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**Impact of Globalization on HRM****Madhvi****Urban Estate Ambala City****ABSTRACT**

Human resources constitute the only active factor of production. The factors like land, capital, and technology are passive. No matter what quantity and quality of these passive factors you have. These factors cannot assure you of high growth of your organization as their utilization depends upon human resources. For the growth of the organizations proper human resource management (HRM) is not enough, rather human resource development (HRD) too is essential. HRD involves the upgrading of skills, extending the knowledge resources, and competencies of human resource. Globalization that is taking place at a breathtaking pace has affected the international business in its all departments. It has thrown a great challenge to HRM. The theory and practice of HRM at national level is not applicable to international business. Infact, there is need for global HRM. Many globalize trends such as growth of trading blocs, the opening up of national boundaries for trade, and increasing instances of international strategic alliances have significantly influence the theory and practice of HRM.

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## Introduction

Globalization that is taking place at a breathtaking pace has affected the international business in its all departments. It has thrown a great challenge to HRM. The theory and practice of HRM at national level is not applicable to international business. Infact, there is need for global HRM. Many globalize trends such as growth of trading blocs, the opening up of national boundaries for trade, and increasing instances of international strategic alliances have significantly influence the theory and practice of HRM. It is increasingly being recognized that effective management of HR is a major determinant of success or failure in the international business.

The impact of globalization on human resource development may be favourable impact on HRM practices and adverse impact on HRM.

## Favourable Impact of Globalization on HRM

- 1. HR practices followed by globalized companies differ from company to company and need to be revised:** A survey conducted by Price Water House and Cranfield in 1993 across Europe found that there are significant variations in HRM practices, such as integration of HR and corporate strategy, education and training of HR manager, recruitment and selection, industrial relation, employee communication, and flexible working practices, etc.
- 2. Need to appoint people of variety of culture:** Globalization leads to appointment of people from a variety of ethnic, racial, and cultural background. Hence the problem for HRM is to positively exploit diversity and synergize different skills to achieve more successful outcomes.
- 3. Need for Outsourcing:** Outsourcing concept has come into existence and the HRM department is to be downsized and will have to outsource a number of services. Development of HRM to line manager will be on the rise and line managers are to be involved in design and implementation of HRM system.
- 4. Shortage of International Managers:** There is a shortage of international managers and a need to nurture this cadre is important.

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5. **Need for Global Integration and local Responsiveness:** HRM needs to ensure that the organization structure and system enhances global effectiveness and enables the organizations to achieve both global integration and local responsiveness.

### **Adverse Impact of Globalization on HRM**

The adverse effects of globalization on HRM are listed below:

1. **Loss of Jobs:** Around the world millions of people have lost their jobs due to imports or production shifts abroad. Most of them find jobs that pay less.
2. **Fear of losing Jobs:** Millions of others fear losing their jobs, especially with those companies operating under competitive pressure.
3. **Pay Cut:** Workers face pay cut demands from employers who often threaten to export jobs.
4. **White Collar Jobs become risky:** Service and white collar jobs are becoming vulnerable as they are moving their operations offshore.
5. **Loss of Competitive Advantage by Employees:** Employees in advanced countries such as USA, UK, and Japan can lose their competitive advantage when companies build advanced factories in low wage countries making them as productive as those at home.

Many people in developed countries like USA are angry with globalization, because the American jobs and wages levels are severely affected by the influx of cheap imports and shifting of production to low cost overseas location.

### **Restructuring of HRM Practices in the Context of Globalization**

The following are certain areas of HRM that needs to undergo a process of transformation to suit the globalized environment.

1. **Incorporating International Standards in Recruitment and Selection:** The globalized organizations need to maintain international standards in recruitment and selection practices. A universally compatible procedure needs to be evolved to make recruitment

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effective. Use of objective tests and assessment centre methods can be encouraged. In order to facilitate the recruitment of scarce skills, new techniques such as flexi-time and job-sharing may be introduced.

2. **Re-orientation of Training and Development:** Development process can be upgraded by shifting it from traditional skill up-gradation to organizational learning. Training method needs to be re-oriented to include web-based training and net-based knowledge dissemination. Application of computers can be extensively encouraged to make the training and development programs more effective.
3. **Evolve new methods of Career development:** As globalization gains momentum the traditional paths of career advancement in the organization will undergo drastic change. Hence HR professionals need to evolve new methods of career management.
4. **Re-design Compensation:** Motivating the employees through properly structured compensation schemes is also an important demand raised by the globalized environment. The compensation scheme must be designed to include profit sharing share option, merit or performance related to pay etc. Compensation scheme must recognize individual differences in the performance.
5. **Performance Appraisal:** The performance appraisal system must incorporate personal psychological factors such as sensitivity and adaptability, cross cultural skills and interpersonal skills. Appraisal must be carried out as an ongoing process at regular intervals rather than annually.
6. **Direct Communication Practices:** Direct communication practices must be encouraged in a globalized environment. Use of internet, Intranet and LAN system allows the manager to send to all the employees a personalized copy of letters, memos, reports and other communications.
7. **Adoption of Flexi-working practices:** The end result of these flexible working practices is cost reduction. Flexi-time concept allows for shift working, weekend work, subcontracting, home working, part-time working and temporary/casual/fixed term employment.

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8. **Need for global Leadership:** A need to nurture global leadership is felt in a globalized organization. The global leader has talent to interact with managers from diverse cultural backgrounds that populate his/her multinational company.

It is concluded that HRM in the globalized era has to move across boundaries of culture, geography, and language. HRM practices such as training and development, performance appraisal; communication and participation need to be restructured in order to attain world class standards. Leadership must be developed to face global challenges effectively and HR professionals should create a work culture that is capable of motivating and satisfying all sections of employees in the globalized environment.

### **Problems of HRM- Transnational And Multinational**

In the previous section of this paper, it has been discussed that due to intense globalization of business, the organizations are facing various HR problems which are both transnational and multinational. Primarily the HR problems relate to

- Staffing
- Performance Appraisal
- Compensation
- Training and Development

These crucial problems have different nature for HR people within the country than those in other countries. The organization operating within a country does not pose serious problems pertaining to the issues of staffing, performance appraisal, compensation, and training and development. However, it is the case of the organization which is transnational or multinational; the HR problems become highly complex and need wider international mechanism to overcome the said problems. Before discussing the HR problems and how are they tackled at international setting, it is essential to distinguish the concept of transnational and multinational.

**Transnational Corporation (TNC):** Transnational corporations are incorporated or unincorporated enterprises comprising parent enterprise and their foreign affiliates where a

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parent enterprise is deemed as an enterprise that controls assets of other entities in countries other than its home country through equity capital stake. A foreign affiliate is an enterprise in which an investor who is resident in another country owns a stake.

To measure the extent of transnationalisation of firms, the world Investment Report has been constructing a transnationality index which is the average of three ratios, shows the foreign dimension of the overall activities of a firm.

1. Foreign Assets/Total Assets
2. Foreign Sales/Total Sales
3. Foreign Employment/Total employment

**Multinational Corporations (MNC):** There is no single universally agreed definition of MNC as it has several dimensions. Although MNC took birth in early 1860's, it was after the Second World War that MNC's have grown rapidly. USA is the home of the MNC's. One prominent MNC from USA is GE, from Japan is Toyota and from South Korea is Samsung. According to ILO report, MNC is one with significant investment and operations in a number of countries, generating significant share of the total revenue from foreign markets.

### **Distinction between a Transnational and a Multinational Corporation**

**A Multinational Corporation (MNC)** is a corporation with extensive ties in international operations in more than one foreign country. Examples are General Electric, Exxon, Wal-Mart, Mitsubishi, Daimler Chrysler, etc.

**A Transnational Corporation** is a MNC that operates worldwide without being identified with a national home base. It is said to operate on a border less basis. TNC is characterized by interdependence and integration between the overseas units. In transnational corporations resources and human capabilities are dispersed among the various operating units globally.

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As a matter of fact the difference between the two i.e TNC and MNC is only a matter of degree. For the purposes of HRM and HRD both may be regarded as the same HR problems, these corporations are also the same. The only difference is that for MNC's the degree of severity in staffing, training, performance appraisal and compensation is much higher as compared to those in TNC's.

### **The Main HR problems in relation to TNC & MNC**

Multinational and transnational companies are penetrating India and China so we can examine the HR problems being faced by TNC's and MNC's in these countries. The main problems that have been identified are four i.e. staffing, Performance Appraisal, Compensation, Training and development. These are discussed below by taking the instances of China and India.

After introducing economic reforms in 1978, the Chinese government liberalized its trade, resorted to open-door policy for trade and investment. HRM issues in China were dealt as underline with new challenges. Likewise India too, after introducing economic reforms had to face HR problems in these four areas.

1. **Problems in Staffing:** In staffing activities, the two countries are facing the problem of cultural differences. Whether the staffing policy is
  - a) **geocentric**-seeking best people, regardless of nationality or
  - b) **polycentric**-requiring host country nationals to be recruited to manage subsidiaries or
  - c) **ethnocentric**-filling all key management positions by parent company nationals, all have problems due to difference in culture, tastes and preferences.

Most of the time, managers appointed in other countries leave and return back to their own countries due to home sickness and due to limited opportunities to gain experience.

2. **Problems in Performance Appraisal:** Prior to economic reforms in China and India performance appraisal was mainly for promotion or transfer with the main criteria being

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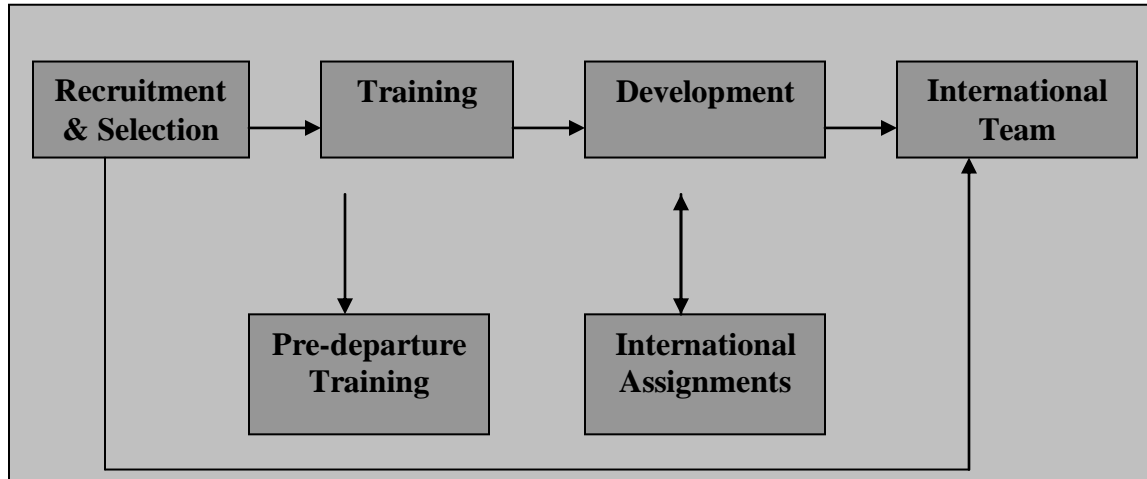
political loyalty and seniority. Performance appraisal was usually conducted annually by HR department. After inducing economic reforms, the new scheme was introduced which was based upon the socialist principle of distribution. New criteria focused on four broad areas.

- a) Good Moral Practice
- b) Adequate Competence
- c) Positive working attitude
- d) Strong performance record

But research studies in China show that there are problems with performance appraisal as the emphasis is still given to political considerations, inconsistent measurement, subjectivity, static rather than forward-looking attitudes and lack of communication.

3. **Problems in Compensation:** Before economic reforms, compensation in two countries was regardless of performance but after reforms compensation was linked to performance. Since the economic liberalization in the early, 1990s, it has become more difficult for foreign multinationals to find and retain high-quality local staff, as the rapid rise in the level of foreign and local investments in India has lead to a shortage of skilled people. This, in turn, is placing pressure on the compensation packages of qualified managers. According to a recent survey, an average Indian manager's annual real-salary increase is one of the highest in the world. Consistent with this report, a recent study found that continuous pay increases, along with a commitment to improve working conditions, are two preconditions to retain experienced staff, particularly in high-growth industries such as telecommunications and computer software development. Pressure is also being brought to bear on the minimum wage level, and this will increase the cost of labour over the longer term.
4. **Problems regarding Training and Development:** Training aims to improve current work skills and behaviour, whereas development aims to increase abilities in relation to some future position of job. International training and development is shown in figure 1





The figure 1 shows that there is close relationship between recruitment and selection and internationally oriented personnel. Hence training is important. In international setting multinationals establish their own universities and training centers. For example, Motorola, McDonald's Hamburger and Dinney Universities are good in-house training centers. Several examples of these Korean, European and Japanese firms have similar arrangements.

The main problem that has been found is that most of the employees after seeking training leave the job or do not join. We can examine the problems related to training and development in the context of China and India.

Because the lack of adequately trained management had been identified as a major impediment to its reforms, the government established institutions for adult further education for professional and management training. A nationwide program of management training has supported these institutions and the government has collaborated with institutions from several countries, including the United States, United Kingdom, Australia, Canada, Japan, and the European Union nations, to conduct courses, including MBA Programs. In spite of the progress achieved in employee and management training and development many inadequacies and limitations remain.

- (i) The results from a 1994 survey disclosed that 34 percent of 1,508 respondents in China had not received any training opportunities in enterprises.
- (ii) Researchers have also found that Chinese enterprises usually only emphasize technical training rather than behavioural training.

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- (iii) Many foreign managers may regard training as costly and risky, because they may not receive immediate returns and employees may leave the enterprise after training.

As far as case of India, it has been observed that in transnational and multinational corporations people are hired from the home and host countries. Firms are focusing more on the role of HR as a critical part of their core competence and a source of competitive advantages.

Despite the availability of cheap labour, low productivity is a common complaint among manufactures in India. As a consequence, a multinational may have to provide extensive training programmes for its local staff. The introduction of new production equipment and concepts such as just-in-time, quality management, and so on, require additional training. Developing and retraining the workforce so that the multinational has a pool of managerial talent to draw on is also a challenge.

It is evident from above (experience of China and India) that the HR problems in relation to TNCs and MNCs are basically concerning the recruitment & selection, performance appraisal, compensation and training and development. Although efforts are being made to solve these problems at international level by improving the HR practices, yet there are certain questions to be answered.

- How can foreign firms develop effective HRM strategies to enhance the productivity of their workforce?
- To what extent can foreign multinationals transfer their home-countries Hr practices to their subsidiaries in other countries?
- What are the future HRM issues relating to developing a retaining quality staff?
- How to develop performance-based work culture in host countries?
- How to create harmonious relationship among the three types of employees of an international firm i.e. host country nationals (HCNs), parent country nationals (PCNs) and third country nationals (TNCs).

**HR Problems in Relation to MNCs and TNCs- What and Why**

Box-1 clarified this state.

**Box-1 HR Problems in Relation to MNCs and TNCs- What and Why**

- **Wider Scope of Globalization**

The MNCs and TNCs in addition to the basic human resources activities have to take into consideration host country laws and regulations, language, transaction services, international taxation, international orientation and relocation and administrative services for expatriates.

- **Wider Designing and Administrating Programmes**

HR managers working in the global environment face the problem of designing and administrating programmes for more than one country. People in different countries have different perceptions about different things. MNCs operating in these countries have to be aware of the varied perceptions. They have to modify some of their policies to suit the local sentiments. For example, in Australia and Singapore, if the work load increases, firms are most likely to add more staff, whereas, in Korea and Japan firms prefer that the existing employees work longer hours.

- **Need to Maintain International HR Services Centre**

Majority of MNCs have to maintain international human resource services section to provide services to the parent company and third country nationals such as handling of the banking, investments, housing arrangements, health care and coordinating home units etc.

- **Enhancing HR Activities**

The need to enhance emphasis on HR activities as the MNC develops, broadens the responsibilities of the local HR activities. For example, in the initial stages, the MNCs use the employees from the home country or the third nation and the emphasis of HR activities is on expatriates, their relocation, orientation, welfare etc. But as the MNC matures, trained locals become available and the emphasis shifts to selection, training and development. Thus, with the development of MNCs, the emphasis on HR activities keeps on changing.

- **Threatening Risks**

- Physical safety of the employees is a major concern for the HR managers as well as for headquarters.
- Terrorism poses a great risk to international operations.

- The risk associated with wrong selection decisions is very high.
- Another risk is that of expropriation or seizure of MNC's assets in a foreign country by the government of that country.

- **Political Hindrances**

MNCs occupy an important and more visible place in the host countries, particularly in the developing countries. The HR managers of these companies have to deal with ministers, political leaders and other important people in the society. Host country government can dictate the selection procedures also. The HR managers also need to learn and interpret the local ways of doing business and the general code of conduct regarding various other activities e.g. giving gifts etc.

### **Suggestions to overcome the HR problems in TNCs and MNCs**

HR professionals in multinationals may be required to take the following steps:

- Minimize the exposure of employees to corrupt conduct by assisting in the development, publication, and implementation of appropriate codes of conduct.
- Ensure training programs cover areas of ethical concern such as bribery, human rights, justice, and the common good in a manner consistent with the multinational's objectives in this regard;
- Align performance appraisal and compensation systems so that they support the ethical stance taken;
- Be conversant with the type of requests that may be made of staff operating internationally not just expatriates but also those who visit foreign markets in various capacities and provide the necessary training so that they have the requisite negotiating skills to handle problem situations that may arise;
- Ensure that employees understand the difference between corrupt bribery payments, gifts, and allowable facilitation payments. Given the strong positions taken by governments on ethical behaviour, it is important that all staff is fully briefed on their responsibilities in this regard.

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**Conclusion**

No matter what quantity and quality of these passive factors you have. These factors cannot assure you of high growth of your organization as their utilization depends upon human resources. For the growth of the organizations proper human resource management (HRM) is not enough, rather human resource development (HRD) too is essential. HRD involves the upgrading of skills, extending the knowledge resources, and competencies of human resource. Globalization that is taking place at a breathtaking pace has affected the international business in its all departments. It has thrown a great challenge to HRM. The theory and practice of HRM at national level is not applicable to international business. Infact, there is need for global HRM. Many globalize trends such as growth of trading blocs, the opening up of national boundaries for trade, and increasing instances of international strategic alliances have significantly influence the theory and practice of HRM.

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