

Maximizing the return on HR investment

The benefits and challenges of global strategic human resource management

The transfer of human resource (HR) management practices across national boundaries has become a key strategy for multinational companies to achieve competitive advantage in global markets. However, national differences are major factors complicating the process. The introduction of shared services for HR management departments offers not only costs savings and greater efficiency, but also provides the HR function with an opportunity to focus on more strategic issues.

Diffusion of best practice

Much has been written about the diffusion of HR management best practice in multinational companies from developed countries. However, multinationals from rapidly developing countries, such as China and India, appear to be adopting the HR management practice of a host country as a way of acquiring advanced skills that enable them to compete more effectively in international markets.

A study of Chinese multinational companies operating in the UK found extensive use of UK HR management practice in the Chinese subsidiaries. They not only adapted to UK cultural and regulatory constraints, but also used this as a means of transferring and diffusing best practice expertise and management back to China as well as into other global subsidiaries. However, ties with the parent company remain strong, so some Chinese management practices continue, especially in higher level management decision-making and some of the "soft" areas of HR management, such as recruitment and remuneration.

Strategic orientation

Companies in developing countries can also benefit financially by strategically aligning and investing in their HR policies and practices. Strategic HR orientation is defined as the alignment of HR planning, selection, performance evaluation, compensation, development and staffing practices with the business strategies of the organization.

A study of 19 Indian manufacturing and service companies showed that strategic HR-oriented firms performed significantly better than firms with a lower emphasis by making better use of a low-cost sustainable advantage.

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The traditional role of HR is the attraction, retention, motivation and development of human resources according to current and future requirements. However, HR can also help develop and sustain competitive advantage. This suggests that the head of the HR function should be included in strategic decision-making by senior management. This will enable the HR director to formulate HR strategies that support organizational strategies.

Multi-country shared service operations

The transformation from a focus on administrative and transactional activities to one of HR strategy development in multinational corporations can be achieved by implementing multi-country shared service operations. Shared service centers for HR can be considered across all its functions, including compensation, benefits, payroll, organization development and performance management.

The potential benefits are significant cost savings, consistency, and better and more efficient administrative services. Most importantly, shared services can free up HR resources for activities that can maximize the return on human capital investment – a critical success factor.

Shared service centers are particularly useful for large, geographically dispersed organizations with several lines of business. They can dramatically improve the performance of the HR function. However, the implementation of a regional or multi-country approach to shared services introduces additional challenges.

First is the decision to share services. Factors that have to be considered include: demographics, cultural and language differences, infrastructure, investments, labor costs, consistency of programs and processes, availability of expertise and regulatory requirements. These can vary considerably from one country to another (and also from one company to another within an organization).

Making the decision to invest in shared services then depends on a sound business case that demonstrates a consolidated service center will actually provide better services at lower cost.

Visible executive sponsorship

The existing corporate structure will also have an influence on how a shared services approach can be supported. Before serious consideration can be given to the introduction of shared services, an organization will probably need to have integrated businesses with a strong central leadership that is prepared to mandate consistency of HR programs and processes across the whole company. The issues of governance, ownership and engagement must also be addressed.

This leadership must also be able to identify the critical drivers of a shared service initiative such as:

- HR becoming more of a strategic partner;
- the elimination of duplicate resources;
- consistency of programs and services; and
- improved quality of services.

Having identified these drivers, senior management must understand the contribution that HR shared services can make to the organization and be able to support and defend the strategic decision for its implementation. The next step is to consider which services to consolidate. This will depend on the ease or feasibility of centralizing and their likely impact on business strategy.

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Challenges to implementing shared services include the loss of control and impact on HR staff, the possible work disruption, budgetary concerns and technology problems. These underline the importance of developing a well-considered implementation plan.

Keywords:

Human resource management, Multinational companies, Strategic management

Financial and strategic benefits

Increasing globalization requires new forms of organizational management, which includes the management of people across national boundaries. The benefits for establishing shared service centers for HR are potentially large, both financially and strategically, and are well worth considering.

Comment

This review is based on "Transferring human resources management across national boundaries: the case of Chinese multinational companies in the UK" by Miao Zhang of Kingston University, UK, "Strategic HR orientation and firm performance in India" by Kuldeep Singh of the Indian Institute of Management, and "Expanding HR's global potential: shared service centers in multi-country regions" by Peter Horan and Philip Vernon of Mercer Human Resource Consulting.

"Transferring human resources management across national boundaries: the case of Chinese multinational companies in the UK" describes the experience of six Chinese multinational firms operating in the UK. A weighty article with extensive references, it reviews the theories of transferring HR management by multinationals to their subsidiaries in other countries, comparing them with the findings of the six companies reviewed.

"Strategic HR orientation and firm performance in India" is another well-documented article that investigates the relationship between strategic HR orientation and organizational performance in the Indian context. The findings need to be interpreted carefully, however, and the author admits to a number of limitations that offer opportunities for future research.

"Expanding HR's global potential: shared service centers in multi-country regions" is the most relevant of the three reports for HR practitioners. With a brief case study of a Japanese multinational company, the article outlines the steps required for considering the implementation of shared service operations and describes the benefits and challenges of such a transformation that can free up the HR function for more strategic management.

References

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