
“शिक्षा मानव को बन्धनों से मुक्त करती है और आज के युग में तो यह लोकतंत्र की भावना का आधार भी है। जन्म तथा अन्य कारणों से उत्पन्न जाति एवं वर्गगत विषमताओं को दूर करते हुए मनुष्य को इन सबसे ऊपर उठाती है।”

— इन्दिरा गांधी



“Education is a liberating force, and in our age it is also a democratising force, cutting across the barriers of caste and class, smoothing out inequalities imposed by birth and other circumstances.”

— Indira Gandhi



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IHRM RELATIONS, ISSUES AND CHALLENGES

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BLOCK 4 IHRM RELATIONS, ISSUES AND CHALLENGES

- Unit 12 explains Employee relations from international perspective. It also explains country specific IR practices.
- Unit 13 discusses the problems encountered by employees whenever mergers and acquisition of companies takes place. Thereby the importance of HR in merger and acquisitions.
- Final unit explains developing of organisational capability and mechanisms of integration in developing IHRM professionals.



UNIT 12 INTERNATIONAL EMPLOYEE INDUSTRIAL RELATIONS IN INTERNATIONAL CONTEXT

Objectives

To understand:

- Global employment relations.
- Neutralizing influence of unions.
- Trade unions membership density in some important countries.
- The response of labor unions in countering the influence of MNCs.
- Employers associations
- Country specific IR practices

Structure

- 12.1 Introduction
- 12.2 MNCs' Characteristics in Neutralizing the Power of Labor Unions
- 12.3 Key Issues In International Industrial Relations
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- 12.6 Country Specific IR Practices
- 12.7 Summary
- 12.8 Self-Assessment Questions
- 12.9 Further Readings

12.1 INTRODUCTION

With the onset of globalization, it has become essential for companies to look into regulatory aspects while using local and international workforce. Government's policy, trade union's attitude, etc., influence Personnel and Industrial Relations (IR) policies. Issues regarding wages, employee participation, training, dismissal, security of employment and social security are related to a variety of collective agreement provisions and statutory regulations.

Apart from the above, there is always a strong influence of local culture and structure of industrial relations on human resource management in its various subsidiaries. There are also significant differences in the intensity of legislation, levels and approaches to negotiations, and degree of involvement. Hence it has become essential for all managers to study Industrial Relations in different countries so as to ensure that all the regulatory requirements are met and the organization treads smoothly on the path to achieving its objectives.

Empirical researches have found out considerable difference in IR practice of MNCs across the countries. For example, according to Hamill (1983), U.S. firms recognized trade unions less than UK firms, preferred not to join employer associations, had more highly developed and specialized personnel departments at plant level, and

tended to pay higher wages and offered more generous employee fringe benefits than local firms. On the basis of a number of studies, one can identify the following factors which affect the involvement of HQ and centralization of decision-making in terms of IR (Dowling, Welch & Schuler, 1999):

Unions' Influence on International IR

Trade unions may influence the strategic choices of MNCs in the following ways:

1. **Influencing wage levels:** Labor cost is a major chunk of overall operational cost of an MNC and consequently lower labor cost make the MNC's operations cost effective. If the labor cost increases due to trade union demands, then, a MNC may suffer from cost non-competitiveness.
2. **Affecting the MNC's ability to vary employment levels at will:** Many countries have legislation that limits the ability of management to close the plants, to layoff and standardizes the MNCs compensation policy, retirement policy, and so on. Trade unions may use their home country legislation or international standardized legislations as a shield to protect the interests of the employees. This might appear fair from a pro-employee point of view but will restrict the MNCs ability to devise their own employment policy.
3. **Restricting MNCs discretion of social dumping:** Social dumping means shifting the work load from one region to another. Since, it affects the employment levels of a country or region, union may try to reduce this activity.

12.2 MNCs' CHARACTERISTICS IN NEUTRALIZING THE POWER OF LABOR UNIONS

The following characteristics of MNCs neutralize the negotiating powers of labor unions, with regard to collective bargaining and other related issues:

- **Massive financial resources to absorb losses in a foreign subsidiary (s):** In this case, union's bargaining power is naturally weakened since the MNC has no need to depend on only one subsidiary to generate overall profit for the organization. Thus the trade unions will stand to lose if they take an inflexible stand.
- **Options to shift production units to other countries:** Since an MNC has several options to set up and operate its production units in various locations, job security of employees, especially at the shop floor level, may be at stake. This may lead to a situation where the trade union needs to compromise on certain employment issues to ensure the employees' interest, at least to a certain extent, failing which the employees may opt out of trade union membership
- **Distance between the HQ and subsidiary:** In case of MNCs, trade unions / often face the problem for not having direct, transparent and timely communication. This problem arises due to the physical distance and problems relating to difference in time zones between HQ and subsidiary locations.

MNCs' Strategy towards International IR

1. **Conflict or inflexible, uncompromising hostility:** Management frustrates the demands of union, grants nothing as benefits and ultimately employees do not vote for this union.

Advice for Companies Going Global

The key to expanding successfully overseas is to become one with the culture of the location, even if it means unionization of employees, Michael R. Quinlan, chairman and chief executive officer of McDonald's Corp., tells conferees at a meeting of the Human Resources Management Association of Chicago.

After opening fast-food restaurants in 53 nations, McDonald's has learned that it must follow the established practices of a foreign country to succeed there, Quinlan says. For example, a number of European countries and Australia have very strict unionization standards, and operations there are unionized as a condition of doing business. Acknowledging that McDonald's has had some 'horrible union fights around the world,' Quinlan advises employers considering expansion into other nations to 'do it their way, not your way'.

The main implication of dealing with unions is the increased cost of wages and benefits, according to Quinlan. Still, he adds that he does not feel that unionization has interfered with employee's loyalty to McDonald's, or to the company's philosophy of service and employees motivation. Declaring that unions do not 'bring much to the equation' of the employee-employer relationship, Quinlan says McDonald's 'basically a non-union company' and intends to stay that way.

Another source of difficulty for McDonald's in its expansion overseas lies in the fact that fast-food restaurants are unfamiliar in most nations. Opening the first McDonald's inside the Communist bloc, in Yugoslavia, took 12 years, Quinlan notes. He also points out that the company's policy is to staff its restaurants, from crew through management, only with nationals — for the 3,300 foreign outlets, the corporation employs only 35 expatriate US citizens, and its goal is to have 100% local employees within five years.

Source: Bureau of National Affairs, Bulletin to Management, March 7 (1991), Volume 42, pp. 66-67

12.3 KEY ISSUES IN INTERNATIONAL INDUSTRIAL RELATIONS

Economic, political and legal systems of different nations are different and so is the industrial relations system. Hence MNCs generally delegate IR management to the foreign subsidiaries. However the headquarters do not totally ignore this aspect since the labour agreements entered into by the subsidiaries may affect the international plans of the firm and create precedents for negotiations in other countries.

For example, a series of studies by Hamill (1983) found that the U.S. firms were less likely than their British counterparts to recognize trade unions, preferred not to join employers associations, had more highly developed and specialized personnel departments at plant level, and tended to pay higher wages and offer more generous employee fringe benefits than local firms. Multinational headquarters involvement in industrial relations is influenced by several factors as detailed below:

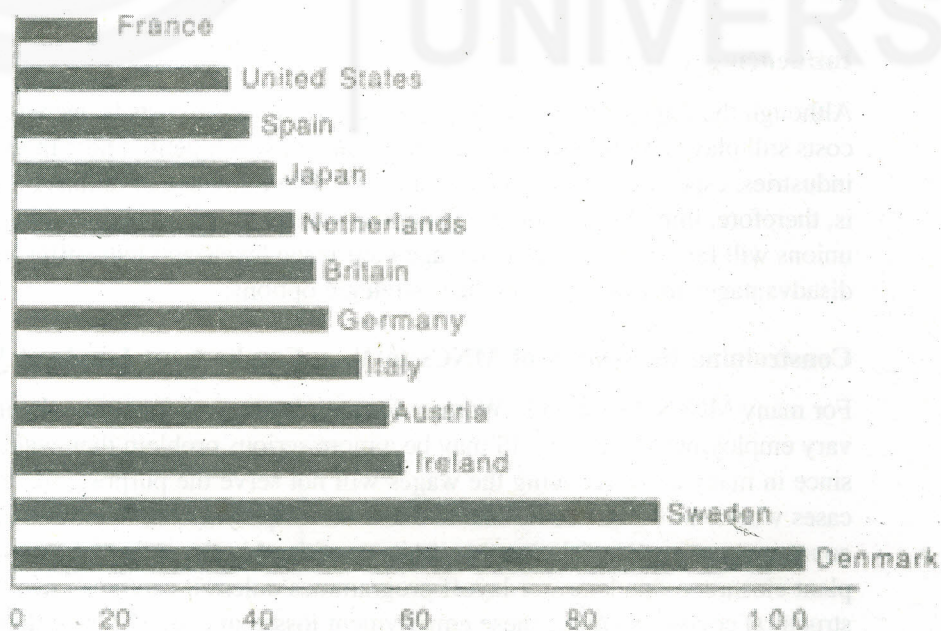
- a) ***The Degree of Inter-Subsidiary Production Integration:*** According to Hamill (1983) Centralization of Industrial relations is more common in MNCs where there is a high degree of integration between subsidiary units. Industrial relations throughout a system become of direct importance to corporate headquarters when transnational sourcing patterns have been developed; that is, when a subsidiary in one country relies on another foreign subsidiary as a source of components or as a user of its output (Robok and Simmonds, 1989). In this context, a coordinated industrial relations policy is one of the key factors in a successful global production strategy (Heflax, 1981). One example of the development of an international policy for industrial relations can be seen in the introduction of employee involvement across Ford's operations (Starkey and McKinlay, 1993).

- b) ***Nationality of Ownership of the Subsidiary:*** There is evidence of differences between European and U.S. firms in terms of headquarters involvement in industrial relations (Roberts and May, 1974). U.S. firms tend to exercise greater centralized control over industrial relations than do British or other European firms (LaPalombara and Blank, 1976). U.S. firms tend to place greater emphasis on formal management controls and a close reporting system (particularly within the area of financial control) to ensure that planning targets are met. In his review of empirical research of this area, Ban (1985) showed that foreign-owned multinationals in Britain prefer single-employer bargaining (rather than involving an employer association), and are more likely than British firms to assert managerial prerogative on matters of labour utilization. Further, Hamill (1983) found U.S.-owned subsidiaries to be much more centralised in industrial relations decision-making than British-owned. Hamill attributed this difference in management procedures to the more integrated nature of U.S. firms, the greater divergence between British and U.S. industrial relations systems than between British and other systems, and the more ethnocentric managerial style of U.S. firms.
- c) ***International Human Resource Management Approach:*** Earlier we discussed the various international human resource management approaches utilized by multinationals; these have implications for international labour relations. Interestingly, an ethnocentric predisposition is more likely to be associated with various forms of industrial relations conflict Marginson (1992). Conversely, more geocentric firms will bear more influence on host-country industrial relations systems, due to their greater propensity to participate in local events (Lucio *et al.*, 1994).
- d) ***MNC Prior Experience in Industrial Relations:*** European firms have tended to deal with labour unions at industry level (frequently via employer associations) rather than at firm level. The opposite is more typical for U.S. firms. In the United States, employer associations have not played a key role in industrial relations system, and firm-based industrial relations policies are the norm (Bean, 1971).
- e) ***Subsidiary Characteristics:*** A number of subsidiary characteristics to be relevant to centralization of industrial relations. First, subsidiaries that are formed through acquisition of well established indigenous firms tend to be given much more autonomy over industrial relations than are greenfield sites set up by a multinational firm (Hamill (1983). Second, according to Enderwick (1984), greater intervention would be expected when the subsidiary is of key strategic importance to the firm and the subsidiary is young. Third, where the parent firm is a significant source of operation or investment funds for the subsidiary, that is, where the subsidiary is more dependent on headquarters for resources, there will tend to be increased corporate involvement in industrial relations and human resource management (Rosenzweig and Nohria, 1994). Finally, poor, subsidiary performance tends to be accompanied by increased corporate involvement in industrial relations. Where poor performance is due to industrial relations problems, multinationals tend to attempt to introduce parent-country industrial relations practices aimed at reducing industrial unrest or increasing productivity (Hamill, 1983).
- f) ***Characteristics of the Home Product Market:*** An important factor is the extent of the home product market. If domestic sales are large relative to overseas operations (as is the case with many U.S. firms), it is more likely that overseas operations will be regarded by the parent firm as an extension of domestic operations. This is not the case for many European firms, whose international operations represent the major part of their business. Lack of a

large home market is a strong incentive to adapt to host-country institutions and norms. Since the implementation of the Single European Market in 1993, there has been growth in large European-scale companies (formed via acquisition or joint ventures) that centralize management organization and strategic decision-making. However, processes of operational decentralization with regard to industrial relations are also evident (Marginson et al, 1993).

- g) **Management Attitudes towards Unions:** An additional important factor is that of management attitudes or ideology concerning unions (Lodge, 1985). Knowledge of management attitudes concerning unions may provide a more complete explanation of multinational industrial relations behaviour than could be obtained by relying solely on a rational economic model. Thus, management attitudes should also be considered in any explanation of managerial behaviour along with such factors as market forces and strategic choices. This is of particular relevance to U.S. firms, since union avoidance appears to be deeply rooted in the value systems of American managers (Kochan et al., 1984).

As below mentioned chart shows, Denmark has the highest level of union membership, the US has the second lowest and France has the lowest in the Western world (European Foundation, 2003). Hence French and U.S. managers are less likely to have extensive experience with unions than managers in many other countries. Hence they may find the going tough if they are exposed to unionism in foreign countries, all of a sudden. Worldwide trade union membership has fallen over the past decade, although the decline is not universal. The commonly cited reasons for the decline are economic factors such as reduced public sector employment, reduced employment in manufacturing industries as a share in total employment, and increased competition; it is also suggested to be associated with decentralization of industrial relations to business unit level, changes in governance, and legislative changes. For example, the sharpest drop in union density (almost 36% over the past decade) has been in central and eastern Europe, and may be explained by political and economic changes associated with the dissolution of the Soviet bloc and the end of compulsory union membership. Union membership decline is also linked to the introduction of new forms of work organization, globalization of production, and changes in workforce structure (Frazee, 1998).



12.4 TRADE UNIONS AND INTERNATIONAL INDUSTRIAL RELATIONS

Although there are several problems inherent in data collection for a cross-national comparison of union-density rates, several theories have been suggested to explain the variations among countries. Such theories consider economic factors such as wages, prices, and unemployment levels; social factors such as public support for unions; and political factors. In addition, studies indicate that the strategies utilized by labour, management, and governments are particularly important (Visser, 1988).

Another key issue in international industrial relations is industrial disputes. Hamill (1983) examined strike-proneness of multinational subsidiaries and indigenous firms in Britain across three industries. Strike-proneness was measured via three variables—strike frequency, strike size, and strike duration. There was no difference across the two groups of firms with regard to strike frequency, but multinational subsidiaries did experience larger and longer strikes than local firms. Hamill suggests that this difference indicates that foreign-owned firms may be under less financial pressure to settle a strike quickly than local firms—possibly because they can switch production out of the country. Thus the bargaining powers of the unions are considerably lower in the case of foreign-owned firms and hence it is quite unlikely that the trade unions can arm-twist the MNCs.

Overall, it is evident that international industrial relations are influenced by a broad range of factors. Commenting on the overall results of his research, Hamill (1983) concluded that: General statements cannot be applied to the organization of the industrial relations function within MNCs. Rather, different MNCs adopt different industrial relations strategies in relation to the environmental factors peculiar to each firm. In other words, it is the type of multinational under consideration which is important rather than multinational itself.

Trade unions may limit the strategic choices of multinationals in three ways: by influencing wage levels to the extent that cost structures may become uncompetitive, by constraining the ability of multinationals to vary employment levels at will, and by hindering or preventing global integration of the operations of multinationals (Pralhad and Doz, 1987).

Influencing Wage Levels

Although the importance of labour costs relative to other costs is decreasing, labour costs still play an important part in determining cost competitiveness in most industries, especially where margins are thin. The influence of unions on wage levels is, therefore, important. Multinationals who give in to unreasonable demands of trade unions will fail to successfully manage their wage levels and will suffer labour cost disadvantages that may narrow their strategic options.

Constraining the Ability of MNCs to Vary Employment Levels at Will

For many MNCs operating in Western Europe, Japan, and Australia, the inability to vary employment levels at will may be a more serious problem than wage levels, since in many cases reducing the wages will not serve the purpose; there may be cases where the MNC would like to show the employees the door. But many countries now have legislation that limits considerably the ability of firms to carry out plant closure, redundancy, or layoff programmes unless it can be shown that structural conditions make these employment losses unavoidable and that the MNC has no other option. Plant closure or redundancy legislation in many countries also frequently specifies that firms must compensate redundant employees through specified formula such as two weeks' pay for each year of service. In many

countries, payments for involuntary terminations are rather substantial, especially in comparison to those in the United States, thus making even the termination unviable.

Unions may influence this process in two ways: by lobbying their own national governments to introduce redundancy legislation, and by encouraging regulation of MNCs by international organizations such as the Organization for Economic Cooperation and Development (OECD). Multinational managers who do not take these restrictions into account in their strategic planning may well find their options severely limited. In fact, recent evidence shows that MNCs are beginning to consider the ability to dismiss employees to be one of the priorities when making investment location decisions (Goodheart, 1993).

Preventing Global Integration of MNC Operations

In recognition of these constraints, many MNCs make a conscious decision not to integrate and rationalize their operations to the most efficient degree, because to do so could cause industrial and political problems. Prahalad and Doz (1987) cite General Motors as an example of this "suboptimizing or integration." GM was alleged in the early 1980s to have undertaken substantial investments in Germany (matching its new investments in Austria and Spain) at the demand of the German metalworkers' union (one of the largest industrial unions in the Western world) in order to foster good industrial relations in Germany. One observer of the world auto industry suggested that car manufactures were suboptimizing their manufacturing networks partly to placate trade unions and partly to provide redundancy in sources to prevent localized social strife from paralyzing their network. This suboptimization led to unit manufacturing costs in Europe that were 15% higher, on average, than an economically optimal network would have achieved.

Union influence thus only delays the rationalization and integration of MNCs' manufacturing networks and increases the cost of such adjustments (Pralhad and Doz, 1987). But also, at least in such industries as automobiles, permanently reduces the efficiency of the integrated MNC network. Therefore, treating industrial relations as incidental and relegating them to the specialists in the various countries is inappropriate. In the same way as government policies need to be integrated into strategic choices, so do industrial relations.

The Response of Trade Unions to MNC's

MNCs wield great power and influence, and as a result Trade Unions see them as a threat.

While it is recognized that MNCs are "neither uniformly anti-union nor omnipotent and monolithic bureaucracies," (Allen, 1993) their potential for lobbying power and flexibility across national borders cripple trade unionism and weaken the power of the unions. There are several ways in which MNCs have an impact on trade union and employee interests. Kennedy (1980) has identified the following seven characteristics of MNCs as the source of labour unions' concern about multinationals:

- **Formidable financial resources:** MNCs can afford to incur losses in a subsidiary and still make an overall profit for the company as a whole. Union bargaining power may be threatened or weakened by the broader financial resources of a multinational. This is particularly evident where a multinational has adopted practices of transnational sourcing and cross-subsidization of products or components across different countries. "The economic pressure which a nationally based union can exert upon a multinational is certainly less than would be the case if the company's operations were confined to one country" (Bean, 1988).

- **Alternative sources of supply:** This may take the form of an explicit “dual sourcing” policy to reduce the vulnerability of the multinational to a strike by any national union. A company which is following such a policy will be able to ignore trade union demands and still carry on with its business. Also, temporary switching of production in order to defeat industrial action has been utilized to some extent, for example, in the automotive industry (Bean, 1988).
- **The ability to move production facilities to other countries:** A reported concern of employees and trade unions is that job security may be threatened if a multinational seeks to produce abroad what could have, or previously has, been manufactured domestically. This can be a nightmare to the trade union, since if this happens, the members (employees) of the union may desert it during the period of crisis. And that is precisely what the MNC wants. National relative advantages provide MNCs with choice as to location of units. Within the EU, for example, evidence suggests that multinational management is locating skill-intensive activities in countries with national policies promoting training and with relatively high labour costs. Conversely, semi-skilled, routine activities are being located in countries with lower labour costs (Merginson, 1993). Threats by MNCs, whether real or perceived, to reorganize production factors internationally, with the accompanying risk of plant closure or rationalization, will have an impact on management-labour negotiations at a national level, as such measures on the part of the MNC will lead to widespread unemployment and economic unrest. However, technical and economic investments already made would reduce a multinationals propensity to relocate facilities, since the MNC would not like to incur heavy losses just to defeat the trade union
- **A remote locus of authority** (i.e., the corporate head-office management of a multinational firm): While many multinationals report decentralization and local responsiveness of HRM and industrial relations, trade unions and works councils have reported that the multinational decision-making structure is opaque and the division of authority obscured. Further, employee representatives may not be adequately aware of the overall MNC organisational strategy and activities (Mahnkopf and Altvater, 1995).
- **Production facilities in many industries:** As Vernon (1977) has noted, most multinationals operate in many product lines.
- **Superior knowledge and expertise in labour relations.**
- **The capacity to stage an “investment strike”**, whereby the multinational refuses to invest any additional funds in a plant, thus ensuring that the plant will become obsolete and economically uncompetitive. This can be seen as a case where the MNC is taking the trade unions head-on.

Another issue reported by trade unions is their claim that they have difficulty accessing decision-makers located outside the host country and obtaining financial information. For example, according to Martinez Lucio and Weston (1995):

“Misinformation has been central to the management strategy of using potential investment or disinvestment in seeking changes in certain organizations. For example, in companies such as Heinz, Ford, Gillette, and General Motors, workers have established that they had on occasions been misinformed by management as to the nature of working practices in other plants.”

The response of trade unions to multinationals has been threefold: to form international trade secretariats (ITSSs), to lobby for restrictive national legislation, and finally, to try and achieve regulation of multinationals by international organizations.

International Trade Secretariats (ITSSs): There are 15 ITSSs, which function as

loose confederations to provide worldwide links for the national unions in a particular trade or industry (e.g., metals transport, and chemicals). The secretariats have mainly operated to facilitate the exchange of information (Neuhaus, 1982). One of the fastest growing of the ITSs is the International Federation of Commercial, Clerical, Professional, and Technical Employees (generally known by its French initials. FIET), which is focused on the service sector. The long-term goal of each ITS is to achieve transnational bargaining (Willatt, 1974) with each of the multinationals in its industry. Each ITS has followed a similar programme to achieve the goal of transnational bargaining. The elements of this program are: (1) research and information, (2) calling company conferences, (3) establishing company councils, (4) companywide union-management discussions, and (5) coordinated bargaining. Overall, the ITS *have met with limited success* the reasons for which Northrup (1978) attributes to (1) the generally good wages and working conditions offered by multinationals, (2) strong resistance from multinational firm management, (3) conflicts within the labour movement, and (4) differing laws and customs in the industrial relations area.

Lobbying for Restrictive National Legislation: On a political level, trade unions have for many years lobbied for restrictive national legislation in United States and Europe. The motivation for trade unions to pursue restrictive national legislation is based on a desire to prevent the export of jobs via multinational investment policies. For example, in the United States, the AFL-CIO has lobbied strongly in this area (Kansidy, 1980). A major difficulty for unions when pursuing this strategy is the reality of conflicting national economic interests. In times of economic downturn, this factor may become an insurmountable barrier for trade union officials, as outsourcing of jobs to low wage countries, like India, is the best bet to contain the expenses, which ought to be controlled if the firm is to withstand the storm.

Regulation of MNCs by International Organization: Attempts by trade unions to exert influence over multinationals via international organizations have met with some success. Through trade union federations such as the European Trade Union Confederation (ETUC) and the International Confederation of Free Trade Unions (ICFTU), the labour movement has been able to lobby the International Labour Organization (ILO), the United Nations Conference on Trade and Development (UNCTAD), (UNCTC, 1985) the Organization for Economic Cooperation and Development (OECD), and the European Union (EU). The ILO has identified a number of workplace-related principles that should be respected by all nations: freedom of association, the right to organize and collectively bargain, abolition of forced labour, and non-discrimination in employment. In 1977, the ILO adopted a code of conduct for multinationals (Tripartite Declaration of Principles Concerning MNEs and Social Policy) (Leonard, 1991). The ILO code of conduct, which was originally proposed in 1975, was influential in the drafting of OECD guidelines for multinationals, which were approved in 1976. These voluntary guidelines cover disclosure of information, competition, financing, taxation, employment and industrial relations, and science and technology (Campbell and Rowan, 1983).

A key section of these guidelines is the *umbrella or chapeau clause*, (the latter is the more common term in the literature) that precedes the guidelines themselves. This clause states that MNCs should adhere to the guidelines within the framework of law, regulations and prevailing industrial relations and employment practices, in each of the countries in which they operate. Campbell and Rowan (1983) state that employers have understood the chapeau clause to mean compliance with local law superseding the guidelines, while trade unions have interpreted this clause to mean that the guidelines are a supplement to national law. The implication of this latter interpretation is significant: a firm could still be in violation of the OECD guidelines even though its activities have complied with national law and practice. Given the ambiguity of the chapeau clause and the fact that the OECD guidelines are voluntary, it is likely that this issue will remain controversial.

A recent development with the OECD guidelines (which are addressed by 36 OECD and non-OECD governments) has been follow-up procedures. The system of National Contact Points promotes observance of the guidelines by MNEs operating in or from the governments' territories. It appears that this system is now having some influence on MNC behaviour in the industrial relations area. As the Chair of the 2002 Annual Meeting of the National Contact Points noted (OECD, 2002).

It appears that the guidelines are making a difference. Many companies have publicly acknowledged that they use the guidelines as a benchmark for good behaviour. The guidelines are being used to help prevent misunderstandings and promote mutual confidence and predictability specific instances where there are questions about whether or not a company has observed the guidelines in a particular business situation have been considered so far.

However, it is generally believed that voluntary codes of conduct are toothless; Hence European trade unions have also lobbied the Commission of the European Union to regulate the activities of multinationals. Unlike the OECD, The Commission of the EU can translate guidelines into law, and has developed a number of proposals concerning disclosure of information to make multinationals more "transparent" (Latta and Bellace, 1983).

12.5 EMPLOYERS' ASSOCIATIONS AND THE INTERNATIONAL FIRM

International employers' associations

One would tend to think that International employers' organizations were established in response to the emergence of an international labour movement. However the truth is that they came into being following the growth of supranational governmental organizations. Therefore, institutions such as the Union of Industrial and Employers' Confederation of Europe (UNICE) in Brussels, the International Organization of Employers (IOE) in Geneva, and the Business and Industry Advisory Committee to the OECD (BIAC) in Paris tend to be of more recent origin and concerned with a more limited domain than their trade union counterparts (Bamber and Lansbury, 1993). National-level employers' associations were established for a host of reasons, including an effort to counter the growth of trade unionism, to develop employer alliances to regulate the market, and in response to growing state intervention in the employment relationship (Bean, 1985). However, employers began to organize at the international level for quite different reasons. From the perspective of the international firm, international employers' associations serve three main functions; they lobby on behalf of business and capital; they provide information to their members and they help develop and monitor international guidelines.

Lobbying on Behalf of Business and Capital

Large companies tend to establish strong links with their national government to encourage them to develop a pro-business environment conducive to industrial growth. This is important as the companies cannot thrive in an atmosphere marred with political instability, criminal violence, corruption, favoritism etc. Similarly, as MNCs flourished, international companies began to form associations with the aim of encouraging a business-friendly environment at the international level.

A glance at the EU provides an excellent example of the crucial role which international business associations play in regard to IR in international firms. The UNICE was established in 1958 as the official voice of industry in Europe; it is made up of 33 employers' federations from 25 European countries. The UNICE is systematically approached by the EU Commission for its opinion on proposals. Its

former Secretary-General, Zygmunt Tyskiewicz, explained, 'We are in touch. It's a very open bureaucracy, the Commission, it is very approachable. And they feel that we can help them (Balanya *et al.*, 2000: 38). The UNICE 'Mission' is: to influence decision-makers at the European level. Of course the word 'lobby' is not used, but that's what it's all about. (Interview with Christophe de Callatay, UNICE Communications Director, Brussels, 18 November 1998, in Balanya *et al.*, 2000:37)

Providing Information for Members

The European Commission does not employ many officials; it depends on consultation with interest representatives amongst others for drafting directives and monitoring compliance with them (Streeck and Schmitter, 1992: 202). The UNICE represents employers' interests on every issue which the EU addresses, from taxes and training to energy and carbon dioxide emissions. The UNICE is the official voice of employers in the EU's Social Dialogue. The Treaty on European Union requires the European Commission to solicit opinions or recommendations from the social partners before it submits legislative proposals to the Council. Besides this official voice the UNICE represents employers on a European level by approaching EU ministers individually and through national-level media, such as the *Financial Times*. This approach has paid dividends, an example being the UNICE's opposition to a Europe-wide energy tax to reduce greenhouse gas emissions. Attempts to introduce such a tax were snuffed out in 1992, 1995, 1997 and, most recently, 1998 in the face of opposition of industry and a few member states (Balanya *et al.*, 2000).

Similarly, the American Chamber of Commerce, or AmCham, is a lobby group representing 145 US-based corporations. AmCham is regarded as one of the most powerful lobby groups in Brussels, and has helped to shape key policy areas including the EU's stance on incineration and regulations on electronic commerce.

Monitoring and Developing International Guidelines

Postwar growth resulted in the nourishing of MNCs so that, by 1980, of the 100 largest powers in the world, 53 were countries and 47 were MNCs (Regan, 1984). The OECD responded to this phenomenal growth of business by drafting guidelines for multinational enterprises. The guidelines were first introduced in 1976, and represented the first internationally agreed framework for cooperation in the field of international direct investment and multinational enterprises which was accepted and supported by business and labour (OKCI, 1991). The guidelines are voluntary and there are no means by which transgressions can be judged or penalized. But consultation facilities are provided by the international organizations for unions and employers (Bamber and Lansbury, 1993).

National Employers' Associations

Despite employers' three key international functions, it appears that business still prefers to act on a national level and the evidence suggests national employers' associations are the real players in establishing the type of IR which international firms must comply with. All the research concludes that employers, like their labour counterpart, tend to be reluctant to delegate power to supra-national associations (Lanzalaco, 1992; Greenwood, 1997). Streeck and Schmitter (1992: 206) explain, "By not delegating authority upwards to the European level, employers were and still are able to confine institutions like the Social Dialogue to a strictly non binding, consultative status'. While institutions such as the UNICE and AmCham wholly support the integration of regional trading zones such as the EU, they do not support the simultaneous growth of these zones' regulatory capacity. When it comes to governing IR, employers' associations, even those belonging to MNCs, prefer to operate within a national framework.

The Commission does work at the behest of the Council of Ministers ... [E]ffectively, it goes back to the national level and what national governments collectively decide to do, is what the Commission will progress. So, I think it shouldn't be forgotten that in order to influence anything that is going on in Europe, the national level can be just as effective as approaching bodies, be it the Commission or whoever. (Interview with O'Hagan conducted with Social Affairs Executive, Irish Business and Employers Confederation, September 1996).

Case Study: McDonald's IR Practices – The Predominance Of The National Level

Managers at MNC headquarters do not tend to influence industrial relations throughout subsidiaries in a universal manner. Instead, despite their global presence, they usually operate nationally in an effort to shape employee relations in their favour. Research into McDonald's illustrates this approach.

McDonald's tops the German fast-food market with an annual turnover of DM 4,235 million per year. Germany, with its strong statutory terms of worker representation, presented the McDonald's corporation with an enormous challenge. Royle notes that management 'back home' tend to be opposed in principle to the notion of employee participation and involvement and indigenous managers reflect this stance, he found that management adopted a number of tactics over the years to avoid employee participation in any form. In the early 1970s after McDonald's first established itself in Germany, the company simply failed to fulfil national statutory obligations in industrial relations in a rather cavalier fashion. The company was able to ignore such legislation because it is registered as an American, rather than a German, limited liability company (*Gesellschaft mit beschränkte Haftung GmbH*). However, this outright opposition to national IR practices created a hostile public reaction and management switched strategies. By the mid-1980s McDonald's aimed to discourage the establishment of Works Councils by using more subtle techniques. 'Flying squads' of trouble shooters were deployed in those firms in which employees wished to establish works councils. More recently, a 1994 document distributed in the German head office indicated a further change tactics. It urges store managers to handle the Works Council issue very carefully, leaving all major decision making on the matter to the head office in Munich. It recommends that those stores which already operate a Works Council should occupy the works councillors with tasks, such as organizing Christmas celebrations, to distract them from more normal IR business. The German study clearly shows that it was necessary to address the issue of employee participation in a manner which was suitable for the German context, and very early on the US headquarters' approach was found to be wholly unsuitable.

Source: Based on Royle (2002)

1.6 COUNTRY SPECIFIC IR PRACTICES

Below are briefly given some country-specific IR practices.

Australia

General description Legal framework: Workplace Regulations and other Legislation Amendment Act 1996 (WAR) provides freedom of association, voluntary membership, clauses against discrimination based on membership or non-membership, facilitating the establishment of new trade unions for increased competition (number of minimum members reduced from 100 to 50). There is a limited right to strike or lock out during labour negotiations and strike pay is prohibited.

Employers' associations: The Australian Chamber of Commerce and Industry (ACCI) is one of a number of councils of the Australian business associations. ACCI's members are employer organisations in all states and territories and all major sectors of Australian Industry. Additional associations at the national level are the Australian Chamber of Manufactures, the Metal Trades Industry Association of Australia, the National Farmers' Federation and Master Builders Australia.

Trade unions: The Australian Council of Trade Unions (ACTU) is the national council which represents the Australian workforce. About 50 professional and industry associations are affiliated with the ACTU. Trade unions may be appointed as bargaining agents in AWAs (Australian Workplace Agreements) and may negotiate CAs (Certified Agreements).

Level of wage negotiations: Industrial Relations Acts, 1987-1998 led to the decentralization of negotiations. About half of wage negotiations occur at the state / territory level and half at the federal level.

Mediation, Conciliation and Arbitration: Conciliation and arbitration were compulsory in Australia until 1988. However, responsibility of determining wages and working conditions has been shifted on bargaining at the company level.

Wage related issues: There is no statutory minimum wage, but a multitude of minimum wages for different crafts and occupations has been defined. In case of continuous sickness, no pay is provided by employer; sickness allowance is means-tested and completely funded by the government. Training is not mandatory.

Austria

General description /Legal framework: Austrian labour law is based on constitutionally guaranteed liberal fundamental rights: freedom of association and freedom of assembly, the principle of equality, freedom of establishment, freedom of occupation, and the prohibition of forced labor. The statutory associations of employers and employees (Chambers, the autonomous public corporations) have compulsory membership and function legally.

Employee associations: Establishment of Works Councils in all companies, with at least five employees who are eligible to vote, is compulsory. The number of Works Council members depends on the number of employees in the company. A Works Council represents all the employees in the company, regardless of union membership.

Employers' associations: Membership is compulsory in single business groups at state level and also in the WKO Federal Chamber of Business of Austria and its special associations. The WKO consists of six national sections: industry, commerce, crafts, finance, transport and tourism.

Trade unions: The OGB (Trade Union Confederation) consists of 14 individual trade unions that are not legal entities. Individual trade unions are responsible for negotiations; agreements are signed by the OGB. Some of the largest OGB affiliates are the Union for Private Salary Earners, the Union of Local Authority Employees (Gewerkschaft der Gemeindebediensteten, GdB) and the Construction and Timber Trade Union (Gewerkschaft Bau-Holz, GBH).

Mediation, Conciliation and Arbitration: Arbitration is compulsory at the level of employment relations under certain conditions (e.g. dismissal of a handicapped employee). In industrial tribunals, three to five judges are appointed, two of whom must be an employer and an employee of the respective industry.

Wage related issues: No statutory minimum wage is determined. Collective agreements lay down minimum standards. As sickness pay, employers pay 100% of covered earnings for first 4-10 weeks for wage earners and 6-12 weeks (plus 4 additional weeks at 50%) for salaried employees, according to worker's length of service in establishment.

Canada

General description / Legal framework: The Canadian Labor Code establishes the freedom of employees and employers to join trade unions and employers organizations and to participate in legally defined activities. Strikes and lockouts are not permitted during the term of a labor agreement. Notice to bargain for renewal and revision of an existing collective agreement may be given by either party within three months of the expiry date.

Employee involvement: There is no statutory framework for Works Councils in Canada. However, National Labor Law requires the establishment of health and safety committees with employer and employee representatives in work places with 20 or more workers.

Employers' associations: The Business Council on National Issues (BCNI) represents the interests of the large Canadian corporations. The Canadian Chamber of Commerce (CCC) represents both, large and small business. The Canadian Federation of Independent Business (CFIB) represents the interests of small and medium-sized businesses.

Trade unions: Canadian Labor Congress (CLC) is by far the largest trade union federation and labor organization which represents 2.3 million members and the vast majority of the unions in the country. All provinces have provincial labor federations under the CLC.

Level of wage negotiations: Collective bargaining in Canada is largely undertaken at the firm level and is decentralized.

Mediation, Conciliation and Arbitration: There is an obligation for conciliation and arbitration. Parties do not acquire the right to strike or the right of lockout until conciliation process is completed. The Federal Mediation and Conciliation Service (FMCS) offers conciliation, mediation, preventive mediation and grievance mediation.

Wage related issues: All paid workers are subject to legislated provincial minimum wages. No continued pay in case of sickness by employer is given.

Promotion of employee participation in profits and enterprises results (Pepper): There are three types of profit sharing plans in Canada: (1) Cash Profit-Sharing Plans (CPSP) –cash payments; (2) Deferred Profit-Sharing Plans (DPSPs) - with limited contributions made by both, the employer and the employee; (3) Employee Profit-Sharing Plans (EPSPs) -no limit to the amount that can be deposited.

France

General description / Legal framework: The right to employment, non-discrimination on grounds of origin, opinions and beliefs have been constitutionalized. Collective agreements deal with matters relating to conditions of work and employment and to social guarantees. Trade unions or labor associations can be freely constituted of persons carrying out the same occupation and each representative trade union can decide to set up a trade union section within the company.

Employers' associations: The MEDEF (Mouvement des Entreprises Francaises) comprises more than 80 employers' associations organized at the sectoral level according to the type of manufacturing, commerce and services, and more than 160 associations at the local level. The largest sectoral association is the UIMM (Union des Industries Minières et Metallurgiques), the metalworking and mining employers' federation. There is also the CGPME (Confederation Generate des Petites et Moyennes Entreprises) mainly comprising small and medium-sized enterprises.

Trade unions: The trade unions affiliated with the following trade union confederations are representative by right: CGT (Confederation General du Travail), CGT-FO (Confederation General du Travail-Force Ouvriere), CFDT (Confederation Francaise Democratique du Travail), CGC (Confederation General des Cadres) and CFTC (Confederation Francaise des Travailleurs Chretiens).

Level of wage negotiations: Collective agreements are concluded between one or more trade union organisations that are recognised as being representative at the national level or by associations affiliated with these organisations and whose members are affected by the agreement or accord.

Mediation, Conciliation and Arbitration: Individual conflicts between employers and employees about labor contracts are arbitrated by the Conciliation Boards (Conseil des Prudhommes). A conciliation procedure is compulsory for any case taken to the "Conseil des Prudhommes". If the conciliation procedure fails, a decision is made by the Conseil. Members of the "Conseil des Prudhommes" are elected for 5 years at the local level. Each local section includes at least 4 employer representatives and 4 employee representatives.

Wage related issues: The statutory minimum wage is increased periodically. Employers pay the first three days of sickness and sickness benefits are paid thereafter.

Promotion of employee participation in profits and enterprises results (Pepper): Government policy promotes "peppers". Enterprises with more than 50 employees are obliged to allow participation of employees in company results. Tax preferences for deferred share based profit sharing for companies with less than 51 employees were increased in 1994.

United Kingdom

General description/Legal framework: The 1999 Employment Relations Act contains provisions for compulsory union recognition. There is no provision for the extension of collective agreements, which do not possess contractual status. The contents of agreements, which are largely reached at company level, are very diverse. There is less legal regulation of individual employment than in most other European countries, though there have been some recent elaborations of individual employment law, in many cases to comply with EU directives.

Employee involvement: There has been no general legal requirement for employee involvement at company level. However, as a result of European legislation, there are provisions covering consultation of employee representatives in cases where production facilities are moved or change ownership and in case of collective redundancies.

Employers' associations: The Confederation of British Industry (CBI) is the main representative body of employers. Its membership includes both, firms and industry based associations. In Britain, employer organizations have a much lower profile than in most other EU countries.

Trade unions: The Trade Union Congress (TUC) is the umbrella organisation of the trade unions. The TUC has no power to bargain directly with employers; its main functions are the representation of the trade union movement as a whole and trade union education. There are over 200 registered unions in Britain, roughly 70 of which are affiliated with the TUC.

Level of wage negotiations: Wage determination in the UK is decentralized.

Mediation, Conciliation and Arbitration: The ACAS (Advisory, Conciliation and Arbitration Service) is the main body involved in conciliation and arbitration. The

largest part of ACAS's work is individual conciliation. Arbitration is relatively only a small part of its work, mainly because, it has no powers to arbitrate without the consent of both sides.

Wage related issues: In April 1999 a national minimum wage was introduced for Britain's employees. The Statutory Sick Pay must be paid by employers to employees who are sick for at least four days in a row, including weekends and holidays.

Promotion of employee participation in profits and enterprises results (Pepper): Since 1978, the legislation provides generous tax advantages to firms introducing Pepper schemes, but schemes must be approved by the Inland Revenue Service.

Germany

General description / Legal framework: The German constitution guarantees the right to free collective bargaining as well as freedom of association. There is no uniform regulation under the German labor law; no statutory minimum wage and no statutory right to strike. Employers and trade unions act autonomously.

Employee involvement: The Workplace Labor Relations Act (Betriebsverfassungsgesetz) regulates the composition and function of the Works Councils. Works Councils can be established in companies with at least 5 permanent workers who have the right to vote. The participatory rights includes the right to be informed, to make suggestions, to be heard and to be consulted. Co-determination rights are spoken of in cases where the employer may not make decisions without the approval of the Works Council.

Employers' associations: The BDA (Bundesvereinigung der Deutschen Arbeitgeberverbände) is composed of 65 federations. Approximately 1,000 employers' associations in Germany are affiliate members through the 65 federations. The main function of the BDA is to represent employers' interests in the area of social policy.

Trade unions: The existence of industry federations means that workers' associations are organized around specific industries regardless of the nature of work. 12 such industrial unions belong to the German Confederation of Trade Unions (Deutscher Gewerkschaftsbund-DGB).

Level of wage negotiations: Collective bargaining can take place only between trade unions and individual employers or employers' associations.

Wage related issues: No statutory minimum wage. Collectively agreed wages establish minimum standards.

Japan

General description / Legal framework: The Japanese constitution guarantees fundamental rights: the freedom of association, the freedom of collective bargaining and the freedom to act collectively. The Trade Union Law defines trade unions and unfair labor practices. The Labor Relations Adjustment Law provides labor dispute settlement procedures.

Employee involvement: The Trade Union Law prohibits employers from unfair labor practices, including the refusal to bargain collectively and prejudicial treatment of union members.

Employers' associations: The Japanese Federation of Employer's Associations (Nikkeiren) is the main employer's association. Nikkeiren's members are employer associations at the level of prefectures and the employers in major industrial sectors.

Trade unions: The Japanese Trade Union Confederation (Rengo), the main national organization of trade unions, represents around 60% of total trade union membership.

The National Confederation of Trade Unions (Zenroren) is another national organization that represents about 7% of the total trade union membership.

Level of wage negotiations: The trade unions offer a proposal and negotiate for wage increases as “pattern setters”. The resulting wage increase affects wage negotiations in other enterprises of the same industry, other industries, government agencies and smaller companies as well as unorganized sectors.

Mediation, Conciliation and Arbitration: The Labor Relations Adjustment Law provides for a system of addressing disputes between labor and management including conciliation, mediation and arbitration with a strong emphasis on the voluntary settlement of labor disputes. The Labor Relations Commission provides conciliation, mediation and arbitration for labor disputes. The Prefectural Relations Commission carries out initial examination and the Central Labor Relations Commission manages re-examination.

Wage related issues: Minimum wages are determined through the investigation and deliberation of the Minimum Wage Council, and differ across regions and sectors. Sick leave with full payment is made only by some employers on a voluntary basis.

Promotion of employee participation in profits and enterprises results (Pepper): Employee participation in company results has been increasing and new benefit structures have been emerging, e.g. a stock option scheme.

United States

General description /Legal framework: Non-management employees in each establishment have the right to decide by secret ballot about representation by trade union. The federal government provides a statutory framework for contracts between employers and employees. The federal government also sets the statutory minimum wage, although state governments are free to establish a higher minimum wage. Under the federal labor law, non-management workers, who are employed more than 40 hours per week must be paid at an overtime rate of at least 150 % of their standard pay for hours in excess of 40 hours. There are no federal and few state laws providing protection against worker dismissal, although conditions for dismissal and other terms of employment are subject to negotiation and regulation under collective bargaining.

Employee involvement: There is a ban on non-trade-union representation in the workplace to prohibit companies from setting up company dominated labor organizations and, thus, excluding trade unions from their companies. The ban prevents the establishment of in-house bodies to promote co-operation and joint methods of solving disputes.

Employers' associations: Since collective bargaining typically occurs on a company-by-company basis, there is no nationwide group representing employers in collective bargaining.

Trade unions: Some of the largest unions represent non-management workers across all occupational groups within broad industries (American Federation of State, County, and Municipal Employees; United Auto Workers; United Steel Workers of America) while others represent professional groups (Air Line Pilots Association; American Federation of Musicians; American Federation of Teachers).

Level of wage negotiations: Negotiations typically occur between the “local” of a national union and an individual employer. Craft union “locals” may negotiate with representatives of a local employer organization.

Mediation, Conciliation and Arbitration: Federal Mediation and Conciliation Service (a federal government agency created in 1947) and several state-level mediation and conciliation services provide contract negotiation mediation, preventive

mediation, arbitration services, and alternative dispute resolution on a voluntary basis to union and employer negotiators and to union and management parties of a labor dispute.

Wage related issues: Federal law sets a minimum wage covering most employment. Some states have higher minimum wages, and the number of states with higher minimum wages generally increases if the federal minimum wage is left unchanged for three or more years. Only a few states have sickness benefits or statutory levels of wage payment during sickness.

Promotion of employee participation in profits and enterprises results (Pepper): Federal legislation promotes Employee Stock Ownership Plans (ESOPs). Employers can deduct contributions to a company ESOP. Employees pay no tax on stock allocated to their ESOP accounts until they receive distributions; at that point, they are taxed on the distributions.

India

General description / Legal framework: There are about 108 Acts, both Central and State. In 2002, Second National Commission on labor (set up in 1999) has recommended the following: no prior permission is required for lay-off, retrenchment; no need for any wage board; five holidays and ten restricted holidays in a year; no contract labor for core production services, a trade union with at least 66 % membership to be single negotiating agent; setting up a grievance redressal committee for organizations employing 20 or more workers; creation of a high-power national social security authority; evolving a policy framework and enactment of law for unorganized sector workers to ensure generation and protection of jobs (Aswathappa, 2005: 560-561).

Employee involvement: The Industrial Dispute Act (1947) provides for the setting up of the bipartite works committees as a workers' participations scheme for companies employing more than 100 worker. Unionized companies may also have joint councils. Joint management council (JMC) is another form of worker participation in India.

Employers' associations: The All India Organization of Employers (AIOE) has representation from manufacturing, banking, insurance, commercial establishments. The Employers' Federation of India (EFI) is another body which is registered as a trade union under Indian Trade Union Act, 1926.

Trade unions: Multiple unionisms, both at plant level and industry levels, pose a serious threat to industrial peace and harmony in India. The All India Trade Union Congress (AITUC) was set up in 1920. Indian National Trade Union Congress (INTUC), the Hind Mazdoor Sabha (HMS) and United Trade Union congress (UTEK) are a few significant unions.

Level of wage negotiations: Negotiations take-place at various levels, such as, plant and industry and at national levels.

Mediation, Conciliation and Arbitration: As per Industrial Disputes Act, an employer and workers can refer to arbitration or conciliation to solve any industrial dispute. Adjudication means a mandatory settlement of an industrial dispute by a labor court or a tribunal.

12.7 SUMMARY

Industrial relations in each nation are embedded in societal rules, norms, and values and no MNC can afford to ignore the influence of local culture on industrial relations. Though the subsidiaries need to operate as autonomous bodies, MNC's policies, often,

control the decision-making in the context of industrial relations. Healthy industrial relations can enhance employment and further the goal of upgrading employment quality and skills in foreign subsidiaries. Therefore, MNCs should try to win loyalty and commitment of their employees through international consultations and bargaining.

12.8 SELF-ASSESSMENT QUESTIONS

1. Discuss the significant issues and concerns of international IR.
2. Discuss the recent developments in international IR in terms of union's and management's approaches.
3. Briefly describe the IR practices of the following countries: Australia, Japan, France, US, UK and India.
4. In what ways can trade unions constrain the strategic choices of multinationals?
5. Identify four characteristics of multinationals that give trade unions cause for concern.
6. How have trade unions responded to multinationals? Have these responses been successful?

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UNIT 13 MERGERS AND ACQUISITIONS— HR PERSPECTIVE

Objectives

After going through this unit, you should be able to:

- Explain the role of HR in mergers and acquisitions.
- Appreciate the people part of acquisitions and mergers.
- Anticipate the problems of the employees before and after acquisition.

Structure

- 13.1 Introduction
- 13.2 Communication Framework
- 13.3 Responsibilities of HR
- 13.4 General Personnel Considerations
- 13.5 Before the Acquisition
- 13.6 After the Acquisition
- 13.7 A Final Word
- 13.8 Summary
- 13.9 Key Terms
- 13.10 Self-Assessment Questions
- 13.11 Reference
- 13.12 Further Readings

13.1 INTRODUCTION

Mergers and acquisitions (M&A) are a tremendously important phenomenon in business both because of their prevalence and because of the value involved. While M&A are important in the global economy, these deals can make or break the firms that do them. Most research on M&A shows that a majority of deals fail to create value for firm owners. M&A are complex transactions that involve teams of lawyers, bankers, consultants, boards, accountants, internal personnel, stockholders, creditors, customers, regulatory authorities, and numerous others and ultimately affect many beyond these. Each party plays a role in the process, whether a complex or simple one.

A merger or acquisition is a delicate time for any organisation. When two distinct corporate entities are fused into one another, rapid change is inevitably sparked off. Consequently, every stage of the ensuing transition has to be mapped and managed, every loose end tied up. There must be a definitive vision for the future, not merely economically or commercially, but from a human resources standpoint as well. Because during mergers and acquisitions, nowhere is the impact of wide-ranging change stronger and more visible, than among the employees of the organisation being taken over.

Regardless of the size of the company that is acquired, it is possible to state a few more or less uniform principles. Although these principles are not new, they are, in the long run, the most important.

1. **Know the People.** This cannot be done by long-distance telephone calls. Go out and visit the new people; get to know them and to understand their problems. In trying to evaluate attitudes of newly acquired employees, some companies have used an informal employee survey. Many others feel that direct contact is much more helpful.
2. **Do Not Rush.** This is more difficult. In spite of the pressures that tend to force uniformity at an early stage, a persuasive argument can be made for a gradual transition. The people who are new to the company will soon learn of those personnel policies which are more liberal than the ones of the acquired company; let them develop an appetite for them. Then, when the total personnel programmes are integrated, it will be much easier for employees to accept the less desirable part of the change.
3. **Train and Sell.** Best results appear to be obtained when the personnel staff and others from the acquired company are thoroughly trained and indoctrinated in the total personnel programme of the acquiring company. Also, best results are obtained when the personnel staff and others from the acquired company then go out and sell and explain these programmes to their own people. The importance of informative group meetings which make use of visual aids cannot be overemphasised.

The technical and financial considerations should not overshadow the “human element” of the acquisition. People are the muscle of any company. Just like the body of a trained athlete, they have a natural rhythm which can be severely injured by improper handling.

There is usually only one chance in any one situation to pursue people problems properly. If the approach is considerate and well planned in advance, the handling of these problems can result in growth and profit. Bad handling at the start may lead to countless problems which may last for months or for years – or perhaps forever.

Studies show that unresolved human capital issues are often the cause of post-merger diminishing of shareholder value. For that reason, it makes sense to address workforce needs at the earliest during mergers and acquisitions (M&A).

Clearly employees are a key stakeholder group that is often affected in M&A. Employees, unless they are stakeholders, have little ability to affect the M&A decisions that are critical to the success of the deal, especially in the post-merger phases. One of the most common reasons for the failure of M&A is the departure of employees, and the inability to integrate employees sufficiently to get them work together. Of the most common justification for doing M&A, “synergies” often involve cutting personnel. The legal rights of employees differ as per location. Where trade unions exist, they must typically be considered and involved in the whole process. Unions, as supporters of their members, are not likely to support M&A plans that would result in personnel reductions. Depending on the country, the legal rights of unions also differ. For example, in certain countries unions are given the right to be involved at the negotiating table and must, by law, be informed of M&A talks even if informed.

13.2 COMMUNICATION FRAMEWORK

The communication framework can well be the single most important factor for smooth integration in an acquisition. With effective communications, the acquiring firm can develop a climate of confidence and, hopefully, eliminate much of the friction which frequently occurs. The acquiring company in the pre-acquisition phase should obtain samples of internal reporting systems and evaluate them carefully. Usually, the acquiring company will want such systems to parallel its own. During the period

immediately following the acquisition, however, the amount of such reporting may vary, depending on the differences between the two companies.

Good communication is an essential part of good human relations. The timing and setting of communications are as important as, and sometimes more important than, what is actually said. The best time to start the programme is before the acquisition talks begin. A communications programme is like a reputation: you cannot press a button to start improving it today; you have to start, in a sense, from the beginning and build it just as you would a reputation – each individual move adds to the total.

The effect and meaning of what is said to be employees are of prime importance. The need is to start the process as soon as the idea of an acquisition is first mentioned. Remember, rumours and half-truths travel faster than the facts. One company handled the rumour problem by saying: "Let us know the rumour, and we will put out the facts." To combat rumours of the sale of the company, they announced that their management had some discussion with another about merging, but they had been terminated. This direct and frank approach greatly increased the respect of the employees for their top management. There are really only few problems that cannot be solved by seeing that everyone gets the information needed to do his job. It is necessary, of course, that information be screened to ensure that it is factual and that the distribution is effective. In the same way that doing nothing is a form of business decision making, so is keeping quiet a form of communication. Premature leaks on acquisitions can lose the battle before it begins. The basic objective is to inform employees about an acquisition as quickly as possible. We have to build from within the acquired company the most important of assets – the people themselves – so that they can contribute and grow with the new company.

Top management, to an extent, communicates through formal channels, but it does not by any means control all the means of communication. We must realistically accept that employees talk to each other, to their union leaders, to the press, television, and radio. If we do not make an accurate statement at the right time, facts are replaced by rumour and speculation. We also have to be ready to try and answer the employee's questions.

Acquisitions and mergers are a fact of corporate life. Since there are sound reasons for acquisitions, they will probably continue at a rapid rate, and employee communications aspects in future mergers, as in previous ones, will present many and varying challenges.

13.3 RESPONSIBILITIES OF HR

HR has always been an important participant in the M&A process, aiding both growth and economies of scale through knowledge management, assessment of employee needs and seamless integration of people and procedures. But perhaps the most important of its duties is to help employees come to terms with all the changes around them and help them ease themselves into a new and unfamiliar working routine, under a new set of rules. This is done by ostensibly demonstrating an understanding of the target company's culture, identifying employees for their worth, and deciding how they can be made to fit into the new scheme of things in the quickest possible time, with minimum hiccups.

HR to the Rescue

Having said that it is not enough that HR be involved after the M&A decision has been made. HR should in fact, make its presence felt from the deal or due diligence stage onwards, by understanding how interaction with a new set of people, cultures and systems will mould the future for both companies - the acquired, and the acquirer.

One of HR's biggest responsibilities after taking over the reins of the target organisation would be gauging the effectiveness of its existing HR function and weighing it against that of the acquiring organisation. This helps in preparing the ground for an integration programme. The most important thing is to always have a plan - whether to build an integration team, assimilate new cultures, or to have clear-cut job descriptions for employees.

Once the integration programme has been launched, the human resource function can be summed up in one word: communication. HR should do everything it can, to facilitate two-way communication between the target and the parent company, thus paving the way for the formulation of a comprehensive staffing programme that takes into account the present crop of talent, newly-created and redundant positions, and benefits and compensation strategies. Communication is the key, and more so with the employees who are going to stay on. In the absence of proper communication, rumours and gossip become the prevailing truth.

Organisations also need to pay special attention to retaining highly skilled or experienced workers. M&As are seen by head-hunters and competitors as a good time to lure away employees who might be anxious or insecure about their future. Pareto's law applies workplaces as well. It is always a small set of managers that contributes to most of the effectiveness of a company. This group has a representation from across the levels and departments...these good managers often have a good market-value in the job market. This means, in the state of uncertainty and confusion, you lose your best managers, first.

HR must also guard against flagging enthusiasm levels and falls in productivity among members of the target company. A recent report said that an alarming percentage of mergers fail to achieve the anticipated synergy and about half of them suffer from an overall drop of productivity in the first four to eight years. These figures only serve to remind one that overlooking people and cultural issues will work against the organisation, and also very importantly make the case for a greater strategic role for HR.

Team Play

When it comes to formation of the integration team too, management should ensure that the team in charge of the merger has members who have the necessary skill and experience. Decisiveness, balance and discretion in evaluation, sensitivity to employee attitudes, familiarity with the nuances of integration projects, and being able to bring out the best in other people by employing the right means at the right time, are other qualities that a specialist team need to possess.

13.4 GENERAL PERSONNEL CONSIDERATIONS

In considering the people part of acquisitions and mergers, one should first recognise that there are at least four different ways to view the matter:

1. The view of the company being acquired
2. The view of the company doing the acquiring (or the company that thinks or says it is doing the acquiring)
3. The sale (or spin off) of a part of a company which requires special separate considerations from the view of the acquiring company
4. Special and separate considerations from the view of the company that is selling one part of its operation.

There are also many sub-parts within each of the above. The thrust of this unit is based on general personnel considerations of the acquiring company.

Just how much weight do personnel factors carry in an acquisition? Of perhaps greater significance is the question, "How much weight should they carry?" Why is there a continuing and increasing concern about personnel considerations when one company acquires another? How many acquisitions have failed, and how many of these failures are due to the improper meshing of the human element? Finally, just how often has this human element been the difference between the success and failure of an acquisition?

For the purpose of discussion one should accept the premise that to buy a business is to buy people. Assuming this, how does this blending and complementing of the human element before, during, and after the acquisition result in the difference between profit and loss, success and failure, growth and stagnation.

Further, if we accept the view "that you never really know a person until you have lived with him," we must recognise that this is most certainly true in an acquisition situation. There is also the matter of the pragmatic acceptance of change. No matter how one initially faces the situation, there is always a change when one organisation is acquired by another. Circumstances will indeed be different after the acquisition. Take, for example, the instance of the resident of a company which has been acquired who tells his people that no matter what the buyers say, things will be different after the merger – a big company (in this case, the buyer) must have different administrative procedures – otherwise there would be turmoil. When the buying company says that the operation will be separate and autonomous, just as it had been before, it is just impossible. The acquired unit must tune into the parent and live according to its rules.

Here is what one author says about change¹:

A common representation made during negotiations for the acquisition of a company is, "There will be no changes in your policies and programmes. You will continue to operate exactly as you did before. The only difference is that we, rather than others, will own the stock in your enterprise." Unfortunately such a representation is not true. It cannot be true. Even the least amount of financial control is a change, and the reorganisation of the acquired operations. Owners and managers considering the sale of their enterprises to others must realise that this is an inevitable result of the transfer of ownership.

The representation of continuing and unimpaired independent operations was described by one acquiring as "being in the category of substantial honesty. You cannot be completely honest in the negotiations because if you are, nobody will ever sell to you. The best you can do is to be substantially honest and then rely upon faith and wisdom in administering changes to make the acquisitions successful, both for the acquirer and for the acquired."

We should recognise that people are often the only variable between the success and failure of an acquisition. We should also recognise that there are probably fewer absolutes for personnel administration that in any other areas of operating a business. In this unit we will try to cover some of the many personnel problems which occur when one company acquires another.

Specific Considerations

Considerations of the following questions should enable the personnel administrator to better evaluate the problem:

1. What jobs will be involved, and who are the people who will be performing them?

2. Will there be recognised control of the unit, or will it be decentralised?
3. What is the community environment?
4. What is the industrial environment?
5. Is there a principal personality in the company being acquired?

The forgoing questions indicate the need for realistic evaluation of the human factors long before making decision to acquire. The real goal here seems to be: (1) obtaining the facts, (2) recognising these facts for they really are, and (3) evaluating such facts in a meaningful manner.

There are also many important considerations in the compensation area: What is the acquired company's compensation philosophy and policy? Are employees at various levels receiving high, low, or middle-of-the-road pay? What is the method of compensation? Does the company grant a higher level of non-cash compensation and lower level cash compensation than the acquiring company? What are the costs of other benefits, such as company cars, expense accounts, and club memberships? How does the acquired company approach control of wages and salaries? How are wages and salaries administered? Are the controls and administrative systems of the two organisations compatible? Will changes be necessary? If so, how much, how many, and when should they be made?

The multitude of labour relations considerations must be given an early and thorough evaluation and analysis. What is the union relations history? What unions represent the employees? How many strikes? What is the grievance and arbitration caseload? Is the company a pattern setter or follower in contract negotiations?

Merging of Employee Benefits

Finally, various employee benefit plans are to be considered. There are many questions to be answered and many points to be resolved in dealing with employee benefit plans when two companies merge or when one company is acquired by another.

Many possible answers can be given to these questions. But just as no two mergers are exactly alike, neither are there any pat answers to the treatment of benefit plans that can be stereotyped or "canned" and followed time after time in each merger situation. Each merger and the benefit problems it presents must be considered unique, and specific solutions to the problems presented will ultimately be tailored for each situation.

It follows then, that effective treatment of benefit plans will be most adaptive to the success of the merger if clear-cut employee benefit objectives are established and agreed to by both parties to the merger. It is better if these benefit plans are set in advance of the merger or acquisition itself. Much needless post-merger employee benefit negotiation between the two companies can be avoided if mutually understood and agreed-upon objectives are established early in the proceedings.

13.5 BEFORE THE ACQUISITION

It is practically impossible to anticipate all the many people problems which might occur as the result of an acquisition. Likewise, it is almost impossible to compile an all-inclusive checklist of actions to be covered by which these problems could be anticipated or prevented. However, to try and minimise these potential problems, an organised research of the subject is possible. To aid the acquiring company in considering the human problems before taking on the responsibility for the people involved, a checklist is most useful. If the checklist is approached in the form of a series of questions, it will be helpful in identifying problems.

Answers to the following questions are necessary in order to make a meaningful evaluation:

1. What are the specifics as to employees, numbers, jobs they hold, sex, age, and service?
2. What is the turnover in the work force? High or low; why?
3. Where are the principal sources from which the company obtains its employees?
4. What is the labour relations history?
5. What are the principal unions involved?
6. Where is the thrust of the union management relationship?
7. Is there a heavy grievance caseload? If so, why?
8. Do the labour contracts reveal an unrealistic attitude on the part of the union or the company?
9. What is the basis on which new labour contracts are generally determined? Industry pattern, area pattern, competition?
10. Is the company a pattern setter or pattern follower in contract negotiations?
11. If it is non union, why?
12. If it is non union, what unions appear to be most likely to be candidates for organisational attempts?
13. What is the labour climate in the area of the company's locations?
14. Is there an incentive plan? Who is covered? What does it cost? How does it work?
15. What is the ratio of labour costs to sales?
16. What is the ratio of total payroll cost to sales?
17. What is the experience rating for workmen's compensation? If not experience rated, why not?
18. How is the personnel function organised as to (a) management, (b) salary administration, (c) employment procedures, (d) benefit plans, (e) training and development, (f) labour relations, (g) community relations?
19. What are the major strengths of the personnel department?
20. What are its major weaknesses?
21. How does it compare with the personnel function in the acquiring company as to status in the organisation and level of contribution?
22. What is the assessment of the management of the acquired organisation?
23. What is the anticipated structure of the new organisation? Which positions will be upgraded? Which ones downgraded? Which ones eliminated?
24. What is the policy (or what will be the policy) on termination, termination payments, and/or early retirement for those employees whose positions will be eliminated? For those who will be demoted? For those who will be transferred?
25. What is the best way to go about a careful, personal explanation to each employee who will be affected as a result of the acquisition? Those to be terminated, transferred, retired, promoted, demoted?
26. How do the answers to the preceding questions fit in with and compare with the personnel policies of the acquired company?
27. What should be done to change the personnel policies in the acquired company to fit those of the acquiring company, or vice versa?

In a survey, several chief executive officers were asked to state which members of their staff had participated in the pre-acquisition evaluation, other than the chairman, president, or executive vice-president. Results showed that the principal personnel executive was consulted less frequently than was the principal finance or legal executive. Fewer than 40 percent of the acquiring companies' top managements consulted with their principal personnel executive before the acquisition.

In the same survey, the same chief executive officers were asked about the need for analysis of various personnel factors during the pre-acquisition stage. Their replies confirmed the need to thoroughly examine the many personnel considerations. Included among the items they said should be examined were: depth of management talent, top-management talent, compatibility of the acquired company organisation structure with that of the acquiring company, and employee benefit programmes.

Since there was need for secrecy during the acquisition evaluation by the acquiring company, the examination process was necessarily restricted to a few top executives. How this recruitment is balanced by the need for more in-depth personnel information and evaluation at the pre-acquisition stage is the subject of a pre-acquisition process.

13.6 AFTER THE ACQUISITION

As most problems concerning people arise after the acquisition, we must examine thoroughly the post-merger difficulties concerning management and other salaried and hourly paid personnel. Many corporate procedures and checklists for acquisitions tend to overemphasise the money aspects of the matter and forget the people factor. Most top managers know the importance of the people side of the business – but, at the same time many acquiring companies completely ignore it.

People are the catalyst (or the inhibitor) in the acquisition process. If the number of employees that an acquisition will affect is considered, it is obvious that many problems will follow. However, just because the human element is complex, there is no reason for trying to think away the problem behind the profit and loss statement and the balance sheet. The study of human reactions is a matter of psychology. Few businessmen are academically trained psychologists, and they use what they know as “common sense” – but which is actually practical applied psychology.

The people consideration route in an acquisition should be objective patience. Patience induces confidence and respect, and it permits the needed time and consideration for the integration of the people problems involved. The limits of patience obviously must be determined by the related factors involved in the final management decision.

For the balance of the discussion, let us assume that we are considering the role of the personnel department of the acquiring company in an organisation with several decentralised autonomous divisions. A major staff responsibility for implementing people considerations in the acquisition in a timely manner rests with the chief personnel executive of the acquiring company. Before there is any analysis of the acquired company, it is essential that the personnel executive of the parent company establish good relationships with all the officers, including his own counterpart, of the newly acquired company (division). Visits are much more effective than memorandums. Without first establishing such good relationships, it will be difficult, if not impossible, to identify the real problem areas.

Often it is difficult for an acquired company's second and third level of management to accept the fact that their new organisation has lost some, or much, or all, of its old identity and independence of action. Of even greater concern to the management group of the acquired company is the uncertainty of their own future. After good

working relationships have been established, analysis of policies and programmes can proceed under favourable circumstances. Recommendations and actions growing out of such a study will, of course, be guided by many different factors in each organisation.

Although the corporate personnel staff is concerned with all aspects of the newly acquired units personnel operation, efforts must be concentrated in those areas in which the problems are most acute. In addition to analysis of the new unit, the corporate personnel staff can encourage exchange of experiences of the personnel organisations in the various divisions, especially that of the new unit, with one another, through group meetings. Such meetings are of immeasurable help in promoting understanding. The success or failure of any acquisition will in a large measure result from the degree of harmony in the relationships developed between the acquiring and acquired company. Those engaged in the personnel function – whether called human relations, employee relations, industrial relations, or personnel – can make a major contribution to the success of acquisition.

Premerger Considerations

For the post-merger treatment of employee benefit plans, it is important that prior to the merger the acquiring corporation review the employee benefits programme of the corporation to be acquired for a number of reasons.

First, it should be determined in advance whether any benefits problems exist which might of themselves present impediments to the merger, second, it should be determined whether any factors are present which might bear on the value of the corporation to the acquired and thus affect the purchase price.

In this aspect of the study, special attention should be given to the pension programme (including the plan or plans for union employees). Eligibility for participation, vesting conditions, and the amounts of benefits provided should be compared to those of other companies in the same industry and/or geographic areas, and this comparison should extend to comparable elements in the acquiring company/s pension plan (or plans).

In addition to the financial reasons for pre-merger investigation and study of employee benefit plans, there are the people reasons. Merging companies together is at best an unsettling experience for the employees involved, especially those of the acquired company, and the psychological impact must not be overlooked. Much can be done to allay any feelings of insecurity, with resultant loss of efficiency, that may accompany such a move, if careful thought and planning is given in advance to anticipated employee reactions. It should be a point to let employees know promptly how they are to be affected by the merger or acquisition and of any particular changes that may take place.

This need not be communicated to employees in definitive terms, and in fact rarely is. Such detail in a merger arrangement or management announcement is unlikely (and at merger time, probably impossible). The consummation of mergers seldom hinges on employee benefit plan considerations. Moreover, principals to mergers or acquisitions are more apt to deal with the subject in general terms.¹

What is desirable is to issue a sufficiently informative statement to employees, satisfactory to both companies, that will counter any feelings of apprehension employees may have.

Establishing the Objectives

Where it is expected that there will be a close working relationship between the people in the two organisations, a reason for the standardisation of benefit plans becomes compelling. On the other hand, if an acquisition results in two companies

whose activities are completely unrelated, and where the two groups of employees are geographically separated, there is less need for comparable plans.

Some of the specific management considerations in establishing employee benefit plan objectives² are:

Advancing corporate image within the organisation: How important is it to the dominant corporation that the employees of the acquired company feel a close sense of identification with the parent company?

Cross-fertilisation: The ability to most effectively utilise employees, particularly those at the management level, and to facilitate transfer between companies without loss of seniority and benefits is an important consideration.

Costs: If it will increase costs to standardise benefits, are the results to be obtained worth the additional expense?³

Operational autonomy: What effect, if any, will installing parent company benefit plans have on the managerial autonomy of the operating divisions?

Apart from cost, which is the basic consideration against which all others are measured, the other points given above are philosophical, and do not lend themselves to positive measurement. They do, however, bear directly on a company's attitude toward its employees, and are an intrinsic part of corporate character.

13.7 A FINAL WORD

Most mergers and acquisitions are driven by apparent cost-cutting synergies and stock prices. In most cases, the merger partners do not look closely enough at the 'people component – strategic variables at the very heart of the deal. In fact, strategic vision needs involvement of HR professionals from the beginning to assess the people implications that do not feature in balance sheets or income statements. HR specialists are left with the difficult role of developing communication strategies; aligning payroll, benefits and compensation systems; and melding different and possibly incompatible processes and cultures.

Clemente and Greenspan (1999, p. 1) point out that:

There are literally hundreds of reasons why M&A failure rate is so high. But many can be traced to the exclusion of human resource professionals in the pre-deal planning phase and the function's last-minute inclusion after the transaction has closed. It's a classic case of 'too little, too late'.

13.8 SUMMARY

- No two mergers or acquisitions are exactly alike.
- There must be a definite plan and vision for the future, not merely from economic or commercial point of view, but from a human resource standpoint.
- HR is an important participant in the merger and acquisition process, right from the beginning to the end.
- Communication framework is the single most important factor for smooth integration in a merger and acquisition.
- The questions usually asked by employees during mergers and acquisitions are: (a) reasons for the merger; (b) facts about the company with which his organisation plans to merge; (c) general changes that might result from the merger; (d) changes likely in terms of specific job and income; and (e) changes in terms of future responsibilities and compensation.

13.9 KEY TERMS

- **Merger:** A merger is the joining of two organisations of equal status and power. Their union is mutually decided.
- **Acquisition:** An acquisition is the procurement of one organisation by the other. The purchasing organisation becomes more dominant and plays a powerful role.
- **Rumour and gossip:** Rumour is typically regarded as unsubstantiated talk that is not supported by evidence or authority. Gossip, on the other hand, is commonly held to have a factual basis of some kind.

13.10 SELF-ASSESSMENT QUESTIONS

1. What is the role of HR in mergers and acquisitions?
2. What are the HR considerations which weigh in any merger and acquisition process?
3. What are the issues to be considered before and after acquisition and mergers?

13.11 REFERENCE

1. Miles L., Mace, and George G. Montgomery Jr., *Management Problems of Corporate Acquisitions*, Division of Research, Harvard Business School, Boston, 1962.

13.12 FURTHER READINGS

- Clemente, M.N., and Greenspan, D.S., *Empowering Human Resources in the Merger and Acquisition Process: Guidance for HR Professionals in the Key Areas of M&A Planning and Integration*, Clemente, Greenspan & Co., 1999.
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UNIT 14 IHRM TRENDS AND FUTURE CHALLENGES

Objectives

After going through this unit, you should be able to:

- Understand why strategies focus so much attention on the issue of organisational capability.
- Explain the role of centres of excellence and shared service centres.
- Discuss intellectual and social integration by looking at the role that knowledge management and global networks play in developing IHRM professionals.

Structure

- 14.1 Introduction
- 14.2 Organisational Capability
- 14.3 Understanding and Building Centres of Excellence
- 14.4 Streamlining HR Support Functions: HR Service Centres
- 14.5 Outsourcing or In-Sourcing HR
- 14.6 Mechanisms of Integration
- 14.7 Summary
- 14.8 Key Terms
- 14.9 Self-Assessment Questions
- 14.10 Further Readings

14.1 INTRODUCTION

This unit takes a strategic view of some of the new developments in IHRM. A distinction can be made between the developments that affect the overall nature of IHRM inside organisations, and the actual role of international HR professionals. Further, in this unit we assess the critical components of effectiveness for HR on a global scale. Around fifty percent of HR managers across Europe feel that they are proactively engaged in the development of corporate strategy (C. Brewster, 1994). There is evidence to show that the degree of representation at the board-level HR function is still relatively weak in corporate headquarters across most European countries. With more and more globalisation of activities, mergers and acquisitions are on the rise and the role of IHRM professionals seems to be losing its clarity. Keeping this in view, different trends and future challenges of IHRM will be discussed in this unit.

14.2 ORGANISATIONAL CAPABILITY

Trends of globalisation, market liberalisation, deregulation and technical evolution, are restructuring global markets and challenging traditional approaches to gaining competitive advantage (G. Hamel, 2000). It is only the possession of specific capabilities and resources that now enables firms to conceive and then implement strategies that can generate what economists describe as above average rates of

return (J.B. Barney 1997). The term 'organisational capability' was adopted by Ulrich for HR. Ulrich and Lake (D. Ulrich and D. Lake, 1990) brought together perspectives from the fields of management of change, organisational design and leadership, and argued that organisational capability was about competing from inside out.

Organisational capability focuses on the ability of a firm's internal processes, systems and management practices to meet customer needs and to direct both the skills and the efforts of employees towards achieving the goals of the organisation. It has also its roots in the resort-based view of the firm with the argument that in an environment characterised by the globalisation of markets, changing customer demands and increasing competition, it is the people and the way they are managed that are more significant than other sources of competitive advantage (P.M. Wright, G.D. McMaban and A. McWilliams, 1994). These newer models of strategy argue that competitive advantage is derived from both internal knowledge resources and the strategic resources or capabilities of the firm. These resources are generally considered to be complex, intangible and dynamic.

In addition to the management of people, developing organisational capability includes the means by which organisations implement policies and procedures. These means are centred around economic and financial capability, strategic/marketing capability and technological capability. As the HR profession becomes more involved in developing organisational capability, it has to build alliances. Strategic or marketing capability is based around offering uniqueness to customers. The marketing perspective has been, in fact, a significant driver of approaches to talent management. The second alliance is based around technological capability. Perceived customer value is considered to result from responsiveness (meeting needs more quickly than competitors), the formation of endearing and enduring relationships, and the pursuit of service quality through guarantees.

Box 1

How is Organisational Capability Evidenced?

HR strategy writers find it easier to say what organisational capability looks like, rather than define exactly what it is. The formula has become a commonplace explanation of capability in domestic HR strategy.

- *Being able to move with speed and agility* into a new market in order to be the firm that sets the rules and then controls the future changes to these rules (in HR terms, removing bureaucratic processes; establishing clarity of governance to enable rapid decision-making; ensuring disciplines to safeguard the organisational thought process; and removing vestiges of old ways of doing things).
- *Creating a brand for the firm*, such that its reputation draws consumers, and the brand associated with the customer's experience of the firm also becomes part of the experience or identity of the firm in the mind of all stakeholders (customers, employees, investors). Employee actions and HR policies are aligned with the identity.
- *A customer interface that captures and develops a more intimate relationship*, such that data on customers contains more insight into their actual behaviour and needs. Business processes are built around these needs as a priority, and customers are involved in or can comment on the design and practice of internal systems (for example, providing feedback for performance management).
- *Superior talent*, reflected in high levels of employee competence and commitment, such that there is an employee value proposition that makes the firm an attractive place to work, helps attract people into the right job, entices employees to give their discretionary energy to the firm, and orients them towards effective performance very quickly.

- *Leveraged innovation and learning*, reflected in new and faster-developed services and products, a culture of inquisitiveness and risk-taking, competencies of inventing and trying, and an ability and willingness to learn from mistakes.
- *Resources sourced across alliances*, whereby firms can work across boundaries, marshal connections, share information and develop a sense of mutual dependency between a network of partners, which means the best resources can be brought to bear on a situation, to everyone's benefit, without having to formally own or control them.
- *Assigned accountability*, such that standards exist for employees and that organisational decision-making (who makes them, how they are made and what processes are followed) is carried out with competence, authority, and responsibility.

Source: D. Ulrich. (2000). 'e-Business to e-HR', *Human Resource Planning*, Vol. 20, No. 3.

Organisational Capability and Globalisation

Many multinational firms have a 'capability recognising' perspective i.e., they possess some unique knowledge-based resources. However, these resources are typically treated as being based on the home country or somehow belonging to the corporate function and top team. There is a possibility that foreign national units could take a major strategic role within the multinational firm. What we need is a 'capability-driven' perspective – a strategy based on how multinational firms attempt to build, protect and exploit a set of unique capabilities on three grounds: (a) strategies of international expansion or global integration; (b) the necessity to continue generating competitive advantage or to innovate through global learning; and (c) skills and activities operating at the business level or corporate-level routines that integrate these skills across operations.

Tallmen and Fladmoe-Lindquist's work (2002) makes it evident that globalisation is a strategic effort to treat the world (or a significant part of it) as a single market. This does not, however, imply creating single research and development or production centres, unitary logistic networks or, indeed, HR systems and processes. Rather, it is the international networking that surrounds these activities and the conduct of these activities in the global context that provides significant organisational capability. The world becomes an important source for new knowledge as well as new markets.

14.3 UNDERSTANDING AND BUILDING CENTRES OF EXCELLENCE

In practice, multinational organisations have increasingly dispersed activities. They have relied on specialised and often network-based structures to coordinate these activities. The corporate headquarters typically adjusts its level of coordination and control to reflect the role of the subsidiary and the strategic importance of its mandate. A variety of missions can be assigned to subsidiaries. One particular type of subsidiary, the centre of excellence, has of late gained more prominence. These take on a strategic role in the global organisation that reaches beyond their local enterprises. Centres of excellence have to be tightly integrated with their surrounding technical or professional communities. They tend to be established as a general consequence of a long and slow internationalisation process within the organisation or as part of a deliberate aspect of organisational design where the managers at the headquarters decide to grant autonomy to units that have also been given a specific strategic mandate. A centre of excellence must have both high competence and high use of its competence throughout surrounding units.

Box 2

**Current Roles for International HR Professionals in the Development of
Centres of Excellence**

There are three particular ways in which the HR function is being driven by the development of centres of excellence:

- Managing the international relocation of staff of an organisation – moving the centres of excellence nearer to the global centre of gravity of their core customers. Reconfiguring their core competencies on a global scale by moving manufacturing, research and development or logistics operations closer to the best national infrastructure in terms of education or transport facilities; or setting up new centres as part of international ventures or as a result of mergers.
- Advising on the best HR strategies to coordinate and control such activities.
- Understanding the centres of excellence that can be created within their own activities, and building networks of HR experts within these areas of competence on a global basis.

Source: C. Brwester, P. Sparrow, and H. Harris. (2004). 'The Role of Human Resource Management in Internationalisation', *Human Resource Employment Review*, Vol. 2, pp. 68-73.

Increasingly, small teams or units within subsidiaries are taking a leading role in one area of the centre of excellence, with other units taking the lead in different areas of capability. Indeed, although the leadership of a centre of excellence might still be vested in a physical location, the actual centre itself may be quite virtual, spread across networks of teams in many different geographical areas. In many cases, experts argue that these centres actually need to be quite loosely tied into the organisation and coordinated with other units if they are to help search for new knowledge and augment the capability of the MNC (W. Kuemmerle, 1999). Control typically varies between being direct or indirect and through personal or impersonal mechanisms – What Harzing calls centralised personal control, formal bureaucratic control, output control or control through socialisation and networks. Recent research suggests that controlling these centres of excellence through socialisation proves to be dysfunctional (A. Ambos and W.D. Reitsperger, 2002) understanding and building these more globally distributed centres of excellence into viable operations has, therefore, become a significant challenge.

There is now available a fair amount of insight into how such centres should be fostered. Holm and Pedersen (2002) found that they must be more than just specialised in their knowledge. They have to be able to maintain one or several critical fields of knowledge that have a long-term impact on the development of activities in the other subsidiaries and units of the MNC. In the longer term, global HR functions which establish their own centres of excellence will begin to learn from the research that has already been conducted and from other technical centres of excellence already established.

Developing Organisational Capability

Another opportunity for a more strategic role in this process of capability development comes from the process theories. Montealegre (2002) developed a model of the process skills needed to provide such development of capability. Five key resources were used throughout the process – all things that international HR managers can help build. These are:

- leadership – through the expression and subsequent articulation of strategic intent

- organisation culture – through the mobilisation of supporting routines already embedded in the culture
- information technology – not in the sense of technical investments but more in the way that these investments are leveraged to create unique resources and skills that improve the effectiveness of the organisation
- long-term view – developing a longer-term view of the strategy by developing and nurturing commitment
- social networks – through the cultivation of strong relationships with stakeholders inside and outside the organisation.

In the context of globalisation, organisational capability involves managing the conflicting demands of corporate control, global coordination and standardisation of HR processes. This does not imply building totally standardised HR processes on a global scale but it does entail building a degree of common insight into the nature of shared HR processes and adherence to the design of these processes. The mantra of organisation capability, supported by developments in both the use of technological capability and marketing capability has, in some firms, begun to dominate the activity of international HR professionals.

14.4 STREAMLINING HR SUPPORT FUNCTIONS: HR SERVICE CENTRES

Lot of attention has been paid to the development of shared services in an organisation. Shared services are created when the organisation chooses to concentrate its administrative personnel activities into a centralised 'back office' function. Administrative processing is carried out separately from the main HR group. The central organisation of HR resources comes hand-in-hand with local tailored advice policy and practice designed around business needs. Administrative functions may be centralised but decision-making remains decentralised.

The relevance of this development to international HRM gives considerable shared service thinking – and the associated technologies used to enhance delivery – represents a course for fundamental realignment of the HR function. It carries implications for the level of centralisation and devolvement evidenced across countries, regions, and corporate headquarters. Moreover, it changes the economics of HR services provision and introduces competing dynamics not only for the standardisation of HR processes but also the potential for mass customisation. Few international HR functions will be able to ignore this development.

Separating out those elements of the HR function that are concerned with business strategy from those elements that are concerned with service delivery, will have deep implications for the skills and competencies of HR professionals. The radical perspective also links the development of shared service structures to parallel changes in technology that have enabled greater outsourcing of HR activity. Although technology (notably organisational intranets, web-based portal, interactive voice responses, and document and information management systems) has been an important part of the equation, it is a facilitator rather than a driver of change. Technical innovation has enabled organisations to consider a much wider range of HR services on a common basis around the globe. However, the reasons for introducing shared services have more to do with cost, quality and the general nature of organisational change.

Issues that involve cross-national working and interpretation are of course more likely to be escalated upwards to international specialists or centres of HR excellence. Shared services, then, can change the way in which international HR professionals

are sourced within their work, and can also bring with them new control systems to govern and monitor their response.

One more implication of the move to shared services is that the structures of HR at the country level change. By the end of 1980s, most multinational organisations had decided that splitting up the HR function on a country-by-country basis when the rest of the organisation was increasingly aligned with the global aspects of the business, was not helping HR to achieve its objectives. However, concerns about diversity in employment law and the continuance of strong national influences on employment relationship meant that total alignment of the HR function with other business processes remained problematic. As a compromise, many organisations installed global HR directors as an extra layer in the reporting structure in order to create a position that acted as a strategic business partner.

Box 3

Impact of Shared Service Models on HR Functions

Shared services help reduce costs by cutting the number of HR staff needed, by reducing accommodation charges, and by introducing greater efficiency into choices both on what services are provided and on how they are delivered.

Cost savings in particular come from:

- Fall in HR headcount of between 20 to 40 percent.
- Moving operations from high-cost locations to low-cost locations in terms of either office space or employee costs.
- Centralisation of local points used to buy external services (for example, the centralisation of recruitment services in 1992 saved ICL 2 million sterling pounds a year).
- Development of high-volume partnership arrangements with a restricted set of suppliers.

An indirect impact is that the introduction of shared services makes the cost of HR administration far more transparent to the business.

Source: P. Reilly. (2000). 'HR Shared Services and the Realignment of HR', *Institute of Employment Studies Report 368*, Brighton: IES.

14.5 OUTSOURCING OR IN-SOURCING HR

The issue of outsourcing the transactional aspects of HRM has been a source of considerable debate in recent years. Advocates of outsourcing HR activities point to reduced costs, increased service quality produced by greater economies of scale, increased incentives and accountability for service providers, and increased access to experts in specialised areas. The most common targets for outsourcing are those HR activities that can easily be ring-fenced, and include payroll, training, recruitment, and benefits administration.

The global context, one can see host-country managers arguing that much of the corporate HR armoury requires deep, tacit understanding of the national culture and therefore should not be a candidate either for operating through shared services or indeed for any subsequent outsourcing. Organisations must make sensible assessments of these tacit knowledge constraints.

Box 4

Global HR Implications: Offshoring

One way in which the development centres affects the international HR function is through what has recently been termed a process of 'global HR offshoring'. It has now become feasible to move AHR administration overseas. Legal and cultural differences are still considered to inhibit the transfer of more advisory roles. Prime candidates for 'offshoring' include payroll, as well as pensions and benefits administration. According to strategy consultants McKinsey, the amount of 'offshoring' is expected to rise by an average of 71 percent each year between 2001 and 2008 – twice the rate of most other business activities. Indeed, the global market for HR offshoring should be worth 27 billion sterling pounds by 2008, up from 0.6 billion in 2001. An interesting development is that rather than these activities being outsourced, most tasks are likely to be carried out by direct employees of the firms involved. The USA and UK [will] together generate almost three-quarters of global offshoring shortly.

Source: S. Crabb. (2003). 'HR Facing Off-shore Boom', *People Management*, Vol. 9, No. 7, p. 7.

14.6 MECHANISMS OF INTEGRATION

Intellectual, social, and emotional integration play a key role in the work of international HR managers. To these four types of integration, a fifth role is identified by Scullion and Starkey (2000) – the effective management of international management talent. They note that the management of senior managers and high-potential people identified as strategic resources is vital to the future and survival of most international operations. We examine this by considering the role of talent management in an international context.

Talent Management

Talent management on a global basis is a far broader concept than plotting a series of international assignments for young high-potentials. In practice, talent markets still operate in a national way and even global organisations find that their relative positioning varies markedly from one country to another. Those organisations that are consistently in the top ten tend to maintain local recruitment strategies, but they mix this local strategy with a more global transfer of information and best practices. This is because the talent itself has become more mobile and organisations have to, therefore, coordinate the way they manage it on a global basis. Competition has also become more generic – global organisations do not just compete with the best local employers but also with each other. For example, Shell estimates that only 5 per cent of graduates – even from the top business schools - have the potential for the country chairmanship roles.

MNCs are concerned with their 'talent pipeline'. They want to know who their top people are and what their key roles are within their business. They are also concerned with developing a much deeper understanding about the links between the business agenda and the capabilities of the most talented people in the organisation, and also understand the mobility around these people. When they conduct such a 'calibration' of talent on a global basis, they have to ask what this means for a planned business development. In short, when global lines of business are introduced, there is a more immediate relationship between the international HR professional and the global leadership teams within major business functions or markets.

As marketing strategies become obsolete quickly due to rapid changes occurring across the globe, it is becoming more and more difficult to attract and retain the most desired talent. In order to attract and retain the best talent anywhere in the world, an organisation must have a strong and positive employer brand. Therefore, many

MNCs put in considerable effort in developing an 'Employee Value Proposition' (EVP) by identifying the most important features of working for them. EVP is generally used to drive attraction and retention behaviour. This challenge for MNCs is to decide what the overriding message is – of who they are and what they stand for.

As the world gets smaller, MNCs need to make sure that the way in which they are perceived as a company is similar wherever they go. What do their consumers want from them? What do current employees think? This involves the constant reselling of proposition to employees as to why their organisation is the place they should work. Therefore, the HR challenge is to understand what makes a really good person want to stay with them globally. The answer affects the development of people, which is a key driver of retention, and finally impinges on how the organisation recruits, how it designs compensation and benefits and performance management systems – thus, informing all policies and procedures. The processes must back up what the organisation says it is.

Global Knowledge Management

The development of intellectual integration through the creation of shared knowledge bases is the next integration activity that the IHRM function can pursue. Although much attention has been paid to the issue of knowledge management in recent years, there is yet to be a significant attempt at looking at the issues of managing knowledge across borders. Perhaps the most critical component in terms of IHRM positioning lies in the role it plays in championing knowledge management. In a global environment, physical and cultural distance presents powerful barriers to successful knowledge transfer among HR professionals. Choosing the most effective technological platforms, but most importantly, deciding the content of the knowledge to be shared and creating knowledge networks is, therefore, an essential factor in the HR function's globalisation efforts.

The HR function also has to grapple with the intrinsic stock of knowledge held in people's heads which is often the key to competitive advantage. Hence IHRM takes on responsibility for the conscious development of operating networks, both as practitioners within the HR community and as facilitators elsewhere in the organisation.

Box 5 Role of Global HR Networks

- To provide and enable value-added and cost-effective global, regional, and local solutions in a series of core HR processes.
- To identify customer-driven pan-national issues.
- To design solutions to meet specific customer needs and support the corporate people management strategy.
- To demonstrate to customers that global connectivity adds value by sharing knowledge and expertise.
- To ensure that knowledge and intellectual property that reside within HR silos are made freely available to all of the organisation.

Source: C. Brewster, H. Harris and P.R. Sparrow. (2002). *'Globalizing HR: Executive Brief'*, London, Chartered Institute of Personnel Development.

In reality, technology in the form of global intranets and knowledge management systems enables, but does not cause, the required connections and sharing. There is considerable 'social capital' within these communities (that is, a lot of importance given to the connections and relationships that each professional can call upon and the

resources that they can mobilise). In order to build on the individual social capital, IHRM has to build the relationships across the broader HR community. This requires considerable face-to-face contact. HR professionals from around the world will only work together if this is necessary to solve mutual and pressing business needs.

Management through Global Networks

As we discussed in the previous section on organisational capability building, the agenda for capability building in IHRM is often more concerned with up-skilling a business function and spending more time engaging with the leadership teams of these functions. Global networking is one of the ways in which the IHRM function can help build this capability across international operations. This is now considered to be critical because of the organisational changes taking around. Historically, global information, insight into local conditions and best practice have all tended to be shared just by conversation through the process of IHRM – getting groups of people together within the organisation to facilitate some transfer of learning. Indeed, IHRM has to set-up informal networks all the time – and this is generally one of their key objectives. It is much easier to have a network in place working on a significant HR issue from the start. With a network, there is a greater chance of moving quickly, producing higher-quality HR services and providing a better business focus. Networks also suit a more decentralised model of international HRM. Global networks are generally not just put in place for the purpose of knowledge transfer; but are also used increasingly to cut through bureaucracy and to act as important decision – making group. They serve several important purposes:

- providing a forum to encourage innovation and growth throughout the business, and a vehicle to get the right people on to the right teams in order to make this happen;
- encouraging HR professionals and line managers to think beyond their 'own patch';
- creating a situation whereby membership of the network provides advantages in terms of better quality implementation for both line managers and HR professionals;
- getting stake holders (the senior HR community, presidents in businesses) to buy into business changes; and
- forcing the business agenda in forums outside the networks in subtle ways based on shared insight within the network.

Global E-Enablement of HR Processes

At a practical level, management takes place through networks and the focus on knowledge management puts pressure on company intranets and on the technology needed to support such activity. Consequently, most of the future developments in the shared service models are likely to come about through technological change. A part of the response to the pressure on IHRM is the pursuit of better ways to do things. A key challenge facing HRM is the new information and communication technology which is changing ever so fast. This applies across the board, but the impact on global HRM could be immense. Most organisations feel that they have only just started down this path, but they do realise that technology will dramatically change what HRM can do. The ability to get HRM information to and from line managers' desks without a formal HRM intervention opens up new and exiting possibilities, allowing HR to focus on its capability and business development roles. Importantly, this e-enablement is being engineered on a global basis. Technical changes are however seen as an enabling factor – not a driving factor – in the move towards more global models of HRM.

Web-enabling of HR activity – both transactional and transformational HR work – is therefore, seen as an essential step towards helping HR professionals to advise business leaders on the competitiveness of the firm. As part of this technical evolution, intimately connected with the development of the service centre model, we have also witnessed a process whereby many of the activities in the service centre itself are made on-line, and an ethos of employee self-service or self-reliance is developed. Even transformational HR work can be e-enabled. This is where more sophisticated HR practices, such as the recruitment and selection process, or the appraisal and performance process, are themselves offered in more innovative ways through web-based solutions. Current on-line access rights and limited update rights are expected to be a stepping stone to managers authorising pay changes and performance management data, and to employees providing not only factual data about their preferences but also more dynamic and interactive information around skills and personal aspirations. Computing power is being directed at developing what are called 'proactive full technologies'.

But according to Reilly, 'speed of progress will probably not be determined by technological capability but by culture', that is, the organisational culture and extent to which this supports the conduct and practice of devolved management. This statement can be extended to management within national culture as well as to cross-cultural management. Nonetheless, organisational and customer needs are already altering – and, in future, will alter more radically – in response to the globalisation of business and the internationalisation of resources within organisations. Nationally-based services are slowly being replaced by cross-national operations. For example, the advent of the Euro led to the drive to harmonise reward structures on a pan-European basis – and this work was considered to be best supported by commonly shared service centres – in most multinational organisations. The environment will be one in which global firms will:

- extend the shared service concept to other parts of their business operations, subsidiaries and satellite companies;
- use it as a force for integration across recently merged or acquired business or joint venture operations; and
- seek common platforms for the HR, finance and logistics shared services.

So, sooner rather than later, these developments will take place and will signal two major shifts in focus of the HR role:

- The HR and IT functions increasingly work in collaboration, so that HR provides the IT function with HR practices to ensure that its people have the talent, discipline and accountability to design and use effective technical information systems; and IT provides HR with the technological infrastructure to deliver HR efficiently and effectively.
- The HR function becomes both the gatekeepers of national culture, advising on which processes can be standardised and which must remain localised, and knowledge agents who transfer ideas across businesses, functions and geographical boundaries within the global firm.

Box 6
International HR Competencies

- Being a strategic thinker, articulating the benefits of having an effective HR process and capability, and the risks of both personal and business objectives of not having one.
- Having available strong personal networks inside and outside the organisation and the ability to build some structure into this collection of relationships.
- Being a provider of information and advice within this business network, based on personal expertise and credibility.
- Becoming a broker of appropriate knowledge, learning and ideas across a loose connection of people. Being seen as the owner of important new dialogues within the organisation.
- Displaying the capacity for and tolerance of the ambiguities and uncertainties inherent in new business situations, such as working through confused leadership.
- Being a resource negotiator, persuading managers to invest and capturing unassigned resources.
- Being a process facilitator, with diplomatic sensitivity to complex organisational politics and power struggles.
- Mobilising the energy and engagement behind ideas, maintaining pressure on people, managing the impact by under-promising but over-achieving.
- Having respect for the countries and communities being dealt with. Showing insight into their needs both as consumers (as employees) and as clients (as global business functions).
- Showing an appreciation of the ways in which culture influences core organisational behaviours.
- Possessing the capacity to work virtually.

Source: C. Brewster, H. Harris and P.R. Sparrow. (2002). *Globalising HR, Executive Brief*, London, Chartered Institute of Personnel and Development.

To deliver these competencies, IHRM needs to be able to understand, develop an insight into, and take an overview of, the links between HR processes and effective business performance across a global network of operations. However, in the light of the global re-positioning of HR functions that is taking place, international HR professionals have also to act as the guardians or caretakers of national culture.

14.7 SUMMARY

- Trends and future of IHRM can be considered under two broad sections, namely, organisational capability and the mechanism of integration.
- Organisational capability focuses on the ability of a firm's internal processes, systems, and management practices to meet customer needs and direct both the skills and efforts of employees towards achieving the goals of the organisation.
- The mechanism of integration includes operational integration through standardised technology; intellectual integration throughout the creation of a shared knowledge base; social integration through the creation of collective bands of performance; and emotional integration through a sense of shared identity and meaning.

14.8 SELF-ASSESSMENT QUESTIONS

1. How could an organisation obtain the benefits of a centre of excellence without having to declare a whole subsidiary to be such a centre? What are the alternatives?
2. Are shared services models going to represent a new force for standardisation of HR practices on a global basis, or will they result in more localised and customised policies and practices?
3. What type of knowledge do global HR expertise networks need through transfer?

14.9 KEY TERMS

- **Outsourcing:** Using an external organisation to provide one or more internal functions.
- **Off-shoring:** Transfer of work and/or employment to another country typically where employment costs and benefits are lower.
- **Talent management:** A strategic and integrated approach to developing a skill and competent workforce, involving targeted recruitment, development and retention.
- **Knowledge management:** Management of the knowledge available to the organisation from all sources in such a way as to allow the creation of new knowledge and the sharing of existing knowledge.

14.10 FURTHER READINGS

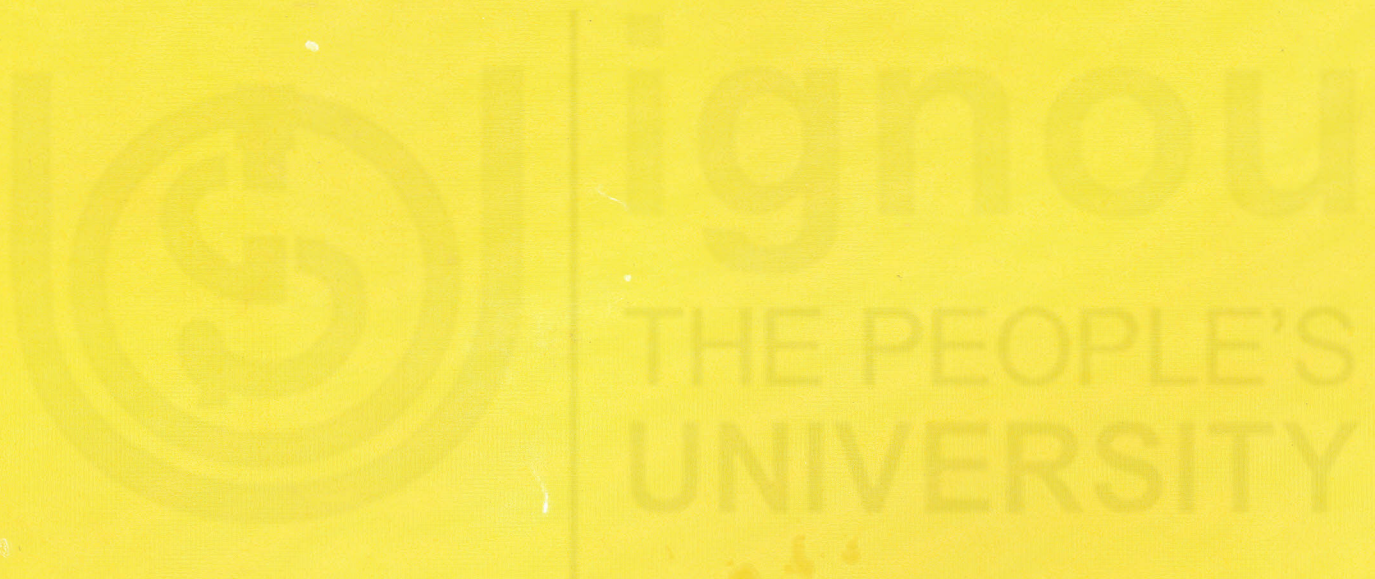
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