Challenges in A Globalised Context For International Human Resource Managers in South African Organisations

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There has been a move from personnel management PM to human resource management HRM; more recently to international human resource management IHRM. Challenges in IHRM involve the same activities as domestic HRM; the main difference is that domestic HRM is involved with employees within only one national boundary. IHRM assists organisations to best utilise their HR in the international context. Since multinational activities are involved in HRM, it is believed that IHRM is more complex than domestic HRM. In the South African context, employees come from different backgrounds and experiences; it is more difficult to manage them in a multinational corporation MNC than if they were all in the same country. Internationalisation impose a movement in the direction of standardisation of pay, working conditions and management systems in MNCs, including HRM, the influence of local culture, institutional arrangements and labour market practices. A model was developed by the authors and is recommended for use by South African HR practitioners.

Field of research: International human resource management.

1. Introduction

With the modern day advent of internationalisation and globalisation, international human resource management IHRM is becoming an important concept for human resource HR practitioners in South Africa to be aware of, if they are not already practicing it. This is vital for HR managers in multinational corporations MNCs, international joint ventures JVs and also domestic based HR managers who import staff from overseas. In the literature review, different view points on HRM and IHRM are highlighted and compared. IHRM is more complex than domestic based human resource management HRM. This statement will be discussed in this paper, with explanations of what IHRM is, and how it differs from domestic HRM; the effect on South African organisations with reference in particular to the idea that the international HR manager should seek to standardise pay and conditions of employment for managers in all operations of the organisation.

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The above statement is also the reason for undertaking the research for this paper. Different approaches for managing staff in an international context are discussed next. Specific issues are explored such as different cultural beliefs between employees, the importance for IHRM and how to use strategies for retention of staff in a diverse workforce. In the next section, integrating processes and procedures across countries are discussed; how to carry this out with as little disruption to the business as possible. The last section of this paper entails management implications, recommendations, with a model developed by the authors for use by domestic HR managers, followed by conclusions.

2. Literature Review

Different views on HRM and IHRM

So what is IHRM? Shen 2005: 83-102 explains it in terms of a system: “An IHRM system is a set of distinct activities, functions and processes that are directed at attracting, developing and maintaining the human resources of a MNC.” The domestic based term of HRM covers “all the concepts, strategies, policies and practices which organisations use to manage and develop the people who work for them” Rudman, 2007: 4. According to literature, the major difference between the two terms is the fact that one relates to MNCs as opposed to domestic based firms. So in the last two decades there has been a move from personnel management PM to HRM and recently to IHRM. More than a decade ago Lundy 1994:691 stated that the PM role lacked strategic relevance because it was mainly an administrative type role. Whereas the modern concept of HRM is much more ‘hands on’ with employees. Lundy 1994: 693 stated further that HRM came about due to a “change in the functions, boundaries, substance and objectives” of the original PM function.

As it is a common idea in domestic based HRM that effective management of the human resources plays a major role in the success of the business, Scullion & Starkey 2000: 1061-1081 suggest that effective management of HR in a MNC is a major determinant of success or failure in international business. This is why understanding how to manage staff in an international context is so important. Härtel, Fujimoto, Strybosch and Fitzpatrick 2007:234 describe HRM as the formal part of an organisation responsible for all aspects of the management of human resources. IHRM on the other hand is described by Morgan as cited in De Cieri et al, 2003:148-149 as the interplay among three dimensions: the first one is HR activities, with the second dimension as types of employees and the last one, countries of operation. They state further that in broad terms IHRM involves the same activities as domestic HRM. The main difference, according to them is that domestic HRM is involved with employees within only one national boundary.
IHRM is more complex than domestic based HRM
It can therefore be said that the complexities of operating in different countries and employing different national categories of workers is a key variable that differentiates domestic and international HRM, rather than any major differences between the HRM activities performed. Dowling and Welch 2004: 77-84 argue that the complexity of IHRM can be attributed to six factors:

- More HR activities – to operate internationally, HR must engage in activities not necessary in a domestic environment
- The need for a broader perspective – international HR managers face the problems for more than one national group of employees
- More involvement in employees’ personal lives – housing arrangements, health care, compensation packages etc internationally
- Changes in emphasis as the workforce mix of expatriates and locals varies – foreign operations mature and therefore HR activities change
- Risk exposure – human and financial consequences of failure in the international arena are more severe than in domestic business
- Broader external influences – the type of government, the state of the economy and the accepted policies and procedures of the host countries

Bures and Vloeberghs 2001: 146 argue that the complexities of IHRM are not just because of differences in the national cultures, but also differences in business strategies, administration options, top management orientations, strategic and tactical choices and elements of administrative heritage. Shen 2005:83-102 claims that the purpose of IHRM tends to assist organisations to best utilise their HR in the international context. Since multinational activities are involved in HRM, it is believed that IHRM is much more complex than domestic based HRM. Many factors such as culture differences, culture shock, different corporate values and shared meanings that are conflicting with their national culture contribute to the complexity of IHRM.

Standardised pay and conditions of employment; is it possible?
Dowling and Welch 2004:124-165 are of the opinion that when an organisation develops international compensation policies, it seeks to satisfy several objectives:

- The policy should be consistent with the overall strategy and structure of the business needs of the MNC
- The policy must work to attract and retain staff where the greatest needs and opportunities are such as incentive for foreign service, tax equalisation and reimbursements for costs
- The policy should facilitate the transfer of international employees in the most cost-effective manner for the organisation
- The policy must give due consideration to equity and ease of administration
Plessis & Huntley

Base salary, in domestic context, denotes the amount of cash compensation serving as benchmark for other compensation elements bonuses and benefits. For expatriates, it is the primary component of a package of allowances directly related to base salary cost-of-living allowances, housing allowance and also the basis for in-service benefits and pension contributions. It may be paid in home or local country currency. The base salary is the foundation block for international compensation whether the employee is a parent country national or a third country national. Major differences can occur in the employee’s package depending on whether the base salary is linked to the home country of the parent country national or the third country national, according to Dowling and Welch 2004:124-165.

In the South African context, employees come from many different backgrounds and experiences; it is harder and more difficult to manage them in a MNC than if they were all in the same country or even city. If pay and conditions of employment are standardised around the world in MNCs, it is highly likely that problems will arise amongst staff members doing similar jobs in different countries. Giammalvo, 2005: 20 says: “Regardless of how well intentioned management may be, unless there is a formula in place that is easily understood, readily verified and perceived to be fair and equitable, it is bound to create conflict and hard feeling among team members.” This suggests that HR needs to ensure there are clearly stated terms and conditions of payment discrepancies amongst similar jobs in different countries. The employees must be made aware of why they are being paid their salary so that there is less likelihood of problems occurring in the future amongst staff members. Schmitt & Sadowski 2003: 409 argue against this theory saying that if the international HR manager is not standardising pay, then the costs of differentiation will be higher, among other problems. But there is more to the issue than just costs.

According to a study conducted by Suutari & Tornikoski 2001:389-404, the most common issues that expatriate managers have with their compensation is too low total salary. The study also found that availability of information about local cost level/standard of living was minimal. Regarding the total salary, this is an issue that most likely comes up once the expatriate has started working in the new country and realised that the remuneration was not as enticing as it had sounded before they left their home country. If the managers are looking at moving to another country then ultimately it is up to them to seek out the information about living costs that they require. However, if the employees are being seconded by the MNC to operations in another country then HRM should really be providing as much information to the employee as possible. Several authors have suggested that international compensation is the most time consuming and strategically important HRM activity in MNCs Bonache & Fernandez, 1997:457; Reynolds, as cited in Lowe, Milliman, DeCieri & Dowling, 2002:188. If it is done properly, this would help in making the move for the global managers go as smoothly as possible, because it could be a very costly exercise to move a
manager overseas then either move them back again or in a worse case replace them all together.

While globalisation imposes a considerable movement in the direction of standardisation working conditions and of certain elements of management systems in MNCs, including the elements of HRM, the influence of local culture, institutional arrangements and labour market practices continue to add pressure for divergence McGraw & Harley, 2003:1-22. How to approach this process of standardising working conditions can be tricky. There are different ways of doing so, but firstly the international HR manager needs to look at the existing culture, rules and laws of the country concerned. “Even if the parent company has highly developed HRM practices and good working conditions at home, it is wrong to assume that transferring those policies and conditions overseas can be free of resource constraints, imposed by specific conditions and legislation in the host country, according to Yang cited in Farley, Hoenig and Yang, 2004: 700.

Shen 2005:88 suggests that a MNC’s IHRM policies and practices should be a mix of the ‘home’ HRM system plus host country factors and company specific factors. This would mean that in each ‘host’ country the policies and working conditions could be slightly different. This opinion differs from Florkowski & Raghu 1993: 305-325 who believe MNCs are generally expected to change their HR management policies and programmes to achieve compliance through the whole organisation including working conditions. If done properly, this should help ensure contradictions within the MNC are minimised. But setting this up to make sure as many cultures are accommodated as possible would be very costly in terms of time and money. Carr 2006:42 suggests that international HR managers should be willing to make compromises with employees. Ultimately, business processes, pay and working conditions for a MNC cannot be completely standardised because of the natural differences in operations in each country. But, Carr 2006:42 thinks as a rule of thumb, the international HR manager should figure that business processes will need to be 80% standardised.

Different approaches for managing staff
For the international HR manager there are many different ways of managing staff within a MNC. Treven 2006:120-125 believes there are two contrasting approaches to managing staff in an international context. The ethnocentric approach is when the cultural values and business practices of the home country are predominant. The head office develops a managing and staffing approach and applies it consistently around the world. This could be easier to set up and apply than other approaches, but may be more costly down the track if staff or managers in some countries are not used to working a certain way Nel, Werner, Haasbroek, Poisat, Sono, & Schultz, 2008.

In contrast to the above approach is the polycentric approach. This assumes that each country is different and the management should develop locally appropriate practices under supervising local managers. Treven 2006:120-125 did not
suggest that one approach was better than the other, and although it could be assumed that the polycentric approach is the ‘right’ approach, they both have their place in different situations and businesses. As example McDonald’s restaurants could possibly fit under the ethnocentric approach. Although McDonald’s management would have to take into consideration the laws and culture of the new country they were entering, ultimately the business is ‘Americanised’ around the whole world.

The *geocentric* approach, according to Shen 2005:89, is where management takes the MNC as a single organisation and encourages employees from all over the world to be promoted within the business. He also discusses the *regiocentric* approach, in which managers look after regional sectors of the business rather than the global sector. This may be a useful approach for businesses with large offices within regions because managing on a global scale can be challenging to say the least with all of the issues managers face as discussed below.

**Cultural differences**

It needs to be understood that culture differences do not necessarily mean only differences between Western countries’ and Eastern countries’ cultures, but it includes differences between groups of people within the same country. A good example is countries such as China, Japan and Korea who all have different cultures and ultimately different HRM systems, policies and procedures Rowley, Benson and Warner, 2004:303. South Africa has the same internal cultural differences between the different ethnic groups and tribes.

According to Du Plessis 2007:1-10 cultural diversity in South Africa is a reality with a growing interest in the relationship between indigenous and foreign cultures in the practice and development of management. The global pressure on South African organisations to stay globally competitive initiates changes. Competitors are demanding level playing fields across cultures.

The work of IHRM has aspects of it that are legally and culturally determined by the country they are entering, but ultimately HR is still responsible for the strategy and implementation plan. For each country that the MNC is in, IHRM must consider what strategies will or will not work there. A Hong Kong company had a high turnover of staff of 24% per year. HR decided to offer a ‘use it or lose it’ policy worth $1000 a year towards dental work. As a result, the company’s turnover dropped to only 4% within a short time Medland, 2004:68-72. Obviously in different countries this specific tactic may not work as a retention tool. But it does illustrate the point made above that HR needs to be aware of what their employees want in different countries and why pay and conditions of work should not be standardised in MNCs. Research should be conducted amongst employees to determine what sort of strategies could work similar to the dental work scheme in Hong Kong.
International HR managers have found that employee relations vary significantly from country to country due to cultural differences and that the strategies used to motivate workers in one country are sometimes useless in another country Katz & Elsea, 1997:16-25. One study found that Chinese employees expected lifelong employment and also welfare provisions such as paid sick leave, meals, healthcare and schools. Although this view has been changing since the late 70’s, many people have ideas engrained in their minds of what a typical employment relationship should involve according to King and Bu 2005:46-64. All countries will typically have traditional expectations when it comes to the employment relationship; whether the international HR manager should try to change these views or not is debateable. Barthelemy believes the following:

The intangible cultural fit between Western organisations and their offshore outsourcing opportunities in areas such as employment work ethics, expectations for long-term relationship development and job-specific commitment is equally significant to organisations in order for them to bring such practice to long term success 2003:88.

Some Westerners think a contract is a contract, and once it is signed everyone will go along with it. But not all countries think like Westerners do. The Chinese prefer to build a relationship with their manager after the contract is signed, after the handshake and after they get to know them, Bland 2006:36-38. Little details such as this one are vital for IHRM to know about. Until the IHRM develops a general theory of cultures, Bigelow, 1994:3-11 states that management should think in terms of receptivity, creativity and adaptability – not simply learning before the MNC enters a country what differences exist between cultures. There is more to IHRM than just that. To possibly sum the whole argument up in a few words, Treven 2006:123 says: “As global competition increases, it is increasingly important for successful companies to have a group of managers with a global perspective.”

In JVs between foreign countries or MNCs, because locals and expatriates work side by side, but are usually under different terms of employment, social comparison across different groups of national employees is going to be likely, especially when it comes to pay and remuneration. However, Leung et al cited in Leung, Wang & Smith, 2001:926-945 argued that Chinese workers are aware of the difference in economic status of China and more developed nations, and because of this they would not use expatriate employees as their referent group to assess whether their compensations were fair or not. It was also argued that the Chinese wouldn’t think of expatriates incomes as unfair compared to their own. If this were actually the case, it would be questioned if the HRM plays a role in why the Chinese think like this or if it is in their culture not to question aspects of employment such as pay.

According to Worldlink 2006, keeping approaches for expatriates and third world nationals fair and consistent on a global scale is an extremely complicated and
challenging task. This is particularly important because the ‘one size fits all’
approach no longer satisfies employees. As mentioned earlier, employees have
expectations in the employee relationship which is no different in this situation.
The largest MNCs in the world now have more employees outside of their home
country base than within it. This means that HRM must be politically correct in
their approach to staffing and ensure they consider everyone from different
cultures and backgrounds when working with them. This may not seem like a
simple task but if the staff works with the international HR manager to help them
understand each other, it could make a huge impact.

3. Management Implications

Until recently, very little recognition has been given to the needs of those who
travel for brief periods or assignments overseas, yet their impact on the success
of operations in the other countries may be just as great as longer term
expatriates Mayerhofer, Hartmann, Michelitsch-Riedl & Kollinger, 2004:1376-
1389. The international HR manager must also consider these employees and
ensure that they are being fairly compensated for the sacrifices they are making.
Even if they are only seconded overseas for short periods of time, the employee
is still leaving family commitments behind and using much of their personal time
to travel for the organisation.

In both cases of permanent/long term and short term overseas secondment,
international HR practitioners may be called upon to help the employees better
understand other cultures and increase their cultural competence Short &
Callahan, 2005:121-128. Again, this will help make the overseas assignment go
more smoothly for the employee. Bonache & Fernandez 1997:457 suggest that
the system used for compensation and pay must be externally linked to the
organisation’s strategic goals and consequently to the reason for assignment
overseas. Also, the system must be integrated with all of the expatriation policies
such as selection, training and professional development. Most MNCs are
imprinted with their home country’s culture and traditions, which holds especially
true for the area of IHRM.

Following on from this is the issue of integrating IHRM systems, policies and
procedures from different international and even national contexts Aguilera,
2004: 1355-1370. It can be difficult enough to manage various HRM practices in
domestic individual companies let alone on a MNC basis, so many problems for
the international HR manager could potentially stem from this if integration is not
done sufficiently.

The South African international HR manager could face ethical issues as well
when conducting HR practices in a global context. Under certain circumstances
where expatriates want to work for a MNC, whose parent company is based in
South Africa, it could be a requirement of the host country that a HIV/AIDS test
be done before the expatriate will be allowed to work in the host country. This
could well be a challenge for the international HR manager to persuade those potential expatriates to accept the requirements. Failing to do it could mean that talented employees are unavailable for the MNC.

More implications for the international HR manager in South Africa could be to deal with language differences making the international scene more complex. Marschan-Piekkari, Welch and Welch 1999: 377-390 argue that language differences constituted a boundary that impedes MNCs entering into a new host country. They support language standardisation as it reduces the possibility of miscommunication and enables the ease of accessing company documents including vision and mission statements, procedure manuals and record keeping; they can further share their knowledge with their co-workers to create a better work environment.

Another point of view is shared by De Cieri, Fenwick and Hutchings 2005:584-598 that remuneration is one of the emergent IHRM issues for the future HR manager. They should set up strategies and procedures to reduce dissatisfaction of expatriates in order to reduce the complexity of IHRM.

4. Recommendations

There are many issues such as political-legal, labour market, different cultures, language barriers and employment practices that are constraining MNCs seeking to standardise their original practices in the host country. The South African international HR manager should address these issues to comply with the contexts of the host countries in order to have successful and sustainable businesses. Another issue to address is compensation for the expatriates. They should introduce programmes, procedures and policies to ensure successful and satisfied employees in their MNCs.

Although Schmitt and Sadowski 2003:409 admit that it is an enormous challenge for MNC’s to standardise pay and working conditions, they argue that managers on the same level of the organisation should be paid equally regardless whether they work in the host country or in the parent country. By paying them equally it could ensure fairness. A recommendation is therefore that the international HR managers in South Africa use a ‘local responsive strategy’. It is an employment programme designed according to the needs of the local employees’ cultural norms that are different from the home country’s that have different expectations of pay and employment conditions Wright, Snell and Dyer, 2005: 875-881.

Another strategy advocated almost a decade ago by Milkovich and Bloom 1998: 15-23 is a ‘global integration strategy’ which could still be valid in today’s international environment. This strategy suggests that a MNC should standardise the pay and working conditions programme regardless of the regions to achieve
the aim of fairness. Graham and Trevor 2000:124 explain that these strategies are not wrong but it ought to be applied according to different types of MNCs.

It is of the utmost importance that the South African international HR manager must understand their employees' cultural norms, pay and working conditions expectations before designing any programme and set up conditions. This will ensure that the correct choice of strategies has been made and the best results can be expected after the implementation of the strategies has taken place.

The authors identified the need for a model, Fig 1 below, and developed it to be used by HR managers in South Africa during the transitional stage, from domestic local to international global. The model can be used as a guideline for HR managers to coordinate and integrate policies, structures, procedures, leadership skills and training from a domestic South African organisation to an international organisation or MNC. The model is not restricted to the named four functions in the model being that of HR manager, production manager, service centre and business managers but can be replaced by other different functions in the organisation, as required. It does place emphasis on HRM's contribution to the development of policy and procedure strategies that are important for entering the global arena. HR's contribution to the organisation's strategies is aligned and on the same level of importance as those strategies of the organisation. It is therefore recommended by the authors that domestic local South African HR managers use this model during the transitional stage from domestic to international HRM.
5. Conclusions

There are many aspects of managing human resources internationally that differ from domestic HRM. IHRM is much more complex than domestic based HRM because there is so much more to take into consideration. The international HR manager therefore needs to consider so many aspects when working in a MNC situation. These include the culture of the people, legislation of the host country, expectations of pay and conditions of work from local and expatriate staff and integrating practices and procedures throughout the global company. Considering all of these is important so as to ensure that management can have the best possible working relationship with the staff of the company, whilst getting the best results from them.

The policies and procedures that international HR managers use in managing the global staff will have a big impact on how successful the company will be. Aspects that may be considered minute details to some could have a huge impact on the human resources, such as tools used for retention. An aspect such as this is likely to be different in each country because all cultures and people have different priorities and needs when it comes to the employment relationship. Pay and conditions of employment is too important to employees to standardise
throughout a MNC because as discussed above there are so many potential problems that could arise should they be dissatisfied. Different views were discussed.

Although it is not easy to manage pay packages of employees in a large MNC who are all earning different amounts, employees are likely to be more satisfied and happier if they feel they are being paid what they are worth, especially those who are seconded to work overseas for a certain period of time. Fair treatment is expected by all employees but due to the culture and other differences, expectations vary in different countries. The ‘local responsive strategy’ is the best to use in MNCs where diversity of cultural norms exists. The ‘global integration strategy’ is the most suitable for employees who have similar cultural norms.

A model for use by South African HR practitioners and managers was explained in the recommendations. As the human resources of a company play such a big part in the company’s international success, HR managers in South Africa should always keep this in the forefront of their minds with strategic and international planning.

**References**


