

Growing pains: The HR challenges of international expansion

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UNIT



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Foreword

Despite economic uncertainty and seismic shifts in the geopolitical context of global trade, there is no going back for growth businesses. This research shows that for many, international expansion is central to their strategy and will remain central to their success.

But working across borders and cultures raises new challenges for businesses, and how they tackle these growing pains can have a significant impact on overall performance. Despite a decade of expansion and globalization, the overwhelming majority of respondents cite HR challenges as a constraint on growth while acknowledging that international expansion is an opportunity for HR to make a strategic contribution.

So why this disconnect? And how can HR and business leaders move forward with confidence when the world of work and the nature of international business are evolving so fast?

At ADP, we've been helping businesses grow for more than 70 years. Today we support hundreds of thousands of companies in 140 countries, including nearly 80% of the Fortune 500 firms. We see businesses become more complex as companies scale and expand internationally, whether organically or through mergers and acquisitions—and complexity is the enemy of transparency and confident decision making. Yet while some businesses take this in their stride, others seem to struggle. We commissioned this research from The Economist Intelligence Unit to shed some light on these differences, to help growth businesses avoid common pitfalls and find ways to accelerate performance to meet the manifold challenges of this next decade.

The themes that emerge around talent, data and regulation are relevant for companies of every size and we hope the findings will help each of them to overcome challenges and fully embrace the upcoming changes to our global economy.

About this report

Growing pains: The HR challenges of international expansion is an Economist Intelligence Unit report, sponsored by ADP. It identifies the chief HR challenges of managing a growing international workforce and the executive leadership skills, technologies and strategies that are important for overcoming them.

The research draws upon a global survey of 1,000 HR executives in internationally expanding companies. The survey was conducted in October-November 2019 and focused exclusively on businesses that are currently expanding their international workforce (80%) or have done so in the past five years (20%). A third of respondents are drawn from companies with over 5,000 employees.

To ensure a senior level outlook, half of the respondents hold a CHRO (chief human resources officer) or equivalent position. The remainder are other senior managers, including VPs and directors, within the HR function.

The survey results are supplemented with in-depth interviews with HR executives. We would like to thank all survey respondents, as well as the following executives (listed alphabetically), for their time and insights:

- **Alexandra Badenoch**, group executive, transformation and people, Telstra (Australia)
- **Jérémy Roffe-Vidal**, CHRO, IDEMIA (France)
- **Lisette Sens**, director of channel, Aryaka Networks (US)
- **José Angel Marra Rodriguez**, HR director, Iberdrola (Spain)

We also spoke to OYO, an Indian hotel chain, who asked that their HR spokesperson remains unnamed. This paper was written by Becca Lipman and edited by Pete Swabey.

Executive summary

Although global trade growth is on the decline, according to predictions by the World Trade Organization (WTO), it has not stopped companies from extending their reach abroad.¹ The opportunity to diversify markets and supply chains and increase access to specialist skills and capabilities is too tempting.

But these expanding enterprises soon encounter the many challenges of building—and maintaining—an international workforce. Indeed, according to our survey of 1,000 HR executives, these challenges have slowed many companies' global ambitions. Nearly three-quarters (71%) of respondents identify HR issues among the most challenging barriers to international expansion.

"There are many challenges associated with international expansion but there is no doubt some of the HR-related issues can be the most challenging," says Alexandra Badenoch, group executive, transformation and people, at Telstra, an Australian telecommunications company. "People and culture issues are often critical to the success of any international expansion effort and equally often the greatest reason for failure."

This report sheds light on how businesses are expanding internationally, the top challenges of managing and expanding an international workforce, and what HR leaders can do to address them.



¹ WTO, "WTO lowers trade forecast as tensions unsettle global economy", 1 October 2019, https://www.wto.org/english/news_e/pres19_e/pr840_e.htm

Key findings of this research include:



01.

International expansion is poised to accelerate. Ambitious companies are looking to expand beyond their home market to access new market opportunities and specialist talent. The majority of survey respondents say their firm increased their overseas headcount by over 25% in the past five years, and that growth is expected to accelerate in the next year.

02.

Technology and data analytics have greatly helped companies to expand their global functions. From designing HR services and systems to recruitment strategy, analytics have played an overwhelming role in supporting and driving change, according to survey respondents. This is particularly helpful as companies try to design global services that factor in the ever-growing, ever-changing legal and cultural requirements of foreign offices.

03.

The most widely felt HR challenges to international expansion are recruitment and compliance. Recruiting suitably skilled employees and managers, and remaining compliant with employment law across multiple jurisdictions, are the most common HR-related issues that survey respondents encounter. These challenges and others have limited the pace of international expansion for a majority of respondents.

04.

Large companies are more likely to expand through mergers and acquisitions, and encounter cultural challenges as they do so. Companies with over 5,000 employees are more likely to have expanded internationally through mergers and acquisitions than those with fewer, although opening regional offices is the most common approach for both groups. Meanwhile, the most common HR challenge among these larger companies is understanding cultural differences.

05.

International expansion is an opportunity to make a strategic contribution. Most respondents (84%) agree that international expansion trends are an opportunity for HR to help drive company strategy. But, as interviewees advise, HR leaders must be assertive to ensure that workforce-related issues are acknowledged and addressed in their organization's expansion strategy.

Chapter 1: Crossing the border

International expansion has been a crucial tactic for ambitious businesses for centuries, allowing them to capitalize on a wider world of market opportunities, talent and supplies beyond their home borders. Recently, however, international trade has become politically fraught with Brexit and simmering tensions between the US and China suggesting a backlash to globalization.

These political tensions are visibly affecting trade. In October 2019, the WTO cut its 2020 forecast for growth in trade volumes in the year ahead from 3% down to 2.7%.

However, there is considerable regional variation beneath this downbeat figure. Imports to developed countries will grow by just 1.2%, the WTO expects, but in developing countries the figure is 4.3%. In Asia, they are expected to grow by 3.9%; in South and Central America, by 4.5%. Businesses in search of growth may need to look beyond their traditional export markets, but global retreat seems unlikely.

Furthermore, several other factors promise to counteract the dampening effect of trade tensions. For one, companies are looking to diversify their supply chains as their traditional routes are affected by global trade policy. This has the potential to open up new opportunities in untapped markets. Meanwhile, economic measures, such as interest rate cuts in the US, could boost business activity in spite of policy pressures on trade.

For companies with high ambitions for growth and investment, such as US-based technology start-up Aryaka Networks, international expansion is simply a necessity. As channel director Lisette Sens remarks: "With any pre-IPO company, it's all about growth. And you want to demonstrate this not only in key markets, but also in international markets. You want to show that you aspire towards world domination."

The pace of expansion

For this study, we surveyed HR executives from companies that are currently expanding their international workforce or have done so in the past five years. These executives expect international expansion to accelerate. Just under a third of respondents (32%) say their company expanded its international headcount by 50% or more in the past 5 years; slightly more (33%) expect to grow by that much again in the next year.

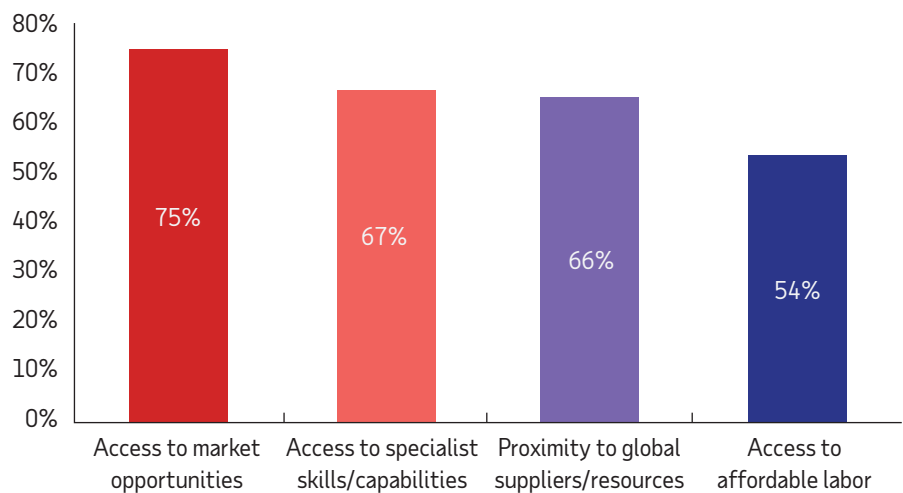
Access to new market opportunities is the primary driver of expansion (75%, see figure 1). As expected, the pursuit of growth is the main reason a company might take the effort to expand beyond their home markets.

But availability of talent is also a key factor: access to specialist skills and capabilities is a driver for two-thirds of respondents (67%), more than affordable labor (54%). This suggests that skill shortages, not high wages, are driving the international pursuit of talent. According to a 2018 report by the global consulting firm Korn Ferry, a skilled labor shortage of more than 85.2m unfilled jobs is likely by 2030, affecting businesses in both developed and developing economies.²

²Korn Ferry, "Future of Work: The Global Talent Crunch", May 2018, https://dsqapj1lakrc.cloudfront.net/media/sidebar_downloads/FOWTalentCrunchFinal_Spring2018.pdf

Figure 1: Drivers to international expansion (% of respondents)

Source: Economist Intelligence Unit



“Increasingly we are focusing on how we can access and build international talent pools to support the technology capability we need, which is in short supply in Australia,” explains Ms Badenoch, who is prioritizing talent in her company’s expansion plans. “Accessing talent from India enables us to pull from a significantly larger pool of skilled software engineers. For example, Australia had supplied around 1,200 new software engineers in the past 12 months compared to 44,000 in India.”

Geographically, respondents from two countries have expanded especially fast in the past five years: Switzerland and India (see figure 2). It stands to reason that companies in small countries must expand internationally, while India’s high rate of international expansion may reflect the growing ambition of the country’s private sector.

“International expansion is both challenging and important, especially for a company—be it a start-up or well-established organization—based in India,” according to an HR spokesperson from India-based OYO Hotels. OYO has expanded into 800 cities in 80 countries over 6 years. “And one of the biggest contributing factors to our success is the company’s investment in maintaining a high-value talent pipeline in all aspects of its business.”

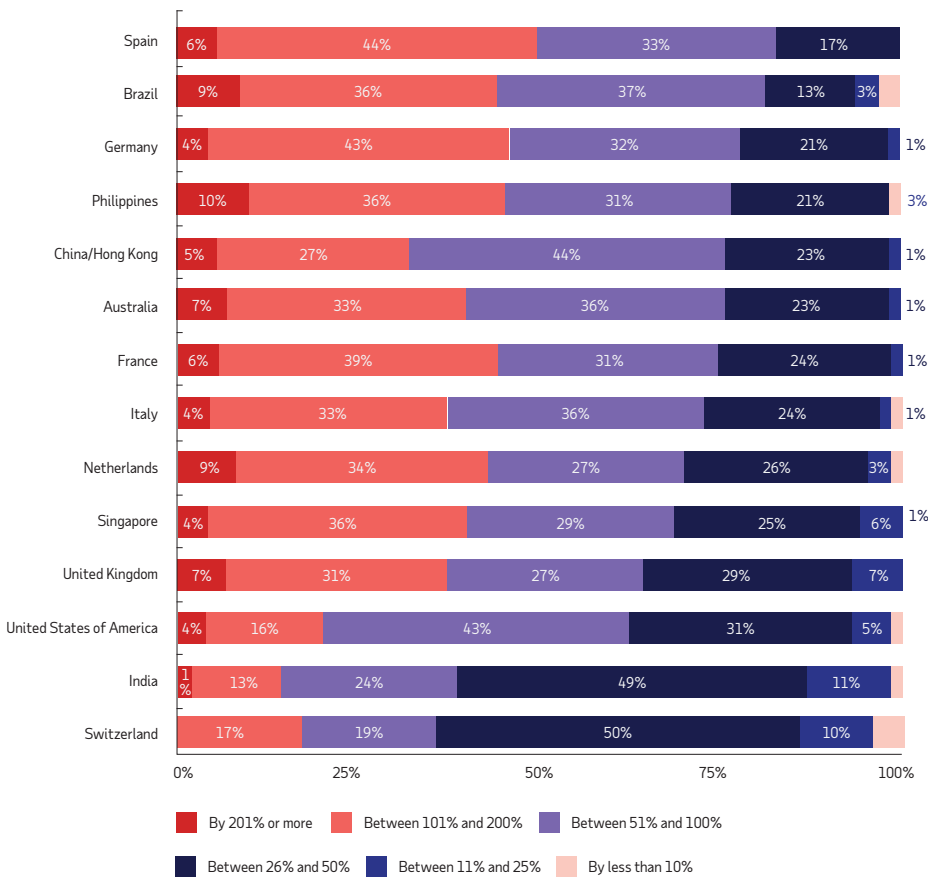


Figure 2:
The global pace of expansion

How companies around the world have grown their international employee bases (% of respondents)

Source: Economist Intelligence Unit

How companies expand their workforce

Once the decision has been made to enter a foreign market, there are many ways in which a company can expand its operations. Our survey finds that “establishing regional offices overseeing operations in multiple countries” is the most common approach, as identified by 72% of respondents, followed by “establishing individual country offices” (63%). Expansion through mergers and acquisitions was the least common response (50%, see figure 3a).

Larger companies (those with more than 5,000 employees), are more likely to have adopted every method of international expansion than those with smaller workforces. They are much more likely to have expanded through mergers and acquisitions (see figure 3b), perhaps a reflection of their greater ability to fund such deals.

Figure 3a:
Modes of expansion
The most common ways in which companies expand their workforce internationally (% of respondents)

Source: Economist Intelligence Unit

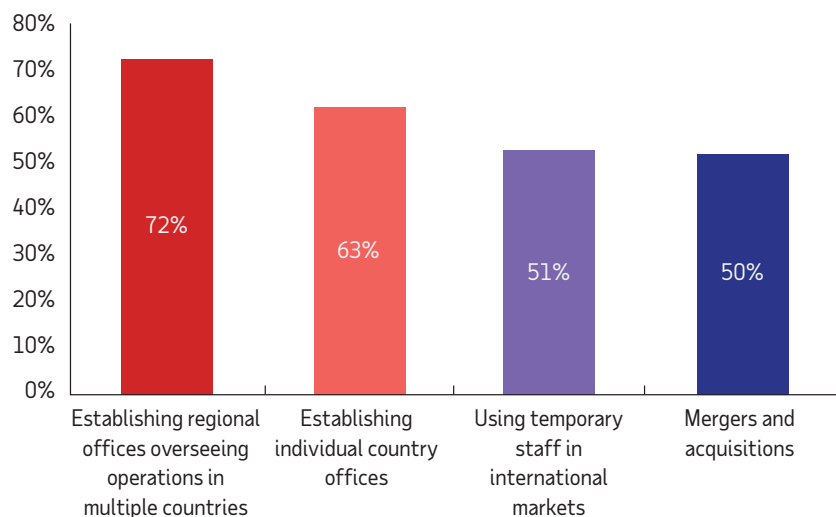
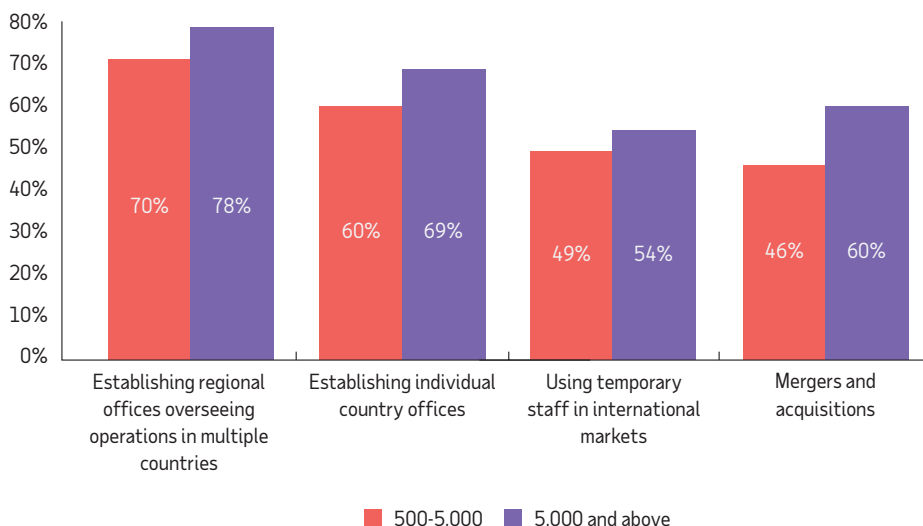


Figure 3b: Acquiring to expand
Larger companies are more likely to expand their employee base internationally through mergers and acquisitions (% of respondents)

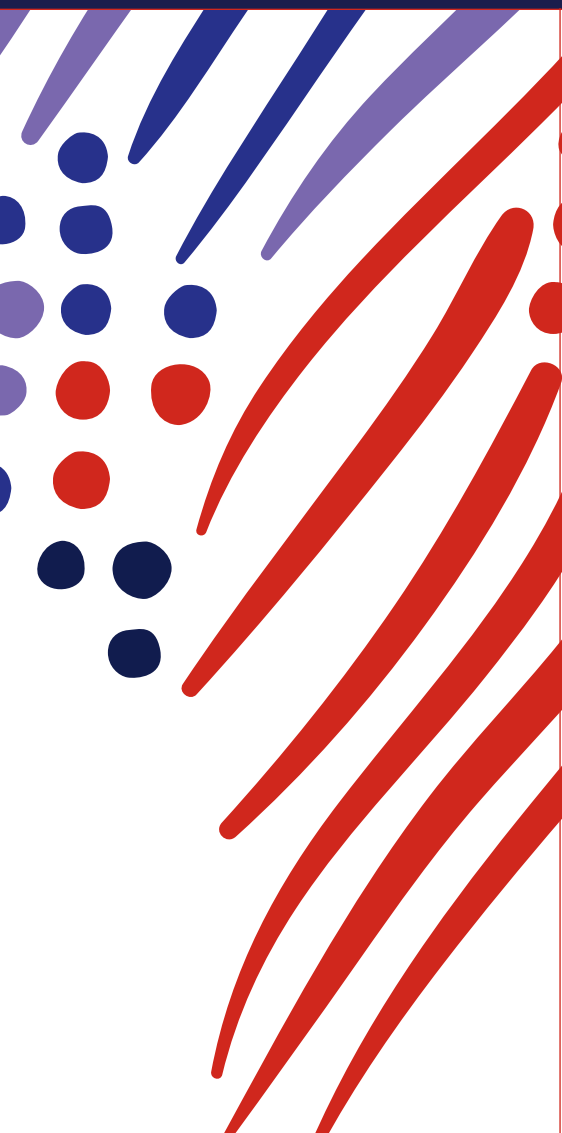
Source: Economist Intelligence Unit



Easy Expanders:

Have grown their international workforce by 26% or more in the past five years

Say that the challenges of managing an international workforce have only limited their expansion plans "to a limited degree" or "not at all"



Does the method by which a company expands internationally affect the ease with which its HR department can manage its workforce? Survey respondents whose companies have expanded with relative ease (henceforth termed "easy expanders"—see above) provide some indication: these respondents are less likely to have adopted the approach of "using temporary staff in international markets" than others, and more likely to have conducted mergers and acquisitions.

This suggests that having local HR management capabilities (as one would achieve through an acquisition but not by hiring temporary staff), relieves the strain of international expansion. The next section explores the nature and impact of such headaches.

Directions of travel

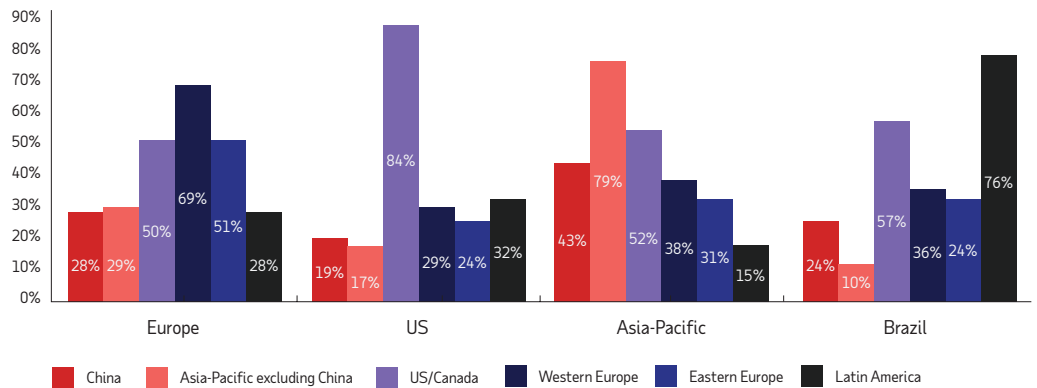
Where are companies focusing their international expansion efforts?

In the past five years, the majority of our respondents have expanded within their home region (see figure 4).

Beyond that local growth, however, the US/Canada region is the most popular target for expansion, with over half of respondents in Europe, Asia-Pacific and Brazil having grown there in recent years. Fewer than a third say the same of China, except among respondents based in Asia-Pacific (excluding China). Clearly, North America's sizeable market and ease of doing business are still a draw for global companies.

Figure 4: The most common destinations for international expansion
(% of respondents)

Source: Economist Intelligence Unit



ADP commentary: The "why, how and where" of international expansion are all evolving, and everyone needs to evolve with it.

The conventional wisdom behind globalization tends to focus on the transfer of jobs from high-cost countries to low-cost countries. But over time, this has ceased to be true.

The reasons why companies expand, how they expand and where they expand are changing. Today it's about access to markets and specialist skill sets, not simply lower costs. It's a new generation of companies with roots in places like India entering countries like the US. And it's about finding a model for growth that fits the unique competencies of the organization—from a new, fast-paced and venture-backed simultaneous market-entry model to traditional mergers and acquisitions.

This necessitates a new playbook for HR leaders and the teams that support them, meaning we have to re-examine some areas that are often overlooked in the first rush of expansion.

Chapter 2: The HR challenges of expansion

Getting the best out of any workforce requires deft management of operational, organizational and social dimensions. Add geographic, linguistic and cultural distance to the equation, and it is little wonder that growth abroad presents unique HR challenges.

These challenges can limit a company's ability to achieve its international ambitions. Just under two-thirds (65%) of HR executives surveyed say the challenges of growing and managing their international employee base have held back their company's expansion to at least some degree. Only 7% said such challenges had no impact at all.

What's more, 71% of respondents agree with the statement: "HR-related issues are among the most challenging barriers to the international expansion that our company faces".

Finding the staff

Recruitment is the biggest HR-related challenge that arises from expansion according to respondents: 46% rank "recruiting suitably skilled staff/management" in their top three challenges (see figure 5).

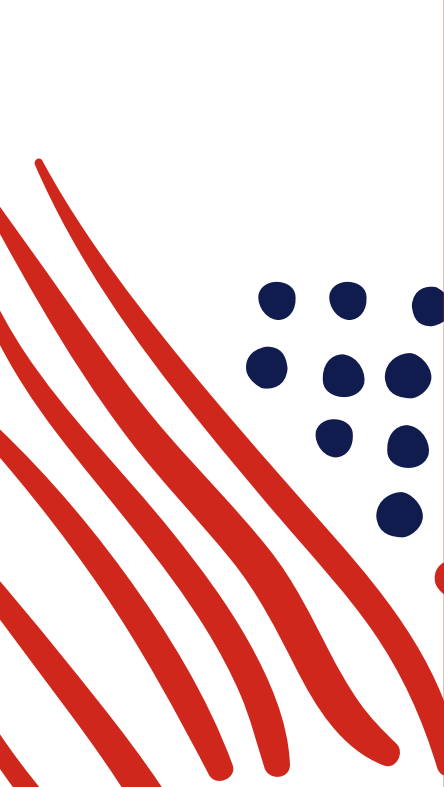
Difficulties that arise when recruiting internationally "range from selecting the right people to lead your expansion efforts and building your brand in a new location to identifying and recruiting the talent you need," explains Telstra's Ms Badenoch.

Other interviewees highlight that, even with a high number of job applications, recruiting people with the right vision, skills and adaptability can be demanding. This is particularly the case when seeking specific technical skills, as the pace of digital transformation is widening the talent gap. Additionally, low unemployment rates in certain countries limit the supply of qualified professionals.

Figure 5: HR challenges
The most common HR challenges to international expansion

Source: Economist Intelligence Unit





At OYO, the HR function conduct thorough research into a new employment market before recruiting in earnest. “It takes time to build an intelligence system and build a brand image. Our talent acquisition teams invest a major chunk of their time and effort to study competition and talent pools in a particular geography before hiring.”

The company also pays close attention to the cultural alignment of early employees to the company’s overall values. “We strongly believe that the first few hires in any new market become the leaders who set the tone and credibility of the company.”

For Ms Badenoch, successful recruitment in a new market hinges on local networks and advisors. “Use them early on to access the talent you need to build your local team—and emphasize building as much of your team from local talent as possible. Parachuting in all expat leaders can amplify challenges and impact the likelihood of success.”

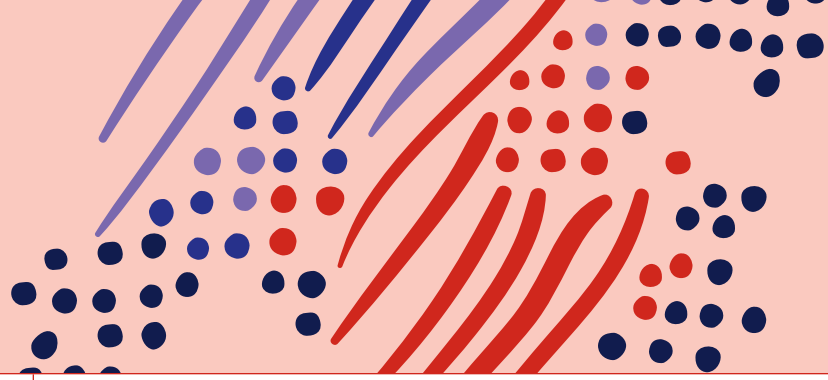
Ms Badenoch also advises being open to approaching recruitment differently. “If you are not present in a location or your brand is not known, you have work to do to build your profile, sell your value proposition and will need to understand how best to attract the talent you need,” she says.

After recruitment, HR leaders rank compliance with employment law and customs (43%) as the next most common challenge. This is a growing concern, the survey also reveals: three-quarters of respondents agree that “the regulatory challenges of hiring, paying and managing employees internationally are increasing in complexity”.



“Compliance is a big unknown when entering new markets,” says Ms Sens. “And from a US perspective, companies often assume that you can hire and fire people at will, or that people can start the next day, as they do in America. But in European markets and elsewhere notice periods tend to be longer, so you have to be ahead of the curve in the recruitment process. It can take up to six months to have the right resources on board.”

In third place is “integrating disparate HR processes/systems and data”, ranked in the top three challenges by 41% of respondents. This is a particularly common concern among respondents from the US, 26% of whom identify it as their number one challenge—more than any other issue in any country—and 51% cite it as one of their top three concerns. As we’ll see in chapter 3, many companies have successfully addressed this challenge through technology: 43% of respondents say global HR process integration is the function that has been most improved by using tech.



The challenges of scale

As companies increase in size our survey suggests that the cultural complexities of managing an international workforce come to the fore. Among respondents from companies with 5,000 employees or more, the most common challenge is "understanding cultural differences and their HR implications" (ranked as one of the top three concerns by 46%).

Larger companies are likely to span a wider range of cultures within their employee base, so the prevalence of this issue comes as no surprise. However, it may be exacerbated by their relative preference for mergers and acquisitions: integrating two companies means merging two established workplace cultures, all the harder when simultaneously combining national cultures too.

One company that has grown significantly through acquisition is Iberdrola, a Spanish renewable energy provider. Over the past 12 years it has expanded operations into more than 30 countries. It is now one of the main operators in the UK, the third-largest wind-energy producer in the US³ and the largest private-sector electricity producer in Mexico.⁴

"International expansion on the scale carried out by Iberdrola undoubtedly poses a challenge for HR," explains HR director José Angel Marra Rodriguez. "We have acquired companies with excellent professionals who have been integrated into the group in record time, but there is always some necessary cultural acclimatization."

"Changes naturally give rise to uncertainty among employees, in addition to the challenges posed by communication given all the different languages," he adds.

What impact do these challenges have on companies and their HR functions as they expand? First to be cited in our survey is, increased expenditure in the form of increased management costs (51%) and HR headcount (50%, see figure 6).

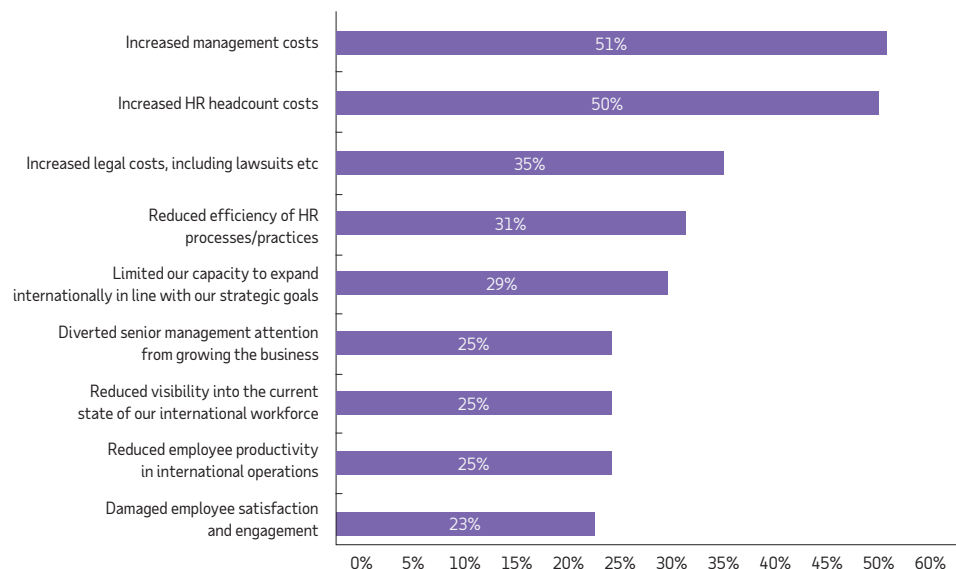
Figure 6: The cost of HR challenges

The negative impact of the HR challenges of international expansion

Source: Economist Intelligence Unit

³Scott DiSavino, "Iberdrola plans to boost US renewable power by about 50 percent: CEO", Reuters, September 24 2018, <https://uk.reuters.com/article/us-iberdrola-renewables-ceo/iberdrola-plans-to-boost-u-s-renewable-power-by-about-50-percent-ceo-idUKKCN1M42PB>

⁴Iberdrola, "Combined Cycle Plants in Mexico", retrieved December 2019, <https://www.iberdrola.com/about-us/lines-business/flagship-projects/combined-cycle-plants-mexico>





For Ms Badenoch, these increased costs reflect the growing pains of international expansion and should subside as a company's international HR operations mature.

“No doubt in the initial phases of an international expansion the efficiency and costs of the HR area are less than optimal, as I suspect they are in every other area of the company, but this efficiency quickly improves. However, it is certainly necessary to match the resources to the needs of a global company.”

The next section examines how companies manage these operations, and what maturity looks like.

Employee satisfaction is on the rise in new markets

Given the HR challenges that survey respondents encounter when expanding abroad, one might imagine that newly-entered markets underperform on key HR metrics such as employee engagement and satisfaction. But this is not the case, the survey reveals.

When asked to compare employee satisfaction, productivity, wellbeing and engagement in new markets with those in their more established countries, the majority of HR executives say new geographies outperform the old (see figure 7).

This doesn't surprise Mr Marra Rodriguez. Engagement and productivity are influenced by improvements in an employee's working conditions, so as long as a company treats its employees well as it grows, one would expect newer divisions to score higher in these areas.

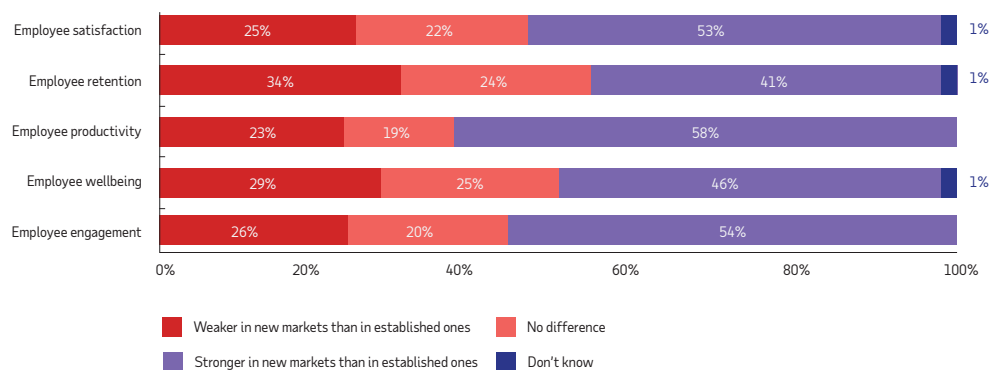
“It is true that we see higher engagement scores in India or Brazil versus Europe, in particular in career evolution and manager interactions,” adds Jérémy Roffe-Vidal, CHRO at France-based IDEMIA, a global security and identity solutions firm.

“There is a clear correlation between engagement and personal performance. And countries which have more market growth opportunity generate higher engagement scores.”



Figure 7: New markets score highly in HR metrics (% of respondents)

Source: Economist Intelligence Unit



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ADP commentary: Experience counts

The majority of respondents agree that HR-related issues are among the most challenging barriers to international expansion. This includes the obvious, like understanding cultural and linguistic differences, attracting and recruiting suitably skilled staff and achieving regulatory compliance. But less obvious challenges only become visible after you have done this once or twice before – setting the culture, standardizing process and systems, and understanding that engagement and productivity metrics will vary between markets and over time.

While these issues affect companies of all sizes, smaller companies are disproportionately affected. This may be because they are still reliant on manual processes and outdated tools; but for many well-funded and ambitious companies it's simply a question of the experience of having done it before. International growth is hard, and there is no silver bullet to make it easy, but the one thing that makes it easier is the accumulated knowledge of lessons learned over time.

Sometimes the most obvious short-term solution is not the most optimal over the longer-term. When making an informed trade-off between two options, companies shouldn't forget to go back later and apply what they have now learned to their increasingly global business.

Chapter 3: Managing HR internationally

There was a time when the regional divisions of global companies were isolated and, by necessity, self-reliant. Information and communications technology, however, has brought international organizations closer together, allowing them to draw on shared systems, services and capabilities. This is reflected in the fact that the majority of survey respondents (85%) now consider themselves to be part of a global company.

However, this is only partially reflected in the way companies provide HR-related services, such as planning pay and benefits or providing legal advice and expertise to their global teams. The most common approach is to deliver this globally (see figure 8), but the majority do so either regionally or on a country-by-country basis.

Larger companies are more likely to provide HR services and systems on a global basis, but otherwise size does not appear to have a significant impact on the delivery of HR capabilities. Nor do "easy expanders" greatly differ from other companies in this regard, suggesting there is no universal best practice.

Respondents are similarly divided in the way they have built their HR capabilities as they have expanded. Exactly 50% of respondents have scaled out their central HR systems and processes as they expanded internationally. The other half have created local HR systems and processes as they've grown, although 12% plan to centralize.

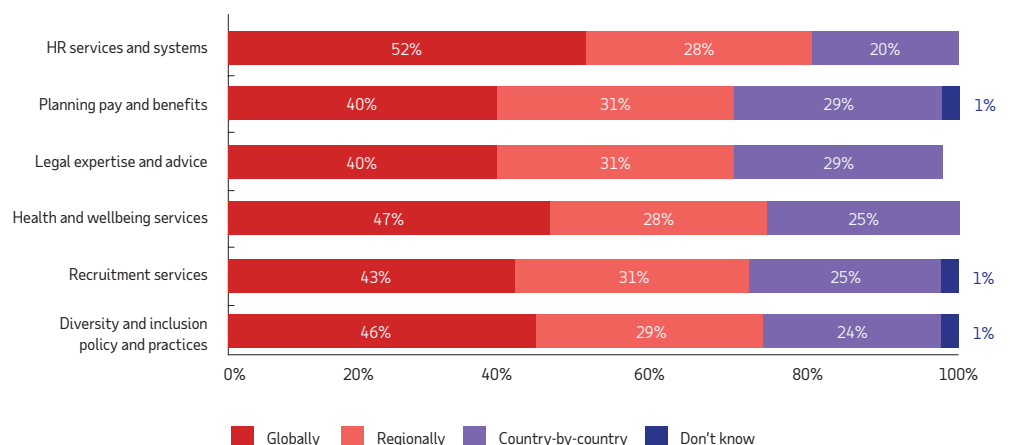
Interviewees confirm that a balance must be struck between global, regional and in-country provision. "A combination is a good approach," says Ms Sens. "Some things need to be owned more centrally, but ultimately as you grow opportunities arise to regionalize or localize certain things. And giving that local touch and feel may be what the local organization needs to function optimally."

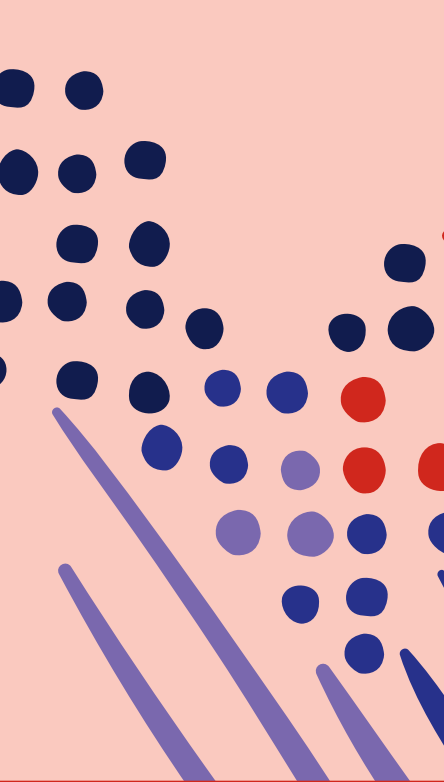
Telstra, for example, has a range of HR services delivered both within Australia and internationally, explains Ms Badenoch.

"We developed our own in-house HR services team based in Manila which provides the day-to-day HR support across our locations, including Australia. However, based on both research and experience, we have put in place more location-based solutions for some countries. For example, based on local insights we have localized recruitment for our Bangalore centre in India as this is a region where we found our centralized approach did not meet localized needs."

Figure 8: Managing HR internationally
How companies provide HR-related capabilities across international operations (% of respondents)

Source: Economist Intelligence Unit





“However, as our international locations have grown we have moved to scale our central systems where possible,” she adds. “We make sure we retain any local approaches where required, but the integration helps ensure we can effectively engage all our staff regardless of location, communicate across our organization and create a strong sense of one business. Where we can under local regulations, this also enables us to offer more consistent staff benefits and experiences.”

The optimum model of delivery depends on the maturity and scalability of the global HR processes, cautions Mr Roffe-Vidal. It took IDEMIA two years for local management to apply central HR processes throughout the company, he explains. And when scalability presented challenges in smaller countries, regional support was created to ensure local nuances were managed appropriately.

This dual approach was successful: “We can now support our 2,500 managers around the world with the same systems to manage performance, objectives-setting, rewards, engagement and talent management in order to have consistent employee experience around the world.”

Data-driven HR

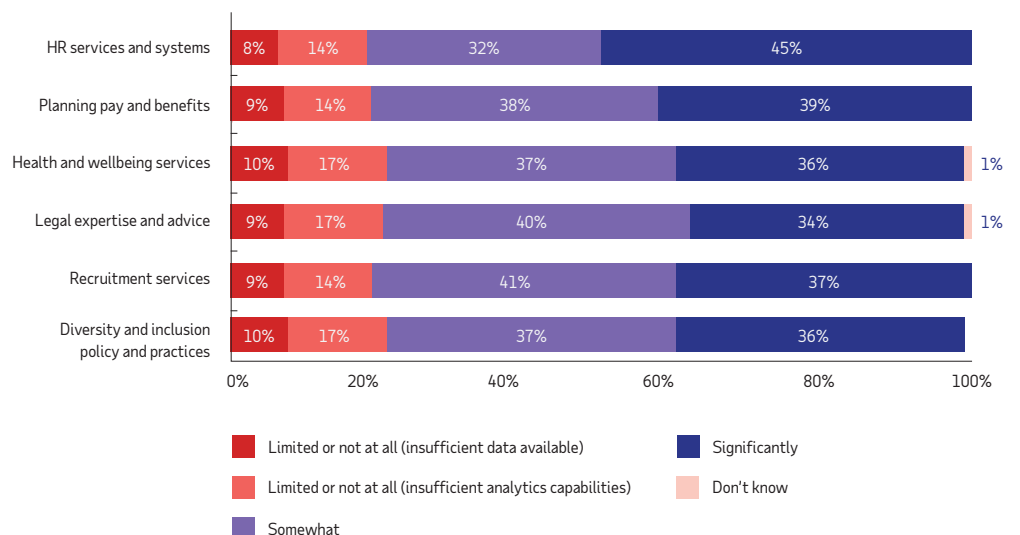
According to a 2017 Deloitte study, workforce analytics—the application of statistics, modelling and analysis of employee-related factors to improve business decision—is an increasingly high priority and rapidly accelerating trend. Its application is starting to shape the delivery of global HR functions.

“Companies that devote the proper time and resources to build workforce analytics capabilities will be better positioned to out-perform their competitors in the coming years,” according to the study.

Our survey confirms that HR leaders have successfully applied data analytics to drive their global operations with a particular emphasis on the expansion of HR services and systems and management of pay and benefits. Growth of recruitment services has also been significantly supported by analytics (see figure 9).

Figure 9: Data-driven HR expansion
How the expansion of HR functions has been driven by data analytics

Source: Economist Intelligence Unit



"As IDEMIA is a very international and diverse company, we need metrics to understand and steer our workforce around the world," explains Mr Roffe-Vidal. "Therefore, the HR dashboard is shared with all senior managers on a monthly basis. The same dashboard is used for our recruitment pipeline and reward strategy."

Mr Marra Rodriguez adds that measurement and comparison enable his managers to identify and share best practices and to improve existing processes and systems. "We're evolving from the measurement of traditional data to more sophisticated and predictive tools. In any case, in this rapidly changing world of work, a tremendous amount remains to be done in this area within HR management."

"Ideally, a company will have a global HR system that can give standardized reports," adds Ms Sens. "Otherwise, international managers lack localized insight into things like holiday plans, salaries and expenses. Many companies are fragmented in this regard, and will find themselves having to go through a period of consolidation across their markets."

Beyond analytics, great strides have been made in the HR technology that underpins the delivery of HR systems, such as payroll, performance management and training and recruitment tools. Automation also helps streamline workflows, freeing leaders up for more strategic pursuits.

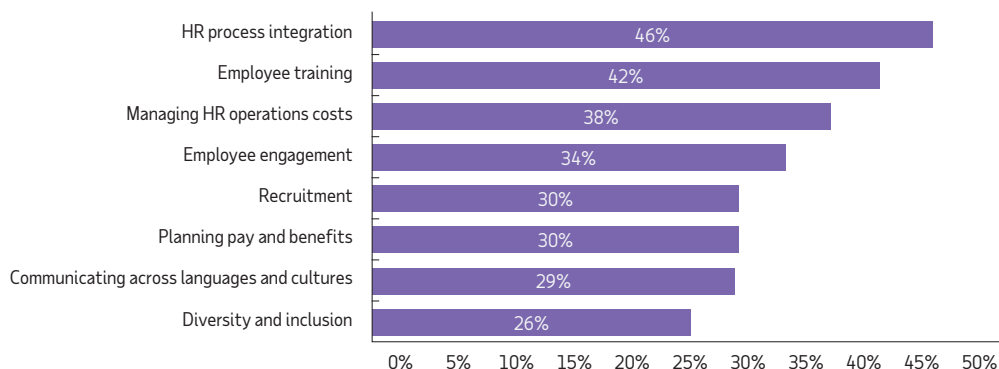
According to the survey, HR process integration has been the biggest beneficiary of technology (46%). This is quickly followed by improvements in HR training (42%—see figure 10).

Indeed, training has largely evolved from basic video packages and knowledge tests to customized training modules suited to an employee's unique responsibilities. And technology is helping to increase engagement with virtual training classrooms, "gamified" education courses, even simulation training where employees can work through seemingly real-life problems.⁵

Figure 10: Technological enhancement

International HR functions that have been most improved by technology (% of respondents)

Source: Economist Intelligence Unit



Most interviewees shared positive experiences with technology-enhanced training capabilities. However, Mr Roffe-Vidal has a more cautionary tale. He recounts that IDEMA adopted e-learning for its employees worldwide, but has since turned away from it. "The simple implementation makes training campaigns easily deployable, but following our review of the talents of our top 2,000 managers and experts, we've come back to more traditional training, mentoring and professional development. We are trying to have a more tailor-made approach in our high potential pools. In no way can a system replace management and dialogue."

⁵Gerald Jackson, "The high impact of digital technologies on employee training", Tech Funnel, January 17 2018, <https://www.techfunnel.com/hr-tech/high-impact-digital-technologies-employee-training>

Pay parity across borders

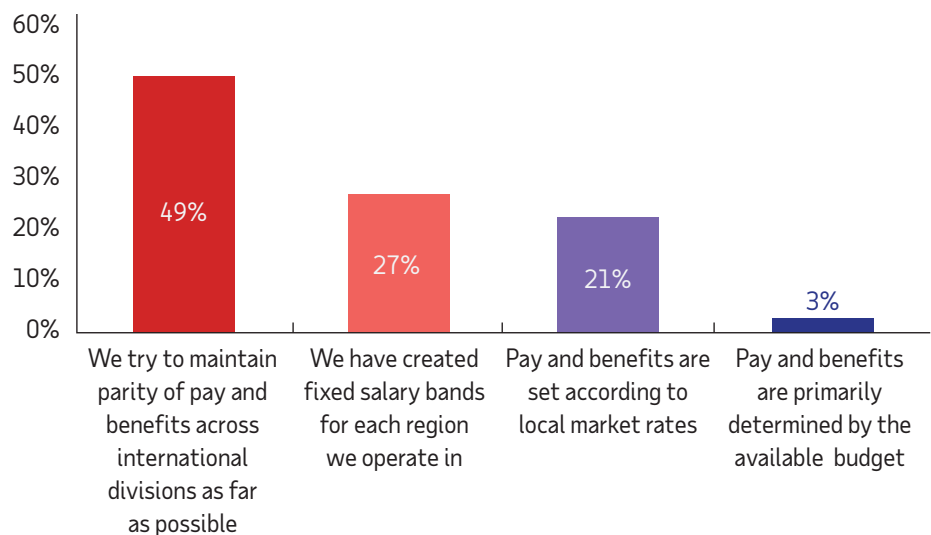
The topic of gender pay parity has shot to the top of the corporate agenda as countries around the world enforce pay gap reporting. But what about international pay parity? Should employees in one region receive the same compensation as employees in another, despite different market conditions? Survey respondents are divided on the question (see figure 11).

When asked about pay parity across international operations, just under half (49%) of our survey respondents said their firm tries to maintain pay parity and benefits across their international division as far as possible. The remainder are split between fixed salary bands per region (27%) and pay set according to local market rates (21%).

At IDEMIA, which has employees in 62 different countries, local market rates are the favoured approach. "People compare themselves to their local market dynamics, so we need to adjust accordingly," explains Mr Roffe-Vidal. "Every employee has the right to have a career, a development and a salary in line with their local market dynamics."

Figure 11: Approaches to international compensation
(% of respondents)

Source: Economist Intelligence Unit





ADP's commentary: Beware the blindspot

As businesses become ever-more dependent on accurate and timely data, the tension between local needs and global ambition increases. Solutions built for the domestic business may not be fit for purpose internationally, and building up layers of both in-house and outsourced local/regional/global services obscures the very data the business needs to run successfully.

There is one data source that is consistently accurate, yet that data source is often overlooked, even by businesses that invest in state of the art analytics and technological enhancement. It's a blindspot borne of corporate structure and outdated beliefs about the relationship people have with money.

The reality is that no matter how "purpose-driven" your people are, typically half of them are in it for the money. Pay is often overlooked as it falls between HR, finance and local operations—yet it's the most accurate data on employees and an under-appreciated driver of the employee experience. As the dialogue around pay parity develops around the world, expect stakeholders to demand better visibility and confidence in how this is being managed across borders and across cultures.

Economic conditions look set to propel companies beyond their traditional geographic markets in the hunt for growth. HR leaders at these outward-looking firms will need to equip themselves with the capabilities required to meet and overcome the HR challenges they will inevitably face as they expand.

The experience of interviewees and insights from the survey provide some guidance on how this can be achieved.

Equip your company with specialist skills and experience

"To be successful, a company must first appreciate that specific skills and experience are required [for international expansion]," advises Ms Badenoch.

Executives who have built their careers managing domestic operations may not be best equipped to lead international expansion, she says. "Those leaders who have been successful in your business previously may not be the best leaders for an international expansion effort."

A company embarking on international growth needs experienced personnel in senior HR positions and on its board. "Having people in these key roles who have learned from experience will be critical to success and help you identify potential pitfalls," according to Ms Badenoch. Survey respondents concur: 82% agree that "a company's HR director or equivalent needs to have international experience in order to support international growth".

Assert the strategic role of HR in expansion

According to the survey, 84% of respondents believe international expansion is an opportunity for HR to make a more strategic contribution to the company. "The role played by HR in a process of international expansion is, or at least should be, strategic," says Mr Marra Rodriguez.

"Identifying the people best placed to lead or consolidate this expansion, making the necessary adjustments to the structure, reflecting on succession in the event of internal movements and identifying talent to retain in the new business are just some of the ways in which HR can contribute strategically to processes of this kind," he explains.

But this may not be appreciated by the board. According to the survey, only 46% of respondents "strongly agree" that HR is well represented on their company's board of directors. HR leaders may therefore need to raise their voices. "The more assertive the recommendations from HR, the more the important people become in this process," Mr Marra Rodriguez says.

Let technology lead the way in process integration

Integrating HR systems, processes and data across geographies was identified as the third most common HR challenge, but also the area in which technology adoption has had the greatest positive impact.

Mr Marra Rodriguez advises his peers to let go of complex and bespoke HR processes to ensure smooth global integration. "My best recommendation for success is to look for what is simple, necessary and common and to try as far as possible to adapt processes to the technology, not the other way round, because that facilitates integration."

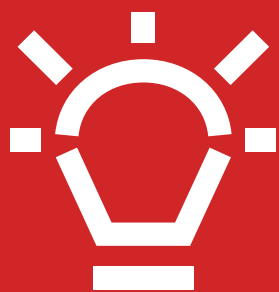
Build a culture of diversity

Managing a diverse workforce places pressure on HR, but ultimately "it represents strength more than a challenge," reflects Mr Roffe-Vidal, whose company employs more than 100 different nationalities.

Ms Badenoch agrees. She advises that if a company's culture is built on diversity and inclusion, and is focused on attracting and retaining local talent, it will be better prepared for—and successful with—international expansion. This means balancing the efficiency afforded by centralization with respect for cultural differences and needs.

In short, if an organization is preparing to expand internationally, it is the HR leader's responsibility to ensure their department is equipped with the necessary experience, and that HR-related matters are placed high on the agenda.

"The best business opportunities can fail if you don't manage the HR-related issues well," warns Ms Badenoch. "Many say this but fail to prioritize it in their implementation."





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