

THE EFFECTS OF GLOBALIZATION ON HUMAN RESOURCES MANAGEMENT IN SMES

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In times of globalisation it is important for SMEs to deal with international issues of HRM and to provide the necessary human and financial resources in the company. New HR tasks such as international recruitment, intercultural management and the management of different expectations on the conditions of work have to be managed. This is not only a matter of different values and norms of employees from different countries, but also increasingly of taking into account the values of the younger generation who expect different conditions. Using Saxony as an example, it is shown what these expectations are and how the HR approach Talent management can be used to design this issue. This provides a practice example for SMEs in other regions in Europe and around the world.

Introduction

Globalisation has a significant effect on enterprises in many ways, including small and medium-sized enterprises (SMEs). The globally changing conditions in the fields of economy, demography, technology and digitisation are forcing and enabling even SMEs to focus their business more and more internationally. Companies are becoming increasingly global and, due to the war 'for talents', they have to recruit on European and international markets. All these activities demand an adequate HRM. Figure 1 shows the most important HR functions in the age of globalisation. These results of an empirical study clearly show that the following aspects need to be managed in any company: culture and norms, change management, recruitment through social media and retention management (Agarwal, S.; Qouyatahi, K.M., 2017). At the same time, it is not only of interest what European companies currently do in terms of their HR practices. It is also relevant what European companies could do in the future in order to create a competitive advantage with their HR practices (cf. Scholz, C.; Müller, S. 2010). The globalized markets require employees and managers at all hierarchical levels and all business unit to understand how to manage these complex processes. Companies need to consider how they can efficiently recruit, develop, retain and support a workforce that has increasingly different cultural identities. All of these are essential tasks of corporate Human Resource Management (HRM) and aim at promoting the sustainable growth. Globalization, advanced information technology and the progress in the modern economy lead to new methods and concepts of HR management in form of an international Human Resource Management (cf. Trivikram, S. 2017). Talent Management has become one of the key strategic issues for leaders in global organizations. That is why, the majority of research on TM focuses on the large multinational enterprises. Despite the importance of small and medium-sized enterprises (SMEs), research in the area of talent management in this context is scarce, particularly conceptual research (Krishnan, T. N., Scullion, H., 2017).

Area where HR faces challenges in the age of Globalization	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Culture and norms	32%	40%	20%	3%	5%	100%
Political influence	30%	35%	25%	10%	0%	100%
Different country laws	25%	30%	35%	10%	0%	100%
Priority of money and job in different countries	7%	18%	35%	20%	20%	100%
Recruitment through social media	18%	30%	35%	17%	0%	100%
Change management	26%	30%	35%	9%	0%	100%
Compensation	25%	26%	35%	7%	7%	100%
Retention technique	30%	20%	30%	10%	10%	100%

Figure 1: Areas where HR faces challenges in the Age of Globalisation (Agarwal, S.; Qouyatahi, K.M. 2017)

This article focuses on the innovative HR concept ‘Talent Management’ (TM) and its application, especially in SMEs. To this end, we will present research results collected in the region of our university, the German federal state of Saxony. On this basis, we will demonstrate which expectations university graduates, i.e. potential young talents, have on their first job after graduation. This is the first step for SMEs to attract talented employees to the company in competition with large companies.

Characteristics of SMEs

Before the concept of TM is discussed, the special features of SMEs are presented in comparison to large companies, especially with regard to HRM. SMEs play a crucial role in the creation of jobs and local development in increasingly knowledge-based economies. As turbulence in globalized economies increases, SMEs will have to learn to sustain competitiveness in this new kind of environment by developing dynamic capabilities (North, K., Varvakis, G. 2016).

With regard to the size of enterprises, the European Commission (cf. European Commission 2003). distinguishes between microenterprises, small enterprises and medium-sized enterprises. Microenterprises have less than ten employees and an annual balance sheet with a maximum of two million Euro or a maximum annual turnover of two million Euro. Small enterprises have less than 50 employees plus an annual balanced sheet and an annual turnover with a maximum of ten million Euro. Medium-sized enterprise have less than 250 employees and an annual balance sheet with a maximum of 42 million Euro or a maximum turnover of 50 million Euro.

In terms of HRM, it is more important to look at the specific characteristics of SMEs compared to large enterprises. Prouska and Psychogios have pointed out that SMEs usually do not have a lot of internal HR expertise or skills and HRM is often performed by the owners or senior managers (cf: Prouska, R., & Psychogios, A. G. 2019, p. 21). Wapshott and Mallett emphasise three characteristics of SMEs that are essential for HR work (Wapshott, R. /Mallett, O., 2015):

- A high degree of informality
- Informality can exist in various ways when it comes to employment relationship and practices (e.g. an ad-hoc way of organising tasks).
- Spatial and social proximity
- Managers and employees may share a workspace and often there is a greater degree of familiarity.
- Resource poverty
- Considering that SMEs do not have the resources of large companies, "resource poverty" describes the challenges faced by SMEs in particular, and is a regular theme of understanding these companies.

We need ‘to understand SMEs on their own terms [otherwise we will] have a distorted understanding of the employment relationships and practices that represent the everyday working lives of millions of people’ (cf. Wapshott, R. /Mallett, O., 2015). However, as the size of the company increases, HRM becomes increasingly formalised and makes it necessary to establish a HR department. In terms of management, organisation and staff, the majority of SMEs share the qualitative characteristics displayed in Figure 2.

Criterion	Characteristics
Management	<ul style="list-style-type: none"> - Partial leadership of the owner - Less group decisions - Less strategic orientation and planning - Immediate participation in operational processes - Low compensation capabilities after wrong decisions
Organisation	<ul style="list-style-type: none"> - manageable, flat hierarchy - direct information channels - low level formalism
Employees	<ul style="list-style-type: none"> - presence of broad specialist knowledge - presence of interdisciplinary knowledge - less specialists are available - high job satisfaction as a result of manageable processes - close contact between employee and manager

Figure 2: The specific qualitative characteristics of SMEs compared to large companies
(Bergman, L.; Crespo, I, 2009)

Subsequently, the concept of Talent Management as an essential HR function is presented and applied to SMEs using the example of Saxony.

Talent Management as an essential HR function

Talent Management is a relatively new concept that only emerged in the 2000s. Talent management is the process of ensuring that the organisation has the talented people it needs to reach its business goals. It involves the strategic management of the flow of talent through an organization by creating and maintaining a talent pipeline (cf. Armstrong, M., Taylor, S., 2014). But there is no common understanding of the term "talent". In the general and current understanding, talent is understood as a natural gift for outstanding performance in a certain area (e.g. music or art) given to a person at birth. It is assumed that talents can perform exceptionally due to their abilities under favourable conditions. The economic theory and HRM understand talents as all employees who have the potential to make a contribution to the company beyond their tasks. A talent is therefore a valuable employee for the organisation. (cf. Capelli, P. 2008). But it is not only the outstanding performance that characterises a talent. The continuous development of talents is also important. It is precisely this predicted performance (potential) that makes talents so valuable for companies and ultimately encourages them to actively promote talents as early as possible. If the terms talent and talent management are presented as equations, it becomes clear that different HR activities are necessary to develop valuable employees within the company. Ritz and Thom understand talent as the totality of the age-related abilities respectively as the sum of personal dispositions (gift) plus learning processes plus professional experience in the company. That is why the TM process has three stages (cf. Ritz, A., Thom, N. 2011):

- discovering and assigning the personal dispositions,
- developing and promoting talent through learning processes,
- using and changing the experience of the employee.

How can these processes be managed and what is TM in the scientific sense? Talent Management is the additional management processes and opportunities that are made available to people in an organisation who are considered as 'talents' (cf. Blass, E. 2007, p. 2). Talent Management are concepts and measures, that look into the recruitment, retention and development of present and future employees who are considered as talents as a result of their important corporate key competences (cf. Ritz, A., Thom, N. 2011, p. 10). These definitions underscore the importance of recognising that it is not enough to attract only new individuals with high potential. The development, retention and preservation of these individuals in the system, as part of a planned talent strategy, are equally important. It also requires a systematic approach and a review of tools and processes to implement TM successfully. The problem with many companies is that they put a lot of effort into attracting employees to their companies, but spend little time internally retaining and developing talents.

All these reasons indicate that TM must be understood as a holistic approach (cf. Figure 3). It is an approach in which both line managers and HR managers are responsible for the development of talented employees. Figure 3 also shows the various activities of a holistic TM. Previously, TM was often customized for large organisations and, until now, medium-sized companies are underrepresented in the discussion about the approach. In the following, the holistic TM approach will be applied to SMEs using the example of the region of Saxony as a German federal state and proposals for its implementation will be shown.

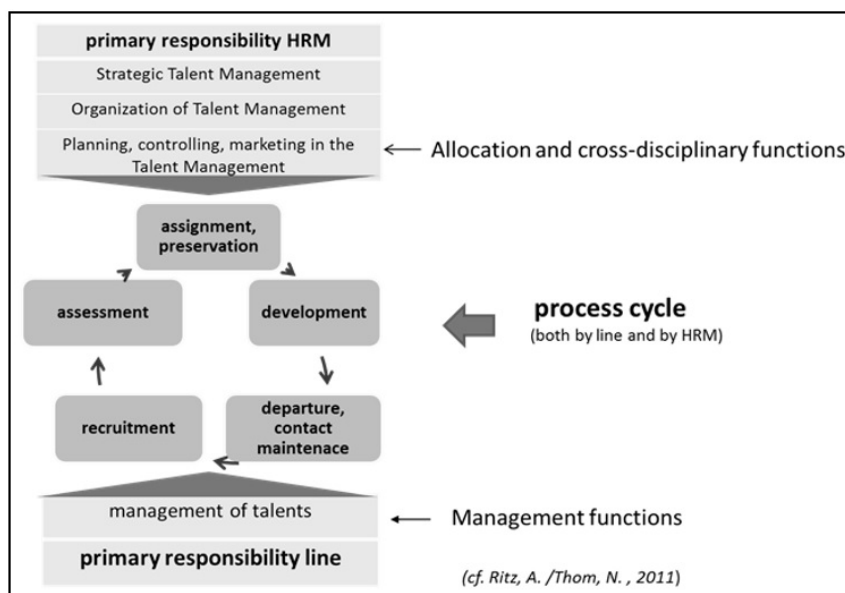


Figure 3: Talent Management as a holistic approach (authors own graph, cf. Ritz, A. /Thom, N., 2011)

Talent Management in Saxon SMEs

In the last few years it has become increasingly difficult to fill job vacancies with young specialists looking for attractive jobs. In Saxony, too, the seemingly paradoxical situation has arisen that companies are looking for specialists, while at the same time specialists are looking for attractive employment opportunities. In the past years, the state of Saxony has not only seen demographic changes, but also migration tendencies. The effects are declining population numbers with a simultaneously increasing proportion of older people has led to a change in the age structure of the large number of SMEs in Saxony: The proportion of younger workers has fallen substantially and the average age has risen (Freistaat Sachsen 2018). The ensuing vacancies can therefore only be filled with considerable personnel effort and costs. At the same time, student numbers have remained relatively stable in regional universities and other educational institutions in recent years and many graduates intend to work in the region after graduation. For example, an empirical survey among students at the University of applied Sciences in Zwickau/Germany (WHZ) shows that graduates are willing to choose their future employer predominantly in the region, if attractive employment opportunities are offered to them (Walter, A, Förster, S. 2015). The graph in figure 4 is based on my own empirical survey and shows university graduates' most important expectations on their first job.

We asked all the 5000 students at our university, 501 of the students responded from all faculties. The most important expectations of the students are the following: positive working atmosphere, training and development, feedback and a cooperative management style. I found out students look for attractive jobs in Saxony, also in SMEs, but many students leave the region after graduation for their first job. Job expectations of today's students differ from those of previous generations. On a 5-level scale, the students were able to evaluate which expectations are most important for them even when starting their career. We are currently carrying out this survey for our students again, the online questionnaire is still open. We are curious to see how the importance of the expectations on the first job after graduation has changed in the last five years.

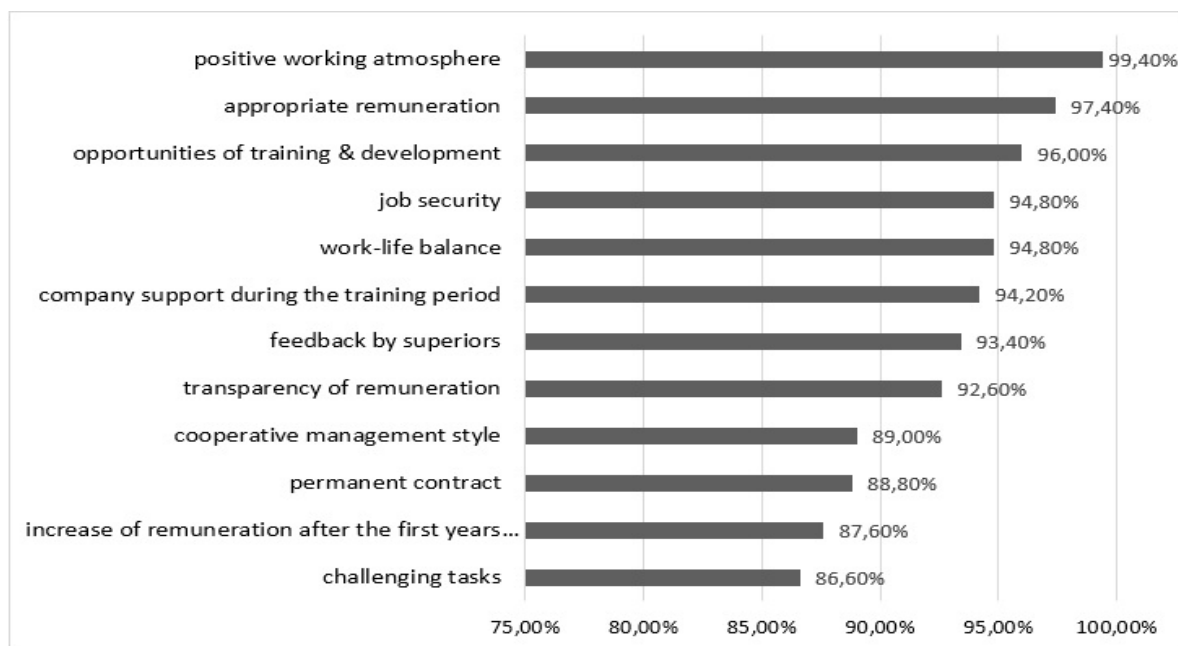


Figure 4: The most important expectations of university students when they start their careers after graduation. (Walter, A., Förster, F., 2015)

Changed preference structures of young professionals regarding their entry into professional life provide an important starting point for a contemporary and sustainable design of Human Resource Management processes, in particular the acquisition (recruiting), integration and commitment (retention) of graduates in companies. This subject is controversial because the urgent need to preserve the innovation capacity of SMEs in Saxony is currently dominated, and will continue to be so in the future by the adequate and rapid filling of vacant or newly created jobs with qualified young professionals. Already today, it is partly difficult to fill jobs in Saxony with suitable young applicants (Monitoring 2018). In comparison to large companies, the SME sector is particularly affected by this problem, as it is very difficult for SMEs to submit attractive offers to applicants in times of fluctuating order situations and tight liquidity constraints, e.g. with regard to remuneration and duration of employment (Psychogios, A., Prouska, R., 2019). Especially for SMEs in Saxony, an advantage may arise

from the fact that in the future the employer's attractiveness will not be evaluated solely by the level of wages. But increasingly by what a company offers as a whole in terms of its jobs and working conditions resp. by the extent it differs from other companies as an employer, initiates and implements market-oriented Human Resource Management through holistic HR concepts such as Talent Management and Employer Branding (Walter, A., 2018). We have scope to explore how mediators such as leadership style, company's climate and development activities influence the relationships between formal and informal HRM practices and between organizational and individual outcomes. (Nolan, C. T., Garavan, T.N., 2016).

On the basis of the characteristics of SMEs (cf. Figure 2), the current conditions of economic activity in Saxony and the five phase process mentioned in, the following proposals on how to implement an effective HRM with a focus on talent management can be formulated:

Phase: Recruitment of talents

The pool of employees and managers available to large firms may seldom be available to SMEs that tend to recruit in alternative labour markets (Dowling et al., 2013). SMEs have different options for their search for qualified applicants. On the one hand it is necessary to attract more young talents from their own region and on the other hand, in times of globalisation, it is essential to recruit them internationally too. For the recruitment of young talents from the region, it is necessary to strengthen local personnel marketing. SMEs and their vacancies are much less known to students and graduates of other regional educational institutions than that of large companies. If not even the name of the company is familiar to them, young, well-trained applicants will not find the vacancies in printed or online job portals, or will only find them after a long and time-consuming search. In addition, a target group-oriented approach to talent is necessary, i.e. young professionals today want to be addressed differently from older generations. In addition to remuneration, job offers must above all include information on the conditions expected by young people at the workplace (cf. Figure 4). Young suitable applicants are looking for companies that prefer e-recruiting (e.g. social media, recruiting portals) and look for companies that have a convincing concept of Corporate Social Responsibility. For a successful search for suitable applicants from the international labour market, it makes sense that the company is present at international trade fairs and job fairs. This activities should be expanded and the contact with educational institutions (such as universities!) should be intensified. Nevertheless, the development of the internal (older) employees is just as important for SMEs to have the necessary professional experience in the company. Professionally experienced employees have not only a higher professional competence, but also a much stronger social competence.

Phase: Assessment of talents

Once they have received a sufficient number of applications, SMEs need to select the most suitable candidates for internal jobs. As SMEs have much less personnel and financial resources than large enterprises, it is relatively easy to assess professional qualifications. Find out which of the candidates has the necessary methodological competencies for the job, e.g. applying project management or team leadership and the required social qualifications, e.g. for working in teams is much more difficult. The first step in this phase is to define the company-specific technical, methodological, social and intercultural requirements for talents. In most cases, the evaluation of the application documents is not enough and in some cases it is not possible to compare qualifications and university degrees from the applicants' home countries. In addition to the evaluation of the written application documents, structured job interviews or the simulation of small job exercises must be prepared and carried out. For SMEs, carrying out assessment centres as large companies do is often too expensive and too time-consuming. But SMEs can consider how to test their motivation and behaviour towards managers and colleagues, which is extremely important for a long-term integration of the new employee in times of globalisation.

Phase: Assignment and retention of talents:

In the workplace, the conditions expected by the newly hired employees have to be designed. Increasing importance is attached to the design of the work itself, i.e. the content of the work and the possibility of assuming responsibility, etc. SMEs have to offer appropriate incentive systems for intrinsic and extrinsic motivation. This includes adequate remuneration, but interesting and challenging work tasks and the opportunity to work in teams are more important. New expectations of employees and young managers include the ability to work on tasks on the computer from home or mobile. For young people it is very important to achieve a work-life balance, which means e.g. flexible working hours. During this phase, it is also an advantage for SMEs to create a talent pool from which vacant jobs can be quickly and easily filled internally. Figure 5 illustrates which individual aspects belong to it.

HR responsibility	Expectations of young talents
Recruitment	good presentation (internet, events) offering of internships possibility of extra-occupational master thesis consideration of individuals with various educational backgrounds
Employer attractiveness	Corporate image stays abroad Corporate culture adequate remuneration Business sites further training Working time models clear perspectives
Corporate Social Responsibility	exemplification of Corporate Social Responsibility acting ethically fairness/equal treatment respect, honesty ecological responsibility
Work-Life-Balance	sports facilities, leisure clubs, events balancing possibilities for intensive working phases
Development opportunities	personal development plan target agreements, employee assessments interdisciplinary teams receiving of responsibility

Figure 5: What are young talents expecting of their employer?

(authors own elaboration, cf. Ritz, A., Thom, N. 2011)

Phase: Development of Talents:

Young talents consider their own professional development particularly important. They want to develop further while fulfilling their work tasks and expect additional training opportunities from the company. At the start of the talent's career, the company can offer a structured onboarding programme. Even SMEs can offer small trainee programs, whereby it is important that there is a timetable for completing the program in different departments of the company. For the development of the talent is very important to provide a mentor. Young employees want quick and personal feedback after completing work assignments. In addition, the assumption of project responsibility or the temporary gathering of experience in the international context can be made possible.

Phase: Departure and Contact Maintenance

If talents want to leave the company, for example because they find a greater professional challenge in another company, the SME should support their desire and not always prevent them from leaving. It is important to continue contact with the valuable employee beyond the employment relationship, because former employees can advertise the abandoned company in their circle of contacts and in the new company. In addition, there is a possibility that the employee who has left the company will return to the company after a few years with new professional experience. Maintaining contact with the former employee via social media is now very easy and inexpensive.

Given that the notion of Talent Management in SMEs is distinctively different from the large firm context, it is important to explore key conceptual questions, such as who is considered 'talent' in SMEs and what is emphasised in their selection (Krishnan, T. N., Scullion, H., 2017). The introduction of talent management in SMEs starts with the internal analysis of existing HR measures in the company, with the highest priority being the cooperation between HR, supervisors and the management. The implementation of TM in SMEs is possible as many successful examples show. A very important requirement is the development of the necessary skills in the HR field and providing the necessary financial and human resources for that.

SMEs until now underrepresented in the discussion about TM. In Saxony, medium-sized companies face a precarious situation: rising need for TM due to demographic situation vs. serious cost-restrictions. Potential instruments of TM for medium-sized companies in Saxony should address especially the creating of job conditions (i.e. mobile working, flexible working time, home office), the use of regional networks (firms, universities, employment agencies, chambers of industry and commerce) and also the development of internal experiences employees. These processes have been started in Saxon SMEs successfully for some time and will be further intensified by all network partners .

Conclusion

In times of globalisation it is important for SMEs to deal with international issues of HRM and to provide the necessary human and financial resources in the company. Specialists can be recruited worldwide. That is why new HR tasks such as international recruitment, intercultural management and the management of different expectations on the conditions of work have to be managed. This is not only a matter of different values and norms of employees from different countries, but also increasingly of taking into account the values of the younger generation who expect different conditions. Using Saxony as an example, it was shown what these expectations are and how the HR approach Talent management can be used to design this issue. This provides a practice example for SMEs in other regions in Europe and around the world.

It should also be noted that SMEs can be very different in their sizes and in the characteristics of the value-added process. Due to the large differences in size and complexity of companies within the SME category, there may not be only one way to manage talent within them. Because of the high importance of the qualifications of employees for SME's business success, a dynamic contextual approach is proposed that incorporates the life stages of the company to describe the characteristics of talents for SMEs (Krishnan, T. N., Scullion, H., 2017) .

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