**Assignment Questions**

1. What problems in HRM practices did CARM face? What should be done by the company to prevent them in the future? Prepare recommendations for the future development of HRM practices based on the current HRM situation.

2. If the company decides to enter a new market (India), how should HR support this international activity? Give practical recommendations to CARM in India for overcoming the problems that were in the US market. Suggest the following:

What are the selection criteria for the CEO and the marketing director for a CARM plant in India? Suggest the competencies needed for these positions.

Define the cross-cultural training approach for each position and develop its components, namely duration of training, methods, and content of training program.

What organizational support should be provided by CARM to make the international assignment effective?

Analyze all the questions keeping in mind that CARM faced cultural difficulties that probably affected their problems with quality.

**Cultural Differences And Problems With Quality: Are There Challenges For Human Resource Management In The Auto- mobile Industry?**

**CARM at a Glance**

The history of CARM Motor Corporation starts with one million dollars, invested by the father of Thomas Carm, and with the deep belief of the Carm’s family in the potential of Asian engineering production. After the end of World War II, in November 1948, the company’s founders set an unrealistic goal: to their employees to catch up with the Ford company in three years. It is worth mentioning that at that time CARM was 10-12 times less productive than Ford. Unsurprisingly, the company was not able to reach this goal in three years. Nevertheless, by the year 1965 CARM’s machining processes were at the same level of development as Ford’s.

The specifics of the world car industry 1950-1960 had a great impact on CARM’s development. The main principle of the industry at that time was: “Production expansion accompanied by model diversification”. Following this principle, CARM became a flexi- ble and efficient company, which focused on the production of diversified products. Like other companies, CARM oriented to US car design. However, the company carefully adapted the design and production methods to different markets.

In the late 1950s CARM started to export its vehicles to European markets, however, it opened the first plant there only 25 years later. During 1970-1980 CARM opened out- lets in Brazil, Thailand and Malaysia.

The first milestone occurred in 1985, when CARM sold its first one million vehicles. Five years later, leaving Volkswagen behind, CARM became the leading import brand in the US.

At the end of 1970s the oil-crisis struck the USA, which reinforced the CARM’s re- search and development processes towards more fuel-efficiency technologies. This fact contributed to the competitive advantage of the company in further years.

The 1980s were extremely productive for CARM. The company released many well- known CARM vehicles. 1992 was the year of the birth of a luxury car line. This luxury line of vehicles had tremendous success, mainly because of the strong reputation of CARM itself.

In 1992 the guiding principles of CARM were announced. They included seven main rules, which were revised in 1997. Among those principles are the ideas of undertaking fair and open business activities, providing clean and safe products, respecting the culture and customs of every nation, fulfilling the needs of customers around the world through constant development of advanced technologies, maintaining corporate culture, which enhances creativity, and keeping themselves open to new partnerships.

Other noticeable events happened in 1995, which consists of the opening of two new plants in the US, one plant in China, in the UK and in India. CARM continued its inter- national expansion and opened several new plants in the 2000s. Moreover, it followed the strategy of deeper penetration in existing markets. At the turn of the century, the compa- ny established CARM Financial Services Corporation aimed at supporting production and sales operations worldwide.

The recession caused by the financial crisis of 2008 didn’t influence CARM much. The company continued the development of different cars, and it was named one of the most selling brands in the USA in 2009.

The company invested a lot in the research and development of environmentally- friendly technologies and developed an advanced energy management system

**CARM today**

There are three main business segments – automotive, financial services, and other –

through which CARM operates nowadays. CARM’s automotive business includes the production and sale of passenger cars, minivans, and commercial vehicles (hybrid vehi- cles and conventional engine vehicles). The company and its affiliates manufacture au- tomobiles and related parts through more than 35 companies located in 21 different coun- tries worldwide. The sales map of CARM covers more than 120 countries and regions. In 2010 CARM’s distribution network included 195 dealers and 3890 sales and service outlets.

Financial services of CARM are provided by CARM Financial Services Corporation

(CFS), which controls the financial services of all its subsidiaries. This business segment provides retail financing, vehicle and equipment leasing, credit cards, insurance services to its dealers and their customers in order to support the sales of CARM’s products.

Overall, CFS serves customers in 27 countries worldwide.

CARM’s other business segment includes the manufacture and sale of finished

homes, intelligent transport systems and information technology and telecommunication

businesses.

CARM has a matrix organizational structure, which aims to support teamwork. The

company periodically revises its organizational structure to make the purpose and objec- tives of the organization clearer to employees. CARM has functions, divisions, depart-

ments and groups that share the jobs and responsibilities.

Leaders play the principal role in the CARM matrix structure. Several organizational

layers are created in the organization, and responsibility is delegated to lower levels. This was done in order to simplify the decision-making process and to accelerate the infor-

mation flow.

The latest revision of CARM organizational structure occurred quite recently. The

new structure is aimed at increasing competitiveness and the sustainable growth of the

company.

For instance, to provide steady growth for the company, its business will be divided

into four units:

1) CARM Luxury line. The main goal is to build the image of luxury cars as “a glob- al premium brand”.

2) CARM No 1. (North America, Europe and Japan)

3) CARM No. 2 (China, Asia & Middle East, Africa, Latin America, etc.)

4) AutoCenter ("unit"-related operations).

Educational material supplied by The Case Cent**Organizational culture**



Moreover, the reorganization of business groups is made in order to improve products

and services in growing markets.

CARM believes that efficiency alone cannot guarantee success. That is why the com-

pany established a tandem of “hard” and “soft” innovations within the company, which together move the company forward. “Hard” innovations, connected to CARM Produc- tion System (CPS), allows the company to keep improving ways of vehicle production,

whereas “soft” innovations represent the corporate culture of the company.

It was noticed that a variety of contradictions and paradoxes in many aspects of

CARM’s organizational life lead to the company’s success. Employees of the company work in a culture in which they constantly overcome challenges and generate fresh ideas simultaneously. The existence of a culture of tensions is extremely supportive for the

production of innovative ideas, which CARM uses to pull ahead of its competitors.

CARM encourages open communication as one of its core corporate values, which

supports the development of a corporate culture tolerant of failure.

Despite the fact that CARM employs about 250,000 people and sells its products in

more than 120 countries, the company still functions like a small-town company. The assumption that “everybody knows everybody else’s business” exists among top- executives. Personal relations are meaningful for CARM, which emphasizes the im- portance of human rather than virtual networks. The company recognizes its employees as competent workers, who gather experience. CARM invests a lot in its people and or- ganizational capabilities, and it has created an environment where it is possible to get

new ideas anywhere and at any time.

The company tries to utilize every single opportunity during its daily operations to

develop its employees. Formal classroom training, during the first days in the organiza- tion, as well as everyday meetings, helps to create an environment of continual learning

for employees.

Information flows quite easily proceed up and down the hierarchy and across differ-

ent functional departments of the company. Moreover, suppliers, dealers and customers are involved into the process of information exchange. The relationship web is informally called the “network system” at CARM, because the process of information transmission

resembles the work of the human body’s central nervous system.

On the one hand, such an open communication system benefits the organization,

whereby employees use simple language in their conversations, whereby they make presentations on a single sheet of paper, which includes all the necessary information (background information, analysis, action plan). On the other hand, this system seems to be rather complicated. The tremendous amount of horizontal and vertical links between different functional departments worldwide and across hierarchical levels is created to

satisfy the desire to let everybody know everything.

CARM tries to strengthen relationships among employees through the organization of

different clubs based on birthdays, hobbies, sports interests, etc.

The company pays lot of attention to its values, which were developed and revised by

CARM’s founders several times. Two main values of CARM, formulated in 2001, are the constant improvement and development and value of people. Other values include teamwork, modesty and a focus on the customer needs. CARM believes that lasting rela- tionships with dealers and customers and trust in the company from their perspective are

the key factors of CARM’s success. That is why the company emphasizes its values to its employees during on-the-job training or through stories told by managers to succeeding

generations of CARM employees.

Another important element of the CARM culture is that managers should behave as

teachers. Despite the strict hierarchy in CARM, employees are welcomed to express their opinion. They don’t blindly follow their managers, but reveal existing problems and pro-

vide constructive criticism to their executives.

**Human Resource Management at CARM**

CARM’s culture and human resource management (HRM) practices are heavily root- ed in working culture and philosophy, but CARM has adopted some different policies for its international operations compared to its home country.

The foundation, on which CARM built its entire HRM strategy, as well as overall strategy, is called the “CARM Direction”. This set of principles should guide not only all of the company’s actions, but also each individual employee’s actions too. There are two parts to the “CARM Direction”, each with several subparts. The first part is called “Val- ue of People”. According to CARM, this means that the company, as well as all employ- ees, must respect each other and all the stakeholders, and make an effort to understand one another. The concept of “Value of People” also includes teamwork as an important component, which maximizes individual and team performance and stimulates personal and organizational growth.

The second part of CARM’s values system is “Constant Improvement and Develop- ment”. This term means, not only, that the employees should strive to continually im- prove their and the company’s performance, but that they also need to meet challenges with courage and practical experience. The latter term is about reaching the goal through consensus and getting to the source of problems and issues.

All of CARM’s HRM practices and systems are thus built around the “CARM Direc- tion”. For example, in accordance with the principle of “Value of People”, CARM has a strong diversity and inclusion program in both recruitment and employee motivation. CARM has consistently exceeded its quota for employing disabled people, with 1.7% of the workforce being made up of disabled people. In addition, CARM tries to conduct lo- cal recruitment whenever possible, believing that its workforce should be representative of the population of the country in which it is doing business. In the US in particular, be- cause of the great diversity of the population, CARM has several initiatives that are closely aligned with the “Value of People” part of the CARM way, such as supporting ethnic minority dealership owners and encouraging ethnic minorities to set up parts- supply businesses for CARM. To help women in the workforce, CARM allows them to take time off for unexpected family problems (such as a child’s illness), creates individu- al maternity leave plans for employees and encourages women with children to work flexible hours.

An important part of CARM’s general strategy is reflected in the company’s HRM practices. Working culture at CARM in general stresses the importance of collaboration and communication between different levels of employees, such as managers and assem- bly line workers. CARM’s domestic HRM strategy reflects such values: mutual under- standing and trust are very important and employees are very willing to communicate any problems. In the USA in general, working culture is much more hierarchical, with greater divisions between employee levels and types, and, as a result, there isn’t the same level of trust and mutual understanding. But when CARM adopted its values in the USA, it

used training, coaching and HR tools to introduce CARM-style HRM policy for employ- ee relations based on trust, security, and a balance of power (including between line managers and the HRM department).

Another important pillar of employee motivation at CARM is the health and well- being programs. This program includes health and safety instruction to prevent on-the- job accidents and health problems, as well as healthy lifestyles initiatives. The latter in- cludes programs to help employees manage unhealthy habits, such as the HEALTH ac- tivities program launched in 2011. This program included lectures, health seminars on weight loss and giving up smoking, on-site work-outs and individual counseling. Such programs lead to measurable results, such as a decrease in average body mass index and smoking rates. For overseas employees, the company provides counseling and medical check-ups during the adjustment period (and after) to a new location and climate.

All in all, the basis for CARM’s HRM strategy can be described as having mixed ef- fectiveness and loyalty in USA and primary effectiveness in international markets. As is stated in the “CARM Direction”, in particular the “Constant improvement and develop- ment” part, employees are expected to perform effectively and to constantly strive to im- prove their own performance, as well as the performance of their team and company. One HRM tool that the company uses as part of its employee development program that highlights the effectiveness basis is the Competence Development System (CDS). This system enables employees to sharpen their technical skills and acquire specialized knowledge. Three ranks (A to C) are recognized according to the level of skills acquired. Specialized training is conducted at manufacturing sites in various plants, and technical trainers selected from each worksite also undergo training to enhance their training skills.

At the same time, CARM heavily emphasizes loyalty to the company and creates all the conditions necessary for employees to remain in the company for their entire life. In- deed, according to CARM information, the average number of years of service at CARM is 12 years. Considering that the average age of a CARM employee is 42, the combina- tion of these two facts means that most employees at CARM have already spent most of their working years working at the company. Employee motivation initiatives such as health and wellness programs, maternity plans, employment for seniors and mothers are all indicative of a loyalty-based HRM strategy. At the core of CARM’s HRM strategy is the principle not to lay off people whenever possible. This is part of the “Value of Peo- ple” part of CARM’s value system “the CARM Direction”: employees are supposed to fully trust the company and the management, and the management in turn should be able to rely on the employees to be loyal. And, while many companies state that they avoid layoffs, CARM has shown repeatedly that it has flexible programs designed to save exist- ing workers, including during difficult times. An example of this is CARM’s handling of the economic crisis in Thailand in 1997. Despite the rapidly falling demand, the compa- ny, uniting together as part of the consensus-based approach, reorganized its operations, increased efficiency and came out of the crisis without firing a single employee. Instead, the company used this opportunity of freed up staff to prepare for the future by sending a great amount of people for training and extra education to increase their skills and com- petencies in key areas. In addition, some employees were sent to help the local communi- ty through a rice mill project.

Training and employee development, as seen from the Thailand economic crisis ex- ample, plays a vital role in the HRM strategy of CARM. As already mentioned, “the CARM Direction” requires employees to strive continually to improve themselves and their work, and this means that employees must always be learning and being trained. One training tool used by CARM has already been mentioned: the TDS. In 2001 CARM established the CARM University, which is a dedicated training and development organ- ization built around the principles of the “CARM Direction”. Two years later, in 2003, CARM’s overseas affiliates on all continents opened their own training facilities. On-the- job training is, however, the main training activity of the company. It includes learning about the “CARM Direction”, CARM problem-solving techniques, constant improve- ment and development methods, as well as special competencies.

An overseas training program is also an integral part of CARM’s international HRM strategy: it is a tool designed to help young employees understand CARM’s operations in different countries by working in different regions with a CARM presence and by study- ing local working procedures, business practices, and foreign languages.

CARM has several other training programs for different types of specialists (engi- neers, managers, etc.), which aim to uniformly create highly skilled employees in all countries, according to global standards. An example of such a program is the World Production Centre (WPC), a training facility for production managers, as well as engi- neers, created in 2006 with the aim of maintaining equally high production standards across the world. In addition, the WPC has developed and provided a range of training equipment as well as training manuals complete with animations and videos that are de- signed to promote faster and more efficient skills acquisition. Since then, several local WPCs have opened in Europe and North America providing the same training.

CARM’s recruitment strategy is often called “sharp recruitment”. Rather than collect- ing résumés, applications, data, etc. without any current need for new employees – or, in other words, a push recruitment strategy, CARM’s recruitment policy is a pull-based strategy, which means that the hiring managers find the necessary number of candidates that match exactly the company’s needs exactly when they are needed. As part of this strategy, the HRM department finds the candidates from employment pools (social net- working, job sites) in response to an actual hiring need. However, “sharp recruitment” also leaves very little cushioning in case of error or problems, because this policy re- quires all the resources (in this case applicants) to be actively used, which means that re- cruiters must not only be highly skilled and experienced, but also familiar with the local environment and ready to respond to any changes in the job market; otherwise, a compa- ny might find itself without the right employees at one point in time.

**Problem with quality**

March 2007 was an extremely tough month for CARM. On March 11st the company had faced the situation that many clients complained about quality of light indicators in car salons. It was the common situation with many car companies when clients perma- nently complained about some technical issues while using a car within a year after pur- chase before first technical monitoring. In some cases such lack of satisfaction was con- nected not with technical problems but with design or overdone customers’ expectations. But this time was one of the most difficult ones for CARM. The technical problems with light in cars that are produced mostly in the USA but sold globally (especially in Asia) were certainly a large reason for potential customers not to buy a CARM car. CARM could easily lose a huge share of the market due to its brand damage and the negative perception of its new models.

So, CARM had to be open and react fast in order to retain consumers' loyalty and persuade them that reliability and safety is not being sacrificed. But what is more im- portant, CARM had to find out the real causes of the problem, then analyze them and eliminate them so that such situation of poor light system quality would never happen again.

Nevertheless, CARM could not manage the given situation in a necessary appropriate way back in 2009. The handling of the issue in the public eye was rather poor, as a result sales declined to their lowest point in more than a decade. However, in 2013 CARM again showed excellent financial results, which might indicate that finally the company was able to overcome the commitment of relatively large technical errors by eliminating the underlying reasons.

**The reasons: human error and lack of employee engagement?**

CARM has always had the reputation of being a car manufacturer that produces qual- ity cars. Many specialists in the field of the car production industry believe that CARM’s problematic situation was a result of poorly designed practices and weak execution on the behalf of the human resource department, and not simply the mechanical mistakes of some engineers, operational specialists, technicians or an IT system breakdown.

Every time employees do not perform in an expected, it is either due to human error or to factors beyond their control, i.e. external factors. Those factors might be the follow- ing: senior management decisions, lack of sufficient information, wrong process inputs, rewards that stimulate wrong actions that contradict the company’s stated goals, and many other ones.

Therefore, often humans’ mistakes, which can easily lead to corporate catastrophes, are the result of ill-suited HRM processes, to be more specific – processes related to ac- quiring, developing, motivating, and managing labor force. Some insiders claim that CARM had been aware of the technical problems long before some problems revealed. Some believe that the company tried to hide the true information in order to sustain a positive corporate image and not to reveal the whole scope of the problematic situation. Therefore, the company was not even reactive, not to speak about being proactive. Such handling of the problem is not typical for CARM, which usually acts immediately in re- sponse to such critical and urgent problem like the faulty brakes, for example. One might suggest the underlying reason of the whole problem is the issue of the rewards system at CARM. The accent in CARM has always been on cost-containment/cost-cutting versus sustaining/increasing product quality, and managers have been rewarded accordingly. So, the incentive to hide a technical problem and simply ignore it was developed in the com- pany, though CARM was unlikely to realize the whole scope of that issue beforehand. If CARM’s well-trained employees were also subject to a balanced rewards system and proper performance control, such situation with quality may not appear.

So, there are quite a few human resource processes that might severely contribute to CARM’s quality problems, namely all the main ones: the pre-mentioned rewards and recognition systems, recruitment, training, performance management, leadership devel- opment and succession, risk assessment, retention, and corporate culture.

1. *Recruitment*. Poorly designed recruitment and assessment practices might lead to the hiring of individuals who ignore problems, and who are later not willing to be re- sponsible for the made mistakes. In the CARM case, the main concern related to recruit- ing is whether CARM had a poorly designed hiring process that allowed the company to get on-board employees who were not experienced in the necessary constructive confron- tation behavior.

2. *Training*. In an industry where safety is extremely vital, each and every employee should have been trained to escape the “groupthink” effect as well as not to ignore negative and unpleasant external information on safety issues. Therefore, the main concern related to training in CARM is whether CARM’s training was not effective enough for the involved managers to be successful in convincing executives to react to the received negative information.

3.*Performance management (PM).* In the CARM case, if the performance measure- ment system included such performance factors as measurement of responsiveness to negative information, then the company would have not been in this critical situation several years ago. The main concern related to PM is whether the performance appraisal and performance monitoring process in CARM were poorly designed, so that they did not identify and report “groupthink” type errors. There is a belief that CARM’s famously high level of trust in its employees lacked the necessary metrics, checks, and balances, which would warn senior management immediately after the appearance of the first signs of a major problem.

4. *Rewards*. The main concern related to the rewards system in CARM and the crisis of 2009-2010 is whether the fast growth of company and lean cost-reduction were so hugely supported and rewarded in the company such that no employee was ready to re- duce the growth due to safety checks, etc. There is a belief that the rewards in CARM could be centered on demonstration of error-free results, instead of high quality itself.

5. *Leadership development*. The main concerns related to leadership in CARM are whether the leader creation paradigm in the company is outdated, and whether the com- pany developed the wrong kind of leaders: leaders that could not successfully operate in the rapidly changing automotive industry.

6. *Risk assessment*. At CARM apparently the HRM department didn’t work in the sphere of risk management, and it didn’t make sure that personnel was engaged in the calculation of risks and all the consequences such as the actual costs of ignoring infor- mation about faulty vehicle spare parts. So, the main concern related to risk assessment at CARM is whether HRM should have collaborated with experts in risk assessment in or- der to create the capability of identifying and quantifying the revenue impacts of major HRM errors, including a high recruitment failure rate, a high turnover rate among top performers, and the cost of keeping a poor manager or employee.

7. *Retention*. The main concern related to retention in the CARM case is whether the people, who raised the problems, were not heard and left in frustration.

8. *Corporate culture*. It seems as if CARM created a culture in which the corporate leaders tried to “save face” instead of reacting to negative news in the decent way of not postponing the decision to recall the vehicles for months. Therefore, the main concern related to corporate culture in CARM is whether the CARM HRM failed to promote pro- fessional responsibility instead of conformism.

The competition among employees is much higher in the USA than, for example, in Asia, thus, American employees tend to outperform, “beat” their colleagues more. There- fore, the price of mistake is much higher in the USA. An employee in the USA who has committed a serious error might easily lose his/her job, while an Asian employee would be just rotated but most likely kept in the organization due to the policies of “work for life” in, for example, in China. Returning to the CARM case, its employees didn’t want to admit the serious technical problems as well as the wrong managerial decisions that were taken later on, as they were afraid to lose their job, and harm their reputation. It also should be mentioned that the individual benefits in the USA are popular, and CARM fac- tories in particular were not the exception. Therefore, managers in the US department didn’t also want to take the blame because of the great possibility of losing a bonus/benefit, which is individually based in the USA. Moreover, the US managers are more risk-taking, while Asian ones are more risk-reluctant. So, managers in the USA plants were not admitting the problem from the outset, accepting the risk of it going out of control, but evaluating the risk as being minimal. Furthermore, as leadership in the USA is high, many people involved in the production and distribution processes didn’t feel themselves responsible as there were many managers above them in the organiza- tional structure: people who should be responsible, according to the belief of American employees. While in Asia leadership is spread, and everyone feels involved and very re- sponsible for the whole process. So, some peculiarities of work organization and man- agement may have created the grounds for the CARM problems that took place 2007- 2009.

**Consequences of the CARM problems**

Speaking about the consequences of the CARM problems, financial losses should be mentioned, and the damaged brand and the company reputation, both as a high quality car producer and as an employer, (even though the company was able to fight back rela- tively quickly). Nevertheless, in 2011 the sales of CARM cars decreased significantly, and the company lost a relatively significant share of the market. The financial impact on CARM from its global recall could have totaled more than $3 billion over 2012 (the ex- act number is not known), due to increased incentive campaigns, litigation costs and marketing efforts by the embattled car maker. CARM built much of its brand loyalty in Asia on the perception of reliability and quality. The quality problems had a very large impact on CARM sales, brand perception and loyalty. Naturally, CARM’s employer brand image was also damaged, with some damage coming from many articles that shed light on real or imagined problems within CARM.



Educa

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| **HRM practices**  | page10image4188642656**USA** page10image4188644384 | **Asia**  |
| Recruiting  | - Client focused- Large candidate pool- Client willing to wait for the “exact fit”- Higher standards of selectivity- Companies seeking specialists (in the narrow field)  | - Candidate focused- Small candidate pool- Client accepting “close fit” candidate - Pressure to develop candidate net- works- Recruitment of younger employees, on average, due to Japanese principle of “work-for-life”- Japanese companies in general seek more candidates with much broader background  |
| Training  | page10image7227200Extensive “prior work” education, in- house and out-of-house learning page10image7231552 | Learning through experience at work, in-house trainings  |
| Performance measurement  | - Performance evaluation and feed- back are two of the most important items in a North American manager's toolkit - Promotion based on performance  | - Performance measurement and quali- ty checks are constant- But promotion is not directly con- nected to the performance, instead more to years spent in the company (however, the situation is starting to change slightly at present)  |
| Rewarding  | page10image7278144- Competitive payment and bonuses- Rewards for individual excellent results- The gap between the highest and minimum salary in the company can be huge  | - The use of seniority comparison for pay and promotion- Rewards for group excellent results- The gap between the salaries is smaller  |
| Leadership development  | page10image7311616- Strong leadership- Leadership and direction tend to come from upper management  | - Consensus decision-making, spread/shared leadership  |
| page10image7061920Risk assessment page10image7035632 | - More risk-taking on average  | - Less risk-taking  |
| Retention  | - Turnover rate is very high compared to Japan- Retention is based on attractiveness of the company as an employer (which is formed by type of job/tasks, working conditions, remuneration, and possibility to develop and climb the career ladder)  | - Long-term employment is not just attractive but highly desired and as- pired- HR experts estimate that as many as 80% of the workers in Japan are given lifetime employment - Retention based on loyalty  |
| page10image4196229296Corporate culture page10image4196262784 | Competetive (market) culture  | Collaborate (Clan) culture  |

