow:

$$(270,000 * 3.433) - 250,000 - (130,000 * 3.433) = 280,620$$

5. Key HR Measures and Metrics

5.1. Recruitment

5.1.1. Cost per hire

(Amount spent on recruitment + amount spent on training +) ÷ number of new hires

Calculating the amount you are spending per new recruit can help you determine where to invest your recruitment cash. Making the most of the recruiting tools available online can significantly reduce your employment costs. Host interview on web to reduce travel costs or publish your adverts on social media for free, for example.

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5.1.2. Effectiveness of recruitment sources

(Number of successful applicants from a source ÷ total number of applicants from a source) x100

Monitoring the sources you use for recruitment will help you ensure the best ROI and can help you adapt your strategy based on this. Draw up a comparison of paid and free sources to see where you could be saving some cash.

5.1.3. Acceptance rate

(Number of people who reject a job offer ÷ number of offers made) x100

Ideally, this number should be very low. If it is not, consider investigating why you are losing out to your competitors. Compare your acceptance rate to that of others in your industry. Rates vary greatly so look to understand see where you lie compared to other companies.

5.2. Workforce Cost and Productivity

5.2.1. Average Length of Service

(Total years service ÷ number of employees)

There is no denying that employee turnover is a costly business, in senior roles in particular. Measuring this metric can help you to see where greater investment might help to generate higher. This metric should be considered against an industry average – a “good” average length of service can vary greatly across sectors.

5.2.2. Revenue per employee

Total sales revenue ÷ Number of employees

Measuring revenue per employee gives you a measure of the output of your

employees on a more granular level and can help you measure your employees' productivity. It can also help you compare your spending and your profit. Measuring this metric consistently, at regular intervals, will helps you understand how many employees you need to maintain a profit.

5.2.3. Salary Competitiveness Ratio (Compa-Ratio)

Salary offered by your company ÷ Salary Midian offered by competitors

A competitive salary package is integral to the attraction and retention of staff. Tracking this metric will ensure that you are offering fair compensation to your employees but not overpaying them!

5.2.4. Employee Turnover

Number of employees who have left the company in the previous year ÷ Number of employees at that time) x100

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High turnover can present a significant financial burden to your business. It is therefore important to track this metric to keep it as low as possible. Doing so will allow to you identify problem areas and trends and adapt in light of these.

5.2.5. Overtime

Number of hours worked overtime per year, per employee

Calculating the extra time your staff are spending in the office can be helpful to see where the need for extra resources and manpower lies. It can also help you identify areas where productivity might be falling short.

5.2.6. Absence Rate

Number of sick days taken ÷ Number of workdays in the year

Sick days incur significant costs to your company. Measuring absence rates can be used as a good starting point for ascertaining patterns and can be used to set a benchmark for the company.

5.3. Employee Retention

5.3.1. Training time per employee

(Number of hours spent training ÷ number of hours worked) ÷ number of employees

The importance of Learning and Development should not be underestimated. It is a key driver of retention and something that is considered increasingly valuable, it. Putting time into employees' education can show that you are making a marked investment in your employees.

5.3.2. Benefit Cost Per Employee

Amount spent on employee benefits ÷ number of employees

Ascertaining how much you are spending and comparing it to the employee satisfaction rating can help you deduce whether or not your offering is really helping

your employees.

5.3.3. Employee Satisfaction

Employee satisfaction survey

Though employee satisfaction is somewhat harder to measure, carrying out a quarterly survey is a good way to keep track of your team's happiness levels.

5.4. Training Evaluation

The Kirkpatrick measurement model was developed to help in measuring instructor-led training. The four levels of this model are:

5.4.1. Level 1: Reaction

Learner satisfaction or Level 1. How well did the course attendee like the course, instructor, materials, etc? This is usually measured through an end-of-course questionnaire or online survey. The Level 1 evaluation is most easily conducted onsite at the conclusion of the learning event, or at least very soon afterward. A short form or survey is usually the easiest tool to use.

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5.4.2. Level 2: Learning

Learning outcome or Level 2. How well did the course attendee actually learn? How well did they gain the desired learning objectives? This is usually measured through a test or other form of evaluation. To measure an increase, obviously there ought to be a pre-test and post-test. One method is to have practical exercises at the conclusion of the training to measure learning. Another is to use a test or observe on the work site afterwards.

5.4.3. Level 3: Behavior

Behavior or Level 3. How well did the course help the learner improve their on-the-job behavior? The Kirkpatrick model does not describe just how one would measure this, but the idea is to look at job-specific problems which are addressed by the training.

In other words, it needs to be easy for the participants to practice what they've learned without interference, and there should be visible rewards. One way to measure this is to interview managers who have been encouraged to observe their teams' behavior after the learning event has taken place. (This is one reason it's so important to involve managers in the course development).

5.4.4. Level 4: Results

Results or Level 4. How well did the course impact the performance of the business or organization? Again Kirkpatrick does not specifically talk about how to measure this, but there are many ways to accomplish this. Organizational level impacts include lowered turnover, productivity, and engagement.

The important thing for you is to be able to link the training to the results it ought to affect. Next, identify the performance of the participants for the next time period. Then you'll be able to report that, "the average training participant had a 30% sales

increase in the year following the training" or "customer service satisfaction levels for participants were 20% higher than for non-participants." The more you can measure results, the better a case you make for your learning program.

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