

Globalization, HR and Business Model Success

Ten Requirements Every Chief People Officer Must Expect from Vendors to Support Global HR



By Holger Mueller

Vice President and Principal Analyst

Content Editor: R "Ray" Wang

Copy Editor: Maria Shao

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Executive Summary

The world is getting smaller and more global every day. Information travels at speeds and lower costs than ever seen before, with the expectation that information will only travel faster and that the costs to create, transfer, share and store information will only go lower.

For enterprises, this means that business will be more global than ever before. While the brick and mortar reality was limited by the value of goods sold and the cost of transport, electronic commerce opens up a virtually unlimited window onto customers and is only limited by regulatory and shipping costs.

And as enterprises transform into digital business with a much more global presence and reach, their internal systems have to become global systems, too. Consequently, these systems often face global requirements and scale for the first time. Besides the sales value chain needing global support, enterprises equally need a global view on one of their largest, if not the largest, expense – people.¹

In this report, we will be looking into how real the globalization trend is. What drives human resources (HR) to become more global? What are the requirements for global HR systems that are future proof and support enterprises into and through the era of digital disruption on a global scale?

This paper provides insights into two of Constellation's primary business research themes, Technology Optimization and Innovation and the Future of Work.

Digital Business Success and Globalization Go Hand in Hand

In the 2013 World Trade Report of the World Trade Organization (WTO), the authors found global migration stabilizing, but at an all-time high. At any given point in the last five years, even the more traditional magnets for immigration (these are the United States, Canada, Australia and New Zealand) have seen a net immigration of +0.4 percent a year. The result was that already in 2005 more than 3 percent of the world population was living outside their country of birth.² And mankind stays on the move - the estimated number of international arrivals for 2012 was expected to pass one billion³, which - if spread out - means every seventh person on Earth has travelled to another country once a year.⁴ All this travel makes mankind more familiar with foreign places, customs and culture, and

¹ See "HCM Trends for 2014 and beyond" by Holger Mueller, Constellation Research, to be published in May 2014.

² "Snapshot-Global Migration", New York Times graphic, June 22, 2007, http://www.nytimes.com/ref/world/20070622_CAPEVERDE_GRAPHIC.html

³ International Tourism, number of arrivals, The World Bank, 2012 report, <http://data.worldbank.org/indicator/ST.INT.ARVL/countries?display=graph>.

⁴ As of July 2013, the U.S. Census Bureau estimated the world population at 7.1 billion.



familiarity makes it easier for individuals to take the step of emigrating from their homeland and immigrating to a desired country.

Digital businesses are enabled by the Internet, and Internet penetration keeps growing strongly. As venture capitalist Mary Meeker showed in her May 2013 report⁵, Internet penetration is now at 34 percent worldwide, with close to 2.5 billion people having access to the Internet. But Internet availability not only enables digital business, it allows a reduction in communication barriers and xenophobia and it helps to educate people about the rest of the world. With both effects, the rising Internet availability around the globe drives growth in digital business and makes it easier for people to migrate around the globe.

At the end of the day, it is clear that globalization is a major trend that is likely to accelerate. With Internet availability on the rise for the worldwide population, the platform for digital business receives more numerous and more diverse users every day. Hand in hand with that goes the necessity for enterprises to adjust to more global demand and delivery – which in consequence means a local presence with local employees.

Some enterprises might recognize globalization as a valid trend, but they often insulate themselves from it through strategic partnerships with local resellers and importers. And while this has been a valid business strategy of the past, in the 21st century, enterprises cannot afford to leave key customer interactions to local partners. If a market is relevant for an enterprise, it needs to be present to deal with go-to-market and customer service first hand. As much as the Internet is an enabler for digital business, it is also an enabler for negative feedback on social networks, and enterprises need to prepare for that. Reputation and business quickly can be lost because of potential issues of a partner – even in a faraway market. One can only take the issues Apple had with its supplier Foxconn as an example of how quickly carefully crafted image and reputation can be affected and potentially damaged for the long term.⁶

The bottom line is that globalization is here to stay. Enterprises better cope with it. Enterprises that don't may get *travolged*⁷ by it.

HR Trends Take a Global Flavor

In this section, we will look more at what promotes globalization – from an HR perspective. Here are some drivers that enterprises should use to assess the urgency of moving to a global HR system:

- **Pace of change increases with digital business.** As digital technology increasingly drives all types of business functions, companies face an accelerating

⁵ "2013 Internet Trends", Mary Meeker and Liang Wu, Kleiner Perkins Caufield Byers, May 2013, <https://www.kpcb.com/insights/2013-internet-trends>.

⁶ "Foxconn Takes a Big Byte Out of Apple Reputation", BrandChannel.com, January 23, 2012, <http://www.brandchannel.com/home/post/Apple-Foxconn-NYT-Report-012312.aspx>

⁷ This is the author's signature verb – from Italian *travolgere*, which means to overwhelm, to crush, to swamp. English lacks a poetic word for that.



rate of change in all aspects of their operations. In addition, companies will undergo major restructuring. More than 52 percent of the Fortune 500 have dropped out of the magazine's listing since 2000, for various reasons – the enterprise got acquired, shrank below the criteria or ceased operations.⁸

- **Economic freedom is challenged.** While recovering, overall economic freedom has not reached its peak level of 2007 again.⁹ Enterprises located in countries with less economic freedom may well look at more investments abroad. Or they may shuffle their exports based on these findings.
- **Wage arbitrage is alive and well.** Despite recent news that Apple is bringing back its offshore manufacturing of MacBooks,¹⁰ labor costs in China, India, Malaysia and other developing countries remain attractive. And with increased education in these economies, not only blue collar but white collar jobs find their way into these ecosystems. Lastly, the developing countries will become large markets. For example, the Indian middle class will be the largest purchasing power middle class in the world by 2030.¹¹
- **Talent shortfalls in the First World.** The lack of engineers and generally STEM-trained professionals is an overall problem for enterprises in the mature markets of the First World.¹² To not fall behind, enterprises need to either hire abroad and relocate professionals to the mature markets or decide to migrate these functions abroad, where these professionals reside. Both scenarios create formidable challenges to HR systems. International recruiting, international transfers, multiple languages and local legal and statutory support are a few of the challenges that quickly need to be addressed.
- **Aging First World population.** But the First World is not only lacking STEM professionals, it is also quickly becoming older¹³ and unable to support a full economy and staff service industry jobs. Enterprises in service and consumer-facing industries need to prepare for challenges in the near future that enterprises with a lack of trained professionals are seeing today already. The problem is that service and

⁸ "Constellation's 2014 Outlook on Dominating Digital Disruption" by Ray Wang, Constellation Research, February 2014, <https://www.constellationr.com/research/dominating-digital-business-disruption-2014-constellation-outlook>.

⁹ "2013 Economic Freedom of the World", Fraser Institute, 2013, <http://www.freetheworld.com/2013/EFW2013-exec.sum.pdf>.

¹⁰ "Apple's Cook Kicks Off 'Made in USA' Push with Mac Book Pro", Bloomberg News, December 18, 2013, <http://www.bloomberg.com/news/2013-12-18/apple-s-cook-kicks-off-made-in-usa-push-with-mac-pro.html>.

¹¹ "The World's Middle Class Will Number Five Billion by 2030", Quartz, January 15, 2013, <http://qz.com/43411/the-worlds-middle-class-will-number-5-billion-by-2030/>.

¹² "Global Employment Trends 2014", International Labor Organization (ILO), Figure 18, January 21, 2014, http://www.ilo.org/global/research/global-reports/global-employment-trends/2014/WCMS_233953/lang--en/index.htm.

¹³ "World Population Aging", National Institute on Aging, <http://www.nia.nih.gov/research/dbsr/world-population-aging>.



consumer-facing enterprises cannot move most of these functions abroad, but need to find ways to relocate workers and capacity to where it is needed.

- **Talent goes global.** And even countries that are lucky to have a base of well-trained professionals may not be able to leverage them because the talent has left. As an example, take Spain, where college graduates, facing unemployment at home, have proactively taken their skills to Latin America¹⁴ - an employment choice unfathomable to their parents.¹⁵ Likely challenges are international recruitment, cultural compatibilities, training needs and many more.
- **Technology is an enabler and accelerator.** It's easier than ever for emigrants to stay in touch with their families in their home countries. Thanks to the increased affordability of smartphones and lower costs of Internet access, not only phone calls but even video conferences with friends and relatives at home are possible. And social media is another potent enabler to stay in touch with families and friends across continents and time zones.

The bottom line for enterprises is that as globalization happens around them, they need to craft global strategies looking both at value chain and supply chain. Let's look next at some very recent trends that need to be considered as part of a more global enterprise strategy - while keeping an HCM hat on.

Digital Business Success Requires Global HR Capabilities

Following is a list of trends that Constellation sees happening now and that have an impact on globalization decisions today. Some of them may well disappear, others will grow and may well become megatrends such as the offshoring of manufacturing to China.

- **EU legislation drives many global requirements.** The European Union (EU) has become the largest market globally from a purchasing power perspective. Due to its origins, the EU also has an overabundance of regulations at the country and the regional levels. But slowly, EU directives and standards are becoming common law on the ground, especially for new and emerging business problems and trends.¹⁶
- **African stabilization creates new opportunities.** There is a common expectation among economists that Africa as a continent may stabilize and create a dynamic future market, initially for lower cost products and services. The expectation is that global enterprises will become competitors to South African businesses that are

¹⁴ "Global Job Market: Spanish Professionals Move to South America", INOMICS blog, April 11, 2013, <http://blog.inomics.com/en/global-job-market-spanish-professionals-move-to-south-america/>

¹⁵ "Exodus of Workers from Continent Reverses Old Patterns", The Wall Street Journal, January 14, 2012, <http://online.wsj.com/news/articles/SB10001424052970203550304577137174048327642>.

¹⁶ As an example see EU regulations on roaming charges: "EU focus on mobile roaming charges is outdated says EE chief", the Guardian, February 25, 2014, <http://www.theguardian.com/technology/2014/feb/25/eu-focus-on-mobile-roaming-charges-is-outdated-says-ee-chief>



rolling up sub-equator markets and to European enterprises that have traditionally had an interest and often operations along the Mediterranean north rim of Africa.

- **China faces potential destabilization.** China is expected to become the largest economy and market in the world. The concern is that with increased economic success, there will be an increased popular desire for economic and civil freedom that will clash with the ruling class. Nobody knows how this will play out, but the general consensus is for a potential growth dent under the milder scenarios and a severe market and supply chain disruption under the more severe scenarios.
- **Mexican boom brings cross-border opportunities.** Equally difficult to predict, but much closer to the large North American markets is Mexico. Current optimistic predictions see Mexico leaving behind its civil war-like, drug crime-induced past and becoming an important option for near shore services and manufacturing. Given the heavy immigration of Mexicans into the U.S. who are proficient English speakers, some economists foresee an entrepreneurial and skills return to Mexico as a likely outcome – similar to the re-immigration India experienced from 2000 to 2005.
- **India's middle class expands because of STEM growth.** India is experiencing similar positive predictions, with a quickly growing middle class that by itself may even surpass the largest of the European economies soon. And though the country has still to solve its overall educational challenges, it keeps producing one of largest groups of STEM-trained professionals. And while other economies are aging, India is getting younger, with one-third for the population under 15.
- **Retirement demographics create a brain drain.** When making strategic global decisions, enterprises need to factor in the retirement demographics of regions and countries. Starting in 2010, the EU has seen more people retiring than joining the workforce. The U.S. is experiencing a dropping labor participation rate. Russia, Canada, South Korea and China will also see more people at retirement age than entering the workforce.
- **Culture goes global.** At the same time, culture becomes a more and more global phenomena. The First World is aided by this largely being a one-way street from the mature economies to the rest of world. For instance, movies like Star Wars, adult TV series like Friends and children's educational series like Sesame Street are not only global brands, but they also transport values. They have an impact on the cultural values of the countries where they are seen, drawing them invariably closer to First World economies. Even if local culture is not affected at all, there is a higher global awareness and potential understanding of other cultures and values.

There are a number of trends that enterprises need to take into account when making global people decisions. The above list cannot be in any way complete, but hopefully provides new perspectives on the global and local dynamics affecting globalization strategies.



Ten Requirements Every Chief People Officer Should Expect from a Global HR System

At Constellation, we see the following table stakes for an HR software vendor to be called a truly global vendor that enables global processes and best practices for clients with employees working around the globe. In the following section, we list criteria that we have seen buyers requesting in the past when selecting a global HR system and criteria following a global rollout that have served as key takeaways.

1. Presence and Cultural Fitness

Buyers will look for vendors who understand global processes but also local practices. Vendors can only achieve that understanding on a local level with some presence in the respective countries or at least experience of employees that have lived and worked in these countries. This local understanding goes way beyond local legislation and statutory requirements, but to a deep cultural understanding of the values and practices in the respective country.

2. Regional Data Centers

By its very nature, data and information stored in HR systems is of the personal identifiable information (PII) type. And with that, it is subject to manifold local data storage, conservation and sharing regulations. One of the less known secrets of cloud deployments is that most enterprises look the other way when confronted with these requirements. In the longer run, though, ignoring these requirements is no solution and vendors need to find deployment architectures that allow for local compliance without losing global benefits when operating their systems. The starting points are regional, if not national, data centers in order to comply with local legislative requirements. So buyers want to understand the existing and planned presence of data centers of their prospective vendors. The next step is to understand how a vendor can partition and fragment data as needed by local legislation, while still enabling a global perspective on data and a consistent set of processes.

3. Language Support

Vendors need to support national languages to enable a global solution. And while we see the propagation of English as the lingua franca of the skilled workforce, when HR systems hit the manufacturing and shop floors, local language support is a key requirement. Buyers pay attention not only to correct translation from a linguistic perspective, but more importantly, they care that the business jargon of the respective country is correctly represented in their prospective HR systems. Vendors can only achieve this level of language proficiency with a good enough local presence in the countries where they offer local language capabilities.



4. Localization Support

Equally important is localization support – and that goes beyond the tables stakes like correctly capturing an address or validating a telephone number. Localization quality needs to be measured at the same level of local intimacy and proficiency as a vendor based in-country can achieve. A global enterprise should not shortchange a large employee population by not supporting local processes well enough. For vendors, it again means that they need to acquire and maintain enough local understanding, something that can usually only be sustained with a local presence or good working partnerships with well-rooted local vendors or partners.

5. Payroll Support

Global enterprises face the complexity of global operations and there is no area where the challenges are felt more than in payroll. With legislative cycles accelerating and taxation authorities being slow at formulating and communicating legislative changes, this area is formidable both for enterprises and vendors. And few things can affect employee morale more than missed or, faulty pay checks. But not only getting the headache addressed is key, true talent management needs to be tied to compensation and compensation materializes itself in paychecks. Vendors who partner locally for payroll automation will not be able - or will need to perform significantly more integration work - to achieve similar levels of transparency in compensation matters as vendors that have their own native payroll in each relevant country.

6. Talent Management

Along the same line of thought, global enterprises need global talent management functionality. Hiring talent needs to be a global function, allowing enterprises insight into a global talent pipeline, with the ability to shift and adapt both recruiting and salary strategies. The same argument has to be made for performance management, where review and metrics need to be harmonized and visible globally to allow a transparent global view on performance strengths and weaknesses. Equally, compensation management needs to be a global function, with significant complexities around planning and simulation as enterprises need to understand globally which talent to hire where and at what cost to the enterprise. Moreover, learning and training have some global considerations, too, as enterprises want to align culture, values, objectives and strategies – and the content needs to be available for each relevant country of operation. Lastly, succession management needs to be able to run globally – giving executives a global view on the talent pools in the enterprise. The last thing global enterprises want to have is that they shoulder the cost and burden of worldwide operations but bleed talent because of a lack of visibility and a derived (and often perceived) lack of internal mobility by their key performing talent.

7. Scalable Best Practice

One of the most common challenges experienced by global enterprises is that what works nationally as a best practice is often something that cannot be transferred and transplanted to other countries. Culture and maturity of processes and employees play a key role, but



also the flexibility and adaptability of these best practices determine whether they can be successfully expanded into global best practices. For vendors, this means that sufficient flexibility needs to be part of their systems to allow the tailoring of local requirements into global best practices that allow consistent, visible and efficient operations.

8. Data Privacy

One of the lesser publicized pitfalls of global HR systems is the lack of compliance with local data privacy requirements. Challenges start already with mandates to keep vital employee information local to each nation's borders – something almost impossible to implement given the data center locations of most vendors. But sooner than later, local works councils, legislators and maybe even employees via social media will identify this non-compliance and we will see both enterprises and vendors scramble to address this issue. Vendors need to look into *glocal* (global/local) capabilities that adhere to local legal requirements but are also flexible enough - by aggregating and masking local content, for example - to still provide manageable global HCM functionality.

9. System Agility

Agility is a well overused buzzword these days. So let's try to define it for the purpose of global HR systems: In this context, agility means that enterprises have an HR system that can add and close countries easily, transfer employees across countries easily and perform key system configuration changes at various levels of the system. The latter requirement means that these configuration changes can be managed on a global and local country level – ideally in as many aspects of the system setup. Local configuration should always be possible but never mandated by system requirements, but defaulted from a global configuration. Once a local configuration exists, it should not be overwritten by global configuration changes – unless desired. Along the same lines, modern systems should remind their operators of local configuration changes and question their continued necessity over the years of system usage, thus avoiding the bloated and convoluted reality of existing, less modern global HR systems.

10. Partner Ecosystem

Even the largest enterprise applications vendors do not have a presence and deep local understanding in all the markets around the world where globalization and a digital business may take their enterprise. Therefore, it is key to make sure that any vendor under consideration for a global HR system has a vibrant partner ecosystem and an attractive partner value proposition. This will attract local partners in markets where an enterprise may require deep local support and understanding.

And with the speed enterprises need to expand their global presence, enterprises cannot expect that their vendor may be doing business already in each of the countries where they plan to roll out their HR system, not even the vendor having a partner in that country. Enterprises should expect (and demand to a certain point), however, that the vendor will be flexible enough to cooperate with a local partner of the enterprise's choice in a swift and efficient manner.



The Bottom Line: Globalization Is Here to Stay – HR Should Lead

There can be no doubt that people have become the largest expense to most enterprises. At the same time, globalization is a force to reckon with, better proactively than being caught in the maelstrom of globalization's forces. At the same time, the transformation of enterprises into digital businesses is another strategy enterprises need to account for. Inevitably, every implementation of an enterprise strategy involves the people that work for the enterprise. And people processes are enabled by the HR systems that enterprises choose to operate on. And these very systems can be a hindrance, in the worst case even a roadblock, for an enterprise to actively design a globalization strategy or at least react to globalization forces.

We hope this report gives decision makers and those who prepare decisions around enterprise HR systems a first exposure to the topic of globalization, points out some relevant trends and creates a good level of insight into criteria that innovative HR systems should meet today.

Disclosure

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Analyst Bio: Holger Mueller

Holger Mueller is a Vice President and Principal Analyst for the fundamental enablers of the cloud, IaaS and PaaS, with forays up the tech stack into BigData and Analytics and sometimes even SaaS. Mueller provides strategy and counsel to key Constellation Research clients, including Chief Information Officers, Chief Technology Officers, Chief Product Officers, investment analysts, venture capitalists, sell side firms and technology buyers.

Prior to joining Constellation Research, Mueller was Vice President of Products for NorthgateArinso, a KKR company. There, he led the transformation of products to the cloud and laid the foundation for new Business Process as a Service (BPaaS) capabilities. Previously, Mueller was Chief Application Architect with SAP, working on strategic projects and next-generation product capabilities. Mueller was also Vice President of Products for FICO, creating the foundation for the current Enterprise Decision Management Suite. Before that, he worked for Oracle in various management functions both on the application development (CRM, Fusion) side and business development side. Previously, he worked for SAP, starting the products suite that is currently SAP CRM and worked in the Office of the Chairman for Hasso Plattner. Mueller started his career with Kiefer & Veitinger, which he helped develop from a startup to Europe's largest CRM vendor from 1995 onwards. There, he helped spearhead offshore development in Bangalore, India, where the previous K&V Lab is now SAP Labs Bangalore. Mueller has presented at numerous trade shows and industry events and writes his blog on enterprise software at enswmu.blogspot.com.

Mueller has a Diplom Kaufmann from University of Mannheim, with a focus on Information Science, Marketing, International Management and Chemical Technology. As a native European, Mueller speaks six languages.

Mueller can be reached at holger@ConstellationR.com.



About Constellation Research

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Website: www.ConstellationR.com

Contact: info@ConstellationR.com

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