



# Human Resource Management in the Global Firm

## Learning Objectives

In this chapter, you will learn about:

1. The strategic role of human resources in international business
2. International staffing policy
3. Preparation and training of personnel
4. International performance appraisal
5. Compensation of personnel
6. International labor relations
7. Diversity in the international workforce

## ➤ International Human Resource Management at Johnson & Johnson

Johnson & Johnson (J&J) is a manufacturer of pharmaceutical and consumer health care products, with well-known brands such as Band-Aid, Tylenol, Neutrogena, Listerine, Sudafed, and Roloids. In 2006, worldwide sales topped \$53 billion, about half of which came from North America, one quarter from Europe, 14 percent from Asia-Pacific and Africa, and the rest from Latin America and other regions. J&J's decentralized workforce includes more than 116,000 employees in over 250 business units worldwide.

J&J pays special attention to the care and management of human resources. The firm's Credo, an internal document that has been around for over six decades, articulates a commitment to company employees. A section of the Credo reads:

We are responsible to our employees worldwide. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of our employees' family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement. We must provide competent, ethical management.



Riddhi Parikh, Assistant Manager for Human Resources at J&J in India, relies on the Credo whenever employee action is needed. She can authorize employee travel, expenses, and many benefits without permission from her manager. Riddhi can focus on what she would like as an employee—to be free, to be able to learn and advance in the company and to have the power to make decisions. Thanks to J&J’s high regard for human resources, the average tenure of employees at the Indian subsidiary is 15 years. More broadly, J&J managers worldwide are empowered to make important decisions within their scope of operations.

Johnson & Johnson claims to hire “the best and the brightest” people to fill its leadership pipeline. All J&J leaders are responsible for developing managers for global operations. As part of his performance evaluation, J&J’s chairman is measured on his ability to develop managers. The J&J executive committee spends 20 percent of its time figuring out ways to find and nurture talent. In Canada, J&J’s Leadership Development Program drives company culture and superior business performance. As part of the development process, employees often need to learn new skills in order to move across functional boundaries and take up new international assignments.

In salary packages, firms link merit increases and discretionary bonuses to the new skills managers acquire. J&J uses a “total rewards” compensation approach, in which management considers all the rewards available in the workplace, including opportunities for learning and development. J&J uses a sophisticated personnel evaluation system that can account for a variety of elements that employees might value within their compensation packages, across the firm’s operations worldwide.

The firm also takes pride in providing opportunities for employees to acquire new skills. For example, most units can send employees to the J&J Law School Online, an Internet-based program. J&J’s two-year Finance Leadership Development Program rotates trainees through a combination of classroom and structured on-the-job training that exposes them to various parts of the business.

As part of the hiring process, J&J also emphasizes diversity. Management compensa-

tion is linked to efforts to hire minorities, women, and people from varied cultural backgrounds. In a diverse global marketplace, the effort is a crucial step toward expanding the firm’s markets. J&J’s vice president for human resources is a woman, Kaye Foster-Cheek, a native of Barbados. J&J is driving the Women’s Leadership Initiative in its international units, even in emerging markets such as India. ◀

Sources: Byron, Ellen. (2001). “E-Business: The Web @ Work / Johnson & Johnson,” *Wall Street Journal*, Nov. 19, p. B4; Cameron, Carolyne. (2007). “Johnson & Johnson Canada’s Design, Development and Business Impact of a Local Leadership Development Program,” *Organization Development Journal*, 25(2), pp. 65–70; Johnson & Johnson company profile. Retrieved from Hoovers.com; Heffes, Ellen. (2005). “J&J: ‘Quality of People Is Key to Growth,’” *Financial Executive*, July/August, pp. 19–20; Keenan, William. (1993). “Measuring Skills That Improve Performance,” *Sales and Marketing Management*, December, pp. 29–30; Lath, Shivani. (2006). “Johnson & Johnson: Living By Its Credo,” *Business Today*, November 5, p. 126; Marquez, Jessica. (2006). “Business First,” *Workforce Management*, October 23, 2006, pp. 1–6; Maxey, Daisy. (2007). “CEO Compensation Survey,” *Wall Street Journal*, April 9, p. R.4; Rumpel, Steven, and John Medcof. (2006). “Total Rewards: Good Fit For Tech Workers,” *Research Technology Management*, September/October, pp. 27–36.



## The Strategic Role of Human Resources in International Business

How sustainable is firm competitiveness without the employees and their knowledge and experience? Imagine especially the knowledge-intensive sectors such as management consulting, banking, advertising, engineering, and architecture. Without the creative people, designers, problem solvers, and other knowledge workers, firms such as McKinsey, Saatchi & Saatchi, Pixar, Gucci, Herman Miller, Nokia, and many others would hardly survive. Today, firms often refer to employees as “human talent,” “human capital,” or “intangible assets,” suggesting that they represent an investment rather than a cost.

Managers at Johnson & Johnson appear to recognize that the employees and the knowledge they possess may be their most strategic asset. Recruiting, managing, and retaining human resources at a firm with global operations are especially challenging. Take the global organization of Siemens, the German MNE. In 2005, Siemens had 460,800 employees in some 190 countries. It employed 290,500 throughout Europe, 100,600 in North and South America, 58,000 in the Asia-Pacific region, and 11,900 in Africa, the Middle East, and Russia. Like Siemens, firms such as Volkswagen, Hutchison Whampoa, Nestlé, IBM, Anglo American, Unilever, Wal-Mart, Deutsche Post, McDonald’s, Matsushita, and Mittal Steel have more than 150,000 employees working outside of their home country. Management grapples with a wide range of challenges in hiring and managing workers within the distinctive cultural and legal frameworks that govern employee practices around the world. **International human resource management (IHRM)** can be defined as the planning, selection, training, employment, and evaluation of employees for international operations.<sup>1</sup> International human resource managers serve in an advisory or support role to line managers by hiring, training, and evaluating employees, and by providing IHRM guidelines.

### International human resource management

**(IHRM)** The planning, selection, training, employment, and evaluation of employees for international operations.

When Toshiba develops a laptop computer that is lighter, more powerful, and less expensive than competing models, other companies can usually reverse engineer and develop their own version of the computer. However, how the firm recruits, trains, and places skilled personnel in its worldwide value chains sets it apart from the competition. The combined knowledge, skills, and experiences of employees are distinctive and provide myriad advantages to the firm's operations worldwide.

### Three Employee Categories

International human resource managers work at three different levels in a firm that has multicountry operations:

1. **Host-country nationals (HCNs).** These employees are citizens of the country where the subsidiary or affiliate is located. Typically, HCNs make up the largest proportion of the employees that the firm hires abroad. The firm's labor force in manufacturing, assembly, basic service activities, clerical work, and other non-managerial functions largely consists of HCNs.
2. **Parent-country nationals (PCNs).** Also known as *home-country nationals*, PCNs are citizens of the country where the MNE is headquartered.
3. **Third-country nationals (TCNs).** These are employees who are citizens of countries other than the home or host country. Most TCNs work in management and are hired because they possess special knowledge or skills.<sup>2</sup>

To give an example, a Canadian MNE may employ Italian citizens in its subsidiary in Italy (HCNs), may send Canadian citizens to work in Asia-Pacific on assignment (PCNs), or send Swiss employees on assignment to its subsidiary in Turkey (TCNs). Thus, in addition to where the individual is employed, the nationality of the employee is important, especially with respect to compensation policies.

You can see that in a global organization, it is very common for employees to move across national boundaries to take up responsibilities that others cannot fulfill. These employees on international assignments are traditionally called *expatriates*. An **expatriate** is an employee who is assigned to work and reside in a foreign country for an extended period, usually a year or longer. Note that any one of the three categories of employees can be considered an expatriate, depending on the location of the assignment. For example, an HCN who is transferred into parent country operations also resides outside of his or her home country.<sup>3</sup> While expatriates comprise only a small percentage of the workforce in most MNEs, they perform critical functions abroad, such as managing a subsidiary.

For IHRM managers, the ultimate challenge is to ensure that the right person is in the right position at the right location with the right pay scale. Today, human resources are highly mobile. For example, the information technology, financial services, and telecom sectors in the southern part of India are currently experiencing a shortage of mid- and senior level managerial talent. As a result, managers from distant places such as Eastern Europe are being posted to India to take advantage of compensation packages that have become highly competitive by advanced-economy standards. Heads of national subsidiaries are now commanding salaries up to \$400,000.<sup>4</sup>

### Differences between Domestic and International HRM

Compared to human resource management in the domestic context, IHRM is more complex. Exhibit 18.1 illustrates six factors that increase the complexity of human resource management in the international context.<sup>5</sup> Let's discuss each in turn.

#### **Host-country national (HCN)**

An employee who is a citizen of the country where the MNE subsidiary or affiliate is located.

#### **Parent-country national (PCN)**

An employee who is a citizen of the country where the MNE is headquartered.

#### **Third-country national (TCN)**

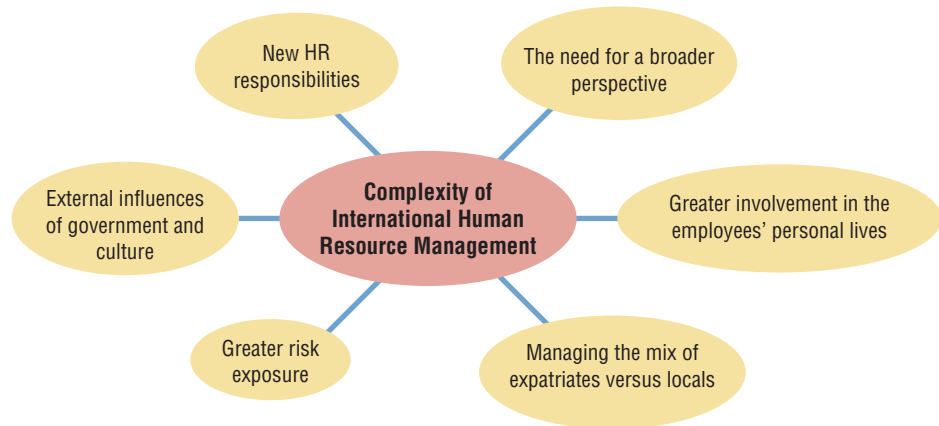
An employee who is a citizen of a country other than the home or host country.

#### **Expatriate**

An employee who is assigned to work and reside in a foreign country for an extended period, usually a year or longer.

## Exhibit 18.1

Factors Contributing to the Complexity of Human Resource Management in the International Context



1. *New HR responsibilities.* Several activities that are not necessarily encountered in the domestic market include: international taxation, international relocation and orientation, administrative services for expatriates, host government relations, and language translation services. An Australian national posted to Brazil as an expatriate is often subject to taxation by both governments, and may incur double taxation. Therefore, the issue of tax equalization—ensuring that there is no tax disincentive associated with any particular international assignment—is one of the complicating aspects of IHRM.
2. *The need for a broader, international perspective in compensation policy.* Recall that, at any one time, the human resources manager provides guidance in such issues as compensation policy for a mix of PCNs, HCNs, and TCNs, who are nationals of numerous countries. Establishing a fair and comparable compensation scale, regardless of nationality, is one of the challenges in a large MNE.
3. *Greater involvement in the employees' personal lives.* The HR professionals in the firm are concerned about the welfare of the expatriates and their families for such matters as housing arrangements, health care, schooling of children, safety, and security, as well as proper compensation in view of the higher cost of living in some locations around the world.
4. *Managing the mix of expatriates versus locals.* Organizations must be staffed in each national location with personnel from the home country, the host country, or third countries. The mix of staff depends upon several factors, including the international experience of the firm, cost of living in the foreign location, and availability of qualified local staff.
5. *Greater risk exposure.* When employee productivity falls below acceptable levels or an expatriate returns prematurely from an international assignment, the consequences are even more pronounced in international business. Exposure to political risk and terrorism is also a major concern for HR professionals and may require an increased compensation package and security arrangements for the employee and her or his family.
6. *External influences of the government and national culture.* External to the firm is the broader context of the host country environment. Especially notable is the influence of the government and national culture.

Let's explore this last factor in greater detail. First, excessive regulations or bureaucratic hurdles that host governments may impose are often a concern for the firm. Personnel must be evaluated and compensated in ways that are consistent with local standards and customs. The degree to which labor is unionized and the nature of labor-management relations in the host country also have implications for human resource management. For example, in many European countries,

labor unions are actively involved in the management of the firm. In France, Germany, and Spain, employees may work no more than a set number of hours per week (sometimes as few as 35).

Similarly, as we discussed in Chapter 5, national culture has a profound impact on the effectiveness of employees and firms. Human resource managers have the responsibility to prepare employees and their families to live and work effectively in a new cultural environment. Employees need to be trained in ways that account for local standards, cultural norms, and language differences. Firms also increasingly emphasize the importance of workforce diversity and the need to develop employees with global mindsets.<sup>6</sup> Prohibitions against gender discrimination in Australia, Europe, and North America conflict with practices in some countries, where women are underrepresented in the workplace.

For all these reasons, managers at firms with extensive international operations pay attention to planning, selecting, training, employing, and evaluating international human resources. Adjustments will be made to human resource policies as local conditions dictate. For example, in an emerging market such as Vietnam, benefits will need to include allowances for housing, education, and other facilities that are not readily available there. Subsidiary managers will need to become familiar with local customs and establish codes of conduct with respect to such issues as gift giving, rewards, and providing meals to employees during the workday. At the same time, the firm will attempt to organize IHRM on a global scale so the organization applies integrated, uniform IHRM policies.

## Key Tasks in International Human Resource Management

Exhibit 18.2 outlines six key tasks of international human resource managers. First is international staffing policy—activities directed at recruiting, selecting, and placement of employees. Second is preparation and training of personnel. Third is international performance appraisal, providing feedback necessary for employees' professional development. Fourth is compensation of personnel, including formulation of benefits packages that may vary greatly from country to country. Fifth is international labor relations, involving interaction with labor unions and collective bargaining. Sixth is achieving diversity in the international workforce.

The remainder of this chapter is devoted to IHRM tasks identified in Exhibit 18.2.



## International Staffing Policy

One of the critical tasks the firm performs is determining the ideal mix of employees in the firm's international subsidiaries and affiliates.<sup>7</sup> The optimal mix varies by location, industry, stage in the value chain, and availability of qualified personnel. In addition, local laws prescribe the proportion of employees the firm can employ from nonlocal sources.

Exhibit 18.3 illustrates the various criteria and rationale for hiring each type of employee.<sup>8</sup> In general, firms post PCNs abroad to take advantage of their specialized knowledge, especially in upstream value-chain operations, and/or when management wants to maintain substantial control over foreign operations. The subsidiary is more likely to comply with MNE objectives and policies when PCNs are at the helm. PCNs can also assist in developing local managers. By contrast, firms prefer HCNs when the host-country environment is complex and their specialized knowledge or local connections are required in the local marketplace. Firms tend to employ HCNs to perform downstream value-chain activities such as marketing and sales that require extensive local knowledge.<sup>9</sup> One advantage with HCNs is that the cost of compensating them is usually much lower than

## Exhibit 18.2

Key Tasks and Challenges of International Human Resource Management

<i>Task</i>	<i>Strategic Goals</i>	<i>Illustrative Challenges</i>
<b>International staffing policy</b>	<ul style="list-style-type: none"> <li>• Choose between home-country nationals, host-country nationals, and third-country nationals</li> <li>• Develop global managers</li> <li>• Recruit and select expatriates</li> </ul>	<ul style="list-style-type: none"> <li>• Avoid country bias, nepotism, and other local practices</li> <li>• Cultivate global mindsets</li> </ul>
<b>Preparation and training of employees</b>	<ul style="list-style-type: none"> <li>• Increase effectiveness of international employees, leading to increased company performance</li> <li>• Train employees with an emphasis on area studies, practical information, and cross-cultural awareness</li> </ul>	<ul style="list-style-type: none"> <li>• Minimize culture shock and the occurrence of early departure by expatriates</li> </ul>
<b>International performance appraisal</b>	<ul style="list-style-type: none"> <li>• Assess, over time, how effectively managers and other employees perform their jobs abroad</li> </ul>	<ul style="list-style-type: none"> <li>• Establish uniform, organizationwide performance benchmarks while remaining sensitive to customary local practices; for example, instituting explicit and nonambiguous performance metrics</li> </ul>
<b>Compensation of employees</b>	<ul style="list-style-type: none"> <li>• Develop guidelines and administer compensation e.g., base salary, benefits, allowances, and incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Avoid double taxation of employees</li> </ul>
<b>International labor relations</b>	<ul style="list-style-type: none"> <li>• Manage and interact with labor unions, collective bargaining, handling strikes and other labor disputes, wage rates, and possible workforce reduction</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce absenteeism, workplace injuries due to negligence, and the occurrence of labor strikes</li> </ul>
<b>Diversity in the international workforce</b>	<ul style="list-style-type: none"> <li>• Recruit talent from diverse backgrounds to bring experience and knowledge to firm problems and opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Achieve gender diversity</li> </ul>

## Exhibit 18.3

Criteria for Selecting Employees for Foreign Operations

Staff with <i>Parent Country Nationals (PCNs)</i> When . . .	Staff with <i>Host-Country Nationals (HCNs)</i> When . . .	Staff with <i>Third-Country Nationals (TCNs)</i> When . . .
Headquarters wants to maintain strong control over its foreign operations.	The country is distant in terms of culture or language (such as Japan), or when local operations emphasize downstream value-chain activities such as marketing and sales, as HCNs usually understand the local business environment best.	Top management wants to create a <i>global</i> culture among the firm's operations worldwide.
Headquarters wants to maintain control over valuable intellectual property that is easily dissipated when accessible by HCNs or TCNs.	Local connections and relations are critical to operational success (such as relations with the government in Russia).	Top management seeks unique perspectives for managing host-country operations.
Knowledge sharing is desirable among headquarters and the subsidiaries, particularly for developing local managers or the host-country organization.	The local government requires the MNE to employ a minimum proportion of local personnel, or tough immigration requirements prevent the long-term employment of expatriates.	Headquarters wants to transfer knowledge and technology from third countries to host-country operations.
Foreign operations emphasize R&D and manufacturing, because PCNs are usually more knowledgeable about such upstream value-chain activities.	Cost is an important consideration; Salaries of PCNs, especially those with families, can be up to four times those of HCNs.	The firm cannot afford to pay the expensive compensation typical of PCNs.

PCNs or TCNs. On the other hand, firms prefer TCNs when top management wants to transfer knowledge or corporate culture from third countries to host-country operations. Worldwide staffing with TCNs helps firms develop an integrated global enterprise, while excessive use of HCNs may lead to a collection of autonomous subsidiaries—a federation of national units.

### Searching for Talent

Hiring and placing people in appropriate positions is a critical IHRM task. *Recruitment* involves searching for and locating potential job candidates to fill the firm's needs. *Selection* involves gathering information to evaluate and decide who should be employed in particular jobs. Successful MNEs are led by managers with substantial international and functional experience.





A western family and a young Muslim woman feed pigeons in front of an Istanbul mosque. Successful expatriates have family members who cope well in new environments.

One of the most challenging IHRM tasks is finding and developing exceptional leaders and other human resource talent. Managers must identify potential candidates and groom them to become corporate leaders, train personnel to meet the firm's evolving business needs, and generally ensure that the talent supply keeps pace with the growth of the firm. Hiring and developing the best talent is critical to long-term, superior performance, but many firms fail to invest adequately in developing employees.

Some senior executives believe that there is currently a shortage of talent willing and qualified to work outside of their home countries. They contend that there simply are not enough good employees to go around. For example, Schlumberger Ltd., a Texas oil company with operations worldwide, cannot find enough engineers. Schlumberger is one of the rare firms that has turned its human resources department into a strategic asset in order to find and develop talent around the world. Among other initiatives, Schlumberger has assigned high-level executives as "ambassadors" to 44 important engineering schools, such as Kazakhstan's Kazakh National Technical University, Beijing University, Massachusetts Institute of Technology, and Universidad Nacional Autonoma de Mexico. Dell, IBM, Nokia, and Unilever are also among the firms that are proactive in finding and developing international talent.

Developing talent is a multistep process, so human resource managers, in collaboration with executive management, need to:

1. Analyze the firm's growth strategies and the mission-critical roles needed to achieve those strategies.
2. Define the requirements for each role in terms of desired skills, behaviors, and experiences.
3. Examine the firm's current supply of talent and create a plan to acquire needed talent.
4. Develop talent internally and acquire existing or potential talent from outside the firm.
5. Assess current and potential talent according to each individual's performance over time, willingness to learn, learning skills, and commitment to career advancement.<sup>10</sup>

What about the employees sent abroad by firms for international assignments? Not all personnel are suited for expatriate positions. Some employees prefer to remain at home and avoid international positions. Others are sent abroad only to discover they are not cut out for international work. Thus, the firm must choose carefully. Employees who are adept at working effectively in foreign environments tend to have the following characteristics:<sup>11</sup>

- *Technical competence.* In distant locations, managers should have sufficient managerial and technical capabilities to fulfill the firm's goals and objectives.
- *Self-reliance.* Having an entrepreneurial orientation, a proactive mindset, and a strong sense of innovativeness is important because expatriate managers often must function with considerable independence abroad, with limited support from headquarters.
- *Adaptability.* The manager should possess an ability to adjust well to foreign cultures. The most important traits are cultural empathy, flexibility, diplomacy, and a positive attitude for overcoming stressful foreign situations.

- *Interpersonal skills.* The best candidates get along well with others. Building and maintaining relationships is key, particularly for managers who interact with numerous colleagues, employees, local partners, and government officials.<sup>12</sup>
- *Leadership ability.* The most successful managers view change positively and manage threats and opportunities that confront the firm. They collaborate with employees to implement strategies and facilitate successful change.
- *Physical and emotional health.* Living abroad can be stressful. Most expatriates experience culture shock and other traumas, and medical care is often lacking. Thus, excellent physical and mental health are critical.
- *Spouse and/or dependents prepared for living abroad.* The candidate should have suitable family attributes—the ability of the spouse and other family members to cope with new environments. In the opening vignette, Johnson & Johnson HR managers put much emphasis on family well-being in international assignments.

How can you build an international career? As young adults, future global managers typically learn one or more foreign languages and acquire a facility for international travel by visiting or living abroad. They develop an optimistic, open-minded outlook about the world and an interest in international issues. Many seek study and internship opportunities abroad. As they develop professionally within their firms, they seek out international work assignments to enhance their knowledge of international business.<sup>13</sup>

## Expatriate Failure and Culture Shock

What happens when things go awry for the employee while on an international assignment? **Expatriate failure** is the premature return of an employee from an international assignment. It occurs when the employee is unable to perform well or to meet company expectations while on a foreign assignment. Expatriate failure is costly because it results in lost productivity and failure to achieve company goals, as well as expenditures associated with relocating the employee abroad, such as training and international travel. Failure can also affect expatriates themselves, leading to diminished careers or problems in their family lives.

A leading cause of expatriate failure is **culture shock**—the confusion and anxiety, often akin to mental depression, that can result from living in a foreign culture for an extended period.<sup>14</sup> Culture shock may affect the expatriate or family members. An expatriate's stress is due to his or her inability to interpret the large number of new cues in the foreign environment. The expatriate or family members generally overcome culture shock, usually within a few months, but some give up and return home early. Inadequate language or cross-cultural skills tend to exacerbate expatriate failure. The employee may prove unable to function in unfamiliar surroundings or to communicate well with locals.<sup>15</sup> Whatever the cause, as many as a third of foreign assignments end prematurely due to expatriate failure. The rate is particularly high among employees assigned to countries with culture and language very different from those at home.

Employees deal with culture shock in various ways, including regular exercise, relaxation techniques, or keeping a detailed journal of their experiences. Culture shock and expatriate failure can also be reduced through advance preparation, training, and by developing a deep interest in the new surroundings.

**Expatriate failure** The premature return of an employee from an international assignment.

**Culture shock** The confusion and anxiety, often akin to mental depression, that can result from living in a foreign culture for an extended period.

## **Preparation and Training of Personnel**

What can firms do to help employees better understand, adapt, and perform well in foreign environments?<sup>16</sup> Proper preparation and training are crucial. Training is the process of modifying employee attitudes and knowledge in ways that increase the likelihood of attaining organizational goals. Exhibit 18.4 highlights key features of preparation and training programs for international personnel.

Firms should provide training for all employees posted outside their home countries. Training is also a factor for the nonmanagerial workforce abroad, such as engineers, hourly workers, or those who perform business process services. HR managers must assess the training needs of host-country workers and devise training programs that ensure they can do their jobs, whether in manufacturing, marketing, sales, after-sales services, or business processes such as accounting and records management.

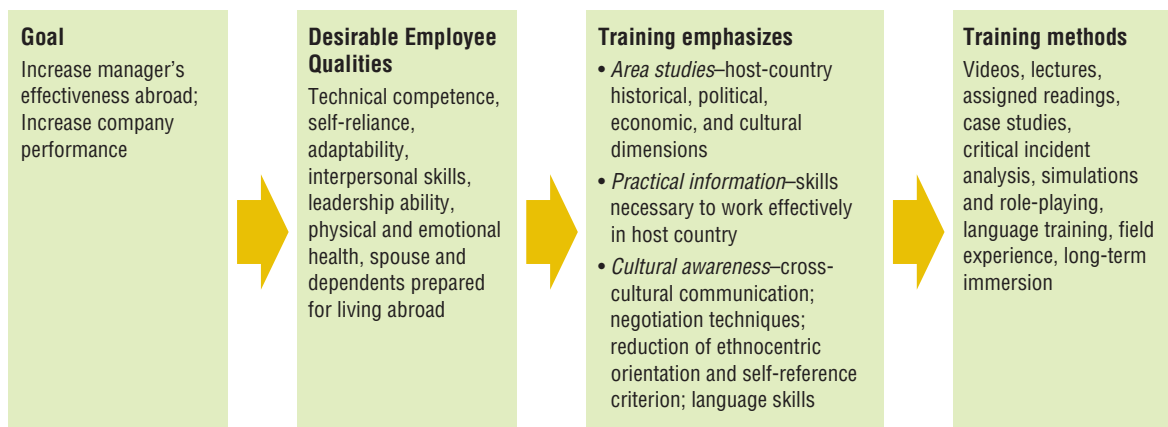
For employees on international assignment, training tends to have three components: (1) **area studies**—factual knowledge of the historical, political, and economic environment of the host country, (2) **practical information**—knowledge and skills necessary to function effectively in a country, including housing, health care, education, and daily living, and (3) **cross-cultural awareness**—the ability to interact effectively and appropriately with people from different language and cultural backgrounds.<sup>17</sup>

Training methods vary. In order of increasing rigor, they include: videos, lectures, assigned readings, case studies, books, Web-based instruction, critical incident analyses, simulations, role-playing, language training, field experience, and long-term immersion. Role-playing and simulations involve the employee acting out typical encounters with foreigners. As you'll recall from Chapter 5, critical incident analysis involves examining an episode between an employee and a foreign counterpart in which tension has arisen due to a cross-cultural misunderstanding. With field experience, the manager visits the host country for usually one or two weeks. Long-term immersion places the employee in the country for several months or more, often for language and cultural training. In deciding which training methods to use, the firm must strike a balance between the rigor of training versus the degree of interaction required abroad and the cultural distance between the employee's native and new culture.<sup>18</sup>

**Area studies** Factual knowledge of the historical, political, and economic environment of the host country.

**Practical information** Knowledge and skills necessary to function effectively in a country, including housing, health care, education, and daily living.

**Cross-cultural awareness** Ability to interact effectively and appropriately with people from different language and cultural backgrounds.



**Exhibit 18.4** Key Features of Preparation and Training for International Personnel

## Preparing Employees for Repatriation

**Repatriation** is the return of the expatriate to his or her home country following completion of a lengthy foreign assignment. Like expatriation, repatriation requires advance preparation. Unless managed well, the expatriate is likely to encounter problems upon returning home. Some returning employees find their international experience is not valued, and they may be placed in lesser or ill-suited positions relative to what they held abroad. Some expatriates report financial difficulties upon returning, such as inflated housing prices or cuts in pay. Many experience “reverse culture shock,” readjustment to home-country culture. For the employee and family members who have spent several years abroad, psychological readjustment to life in the home country can be stressful. Interestingly, as many as one quarter of expatriates may leave their firm within one year of returning home.<sup>19</sup> Others refuse to undertake subsequent international assignments.

Human resource managers can provide counseling on the types of problems that employees face upon returning home. While the expatriate is abroad, the firm can monitor the employee’s compensation and career path. After returning home, the firm can provide bridge loans and other interim financial assistance, as well as counseling, to address both career and psychological needs. The firm needs to ensure that the expatriate has a job in place that is equal to, or better than, the one held before going abroad. It is likely that, while abroad, the employee has accumulated considerable knowledge and contacts that the firm can leverage.<sup>20</sup>

## Cultivating Global Mindsets

Ethnocentric views are common in some MNEs, where headquarters staff often believe their ways of doing business are superior and can be readily transferred to other countries.<sup>21</sup> The more progressive MNEs today subscribe to a *geocentric orientation*, staffing headquarters and subsidiaries with the most competent personnel, regardless of national origin. As we discussed in Chapter 5, a geocentric orientation is synonymous with a global mindset, where the employee is able to understand a business or market or country boundaries. A *global mindset* is characterized by an openness to, and articulation of, multiple cultural and strategic realities on both global and local levels.<sup>22</sup> Employees come from diverse international backgrounds, bringing a holistic perspective to decision making on the firm’s operations worldwide. Senior managers are expected to be committed to hiring, developing, nurturing, and recognizing employees who possess a global mindset and offer global leadership potential.

Cross-cultural awareness training can go a long way in increasing intercultural sensitivity and effectiveness. Individuals need to be well versed in how best to supervise and communicate with local employees, to negotiate with customers and suppliers, and to generally adapt to the local culture. Training should aim to help the employee avoid the self-reference criterion—the tendency to view other cultures through the lens of one’s own culture.

Employees also benefit from training in the host-country language. Learning the local language allows the employee to interact more effectively with local colleagues and workers, communicate with suppliers and customers, monitor competitors, recruit local talent, and improve relations with host-country officials and organizations. Language ability also increases the employee’s insights and enjoyment of the local culture.<sup>23</sup>

A firm can deliberately seek to enhance the cultural intelligence of its employees. **Cultural intelligence** refers to the capability of an employee to function effectively in



Training methods for these IBM employees cover issues of people management, HR policies and programs, and leadership development issues.

**Repatriation** The return of the expatriate to his or her home country following the completion of a lengthy foreign assignment.

**Cultural intelligence** The capability of an employee to function effectively in situations characterized by cultural diversity.

situations characterized by cultural diversity.<sup>24</sup> It incorporates four dimensions: (1) *strategy* refers to how an employee makes sense of cross-cultural experiences through his or her judgments; (2) *knowledge* is the employee's understanding of cultural dimensions such as values, social norms, religious beliefs, and language; (3) *motivation* emphasizes the employee's interest in interacting with people from different cultures, as well as a sense of confidence in functioning effectively in culturally diverse settings; (4) *behavioral flexibility* refers to an employee's capability to adopt verbal and nonverbal behaviors that are appropriate in different cultures.<sup>25</sup>

## Charting Global Careers for Employees

Successful firms give high-potential employees adequate opportunity to gain experience not just in their home country but at headquarters and in other countries as well. This approach broadens the pool of global talent for managerial positions and visibly shows top management's commitment to global strategy. For example, at Unilever, employees cannot advance very far in the firm without substantial international experience. The Anglo-Dutch firm has numerous programs to develop international leadership skills. Managers are rotated through various jobs and locations around the world, especially early in their careers. Unilever maintains a **global talent pool**—a searchable database of employees, profiling their international skill sets and potential for supporting the firm's global aspirations. HR managers search the database for the right recruit, with ideal qualifications, regardless of where in its global network the individual is located. In this way, the best talent is identified and tapped for each task, from anywhere in the world.<sup>26</sup>

The career path of the global manager provides for recurring local and international assignments. Firms such as Nestlé, ABB, and Citibank develop a pool of talented employees, regardless of nationality, with deep knowledge of the firm's worldwide operations.

Employees with a global mindset strive to understand organizational and group dynamics in order to create consensus among divergent members.<sup>27</sup> They lead and participate effectively in global teams. As we discussed in Chapter 11, a **global team** is an internationally distributed group of people with a specific mandate to make or implement decisions that are international in scope. Members of a global team will require training in order to work well with others. Firms employ innovative approaches so that the team members work cohesively. For example, one team with members from the United States and Latin America had to negotiate with a supplier from Japan. In meetings, the Japanese would often discuss matters among themselves, speaking in Japanese. The members from the United States and Latin America decided to respond by having discussions of their own in Spanish, with even those who didn't speak Spanish pretending to do so. Using this approach, the Japanese got the message that their exclusionary caucuses were annoying.<sup>28</sup>



## International Performance Appraisal

**Performance appraisal** is a formal process of assessing how effectively employees perform their jobs. Appraisals help a manager identify problem areas where an employee needs to improve and where additional training is warranted. It is an ongoing process that determines the employee's compensation and firm's performance.

Firms may give PCNs, HCNs, and TCNs a variety of organizational goals that vary from unit to unit. For example, a new foreign subsidiary might be charged with establishing relations with key customers and rapidly increasing sales. A manufacturing plant might be tasked with ensuring high productivity

**Global talent pool** A searchable database of employees, profiling their international skill sets and potential for supporting the firm's global aspirations.

**Global team** An internationally distributed group of people with a specific mandate to make or implement decisions that are international in scope.

**Performance appraisal** The formal process of assessing how effectively employees perform their jobs.

or maintaining quality output. Occasionally a subsidiary performs poorly, and the local manager's goal is simply to resolve local problems and get the unit back on track.

In the course of appraising performance, managers compare expected outcomes with actual performance. MNEs typically devise diagnostic procedures to assess the performance of individual employees, ascertain if any problems are attributable to inadequate skill levels, provide additional training and resources as needed, and terminate employees who consistently fail to achieve prescribed goals.

The following factors make performance evaluations more complex in the international context:<sup>29</sup>

- The problem of *noncomparable outcomes* arises because of differences in economic, political, legal, and cultural variables. For example, one does not punish a Mexican subsidiary manager because worker productivity is half that of the average in home-country operations. Firms need to take into account worker conditions and other factors in Mexico that result in lower productivity levels.<sup>30</sup> Differing accounting rules may result in financial results that appear more favorable than results evaluated according to stricter accounting rules that the firm uses at home.
- *Incomplete information* results because headquarters is separated from foreign units by both time and distance. Performance evaluation may become clouded because headquarters' superiors usually cannot directly observe employees working in the host country. To address this problem, subsidiary managers may be assessed by two evaluators—one from headquarters and one based abroad. The firm may send managers to visit subsidiaries directly to meet staff and observe local conditions firsthand. Firms often create an intranet, which provides a degree of interconnectedness among the firm's employees scattered around the world. Such a resource can serve as a growing clearinghouse of knowledge, experiences, and best practices within the firm.
- Performance outcomes may be affected by the *maturity* of foreign operations. Relatively new subsidiaries usually do not achieve the same level of results as older subsidiaries staffed with experienced personnel. New international operations usually require more time to achieve results than the norm in the home market.

Management needs to consider these factors when appraising the performance of foreign subsidiaries, affiliates, and personnel.<sup>31</sup> In the absence of such awareness, the headquarters staff may arrive at inaccurate or biased assessments.



## Compensation of Personnel

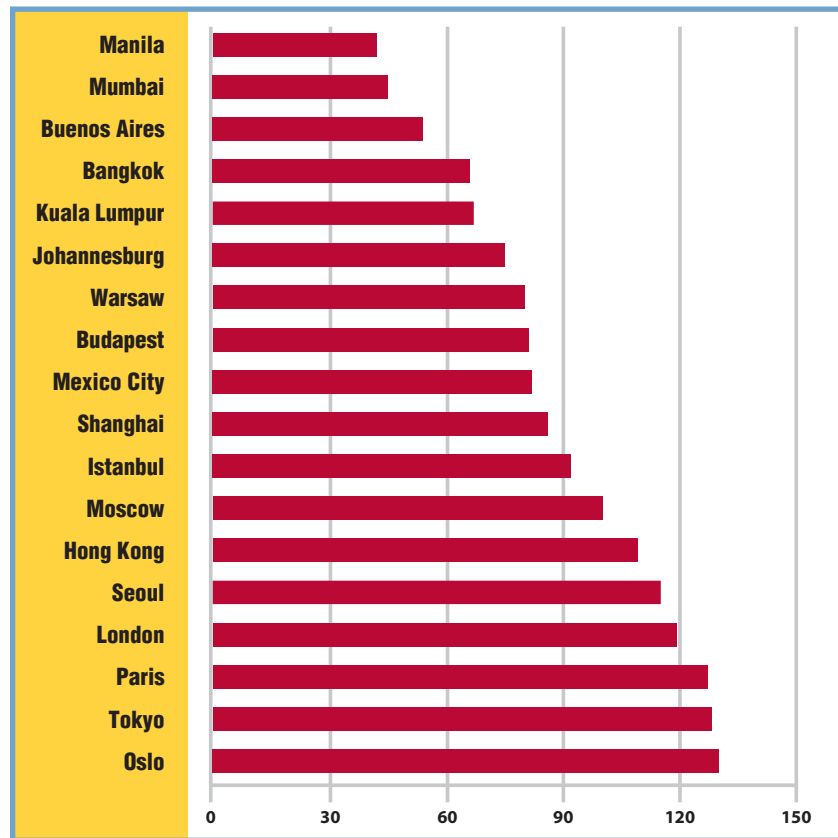
Compensation packages vary across nations because of differences in legally mandated benefits, tax laws, cost of living, local tradition, and culture. Employees posted at foreign sites expect to be compensated at a level that allows them to maintain their usual standard of living, which can add substantially to the cost. Exhibit 18.5 presents the cost of living in selected cities. You can see that major business capitals around the world are especially costly, including Tokyo, Paris, London, Seoul, and Hong Kong.

When developing compensation packages for employees working internationally, there are generally four elements for managers to consider: base remuneration or wages, benefits, allowances, and incentives. The *base remuneration* is based on

## Exhibit 18.5

Cost of Living in Selected Cities,  
2006 (New York = 100)

SOURCE: Adapted from *Economist* (2006), "The  
Cost of Living," July 20, p. 76.



the salary or wages that the employee typically receives in his or her home country. Thus, a local factory worker in Poland would receive wages equivalent to what average factory workers receive in the particular industry in Poland. A Dutch manager working in the United States would receive a base salary comparable to that paid to managers at the same level in the Netherlands. Expatriate salaries are usually paid in the home currency, the local currency, or some combination of both.

*Benefits* include health care plans, life insurance, unemployment insurance, and a certain number of paid vacation days. Benefits vary greatly from country to country to the extent that they may make up a substantial proportion of the total compensation package—typically, a third of total compensation. Local regulations and industry practice tend to determine the nature of benefits. Benefits may also vary in terms of whether they are tax deductible. Expatriates receive the benefits normally accorded to home-country employees.

*Allowance* is an additional payment that allows the expatriate to maintain a standard of living similar to home. The allowance is usually used to pay for housing, and sometimes food and clothing. Additional support may be provided to cover expenses such as relocation and children's education, as well as business-related entertainment and travel. Housing can be very costly in major commercial centers around the world. For example, the cost of a Western-style four-bedroom apartment in Tokyo may exceed \$5,000 per month. International relocation is also potentially costly, particularly if the employee insists on shipping major furniture, clothing, and other personal items abroad. Firms also provide hardship allowances to compensate employees who work in countries with civil strife or other conflicts or developing countries that lack essential housing, education, and other facilities and services.<sup>32</sup>

Given the potential hardships of working abroad, many MNEs also provide *incentives* to expatriate employees. The incentive is like a bonus intended to motivate the employee to undertake extraordinary efforts to accomplish company

goals abroad, particularly in new foreign markets. The incentive is typically a one-time, lump-sum payment.<sup>33</sup>

In expatriate compensation, tax equalization is a special consideration. Expatriates may face two tax bills for the same pay, one from the host country and one from the home country. Most parent-country governments have devised regulations that allow the expatriate to minimize double taxation. Often, the expatriate may need to pay income tax in only one country. In cases where additional taxes are incurred by the employee, the employer will usually reimburse the employee for this extra tax burden.

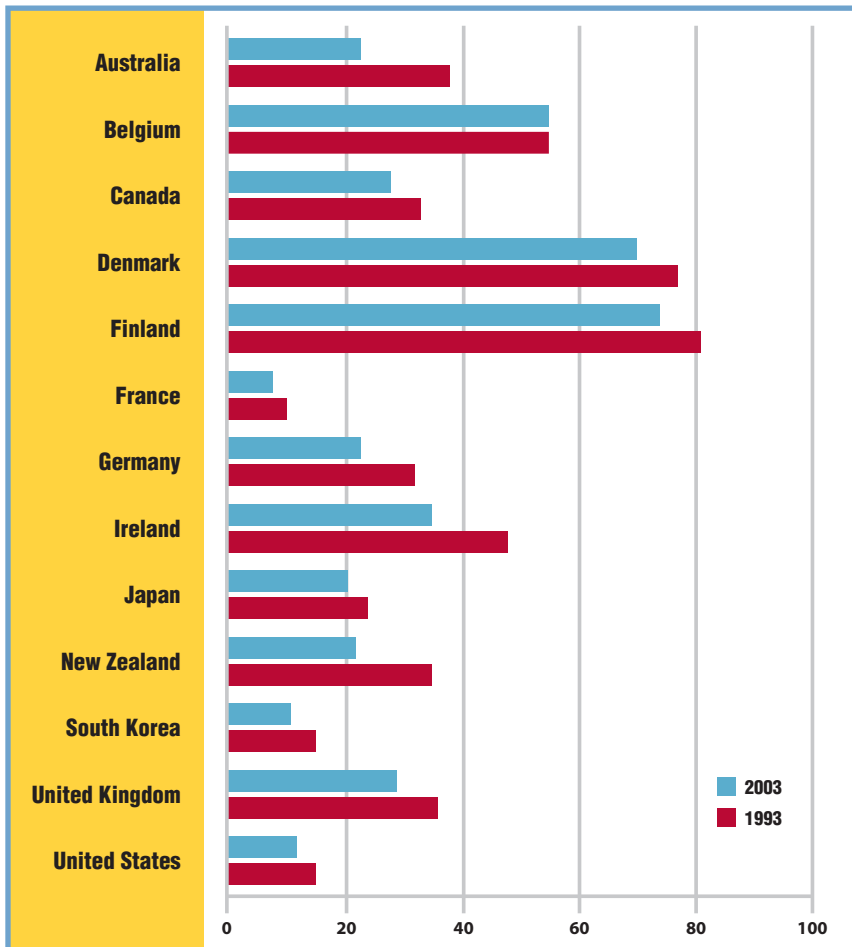
## International Labor Relations

*Labor relations* is the process through which management and workers identify and determine the job relationships that will be in effect at the workplace. *Labor unions* (also called trade unions) provide a means for **collective bargaining**—collective negotiations between management and hourly labor and technical staff regarding wages and working conditions. When the firm and labor union negotiate a relationship, they formalize it with a contract. Most countries maintain minimum labor standards under local law. Labor regulations vary substantially, with minimum regulations in Africa and the Indian subcontinent to highly detailed labor regulations and laws embedded in countries such as Germany and Sweden.

Union membership varies widely by country. Exhibit 18.6 illustrates the percentage of workers in each country that have formal union memberships. Note the

### Collective bargaining

Collective negotiations between management and hourly labor and technical staff regarding wages and working conditions.



### Exhibit 18.6

Percentage of Workers Who Belong to Labor Unions, 1993 and 2003

SOURCE: Adapted from Blanchflower, David, (2007), "International Patterns of Union Membership," *British Journal of Industrial Relations*, 45(1), pp. 1–28.



gradual decline, in recent years, of union membership in many advanced economies. Union membership has fallen to less than 15 percent of workers in France, South Korea, and the United States. The figure is less than 25 percent for Australia, Germany, Japan, and New Zealand. However, union membership is relatively high in Belgium, Denmark and Finland, where more than 50 percent of the workforce are unionized. In most of these countries, the majority of union members are government workers.<sup>34</sup>

In Central and Eastern Europe, the dissolution of the Soviet Union meant the end of mandatory union membership.<sup>35</sup> In many countries, younger workers are less interested in joining unions and labor laws have become less union-friendly than in the past.<sup>36</sup> The trend toward outsourcing of manufacturing and business processes to foreign suppliers also contributes to declining membership in trade unions. For example, Germany, a nation with a strong tradition of unionized labor, has seen a net outflow of FDI in recent years as German firms have established manufacturing in Eastern Europe and Southeast Asia.

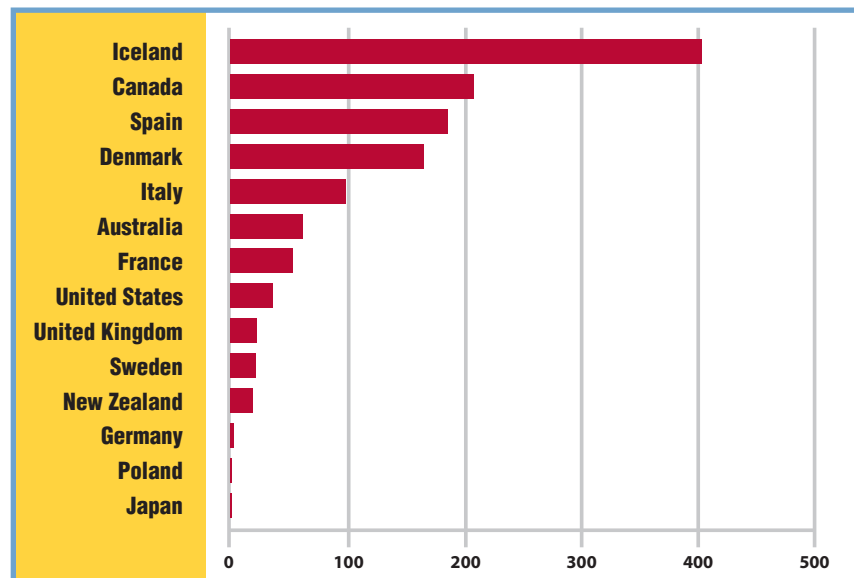
When management and labor fail to reach agreement, the union may declare a *strike*—an organized, collective refusal to work, in order to pressure management to grant union demands. Exhibit 18.7 shows the average annual number of days not worked per 1,000 employees due to strikes and other labor disputes for various countries. Worldwide, the incidence of strikes has declined over the last decade, but strikes remain a powerful weapon for persuading management to agree to union demands. For example, French workers at Perrier, the premium bottled water producer, recently called a strike to protect wages and jobs. The left-leaning CGT (Confédération Générale du Travail) labor union represents 93 percent of Perrier's 1,650 workers, who earn an average annual salary of US\$32,000, considered reasonable in southern France. Owned by Nestlé since 1992, management argued that it earns very little profit on the brand and needs to cut costs in order to improve corporate performance. In response to the strike, management threatened to move Perrier production to Eastern Europe to cut labor costs.<sup>37</sup>

If a strike persists for more than a few days, a *mediator* or an *arbitrator* may be called in to negotiate between labor and management in an attempt to end the strike. A mediator is an expert in labor-management relations who brings both sides together and helps them reach a mutually acceptable settlement. An arbitrator is an expert third party who delivers a judgment in favor of one side or the other, by assessing arguments presented by both sides.

## Exhibit 18.7

Average Annual Days Not Worked Due to Labor Disputes (per 1,000 employees, 1996–2005)

SOURCE: Adapted from Hale, D., (2007), "International Comparisons of Labour Disputes in 2005," *Economic & Labour Market Review*, 1(4): pp. 23–31 and International Labour Organization at [www.ilo.org](http://www.ilo.org).



## Distinctive Features of Labor around the World

Each world region has a distinctive approach to labor that is influenced by history, tradition, and other local factors. In the United States, unionization is concentrated in such industries as automobiles and steel, and is strong among public sector employees such as police and teachers. Union membership in the United States peaked in the 1950s; however, the unionized labor force in automobiles, steel, and other traditional industries has fallen dramatically in recent years. Globalization, capital mobility, and mass immigration from Mexico have substantially affected the power of organized labor, leading to continued workforce restructuring. Nevertheless, U.S. labor unions remain an important political force. In the United States, most employers accepted the 8-hour workday by 1912 and the 40-hour work week by 1950. Discrimination based on age or race has been illegal since the 1960s. Labor union activity centers on collective bargaining over wages, benefits, and workplace conditions, and on representing their members if management attempts to violate contract provisions.<sup>38</sup>

China's experience with collective bargaining is very recent. Given the close ties between labor and government, Western managers usually deal with the Chinese government extensively, at the national and local levels, when managing labor relations. Wal-Mart had to officially recognize unions in China—something it does not normally do. Meanwhile, China has a developing independent labor movement. In Guangzhou, 300 workers sent a letter to their factory manager demanding wage increases from less than \$60 per month to the legal minimum of \$69. In a recent year, Chinese workers staged some 57,000 strikes and protests to demand better wages and working conditions. The Chinese government is pushing for better conditions for China's 169 million factory workers, but progress is slow.<sup>39</sup> Labor activism and the number of labor disputes channeled through formal dispute resolution processes have grown significantly in recent years. The national government has undertaken several initiatives to better protect workers' rights, including new legislation and a campaign by the All-China Federation of Trade Unions aimed at unionizing workers in foreign enterprises.<sup>40</sup>

In Europe, labor unions have a long history. In addition to factory workers, unions often represent white-collar workers such as physicians, engineers, and teachers. Unions often hold much political power and may be allied with a particular political party—usually the Labor Party. A unique feature of the European labor union scene, especially evident in Germany and the Scandinavian countries, is the participation of labor unions in decision making about wage rates, bonuses, profit sharing, holiday leaves, dismissals, and plant expansions and closings. In 2006, the European Union passed new legislation that requires even small enterprises to inform and consult employees about a range of business, employment, and work organization issues. The legislation aimed to increase worker participation in the management of firms.<sup>41</sup> For example, in Sweden, labor plays a significant role in shop-floor decisions and participates in issues such as product quality standards and how to organize the factory for greater efficiency and safety. In Sweden and Germany, labor participation may be mandated, and workers often sit on corporate boards, a practice known as **codetermination**.<sup>42</sup> By contrast, in South Korea, the United Kingdom, and the United States, labor unions and management often hold adversarial roles.

## The Cost and Quality of Labor

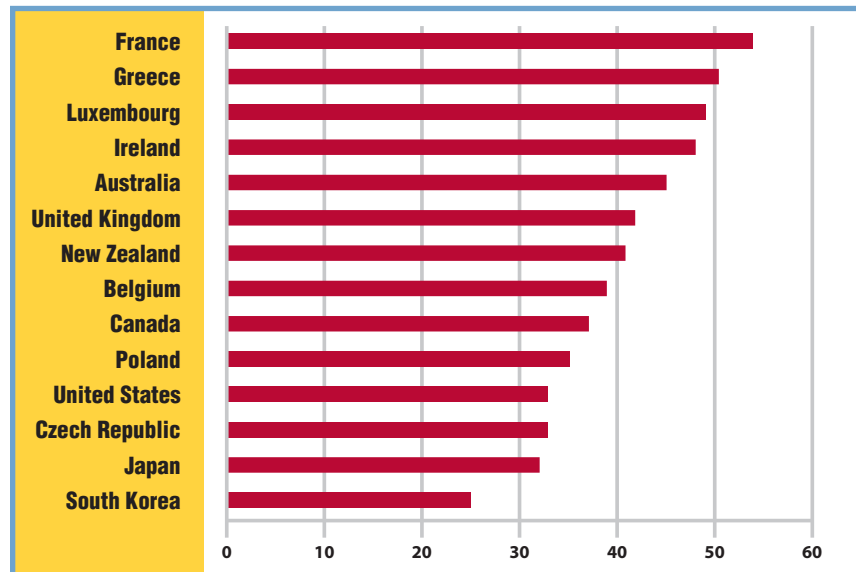
Worker wages vary greatly worldwide. Advanced economies tend to pay relatively high wages, typically in the range of US\$15 to \$30 per hour. Wages are particularly high in Northern Europe. In developing economies, by contrast, wages

**Codetermination** An industrial relations practice where labor representatives sit on the corporate board and participate in company decision making.

## Exhibit 18.8

Cost of Labor, 2005: State-Mandated Minimum Wage Plus Social-Security Contributions as a Percentage of the Labor Cost of the Average Worker

SOURCE: Adapted from *Economist* (2005), "Cost of Labor," April 2, p. 92.



often amount to only a few dollars per day. To provide a sense of the cost of labor around the world, Exhibit 18.8 displays the state-mandated minimum wage plus social security contributions as a percentage of the labor cost of the average worker, for various countries. Note that wages constitute a relatively high proportion of labor cost in France. France's statutory minimum wage and its mandatory social security contributions amount to 54 percent of the average labor cost. In Japan, by contrast, the minimum wage plus statutory social security contributions reach only 32 percent of the cost of the average worker.

Keep in mind that the cost of labor is not the sole consideration for a firm. The quality and productivity of labor are equally important considerations. Quality and trainability of labor are highly variable around the world. Educational and training systems differ and may inhibit the availability of qualified personnel. Well-educated and skilled labor pools are scarce in some countries. Many workers require training and adaptation to the firm's culture in order to meet management's requirements. Training is a critical factor, particularly for companies that outsource business processes to emerging markets. The cost of training is likely to offset some of the cost savings that outsourcing aims to produce.

Firms must consider wages in the context of worker productivity. Low-cost labor provides little value if its productivity is commensurately low. Productivity is the value of the output produced by a unit of labor (often measured as output per hour). The more productive a worker is, the more his or her output at a given wage rate. For example, an autoworker in Canada might produce 50 radiators per day, while a worker in Mexico might produce only 30 radiators per day. Firms often outsource or offshore work abroad only to discover that the local level of productivity is less than expected. For example, all else being equal, a worker in Romania who is paid half the wage of a comparable worker in Germany provides no additional value if the Romanian worker is only half as productive as the German worker. Accordingly, when outsourcing work to foreign vendors, managers must take care to ensure that worker productivity in the host country meets acceptable levels.

### Workforce Reduction

When firms experience downturns or rising input costs, they may have to resort to workforce reduction. Laying off workers (or making them "redundant," as it is

referred to in the United Kingdom) is difficult in much of the world due to local norms, regulations, or strong labor unions. For example, in Japan, local custom obligates firms to avoid lay-offs or find positions for dismissed workers in supplier organizations. Most European countries have regulations that restrict management's ability to lay off workers.

Managers need to gain a full understanding of local labor laws and regulations regarding worker dismissal. In the United States, the ability to declare Chapter 11 bankruptcy enables firms to shed labor in the process of reorganization. For example, this legislation enabled auto parts manufacturer Delphi Corporation to gain concessions from the United Auto Workers union on wages, benefits, and plant closings in 2007. Delphi was able to reduce hourly wages from about \$27 per hour to a \$14–\$18.50 range.

The firm should avoid hiring large numbers of employees until managers understand the type of workforce it needs. For some needs, part-time employees and contract workers may be a better alternative. Many countries require “just cause” to terminate an employee. If just cause cannot be demonstrated, the courts may require the employer to pay termination indemnities, a sum of money upon termination that can be substantial. In most cases, just cause is satisfied if the employee becomes permanently disabled, is terminated within a probationary period (usually between 1 and 6 months), or is guilty of incompetence, theft, or disclosure of confidential information. In most countries, the employee is almost always considered the weaker party; thus, ambiguous cases are usually settled in favor of the employee.<sup>43</sup>

## Trends in International Labor

Several trends are affecting the international workforce. Among these is the increasing mobility of labor across national borders. Factors that are driving this trend include the growing interconnectedness of national economies, rapid expansion of multinational firms, the rise of international collaborative ventures as an internationalization strategy, and greater emphasis on global teams to accomplish organizational tasks.

Many countries are coping with an influx of immigrants, both legal and illegal, who compete with established workers by providing low-cost labor. Some nations, particularly those with labor shortages or rapidly growing economies, encourage immigration in order to access an adequate pool of workers. For example, Canada encourages immigration to bolster its pool of skilled labor. In Europe, the inflow of immigrant workers has expanded rapidly due to expansion of the European Union. For example, several million Polish workers sought employment in the United Kingdom since Poland became a member of the European Union. Persian Gulf countries have long retained large labor pools from abroad. By contrast, Japan has been reluctant to encourage worker immigration, a policy that, combined with a low birthrate, will produce labor shortages in the near future.

Formation of global alliances by national labor unions is another recent trend. To help counter weakening union power, labor organizations have lobbied supranational organizations, such as the International Labour Office (a United Nations agency) to require MNEs to comply with labor standards and practices worldwide. Some national labor unions are joining forces with unions in other countries, forming global labor/trade unions in order to equalize compensation and working conditions for workers in different geographical areas.<sup>44</sup> Subsidiaries of European firms in the United States have signed union-organizing agreements that compel their U.S. units to comply with European labor standards.<sup>45</sup> A few unions have succeeded in creating global agreements that affect all the subsidiaries of numerous MNEs. Union Network International (UNI), formed in 2000,

represents 900 unions with 15 million members around the world. Firms that have signed global agreements with the UNI include Carrefour (France), Hennes & Mauritz (Sweden; owner of H&M retail stores), Metro AG (Germany), and Telefonica (Spain).

### **Firm Strategy in International Labor Relations**

Today, complex cross-border linkages are creating sensitive interactions among differing national labor systems. Wage levels or labor unrest in one country affect the firm's activities in other countries. For example, a strike in Canada may force General Motors to shut down an engine plant in the United States for lack of parts from its Canadian subsidiary. Maintaining cohesive labor relations is critical because unions influence the cost of labor, productivity, worker morale, and firm performance.

Because national differences produce markedly different labor relations across countries, MNEs usually delegate the management of labor relations to their foreign subsidiaries. However, this can be a mistake because of the potential *global* impact of labor relations in any one country. Labor agreements made by foreign subsidiaries can affect the MNE's international plans or create precedents for negotiations in other countries. Assigning responsibility for international human resources policy to a senior executive at headquarters can help ensure consistent, systematic human resource policies.

Headquarters needs to manage the firm's labor pool worldwide. Initially, management should establish an information system that provides continuous data on labor developments. The best approach is to use the company intranet and to centralize data from subsidiaries worldwide. This information system can help managers anticipate employee concerns and devise solutions to potential threats in cross-national labor relations. A company intranet can also serve as an effective vehicle for communicating with employees worldwide and regularly informing them of the firm's mission and objectives as well as ongoing challenges and future threats. It is often easier to negotiate with labor unions when they understand the threats and challenges confronting the firm.

Another major task for IHRM is to ensure that the firm is fulfilling its corporate social responsibility in each of the countries it conducts business. The *Global Trend* feature details how one firm, Nike, is rising to this challenge.



### **Diversity in the International Workforce**

The more progressive firms in cross-border business include employees from diverse backgrounds who bring a wealth of experience and knowledge to addressing the firm's problems and opportunities. For example, Johnson & Johnson links managers' compensation to efforts to hire minorities, women, and people from varied cultural backgrounds. J&J sponsors the Women's Leadership Initiative in its various international units. Diverse groups are active in the international workforce and are accepted around the world. Nevertheless, cultural diversity increases the complexity of interaction. Language and communication styles differ from country to country, as can traditional views of hierarchy and decision-making processes. The potential for misunderstanding, bungled efforts, and ill will is substantial.

### **Women in International Business**

In most advanced economies, men and women tend to have equal opportunity in the workplace, and working women have become the norm. In general, however, all societies impose roles on men and women. In some countries, women are

## Global Corporate Citizenship in International Human Resource Management

**H**eightedened interest in the impact of business activity on society is compelling firms to become better corporate citizens abroad. Corporate social responsibility (CSR) implies that the firm should be responsive to all its stakeholders and operate in socially acceptable ways. While managers strive to enhance firm competitiveness, they have a responsibility to serve society and to be mindful of personnel at all levels of the firm, including non-nationals. Corporate actions affect employees, regardless of whether they work directly or indirectly for the firm. Firms must behave responsibly when hiring, contracting with, and managing personnel.

Apparel and footwear has long been a low-tech industry, employing low-cost labor in emerging markets and developing economies. Firms such as Nike, Reebok, and Adidas are primarily designers, marketers, and distributors of athletic footwear, apparel, and accessories, outsourcing nearly all production to independent contractors located around the world. In the case of Nike, production is carried out by numerous suppliers that employ some 800,000 workers. Most suppliers are located in Argentina, China, India, Indonesia, Malaysia, Mexico, Portugal, South Korea, Sri Lanka, Taiwan, Thailand, Turkey, and Vietnam. Approximately 80 percent of these contract workers are women between the ages of 18 to 24. They tend to be poorly educated and desperate for jobs, leaving them vulnerable to violation of basic rights. Many supplier organizations do not yet have adequate human resource policies, leading to potential exploitation of labor.

Nike long had been accused of caring little for the welfare of its contract workers abroad. For example,

in the early 1990s, workers in some Nike factories in Asia were paid wages that were insufficient to sustain even basic nutritional needs. Many supplier facilities were operated like sweatshops, where workers labored for long hours in difficult conditions. Nike executives deflected the accusations by arguing that the factories were not owned or operated by Nike and therefore Nike was not responsible for conditions in them or for worker wages.

By the early 1990s, Nike was producing hundreds of millions of shoes per year. As its global sourcing came under greater scrutiny, NGOs—non-governmental organizations, groups that undertake charitable activities—and labor advocates claimed that the workshops were rife with worker exploitation, poor working conditions, and various human rights violations. Negative publicity became a major public relations problem and made Nike a major target for the antiglobalization and antisweatshop movements.

To better understand conditions in its contract factories, Nike began performing systematic assessments in its operations abroad. In the mid-2000s, Nike improved working conditions in supplier organizations. Initially, to increase transparency, Nike disclosed the location of its more than 700 contract factories around the world. It announced CSR goals for the period through 2011 that aim to integrate corporate responsibility into the firm's business strategies and long-term growth. Management set benchmarks to improve labor conditions and eliminate excessive worker overtime. Auditing tools were developed that measure compliance with new labor standards. The firm approved plans to invest in

worker development and to ensure its standards are clearly understood and followed.

The firm also has developed an approval process to ensure compliance with acceptable working conditions and to select or reject suppliers based on compliance with environmental, health, and safety assessments that require factories to meet minimum standards. Once Nike signs a contract with a factory to manufacture its products, it monitors the factory to ensure it maintains Nike standards. In 2006, Nike approved 81 new contract factories, mostly in Asia. As part of the assessment process, the firm also examines country-level factors such as quality of infrastructure, human rights, adherence to the rule of law, and economic and political conditions. Nike has sought the assistance of outside auditors in this process.

Nike management wants to ensure that workers are treated as craftspeople, not commodities. In traditional manufacturing, Nike trained workers on one task that represented one step in the process. Under the new model, Nike is retraining workers to produce in teams. Workers will be cross-trained in different skill sets and empowered to manage the production process, immediately addressing quality problems and other issues. The firm has begun training foreign suppliers in these techniques. In the process, it hopes to increase wages and improve working conditions. Nike's goals include making sure that workers at every stage of the supply chain are rewarded with locally relevant and fair wages. The firm is also introducing collective bargaining training in all contract factories. Minimum wages are to be determined

through negotiations between workers and management.

Despite all these efforts, a recent Nike survey in 2006 indicated that substantial improvements were still needed in its contract factories regarding wages, benefits, and communication between local management and workers. Audits revealed that treatment of workers was at times abusive, mandated benefits were not provided, and management training was insufficient. In factories in countries such as China,

Thailand, and Indonesia, local managers were not complying with Nike's improving standards. Factory management sometimes denied access to Nike's compliance inspectors and local factories often provided false information regarding working conditions. Some employees were working more than 70 hours per week or more than 2 weeks at a time without a break. Some suppliers were employing child labor and workers under the minimum legal age. In some cases,

the auditors found evidence of physical abuse.

Sources: Birchall, Jonathan. (2007). "Nike to Resume Football Production in Pakistan," *Financial Times*, May 26–27, p. 5; Locke, Richard. (2007). *The Promise and Perils of Globalization: The Case of Nike*. Cambridge: Massachusetts Institute of Technology; Nike, Inc. (2007). "Nike CSR." Press release. Retrieved June 8, 2007, from [www.nike.com](http://www.nike.com); Nike, Inc. (2007). *Workers in Contract Factories*. Company report. Retrieved from [www.nike.com](http://www.nike.com); Skapinker, Michael. (2005). "Nike Ushers in a New Age of Corporate Responsibility," *Financial Times*, April 20, p. 11; *Wall Street Journal*, (2007). "Nike Cites Efforts to Promote Labor, Environmental Issues," June 1, p. B3

restricted to a limited set of work roles, and may have fewer legal rights than men. Economically, they are often dependent on men. Women are expected to fill prescribed traditional roles and may be excluded from commercial activities.

For example, in Latin America, a woman's marital status may be considered in the hiring process. A firm may consider a young married woman with no children a risky investment because of the perception she may soon leave the job to start a family. In Asia and the Middle East, female managers are often mistaken as the wife or secretary of a male manager. Women may have fewer opportunities to work outside the home and advance their own economic interests.

Female managers in international business are still much more the exception than the norm.<sup>46</sup> Consider, for example, the proportion of women working in top management positions. Exhibit 18.9 provides comparative statistics on the proportion of women in senior management. The data are based on an annual survey of 7,200 privately held medium-sized firms headquartered in 32 mostly advanced economies, representing 81 percent of total world GDP.<sup>47</sup> Note the unique position of the Philippines, where representation by women in senior management is highest. Interestingly, the Philippines is characterized as a country where women's rights have never been a big issue, religious practices do not clash with the right of a woman to work outside the home, and females have refined their entrepreneurial and leadership skills over many decades.

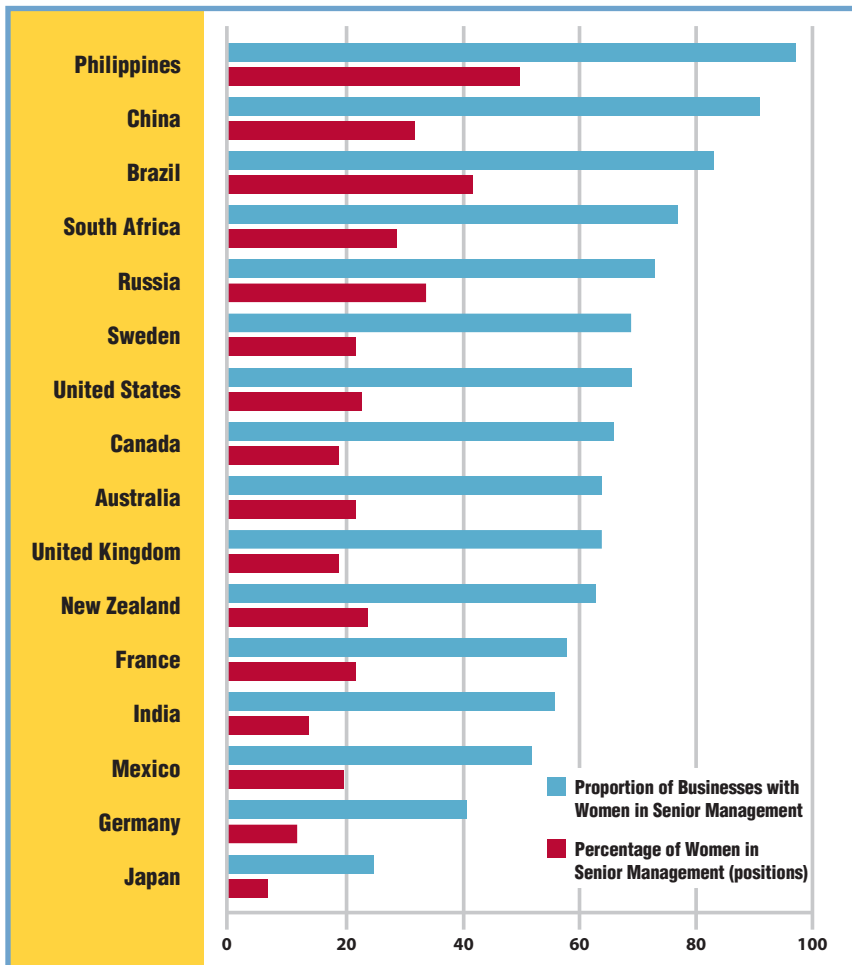
Nevertheless, the Exhibit suggests that women, as a percentage of senior management positions, still occupy a low representation in most countries. Even in the advanced economies, women are not usually afforded the same opportunities as their male colleagues for education and training. Although evidence suggests that just as many women seek international positions as men, relatively few women are asked to fill expatriate positions.<sup>48</sup>

There are several reasons for the relatively low representation of women in international managerial positions. First, senior managers may assume that women do not make suitable leaders abroad or that foreign men do not like reporting to female managers. Firms are reluctant to send women to locations where the demarcation between male and female roles is sharper. Even obtaining a work visa may prove problematic in such countries as Saudi Arabia. In most countries, male managers drink together, go to sports events, or enjoy the night life. Many women feel uncomfortable in all-male settings.<sup>49</sup>

## Exhibit 18.9

Comparative Statistics on Representation of Women in Senior Management

SOURCE: Adapted from Grant Thornton International Business Report, 2007, at [www.granthorntonibos.com](http://www.granthorntonibos.com).



In addition, some female managers prefer to remain in their home countries, to fulfill family obligations or avoid disrupting their partner's career. Disruption of children's education and caring for aging parents may be important considerations. Flexible and part-time work policies are crucial to women's progress up the corporate ladder, but few companies provide such opportunities. Finally, because women currently occupy relatively few top management positions (in Europe, women occupy only 15 percent of senior executive posts), there are fewer women with sufficient experience to be sent abroad for important jobs.<sup>50</sup>

More recently, we have seen several positive trends. Many more women are obtaining university degrees in business. Women account for about one-third of students in European MBA programs, and some 50 percent of recruits joining European firms are female graduates.<sup>51</sup> In the United States, 140 women enroll in higher education each year for every 100 men; in Sweden, the number is as high as 150.<sup>52</sup> Also, businesswomen increasingly form their own networks. In the United Kingdom, for example, a group of women established *Women Directors on Boards*, which aims to improve prospects for women to reach top management jobs. *The Alliance of Business Women International* is a U.S. organization that encourages and supports businesswomen involved in international business ([www.abwi.org](http://www.abwi.org)).

A recent survey by Mercer Human Resource Consulting found that companies in Asia-Pacific had 16 times more females on foreign assignments in 2006 than in 2001. Companies in North America had nearly four times as many, while those in Europe had about twice as many. About half the surveyed firms believe the number of female expatriates will continue rising in the future. At the same time,



15 percent of companies said they would not send women to hardship locations such as the Middle East. The survey involved more than 100 multinational companies with nearly 17,000 male and female expatriates.<sup>53</sup>

### **Success Strategies for Women Managers in International Business**

In many countries, being a female expatriate can be an advantage. Experienced international women executives have learned and regularly take advantage of this fact. They develop and leverage their strengths as women and as managers. Women stand out more, and competent women earn much respect. In the long run, managerial competence wins out over prejudice.

Many women have found ways of overcoming senior management bias against sending females abroad. It is easier to get foreign assignments if you speak a foreign language or have other international skills. Gaining substantial experience as a domestic manager or in short international assignments can greatly improve prospects for working abroad. Garnering strong support from senior management increases credibility. Once abroad, most women report that the first reaction of surprise is often replaced by professionalism and respect. Some of the female graduates highlighted in the *Recent Grads in IB* feature in this book fit this trend.

Firms can take steps to ensure women achieve greater equality in international business. They can fill leadership roles in foreign assignments with qualified women. They can adopt guidelines where a minimum percentage of senior executive posts and selection committees are made up of women employees. They can set targets for the number of women on the executive board. A larger number of female executives are now serving as mentors and role models for aspiring women. Progressive firms appear to understand the need to forge a new paradigm of diversity and internationally successful female managers. Organizations like Accenture, Ernst & Young, and Vinson & Elkins all sponsor programs that assist women to advance in the workplace.

## Sony's Evolving Human Resource Challenges

Sony employs 168,000 people worldwide, making and marketing the PlayStation home video game systems, televisions, digital and video cameras, laptop computers, personal music players, and semiconductors. The firm has several entertainment divisions, including Epic, Sony Pictures Entertainment, Sony Pictures Home Entertainment, and Sony Pictures Television. This MNE generates about 30 percent of its sales from its home-country, Japan, and roughly 23 percent from each of Europe, North America, and other regions.

Sony underwent a major management shake-up in 2005, hiring Sir Howard Stringer as chairman and CEO, the first non-Japanese to head the firm. Stringer instituted a reorganization plan to close 11 factories, cut more than 10,000 jobs, and shift component manufacturing to low-cost locations such as China. In 2006, Sony announced it would cease making Walkmans in Japan and move its production to lower-cost Malaysia and China. At the same time, the firm is building a leading-edge plant in Japan to develop and manufacture knowledge-intensive products such as semiconductors. The superior training and discipline of Japanese labor means Sony can justify the higher cost of manufacturing in Japan. In addition to Japan, Malaysia, and China, Sony's other main manufacturing plants are in Britain, Mexico, Spain, and the United States.

The national environments where Sony operates differ sharply in terms of culture, legal systems, economic conditions, technology levels, and infrastructure. In 1999 in Tijuana, Mexico, for example, a Sony executive barely escaped with his life following a carjacking. An executive at another Japanese firm in Mexico was killed during a bungled carjacking. Fortunately such incidents are rare, but expatriates must prepare for all kinds of risks.

In China, many Sony expatriates live and work in Wuxi, an industrial cluster south of Shanghai, where the firm has four subsidiaries and an R&D center. In Dalian, China, Sony has a center to develop application software. The firm was initially attracted to China because of its low-cost labor, but today it also benefits from the superior skills of the local workforce, particularly for high-technology projects. For instance, Dalian has some 26,000 experienced software engineers, and its 22 universities and technical institutes churn out thousands more software engineering grads per year.

The high concentration of foreign firms in China (such as Dell, Hitachi, Matsushita, IBM, NEC, and Hewlett-Packard) has created much competition for local talent because many firms face a shortage of new hires.

### Human Resource Philosophy

Sony aims to be progressive in international human resource management. When recruiting new employees, the firm looks for candidates who have an entrepreneurial spirit, think creatively, and have strong communications skills. The firm's pursuit of diverse talent is exemplified by the firm's former chairman, Norio Ohga, who was also an opera singer, a licensed jet pilot, and an orchestral conductor. Ohga's education in music and the arts, alongside science and engineering, enabled him to advise Masaru Ibuka and Akio Morita, Sony's cofounders, on the technical advances necessary to develop the company's first tape recorders and other audio devices that resulted in some of the firm's most successful products. In all areas, Sony encourages employees to structure their roles to make best use of their individual strengths.

In Sony's foreign subsidiaries, human resource managers spend quality time with employees, linking the firm's objectives and strategies to the employee capabilities that are needed to achieve important tasks. Senior managers identify the jobs that are key to realizing the firm's objectives and analyze whether they have the best people in the most strategically important jobs and what talent they need to hire.

For example, in 2003, Sony Europe needed to restructure and reinvent itself in a difficult market due to increasing competition from South Korea and China. Human resource managers focused on identifying and leveraging the key strengths of managers and other employees as a means to enhance corporate performance. The firm introduced mentoring projects that encouraged employees to focus on what they do best and maximize their contribution to increasing firm performance.

### Training and Talent Development

Sony offers management trainee programs for its most promising recruits. Trainees are counseled to do what they are passionate about and find ways to use their talents to advance the firm. Promising candidates complete formal courses, such as Sony's 2-year, eight-module program that covers all aspects of firm operations and its business practices. As the candidate progresses, the training is increasingly tailored to individual demands and career aspirations. The firm established a mentoring and coaching network across all its talent pools. Incumbent executives coach their potential successors who, in turn, act as mentors to younger upper-management candidates. Much of the training is done online. For example, for technical personnel, Sony uses an online system, TrainNet, that streamlines the development of personnel worldwide.

Sony implemented an extensive talent pipeline running vertically through the organization, developing and supporting high-potential personnel from entry level all the way to incumbent executives at senior levels of the firm. Management has a system of exhaustive interviews and assessments for identifying potential talent within the firm's own ranks. Executive fast-track candidates must be fluent in English and two other languages, have significant international experience, and possess the drive and ambition to take on international leadership roles.

Senior managers are required to continuously scan the employee pool to identify and groom potential talent. The resultant coaching system has effectively created an internal market for talent, removing the talent management function from the human resource department and establishing it as an effective tool through which the business improves. Ensuring an organization's leadership requires a strategic long-term view. Some of the talent entering Sony this year will be leading the company in 15 years. Senior managers ensure that they know employee strengths and are placed where they can be best utilized. Sony also emphasizes skillful management of its nonmanagerial workforce.

### The Manufacturing Workforce

In 2001, the Japanese yen's appreciation against the dollar and the euro, combined with the costly development and launch of PlayStation2, led to a persistent decline in profitability. In response, Sony management decided to downsize design and production operations. In all, worldwide restructuring reduced the number of Sony factories from 70 to 54.

In 2003, Sony closed an audio-equipment plant in Indonesia, laying off some 1,000 workers. Industry insiders say Sony's decision was spurred by local labor unrest. The workers virtually halted manufacturing for more than 2 months while protesting a production change that required some of them to work while standing. They took to the streets with placards comparing Sony with the Japanese army that occupied Indonesia during World War II.

In the majority of cases, however, Sony management has tried to avoid laying off workers. In Britain, two Sony factories that once employed 4,000 workers making cathode ray tubes (CRTs) gradually lost their competitiveness following introduction of the flat screen TV. Sony took pains to reduce the workforce with care, working with unions to create enhanced packages and find new job opportunities in the region. Over time, management restructured the plants to produce high-definition broadcast cameras. Sony built strong customer relationships, developed new talent, created a new corporate culture, and aligned employees to the new strategy. The plants reinvented themselves by emphasizing best-in-class efforts to achieve preferred supplier status. The workforce had become much more entrepreneurial, and

one of the plants became Sony's only recognized digital center of excellence outside Japan.

Sony outsources much work to independent companies, and employs temporary workers to assist with production when product demand is high. For example, orders for PlayStation game consoles peak during Christmas. The use of temporary workers helps meet peak demand needs, keeps wage and benefit costs low, and avoids complex workforce reductions. Older employees and others often prefer seasonal work because it leaves them free during other parts of the year. For instance, at one of its U.S. plants, Sony hires 500 full-time temporary workers from August to January. Workers are offered a fair wage, health-care benefits, paid vacation, and the company's 401(k) retirement plan. In the off-season, workers have the option to extend health-care benefits. Most of the workers return year after year and provide a strong pool from which to recruit full-time staff. Temporary workers are often students seeking internships.

### Corporate Social Responsibility


Sony pursues an "integrity approach" to foreign manufacturing operations and attempts to maintain workplace standards that exceed local requirements. As the firm expands internationally, management knows that actions today may be crucial for entry to new markets tomorrow. Exploiting low workplace standards in one country can ruin a reputation and jeopardize entry to new markets. For example, Sony learned a lesson from its experiences in Mexico, where human rights groups accused it of violating workers' rights to organize and associate freely.

Managers appear to have learned that simply doing what is required by the standards of the host country can result in inconsistencies in firm operations. The result may be fragmentation and difficulty in establishing effective quality control. The firm has taken steps to standardize workplace norms so that management can benchmark internal performance, transfer expertise between countries, and provide coherent management to worldwide operations. It is attempting to establish a universal standard of employment, offering superior working conditions and locally relevant wages and benefits at all locations. Managers want to ensure that wages in foreign factories provide a livable, fair standard of living to workers.

### AACSB: Reflective Thinking, Ethical Reasoning, Multicultural and Diversity

#### Case Questions

1. Japanese MNEs usually follow an *ethnocentric* orientation in international staffing, in which managers from headquarters hold key subsidiary positions. Sony is shifting away from this model. What approach should Sony follow for staffing its subsidiaries? When

- recruiting expatriates for foreign operations, what characteristics should Sony emphasize in order to ensure it has managers who are most adept at working abroad? What steps should the firm take to ensure its expatriate candidates are adequately prepared for long-term international assignments?
2. Sony faces challenges in finding suitable talent for its operations in China and Europe. What steps should Sony take to ensure it has an adequate pool of international managers and other talent for worldwide operations? What should Sony do to promote global mindsets?
  3. What is your view of Sony's training efforts? What steps could Sony take to improve its training in light of its multicountry operations?
  4. Sony has experienced labor relations problems in Indonesia and elsewhere. What strategies should management follow to improve labor relations? What can top management do to reduce the number and severity of labor difficulties that Sony might face in the future?
  5. What is your view of Sony's efforts at corporate social responsibility (CSR) in international operations? What steps can Sony take to improve CSR in organizing and managing its operations around the world, particularly in developing countries and emerging markets? 

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## CHAPTER ESSENTIALS

### Key Terms

area studies, p. 556	expatriate failure, p. 555	parent-country national (PCN), p. 549
codetermination, p. 563	global talent pool, p. 558	performance appraisal, p. 558
collective bargaining, p. 561	global team, p. 558	practical information, p. 556
cross-cultural awareness, p. 556	host-country national (HCN), p. 549	repatriation, p. 557
cultural intelligence, p. 557	international human resource management (IHRM), p. 548	third-country national (TCN), p. 549
culture shock, p. 555		
expatriate, p. 549		

### Summary

In this chapter, you learned about:

#### 1. The strategic role of human resources in international business

**International human resource management (IHRM)** is the selection, training, employment, and motivation of personnel for international operations. IHRM is more complex than its domestic counterpart. The firm must develop procedures, policies, and processes appropriate for each country where it does business. A **host-country national (HCN)** is an employee who is a citizen of the country where the MNE subsidiary or affiliate is located. A **parent-country national (PCN)** is an employee

who is a citizen of the country where the MNE is headquartered. A **third-country national (TCN)** is an employee who is a citizen of a country other than the home or host country. An **expatriate** is an employee who is assigned to work and reside in a foreign country for an extended period, usually a year or longer.

There are six key tasks in IHRM: staffing, training and developing employees, performance appraisal, compensation or remuneration of employees including formulation of benefit packages that vary greatly from country to country, management of labor unions and collective bargaining processes, and achieving diversity in the workplace.

## 2. International staffing policy

IHRM managers determine the ideal mix of employees to work in the firm's subsidiaries and affiliates abroad. Managers best suited for working abroad typically have technical competence, self-reliance, adaptability, interpersonal skills, leadership ability, physical and emotional health, and, if present, a family prepared for living abroad. **Expatriate failure** is the unplanned early return home of an employee or the failure of an expatriate to function effectively abroad. It is not unusual for expatriates to experience culture shock.

## 3. Preparation and training of personnel

Proper training and orientation of managers improves firm performance. Training for foreign assignments includes **area studies**, **practical information**, and **cross-cultural awareness**. Training includes methods such as videos, lectures, readings, simulations, and field experience. Acquiring language skills provides managers with numerous advantages. **Repatriation** is the return of the expatriate to the home country and requires advance preparation. Training is also important for the nonmanagerial workforce abroad.

## 4. International performance appraisal

International performance appraisals involve providing feedback on how well employees are doing their jobs, identifying problems and areas where more training is needed, and providing a basis to reward superior performance. Firms must develop systems for measuring the performance of foreign units. Various factors in the foreign environment can impede effective performance appraisal.

## 5. Compensation of personnel

Compensation packages vary internationally because of differences in legally mandated benefits, tax laws, cost of living, local tradition, and culture. Expatriates expect to be compensated at a level that

allows them to maintain their usual standard of living, which can be very costly in some locations. Typical expatriate compensation includes four components: base salary, benefits, allowances, and incentives. Tax equalization must be considered because expatriates may face two tax bills for the same pay, from the host and home countries.

## 6. International labor relations

MNEs employ many nonmanagerial employees abroad, often represented by *labor unions*, to work in factories and perform other tasks. Management must ensure effective labor relations and take care when reducing the workforce. Along with the cost of labor, the quality and productivity of the workforce are important considerations. **Codetermination**, the participation of workers on boards of directors, is common in some countries. Labor unions are sometimes at odds with the realities of global competition and the influx of immigrants in many countries. Leading MNEs establish an information system on labor developments, communicate with all employees, and formulate a standard policy on employment and working conditions worldwide.

## 7. Diversity in the international workforce

Progressive MNEs include personnel from diverse backgrounds, nationalities, and gender who bring a wealth of experience and knowledge to addressing the firm's problems and opportunities. Employee cultural diversity increases the complexity of interaction. Success comes from understanding and accepting differences, and then using them to enhance planning, strategy, and the firm's operations. In most countries, women are restricted to less responsible work roles. Female managers in international business are still somewhat rare. Firms can take several steps to ensure women achieve more equality in international business.

## Test Your Comprehension AACSB: Reflective Thinking, Ethical Reasoning

1. What is international human resource management (IHRM)? Why is it important to internationalizing firms? What is the role of IHRM in company strategy?
2. Under what circumstances would an MNE staff itself with each of parent-country nationals, host-country nationals, and third-country nationals?
3. What steps can senior managers take to develop global managers?
4. What are the characteristics of managers adept at working abroad?
5. In what ways might an employee experience expatriate failure?
6. What are the major components of training for foreign assignments?
7. What approaches can human resource managers follow to prepare expatriates for returning home?
8. What factors should human resource managers consider when appraising the performance of an employee working abroad?
9. Suppose you are working abroad as an expatriate for an MNE. What are typical components you would expect to have in your compensation package?
10. What are some key trends affecting international labor?
11. What measures can firms take to enhance the prospects of placing women in international business jobs?

## Apply Your Understanding

### AACSB: Communication, Reflective Thinking, Ethical Reasoning

1. Nissan Motor Co. is Japan's second-largest automotive company, with annual sales of around US\$100 billion. The firm makes Maxima and Sentra cars, Altima and Infiniti upscale sedans, Frontier pickups, and the Xterra and Pathfinder SUVs. A few years ago, Nissan was on the verge of bankruptcy. Then Carlos Ghosn was installed as the firm's CEO. He closed inefficient factories, curbed purchasing costs, and introduced new products. Suppose Nissan asked you to advise them on IHRM issues. What specific human resource strategies would you recommend to Nissan top management to further enhance the firm's performance? In particular, how would you advise top management on international staffing policy, developing global managers, preparation and training of employees, and company strategy for international labor?
2. Global Wannabe (GW), a manufacturer of musical instruments, is very eager to internationalize. While it conducts almost no international business now, the board of directors believes that in the coming four years, GW should generate at least a third of its sales from abroad by establishing foreign marketing subsidiaries and by setting up production bases in low-cost countries to reduce manufacturing costs. GW's president, Larry Gerber, has placed you on the task force charged with recruiting managers who can run GW's operations abroad. What guidelines would you offer to GW for recruiting and selecting expatriates, avoiding the problem of expatriate failure, and evaluating the performance of employees posted abroad?
3. You are looking forward to a job interview next week with Mercer, one of the larger employment consulting firms. Mercer is interested in hiring you to work in the area of international labor relations. If you get the job, you will be advising multinational firms on how to manage international labor relations, the distinctive features of labor around the world, and strategies for working with labor unions abroad. In preparing for this interview, you decide to prepare a set of systematic notes that capture the key points. Based on your research, what principles should guide firms' labor relations abroad?

## **AACSB: Communication, Reflective Thinking, Use of Information Technology**

Refer to Chapter 1, page 27, for instructions on how to access and use globalEDGE™.

1. The cost of living and other lifestyle factors vary considerably around the world. It is critical to develop an appropriate compensation package for managers working abroad. The U.S. Department of State provides information that firms can use to calculate compensation around the world. Prepare a report on the factors relevant to developing a compensation package for expatriates working in Prague and Tokyo, including “Living Costs Abroad,” by accessing the State Department via globalEDGE™ keywords “Travel/Living Abroad”) or directly at [aoprals.state.gov/](http://aoprals.state.gov/).
2. Stryker Corp., a manufacturer of medical devices based in the United States, wishes to establish an assembly facility in France, Germany, or the Netherlands, so that it can better serve its European customers. You have the task of choosing the most appropriate country from the three choices by researching the following statistics: the cost of labor (“manufacturing hourly compensation index”) and level of productivity (“manufacturing output per hour”). Essentially, management wants to pick the country that has the best overall profile of low labor cost and high productivity. An excellent source for this data is the United States Department of Labor, Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)). After conducting your research and analysis, prepare a recommendation as to which country—France, Germany, or the Netherlands—would be the best choice to locate the factory. (Note: Normally, such decisions are much more complex than implied in this exercise; but such a preliminary analysis could serve as a starting point for decision making.)
3. Executive Planet™ is just one of numerous portals that provide information for traveling managers and expatriates on how to live and do business in various countries. Suppose that you work for Virgin, the British airline, and you have been assigned to work in Virgin’s office in an emerging market (choose an emerging market such as Argentina, India, Russia, Mexico, South Africa, or Turkey). You need to learn how to be effective in your dealings with customers and colleagues in the chosen country. Select three topics (such as making appointments, business dress guidelines, or gift giving) and prepare an executive summary on how to behave regarding the topics that you have selected for your chosen country. You can find “Executive Planet™” online via globalEDGE™ or by visiting the site directly [www.executiveplanet.com](http://www.executiveplanet.com).



## Evaluating International Locations for Quality of Life

Multinational firms establish regional headquarters and various subsidiaries abroad to manage company operations. Consequently, MNEs often require employees to live and work abroad for extended periods. MNEs must employ a systematic approach for relocating expatriates abroad. When identifying locations for transferring managers abroad, there are numerous factors to consider.

### **AACSB: Reflective Thinking**

#### **Managerial Challenge**

Employees are sometimes reluctant to relocate abroad unless the quality of life is adequate. An employee may leave the company if assigned to an undesirable location. Before moving employees to a country or world region, the firm should research and consider various factors that will ensure transferred employees assimilate into the local culture. Success is determined by whether a transferee remains in the new position. An employee who returns home early or quits the firm is an expensive failure in human resource terms. The managerial challenge is to identify the most appropriate foreign locations in terms of variables such as quality of life, climate, and cost of living.

#### **Background**

National economies are more and more interconnected and the number of expatriates is on the rise. Expatriates expect to maintain a standard of living abroad similar to the one that they enjoy at home. When identifying locations for transferring managers abroad, there are numerous variables to consider. With the enlargement of the European Union, Europe has become one of the world's most attractive markets. Eastern Europe now enjoys numerous advantages, including low-wage, high-quality workers. Many firms are anxious to relocate their employees to the European continent. However, management should make such moves carefully. A failed expatriate relocation is potentially disastrous for the employee and very costly for the firm. A number

of measurable features, such as commuting times, tax rates, and housing cost can affect the ease with which an expatriate moves to a foreign city and the ease of settling into life there.

#### **Managerial Skills You Will Gain**

In this C/K/R Management Skill Builder©, as a prospective manager, you will:

1. Learn the important indicators used to assess the quality of life in various international locations.
2. Understand the types of information needed about living conditions abroad.
3. Understand factors that firms consider when relocating managers abroad for establishing a regional headquarters or subsidiary.

#### **Your Task**

Assume that you work for an MNE that is relocating some of its management staff to Europe. Your task is to conduct market research aimed at identifying the most attractive European cities, based on quality of life and other factors.

#### **Go to the C/K/R Knowledge Portal©**

[www.prenhall.com/cavusgil](http://www.prenhall.com/cavusgil)

Proceed to the C/K/R Knowledge Portal© to obtain the expanded background information, your task and methodology, suggested resources for this exercise, and the presentation template to use.