THE IMPLICATION OF GLOBALISATION IN HRM: NEW REALITIES AT PHILIPS

PHD. ELENA MARILENA PORUMB
BBU Cluj Napoca Romania
MA ANCA GABRIELA LELUTIU
Osnabruck University Germany.

The last ten years have been perhaps the most volatile period in history for business and industry. Totally new world economic patterns have confronted the managers of companies, sweeping aside long-held assumptions about the way business is conducted. Competition has intensified, not only between traditional competitors, but also with new entrants from developing countries. The "new competition" in turn has created demands for bringing innovative products to the market at an accelerated rate. Shortened product life cycles have brought spiralling research and development costs. Following a period with the most open and unrestricted conduct of trade in modern history, the dynamics of trade have shifted towards tariffs, indirect barriers and a variety of retaliatory strategies. We have witnessed a shift in the centres of economic dynamism from the Atlantic Basin to the Pacific Basin with the United States remaining the pivotal market. None too soon, Europe has started to understand the importance of presenting a unified, competitive front to the world and is beginning to integrate policies to this end. Meanwhile, world financial structures have shown themselves to be inadequate in dealing with mounting debt and distorted currency exchange. We will focus key concepts and how globalisation has impact organisation, organisational response and adaptation in order to gain competitive advantage, HRM is critical for success. The case study is based on Philips corporation. ***Key words: framework for a global strategy, performance appraisal system, Corporate departments, Internationalising the management team.***

1. Introduction

The term "globalism" was coined during this period, and we began to talk about global companies, global products and global marketing. Company managers understood that a global strategy rather than a country-by-country strategy was the new imperative. This was especially true for those engaged in producing and selling products that demand large markets and economies of scale in production.

For multinational companies such as Philips, globalism has meant both good and bad news. The good news was that multinationals could capitalise on their experience in operating in foreign markets. An established presence in countries beyond the home country base provides, as it has in the past, a window from which to observe economic and social trends, new competition, new ideas. The feedback contributes to the innovative potential of the company and generates invaluable learning experiences. But the bad news was that the traditional company was no longer appropriate.

Philips has seen a progressive shift from multinationalism to globalism, leading to the deep structural and management changes presented in this chapter.

2. Organisation Response.

Adapting the organisation at Philips. A few statistics concerning Philips, the Dutch-based electronic company, will serve to illustrate its size and complexity. From its beginning as a small electric lamp producer in Eindhoven in 1891, the organisation has grown into the fourth largest electronics company in the world, operating in more than sixty countries and employing some 344,000 people around the globe.

Along with Siemens, RCA, and Hitachi, Philips is one of the most diversified electronics companies in the world. The product scope includes lighting, small and major domestic appliances, and consumer electronics, which refers to the broad range of audio and video products. It also covers telecommunications and data systems, electronic components, medical equipment and systems, scientific instruments and software. At Philips, the matrix organisational concept has served well for many years. Although it is a complex structure with multiple lines and layers of responsibility and accountability, the flexibility that the system offered was valuable. In today's global environment, that flexibility is even more critical for rapid response to changing situations. The changes made in adapting the organisational structure to global strategies have essentially been modifications to the basic matrix concept.

This complex breadth of activity is managed by a matrix organisational structure. There are four principal elements to this matrix structure:

- *The board management* is the policy setting body of the company. It is comprised of nine members, including the president. Each board member is assigned portfolios most closely related to his area of expertise. These are a mix of corporate functions, product policy activities and national organisations.
- *Product divisions* are the second element. Products and components produced by Philips are grouped into major divisions, headed by senior managing directors with world-wide responsibility for their products. Product divisions follow the product categories described earlier.
- *Corporate departments* are staff functions. Located at our headquarters in Eindhoven, these are twenty-three in number and serve the company world-wide- The co-ordinate such activities as finance, legal affairs, product design and development, marketing support services, and staff development.
- There are *national organisations* located in the sixty countries where Philips conducts its business. Though the size of the national organisations varies in relationship to the size of the market, each national organisation carries out the full complement of Philips' activities, including manufacturing and marketing and, in some countries, research activities.

Such a simplified description of the organisational structure fails to highlight the complexity of its management process. This complexity arises from multiple activity interfaces.

3. What are a The framework for a global strategy?

Philips anticipated the global concept some years before it was given a name and became a fashionable theme for conferences. Its global strategy began in the late 70s with a restructuring. Over a ten-year period, worker productivity has doubled through factory modernisation, production, reallocation and workforce reduction, the latter achieved either through consolidation or transfer of factories to third parties.A key element in restructuring was the establishment of *international production centres.* The revamped manufacturing facilities were assigned worldwide production of product lines. Microwave ovens for worldwide distribution, for example, are now produced in Sweden; office dictating equipment is made in Vienna; car radios are produced in Germany, and so forth. Changes in the management structure begun in the early 1980s continue today in parallel with evolving industry characteristics. The macroeconomic shifts already mentioned have been intensified by specific developments within the electronics industry:

- The electronics industry is moving away from stand-alone products to systems and software-dominated operations. Technologies have converged, resulting in the integration of applications that were previously separate and discrete. Computers and telecommunications are one clear example, audio, video and data processing together.
- The consequence of such integration is to erase separations which existed for so long between techniques for communicating image, sound, text, and data. Industries formerly associated almost exclusively with the telephone, computer, audio/video and office equipment are now advancing towards one another, invading each other's market sectors. This means that companies are forced into areas of expertise in which they have little previous experience. In order rapidly to gain that expertise and also to share escalating R&D costs, individual companies are thus venturing into a proliferation of acquisitions, joint ventures and other forms of co-operative partnership.

- Competitiveness has become the burning issue in the electronics industry. It is the theme of discussions about Europe's future economic viability; it is the centre of trade disputes between Europe, the United States and Japan; it is the crucial concern of every company in the industry.
- The concept of "centres of competence" is especially relevant to this industry. If a company wants to do business outside its home market, it must have a strong presence in the three key markets of the world: Europe, United States, and the Pacific rim countries. Aside from providing the necessary markets, a focus of resources on the region ensures access to technological and commercial expertise, and provides an observation post for major social, economic and political trends.

For an European company like Philips the shift in macro-economic power from the Atlantic to the Pacific rim also means planning and executing a major shift in resources. It is clear that the concentration of resources in Europe must be adjusted to reflect the market dynamism and technological strength of the United States and the Far East. Investment facilities and people are still clustered in Europe. Of the total 344,000 Philips employees, more than half work in Europe. In the Netherlands alone, where they have a major concentration of investments for product development and research activities, Philips employs 22% of their total workforce for a share of 6% of total sales. Obviously, this is a major human resource management issue that has to be factored into strategic planning. Philips has developed new management strategies tailored to these situations and identified long-range human resource management objectives.

4. Conclusions. Lessons learned. How the HRM process works?

The entire workforce worldwide is ranked into twelve hierarchical levels and each employee knows where he stands. Management levels begin at level 60 (levels 10 through 50 are covered by bargaining agreements subject to national labour policies). 60 is the level at which recent university graduates enter. Levels 60 through 80 constitute the "middle management" group, the backbone of the company, and senior management fall into the 90 through 110 span.

The components of the system for ranking include performance appraisal and potential appraisal.

- The *performance appraisal system* has become increasingly objective in an effort to assign demonstrable, job-related criteria to the evaluations. The emphasis on empirical and objective performance evaluation in spreading to include corporate staff functions which were previously thought to be "difficult" to evaluate in objective terms.
- The *potential appraisal system* is more subjective since the outcomes are a combination of judgement and hypotheses about the future. However, it is critical part of career planning and development for both the individual and the company.
- The judgement of today's managers in identifying potential candidates for tomorrow's top management positions is crucial, and it is a responsibility that is taken very seriously. Responsibility for the management development program is therefore *spread throughout the entire organisation,* with line managers shouldering the largest share, since they must perform the evaluations and appraisals.
- Besides nominating those employees with high potential, potential appraisers are required to identify 2% of management staff capable of rotation to other divisions. For the sake of credibility, they are obliged to show some consistency between judgements on performance and potential. This effectively reduces the temptation to cheat the system and promotes an *equitable flow of human resources.*
- Because the company is large, the records must be centrally co-ordinated and tracked. This is the responsibility of the *corporate staff bureau,* which also develops the procedures and monitors the system. And very importantly, it maintains a company-wide perspective on strategic planning and management requirements.
- Because the function is considered to be so critically important to the company's future, the director of the corporate staff bureau reports directly to the *president of the board of management*. Filling the top 120 positions of the company is the responsibility of the

president, the board of management and the director of the corporate staff bureau. Other management positions must be filled by the various organisations themselves.

4.1. The training program

The final element of the management development program is training. *Job rotation* has always been the heart of Philips' philosophy of management development. It is seen as increasingly important in our efforts to develop interdisciplinary skills and an international perspective. The candidates considered to have the most potential for tomorrow's top management positions can be expected to be sent abroad for at least three or four years. A recent variation on job rotation practice is the assignment of Philips managers to our ventures with other companies. Those posted to these assignments have the opportunity to experience company cultures and practices different from their own. Transferring people in and out of these ventures contributes both to the individual's professional growth and to the expansion of the company's perspective as a whole. In short, at Philips, is considered on-the-job training, coupled with multicultural experience, to be the best development tool that can be provided. In addition to job rotation, there is also provided a variety of supplementary formal training programs. Unique to Philips is the *Octagon Program* for young, high-potential managers. Those selected to participate work together in terms of eight on an assigned problem outside their area of expertise. The problems are real situations within the company, and the analyses and eventual recommendations by the Octagons are intended to provide input to company decision-making. The program is intensive- lasting about six to eight months. Its purpose is to broaden the scope of understanding o the company, to increase appreciation of the interdependence of functions and disciplines, and to provide a cross-cultural forum for working together and exchanging ideas.

4.2 Internationalising the management team

These management development practices relate closely to the goal of internationalising management. The performance and potential appraisal systems allow the company to identify the best people in different countries, placing them in jobs where they are needed most. The job rotation practice leads to a rich exchange of perspectives. When you send a Norwegian to Brazil, a Pakistani to Singapore, or an American to the Netherlands, the cultural influences that are traded are bound to result in an international point of view in the company as a whole.

There are of course problems in managing such intercultural exchanges. These range from different standards of living. It is always difficult for someone who has become accustomed to a higher standard of living to adjust downward when transferring to a country where salary levels and standards of living are lower. Tax laws of different countries directly affect the expatriate, sometimes adversely. In Europe, the move finally to integrate policies will alleviate many of the problems experienced in the past in cross-border mobility.

The very notion of job rotation and its impact on the internationalisation of the company is not without its problems. The interests of centralised, strategic planning can conflict with decentralised interests. For example, a "fast track" candidate who has been sent to Brazil may be doing an excellent job there. The Brazilian national organisation wants to keep him forever. But the corporate staff bureau in its effort to meet the strategic goals for the company says that it is time to move our candidate back to Eindhoven to a product division. There can be a pull and tug in terms of whose interests are being served: the national organisation's interests, which of course serve company interests on a more short-term basis, or the company's long-term strategic planning interests.The resolution of these issues is part of the complexity of balancing all of the interests of an international company. Successful interaction between centralised and decentralised functions means that our managers must have the skills to adapt to the give and take, to the flow of shifting balances, as new and often unexpected situations arise. Human resource management can be thought of as the lubricant to help achieve that kind of flexibility.

4. 3. HRM: a critical management tool

Human resource management is still in its infancy as a formal management tool within companies, including Philips. Until recently most companies tended towards reactive, "crisis management" of their human resources. New macro-economic realities and recognition (as a result of both external and internal pressures) that people are a company's most valuable asset, has brought human resource management urgently into focus. Human resource management can never be an exact or predictable activity, because we are dealing with individuals, all of whom are unique. But we recognise that we must give careful attention to our human resource planning and processes. Such strategies must support the strategic planning of the whole company as a whole, sine without the right people in the right places at the right time, the long-term goals of the company cannot be achieved. For multinational or global companies, the dynamics of changing situations and organisational complexities demand nothing less then the excellent management of their human resources.