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Linking personnel and human resource professionals around the globe

HR specialists to look at ‘maquiladora’ practices

HR PRACTICES in maquiladoras, assembly plants in the US/Mexican version of what the ILO calls ‘export processing zones’ (EPZs), are to be the subject of a seminar to be hosted in Mexico this June by the North American HRM Association.

The ILO defines EPZs – of which there are currently over 850 worldwide but the largest number (320) in North America and Mexico – as ‘industrial zones with special incentives to attract foreign investment, in which imported materials undergo processing before being exported again'.

They are controversial because of their rapid expansion and concerns about wages and conditions.

In a report published last September (*‘Labour and social issues relating to export processing zones’, International Labour Office, Geneva, 1998)* the ILO says that, while EPZs are undoubtedly huge employment generators, particularly for women in developing countries, ‘too many of them continue to be hampered by a reputation for low wages, poor working conditions and underdeveloped labour relations systems.'

PHOTO: Julio Etchart/Panos Pictures

Workers in a maquila garment factory, based at Matamores, an EPZ on the Mexico/US border

It claims that wages tend to be low because most zone operating countries have an abundant supply of the sort of low-skilled labour required to work the basic, labour-intensive technology employed in the industries in question – garments, footwear and electrical component assembly.

Also, the sort of simple processing companies attracted by the generous incentives and low entry costs such zones offer are said often to lack ▶ page 2

Facing the Garelli scenario

Profits are not enough – the name of the game is market value, and this is a game in which HR professionals can play an important part, according to Swiss economist Stéphane Garelli, who will be addressing this month’s Global HR Forum

The key to competitive edge is finding a niche where there are no competitors! And it is no good being the world’s best managed company if you don’t have the leadership to get you that competitive edge. Companies are getting better and better at doing the wrong things.

These and other thoughts of international business policy professor and competitiveness guru Stéphane Garelli – admittedly expressed here in simplified form – are enough to drive personnel practitioners and management trainers to distraction. For, even if we rephrase them in the economist’s own words – he talks about ‘thriving on industry shifts’ and being ‘positioned in the right business paradigm’, how can we make a useful contribution in organisations that are in the wrong business?

However, in addition to being able to paint a graphic broad-brush picture of how the world is changing, Garelli is close enough to business – he has been a senior adviser to Hewlett Packard Europe for over a decade – to be able to highlight some challenges that do fall within the competence of the HR professional. ▶ page 3

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Focus on…

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Next issue
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page 1 ▶ professional management, particularly human resource management. They also tend, says the ILO, to be unable or unwilling to invest in new skills or technology, and to provide few, if any, social benefits to their employees.

Very few governments, it adds, have managed to implement policies to ensure that zone investors transfer technology and skills to local industry and workers.

As a result, according to the report, high labour turnover, absenteeism, stress, fatigue and labour unrest are rife.

'Only zones with high-quality human resources and stable labour relations will be able to meet the high standards for speed, cost and quality in the global economy,' concludes the report, and 'a proper HR development strategy will be necessary if the full employment and productivity potential of EPZs is to be met.'

Meanwhile, the US and Mexico together are the most active EPZ operators, according to the ILO, with respectively 213 and 107 zones, most of which are maquiladora assembly plants clustered around border cities such as Tijuana, Ciudad Juarez and Matamores. These are linked to production chains on the US side of the border.

Juan Somavia of Chile, the first Director-General of the ILO from a southern hemisphere country, who took office last month

Originally established in l965 as an emergency measure to combat unemployment, the maquila industry today produces exports worth US$5bn a year, over 30 per cent of Mexico's total exports.

Manufacturing investment in the maquila sector is expected to grow in the aftermath of the elimination of tariffs resulting from the North American Free Trade Agreement, particularly in such areas as clothing and textiles.

Mex maqs facts

According to Daniel Jimenez, who is manager, International Assignment Services for PriceWaterhouseCoopers in Mexico City, the number of maquila companies rose from 1920 in 1990 to 3051 in September 1998. As of 1995 the industry employed 497,000 people, a figure that more than doubled in the next three years, to approximately 1,056,300 in 1998.*

The Mexican maquiladoras, Jimenez told *WorldLink*, tend to be wholly-owned by US corporations with which they have contracts to produce or assemble finished or semi-finished goods. The US company provides the necessary machinery and equipment, as well as the raw materials and parts to be processed or assembled.

All these items are imported into Mexico duty-free and usually remain the property of the US company, which in turn undertakes to provide any necessary patents and technical assistance. The Mexican company supplies the premises and labour, and receives a fee equal to actual costs (wages, benefits, building occupancy costs and administrative expenses) plus a percentage.

Companies may have special reasons for transferring labour intensive – or other – operations to Mexico, says Jimenez, but the most commonly cited advantages of establishing maquiladoras are wage rates, turn-round time, government support and available labour.

The most important factor, he says, is the favourable labour market in Mexico, with wage rates which are low when compared not only with industrialised countries but also with other developing countries. At an exchange rate of 10 new Mexican pesos per dollar (as at January 27, 1999), current minimum wages in northern border cities of Mexico, plus payroll taxes, fringe benefits and holiday provision, amount to approximately 93 US cents an hour, as compared with an average minimum rate in the US of over $5 an hour. Legal minimum wages in Mexico are increased once or twice a year in line with inflation, but the effects of these rises is offset by the continuing devaluation of the peso.

Obviously, a key advantage of the Mexican maquiladoras for US companies is their proximity.

Depending on the amount of work to be done and the receiving point in the US, the turn-round time from Mexicali or Tijuana can be held to three or four days, compared with four to five weeks in the Far East. Not only is much less time required to ship materials out and products back, but in addition inventories in transit can be substantially lower.

The supervision of operations in Mexico is also simpler, requires less travel time and expenses, and it is generally easier to provide US technical and supervisory staff for a Mexican operation than for one in the Far East. Moreover, when the plant is located very near the border, says Jimenez, supervisory staff can continue to live in the US at considerably lower cost than if they became residents of Mexico.

He expects an agreement to be signed soon, which was prepared on January 21, 1999, between the Mexican Social Security Institute (IMSS) and the Mexican Association of Maquiladoras, which would exempt US citizens who commute daily to work in the maquiladoras from paying social security contributions. ○

● The NAHRMA seminar on HR practices in maquiladoras will be held on June 17-19, 1999 in Guadalajar, Jalisco State. It has the support of the local Jalisco government and the Mexican Maquiladora Association, and will be organised by the Asociacion Mexicana de Ejecutivos en Relaciones Industriales (AMERI) with help from the US Society of Human Resource Management (SHRM).

*Data from the Instituto Nacional de Geografia Estadistica e Informatica (INEGI)

page 1 ▶ **The Garelli scenario shows:**

A combination of political change and new technology has made the world more:
Open Formerly closed countries have opened up, creating new markets and new competition, but also making us more interdependent and therefore more susceptible to the domino effect;
Transparent We can't put prices up without everyone knowing;
Immediate No one will wait;
Disruptive Business is more volatile; we need to be ultra resilient and able to react instantly to unforeseen events.

Hence there is unprecedented pressure to and from change and for performance. So, instead of just being judged on profits, companies are measured in terms of their market value or capitalisation. Garelli compares General Motors which has sales of $167bn and a market capitalisation of $43bn with Microsoft, generally regarded as the world's most valuable company, whose sales revenue is only $14.4bn but which has a market capitalisation of $317bn.

The name of the game, says Garelli, is to increase value by reducing asset ownership. Again he picks on GM – profits of $6.7bn but assets of $229bn, compared with Coca Cola which in 1997 attained profits of $4.1bn with assets of only $16.9bn.

This is achieved by what he calls the 'extended enterprise', composed of a very profitable core business and an exploding periphery – suppliers, distributors, service providers. "You can have as many assets as you want," he says, "as long as they don't appear on the balance sheet, and as many people as you want provided they don't appear on the payroll."

So, notwithstanding his conviction that it is more important for a company to be in the right place at the right time (he cites Nokia, Dell, Amazon.com) than to be brilliantly managed, he does offer a number of key success factors which HR people can clearly influence:

1 Remote management How to deal with people who you never see because they work on the other side of the world or because they – or you – are always travelling; how to manage satisfactorily by voice-mail and e-mail;
2 Uncertainty and ambiguity Training leaders and managers to take action before they have all the answers. "If you wait 'til all is clear, you'll miss the moment";
3 Diversity Managing different cultures and genders but also people with different lifestyles, aspirations and motivations. Garelli describes three 'types' –

- Tigers Company animals who work over 60 hours a week and travel so much their company and family life is 'virtual'
- Cats who work 40 to 60 hours a week, are mobile but retain a home base and are interested in work-life balance
- Dinosaurs who work fewer than 40 hours a week, are really only interested in the quality of their non-work life and would prefer time off to a pay increase.

Other challenges for HR practitioners are managing the shift from loyalty to commitment – employees are only loyal for as long as they are committed and then they transfer their loyalty somewhere else; cultivating enthusiasm and energy – there is room for a degree of disorganisation and the occasional mistake provided employees have the commitment, enthusiasm and energy to make things work; and helping people and the organisation to manage the downturns and prepare for the upturns.

Finally, says Garelli, you have to avoid complacency. And the way to do this, in his view, is that for 50 per cent of the time you do your job, and, no matter how successfully you do it, for the other 50 per cent you have to reinvent the job. Indeed, the best way to escape competition, he says, is to systematically reinvent the job so that nobody can catch up. Which brings us back to where we began – that HR management can have an impact on competitiveness and market value. ○

BONS MOTS OF GURU GARELLI

- Kobe earthquake cost $100bn
  The Vietnam war cost $500bn
  The year 2000 (Y2K) will cost $1258bn, of which $400bn will be legal claims

Moral: Put all your HR people into IT **now** and on 1 January 2000 move everyone into the legal department!

- The Chinese want to work hard and get rich, Western children want to get rich but not work hard. Our children's children won't need to get rich because their parents will have already provided for them. What does that mean for motivating future generations?
- HR people need to work on employees' market value – as individuals rather than just as current employees. That means forcing them to think what training they need to make themselves attractive to headhunters and outplacement consultants and to do well in interviews. Only if they are sufficiently confident in their market value will they be relaxed enough to concentrate on the job, and add value to the organisation.
- The HR function is at its weakest when cut off from top management, when perceived as a service function, there just to administer pensions or evaluate jobs. It has been immensely attacked and demoted. Its darkest hour is when it is merged with finance and administration.

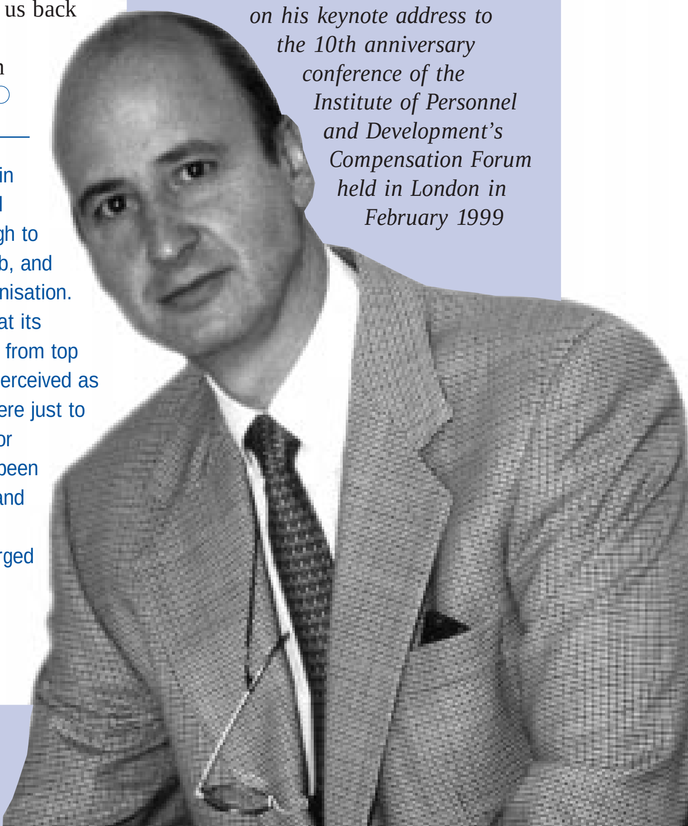
Stéphane Garelli is Professor of International Business Policy at the University of Lausanne, Switzerland, and also a professor at IMD, Lausanne's International Institute for Management Development. He was managing director of the World Economic Forum for many years and also a director of the Davos Symposium, the renowned annual gathering of world business and government leaders.

Since 1987 he has been a director of the World Competitiveness Yearbook, which annually compares the competitiveness of (46) nations based on over 250 criteria. Apart from obvious economic, financial, governmental and technical factors, these include management, covering productivity, labour costs, industrial relations and social responsibility; and also people – population and labour force characteristics, employment, unemployment, and working hours, education, skills and qualifications, quality of life, attitudes and values; the latter cover flexibility and adaptability, alcohol and drug abuse, harassment and violence, and equal opportunity.

Garelli told *WorldLink* that, while not more than 7 per cent of the criteria on which the comparisons are based change year on year, more emphasis is now given to qualifications and skills than in the past, and that the quality of a country's secondary schools is as important as that of its best universities.

Since 1988 he has been a senior adviser to Hewlett Packard Europe.

Professor Garelli will be speaking at the SHRM Global HR Forum in Orlando, Florida, on 14 April. Much of this feature is based on his keynote address to the 10th anniversary conference of the Institute of Personnel and Development's Compensation Forum held in London in February 1999



Russian redund

no longer a contradiction in terms

Ten years on from the fall of the Berlin Wall, as the European Association for Personnel Management prepares to hold its first conference in eastern Europe, Mike Madgwick addresses some of the issues facing HR professionals attempting to manage the move away from the old communist culture

What visible economic and social turmoil has been wrought upon the citizens of those countries that a time ago made up the Eastern Bloc! Whole populations have been catapulted from what we in popular western folklore saw as full employment and state provision to a situation in which an entire generation have embraced a process of change that perhaps only their children will fully benefit from.

When microscoped down to the corporate level, one of the most dramatic aspects of this monumental economic revolution is the human toll in job losses. Systems that had perfected the art of 'making for stock' have in the space of just 10 years been confronted with the need to re-shape the workforce to meet the ever tougher shareholder return formula we in the West have served for many decades now. The saying, 'They pretend to pay us, so we pretend to work', is no longer true; increasingly individuals in these countries are expected to add value from their labours and they often start from a meagre salary base compared to that of the West.

Thus the challenge for HR professionals turns to that of shaping the labour force to reflect the economic realities for corporations thrown to the turbulence of world markets. This is never truer than of the events of recent months in which many of us saw the relative stability of the Russian economy savaged. The rapid response of many inward investors was to take immediate corrective action – more bluntly, to lay workers off.

Two countries, Russia and Hungary, that are at different stages of the economic revolution are used to illustrate some of the practical issues facing the HR professional tasked with managing a downsizing operation. The examples are written from a non-unionised environment perspective.

First, a 'health warning': each situation is different, so local legal opinion should be sought, and labour legislation is changing fast in this part of the world.

Russia

For many HR professionals reading this, Russia will be the single most difficult challenge. The roller coaster ride that the rouble seems intent on taking adds an additional layer of complexity in determining the shape of any Russian-based enterprise.

The most important startling statement, however, is that the legislation is flexible enough to accommodate the enterprise that wishes to dispense with the services of either one or a larger group of employees.

As with so much in Russia, paper rules; therefore the first and most important item on one's checklist is to issue a decree. Ideally one decree needs to be issued for each individual and a signed receipt obtained. The next task is to lodge a list of those affected with the local labour office. Timings are crucial and one must ensure that at least two months notice is given before the actual terminations (under redundancy) are to be carried out.

As whenever selecting for redundancy, consistency is vital, the principal criteria being length of service, skills, performance and experience. In addition there are special category staff, ignored at one's peril! These include but are not limited to pregnant women, those already on maternity leave, single mothers, widows and war veterans. The enterprise is not exempted from making such staff redundant, but they generally come at the top of the list for those who must have their employment maintained. A further category to be mindful of is temporary staff employed for more than six months who may be classed as full-time workers and accorded the same rights as permanent staff.

Staff cannot be served notice of redundancy while away on holiday or if sick, although that does not necessarily stop the enterprise calling those on holiday back if they are in the locality.

Any appeals, which should be in writing, must be acknowledged, although management does not have to respond with their findings if they are to still make the person redundant.

Payment is always a hotly debated topic: for many employees in Russia rates are still extremely low when compared to those in the West. Statutory minimum severance pay is two months money, after – and this is important – the notice has been served and the two months in which the employee may elect to work. There is no right to insist that staff leave immediately notice is served and awarded pay in lieu of notice. In the current economic climate many staff may seek to continue working as the old adage, 'it's easier to get a job from a job', works in Russia as well as the West.

The severance pay may be delivered in a lump sum or monthly. There is one small quirk that management needs to be aware of, that is, the right to a third month's money if

The 19th European Congress on Personnel Management will be held in Budapest, Hungary, 22-25 June 1999. The theme is 'The role of HRM in the unified Europe – connecting west and east'.

ancy:

the person is still unemployed after three months. The process requires the person to register as unemployed with the local labour office and, if still out of work, request the company to pay the third month. Experience varies: some companies wrap this third month up into a single lump sum, and others seem to require staff to make the request.

Severance pay is subject to usual income tax and social fund contributions and, as mentioned above, money in lieu of notice is not an established practice. Of course, this may not prevent some employers and staff entering a private agreement to this effect.

So in summary, should economic conditions require it, it is perfectly possible to make staff redundant in Russia. A determined management can also use the State labour code to assist it in removing staff.

Although the theme of this article is one of economic dismay at present, what could be termed one of the less attractive aspects of the HR professional's role should not be taken as a negative view. Many of us have fond memories of Russia and people remain convinced it will weather the storm, as it has many times before and a stronger, market economy-based country will emerge.

Hungary

With a number of years' head start on Russia in the economic change stakes, Hungary has already experienced a great deal of inward investment and government has progressively put the country in step for EU membership.

Czech Republic

Rostya Gordon-Smith, Vice-President, HR for the APP software consultancy group based in Prague, and Executive Director of the Czech Society for the Development of Human Resources, highlights some of the key issues for her country

Recruitment This has changed dramatically over the last couple of years – from a situation where there was little unemployment but plenty of flexibility, particularly for foreign companies who could attract Czech nationals with offers of training and development and a chance to use English, to one where unemployment is rising but the best people are less likely to move.

Retention While good people are less likely to be attracted to new foreign companies coming to the Republic than they were, and therefore less likely to leave, retention is still an issue, particularly in the case of technical specialists who tend to be headhunted by firms in the US and western Europe. Another factor is maintaining the morale and motivation of these people while others around them are being made redundant.

A recent survey showed the 40-plus year olds, used to the communist system and with fewer working years left, look for money and security from their employer, while younger people wanted training and development, the chance to travel and to work for a household name company.

Redundancy No written legislation on redundancy, and conditions tend to favour the employer, but it is expensive to make one-off dismissals. There is a lot of cutting back/slimming down.

Culture change The challenge is to instil a more professional, business-like work ethic, to develop leadership and people skills, to encourage succession planning (Party membership no longer being a relevant qualification) and to cultivate an ethos of open communication, honest feedback and, indeed, honesty.

Equal opportunities Sex, race, disability and age discrimination legislation is forthcoming.

Training At APP we have found women are more flexible and so we have decided to target them in helping us bring about change; we are holding special workshops for women focusing on influencing skills, with a view to managing culture change through them.

Having said that, Czech people generally are learning fast to be productive, to work globally and are very quick to acquire new technical skills, so I would certainly encourage companies who want to come here.

Having experienced something of a boom and then a rapid slow down, the Hungarian labour market and rules on redundancy are very different.

First, there is a threshold number of staff, 10, at which level the employer must apply mass redundancy legislation; below this number in any one year, no special rules apply. Having worked in smaller enterprises I have always been able to avoid the wider consultation exercises under mass redundancy rules. What must be borne in mind is to rigidly stick to the numbers, as any expansion immediately precipitates a considerably more onerous regime. Failure to follow procedure may lead to severe sanctions.

There are no provisions to work the notice period; hence the employer can generally release staff immediately with appropriate compensation and subject to agreement.

The usual criteria for calculations – all bonuses, commission, shift premiums, special skills payments if a usual part of income – apply when determining the base rate for calculating a severance package. These calculations must reflect the previous 12 months earnings.

Here severance calculation is based on years previously worked for the company on an ascending scale from up to three years work, representing one month's wage, through up to five years worked equalling two months wages, and so on. These payments are in addition to any notice period settlement.

Again, here, there are special category staff, and these include those on maternity leave, those on military service, single parents, people near pension age, among others.

There is always a danger of talking up the difficulties and cultural insensitivities when transacting business in or with what to many of us are still new markets.

Having some experience of downsizing in eastern Europe, the importance of treading slowly, involving local legal experts and 'treating people with humanity as we act as agents of change' have become my watchwords.

Yes, we can actively manage the labour force structure in these newer markets, but we must do so sensitively, bearing in mind both the potential impact of turning upside down the lives of people whose accustomed support systems have also disintegrated and the fact that our hosts elected to embark on a significant social change programme before many western companies got there. ○

Mike Madgwick's involvement with HR in eastern Europe stretches back 10 years. Initially with Price Waterhouse setting up the east European group and spending time in Russia as HR Director and Chief Operations Officer, he now works for Reader's Digest, responsible for HR in central and east Europe, with additional oversight for Latin America and Asia. The views here are his own and do not necessarily represent Reader's Digest policy

When China came to Ho

PHOTO: Hong Kong Government Information Services

◀ **Lantau bridge, part of the road and rail link with the new airport – completed notwithstanding the changes in Hong Kong's financial and political situation**

It is a matter of some irony that the return to Chinese sovereignty which westerners might have expected to lead to a slowing down and bureaucratisation of Hong Kong's dynamic entrepreneurial culture coincided with an economic crisis that necessitated an even greater business orientation than ever. Here Eddie Ng describes how Hong Kong has been coping with major change and not least the impact on HR management

In July 1997, when sovereignty returned to China, Hong Kong acquired its first local Chinese chief executive for the administration of the region, and at the same time a change of mindset for local business – and public sector – executives from that of 'tenant' to 'landlord'. For, whereas previously the prevalence of expatriate managers with their international networks tended to limit the scope of Chinese managers to make decisions, after the hand-over many local Chinese were promoted and made completely accountable or at the very least less dependent on expatriates.

The world tended to assume that Hong Kong would adopt a more introvert, 'closed door' policy; in fact it is pursuing a very different approach, building on the best of both cultures. For instance, last October Tung Chi-Wah, the Chief Executive, publicly announced an intention to develop Hong Kong into a world centre of entertainment – a decision on a Walt Disney theme park is expected by June 30 – while at the same time promoting herbalist technologies, albeit modernised. The intention is to maintain a high level of autonomy, as consistent with Hong Kong's recent history, but against a background of a more defined vision and set of strategies; and to retain the flavour of capitalism but under a system of market-oriented communism, as a Special Administrative Region of China.

As an example of the intention to reinforce Hong Kong's standing as an international financial centre, a committee was established with prominent figures like Jack Welch of GE and Chris Galvin, CEO of Motorola, to advise the Chief Executive. And, according to a recent government communication, seven well-established international hi-tech corporations are to work together to build a new IT infrastructure for Hong Kong.

Unfortunately, these unprecedented political changes coincided with the economic crisis in the region. GDP fell from 2.8 per cent in the fourth quarter of 1997 to -5.1 per cent in 1998. Unemployment rose from 2.4 to 5.8 per cent in two years.

To what extent what was happening in the rest of Asia affected Hong Kong more than it might otherwise have done because of the return to Chinese rule is hard to say. Certainly some foreign investors had reservations about the new regime and were therefore sitting tight on investment or expansion plans. Also the relative inexperience of senior government officials in foreign and public relations has meant a failure to make the most of the capabilities and attractiveness of Hong Kong as an investment centre. The confidence of the foreign community in Hong Kong will have to be re-earned and re-built.

Meanwhile, over 40 per cent of firms, right across all sectors, have declared redundancies, which in turn have led to a fall in consumer spending. As a result, previously high labour costs have fallen by over 15 to 30 per cent; office rental and residential property costs have gone down by almost half; and the traditionally high levels of labour turnover have dropped.

Even the renowned Hong Kong Civil Service is undergoing radical change. Earlier this year major plans were announced to shorten disciplinary procedures for non-performers, to review critically the concept of permanent employment and introduce contracts, to recruit from outside, to switch from incremental pay systems based on seniority to merit-based schemes and to review the current approach to pensions.

Challenges and activities

A recent survey by the Hong Kong IHRM showed that the top three HR challenges for its members were limited resources and consequent tight cost control, staff morale and motivation and employee relations. Members predicted that for the next three years the three most important HR activities would be manpower and succession planning, training and development and organisational restructuring.

An opinion survey conducted by ISR revealed that between 1997 and 1998 the perceptions of Hong Kong employees towards a number of key management factors had taken a downturn – commitment to quality was seen as down by 6 per cent, operational efficiency down by 5 per cent and pay by 4 per cent. Interestingly, though, among those who

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ng Kong

had stayed in work, job satisfaction showed a 3 per cent improvement over the year, signifying more integrated job responsibilities and involvement of employees, and appreciation of employee benefits was up by 2 per cent.

Looking at specific organisations, too, reveals major change. Giodanio, a very successful and innovative garment company, has turned its HR department into a consulting unit offering internal and external HR consulting services – turning itself from a cost centre to a profit centre. Hong Kong Telecom, the largest telecom corporation in HK, is gradually diversifying its business into property, repositioning itself in the light of demonopolisation and severe competition in telecommunications. The cost of long-distance calls has dropped by over 60 per cent and the price war has not ended yet. Gas prices have dropped with big discounts, and more competitors will be encouraged to get into the industry.

What this has meant for HR management is a much greater business focus. Practitioners have had to learn to respond to crises, to respond faster and to be more competitive. At the same time they have had to be more sensitive to new and impending legislation, as the government is tending to make more changes to accommodate the future workforce of Hong Kong. For instance, there are laws on equal opportunities, sexual harassment and data protection, and new computer safety regulations are proposed. Also new equipment, new working practices and more safety officers and so on all require additional resourcing. But, of course, businesses can no longer afford expensive bureaucratic HR functions, so internal cost control is the watchword for personnel departments. It helps to see themselves as business partners rather than stand-alone service units.

A growing number of small and medium-sized enterprises also poses a new challenge to traditional HRM structures and styles, as the emerging companies are looking for flexibility, fast turnaround times, multi-skilling and cross-disciplinary integration.

All in all, one can see a real awakening among the people: new responsibilities, greater flexibility and a new mindset among those in work will surely lead Hong Kong to a new height of competitiveness for the 21st century. Turning a crisis into an opportunity has long been a Chinese virtue and, in the next one to two years, Hong Kong will have a chance to demonstrate this once more. ○

Brazil's economic crisis and the impact on HR

BY SERGIO HILLESHEIM

Two headlines in a recent issue of *Folha de São Paulo,* one of São Paulo's business newspapers, summed up the situation in Brazil. One stated that Moody's rating service had downgraded the country's debt, making it a riskier investment; the other reported that Brazil was the number two investment choice for multinationals after the US.

Brazil is a huge country. It is the largest in Latin America and the fifth largest in the world in terms of territory; its economy is the eighth largest in the world and its population is presently 158 million. After a very long period of high inflation the country managed to achieve stabilisation in the last four and a half years, bringing the level below 5 per cent per year and stimulating growth rates.

Industry, agriculture and service contribute to Brazil's GNP and the country is a big exporter of manufactured goods, food and services.

The Mexican crisis, four to five years ago, had little impact on Brazil but the Russian and Asian countries' more recent situation contributed to exposing the weaknesses of the Brazilian economic strategy in such a way that the world was predicting disaster.

As a matter of fact, in mid January the Brazilian currency (real) was first devalued against the dollar and a few days later totally liberated, accumulating a devaluation of about 40 per cent in a couple of weeks.

Brazil is now living a paradox. After the currency liberation the economic policy of president Fernando Henrique Cardoso achieved a coherence that it never had before. For the first time during his government objective sustainable growing conditions have been defined aimed at reducing the dependence on foreign currency.

Unfortunately some problems of credibility stemming from previous vacillation and misconduct of the economic policy by the government must raise questions about the population's willingness to give the new strategy a chance. This state of mind is aggravated by the panic and frustration that have dominated the economic agents in the last few weeks, locals and foreigners.

But why do Brazilians have to welcome the new policy? The currency devaluation and its acceptance by the market eliminates the central contradiction of the economic policy adopted by the government so far, according to a number of highly respected economists from Brazil and abroad. The currency adjustment reverts the commercial deficit, reduces or eliminates the need for billions of dollars to finance the deficit and recovers the consistency of the external accounts.

Apart from that, interest rates will certainly go down once the currency balance is achieved, which will provoke a reduction of the public deficit and a reactivation of the economy. Surely the inflation rate will go up again but good management of this stage will bring it back to tolerable levels in a year or two.

The whole question is whether the market will trust in this new economic policy, for, if this happens, Brazil can forecast some positive results at the end of this year.

We all know that the path to that nirvana is full of sacrifices and obstacles, mainly during the first half of 1999. The government has to recover the confidence of the market in its economic policy and implement an austerity programme related to public expenditure.

The present crisis the country is facing may be a bit less sour than expected, but will most certainly hit Brazilians in two ways: in their pocket with an inflation rate that can reach 10 per cent this year and in the level of employment due to the recession.

Negotiations

The official rate of unemployment is 9 per cent, but there is no doubt that it will grow during the current year. Many organisations will have to readapt their production output and staffing levels to the new scenario. It is known by all of us that economic recession generates feelings of insecurity and instability in people.

Brazil has some very active trade unions and some of them are already starting to negotiate with employers special conditions to retain jobs through the reduction of working hours, wages and benefits.

Over and above such negotiations, the role of HR professionals will primarily be one of maintaining the morale and motivation of the workforce, at the same time as controlling process costs and overheads and improving productivity – once again a vital contribution to the future of any organisation.

However, Brazil has successfully overcome other critical situations and no country is immune to them in this globalised world.

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THE WORLDLINK HR CALENDAR

May 23-26, 1999
Adelaide, Australia
Australian HR Institute National Convention
Tel: +612-8969 7031
Fax: +612-9908 3012
www.ahri.com.au

June 1-3, 1999
Balatonaliga, Hungary
OHE National Conference
Hungarian Association for HRM
Tel: +36-1-361 4655
Fax: +36-1-361 4656

June 10-11, 1999
Johannesburg, South Africa
IPM HRD conference
Tel: +27-11-482 4970
Fax: +27-11-482 5542

June 10-11, 1999
Wiesbaden, Germany
DGFP National Conference
Tel: +49-211-5978 150
Fax: +49-211-5978 179
E-mail: graf@dgfp.de

June 17-18, 1999
Monterrey, Mexico
COMARI International Labour Forum
Tel: +52-8-315 2604
Fax: +52-8-315 2650
E-mail: comari@intercable.net.mx

June 22-25, 1999
Budapest, Hungary
EAPM Congress
Theme: 'Connecting West and East
- the role of HRM in the unified Europe'
Hungarian Association for HRM (OHE)
Tel: +36-1-361 4655
Fax: +36-1-361 4656
E-mail: humanpol@mail.matav.hu

June 27-30, 1999
Atlanta, Georgia, USA
SHRM Annual Conference and Exposition
Contact: Member Customer Services
Tel: +1-703-548 3440, option 3
E-mail: custsvc@sh

August 25-27, 1999
Sao Paulo, Brazil
ABRH National Congress
Tel: +55-11-256 0455
Fax: +55-11-214 0858

September 1-3, 1999
Auckland, New Zealand
IPM New Zealand National Conference
Theme: 'Adapting HR practices to the changing environment'
Tel: +64-4-499 2966
Fax: +64-4-499 2965
E-mail: ipm@ipm.co.nz

September 22-25, 1999
Montevideo, Uruguay
CIAP/FIDAP National Congress
Contact: Agustin Aishemberg
President, Uruguayan Association of Personnel Administration
Tel: +598-2-930 940/41
Fax: +598-2-984 624

October 5-6, 1999
Hong Kong
Asia Pacific Regional Conference on Compensation and Benefits
HKIHRM/Global Remuneration Organisation
Tel: +852-2-881 5113
Fax: +852-2-881 6062
E-mail: info@hkihrm.org

May 29-Jun 1, 2000
Paris, France
WFPMA 8th World Congress on Human Resource Management
Theme: 'Building tomorrow together'
Contact: ANDCP
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Fax: +33-1-4256 4115
E-mail: andcp@andcp.fr

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