

# GLOBAL HUMAN RESOURCES STRATEGY

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West is proud to announce the publication of the 2006–2007 edition of the *International Human Resources Guide*, with a new author, Roger Herod, and many new revised chapters and contributors. This article is derived from the introductory chapter of the new edition. For more information or to purchase the *Guide*, please visit the West store at <http://west.thomson.com>, or call us at 1-800-344-5009.

## INTRODUCTION

When the “International Human Resources Guide” was first published in 1997, international hu-

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man resource issues were still regarded as a separate specialist function in many companies. Almost 10 years later, the rapid pace of business globalization has blurred the distinctions between domestic and international human resources to such an extent that large numbers of human resource professionals without any prior international experience have found themselves confronted with unexpected challenges, such as establishing and supporting “offshore” manufacturing operations and call centers. Understanding the critical and unique issues involved in managing the human resource issues of global operations is becoming an essential requirement for the career development of all ambitious human resource professionals.

## CRITICAL STRATEGIC GLOBAL HUMAN RESOURCES CHALLENGES

This chapter will focus on a number of the most critical and often “immediate” challenges faced by human resource professionals involved in supporting international operations:

- Gaining acceptance as a business partner
- Establishing new operations
- Involvement in mergers and acquisitions
- Recruiting for key positions
- Developing compensation and benefits strategies
- Establishing and maintaining global ethical standards

### Gaining Acceptance as a Business Partner

As so much of international human resource management involves new business development activities, a thorough understanding of the company's business strategies, competitive challenges, and products and services is essential. Without this knowledge, human resource managers will never gain the credibility to be a key business partner and will be relegated to the role of an administrator trying to implement organization and staffing decisions that they have had no part in making.

Proactivity is the key. It means orchestrating invitations to partici-

pate in international business planning meetings and then being seen as an active contributor. It means volunteering to take responsibility for developing resource plans and solutions to staffing problems. It means becoming seen as a solution finder rather than an obstacle to progress. Dealing with the consequences of poor staffing decisions is one of the most depressing and frustrating aspects of international human resource management, especially with the realization that a more proactive involvement on the part of human resources could well have avoided the problem.

The challenge is not an easy one. Business development executives frequently prefer to appoint their own candidates to manage international projects and operations. Human resource managers are often excluded from international merger and acquisitions until the deal has been concluded and then left to try to resolve a myriad of cultural, organizational, and policy issues after the event. However, once human resource managers have been able to prove that their contribution to the international business development process is equally valuable to those of finance and marketing executives, their “place at the table” is generally assured.

### **Establishing New Operations**

Even relatively small companies are now looking globally, whether to source raw materials, market their products, or find cheaper methods of manufacturing. Human resource managers are finding themselves being asked to help establish new operations not only in countries such as China, India, Mexico, and Brazil, but also in newly emerging economies such as Vietnam,

the Philippines, and the former Soviet Union republics.

Establishing a comprehensive staffing plan for the new operation is the critical first step:

- What is the timeline for establishing the new operation?
- What are the short and long term staffing requirements and the timeframe?
- What level of expertise and skills are required?
- Which positions will need to be filled immediately?
- What is the availability of suitable local candidates?
- Which positions will require expatriates and short term assignees either for management control purposes or to provide the necessary technical and professional support?

Recruitment of qualified local staff frequently necessitates being able to identify reliable recruitment agencies, which can be particularly challenging in lesser developed countries. As a result, being able to network and share market intelligence with other multinationals operating in the same countries is one of the essential job requirements of international human resource managers.

The timeframe for establishing new country operations is invariably short. Local recruitment efforts often are started before human resource policies and systems have been finalized. Payroll arrangements, compensation and benefits programs, terms and conditions of employment all have to be put in place before the first local employee is hired. This is when critical errors of judgment are frequently made. Under pressure,

line managers all too often agree to provide compensation arrangements, benefits, and perquisites demanded by candidates who claim that all other major companies do likewise. These types of ad hoc initial deals set precedents that can create problems for years to come. Payroll arrangements can be especially problematic. Paying local employees offshore because the company has not yet established a local payroll is fraught with tax and legal risks. Temporary solutions can be found in almost all countries—for example, by arranging to have local employees paid through an accounting firm or one of the specialized international payroll agencies.<sup>1</sup>

### **Involvement in International Mergers and Acquisitions**

International mergers and acquisitions are high-risk situations. A 2000 KPMG study showed that:

- Only 17% of international M&As created substantial financial returns
- 53% of M&As actually destroyed shareholder value
- 47% of all senior managers leave within the first year and 72% leave within three years, if no coordinated retention efforts are made
- “Failure rates are typically higher in cross-border transactions, where cultural differences are sometimes an insurmountable obstacle to overcome.”

It is now widely recognized that clashes of management styles and organization cultures are the most common contributors to international merger and acquisition failures. It is clearly critical to involve HR managers in the due diligence process before the

merger and acquisition occurs. However, in many cases the executives responsible focus their attention so heavily on the financial aspects and potential business synergies of the proposed merger or acquisition that they neglect or choose to ignore the equally important human resource issues. The desire to land the deal at any cost can, unfortunately, blind executives to business realities and major potential obstacles.

Human resource issues that need to be addressed during the due diligence process include:

- Evaluating the management team of the proposed merger or acquisition partner in terms of experience, skills, potential, and cultural fit. HR managers can provide objective input as to which key managers to retain and how to retain them.
- Identifying potential obstacles to organization change such as union agreements or works council regulations.
- Identifying any unacceptable employment practices.
- Assessing and comparing pay and benefits philosophies and practices and evaluating the impact of integrating those programs.

Assessing the potential compensation and benefits issues of a proposed merger or acquisition is one of the most tangible contributions that HR managers can make to the due diligence process. Some of the critical areas that need to be reviewed are:

- Philosophical differences in compensation strategies that can send messages about corporate cultures. For example, a company with high base

salaries and low to medium incentives that tries to merge with or acquire a company that pays below-market base salaries but with highly leveraged incentive programs will inevitably face some major integration challenges.

- Trying to address differences in benefit programs can also prove to be a massive financial undertaking. Any promises or commitments made during the merger and acquisition process can have long term, financially disastrous implications.
- Highly visible policies such as perquisites are usually very sensitive problems to try to resolve. Differences for example in the types and level of company car programs can easily result in ongoing bitter disputes.
- Underfunded pension plans can represent a significant, although easily identifiable, financial liability. This becomes a more complex issue however in countries such as Germany and Austria, where pension plans are typically completely unfunded. It is also critical to try to identify any executive pension “promises,” which may come to light only through a thorough review of individual employment agreements and offer letters.
- Any unusual or potentially risky compensation arrangements such as offshore payments for local managers or cash allowances that are not being declared for tax purposes need to be identified and evaluated for legal risk.

Tax authorities in most countries have become highly sophisticated and less willing to turn a blind eye to questionable tax avoidance or tax evasion practices.<sup>2</sup>

### Recruiting for Key Positions

Being asked to recruit candidates to fill top executive international positions is a high risk proposition for any HR manager. The task of trying to find a well-qualified local candidate to fill, for example, a general manager position for an international subsidiary can be a daunting one. Depending on the country and the industry, suitable candidates may turn out to be few and far between and potential candidates may be very reluctant to change companies. A number of years ago, I was asked by my employer at that time to recruit an experienced general manager for the new operation they were establishing in Portugal. After an exhaustive search, we finally realized that there were only three local executives with the level and type of experience the position required, all of whom already held similar positions with well-established and much larger companies. All three possible candidates told us initially that they were not interested in changing companies. However, one of them at least agreed to have dinner with the search consultant and myself. After an excellent, excellent wine and great conversation, as we were all leaving the restaurant, the executive quietly mentioned that he was not totally happy with his current employer. After several weeks of further negotiations, he finally agreed to join us and turned out to be an outstanding general manager. Finding the right candidate can require a lot of patience and, of course, luck.

For the HR manager, the following action steps are generally essential:

1. Invest enough time to understand the nature and scope of the business, key challenges, as well as short and long term objectives.
2. Develop a comprehensive position description, candidate profile, and target compensation level with the senior executives to whom the position will report.
3. Engage an international search firm that can demonstrate extensive experience in the country and industry involved.
4. Require the search firm to prepare a realistic assessment of the potential availability of suitable candidates.

Once the search process is underway, the HR manager needs to play a proactive ongoing role in the process. It is not enough just to commission a search firm and wait for them to produce a short list of hopefully suitable candidates. It is important to ask the search firm to provide regular updates on the research they have carried out and the types of potential candidates they are targeting to ensure that the search is properly on track. It is also very valuable to get ongoing feedback from the search firm on the reaction of individuals they have contacted regarding the potential position and the company.

Interviewing candidates is, of course, a key responsibility for the HR manager, both in terms of evaluating individuals as potential executives as well acting as an ambassador for the company. After the interview process, thorough reference checks are vital. If neces-

sary, the search firm should be asked to talk not only to individuals that the candidate has worked for, but also to former colleagues and subordinates. It can be very tempting to take short cuts with reference checks in the interest of filling a position quickly. This is one situation where the saying "Marry in haste, repent at leisure" all too often applies.

#### **Developing Compensation and Benefits Strategies**

A number of years ago, I was hired by a leading consumer goods company to head up their international human resources function. Within the first two weeks, a proposal from our Canadian company, which was one of our largest subsidiaries, arrived on my desk. The proposal contained recommendations for some fairly costly enhancements to the Canadian pension plan, which I soon realized was already a very generous plan. Months of work and some significant consulting fees had gone into the development of the proposals. The cover note informed me that the CEO of the Canadian company had already approved the proposal and my approval was needed as quickly as possible. At the same time, I was in the process of making phone calls to our various subsidiaries in Europe, Latin America, and Asia-Pacific to introduce myself and quickly realized that a number of other "urgent" proposals to improve local compensation and benefits plans were likely to start landing on my desk in the near future. The problem was that we did not have any type of overall compensation philosophy for our international operations to define our competitive strategy.

Fortunately, I was able to persuade our international president that we needed to put any pro-

posed changes to compensation and benefits plans on hold until we had established a global compensation and benefits philosophy. After a number of discussions with our key international executives and with corporate HR staff, we agreed on the following key principles:

- Competitive comparisons would be made against other leading consumer goods companies in each country.
- Base salary policies would normally be established at the median, or 50<sup>th</sup> percentile.
- Management incentive plans would be structured to provide total compensation (base salaries plus bonus) at the upper quartile, or 75<sup>th</sup> percentile, provided performance targets were met or exceeded.
- Benefit plans would be established not to exceed market median.

These guidelines provided a consistent blueprint for all our international operations to follow. They also gave us the justification to reject the Canadian pension plan proposal! Subsequently, I was able to use the guidelines to work with each of our subsidiaries to help define where they stood competitively and what programs potentially needed change or improvement. Being able to establish a proactive, consultative relationship with our subsidiaries was certainly more satisfying than risking being perceived as a bureaucratic obstacle.

I have used my own personal experience with one company as an example. However, compensation and benefits challenges and the philosophies and strategies needed to address them will clearly

vary considerably between companies. Company culture, competitive pressures in different industries and markets, and financial considerations are all factors that need to be taken into consideration. However, even at earliest stages of establishing international operations, it is important to establish an agreed compensation philosophy and strategy. It is much easier to be proactive in this regard than have to deal with a series of embarrassing precedents later.

### Establishing and Maintaining Global Ethical Standards

One of the most difficult challenges for HR managers who have responsibilities for different countries is trying to define globally acceptable ethical standards. Much has been written on this subject and it is relatively easy to identify the extremes. Bribing officials, unsafe working conditions, and blatant race or sex discrimination are all examples of indefensible corporate behavior. The real dilemmas come from the “gray” areas. For example, how do you deal with a situation where local executives in a Latin American subsidiary are receiving part of their compensation through the US payroll on the basis that this is “normal practice” among multinationals in that country and essential to be able to hire and retain top executive talent? What about a situation where your company has a major new project in say Singapore and managers insist that they must transfer employees to start work there whether or not they have proper work permits?

As an HR manager, do you turn a blind eye to these situations to avoid being categorized by line managers as overly conservative and unwilling to take risks?

In reality, appropriate business solutions can always be found to address and resolve these types of situations. They do require creativity and determination. That is why it is important to seek advice from your company’s legal and tax advisers as soon as a potential issue arises. It is also one of the benefits of developing and maintaining a network of other HR managers with international experience to share ideas with and learn from their experiences with similar situations.

If no specific policy dealing with business ethics exists, it is crucial to develop one and to make sure it is widely communicated across the organization, including any international operations. These are the types of issues that the policy needs to address:

- The need for employees to comply all applicable laws and regulations, specifying who to contact internally in the event of any question
- Prohibition on payments to public officials
- Prohibition on political contributions
- Guidelines regarding “facilitating payments”
- Authorization procedures for transactions and disposition of assets

- Approval procedures for payments
- Maintenance and retention of records

### SUMMARY

The rapid and complex pace of globalization has created immense challenges for human resource managers involved in developing and managing international businesses. Gaining acceptance as a business partner is critical for human resource managers that want to make an effective contribution to the success of their company’s global business initiatives. In fact, human resource managers have to take a leadership role in many of these initiatives. Establishing new offshore operations and call centers, taking a proactive role in evaluating the human resource aspects of potential mergers and acquisitions, and developing staffing strategies to secure the critical resources needed for new international ventures, are all examples of the type of leadership needed to be an effective human resource executive in this challenging new environment.



### NOTES

1. A very comprehensive Human Resources Checklist for International Operations Start-Ups that has been developed by Roy Pendergrass, Vice President of ORC’s Dallas Office, is included as Appendix 1 of this chapter in the *International Human Resources Guide 2006-2007*. For more information or to purchase the *Guide*, please visit the West store at <http://west.thomson.com>, or call us at 1-800-344-5009.
2. A checklist on “Evaluating the Human Resource Aspects of Acquisitions” is included at the end of this chapter as Appendix 2 in the *International Human Resources Guide*.