The Importance of Human Resources in a Globalised Economy: A Conceptual Framework

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ABSTRACT

The role of human resource management in contemporary competitive industry is critical to the survival of all firms. Yet most of the response to the financial crisis has focused on macroeconomic aspects and there is relatively little research on the role of human resources. Secondly, the issue of globalization has been addressed predominantly in, and with respect to, the developed economies of Western Europe, North America and Japan. This review attempts to address these two limitations. Since the human factor is the key in the new era of globalization the primary objective of this paper is to present a conceptual framework for effective management of human resources as a response to the growing interaction of globalization and business performance.

Keywords: Human Resources, Globalisation, Economy, Conceptual, Framework

INTRODUCTION

The financial crisis, which has engulfed East Asia since July 1997 and has subsequently spread to Russia and Brazil, is one of the most pressing challenges facing countries and businesses in today’s global business environment. Most of the response to the financial crisis has focused on macroeconomic aspects and there is relatively little research on the role of human resources. Secondly, the issue of globalization has been addressed predominantly in, and with respect to, the developed economies of Western Europe, North America and Japan. This paper is an attempt to address these two limitations since the human factor is one of the key issues in the new era of globalization (Hassan, 1992; Sims & Sims, 1995). The primary objective of this paper therefore is to present a conceptual framework for strategic management of human resources as a response to the growing interaction of globalization and business performance.

Three central arguments made in this paper are: (1) That a great deal of evidence has accrued to suggest that changes taking place in the global business environment often are not accompanied by complementary changes in human resource management practices leading to a situation whereby the failure of some firms is due to the mismanagement of people rather than to problems with technical systems per se. (2) That this is because organizations have achieved relatively low levels of effectiveness in implementing Strategic Human Resource Management (SHRM) practices (Huselid, et al., 1997). This is particularly the case in emerging economies of South East Asia like Malaysia and other developing countries like Nigeria that are exposed to the challenges and opportunities of globalization. (3) That in order to manage employees for competitive edge in a period of globalization, human resource personnel must possess competencies relevant for effective implementation of such strategic HRM policies and practices (Barney & Wright, 1988; Cunningham & Debrah, 1995; Huselid, et al., 1997; Ulrich, 1987, 1996; Ulrich, et al., 1995).

Following Wright & McMahan’s (1992) comprehensive theoretical framework for SHRM, this paper develops competency-based research framework and draws implications for the strategic management of human resources to prepare organizations for the challenges of globalization.
II. HRM ISSUES AND CHALLENGES IN GLOBAL MARKETS

The coming of the 21st century globalization poses distinctive HRM challenges to businesses especially those operating across national boundaries as multinational or global enterprises. Global business is characterized by the free flow of human and financial resources especially in the developed economies of European Union (EU), the North American Free Trade Agreement (NAFTA), other regional groupings such as the Association of South East Asian Nations (ASEAN), the Economic Community of West African States (ECOWAS), the Southern African Development Community, etc. These developments are opening up new markets in a way that has never been seen before. This accentuates the need to manage human resources effectively to gain competitive advantage in the global market place. To achieve this, organizations require an understanding of the factors that can determine the effectiveness of various HR practices and approaches. This is because countries differ along a number of dimensions that influence the attractiveness of Direct Foreign Investments in each country. These differences determine the economic viability of building an operation in a foreign country and they have a particularly strong impact on HRM in that operation. A number of factors that affect HRM in global markets are identified: (1) Culture (2) Economic System (3) Political System – the legal framework and (4) Human capital (Noe, et al, 2000: 536). Consistent with the scope of the present paper, only one dimension is treated: human capital (the skills, capabilities or competencies of the workforce). This is in consonance with the believe that competency-based human resource plans provide a source for gaining competitive advantage and for countries profoundly affect a foreign country’s desire to locate or enter that country’s market (O’Reilly, 1992). This partly explains why Japan and US locate and enter the local markets in South East Asia and Mexico respectively.

In the case of developing countries, globalization poses distinct challenges to governments, the private sector and organized labour. These challenges, which must be addressed through a strategic approach to human resource management, include (1) Partnership in economic recovery especially in South East Asia (2) Dealing with the “big boys”, the fund managers (3) Concerns over possibility of fraud in E-commerce (such as issues of confidence and trust) and (4) Implementing prescriptions for recovery and growth taking in to consideration the development agenda and unique circumstances of individual country.

The logical question here is what is the appropriate response for businesses in both the developed countries and developing countries like Malaysia and Nigeria to address these imminent challenges? This is the task we take up in the section that follows.

III. STRATEGIC HRM AS A RESPONSE TO THE CHALLENGES OF GLOBALIZATION.

Strategic Human Resource Management (SHRM) involve a set of internally consistent policies and practices designed and implemented to ensure that a firm's human capital (employees) contribute to the achievement of its business objectives (Baird & Meshoulam, 1988; Delery & Doty, 1996; Huselid, et al., 1997; Jackson & Schuler, 1995). Schuler (1992: 18) has developed a more comprehensive academic definition of SHRM:

Strategic human resources management is largely about integration and adaptation. Its concern is to ensure that: (1) human resources (HR) management is fully integrated with the strategy and the strategic needs of the firm; (2) HR policies cohere both across policy areas and across hierarchies; and (3) HR practices are adjusted, accepted, and used by line managers and employees as part of their everyday work.

For Wright & McMahan (1992), SHRM refers to “the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals” (p. 298). To sum up, it appears that some of the frequently cited fundamental elements of SHRM in the literature are: SHRM practices are macro-oriented, proactive and long term focused in nature; views human resources as assets or investments not expenses; implementation of SHRM practices bears linkage to organizational performance; and focusing on the alignment of human resources with firm strategy as a means of gaining competitive advantage (Nee & Khatri, 1999:311).

Theoretical Foundations of Strategic HRM

Several theoretical perspectives have been developed to organize knowledge of how HR practices are impacted by strategic considerations as briefly described below. Wright & McMahan (1992) have
developed a comprehensive theoretical framework consisting of six theoretical influences. Four of these influences provide explanations for practices resulting from strategy considerations. These include, among others, the resource-based view of the firm and behavioral view. The two other theories provide explanations for HR practices that are not driven by strategy considerations: (1) Resource Dependence and (1) Institutional Theory.

The resource-based theory of the firm blends concepts from organizational economics and strategic management (Barney, 1991). This theory holds that a firm’s resources are key determinants of its competitive advantage. Firms can develop this competitive advantage only by creating value in a way that is difficult for competitors to imitate. Traditional sources of competitive advantage such as financial and natural resources, technology and economies of scale can be used to create value. However, the resource-based argument is that these sources are increasingly accessible and easy to imitate. Thus they are less significant for competitive advantage especially in comparison to a complex social structure such as an employment system. If that is so, human resource policies and practices may be an especially important source of sustained competitive advantage (Jackson & Schuler, 1995; Pfeffer, 1994). Specifically, four empirical indicators of the potential of firm resources to generate competitive advantage are: value, rareness, imitability and substitutability (Barney, 1991). In other words, to gain competitive advantage, the resources available to competing firms must be variable among competitors and these resources must be rare (not easily obtained). Three types of resources associated with organizations are (a) physical (plant; technology and equipment; geographic location), (b) human (employees’ experience and knowledge), and (c) organizational (structure, systems for planning, monitoring, and controlling activities; social relations within the organization and between the organization and external constituencies). HR practices greatly influence an organization's human and organizational resources and so can be used to gain competitive advantages (Schuler & MacMillan, 1984)

The second theoretical influence is the behavioral view based on contingency theory. This view explains practices designed to control and influence attitudes and behaviors, and stresses the instrumentality of such practices in achieving strategic objectives. The cybernetic system explains the adoption or abandonment of HR practices resulting from feedback on contributions to strategy. For example, training programs may be adopted to help pursue a strategy and would be subsequently adopted or abandoned based on feedback. The fourth influence, based on transaction costs explains why organizations use control systems such as performance evaluation and reward systems. The argument is that in the absence of performance evaluation systems linked to reward systems, strategies might not be pursued. The other two theories provide explanations for HR practices that are not driven by strategy considerations but based on power and political influences, control of resources (resource-based theory) and expectations of social responsibility (institutional theory) (Greer, 1995: 107-8).

Implications for HRM Practices

The idea that individual HR practices impacts on performance in an additive fashion (Delery & Doty, 1996) is inconsistent with the emphasis on internal fit in the resource-based view of the firm. With its implicit systems perspective, the resource-based view suggests the importance of “complementary resources”, the notion that individual policies or practices “have limited ability to generate competitive advantage” (Barney, 1995:56). This idea, that a system of HR practices may be more than the sum of the parts, appears to be consistent with discussions of synergy, configurations, contingency factors, external and internal fit, holistic approach, etc (Delery & Doty, 1996; Huselid, 1995). Drawing on the theoretical works of Osterman (1987), Sonnenfeld & Peiperl (1988), Kerr and Slocum (1987) and Miles & Snow (1984), Delery & Doty (1996) identified seven practices that are consistently considered strategic HR practices. These are (1) internal career opportunity (2) formal training systems (3) appraisal measures (4) profit sharing (5) employment security (6) voice mechanisms and (7) job definition. There are other SHRM practices that might affect organizational performance. For example, Schuler & Jackson (1987) presented a very comprehensive list of HR practices. However, the seven practices listed by Delery and Doty above appear to have the greatest support across a diverse literature. For example, nearly all of these are also among Pfeffer's (1994) 16 most effective practices for managing people.

An obvious question at this juncture is: How can organizations effectively adopt, implement and maximize HRM practices for valued firm level outcomes? That is, how can firms increase the probability that they will adopt and then effectively
implement appropriate HRM practices? Insuring that members of the HRM personnel have the appropriate human capital or competencies has been suggested as one way to increase the likelihood of effective implementation of HRM practices (Huselid, et al., 1997).

Ulrich & Yeung (1989) argue that the future HR professional will need four basic competencies to become partners in the strategic management process. These include business competence, professional and technical knowledge, integration competence and ability to manage change.

On the other hand, the United Kingdom-based Management Charter Initiative (MCI), an independent competence-based management development organization, identifies seven key roles and required competencies. These include competencies required to manage roles like managing activities, managing resources, managing people, managing information, managing energy, managing quality and managing projects (MCI Management Standards, April, 1997). Finally, Huselid, et al (1997) identified two sets of HR personnel competencies as important for HR personnel: (1) HR professional competencies and (2) Business-related competencies.

HR professional competence describes the state-of-the-art HR knowledge, expertise and skill relevant for performing excellently within a traditional HR functional department such as recruitment and selection, training, compensation, etc. This competence insures that technical HR knowledge is both present and used within a firm (Huselid, et al., 1997). Business-related competence refers to the amount of business experience HR personnel have had outside the functional HR specialty. These capabilities should facilitate the selection and implementation of HRM policies and practices that fit the unique characteristics of a firm including its size, strategy, structure, and culture (Jackson & Schuler, 1995). In other words, these competencies will enable the HR staff to know the company's business and understand its economic and financial capabilities necessary for making logical decisions that support the company's strategic plan based on the most accurate information possible.

Strategic HRM and Organizational Performance

Researchers in SHRM posit that greater use of such practices will always result in better (or worse) organizational performance (Abowd, 1990; Gerhart and Milkovich, 1990; Huselid, 1995; Leonard, 1990; Terpstra and Rozell, 1993). Leonard (1990) found that organizations having long-term incentive plans for their executives had larger increases in return on equity over a four-year period than did other organizations. Abowd (1990) found that the degree to which managerial compensation was based on an organization's financial performance was significantly related to future financial performance. Gerhart and Milkovich (1990) found that pay mix was related to financial performance. Organizations with pay plans that included a greater amount of performance contingent pay achieved superior financial performance. In combination, these studies indicate that organizations with stronger pay-for-performance norms achieved better long-term financial performance than did organizations with weaker pay-for-performance norms.

Terpstra and Rozell (1993) posited five "best" staffing practices and found that the use of these practices had a moderate and positive relationship with organizational performance. Finally, Huselid (1995) identified a link between organization-level outcomes and groups of high performance work practices. Instead of focusing on a single practice (e.g., staffing), Huselid assessed the simultaneous use of multiple sophisticated HR practices and concluded that the HR sophistication of an organization was significantly related to turnover, organizational productivity and financial performance.

In the case of requisite competencies for HR personnel, emerging evidence from empirical research demonstrates the increasing need for HR personnel to have both HR professional and business-related skills and competencies. A survey of HR executives in the US show that HR managers are spending relatively less time in record keeping and auditing, while their time spent in their activities as a business partner have doubled. The survey also revealed that HR managers believe that their HR staff's most important skill needs are team skills, consultation skills and an understanding of business (Noe, et al., 1997).

Managerial competencies particularly in the HR function bring two advantages to the HR function: (1) Enhance the status of the HR department (Barney & Wright, 1988) (2) Act as important influences on the level of integration between HR management and organization strategy (Golden & Ramanujam, 1985; Ropo, 1993). A study of Singaporean companies found that when HR managers lack the necessary skills to perform their duties competently, line
managers and executives take over some of the functions of HR managers (Nee & Khatri, 1999). Research on managerial competencies by Ropo (1993:51) stressed that “the internal dynamism of the HR function serves as the most critical mechanism to keep the integration process going after it has been started under favorable organizational and strategic circumstances”. Other studies show that if HR managers can evaluate their priorities and acquire new sets of professional and personal competencies, the HR function would be able to ride the wave of business evolution proudly with other functions in the organization (Becker & Gerhart, 1996; Ulrich, et al., 1995).

Huselid, et al (1997) conducted an elaborate study on 293 firms in the US to evaluate the impact of human resource managers’ professional/technical competencies on HR practices and the latter’s impact on organizational performance. Results of the study suggest that consistent with the resource-based view of the firm, there exist a significant relationship between SHRM practices and firm performance. They found that (1) HR related competencies and, to a lesser extent, business-related competencies increase the extent of effective implementation of SHRM practices and (2) consistent with recent studies linking HRM activities and firm performance (Arthur, 1994; Cutcher-Gershenfeld, 1991; Huselid, 1995; Huselid & Becker, 1996; MacDuffie, 1995), the study support the argument that investments in human resources are a potential source of competitive advantage.

Recent reviews of theoretical and empirical literature (Juhary Ali & Bawa, 1999; Irwin, et al., 1998; Jackson & Schuler, 1995) suggest that a variety of factors affect the relationship between HRM and firm performance. These factors include firm size, technology and union coverage. The influence of firm size on HRM practices is fully documented in theoretical and empirical studies. For example, institutional theory suggests that larger organizations should adopt more sophisticated and socially responsive HRM practices because they are more visible and are under more pressure to gain legitimacy. Many empirical studies show that firm size is an important variable influencing HRM practices (Ng and Maki, 1993; Wagar, 1998). There are emerging evidences that HR practices may differ in organizations depending on the level of technological sophistication in terms of training (Majchrzak, 1988), performance appraisal (Ouchi, 1977, 1980; Snell, 1992) and reward systems (Kaus, 1990; Snell & Dean, 1992). Theoretical and empirical studies also support the position that the presence of specific HRM practices may differ based on the union coverage of a firm (Ng & Maki, 1993; Wagar, 1998; Lawler & Mohrman 1987).

IV. FRAMEWORK AND PROPOSITIONS

From the discussions so far, the following issues emerge. (1) That there appears to be a significant relationship between strategic HRM practices and firm performance (low employee turnover, high productivity and high profitability (Huselid, et al., 1997). (2) It is also clear that there exist low incidence of implementing SHRM practices relative to technical HRM practices (Huselid, et al., 1997; Wright & McMahan, 1992). (3) Further more although there exists a significant relationship between the extent of both HR professional and business-related managerial competencies and the incidence of implementing HRM practices, organizations have achieved higher levels of HR professional competencies relative to business-related competencies. (4) Finally, environmental context variables like firm size, technology and union status affect the extent of implementing HRM practices (Jackson & Schuler, 1995; Snell & Dean, 1992; Wagar, 1998). The relationships discussed above are presented in the figure below and relevant propositions derived. This theoretical framework is in keeping with the thinking of a number of authors including Delery & Doty (1996), Huselid, et al. (1997), Jackson & Schuler (1995) and Wright & McMahan (1992).

The following testable propositions are derived from the framework above.

1. Human resource managers may have achieved higher levels of HR professional competencies and lower levels of business related competencies
2. The incidence of implementing strategic HR practices is lower in organizations especially in the developing countries.
3. Both HR professional competence and knowledge of the business (business related competence) significantly contribute to the extent of implementing SHRM Practices
4. Managerial competencies are significantly related to organizational performance
5. The extent of implementing SHRM practices contribute significantly to firm level outcomes
6. The relationship between SHRM and organizational performance is affected by organizational context variables (firm size, level of technology and union coverage).
It may be pertinent to point out here that the six propositions derived from the framework are particularly relevant for giving insights into the HRM challenges facing organizations in the new era of globalization. In other words, these propositions will help us organize thought on the level of readiness (and otherwise) of organizations in response to the challenges of the global business environment. For example, if HR personnel especially in developing countries demonstrates higher levels of HR professional competence relative to the business-related competence (as found in the literature), it would be important to set right this wrong as a stepping stone for succeeding in global business. This is because to succeed in the new era of globalization, the human factor is central. That is why it is necessary for HR personnel to prove themselves beyond reasonable doubt that they are capable of playing key roles in enhancing the status of the HR department (Barney & Wright, 1988), must possess a thorough understanding of business (Noe, et al., 1997) and also act as important influences in the level of integration between HR management and organizational strategy (Golden & Ramanujam, 1985; Ropo, 1993).

V. CONCLUSIONS

This paper set out as a contribution to the current discourse on the interaction of globalization and business performance especially with a flavor of the challenges from the perspectives of developing countries such as Malaysia and Nigeria. This paper presents a framework for Strategic Human Resource Management as a response to prepare organizations for the challenges of globalization. It has been observed that by and large organizations have achieved relatively low levels of effectiveness in implementing Strategic Human Resource Management (SHRM) practices (Huselid, et al., 1997). If the propositions outlined above are supported, then the real challenge for organizations in the era of globalization is to pay particular emphasis to strengthening their human resources by upgrading the relevant competencies.

As governments and corporate bodies brace up for the new millennium characterized by an ever-increasing global challenge, developing countries have no choice but to develop and continuously upgrade the human resource and business competencies of their workforce. In the case of developing countries, distinct competencies are important to deal with not only the HR issues but also others including partnerships in economic recovery especially in South East Asia, dealing with the “big boys”, the fund managers, concerns over possibility of fraud in E-commerce with fast spread of Information Technology and last but not least, implementing prescriptions for recovery and growth taking in to consideration the development agenda and unique circumstances of individual countries. Addressing these issues is a necessary step towards facing the challenges of globalization in to the next millennium.

REFERENCES


