

## **IMPORTANCE OF HUMAN RESOURCE MANAGEMENT PRACTICES AND THE IMPACT COMPANIES FACE IN RELATION TO COMPETITIVE CHALLENGES**

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### **Abstract**

The rapidly transforming business landscape means that there are currently many human resource management challenges which will continue to evolve for years to come. As the business world changes, so does the role of HR professionals. Since human resource management is a business-driven function, effectiveness depends on a thorough understanding of the strategic corporate direction, as well as the ability to influence key policies and decisions. Due to fluctuating economic activity around the world as well as local and global advancements, there are many changes occurring rapidly that affect human resources within a wide range of issues. Human resource management challenges must be defined and solutions determined in order to succeed. Several challenges facing human resource management are discussed and the importance of human resource management practices is highlighted within the discussion.

Keywords: Human resource practices, sustainability, technology, globalisation, leadership.

### **INTRODUCTION**

There are a number of challenges facing human resources management around the world. In order for businesses to succeed in the modern world, it is necessary to try expanding into the global market. Many companies use the global market as a business opportunity to flourish and grow. However this comes with a lot of challenges. Globalisation of the economy is compelling organisations to rethink their future strategies. It is now widely recognised by organisations that transformation is a pre-requisite to their survival and growth. These organisations are experiencing winds of change. For the Human Resource (HR) function, this is the most challenging opportunity, trying to managing the complexities of change and transformation. HR today is playing a lead role along with business functions in creating the necessary momentum and internal capabilities for organisations.

## **HUMAN RESOURCE MANAGEMENT (HRM) PRACTICES**

As organisations around the world face increased challenges due to globalisation, many organisations are seeking to gain competitive advantage at all cost, and are turning to more innovative ways of doing business through HRM practices (Sparrow, Schuler, & Jackson, 1994). Schuler and Jackson (1987) defined HRM practices as a system that attracts, develops, motivates, and retains employees to ensure the effective implementation and the survival of the organisation and its members. HRM practices are also described as a set of internally consistent policies and practices designed and implemented to ensure that an organisation's human capital contribute towards the achievement of its business objectives (Delery & Doty, 1996). Likewise, Minbaeva (2005) viewed HRM practices as a set of practices used by organisations to manage human resources through facilitating the development of competencies that are unique to the organisation, creating complex social relations and generating organisation knowledge to sustain competitive advantage. From this framework, it can be established that HRM practices relate to specific practices, formal policies, and philosophies that are designed and developed to attract, develop, motivate, and retain employees who ensure the effective functioning and survival of the organisation.

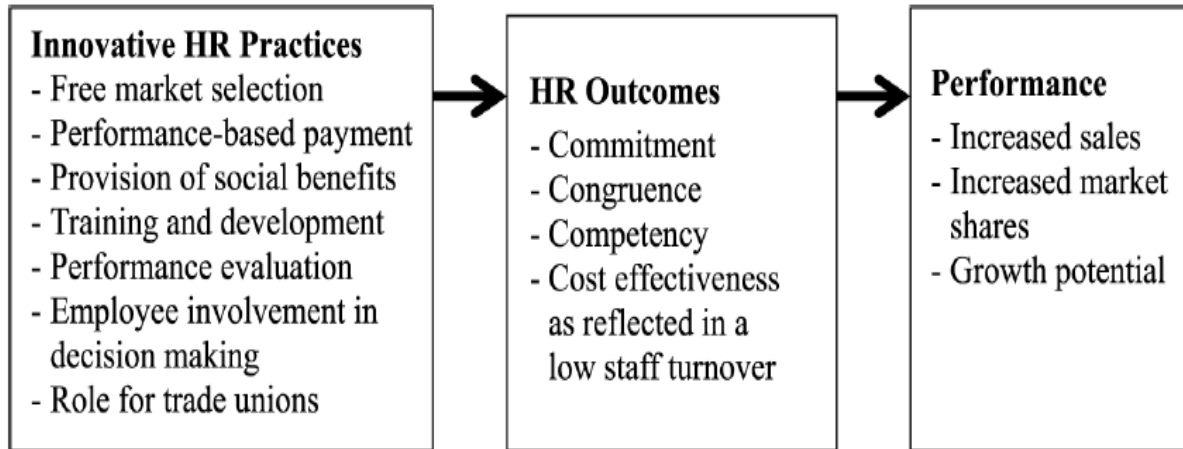
## **THE CHALLENGE OF SUSTAINABILITY**

Noe, Hollenbeck, Gerhardt and Wright (2006:12) define sustainability as the ability of a company to survive and succeed in a dynamic competitive environment. Sustainability is a driving force that is reshaping the business world and will continue to do so. To gain competitive advantage and become successful in this landscape, companies must constantly come up with new ways to drive innovation in business processes, management practices and products and services. But even the best ideas for supporting sustainability will fall flat unless a company's workforce can put them into action (Lacy, Arnott and Lowitt, 2009). Lacy et al (2009) mention that the five levers: organisational change, leadership development, employee learning, performance management and employee engagement can help. These are key elements of human resource management practices and therefore remain key imperatives for achieving an organisation's sustainability.

According to Chan (2010) the role of the Human Resource Manager is evolving with the change in the competitive market environment and the realisation that human resource management (HRM) must play a more strategic role in the success of an organisation. Organisations that do not put emphasis on attracting and retaining talents may find themselves in dire consequences, as their competitors may be outplaying them in the strategic employment of their human resources (Chan, 2010). With the increase in competition, locally or globally, organisations must become more adaptable, resilient, agile, and customer-focused to succeed. Within this change in environment, the HR professional has to evolve to become a strategic partner, an employee sponsor or advocate, and a change mentor within the organisation (Chan, 2010).

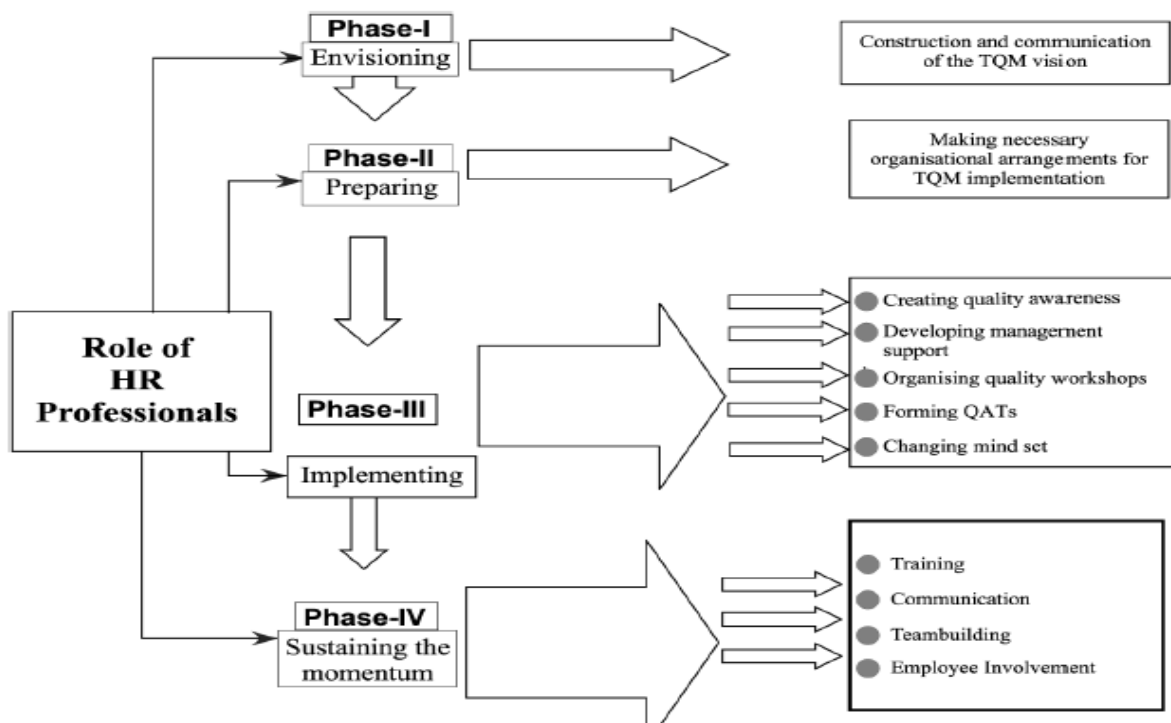
In figure 1.1 below, Zheng, O'Neill and Morrison (2009) show the relationship between innovative HR practices and performance. From figure 1.1 one can clearly see that innovative HR practices has a direct effect on a company's bottom line. Innovative HR practices can therefore be responsible for making shareholders happy.

**Figure 1.1**



Source: Zheng et al, 2009:181

**Figure 1.2**                      **Blueprint of role of HR professionals in TQM implementation in RINL/VSP**



**Source:** Palo and Padhi, 2005:472

Figure 1.2 depicts the role of HR practices in total quality management at RINL/VSP in the year 1996-1997. According to Palo and Padhi (2005) no matter how sophisticated the quality strategy of the organisation is, it will not pass with excellence unless people are earnestly concerned and committed to it. The role of HR professionals revolutionises under the quality management systems because of changing expectations of stakeholder with regard to human resource management (HRM) responsibilities (Palo and Padhi, 2005). Palo and Padhi (2005) further explain that HR professionals have to play a critical role in managing the psychological transition, motivating and enlivening people to achieve total quality.

### **THE GLOBAL CHALLENGE**

We live in a global village and, although details differ, the issues are amazingly similar. Clearly, managing human capital is an ongoing challenge, especially as social, political and economic events take their toll.

According to Venkatesh (2009) due to the fact that the role of HR professionals continues to increase in value, more functional skills and greater leadership expectations are placed upon individuals in the profession. Overall, globalisation requires a combination of linguistic, engineering and marketing knowledge that is not easily available (Sparrow, 2006). Issues facing HR are expected to change dramatically in the next decades, thus HR professionals must play special roles in dealing with these changes and must develop specific competencies to support these roles (Venkatesh, 2009).

The 'Global Business' concept of world trade has seen major growth during the last years. Organisations rely more and more on HR specialists as the facilitators of work, across borders and among different cultures (Venkatesh, 2009). Therefore, they must be knowledgeable of other cultures, languages and business practices. Backing for this comes from Husain (2010) who mentions that to achieve success in the global marketplace, the challenge of all businesses regardless of their size is to understand global corporate cultural differences and invest in human resources. There are certain human resource management issues that are particular for the global enterprise (Husain, 2010). The key issues involve staffing policies, selecting and retaining talented employees, training and development whilst encouraging employees to be innovative and creative, culture barriers, and the legal frame work. Other issues include understanding the challenges of living and working overseas, performance appraisals from a distance, training and management development, compensation packages, and labour relations and organised labour laws (Husain, 2010).

HR managers are required to develop global corporate staffing policies which can be very challenging because of cultural differences. These cultural differences are sensitive points that need to be carefully handled and incorporated into staffing policies. Being able to adapt policies to fit cultural differences is a task that takes much cultural sensitivity and flexibility.

The longer an employee stays, the greater the company's return on investment. For this reason, HR managers are challenged to decrease turnover rates. Dessler cited in Husain (2010) postulates that firms are competing in a global market place, and for organizations to survive and prosper in the modern world of rapid change, they need to be more flexible, faster-moving and faster-learning than before. For that firms are implementing special global training programs, the reason for doing so is to avoid lost business due to cultural insensitivity, improving job satisfaction and retention of overseas staff and enabling a newly assigned employee to communicate with colleagues abroad.

Globalisation is transforming the way business is conducted by dictating that operating within a personal vacuum will no longer be possible (Rowden, 2002). Thus, the corporate world has found itself catapulted into the global arena due to the emergence of the Internet and other forms of communication, and an increase in the numbers of international mergers and acquisitions. Any business that wants to succeed in this rapidly changing, highly competitive environment must be able to adapt, evolve, and operate on a global scale (Rowden, 2002).

Backing for this argument comes from Gratton cited in Rowden (2002) who mentions that with the fierce competition, the race is now on to place human capital at the very center of a sustainable competitive advantage. The culture of an organisation is an asset for the organisation if this manner of doing things is the most adequate for achieving success in the organisation's competitive environment (Rowden, 2002). If the culture does not encourage the behaviours necessary for the organisation to compete successfully in its environment, the culture is a liability for the organisation. Organisations can achieve a strategic culture by the careful planning of Human Resource practices that promote behavioural norms necessary for achieving the organisation's strategy and the deliberate selection of candidates who share the desired values that reinforce the organisation's cultural norms, Bonache and Cabrera cited in (Rowden, 2002).

## **THE TECHNOLOGY CHALLENGE**

Technology is evolving at a rapid pace globally. Companies have to be on the “cutting edge” technologically or face extinction.

In order to remain competitive in global markets, HRM is held to be a central component of success in modern manufacturing, especially in organisations operating in mature economies and seeking higher value-added activities (Barton and Delbridge, 2006). The wave of global technological insurgence and its constant evolution, demands that companies have to become “learning centers” that effect output and competitive edge. Barton and Delbridge (2006) point out that it is necessary to invest in skills development with greater worker participation and that such a philosophy would be consistent with a “learning organisation”. MacDuffie cited in Barton and Delbridge (2006) postulates that for this to happen, progressive HR practices are needed to enable a more innovative and adaptive workplace.

In manufacturing, technology innovation can improve a competitors output overnight. Keeping abreast of technological changes and its effective operation to leverage maximum

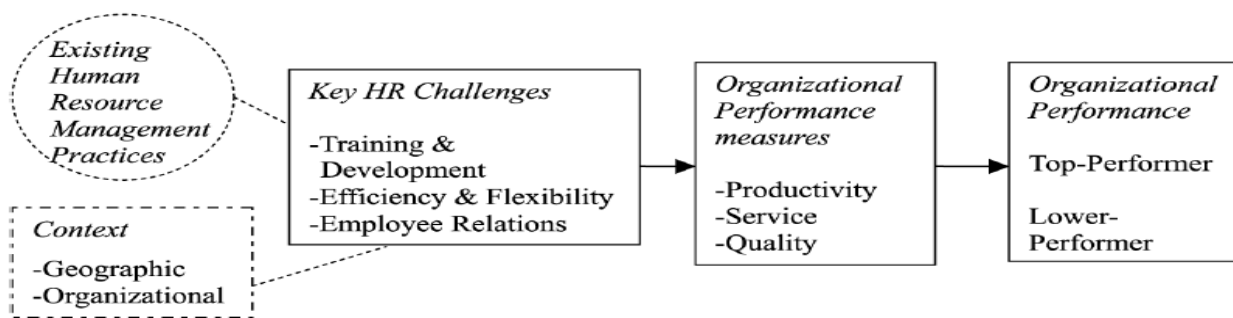
benefit for high output, warrants the need for technologically savvy staff. Sometimes these staff are located in other parts of the globe. Collins and Clark (2003) mention that in the field of strategic human resource management (SHRM) research points to the fact that organisations will only survive in a global market if they can find and acquire scarce resources that are imperative for advantage in a given competitive context and the HR practices are in place to build and support these resources. The reality of communication, training and development in an ever increasing virtual global business environment is positively affected by HRM, which is able to communicate, train and develop employees globally. Ivancevich (2007:54) does however mention that trying to reduce the skills gap in companies is a challenging issue for HRM.

The rapid technology evolution is swiftly continuing to automate administrative tasks, often shifting HR staffing needs and job descriptions – causing HR to re-engineer itself. Keeping up with these updates and employee training requirements for the systems presents additional technological challenges.

### **FACTORS AFFECTING HUMAN RESOURCES MANAGEMENT IN GLOBAL MARKETS**

The advent of globalisation has created a myriad of opportunities as well as a myriad of challenges for today’s corporations. If the negative factors that affect human resource management (HRM) can be neutralised; and the positive benefits easily leveraged, then this can give companies a competitive edge that is needed to compete successfully. Figure 1.3 below shows how when human resource management is properly practiced, the work and effort of employees will become more efficient and of higher value to the organisation, hence increasing their productivity level. This will result in the long-term effectiveness of an organisation within its industry.

**Figure 1.3**



**Source:** Costea, 2004:118

Cascio (2003:10) mentions that at its core globalisation of business refers to the free movement of capital, goods, services, ideas, information, and people across national boundaries. Due to the effects of globalisation, companies face strong indigenous and foreign competition; which is why having a strong and “cutting edge” management of a firm’s human

resources is critically important. Backing for this comes from Cascio (2003:10) who mentions that markets in every country have become fierce battlegrounds where both domestic and foreign competitors fight for market share.

It is becoming easier for companies to design, produce and distribute goods and services equally well and equally fast as indigenous and multinational competitors. However, leveraging workforce skills is complex and certain factors affect the management of human resources which create the complexity.

## **Culture**

Noe, Hollenback, Gerhardt and Wright (2006:631) postulate that by far the most important factor affecting international (HRM) is the culture of the country in which a facility is located. Hofstede cited in Ivancevich (2007:100) points out that cultures differ in at least five ways that may have important implications in understanding business. The five dimensions he points out are:

- ***Individualism versus collectivism:*** Cultures differ in some societies, such as Peru and Taiwan, the group's achievement and well-being will be emphasised over individuals. In contrast individualistic societies like the USA and Australia place more emphasis on individual actions, accomplishments, and goals.
- ***Power distance:*** Cultures also vary in their view of power relationships. Human inequality is almost inevitable, but cultures with a high "power distance" emphasize these differences. In German corporations, the concepts of co-determination and worker councils are common. Giving employees genuine input into decisions is an organisational practice typical of low-power-distance cultures.
- ***Avoidance of uncertainty:*** Another inevitability is not knowing what the future holds. Certain cultures with a high avoidance of uncertainty attempt to predict, control, and influence future events, while cultures with low avoidance of uncertainty are more willing to take things day by day. The rigid use of managerial control systems is more likely to be found in high-uncertainty-avoidance cultures.
- ***Masculinity:*** This has to do with the division of roles for male and female that a particular culture imposes. From an organisational perspective, masculine cultures might tend to be less supportive of efforts to integrate women into upper-level management than feminine cultures.
- ***Long-term versus short-term orientation:*** This fifth dimension that was not included in Hofstede's original work but later added refers to the extent to which cultures think in terms of the future (the long term) or in terms of more immediate events (short term).

## **EDUCATION- HUMAN CAPITAL**

Bianco (2010) points out that an investment in human capital means investing in education or some form of on-the-job training to improve workforce quality. Such investments provide returns to the individual as well as to the economy as a whole. Individuals benefit from higher earnings, and the economy as a whole benefits from higher productivity. According to Noe et al (2006:636-638) education-human capital affects HRM in the following ways:

- Countries having low human capital; yet a firm requires high human capital.
- Countries having high human capital; yet a firm requires low human capital.
- Acquiring human capital when a company engages in foreign direct investment.
- Retaining existing low and high human capital when a foreign firm enters an indigenous market and threatens to attract existing human capital.
- Training and developing existing human capital to be globally competitive.

According to McWilliams, Van Fleet and Wright (2001) the decision to participate in international competition raises a host of human resource issues. One consideration is whether a particular location provides an environment where human resources can be successfully acquired and managed. Instead of having to consider only one or two countries' cultural, human capital, legal, and economic systems, the multinational company must address these differences for a large number of countries (McWilliams et al, 2001). In Transnational firms HRM needs systems that recruit, develop, retain, and utilise managers and executives who are not only competent transnationally but also are competent in decision-making in flattened, non-hierarchical organisations.

Noe et al (2006:636) mention that a company's potential to find and maintain a qualified workforce is an important consideration in any decision to expand into a foreign market. Ferris, Hochwarter and Buckley cited in Costea (2004) mention that changes to an interconnected world and organisational environment necessitates training and development activities to support those changes which will give companies a superior human resources and competitive advantage. Holden cited in Costea (2004) believes that the recognition of the importance of training in recent years has been heavily influenced by the intensification of global competition and the relative success of economies like Japan, Germany and Sweden, where investment in employee development is considerable. Costea (2004) points out that technological developments and organisational change have gradually led some employers to the realisation that success relies on the skills and abilities of their employees, translating into considerable and continuous investment in training and development.

A consensus should be established within the organisation that training makes a vital contribution to the development of the organisation as a whole, even if its success is often difficult to quantify (Costea, 2004). Backing for this comes from Schuler (2000) who advocates the integration of a training program within the strategic planning of a business;

with the methods of implementation and the required resources needing to be agreed on within the organization.

### **Political-Legal System**

When a firm engages in global business, HRM is confronted with new and unique political and legal systems. Support for this comes from Ivancevich (2007:111) who mentions International business is conducted in a maze of International trade agreements, parent country laws, and host country regulation of foreign enterprises. He further mentions that many decisions that might challenge an organisation's normal standards of ethical conduct may be encountered. For example, environmental regulation is weaker in many countries around the world than in the USA. Noe et al (2006:638) mentions that the political-legal system often dictates the requirements for certain HRM practices, such as training, compensation, hiring, firing, and layoffs. Byars and Rue (2008:8) point out that the deluge of government regulations and laws have placed a tremendous burden on human resource management. They further mention that organisations face new regulations routinely issued in the areas of safety and health, equal employment opportunity, pension reform, environment and quality of work life. Often new regulations require significant paperwork and changes in operating procedures. Implementing these changes frequently falls on human resource management.

### **Economic System**

A country's economic system has the potential to benefit a company's HRM management or make it stumble and become weary. Backing for this comes from Noe et al (2006:640) who mention that the health of an economic system can have an important impact on the HRM of a company. They further mention that the labour costs in developed countries tend to be higher than in less developed countries. Due to globalisation, countries around the globe can choose from six different entry modes to enter a foreign country, namely, exporting, turnkey projects, licensing, franchising, joint ventures or wholly -owned subsidiaries. This diversity of entry modes is a factor that affects HRM, by presenting complexity due to the different tax systems of differing countries. Noe et al (2007:640) mention that the taxation on compensation packages is affected by an economic system. Further to that, the varying currencies of countries are another factor that affects HRM, especially when designing compensation packages, and taking into account the exchange rates between countries. Byars and Rue (2008:91) describe the general economic condition of a country as an environmental factor that affects HRM.

### **CONCLUSION**

Human resources departments face significant challenges as their roles become broader and more strategic in the early 21st century. HR is more than a basic function that involves hiring, training and retaining employees. It is a key element in developing a workforce that aligns

with the mission and vision of a business. With increased relevance come increased obstacles. The nation's capacity to face the challenges of globalisation and industrialisation of business towards the 21<sup>st</sup> century depends heavily on the human resources and human capital.

Firms have the capital, technology and human resources; but it is the human resources that can help deal with the challenges of business globalisation. Capital can be generated. So can technology. But the human resources are needed to drive the organisation and the nation through the approaching challenges with encouragement and motivation.

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