CHAPTER 19

International Human Resource Management and Labor Relations

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AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

1. Describe the nature of human resource management in international business.
2. Detail how firms recruit and select managers for international assignments.
3. Explain how international businesses train and develop expatriate managers.
4. Discuss how international firms conduct performance appraisals and determine compensation for their expatriate managers.
5. Analyze retention and turnover issues in international business.
6. Explain basic human resource issues involving nonmanagerial employees.
7. Describe labor relations in international business.

AN EMERGING VOICE FOR WORKERS

It's no secret, of course, that China has become the largest manufacturing center in the world. Products marked "Made in China" are just about impossible to avoid in any retail outlet, factory, warehouse, supply chain, or other marketplace. (As noted in Chapter 17, some manufacturing operations that moved from Mexico to China over the last decade have begun to move back to Mexico. However, China is still the largest manufacturing center in the world and will likely remain so.) It's also no secret about why this is true—China provides a vast army of relatively compliant workers with a wide array of skills who are willing to work long hours for low pay. This combination has made China an emerging global powerhouse and fueled its explosive economy to ever greater heights.

But cracks may be appearing in its manufacturing machine that could slow China's economic ascension. In some ways it's almost reminiscent of the kinds of labor problems that plagued the U.S. railroad and steel industries more than 100 years ago. In a nutshell, as the overall economic climate in China has improved, so too has the awareness of its workers of their own economic value and their willingness to stand up to their employers. Consider, for example, the words of Lan Yimin, a 22-year-old factory worker in China's Pearl River Delta: "The young generation has a wider social circle; we talk more about factory conditions and we know more about our legal rights."

The Chinese government, for its part, has allowed wages to increase and has improved working conditions in many manufacturing facilities. Part of the impetus for these changes has been the recognition that higher wages translate into more spending, which can serve as an economic stimulus. But the government also walks a fine line. If it invests too heavily in its workers and their working conditions, it risks losing its standing as a low-cost manufacturing center. On the other hand, though, repressing wages and maintaining substandard working conditions may lead to growing worker discontent and unwanted international media attention.

The unspoken words in all this, of course, are "labor unions." But that too is tricky. In the United States, for instance, unions are formed by collectives of workers within a defined bargaining group (defined by profession, industry, skill, business, or location). Although the formation and operation of unions are regulated, the workers are responsible for forming a union, managing it, and engaging in collective bargaining with their employers. There are approximately 25,000 different unions in the United States. But in China, there is only one legal union—the state-controlled All-China Federation of Trade Unions (ACFTU). And the government is actually encouraging companies to unionize under the ACFTU umbrella. The thinking is that this form of union membership will give workers an avenue to air their grievances, forestalling harsher and more extreme actions.

But strikes are also becoming increasingly common. So far, at least, the Chinese government has taken a low-key approach to these strikes, though, because for the most part they have been directed at foreign-owned operations. Honda, for one, was hit by several strikes in 2010 and 2011. And Foxconn, a Taiwanese-owned electronics firm that makes electronic goods for Apple and Dell, has had a spate of suicides largely attributed to low wages and poor working conditions. Official information about the frequency and magnitude of strikes is unavailable. But according to Chinese government data, labor complaints heard by arbitration committees more than doubled from 2000 through 2007 to 350,182. And in 2008, arbitrated cases surged to almost 700,000 after a new law took effect, making it cheaper for workers to pursue arbitration and requiring employers to provide written contracts. In 2012, the number of arbitrated cases was around 980,000.

No one knows what the future holds, of course. But many experts agree that China still has a long way to go before it achieves a reasonable framework for dealing with organized labor. And the surge in strikes and lawsuits may indicate that workers are no longer willing to work for minimal wages while their country's economy booms. Interestingly, China's growing labor movement has also attracted attention in other parts of the region—workers in Vietnam and Cambodia have gone on strike in recent times as well, crediting their Chinese colleagues for inspiring them to take action. As the movement spreads, we can only be reminded of the words of the Greek poet Homer, who noted that "There is a strength in the union . . . of . . . men."[1] ■

At its most basic level any organization—from a small neighborhood convenience store to the largest multinational corporation (MNC)—is nothing more than a collection of jobs, clusters of jobs, and interconnections among those jobs. The people who fill the jobs are a vital ingredient in determining how effectively the organization will be able to meet its goals, remain competitive, and satisfy its constituents. Businesses in China, like those in many other countries, are having to grapple with achieving the right balance between worker prosperity and business profitability. Finding this balance, in turn, requires both strategic oversight and effective human resource management.

The Nature of International Human Resource Management

Human resource management (HRM) is the set of activities directed at attracting, developing, and maintaining the effective workforce necessary to achieve a firm's objectives. HRM includes recruiting and selecting nonmanagers and managers, providing training and development, appraising performance, and providing compensation and benefits. Human resource (HR) managers, regardless of whether they work for a purely domestic firm or an international one, must develop procedures and policies for accomplishing these tasks.

International HR managers, however, face challenges beyond those confronting their counterparts in purely domestic companies.[2] Specifically, differences in cultures, levels of economic development, and legal systems among the countries in which a firm operates may force it to customize its hiring, firing, training, and compensation programs on a country-by-country basis. Particularly troublesome problems develop when conflicts arise between the culture and laws of the home country and those of the host country. For example, prohibitions against gender discrimination in U.S. equal employment opportunity laws conflict with Saudi Arabian custom and law regarding the role, rights, and privileges of women. Such conflicts cause problems for U.S. MNCs that want to ensure their female executives receive overseas assignments equivalent to those given to their male colleagues.[3]

The international firm also must determine where various employees should come from—the home country, the host country, or third countries. The optimal mix of employees may differ according to the location of the firm's operations. A firm is likely to hire more employees from its home country to work in production facilities there than to work in foreign facilities. Local laws also must be considered because they may limit or constrain hiring practices. For example, immigration laws may limit the number of work visas granted to foreigners, or employment regulations may mandate the hiring of local citizens as a requirement for doing business in a country.

International businesses also face more complex training and development challenges. HR managers must provide cross-cultural training for corporate executives chosen for overseas assignments. Similarly, training systems for production workers in host countries must be adjusted to reflect the education offered by local school systems. For example, because of the tradition of employment as a lifetime commitment, Toyota, like other large Japanese corporations, goes to great lengths to hire just the right people to work in its factories and offices. To help accomplish this, the firm has nurtured partnerships with local public school systems in Japan to help train and select future employees. However, Toyota cannot rely on this approach in each country in which it does business because local school systems often are not prepared to operate such training partnerships with individual firms. The German secondary school system provides extensive vocational training for its students, but that training is less firm-specific. The United States, on the other hand, emphasizes general education and provides only modest vocational training opportunities through its public schools. Moreover, many countries have labor pools that, when measured along any dimension, are uneducated and unskilled. Toyota thus has adjusted its selection, recruitment, and training practices to meet the requirements of the countries in which it does business.

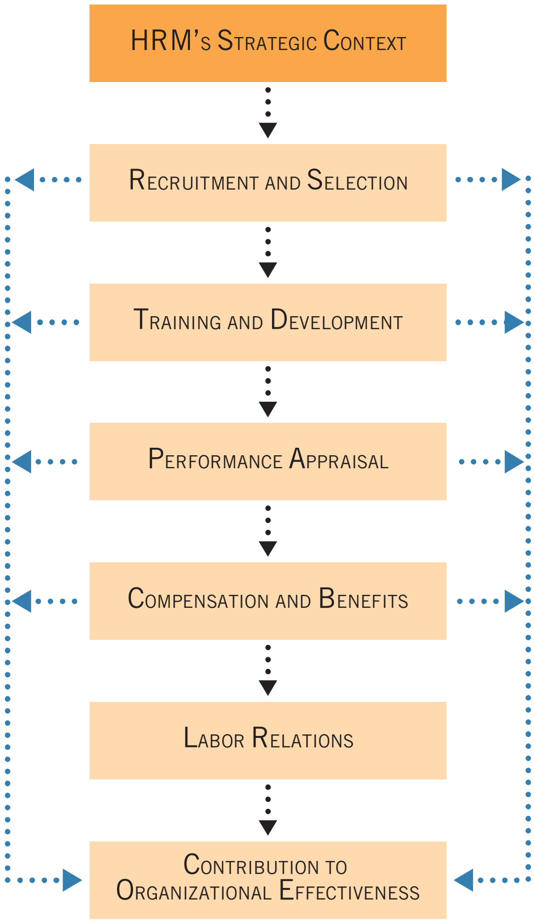
Finally, because working conditions and the cost of living may vary dramatically by country, international HR managers often must tailor compensation systems to meet the needs of the host country's labor market. They must take into account variations in local laws, which may require the payment of a minimum wage or may mandate certain benefits, such as annual bonuses or health care coverage. These managers also must determine how to compensate executives on overseas assignments, who potentially face higher costs of living, reductions in the quality of their lifestyle, and unhappiness or stress as a result of separation from friends and relatives.[4]

Strategic Significance of HRM

As with marketing, operations, and finance, the firm's managers must design an HRM strategy that promotes the company's overall corporate and business strategies. The cultural nuances inherent in international business heighten the complexities of developing an effective HR strategy.[5] The basic elements of the international HRM process are shown in Figure 19.1, which provides the framework around which this chapter is organized. The starting point is recognizing

FIGURE 19.1

The International Human Resource Management Process



and appreciating HRM's strategic position within the firm and the interconnection between overall firm strategy and HRM strategy. For example, suppose a firm decides to adopt a cost leadership strategy and subsequently identifies the opportunity to undercut competing firms by aggressively pricing its products in new international markets. In implementing this strategy, the firm could decide to purchase more inputs from outside suppliers, or it could shift production to a country with low-cost labor, such as Bangladesh or Vietnam. This production location decision could result in less need for home country workers and more need for workers at the foreign facility. The firm's HR managers thus would have to develop severance packages and provide outplacement services for released workers in the home country as well as select, recruit, and train the new workers in the foreign country. Over time the firm's HR managers would have to adjust their HR practices to meet the conditions in the host country, which are likely to differ from those in the home country.

The decision to shift production overseas has other HR consequences. HR managers have to select key managerial personnel to oversee the transfer of the firm's technology, operating policies, and proprietary skills to its new overseas factories. Regardless of the skills or abilities of the selected international managers, few of them will be able to walk into a foreign operation and know exactly how to do things from the first day they arrive. Thus, HR managers must provide them with training to help them function more effectively in a new culture.

HR managers also must be prepared to define performance effectiveness and assess how well each international manager is doing relative to that definition. Moreover, international managers must be compensated for their work. Further, companies invest a lot in their international managers, so HR managers must carefully assess how effectively their firm manages retention and turnover.

In Practice

- All international managers need to understand, at a minimum, the basic components of HRM.
- HR managers must also understand the additional complexities that exist in an international business.

For further consideration: How might a firm's international strategy affect its HR practices, and vice versa?

International Managerial Staffing Needs

The staffing issues confronting international HR managers can be divided into two broad categories. One of these is recruiting, training, and retaining managerial and executive employees. The other is recruiting, training, and retaining nonmanagerial employees, such as blue-collar production workers and white-collar office staff. For managerial employees, strategic and developmental issues are of primary importance. For nonmanagerial workers, differences in cultural, political, and legal conditions among countries may be of greater significance.[6]

Scope of Internationalization

We begin by focusing on recruiting, training, and retaining managers. The size of this task depends on the scope of the firm's international involvement. Obviously, a firm's needs in the beginning stages of internationalization, such as in indirect exporting, are far less complex and comprehensive than those confronting an MNC with extensive investments in numerous countries. Consider the evolution of organizational structure discussed in Chapter 14:

1. *Export department*: A firm's initial foray into international business usually involves small-scale exporting using output from existing domestic production facilities. Its international activities are administered by an export department, whose manager reports to an existing company executive such as the vice president of marketing. The manager is likely to be a citizen of the home country and may or may not have special training in overseas marketing and financing. As export sales increase, however, the firm quickly recognizes it must increase its staff's expertise, so it hires specialists in export documentation, international trade financing, and overseas distribution and marketing. These specialists often are recruited from international banks, international freight forwarders, or export management companies.
2. *International division*: As its international operations grow in importance, a firm often creates a separate international division to administer all of its international activities. Typically, a firm's international division is housed at corporate headquarters in its home country and is headed by a home country citizen to facilitate communication and coordination between the domestic and international operations. The heads of the firm's foreign subsidiaries in turn report to the vice president of the international division. These foreign subsidiaries' managers (including their presidents as well as heads of functional departments such as finance, marketing, and production) may be either home country or host country citizens. Use of a home country manager facilitates communication and coordination with corporate headquarters because of shared cultural and educational backgrounds.[7] Use of a host country manager often improves the subsidiary's ability to adjust to changes in local economic and political conditions. As we discuss later in this chapter, cost considerations also play a major role in the choice between home country and host country managers.
3. *Global organization*: A firm further along in the internationalization process often adopts a global organization form. (Chapter 14 discussed the global product, global functional, global area, and global customer forms.) Because of the complexity of its operations, a global organization must assemble a team of managers that have the expertise to produce, finance, and market its products worldwide while simultaneously coordinating its activities to achieve global production, financing, and marketing economies and synergies. To operate successfully, a global firm needs a team of managers that collectively possess expertise in and knowledge of the following:
   - The firm's *product line*: Product managers must be aware of such factors as the latest manufacturing techniques, research and development opportunities, and competitors' strategies.

- The *functional skills* (accounting, logistics, marketing, manufacturing management, and so on) necessary to ensure global competitiveness: Functional specialists strive to capture global economies of scale and synergies in a firm's financial, marketing, and production activities.
- The *individual country markets* in which the firm does business: Country managers must understand such factors as local laws, culture, competitors, distribution systems, and advertising media. These managers play a key role in meeting the needs of local customers, ensuring compliance with host country rules and regulations, and enlarging the firm's market share and profitability in the host country.
- The firm's *global strategy*: High-level executives at corporate headquarters must formulate a global strategy for the firm and then control and coordinate the activities of the firm's product, functional, and country managers to ensure that its strategy is successfully implemented.

Centralization versus Decentralization of Control

An international business's HRM needs also are affected by whether the firm wants decision making to be centralized at corporate headquarters or delegated (decentralized) to operating subsidiaries. Firms that use a centralized approach often favor employing home country managers; firms that follow a decentralized decision-making philosophy are more likely to employ host country managers.

Certain organizational approaches and forms affect the choice of centralization or decentralization. Firms that view themselves as multi*domestic* rather than multi*national* are likely to favor decentralization of decision making. The global area form facilitates delegating responsibility to managers of the firm's foreign subsidiaries. Conversely, the international division form favors centralizing decision making at corporate headquarters.

Recall from Chapter 14 that most international businesses operate somewhere along the continuum from pure centralization to pure decentralization. In managing HR, most adopt an overall HRM strategy at the corporate headquarters level but delegate many day-to-day HR issues to local and regional offices. Doing this allows each foreign operation to meet its own needs and to more effectively deal with local conditions, cultures, and HR practices.

EMERGING OPPORTUNITIES

THINKING GLOBALLY BUT HIRING LOCALLY

When international businesses first began to aggressively move into China and India, they generally transferred expatriate managers from their home company to run these new operations. Among other reasons, the firms felt a need to try to export their corporate cultures and work procedures to the emerging markets they were entering; they also felt there was a lack of local managerial talent.

As recently as the mid-1990s, for example, virtually every U.S. company doing business in China filled most of its middle and upper management positions in that country with Americans. And the few positions not held by Americans were often filled with managers groomed in Singapore and Hong Kong, markets where these firms had operated for many years.

But in the 1990s things began to change. In China, for instance, many locals sharpened their English language skills, developed more leadership and decision-making skills, and became increasingly familiar and comfortable with the international business world. As a result, more and more locals are entering the ranks of middle and upper-level managers today. It's estimated, for instance, that around 70 percent of foreign firms' top management positions in China are filled by Chinese managers. This trend is not restricted to China; the same pattern is also occurring in India as well.

Nor is this pattern found only among U.S. firms in China. The German company Siemens, for instance, has Chinese nationals holding seven of its nine regional management positions there. And Ericsson, a Swedish telecommunications giant, currently fills 90 percent of its middle management positions and half of its top management positions in China with local managers.

Why are firms moving in this direction? There are several reasons. For one thing, hiring local managers is much cheaper. The company avoids costly relocation expenses and does not risk expatriate failure. Further, the compensation package for a local Chinese manager is only around 20 percent to 25 percent of that of a comparable manager transferred from a Western country. Local managers have a strong understanding of local market conditions, competitive behaviors, and government regulations. In addition, hiring locally can boost employee morale and motivation. The local manager has a rich understanding of cultural issues in the workplace and also serves as a symbol of advancement and success for other rising local managers.

Sources: "Firms in China think globally, hire locally," *Wall Street Journal*, February 27, 2006, pp. B1, B3; *Hoover's Handbook of World Business 2013* (Austin: Hoover's Business Press, 2013), pp. 140–141; 322–323.

Staffing Philosophy

The extent of the firm's internationalization and its degree of centralization or decentralization affects (and is affected by) its philosophy regarding the nationality of its international managers. Firms can hire from three groups: parent country nationals, host country nationals, and third-country nationals.

Parent country nationals (PCNs) are residents of the international business's home country. Use of PCNs in an MNC's foreign operations provides many advantages to the firm. Because PCNs typically share a common culture and educational background with corporate headquarters staff, they facilitate communication and coordination with corporate headquarters. If the firm's global strategy involves exploiting new technologies or business techniques that were developed in the home market, PCNs often are best able to graft those innovations to a host country setting. For example, Mercedes sent a team of executives from Germany to oversee the start-up of its U.S. operations. It wanted to ensure that its manufacturing techniques and corporate commitment to quality were successfully transplanted to Alabama.

However, using PCNs has several disadvantages. PCNs typically lack knowledge of the host country's laws, culture, economic conditions, social structure, and political processes. Although PCNs can be trained to overcome these knowledge gaps, such training is expensive (particularly when the opportunity cost of the manager's time is considered) and is not a perfect substitute for having been born and raised in the host country. Further, PCNs are often expensive to relocate and maintain in the host country. Finally, many host countries restrict the number of foreign employees who can be transferred in and/or mandate that a certain percentage of an international firm's payroll must be paid to employees from the host country. Thus, an international business may not have total freedom to hire whomever it wants for international assignments. Because of these factors, PCNs are most likely to be used in upper-level and/or technical positions in host countries.

Host country nationals (HCNs) are residents of the host country. HCNs are commonly used by international businesses to fill middle-level and lower-level jobs, but they also often appear in managerial and professional positions. Experienced MNCs such as Intel, Canadian Imperial Bank of Commerce, IBM, and Halliburton often hire HCNs instead of transferring home country employees to work in professional positions in the firms' foreign operations. Many smaller firms setting up operations abroad hire HCNs because the firms do not have enough managerial talent at home to send someone on a foreign assignment.[8]

Using HCNs offers two primary advantages. First, HCNs already understand the local laws, culture, and economic conditions. Second, the firm avoids the expenses associated with expatriate managers, such as relocation costs, supplemental wages paid for foreign service, and private schooling for children. However, using HCNs can have disadvantages. HCNs may be unfamiliar with the firm's business culture and practices, thus limiting the effectiveness of the HCNs. As noted previously, Mercedes used German executives to shepherd the development of its U.S. operations to ensure that its new employees understood the firm's emphasis on producing quality automobiles.

Finally, an international firm may hire **third-country nationals (TCNs)**, who are not citizens of the firm's home country or of the host country. Like PCNs, TCNs are most likely to be used in upper-level and/or technical positions. TCNs and PCNs collectively are known as **expatriates**, or people working and residing in countries other than their native country. In the past TCNs were likely to be used when they had special expertise that was not available to the firm through any other channel. Today they are consciously being employed by some firms to promote a global outlook throughout their operations. Firms such as Nestlé and Philips NV rely heavily on TCNs because they believe those managers bring broader perspectives and experiences to the firms' host country operations. Further, some firms are recruiting more TCNs to serve on their boards of directors to help bring a more global orientation to the boards.

Most international firms develop a systematic strategy for choosing among HCNs, PCNs, and TCNs for various positions. Some firms rely on the **ethnocentric staffing model**, whereby they primarily use PCNs to staff higher-level foreign positions. This approach is based on the assumption that home office perspectives should take precedence over local perspectives and that expatriate PCNs will be most effective in representing the views of the home office in the foreign

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Most international businesses use host country nationals to fill middle-level and lower-level jobs. For example, while this Chinese garment factory is operating under contract from an American firm and is producing goods for export to Europe and the United States, its workers and their supervisor are locals.

operation. Other international firms follow a **polycentric staffing model**; that is, they emphasize the use of HCNs in the belief that HCNs know the local market best. Finally, the **geocentric staffing model** puts PCNs, HCNs, and TCNs on an equal footing. Firms that adopt this approach want to hire the best person available, regardless of where that individual comes from.[9]

National culture often affects the staffing model chosen by a firm. European MNCs are more likely than U.S. or Japanese MNCs to adopt the geocentric approach. This approach is encouraged by the European Union (EU) to improve the mobility of workers and managers throughout its member countries. Japanese firms favor the ethnocentric staffing model, partly because their

BRINGING THE WORLD INTO FOCUS

SCHLUMBERGER PROFITS FROM GEOCENTRIC STAFFING

Schlumberger is one of the world's largest oil field services companies. The firm offers a complete range of oil and gas services, including engineering, construction, and project management. Schlumberger has more than 118,000 employees, does business around the world, and, in 2012, earned more than $42.15 billion in revenues. Although the firm has little trouble finding oil these days, attracting and keeping the right people—a fundamental HRM issue—is proving to be an ongoing challenge.

Schlumberger and other large companies in energy-related industries depend heavily on a steady inflow of new employees. But an aging workforce and an unevenly distributed supply of talent continues to create challenges. For instance, there is a significant shortage of geosciences and petroleum engineering students in both North America and the Middle East—the regions where more people are needed.

More than 40 years ago Schlumberger adopted an aggressive and innovative HR strategy that is based on diversity and partnerships with colleges and universities. As a result, the firm has long hired in every country where it operates. In addition, it took a geocentric approach to all of its global assignments, hiring the best people regardless of where they are from and moving them to work assignments that are mutually beneficial regardless of the location of those assignments. Schlumberger also established a long-term emphasis on hiring and developing women engineers.

As a result of these efforts, Schlumberger has maintained an HR advantage over many of its key competitors. But these same competitors have shown their own brands of creativity as they, too, have taken a more global and integrated approach to HRM. Among other things, other firms in the industry often look to current Schlumberger employees when they need to recruit experienced people.

To maintain the competitive advantages Schlumberger gets from its workforce, the firm continues to develop and implement new systems, policies, and practices to retain the strong workforce it has attracted. For example, a rigorous and comprehensive training and development program helps keep its engineers at the forefront of their fields. Competitive salaries and performance-based incentives helps retain the best and brightest of its employees, and well-defined career paths helps Schlumberger continue to grow and nourish the talent it needs to remain competitive in an increasingly competitive world.

Sources: Schlumberger Annual Report 2007; *Hoover's Handbook of American Business 2013* (Austin, Texas: Hoover's Business Press, 2013), pp. 730–731; http://www.slb.com/about.aspx, accessed on May 22, 2013.

consensus-oriented approach to decision making is facilitated by employing Japanese managers in key roles in the firms' foreign subsidiaries. Japanese firms sometimes rely too heavily on this model, to their own disadvantage. Although they usually hire HCNs for lower-level positions, the firms are reluctant to use non-Japanese managers in higher-level positions. When the firms do hire an HCN as a local manager, they have been accused of being too quick to send in a troubleshooter from the home office at the first sign of a problem. Further, the non-Japanese managers often face a glass ceiling because the top positions in the firms are reserved for Japanese managers. Thus, the ethnocentric policy often results in the loss of the best HCN managers, who seek more challenge and responsibility by shifting to non-Japanese employers.

In Practice

- Managers need to know how changes in the scope of internationalization affect their HRM practices.
- International HR managers need to have a clear understanding of the staffing philosophy that best fits their organization.

For further consideration: What are the pros and cons of the three basic staffing philosophies?

Recruitment and Selection

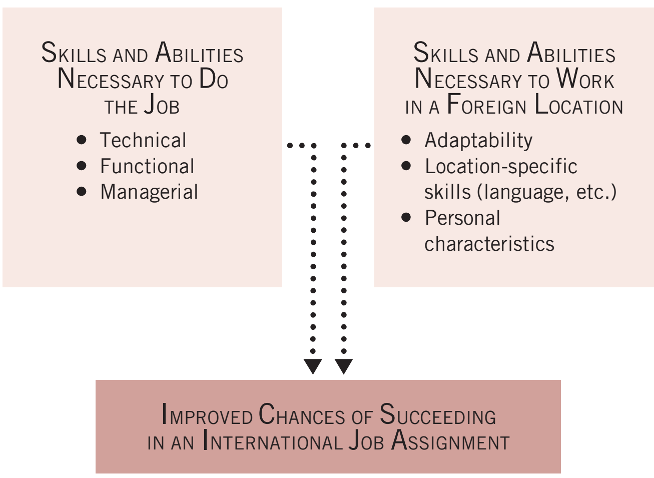
A firm's scope of internationalization, level of centralization, and staffing philosophy help determine the skills and abilities its international managers need. As shown in Figure 19.2, these skills and abilities fall into two general categories: those needed to do the job and those needed to work in a foreign location.

The firm first must define the actual business skills necessary to do the job. For example, a firm that has an assembly plant in a foreign market needs a plant manager who understands the technical aspects of what is to be manufactured, what manufacturing processes will be used, and so on. The firm's marketing managers must be knowledgeable about advertising media availability, distribution channels, market competition, and local consumers' demographic characteristics.

The firm next must determine the skills and abilities a manager must have to work and function effectively in the foreign location. These include the manager's ability to adapt to cultural change, ability to speak the local language, overall physical and emotional health, levels of independence and self-reliance, and appropriate levels of experience and education. Obviously, an HCN can meet these requirements far easier than a PCN or TCN can. Firms relying on the ethnocentric or geocentric staffing models thus must devote more resources to selecting and training PCNs and TCNs for foreign assignments than do firms that rely on the polycentric model.

FIGURE 19.2

Necessary Skills and Abilities for International Managers



Recruitment of Managers

Once the international business determines the skills and abilities an international manager must have, it next must develop a pool of qualified applicants for the job and then recruit and select the best candidate.

RECRUITMENT OF EXPERIENCED MANAGERS International businesses recruit experienced managers through a variety of channels. A common source of recruits is within the firm itself—among employees already working for the firm in the host country or those who, although currently employed in the home country, might be prepared for an international assignment in the host country. The latter group may include both managers who have never held an international assignment and managers who have already completed previous international assignments. For example, when Kal Kan's Canadian subsidiary entered the animal-food market in Poland, the firm relied on a team of Polish-born Canadian executives to start up the new operation. Other companies dip into their pool of retired executives to fill short-term international assignments. Whirlpool rehired one of its retired senior engineers to help expand its Shanghai washing machine factory, and Quaker Oats sent a team of five retired employees to oversee the start-up of a cereal plant in that same city. Retired employees often are eager to take on such tasks. For example, Verizon has a pool of several hundred former employees willing to tackle short-term foreign assignments.[10]

An international business also may attempt to identify prospective managers who work for other firms. These may be home country managers who are deemed to be qualified for an international assignment or managers already working in an international assignment for another firm. For higher-level positions firms often rely on so-called **headhunters** to help them locate prospective candidates. Headhunters are recruiting firms that actively seek qualified managers and other professionals for possible placement in positions in other organizations. In many parts of the world, including Japan, switching employers has long been frowned on; until recently, headhunting in Europe was considered unethical. Both of these views are changing, however. More firms are finding they can even entice highly qualified Japanese employees away from Japanese firms.

A firm may sometimes find it useful to relocate its facilities to be closer to a pool of qualified employees. For example, when Upjohn and Pharmacia (U.S. and Swedish pharmaceutical firms, respectively) merged in the mid-1990s, they initially selected London for their new corporate headquarters. However, it quickly became apparent there was not an adequate pool of managerial and technical talent available locally to staff the enterprise. Because London is among the world's most expensive cities, transferring in managers from other locations was not cost effective. Thus, the firm subsequently moved its headquarters to New Jersey, where many other drug companies are located. Managers reasoned this would place them closer to a large talent pool of managers with pharmaceutical industry experience and therefore make recruiting a bit easier.[11]

One trend seems clear: As a result of the globalization of business, the market for executive talent also is becoming globalized. Firms increasingly value performance more than nationality. Nomura Securities, Japan's largest stock brokerage firm, typifies this trend. Concerned about losses in its global market share, the firm turned to a seasoned U.S. securities executive, Max Chapman, to reinvigorate its global operations, which are headquartered in London.

RECRUITMENT OF YOUNGER MANAGERS It is uncommon for large MNCs to hire new college graduates for immediate foreign assignments. Some firms, however, will hire new graduates they ultimately intend to send abroad and, in the short term, give the graduates domestic assignments. Particularly attractive are graduates with foreign-language skills, international travel experience, and a major in international business or a related field. A few firms have started taking a longer-term view of developing international managerial talent. Coca-Cola, for example, has developed an innovative strategy for recruiting managers for future international assignments. It actively seeks foreign students who are studying at U.S. colleges and universities and who intend to return to their home countries after receiving their degrees. The firm recruits and hires the best of these graduates and puts them through a one-year training program. The new managers then return home as Coca-Cola employees and take assignments in the firm's operations in their home countries.

Selection of Managers

After the pool of prospective managers has been identified, HR managers must decide which persons from that pool are the best qualified for the assignment. The most promising candidates share the following characteristics:

- Managerial competence (technical and leadership skills, knowledge of the corporate culture)
- Appropriate training (formal education, knowledge of the host market and its culture and language)
- Adaptability to new situations (ability to deal simultaneously with adjusting to a new work and job environment, adjusting to working with HCNs, and adjusting to a new national culture)

The importance of the selection process cannot be overstated when dealing with expatriate managers. The costs to a firm of expatriate failure are extremely high. **Expatriate failure** is the early return of an expatriate manager to the home country because of an inability to perform in the overseas assignment. Experts suggest these costs range from $200,000 to as much as $1.2 million (these figures include the expatriate's original training, moving expenses, and lost managerial productivity but do not include the decreased performance of the foreign subsidiary itself). Expatriate failure occurs far too often. Failure rates of 20 to 50 percent are common for many U.S. firms, and rates appear to be much higher for them than for European and Japanese firms.[12]

The primary cause of expatriate failure is the inability of the managers and/or their spouse and family to adjust to the new locale. As a result, international HR managers increasingly are evaluating the nontechnical aspects of a candidate's suitability for a foreign assignment. Assessing certain skills and abilities is relatively easy. For example, measuring a prospect's language proficiency is a straightforward undertaking. Assessing a person's cultural adaptability is more difficult and must be accomplished through a variety of means. Most firms use a combination of tests (such as personality and aptitude tests) and interviews in their selection process. Assessment centers, which offer programs of exercises, tests, and interviews that last several days, are also useful because they provide an in-depth look at a set of prospective candidates under the same circumstances.

Another important consideration is the prospect's motivation for and interest in the foreign assignment.[13] Some managers are attracted to foreign assignments, perhaps because they relish the thought of living abroad or because they see the experience as being useful in their future career plans. Others balk at the thought of uprooting their family and moving to a foreign environment, particularly one that is culturally distant from their own. As previously noted, failure of the family to adjust to the new culture is a prominent cause of expatriate failure. Thus, most firms also consider the family's motivation for and interest in the foreign assignment. The manager's job performance often will deteriorate if the manager has an unhappy spouse cut off from friends and family and frustrated by dealing with a new culture. Clearly a foreign relocation is far more disruptive to the family than a domestic relocation. Dependent children may face problems integrating into a new school culture—particularly if they do not speak the local language—and may find that material covered in the courses at their new school is well ahead (or well behind) that at their home school.[14] In addition, there is the dual-career problem. Trailing spouses may find it difficult to take leave from their current position, thereby forcing a disruption in their career advancement. Still worse, labor laws in the new country may make it difficult or impossible for the spouse to obtain employment there legally.

Because of the risk of expatriate failure, firms often devote considerable resources to selection and training.[15] AT&T, for example, prides itself on doing an especially thorough job of selecting managers for foreign assignments. The firm has long used personality tests and interviews as part of its selection process. It now also uses psychologists to help assess prospects and is investing more into learning about family considerations. In addition, the prospects complete a self-assessment checklist designed to help them probe their motivations for seeking a foreign transfer. AT&T reports that this exercise increases managers' self-awareness. As a result, more managers now remove themselves from consideration for foreign assignments.

Some international businesses are concerned with not only how well a prospective manager will adapt to the foreign culture but also how well the person will fit into that culture.[16] For example, for years some U.S. firms hesitated to send women managers on foreign assignments to some countries, such as Japan, because the firms assumed the women would not be accepted in a culture that frowned on women working outside the home. However, research indicates that this fear is overstated. Host country citizens react primarily to these executives' foreignness, rather than to their gender.

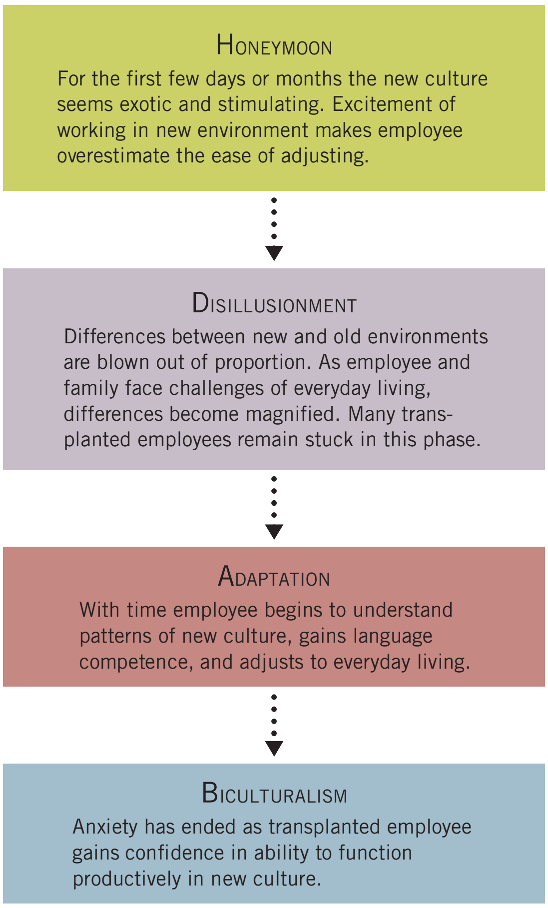
Expatriation and Repatriation Issues

PCNs on long-term foreign assignments face great acculturation challenges. Working in and coping with a foreign culture can lead to **culture shock**, a psychological phenomenon that may lead to feelings of fear, helplessness, irritability, and disorientation. New expatriates may experience a sense of loss regarding their old cultural environment as well as confusion, rejection, self-doubt, and decreased self-esteem from working in a new and unfamiliar cultural setting.[17] Acculturation, as shown in Figure 19.3, typically proceeds through four phases.[18]

Culture shock reduces an expatriate's effectiveness and productivity, so international businesses have developed various strategies to mitigate its effects. One simple solution is to provide expatriates (and their families) with predeparture language and cultural training, so they can better understand and anticipate the cultural adjustments they must undergo. In addition to straightforward training, firms also might make initial foreign assignments relatively brief and make sure the expatriates understand the role each assignment plays in their overall career prospects.

Interestingly, international businesses should pay almost as much attention to **repatriation**—bringing a manager back home after a foreign assignment has been completed—as they do to expatriation. If managers and their families have been successfully expatriated, they become comfortable with living and working in the foreign culture. Returning home can be almost as traumatic to them as was the original move abroad. One reason for the difficulty of repatriation is that people tend to assume nothing has changed at home. They look forward to getting back to their friends, familiar surroundings, and daily routines. Yet their friends may have moved or developed new social circles, and their coworkers may have been transferred to other jobs.

FIGURE 19.3
Phases in Acculturation



Some expatriates who have returned to the United States have even been denied credit because they have not had a domestic financial history for several years![19]

Repatriated managers also have to cope with change and uncertainty at work. The firm may not be sure what their job is going to entail. Further, they may have been running the show at the foreign operation and enjoying considerable authority. Back home, however, the managers are likely to have much less authority and to be on a par with many other managers reporting to more senior managers. Also, repatriated managers and their families may have enjoyed a higher social status in the host country than they will enjoy after returning home. Thus, readjustment problems may be severe and need the attention of both the managers and the firm.

The repatriation problem can be expensive for a firm. By some estimates one-quarter of all repatriated employees leave their employer within a year after returning home. The average U.S. expatriate costs the employer about $300,000 per year and stays three to four years on an overseas assignment; thus, each repatriated executive who leaves the firm represents a million-dollar investment walking out the door.

The bottom line is that expatriation and repatriation problems can be reduced if international businesses systematically provide organizational career development programs for their expatriate managers.[20] Recent research indicates that the likelihood of managers being successful at an overseas assignment increases if the managers:

- Can freely choose whether to accept or reject the expatriate assignment
- Have been given a realistic preview of the new job and assignment
- Have been given a realistic expectation of what their repatriation assignment will be
- Have a mentor back home who will guard their interests and provide corporate and social support during the assignment
- See a clear link between the expatriate assignment and their long-term career path

Of these five elements, the last is the most critical in determining expatriate success.

In Practice

- International HR managers need to understand the nuances of recruiting and selecting both experienced and younger managers.
- Expatriation and repatriation need to be carefully managed.

For further consideration: Refer back to Figure 19.3. Can you think of things that can be done to help minimize or eliminate the disillusionment stage?

Training and Development

The international firm's HR managers also must provide training and development for its home and host country managers to help them perform more effectively. **Training** is instruction directed at enhancing specific job-related skills and abilities. For example, training programs might be designed to help employees learn to speak a foreign language, to use new equipment, or to implement new manufacturing procedures. Special acculturation training is important for employees who are given international assignments. **Development** is general education concerned with preparing managers for new assignments or higher-level positions. For instance, a development program could be aimed at helping managers improve their ability to make decisions or to motivate subordinates to work harder.

Assessing Training Needs

Before a firm can undertake a meaningful training or development program, it must assess its exact training and development needs. This assessment involves determining the difference between what managers and employees can do and what the firm feels they need to be able to do. For example, suppose a firm that does business in Latin America wants its employees to be able to speak Spanish fluently. If most of its employees are fluent in Spanish, its language training needs may be minimal, but if relatively few employees are fluent, extensive training may be called for. The assessment of training needs is an extremely important element of international HRM. Firms that underestimate training needs can encounter serious difficulties.

Indeed, lack of knowledge about foreign customers and markets is a major barrier to successful entry into such markets.

A firm just moving into international markets has different training and development needs from those of an established global firm. The newly internationalizing firm is likely to have few, if any, experienced international managers. Thus, its training and development needs will be substantial. In contrast, a global firm has a cadre of trained and experienced managers with international backgrounds, skills, and abilities. Yet even then, organization change may necessitate training. For instance, when Jaguar took over a plant in England that had formerly been making Ford Escorts, managers found a workforce that was dispirited and unwilling to accept responsibility for making decisions. All employees were thus sent to several training workshops intended to both enhance their technical skills and to empower them to make key decisions for themselves.[21]

Basic Training Methods and Procedures

The first issue an international business must consider as it plans its training and development efforts is whether to rely on standardized programs or to develop its own customized programs. Certain kinds of training can be readily obtained in common retail outlets—for example, self-paced language training on CDs or DVDs. Prudential Insurance even offers packaged training programs for families of expatriates, a good idea in light of the importance of family problems in causing expatriate failure. One advantage of standardized programs is that they tend to be less expensive than customized ones. On the other hand, a standardized program may not precisely fit the firm's needs.

As a result, most training and development programs often are customized to a firm's particular needs. Larger MNCs often have training and development departments that develop customized programs for the unique needs of individual managers or business units. Training and development activities may take place in regular classroom settings within the firm, on actual job sites, or off premises in a conference center or hotel. Customized programs are more costly than standardized programs; however, they ensure that employees get the precise information deemed necessary. Regardless of whether training and development programs are standardized or customized, most use a variety of methods as instructional vehicles. Lectures and assigned readings are common, as are videotaped and web-based instruction. Multimedia technologies are increasingly being incorporated into cross-cultural training. According to Sanjyot Dunung, president of Atma Global, one of the innovators in this area, MNCs increasingly desire globally

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Training and development for international assignments can be a costly and complex activity. This is especially true when the training and development involve cultural and legal differences and local business practices. However, language training can often be accomplished very effectively using such "off-the-shelf" methods as Rosetta Stone.

consistent but flexible delivery of cross-cultural training for their employees. Multimedia approaches allow employees spread throughout the globe to access training materials at their convenience at any time of day or night.

Role-playing and other forms of experiential exercises are useful for helping people better understand other cultures. Motorola uses a workplace simulation to help prepare its managers for foreign assignments.[22] Case studies also are used, although not as frequently as other methods. Training materials often must be altered to fit different cultural contexts. For example, a consultant hired to make training videos for Bally of Switzerland initially assumed he could use the same basic video for each of Bally's regional offices, with only minor script modifications. As the project progressed, however, he found that so many language and cultural differences affected the video that he essentially had to reshoot it for each office.

The trainers themselves also may need to adapt how they do things. One professional trainer reported difficulties in using her normal style when running a training program in Thailand. She preferred to be informal and to involve the participants through role-playing and other forms of interaction. She found, however, that Thai managers were uncomfortable with her informality and resisted the role-playing approach. She eventually had to adopt a more formal style and use a straightforward lecture approach to get her points across.[23]

Developing Younger International Managers

The increasing globalization of business has prompted most MNCs to recognize the importance of internationalizing their managers earlier in their careers. Until the late 1980s most U.S. MNCs delayed giving their managers significant overseas assignments until they had spent 7 to 10 years with the firm. Today many of these MNCs are beginning to recognize that they need to develop the international awareness and competence of their managers earlier and to systematically integrate international assignments into individual career plans. For example, General Electric (GE) provides language and cross-cultural training to its professional staff even though they may not be scheduled for overseas postings. Such training is important because these employees, even if they never leave their home countries, are likely to work with GE employees from other countries and to deal with visiting executives from GE's foreign partners, suppliers, and customers. Such training also helps the employees gain a better understanding of the firm's international markets. Other firms, such as American Express and Johnson & Johnson, occasionally post managers to overseas assignments after only 18 to 20 months on the job. PepsiCo and Raychem are bringing young managers from the firms' foreign operations to the United States to enrich the managers' understanding of their firms' cultures and technologies.

U.S. firms are not the only ones integrating international assignments into career development plans for younger managers. Honda's U.S. manufacturing subsidiary has been sending U.S. managers to Tokyo for multiyear assignments so they can learn more about the firm's successful manufacturing and operating philosophies. Samsung regularly sends its executives abroad for various assignments. One of its more interesting strategies is to send younger managers to certain foreign locations for as long as a year with no specific job responsibilities. The managers are supposed to spend their time learning the local language and becoming familiar with the culture. The idea is that if they are transferred back to that same location in the future—when they are in a higher-level position—they will be able to function more effectively. Even though the program costs Samsung about $80,000 per person per year, executives believe the firm will quickly recoup its investment.

In Practice

- International HR managers need to know the basic issues in training and developing employees.
- It is important for managers to know the various methods available for training and development of managers.

For further consideration: What learning methods work best for you? That is, if you wanted to learn something like, say, a foreign language, what technique would most likely be effective?

Performance Appraisal and Compensation

Another important part of international HRM consists of conducting performance appraisals and determining compensation and benefits. Whereas recruitment, selection, and training and development tend to focus on preassignment issues, performance appraisal and compensation involve ongoing issues that continue to have an effect well past the initial international assignment.

Assessing Performance in International Business

Performance appraisal is the process of assessing how effectively people are performing their jobs. The purposes of performance appraisal are to provide feedback to individuals on how well they are doing; to provide a basis for rewarding top performers; to identify areas in which additional training and development may be needed; and to identify problem areas that may call for a change in assignment.

Performance appraisals of an international business's top managers must be based on the firm's clear understanding of its goals for its foreign operations. A successful subsidiary in a mature and stable foreign market will have different goals than will a start-up operation in a growing but unstable market. Thus, a firm assigning two new managers to head these different subsidiaries must understand that it cannot expect the same outcome from each of them. Similarly, managers of foreign subsidiaries that serve as cost centers must be judged by different standards from those used for managers of profit centers.

In assessing a manager's actual performance, the firm may consider sales, profit margin, market share growth, or any other measures or indicators it deems important. If a subsidiary has been having problems, performance may be more appropriately assessed in terms of how well the manager has helped to solve those problems. For example, reducing net losses or halting a decline in market share might be considered good performance, at least in the short term.

Expected and actual performance must be compared, and differences must be addressed. This step needs to have a strong diagnostic component: Why and how has the manager's performance been acceptable or unacceptable? Are any problems attributable to the manager's lack of skills? Are some problems attributable to unforeseen circumstances? Is the home office accountable for some of the problems that may have arisen, perhaps because the manager was inadequately trained? Of course, cultural values may shape expectations—an individualistic culture will attribute more of the organization's performance to the individual manager than a collectivist one—thus complicating performance appraisal when the appraiser and the appraisee come from different cultures.

Circumstances will dictate how frequently performance appraisals occur. In a domestic firm they may occur as often as every quarter. Geographical factors, however, can limit the frequency with which international performance appraisals can occur. Generally, international managers are expected to submit reports on performance-based results to headquarters regularly. As long as these reports fall within acceptable parameters, the firm is likely to conduct a formal performance appraisal perhaps on an annual basis. However, if standard reports reveal a problem, performance appraisals may be done more often in an effort to get things back on track.

Determining Compensation in International Business

Another important issue in international HRM is determining managerial compensation. To remain competitive, firms must provide prevailing compensation packages for their managers in a given market. These packages include salary and nonsalary items and are determined by labor market forces such as the supply and demand of managerial talent, occupational status, professional licensing requirements, standards of living, government regulations, tax codes, and similar factors. For example, in Germany employers customarily reimburse their executives for car expenses. In Japan the executive may actually get a car plus expenses. Japanese executives also receive generous entertainment allowances and an allowance for business gifts. Similarly, British companies typically provide company cars to managers. In the United States firms offer managers health care benefits because such benefits are free from income taxes.

COMPENSATING EXPATRIATE MANAGERS A more complex set of compensation issues apply to expatriate managers. Most international businesses find it necessary to provide these managers with differential compensation to make up for dramatic differences in currency valuation, standards of living, lifestyle norms, and so on.[24] When managers are on short-term assignments abroad, their home country salaries normally continue unchanged. (Of course, the managers are reimbursed for short-term living expenses such as for hotel rooms, meals, and transportation.) If foreign assignments are indefinite or longer term, compensation is routinely adjusted to allow the managers to maintain their home country standard of living. This adjustment is particularly important if a manager is transferred from a low-cost location to a high-cost location or from a country with a high standard of living to one with a lower standard of living. Map 19.1 identifies the 50 most expensive cities in the world. For example, in 2012, Tokyo was the most expensive city in the world for expatriates. Sydney, Australia, was number 11, Oslo, Norway, was number 18, New York was number 33, and Dakar, Senegal, and Victoria, Seychelles, were tied for number 50.

The starting point in differential compensation is a **cost-of-living allowance**. This allowance is intended to offset differences in the cost of living in the home and host countries. The premise is that a manager who accepts a foreign assignment is entitled to the same standard of living the manager enjoyed at home. If the cost of living in the foreign country is higher than that at home, the manager's existing base pay will result in a lower standard of living, and the firm will supplement the base pay to offset this difference. Of course, if the cost of living in the foreign location is lower than at home, no such allowance is needed.

Sometimes firms find they must supplement base pay to get a manager to accept an assignment in a relatively unattractive location. Although it may not be difficult to find people willing to move to England or Japan, it may be much more difficult to entice people to move to Sudan or Afghanistan. Called either a **hardship premium** or a **foreign-service premium**, this supplement is essentially an inducement to the individual to accept the international assignment. For instance, the French oil company Total wanted to transfer managers back to its operations in Angola when that country's bloody civil war ended; it found that it had to offer a substantial foreign-service premium to entice anyone to go. Even then, those executives also insisted that their assignment in Angola would last for one year or less.

Finally, many international businesses also find they must set up a tax equalization system. A **tax equalization system** is a means of ensuring that the expatriate's after-tax income in the host country is similar to what the person's after-tax income would be in the home country. Each country has unique tax laws that apply to the earnings of its own citizens, to earnings within its borders by foreign citizens, and/or to earnings in another country by its own citizens. The most common tax equalization system has the firm's own accounting department handling the taxes of its expatriates. An accountant from the firm determines what a manager's taxes will be where the manager is living and what they would be at home on the same income and then makes the appropriate adjustment to equalize the two.

Figure 19.4 shows how one major oil company creates compensation packages for its expatriate managers. The blocks in the center reflect an individual's U.S. base compensation before being posted to an international assignment. After an assignment has been made, the blocks above and below are used to calculate appropriate adjustments to the employee's compensation. For example, suppose a U.S. executive being transferred abroad currently earns $100,000, of which $25,000 is paid in taxes, $10,000 is saved, and the remaining $65,000 consumed. Further suppose that the executive currently spends $2,000 a month on housing (mortgage plus utilities). The firm will adjust the executive's total compensation to make it as equal as possible to that currently earned in the United States. Assume that housing and utilities in the host country cost about 20 percent more than in the United States, and other consumables cost about 10 percent more. Thus, the firm will pay the executive a supplemental housing allowance that is equal to what the executive currently pays times 20 percent, or a total of $400 a month. The remaining part of the executive's consumption spending will be increased by 10 percent. Similar adjustments will be made to the other components of Figure 19.4.

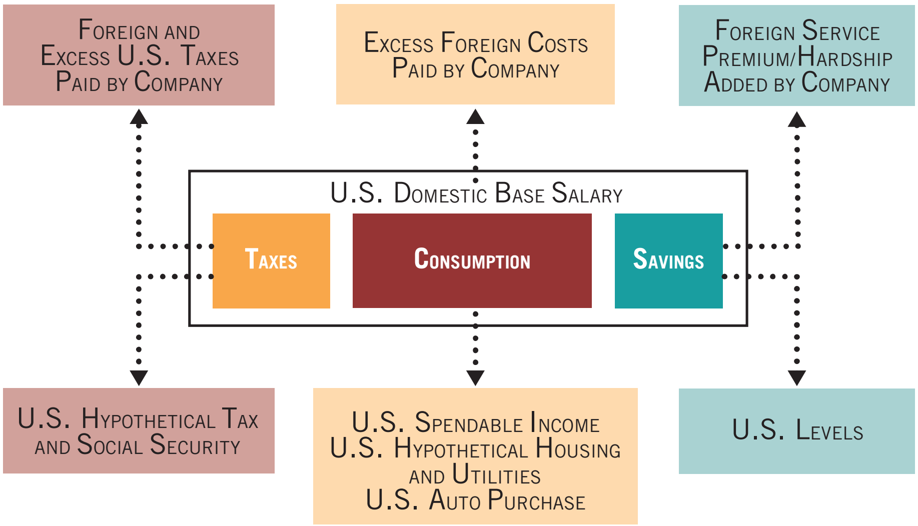
BENEFITS PACKAGES FOR EXPATRIATE MANAGERS International businesses must provide not only salary adjustments but also special forms of benefits for their expatriate managers in addition to standard benefits such as health insurance and vacation allowances. Special benefits include housing, education, medical treatment, travel to the home country, and club memberships.

A common special benefit involves housing. Like other components of living costs, housing expenses vary in different areas. Duplicating the level of housing the executive enjoyed in the

MAP 19.1
Global Cost of Living Survey

Source: www.mercer.com, accessed on April 10, 2013.

FIGURE 19.4
An Expatriate Balance Sheet



home country may be expensive, so housing often is treated as a separate benefit. If a manager is going on permanent or long-term assignment, the firm may buy the manager's existing home at fair-market value. The firm also may help the manager buy a house in the host country if housing costs or interest rates are substantially different from those at home.

If the expatriate manager has a family, the firm may need to provide job location assistance for the spouse and help cover education costs for children. For example, children may need to attend private school, which the firm would pay for. Schooling represents a particularly important problem for Japanese expatriate managers, whose children may not do well in the national entrance exams for the most prestigious Japanese universities if their Japanese reading and writing skills atrophy as a result of living abroad. Thus, many Japanese firms pay for their expatriates' children to attend private schools that help students cram for those exams.

Medical benefits also may need to be adjusted. For example, some people consider Malaysian health care facilities inadequate. Thus, managers on assignment there often request that their employer send them to Singapore whenever they need medical attention. And many international firms are routinely incorporating immunizations and dietary recommendations for executives traveling abroad, and arranging medical exams and treatments for expatriates and visiting executives from overseas.[25]

Most international businesses provide expatriates with a travel allowance for trips to the home country for personal reasons, such as to visit other family members or to celebrate holidays. Managers and their families may be allowed one or two trips home per year at company expense. If a manager's family remains at home during a short-term assignment, the manager may be given more frequent opportunities to travel home.

In some cultures, belonging to a certain club or participating in a particular activity is a necessary part of the business world. In Japan, for example, many business transactions occur during a round of golf. To be effective in Japan, a foreign manager may need to join a golf club. Memberships in such clubs, however, cost thousands of dollars, and a single round of golf may cost 10 times or more what it costs elsewhere. Because such activities are a normal part of doing business, firms often provide managers transferred to Japan with these benefits.

EQUITY IN COMPENSATION Thus far, our discussion of compensating expatriate managers has not addressed the issue of equity between the compensation granted expatriate managers and that given to HCNs in similar positions. Often the compensation package offered the expatriate manager is much more lucrative than that offered an HCN occupying an equivalent position of power and responsibility. The equity issue becomes even more complicated when dealing with TCNs. For example, if a U.S. international oil firm transfers a Venezuelan executive to its Peruvian operations, should the Venezuelan be paid according to Peruvian, Venezuelan, or U.S. standards?

Unfortunately there is no simple solution to this problem, and MNCs use a variety of approaches in grappling with it. Hewlett-Packard pays expatriates on short-term assignments according to home country standards and those on long-term assignments according to host country standards. Minnesota Mining & Manufacturing (3M) compares the compensation package it offers in the expatriate's home country with what it normally pays HCNs and then gives the expatriate the higher pay package. Phillips Petroleum pegs a TCN's salary to that of the person's home country but offers housing allowances, educational benefits, and home leaves based on costs in the host country.

The failing value of the dollar and recent changes in the U.S. tax codes have caused some firms to begin an intensive study and review of their expatriate compensation and benefits programs. For instance, the taxes expatriates pay on their foreign housing allowance has recently been increased; some firms pay this cost for their employees and so the higher rates are passed on to the employer. Higher costs have also led some firms to rethink the best people to consider for a new international assignment. If a multinational has a large operation in both Eastern Europe and the United States, for instance, it might find that an executive from the Czech Republic will accept more modest living arrangements for an assignment in Singapore than will his or her colleague from New York.[26]

BRINGING THE WORLD INTO FOCUS

JAPANESE MANAGEMENT TECHNIQUES IN CHINA

Japanese multinational corporations operating in China have invariably brought Japanese management techniques and practices to their factories and operations in China. On the one hand, Japanese management seems to be a fairly good fit, but many Chinese employees suggest that there are fundamental problems, ranging from seating arrangements to incentive structures. As a result, an enormous number of Chinese employees resign from Japanese companies on a regular basis. Most university graduates stay no longer than three years, and Japanese companies rank very low for Chinese workers as businesses they would like to work for. Sony was only ranked 24th and Matsushita 46th.

One of the major cultural differences that causes problems for the Chinese employees is the layout of the offices. Japanese companies use open-office layouts, with no partitions and desks arranged in clusters. The second key criticism is that the Japanese businesses are too process-orientated. They demand that all tasks be carried out using a particular work procedure, down to teaching employees how to file. Work timings are also an area of concern. Overtime is part of the culture of Japanese companies and Chinese employees are expected to work 40 hours or more overtime per month. The idea behind this is that overtime equals hard work. In compensation, Japanese companies do pay for the extra hours in China, which is not always the case in Japan. Paid leave is also an issue—the Chinese viewing paid leave as an entitlement and the Japanese seeing it as a concession.

Remuneration is also a concern for the Chinese workers. European and American multinational companies tend to pay more than the Japanese. Career development is problematic too. Senior management is almost exclusively reserved for Japanese nationals. If Japanese employees leave (which is rare), the parent company sends a replacement Japanese manager to fill the post, rather than offering it to similarly qualified Chinese employees.

There are still anti-Japanese sentiments in China, so it is reasonable to consider the points with a degree of caution. The Japanese may have believed that in wholesale export of their management-style they would have been able to replicate Japanese management systems and decision-making processes. However, in instances such as this it may have been undermined by an over reliance on ex-patriot Japanese management.

Sources: International Journal of Human Resource Management, www.palgrave-journals.com; Japanese Institute for Labor Policy and Training, www.jil.go.jp.

In Practice

- International HR managers need to know the basic methods of assessing performance in international business.
- Managing compensation and benefits are critical functions for international HRM.

For further consideration: Is it possible to gain perfect equity across multiple international managers? Why or why not?

Retention and Turnover

Another important element of international HRM focuses on retention and turnover. **Retention** is the extent to which a firm is able to retain valued employees. **Turnover**, essentially the opposite, is the rate at which people leave a firm.

People choose to leave a firm for any number of reasons—for example, dissatisfaction with their current pay or promotion opportunities or receipt of a better offer to work elsewhere. Turnover is often a result of job transitions such as those associated with expatriation and repatriation: A worker contemplating changing work locations also may consider changing employers. Turnover is a particular problem in international business because of the high cost of developing managers' international business skills. Managers with strong reputations for having those skills are in high demand. As noted previously, some firms even rely on headhunters to help them locate prospective managers currently working for other firms. For exactly the same reason—a scarcity of skilled, experienced managers—keeping successful managers should be a high priority for any international business. One way to control managerial turnover is to develop strategies designed to reduce expatriate failure and repatriate failure. These may include providing career development counseling or cross-cultural training to ease the stress of relocation.

A firm also may have to provide special inducements or incentives to its most valuable international managers. They may receive higher salaries or be given a greater say in choosing their assignments. The firm also may make stronger guarantees to them regarding the time frame of their assignments. For example, a firm may want to hire a particularly skillful TCN to run its operation in Italy. Because of the costs and other problems associated with relocation, the

bronstein/Alamy

Dubai-based Emirates airlines has been growing rapidly in recent years. In order to maintain the necessary cadre of skilled pilots, Emirates has routinely been hiring pilots from other countries. For example, there are over 100 former U.S. pilots currently working for Emirates. By providing strong salaries and benefits packages, the airline has become a very attractive place to work. Some airlines in China and India have also adopted this model.

individual may consider the assignment only if the firm guarantees the assignment will last for a minimum of, say, five years.

Another important element of turnover management is the **exit interview**. An exit interview is an interview with an employee who is leaving a firm. Its purpose is to find out as much as possible about why the person decided to leave. Given the distances involved in international business, however, firms may be reluctant to do exit interviews. Yet the potential value of the information gleaned is high: Managers can use it to reduce future employee losses. Thus, firms should give careful consideration to using such interviews as part of their strategy for reducing turnover.

The U.S. airline industry has been facing mounting challenges in retaining its best pilots. For years, as the airlines went through one financial difficulty after another, pilots saw their salaries cut, their benefits reduced, and/or their job security eliminated. As new foreign airlines have sprung up, they have come to see the U.S. labor pool a ready source of pilots. For example, Dubai-based Emirates airlines offers its pilots a freshly pressed uniform and a chauffer-driven ride to the airport each day they fly. Emirates pilots also get twice the vacation time as their U.S. counterparts, as well as guaranteed annual raises and strong benefits. All told, there are more than 100 former U.S. pilots now working for Emirates. New start-up airlines in China and India are also aggressively recruiting U.S. pilots.[27]

In Practice

- International HR managers need to understand the basic reasons for turnover.
- Proactive employee retention can be an important function for international HR managers.

For further consideration: Suppose you were resigning from a position because of a personality clash with your boss, and your boss was conducting your exit interview. How honest would you be? Why?

Human Resource Issues for Nonmanagerial Employees

Next, we shift the focus of our discussion of HR issues to nonmanagerial employees in host countries. The standard HRM tasks associated with nonmanagerial employees—recruitment, selection, training, compensation, and so on—are strongly influenced by local laws, culture, and economic conditions. To prosper in the host country environment, HR managers must not fall prey to their own self-referencing criteria. They must be willing to do things the way the locals want, not the way things are done at home. In short, "When in Rome, do as the Romans do." Thus, many MNCs hire HCNs to staff their HR operations, so the local knowledge of the HCNs can be incorporated into the policies and procedures of the HR department.

Recruitment and Selection

In international firms' foreign operations, nonmanagerial employees, such as blue-collar production workers and white-collar office workers, are typically HCNs. In most cases there are economic reasons for this decision: HCNs are usually cheaper to employ than are PCNs or TCNs. HCNs also are used because local laws often promote the hiring of locals. Immigration and visa laws, for example, typically restrict jobs to citizens and legal residents of the country. A few exceptions to this rule exist. Construction firms in rich countries such as Saudi Arabia and Kuwait often use Bangladeshi or Pakistani labor because local citizens dislike the working conditions. Oil firms and airlines often employ PCNs and TCNs for high-skilled jobs such as drilling supervisor and pilot. South Korea is facing a labor shortage as its workforce ages and, as a result, has relaxed its immigration standards so more foreign workers can enter. Since 2000, the number of immigrant workers in South Korea has increased sevenfold and now totals around 1.5 million.[28]

Nonetheless, an international business must develop and implement a plan for recruiting and selecting its employees in a host country market.[29] This plan should include assessments of the firm's HR needs, sources of labor, labor force skills and talents, and training requirements, and also should account for special circumstances that exist in the local labor market. The chapter's closing case, for example, details how Toyota goes about recruiting and selecting U.S. employees for its U.S. production facilities.

When firms are hiring PCNs for foreign assignments, the firms must adhere to their home country's hiring regulations, laws, and norms. When hiring HCNs, the firms must be aware of those regulations, laws, and norms within the host country. For example, in the United States laws and regulations prohibit a firm from discriminating against someone on the basis of gender, race, age, religion, and other characteristics. For instance, Toyota had to ensure that during its selection of its U.S. employees, it did not violate any of those laws and regulations. Because of these restrictions, the selection process in the United States emphasizes job relatedness. Job-related criteria such as skills, abilities, and education can be used to hire employees; non–job-related criteria such as gender or age cannot. In some countries characteristics such as gender, religion, and skin color are commonly used in hiring decisions. For example, firms in Israel and Northern Ireland often discriminate on the basis of religion, and those in Saudi Arabia discriminate on the basis of gender.

Training and Development

HR managers also must assess the training and development needs of the host country's workforces to help them perform their jobs more effectively. The training and development needs of local workforces depend on several factors. An important one is the location of the foreign operation. In highly industrialized markets, firms usually find a nucleus of capable workers who may need only a bit of firm-specific training. In an area that is relatively underdeveloped, training needs will be much greater. For example, when Hilton began operating hotels in Eastern Europe after the Soviet Union disintegrated, it found that waiters, hotel clerks, and other customer service employees lacked the basic skills necessary to provide high-quality service to guests. These employees were so accustomed to working in a planned economy, where there was little or no need to worry about customer satisfaction, that they had difficulty recognizing why they needed to change their workplace behavior. Hilton had to invest much more in training new employees there than it had anticipated.

Training also is a critical element if an international business wants to take full advantage of locating production abroad. In recent years MNCs have shown a marked tendency to move facilities to certain areas, such as Honduras, Vietnam, and Indonesia, to capitalize on inexpensive labor. But often the productivity of this labor is low, unless the firm is willing to invest in workforce training. The owner of Quality Coils, Inc., a U.S. maker of electromagnetic coils, closed the firm's plant in Connecticut and opened a plant in Ciudad Juarez, Mexico, because hourly wage rates there were one-third the wage rates in Connecticut. The owner soon discovered, however, that productivity was also only one-third of what it had been in Connecticut. This, combined with higher absenteeism and the personal costs of running a facility in Mexico, prompted the owner to move the operation back to Connecticut.[30]

Training costs sometimes arise for reasons the firm might not have anticipated. For example, when Merrill Lynch bought Japan's fourth-largest brokerage company, Yamaichi Securities, it thought it was also gaining a cadre of 2,000 talented and experienced brokers familiar with their domestic market. But Merrill Lynch soon discovered that although Yamaichi brokers knew how to handle stock transactions, they were unfamiliar with concepts associated with customer service and working to understand customer investment goals before making stock recommendations. Hence, Merrill had to invest heavily in training its new brokers in how it wanted them to work with clients.[31]

Compensation and Performance Appraisal

Compensation and performance appraisal practices for nonmanagerial employees also differ dramatically among countries, depending on local laws, customs, and cultures. Individualistic cultures such as that of the United States focus on assessing the individual's performance and then compensating the person accordingly. More group-oriented cultures such as Japan's emphasize training and motivating the group and place less emphasis on individual performance appraisal and compensation. The HR manager at each foreign operation must develop and implement a performance appraisal and reporting system most appropriate for that setting, given the nature of the work being performed and the cultural context. For example, although U.S. workers often appreciate feedback from the appraisal system—thereby allowing them to do better in the future—German workers are often resentful of feedback, believing it requires them to admit failures and shortcomings.[32]

Compensation practices also reflect local laws, culture, and economic conditions. Prevailing wage rates vary among countries, which has caused many labor-intensive industries to migrate to countries such as Bangladesh, Indonesia, and Guatemala. To attract workers, HR managers must ensure their firms' wage scales are consistent with local norms.

Compensation packages entail incentive payments and benefit programs in addition to wages. International business researchers have found that the mix among wages, benefits, and incentive payments varies as a function of national culture. For example, wages on average accounted for 85 percent of the total compensation package for workers in 41 manufacturing industries in four Asian countries. However, wages amounted to only 56 percent of the total compensation package for workers in those same industries in five "Latin European" countries. By adjusting the composition of the compensation package to meet local norms, HR managers ensure their workers (and the firm) get the maximum value from each compensation dollar spent.[33] Local laws also affect an international firm's compensation policies. For example, Mexican law requires employers to provide paid maternity leave, a Christmas bonus of 15 days' pay, and at least three months' severance pay for dismissed workers. Local norms may also have an impact on compensation costs. In Sweden, workers use more sick leave than is the case in other countries—an average of 24.4 days per year, four times as much as U.S. workers and twice as much as the average Danish, German, or Spanish employee.[34] And although the United States does not mandate any paid vacation time for employees, France mandates 30 days per year; Norway, Denmark, Finland, and Sweden mandate 25 days per year; and Germany mandates 24 days per year as a minimum for all workers.[35]

In Practice

- International HR managers need to understand the basic issues in recruiting and selecting nonmanagerial employees.
- Training and development and compensation and performance appraisal requirements for nonmanagerial employees must also be clearly understood.

For further consideration: Why do you think there is so much variation across countries in wages, compensation packages, work hours, and benefits?

Labor Relations

A final component of international HRM is labor relations. Because of their complexity and importance, labor relations often are handled as a separate organizational function, apart from HRM.

Comparative Labor Relations

Labor relations in a host country often reflect its laws, culture, social structure, and economic conditions. For example, membership in U.S. labor unions has been steadily declining in recent years and today constitutes less than 15 percent of the country's total workforce. Labor relations in the United States are heavily regulated by various laws, and both the actions of management toward labor and the actions of labor toward management are heavily restricted. Further, the formal labor agreement negotiated between a firm and a union is a binding contract enforceable in a court of law. Because of the heavy regulation, most negotiations are relatively formal and mechanical, with both parties relying on the letter of law.

A different situation exists in many other countries. In some countries union membership is high and continues to grow. In Europe, labor unions are much more important than in the United States. Labor unions in many European countries are aligned with political parties, and their fortunes ebb and flow as a function of which party currently controls the government.

Throughout most of Europe, temporary work stoppages are frequently used by unions in a bid for public backing for their demands. For example, the transport workers' union in Paris often calls for day-long work stoppages that result in the city's buses, subways, and railroads being totally shut down. The union hopes the inconvenienced public will call on elected officials to do whatever it takes to avoid such disruptions in the future. Foreign firms that try to alter prevailing host country labor relations may be buying trouble. For example, the unwillingness of Toys 'R' Us to adopt the standard collective bargaining agreement used by most Swedish retailers led to a three-month strike against the firm and denunciations by labor leaders who branded the firm "an anti-union interloper bent on breaking established traditions in Sweden," which was not the public image the firm was trying to create.[36] Likewise, German retail unions used short but frequent work stoppages to try to get Walmart to meet more of their demands.

In contrast, labor relations in Japan tend to be cordial. Labor unions usually are created and run by businesses themselves. Unions and management tend to work cooperatively toward their mutual best interests. The Japanese culture discourages confrontation and hostility, and these norms carry over into labor relations. Disputes are normally resolved cordially and through mutual agreement. In the rare event that a third-party mediator is necessary, there are seldom any hard feelings or hostility after a decision has been rendered. Thus, strikes are relatively rare in Japan.

Collective Bargaining

Collective bargaining is the process used to make agreements between management and labor unions. As already noted, collective bargaining in the United States is highly regulated. Aside from passing the laws that regulate the process, however, government plays a relatively passive role in establishing labor agreements. Union and management representatives meet and negotiate a contract. That contract governs their collective working relationship until the contract expires, when a new one is negotiated. Bargaining normally takes place on a firm-by-firm and union-by-union basis. For example, United Airlines must bargain with a pilots union, a flight attendants union, a mechanics union, and so on, one at a time. Further, each of these unions negotiates individually with each airline whose employees it represents.

In many other countries the government is much more active in collective bargaining. In some European countries collective bargaining is undertaken by representatives of several firms and unions, along with government officials. The outcome is an umbrella agreement that applies to entire industries and collections of related labor unions. In Japan, collective bargaining also usually involves government officials but is done on a firm-by-firm basis. A government official serves more as an observer, recording what transpires and answering any questions that arise during the negotiation.

Union Influence and Codetermination

Union influence can be manifested in various ways, including membership, strikes, and public relations. In Europe much of the influence of labor unions arises from the premise of industrial democracy—the belief that workers should have a voice in how businesses are run. In some countries, most notably Germany, union influence extends far beyond traditional boundaries of labor-management relations. The approach taken in Germany is called *codetermination* and provides for cooperation between management and labor in running the business.

Codetermination is the result of a 1947 German law that required firms in the coal and steel industries to allow unions to have input into how the firms were run. The law has been amended several times, and today it applies to all German firms with 2,000 or more employees. The law requires all covered firms to establish a supervisory board. Half the seats on this board are elected by the firm's owners (much like the board of directors of a U.S. corporation); the other half are appointed or elected by labor. Of the labor seats, one-third are union officials and two-thirds are elected by the workforce. One seat elected by labor must be occupied by a managerial employee, so management essentially controls a potential tie-breaking vote. The supervisory board oversees another board called the board of managers. This board, composed of the firm's top managers, actually runs the business on a day-to-day basis.

The German model promotes a high level of industrial democracy. Some other European countries, including Sweden, the Netherlands, Norway, Luxembourg, Denmark, and Austria, take similar approaches in requiring some form of labor representation in running businesses.

In contrast, Italy, Ireland, the United Kingdom, and Latvia have little or no mandated labor participation. However, the EU has been attempting to standardize labor practices, employment regulations, and benefits packages throughout its member states. The ongoing implementation of its **social charter** (sometimes called the **social policy**) focuses on such concerns as maternity leave, job training, and superannuation (pension) benefits. One motivation for the social charter is to reduce the potential loss of jobs from richer countries, such as Germany or Belgium, to countries with lower wages and poorer benefit programs, such as Portugal, Greece, and Spain. Worker participation reform also is spreading into Pacific Asia. For example, workers in Singapore have been given a considerably stronger voice in how businesses are operated. Even though Japanese workers do not have a particularly strong voice in the management of their firms, they traditionally have enjoyed an abundance of personal power and control over how they perform their own jobs.

In Practice

- Comparative labor relations is of relevance to international HR managers.
- International HR managers need to be familiar with all phases of the collective bargaining process.

For further consideration: Would codetermination work in the United States? Why or why not?

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CHAPTER REVIEW

Summary

HRM is the set of activities directed at attracting, developing, and maintaining the effective workforce necessary to achieve a firm's objectives. Because the HR function is central to a firm's success, top managers should adopt a strategic perspective on it.

International HR needs are partially dictated by a firm's degree of internationalization. The relative degree of centralization versus decentralization of control also plays an important role. A basic staffing philosophy should be developed and followed.

Recruitment and selection are important elements of international HRM. Some firms choose to recruit experienced managers for foreign assignments, whereas others hire younger, and more likely inexperienced, managers. Various avenues may be used for either approach to recruiting. The selection of managers for foreign assignments usually involves consideration of both business and international skills. Managers and firms must address a variety of expatriation and repatriation issues.

Training and development also are important aspects of international HRM. The two principal components of this activity are the assessment of training needs and the selection of basic training methods and procedures.

A firm also must assess the performance of its international managers and determine their compensation. Compensation for expatriate managers usually includes a cost-of-living adjustment as well as special benefits.

Given the high cost of training and development of expatriates, firms need to focus special attention on managing retention and turnover. Each part of international HRM also must be addressed for the firm's nonmanagerial employees.

Labor relations pose an especially complex task for HR managers and often are handled by a special department. One key aspect of labor relations is collective bargaining, or negotiating agreements with unions.

Review Questions

19-1. Along what dimensions does domestic HRM differ from international HRM?

19-2. How does the degree of centralization or decentralization affect international staffing?

19-3. What are the basic issues involved in recruiting and selecting managers for foreign assignments?

19-4. What issues are at the core of expatriation and repatriation problems?

19-5. Why is performance appraisal important for international firms?

19-6. What special compensation and benefits issues arise in international HRM?

19-7. How does international HRM for nonmanagerial employees differ from that for managerial employees?

Questions for Discussion

19-8. How does HRM relate to other functional areas such as marketing, finance, and operations management?
19-9. Why and how does the scope of a firm's internationalization affect its HRM practices?
19-10. How are the different approaches to recruiting and selecting managers for foreign assignments similar and dissimilar?
19-11. Which are easier to assess, business skills or international skills? Why?
19-12. If you were being assigned to a foreign position, what specific training requests would you make of your employer?
19-13. Do you agree or disagree with the idea that some international assignments require special compensation?
19-14. How easy or difficult do you think it is to handle the equity issue in international compensation?
19-15. What does the high cost of replacing an international manager suggest regarding staffing philosophy?
19-16. Which do you think is easier, HRM for managerial employees or HRM for nonmanagerial employees? Why?

Building Global Skills

Assume you are the top HR manager for a large international firm. The head of your company's operation in Japan has just resigned unexpectedly to take a job with another firm. You must decide on a replacement as quickly as possible. You have developed the following list of potential candidates for the job:

- Jack Henderson: Henderson is a senior vice president based in your Chicago headquarters. Jack has a long and distinguished career with your firm, is well regarded by everyone, and plans to retire in three years. He has never worked outside the United States but is strongly and visibly lobbying for the job in Japan. Because you and your spouse socialize with Jack and his wife outside of work, you know she does not want to move from Chicago.
- Takeo Takahashi: Takahashi is the number two manager in your Japanese operation, although he has served in that role for only three months. He was born and raised in Japan. After attending college in the United States, he returned to Japan and went to work for your firm. Takeo is considered an emerging star in the company but is also relatively young and inexperienced. Your chief executive officer (CEO) prefers to appoint someone for the Japanese job with at least 15 years of company experience, and Takeo has only eight years of experience. He was being groomed to eventually take over the operation, but the just-departed top executive had been expected to serve until he reached retirement age in another seven years.
- Jane Yamaguchi: Yamaguchi is a Hawaiian-born manager currently heading up a major division for your company in the United States. She was a dual economics and Asian studies major at the University of Hawaii. For the last several years she has been studying the Japanese market and has become a true expert on that country. She enjoys traveling and spends as much time in Asia as possible. You know she would be interested in this job if it were offered, although you are concerned that her husband and two high-school-age children may not share her enthusiasm about living in Japan. In addition, you worry that if she is not offered a new challenge soon, she might start looking for another position.
- Jacques Moine: Moine is your most experienced international manager. Originally from France, Jacques has held senior management positions in your firm's operations in Germany, Spain, Canada, Argentina, and Mexico. Moine appears to be quite satisfied with his current posting in Mexico. Because that operation is both stable and efficient, it likely could be run by someone with less experience.

Working alone, carefully consider the strengths and weaknesses of each of the four leading candidates for the job. Select the individual you think is the best candidate.

Then form small groups of four or five students. Share with each other your individual choices for the job in Japan, along with the reasons for making those choices.

CLOSING CASE The Chicago Food and Beverage Company

The Chicago Food and Beverage Company (CFB Co.) is an American multinational with subsidiaries in North America, Europe, and Asia. Paul Fierman, a 34-year-old American manager, was appointed as the General Director of CFB Co. Vietnam with a mission to lead the subsidiary and implement the new organizational strategy.

Obtaining this expatriate position had not been difficult for Paul. In 1995, he earned his bachelor's degree in marketing from Cornell University. After graduation, Paul took a position as product manager in the marketing department at the New York subsidiary of CFB Co. Three years later, he became a manager for the carbonated nonalcoholic beverages of the Eastern American region. After two years in this position, Paul was put in charge of both carbonated and noncarbonated nonalcoholic drinks in the U.S. market. As a country manager, he was paid an annual base salary of $300,000 and 10 to 15 percent commission on sales. Although Paul was satisfied with his job, he wanted to reorientate his career toward general management positions in the company. Therefore, in 2002 he decided to undertake a full-time Masters in Business Administration studies in international management at Harvard Business School. After completing his MBA, Paul wanted to return to CFB Co., but in order be able to reach the pinnacle of his career, he thought he needed to acquire some international professional experience. The only international experience he had so far was a year spent in Oxford, United Kingdom, as an exchange program student. Paul kept in touch with his former supervisor at his first position within CFB Co., Allan Roger, Marketing Director of the New York subsidiary. Just before graduating from his MBA, Paul called Allan to discuss his potential return to the company.

Allan was very enthusiastic about this prospect:

> "The expatriate Managing Director of CFB Co. Haiphong, Vietnam, has just returned to the U.S. unexpectedly due to health problems, the headquarters are desperate to replace him as soon as possible. If you are interested, you can send me your application for the position of Managing Director in Vietnam, and I will forward it to the General Manager in Chicago. You have high potential in this company! Your lack of international experience is a problem...but it does not mean that you would not be able to prepare and implement, in collaboration with the regional director of Pacific Rim, the new strategy to integrate the three Asian subsidiaries. This expatriation would be an exceptional training experience for you, preparing you for a higher level managing position within the Chicago headquarters on your return to the U.S. three years later."

With his experience within CFB Co. and his high recommendations, Paul Fierman was a good candidate for this three-year expatriate position. He was perceived as a promising young manager due to his excellent academic background and the outstanding professional results he achieved during his employment within the company.

At that point, things moved very quickly. In March 2004, thanks to Allan's intervention and contacts, Paul met directly with the general manager in Chicago. Two weeks later, a notice of approval had been sent to Paul from the Chicago HR department, officially confirming his managing position in Vietnam. Robert Greenberg, managing director in charge of the Asia Pacific region, had been informed about Paul's nomination by Chicago's general manager himself. One month later, in April 2004, Paul began his new position in Haiphong. Before his departure he spent a couple of weeks preparing his move and organizing the rental of his house in New York. His wife Carrie and their seven-year-old daughter, Rachel joined him two months later in Haiphong. These two extra months gave Carrie enough time to have her resignation accepted by her employer. In the meantime, Paul settled into their new Vietnamese house and enrolled their daughter at the Haiphong international school. Before his departure, Paul bought three books on Vietnam in order to get some preliminary knowledge about the general business context of the country. However, his readings on culture and the economic and political history of Vietnam seemed to be too disconnected from today's business reality.

One week before his arrival in Vietnam, Paul had a three-hour meeting with Robert Greenberg in New York. Robert showed him the outlines of the corporate strategy aiming at creating synergies among the three Asian subsidiaries. Since then, they never spoke to each other directly. Six months after his arrival in Vietnam, Paul was feeling extremely frustrated.

> "I feel very frustrated by the results of my work in the subsidiary and the relationships I have with my Vietnamese colleagues. The financial situation of the subsidiary six months after my arrival is very bad: declining revenues, decreasing motivation of Vietnamese plant workers and staff, lack of cooperation on behalf of local management, etc. The implementation of the new organizational strategy is far from even getting off the ground! I have to handle all these problems alone. I have the impression that my work does not produce any of the expected results."

Case Questions

19-17. Which staffing philosophy do you recognize at CFB Co.?

19-18. How would you have organized the recruitment and selection of the right candidate?

19-19. How well was Paul prepared for his expatriation?

19-20. Suggest how Robert Greenberg could support Paul in an effective manner as his direct line manager.

Source: V. Bodolica and M. F. Waxin, International HRM Case Study, "Chicago Food and Beverage Company: The Challenges of Managing International Assignments," *Journal of International Academy For Case Studies*, 13, 3 (2007), pp. 31–43.

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19-21. How interested are you personally in working in a different country? What would be your preferred top two or three countries? What countries would be of least interest to you?

19-22. Why is labor union membership growing in some countries and shrinking in others?

19-23. Mymanagementlab Only—comprehensive writing assignment for this chapter.

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PART 4 CLOSING CASES

The Aramco Advantage

Between the years 1979 and 1981 Saudi Arabia had a major disagreement with the other members of the Organization of Petroleum Exporting Countries (OPEC) about the appropriate price to charge for a barrel of crude oil. So-called OPEC hawks wanted to keep the price of oil high. Saudi Arabia, fearful that high prices would encourage other countries to explore for new, low-cost oil fields and stimulate consumers to conserve on energy usage, believed the most profitable long-run strategy was to keep prices low. The Saudis' actions resulted in the creation of the "Aramco advantage," and the world's largest tax refund involving transfer pricing.

Aramco was a consortium of four U.S. oil companies—Chevron, Exxon, Mobil, and Texaco—that originally controlled the Saudi oil fields. (Exxon and Mobil have subsequently merged, as have Chevron and Texaco.) After its oil reserves were expropriated by the Saudi government in the 1970s, Aramco continued to play a major role in marketing Saudi oil. The Aramco advantage began in January 1979 when Ahmed Zaki Yamani, the Saudi oil minister, wrote a letter to Aramco forbidding it to sell Saudi oil for more than the price set by Yamani's ministry. This price was well below the world market price for crude oil. The Aramco partners, not wishing to displease the Saudi government, dutifully complied with Yamani's request. They sold the crude oil to their foreign refineries at Yamani's price and then refined the oil into gasoline, diesel fuel, and other petroleum products. Yamani's directive, however, covered only the price of crude oil. Each company was free to sell the refined products at their market prices, which the four companies did. Because they were buying the crude oil at less than the market price, the refining operations of the Aramco partners were soon making money hand over fist. (In case you are wondering, Yamani was not ignorant of the impact of his letter. He had numerous political reasons for his actions.)

The impact of the Aramco advantage was enormous. Exxon's refineries earned an additional $4.5 billion from 1979 to 1981, and Texaco's refineries netted an estimated $1.8 billion. Because these profits were earned by the companies' foreign refinery subsidiaries, the profits could be sheltered from U.S. taxation thanks to the deferral rule—or so the companies thought. The U.S. Internal Revenue Service (IRS) had a different view, arguing that it was the marketing activities of the two companies that were responsible for the profits, not the refining operations. Accordingly, the IRS claimed that $4.5 billion in income should be transferred to Exxon (the parent corporation) from its foreign refineries and that Texaco should make a similar shift of $1.8 billion. Having done so, the companies then should be required to pay U.S. corporate income taxes on these earnings.

Not surprisingly, the companies resisted the IRS's interpretation. They said they were following the explicit instructions of the minister of a sovereign, friendly nation. Because of Yamani's directive, Texaco and Exxon asserted that the parent companies were unable to directly benefit from lower crude oil prices because the companies were forbidden to resell the oil at the market price. Rather, they noted that the Aramco advantage could be captured only by someone operating further down in the production-distribution chain. As things turned out, it was the next link in the chain—the foreign refineries owned by the individual Aramco partners—that garnered the Aramco advantage. Exxon and Texaco also pointed out that the United States had been putting great diplomatic pressure on the Saudis to lower the price of crude oil and that U.S. officials were well aware that the result of this policy would be increased refining profits.

Texaco's case was the first to complete its long journey through the U.S. judicial system. The U.S. Tax Court agreed with Texaco's interpretation. The court found that the $1.8 billion in additional profits generated by the Aramco advantage were earned by Texaco's foreign refining subsidiaries and not subject to U.S. corporate income taxes unless and until the profits were repatriated back to the parent corporation in the form of dividends. A federal appeals court upheld the verdict of the Tax Court, and in April 1997 the U.S. Supreme Court refused to hear the IRS's appeal of the appeals court decision. Texaco's tax refund was estimated to be $700 million.

Case Questions

P4-1. Which unit of Texaco really "earned" the Aramco advantage? Aramco itself? Texaco's foreign refineries? Texaco's marketing operations? Or the parent corporation?

P4-2. Had Aramco sold the crude oil to Texaco's U.S. refineries, would Texaco have been able to avoid U.S. taxation on the Aramco advantage?

P4-3. Because Minister Yamani created the Aramco advantage partly in response to U.S. diplomatic pressure, should Exxon and Texaco have been required to sell their allotment of Saudi crude oil to their domestic refineries?

P4-4. The IRS lawyers argued that the appeals court ruling amounted to a "blueprint for the evasion of U.S. taxes. [It] . . . creates substantial tax incentives for United States corporations to encourage or to endure the adoption of profitable foreign 'legal restrictions' that 'require' such corporations to avoid United States taxation." Do you agree with the IRS position? Or is it just being a crybaby because it lost?

Sources: "Court blocks challenge of big tax refund for Texaco," *New York Times,* April 22, 1997, p. C1; "Texaco wins billion-dollar tax battle," *Houston Chronicle,* April 22, 1997, p. 1C.

The Power of Microfinance: The Grameen Bank

The lack of a well-functioning credit market is often a hindrance to rural villagers and farmers in developing countries. Living from harvest to harvest, the rural poor are vulnerable to the vagaries of the weather. When the previous harvest fails, far too often rural farmers are forced to borrow sums to plant the next crop at extortionate interest rates that keep them indebted to the money lenders.

To break this cycle of poverty, a new form of lending to the poor has emerged: microfinance. Microfinance institutions typically focus on making small loans—typically from $25 to $200—to rural entrepreneurs to begin or expand a small business. Microfinance lenders oftentimes provide other services to the rural villagers they serve, including offering savings accounts, life insurance, and basic health care.

The founder of the microfinance movement is Muhammad Yunus, an economics professor at Bangladesh's Chittagong University. In 1976, he made a small loan out of his own pocket to local craft makers in a nearby village. That $27 loan was the inspiration for the Grameen Bank, the world's most successful microfinance institution. Since its founding in 1983, the Grameen Bank has lent more than $5 billion to 5.3 million people and inspired more than 3,000 imitators who have reached an additional 93 million clients. Yunus and the Grameen Bank were awarded the 2006 Nobel Peace Prize in recognition of their accomplishments.

Traditional banks focus on making large loans to credit-worthy, ongoing businesses. Yunus turned Grameen's attention to the needs of the rural poor in Bangladesh. Most bank loans are to men. Yunus believed that Grameen should focus on lending to women because they were more likely to recognize the needs of their families and their communities: 96 percent of Grameen's loans are to women. Often they were illiterate, so Grameen dispensed with paperwork. Often they lacked collateral, so Grameen developed a new lending model based on trust and peer pressure. Loans are made to individuals in lending groups, consisting of 5 to 10 members. Social pressure from members of the group encourages each borrower to make her loan payments on time. Default rates on Grameen loans are remarkably small: 1 to 2 percent, on average, although they soared after the catastrophic 1998 flood that devastated Bangladesh.

Buoyed by the success of its microfinance operations, the Grameen Group has developed new ways to alleviate rural poverty. Grameen Telecom has teamed with Norway's Telenor to provide cell phone service in rural villages. The Grameen Bank provides small loans to "village telephone ladies" to buy a cell phone. The telephone lady then charges villagers a small fee to use the cell phone, which has allowed local entrepreneurs to identify new markets and lower their costs of doing business. The Grameen Group also created a joint venture with Danone SA, the giant French food conglomerate, to improve nutrition in Bangladesh through the provision of healthier foods and to reduce poverty by developing new markets for poor local farmers. Grameen Danone's first product is low-priced Shoktidoi yogurt (Bengali for "yogurt that makes you strong"), which sells for about 6 eurocents a cup. Shoktidoi yogurt is formulated to address nutritional deficiencies of the local children—an estimated 56 percent of Bangladeshi children suffer from malnutrition—using locally sourced milk and molasses made from dates.

Case Questions

P4-5. How transferable is the Grameen Bank's business model? Would it work in your country? How important are the cultural values of Bangladeshi society to its success?

P4-6. Numerous banks and venture capitalists have established for-profit microfinance companies to provide small loans to villagers in India and in numerous African nations. Yet some critics have argued it is immoral to profit from the poverty of these impoverished peoples. Do you agree? Should microfinance be limited to not for profit organizations like Grameen Bank?

P4-7. Grameen Bank has teamed with Telenor and Danone to provide telephone service and a low-priced, but nutritious yogurt. Can you think of any other goods or services that could benefit the rural poor through joint ventures between nonprofit organizations and for-profit international businesses?

Sources: "Microfinance falls short of initial promise," *Houston Chronicle*, March 13, 2011, D6; Danone Social and Economic Report 2006; "Nobel winner Yunus: Microcredit missionary," *BusinessWeek*, December 26, 2005 (online); Mainsah, Evaristus, Heuer, Schuyler, Kalra, Aprajita, and Zhang, Qiulin, "Grameen Bank: Taking capitalism to the poor," *Chazen Web Journal of International Business*, Spring 2004, Columbia Business School (online); http://www.grameenfoundation.org

Nucor Navigates the New Global Economy

For decades the U.S. steel industry was dominated by large steel companies such as U.S. Steel and Bethlehem Steel. These industry giants operated a small number of mammoth mills that churned out millions of tons of steel each year. "Big Steel" prospered during the 1940s, 1950s, and 1960s as businesses around the world expanded and drove up demand—and prices—for steel. But their contentious relations with the United Steelworkers union—"Big Steel" and the United Steelworkers union typified the "us vs. them" mentality that dominated labor relations during those decades—stifled innovation and flexibility.

Big Steel's stagnation allowed emerging competitors in countries such as Japan and South Korea to pioneer new technologies and approaches to making steel. One such innovation was the so-called mini-mill—a smaller and more efficient production facility that could be located closer to customers.

Because they simply failed to innovate, U.S. Steel no longer dominates the North American market and Bethlehem has vanished. In their place, though, have arisen several formidable U.S. mini-mills, most notably Nucor Steel. Nucor dominates the mini-mill segment in the United States, in large part because of its emphasis on innovative human resource management (HRM) practices. Virtually all Nucor employees have their wages and salaries tied directly to productivity and performance. So, when demand is strong and Nucor is operating efficiently all its employees earn more. On the other hand, when demand slows or when a plant is not operating efficiently all of its employees receive less compensation. To see how this works, consider what Nucor has gone through in the last few years.

For the most part, 2008 was a pretty good year for Nucor. In fact, net earnings hit a record \$1.83 billion; net sales also set a record—\$23.6 billion, up 43 percent over 2007. Unfortunately, despite such record-setting year-end numbers, the fourth quarter of 2008 was a disaster. Net earnings for the last three months of the year came to \$105.9 million—down a whopping 71 percent from \$364.8 million for the fourth quarter of fiscal 2007. "The record sales and earnings achieved by Nucor in 2008," said chairman and CEO Daniel R. DiMicco, "were accomplished in spite of the unprecedented economic and steel-market conditions that we experienced in the fourth quarter."

Referring again to "the unprecedented speed and magnitude of the global economy's decline," DiMicco went on to forecast an equally dismal first quarter—and beyond—for fiscal 2009. In January, with the capacity utilization of its mills down from 95 percent to 50 percent and its stock down by more than 10 percent, Nucor management passed out one-time bonuses of \$1,000 to \$2,000 to all of the firm's workers, at a total cost to the company of \$40 million. In March, management distributed another \$270 million in profit sharing. Things had gotten bad and were looking worse, but "we're making money. We've got jobs," explained one veteran executive.

Indeed, Nucor still had *all* of its jobs. Hit by a 50-percent plunge in output that had begun in September 2008, the U.S. steel industry had laid off some 10,000 workers by January 2010, and the United Steelworkers union was expecting the number to double before the recession came to an end. As of the end of 2009, however, Nucor had refused to follow suit in laying anyone off. At its 11 U.S. facilities, Nucor employees were rewriting safety manuals, getting a headstart on maintenance jobs, mowing the lawns, and cleaning the bathrooms—but they were still drawing paychecks. "Financially," says one employee at the company's facility in Crawfordsville, Indiana, "Nucor workers are still better off than most."

As far as DiMicco is concerned, the company's ability to survive the current economic crisis will depend on several factors, "most importantly, our employees and the Nucor culture." What's that culture like? It originated in the 1960s as the result of policies established by Ken Iverson, who brought a radical perspective on how to manage a company's human resources (HR) to the job of chief executive officer (CEO). Iverson figured that workers would be much more productive if an employer went out of its way to share authority with them, respect what they accomplished, and compensate them as handsomely as possible. Today, the basics of the company's HR model are summed up in its "Employee Relations Principles":

1. Management is obligated to manage Nucor in such a way that employees will have the opportunity to earn according to their productivity.
2. Employees should feel confident that if they do their jobs properly, they will have a job tomorrow.
3. Employees have the right to be treated fairly and must believe that they will be.
4. Employees must have an avenue of appeal when they believe they are being treated unfairly.

The Iverson approach is based on motivation, and the key to that approach is a highly original pay system. Step 1, which calls for base pay below the industry average, probably doesn't seem like a promising start, but the Nucor compensation plan is designed to get better as the results of the work get better. If a shift, for example, can turn out a defect-free batch of steel, every worker is entitled to a bonus that's paid weekly and which can potentially triple his or her take-home pay. In addition, there are one-time annual bonuses and profit-sharing payouts. In 2005, for instance, Nucor had an especially good year: It shipped more steel than any other U.S. producer, and net income hit \$1.3 billion, up from \$311 million in 2000. The average steelworker took home \$79,000 in base pay and weekly bonuses, plus a \$2,000 year-end bonus and an average of \$18,000 in profit-sharing money.

The system, however, cuts both ways. Take that defect-free batch of steel, for example. If there's a problem with a batch, workers on the shift obviously don't get any weekly bonus. And that's if they catch the problem before the batch leaves the plant. If it reaches the customer, they may *lose* up to three times what they would have received as a bonus. "In average-to-bad years," adds HR vice president James M. Coblin, "we earn less than our peers in other companies. That's supposed to teach us that we don't want to be average or bad. We want to be good." For the first quarter of fiscal 2009, total pay at Nucor was down by about 40 percent.

Everybody in the company, from janitors to the CEO, is covered by some form of incentive plan tied to various goals and targets. We've just described the Production Incentive Plan, which covers operating and maintenance workers and supervisors and which may boost base salaries by 80 percent to 150 percent. Bonuses for department managers are based on a return-on-assets formula tied to divisional performance, as are bonuses under the Non-Production and Non-Department–Manager Plan, which covers everyone, except senior officers, not included in either of the first two plans; bonuses under both manager plans may increase base pay by 75 percent to 90 percent. Senior officers don't work under contracts or get pension or retirement plans, and their base salaries are below industry average. In a world in which the typical CEO makes more than 400 times what a factory worker makes, Nucor CEO DiMicco makes considerably less. In the banner year of 2005, for example, his combined salary and bonus (about $2.3 million) came to 23 times the total taken home by the average Nucor factory worker. His bonus and those of other top managers are based on a ratio of net income to stockholder's equity.

Nucor needs just four incentive plans because of an unusually flat organizational structure—another Iverson innovation. There are just four layers of organization between a janitor and senior management: general managers, department managers, line supervisors, and hourly personnel. Most operating decisions are made at the divisional level or lower, and the company is known for its tolerance of honest mistakes made in the line of decision-making duty. The Nucor website quotes an unnamed executive as saying, "Workers excel here because they are allowed to fail," and goes on to explain that the occasional misstep is considered a good trade-off for the benefits of initiative and idea sharing: "Nucor managers at all levels encourage their employees to try out their new ideas. Sometimes the ideas work out, sometimes they don't. But this freedom to try helps give Nucor one of the most creative, get-it-done work forces in the world."

The Nucor system works not only because employees share financial risks and benefits but because, in sharing risks and benefits, they're a lot like owners. And people who think like owners are a lot more likely to take the initiative when decisions have to be made or problems solved. What's more, Nucor has found that teamwork is a good incubator for initiative as well as idea sharing. John J. Ferriola, who managed the Nucor mill in Hickman, Arkansas, before becoming chief operating officer, remembers an afternoon in March 2006 when the electrical grid at his facility went down. His electricians got on the phone to three other company electricians, one in Alabama and two in North Carolina, who dropped what they were doing and went straight to Arkansas. Working 20-hour shifts, the joint team had the plant up and running again in three days (as opposed to an anticipated full week). There was nothing in it (at least financially) for the visiting electricians, but they knew that maintenance personnel get no bonuses when equipment in their facility isn't operating. "At Nucor," says one front-line supervisor, we're not 'you guys' and 'us guys.' It's all of us guys. Wherever the bottleneck is, we go there, and everyone works on it."

Nucor also likes to see teamwork—cooperation and idea sharing—combined with a little productive competition. Plant managers often set up contests between shifts to improve efficiency, output, or safety, but sometimes the effort of a work group to give itself a competitive edge can be taken to another level. In 2002, the Nucor plant in Crawfordsville, Indiana, was a pioneer in the development of an innovative process called thin-strip steel casting, and, as of 2008, it was still setting record for continuous output from the process. The facility, however, isn't located near any major waterway and is thus at a disadvantage when it comes to transportation costs, especially when fuel prices are high. So General Manager Ron Dickerson and his employees collaborated on a plan not only to get around the problem but to increase profitability at the same time. Because it was too expensive for them to ship sheet steel as wide as that regularly made by competitors (including other Nucor-owned plants), Crawfordsville management and workers campaigned for the opportunity to shift the plant's focus to other types of steel.

It was a risky proposition, but today Crawfordsville turns out 160 different grades of steel. Some of them present manufacturing difficulties which employees have had to solve over time, but making the new processes work meant more orders for the plant and more hours for its employees. By the first quarter of 2008, the plant was setting production and shipment records. "We're continually expanding product ranges and the types of steel we make," says Dickerson, who continues to look forward, particularly to the opportunity to apply the Nucor brand of employee initiative to new technologies. "Nucor has a couple of other things going on," he notes, "and it's not yet decided where they'll make an investment. [But] Crawfordsville is known for successful startups, so I'm hoping we get some of these new technologies."

Case Questions

P4-8. Instead of a system of individual performance appraisals, Nucor appraises employee performance according to division-wide quality, productivity, and profitability goals and targets. What are the advantages and disadvantages of this approach?

P4-9. Identify the incentives—both financial and nonfinancial—that Nucor uses to motivate employees.

P4-10. How does Nucor's flat organizational structure contribute to the success of its compensation system?

P4-11. Many firms today use temporary, part-time, or virtual workers to reduce costs and gain flexibility. Nucor has never taken this route. Should management consider it in the future? Why or why not?

P4-12. CEO Dan DiMicco believes that when the economy turns around, Nucor will be "first out of the box" in the steel industry. What reasons does he have for being so optimistic?

P4-13. Can Nucor's HR strategies be successful in other countries or other cultures?

P4-14. Analyze Nucor's approach from the perspective of Hofstede's cultural analysis. Which cultural values are most compatible with Nucor's approach? Defend your answer.

Sources: "Pain, But No Layoffs at Nucor," *BusinessWeek,* March 26, 2009, pp. 48–50; "The Art of Motivation," *BusinessWeek,* May 1, 2006, pp. 76–77; "Nucor Reports Record Results for 2008," Reuters, January 27, 2010; "Steel Industry, In Slump, Looks to Federal Stimulus," *New York Times,* January 2, 2009, pp. B1, B5; Nucor.com.