



EIILM UNIVERSITY
S I K K I M

**INTERNATIONAL HUMAN RESOURCE
MANAGEMENT**

SYLLABUS

Introduction and Overview

The scope of IHRM, Variables that Moderate Differences between domestic and International HRM. International Human Resource Management Approaches – The Path to Global Status – Mode of Operation

International Staffing & Performance Management

Executive Nationality Issues- Staffing Policies – Issues in Staff Selection, Multinational Performance Management – Factors associated with Individual Performance and Appraisal – Criteria Used for Performance Appraisal of International Employees

Training and Development& Compensation

Expatriate Training – Developing International Staff and Multinational Teams, Approaches to International Compensation

Labor Relations

Key issues in International Labor Relations – Labor Unions and International Labor relations – The response of Labor Unions to Multinationals – Regional Integration – The European Union (EU) – Regional Integration – The North American Free Trade Agreement (NAFTA)

Issues, Challenges, and Theoretical Developments in IHRM

Managing people in an International Context – India – Human Resources Issues in Multinational corporate Social responsibility –concluding remarks, HR Practices in UK, USA and Japan

Suggested Readings:

1. Pemberton, William E. "Human Rights: Humanistic Visions, Imperialistic Realities," University of Wisconsin-La Crosse.
2. Stajkovic, Alexander D. and Fred Luthans "Business Ethics Across Cultures: A Social Cognitive Model" in Best Practices in International Business edited by Michael R. Czinkota and Ilka A. Ronkainen, Harcourt College Publishers.
3. Pena, Leticia "Values in International Business: Faces of a Faceless Labor Force," Journal of Human Values, 4: 1, Sage Publications.

COURSE OVERVIEW

The Course is designed to build a knowledge base of the contemporary practices and issues in International Human Resource Management.

This course examines how country level differences in factors such as labour employment laws and trade union interact with national cultural expectations to create distinctive employment systems between the countries. An implication that managing Human Resource vary from country to country. It provides a thorough understanding of how to design and implement HR practices which meet the dual demands of global integration and local flexibility. It will examine how re-sourcing, rewarding and development practices need to be adapted when working in a cross border environment.

The aim of the course is to provide an understanding of the theoretical concepts and the practical implications of international HRM and to take strategic view of some of the new developments in international HRM. In particular it looks at HR's role on creating organizational capability on global scale and gives an overview of human resource management in an international environment. The emergence of the multinational enterprise as a dominant institution in world economy has resulted in the importance of understanding not only multinational enterprises themselves, but also the activities of the people working within these and similar multi-cultural organizations.

This course examines how country level differences in factors such as labour employment laws and trade union interact with national cultural expectations to create distinctive employment systems between the countries. An implication that managing Human Resource vary from country to country. It provides a thorough understanding of how to design and implement HR practices which meet the dual demands of global integration and local flexibility. It will examine how re-sourcing, rewarding and development practices need to be adapted when working in a cross border environment.

It will contextualize a diversity of human resource practices in corporate strategy and organization development in conditions of globalization. On successful completion of the course students will be able to understand distinctive features of International HRM. Appreciate links between corporate strategy, organizational structure, corporate culture and their impact on HRM in an international setting, the significance of cross-cultural differences in management theory and practice, explain the differences and similarities among countries in the practice of major human resource management functions, and describe the major employment policies of multinational companies and the potential problems of cross-cultural differences.

The detailed syllabus, analyzes the relevance of this knowledge base in today's global work culture, wherein students learn to appreciate behavioral nuances and value systems of the work force in a multi-cultural setting. The course requires the students to inculcate the corporate etiquettes needed to manage people in an International environment.

Learning Objectives

1. Why is the study of International Human Resource Management important for businesses?
2. How the course or practice of Human Resource Management is studied, understood or approached? It is discussed under the head ‘ Approaches to International Human Resource Management’
3. What is ‘International Human Resource Management’? Definition of ‘International Human Resource Management’ will give you a broad outline about what is in this subject? You will also learn about PCNs, HCNs. and TCNs.

Introduction

Importance of International Human Resource Management

International business is dynamic. Business is crossing borders. Globalization is gaining momentum. Markets are no longer protected from foreign competition. Markets are now open for competition from both domestic and foreign firms. A large proportion of workforce are located in other countries away from their homes and home countries.

For example, Ford Motor Company has half its employees outside the United States, Philips has three-fourths of its employees working outside the Netherlands and more than half of Ericsson’s workforce is located outside Sweden.

Issues of managing business are becoming more and more complex in the same pace as globalization is taking place. The unusual level of foreign competition in both domestic and foreign markets is forcing businesses to find and retain the competitive advantage. Finding and nurturing the suitable and capable human resources in the context of high competition at both domestic and international levels is high on the list of priorities of the top managements. Quality human resources are a must for implementing global competitive strategies. Firms expanding into international markets are put under additional pressure to manage their limited resources and for such firms managing human resources is more essential than any other firm. Any problem is either created by people or must be solved by people. Having right people in the right place at the right time is key to a company’s international growth.

Approaches to International Human Resource Management

Cross-cultural Management: One approach stresses on cross-cultural management. It examines human behavior within organizations from an international perspective. Culture which varies from country to country at least on a few dimensions like family, work ethics, business practices etc. It makes all the difference.

Comparative Industrial Relations: The second approach, which was developed from comparative industrial relations describes, compares and analyses HRM systems in various countries. It is a study of countries, their work patterns and managerial practices.

Management of Multinational Firms: The third approach focuses on aspects of HRM in multinational firms. In this the focus is on the management of multinational firms having operations in different countries and finding universal principles that apply to the operations of the multinationals across the world.

What is International HRM?

Let us first examine what activities constitute HRM. All those activities undertaken by an organization to utilize its human resources effectively makes HRM. Those activities include:

- Human Resource Planning
- Staffing
- Performance management
- Training and development
- Compensation and benefits
- Labor relations

The above activities will have a change whenever a firm or its HRM goes international.

Three Dimensions of International HRM activities:

1. Procurement, allocation, and utilization of human resources. These are listed under HRM.
2. Three national or country categories involved in international HRM activities are:
 - the host country where a subsidiary may be located,
 - the home country where the firm is headquartered, and,
 - the 'other' countries that may be source of labor or finance.
3. The three types of employees of an international firm:
 - the host country nationals (**HCNs**),
 - the parent-country nationals (**PCNs**), and
 - the third country nationals (**TCNs**).

Thus, for example, IBM employs Australian citizens (HCNs) in its Australian operations, often sends US citizens(HCNs) to Asia-Pacific countries on assignment, and may send some of its Singaporean employees on an assignment to its Japanese Operations (as TCNs).

Model of International HRM

International HRM has been defined by Morgan as the interplay among three dimensions namely human resource activities, types of employees, and countries of operation.

Activities of HRM in international scene are the same as those of domestic HRM except that in the former the activities are done in home country.

The relevant issues that arise out of operating in different countries and employing different national categories of workers is a key variable that differentiates domestic and international HRM rather than anything else. Failures of several international firms are linked to the poor international human resource management. Study conducted by Desatnick and Bennet on large US multinational firm confirm the above statement.

Now there is a tendency that domestic firms are taking the models offered by international HRM to manage diversity of workforce. But it needs some modification while applying principles of managing domestic workforce diversity to international HRM.

Summary

You have learned in this lesson that:

The importance of study of International Human Resource Management. Globalization of business makes this study very important.

The approaches to study were learnt. Three approaches are:

- Cross-cultural management,
- Comparative industrial relations, and,
- HRM in multinational firms.

The function of International Human Resource Management was defined. International HRM is the interplay among themselves the three dimensions:

- Human resource activities,
- Types of employees, and
- Countries of operation.

The questions that must prick your mind

1. Is the study of International HRM for a Management student? How?
2. International HRM looks very vast? How can one study it?
3. What constitutes International Human Resource Management?

LESSON 2

International HRM vis-à-vis Domestic HRM: Core Concepts

Learning Objectives

1. What activities in the ‘International Human Resource Management’ are over and above the domestic HRM? How is it different from the within-the-nation practice of HRM?
2. Familiarize you with the extra HR activities that are incremental to domestic HRM.
3. Why broader perspective is necessary for International HRM?
4. How employees personal or family lives are a focus in Internal HRM unlike domestic HRM?
5. What are different ways of workforce mix of expatriates and locals?
6. Does risk involved in International business affect HRM?
7. What are the external influences that impact on International HRM?

Introduction

There are seven factors, which differentiates international HRM from domestic HRM. They are:

1. More HR activities
2. Tax Laws
3. International Relocation and orientation
4. Administrative services
5. Relationship with Host-government
6. Provision of language translation services
7. More involvement in employee’s personal lives
8. Risk Exposure
9. More external influences

We will study each of the above one after the other.

More HR Activities

International environment requires the HR department to undertake more HR activities than those in domestic HR. They are: international taxation, international relocation and orientation, administrative services for expatriates, host government relations, and language translation services.

Tax Laws

Expatriates, the nationals working in different country other than their native land are subject to laws of the both the nations, both home and host countries. The HR department should design the remuneration so as to equalize the impact of taxes in such a way that there is neither tax incentive or disincentive. Tax laws are widely different in different countries. Tax liabilities in many cases arise after the foreign assignment is finished. To avoid tax problems, generally the services of an accounting firm are taken.

International relocation and orientation

International relocation and orientation involves activities like imparting of pre-departure training; providing of immigration and travel details; providing housing, shopping, medical care, recreation, and schooling information; and finalizing compensation details such as delivery of salary abroad, determination of various international allowances, and taxation treatment.

The above issues may give rise to problems if considerable time and care are not given on them.

Administrative Services

A multinational firm also has to provide administrative services for expatriates in the host country in which it operates.

The policies and procedures with regard to these services are not always clear cut and may conflict with local countries. An ethical and legal practice in one country is an unethical and unacceptable practice in another.

For example, AIDS test in one country is a must in one country but the same is unacceptable for an employee of another country.

These issues must be resolved by the HR function. Such issues add complexity to the provision of services to the employee under relocation.

Host –Government Relations

HR department should take care of relationship with host government employees since particularly in developing nations work permits and other certificates are more easily obtained when a personal relationship exists between relevant government employees and multinational managers.

Provision of Language Translation Services

Provision of language translation services for internal and external correspondence is an additional international HR activity. It is, if necessary, expanded to provide translation service to all foreign operation departments within the multinational.

More Involvement in Employees' Personal Lives

The HR professional or HR department has to see that the expatriate employee understands housing arrangements, health care and all aspects of the compensation package provided for the assignment (like cost-of- living allowances, premiums, taxes etc.) Many multinational have an ‘ International HR Services’ section that coordinates administration of the above programs and provides services for PCNs and TCNs such as handling their banking, investments, home rental while on assignment, coordinating home visits, and final repatriation.

In the domestic service, the involvement of HR with employee's family is limited. In the international setting, the HR department should know the personal life and needs of the employee in order to give necessary support.

For example, in the cases of requirement of marriage certificate for issue of visa for an employee being sent on foreign assignment, the HR department will do advise the bachelors as

to how they can remain in the selection process for assignment. Apart from providing housing and schooling in the assignment location, the HR department needs to care of the left-behind children with regard to their schooling and boarding. In areas of remote location, the HR department should arrange for recreation facilities also. Generally in domestic setting, all these are the responsibility of employee himself. Changes in Emphasis as the workforce Mix of PCNs and HCNs varies.

Over a period of time as the foreign operations grow and evolve, the emphasis on certain activities change. More local trained people become available. Resources previously allotted on such activities as expatriate taxation, relocation etc will be transferred to activities such as local staff selection, training, management development etc. It is how the responsibilities and activities of local HR become broader.

Risk Exposure

An employee sent on foreign assignment may fail and come back to home country. Costs of such failure are three times higher than those in domestic service. Such failure also causes indirect costs like loss of market share and damage to customer relationships. Terrorist problems should also be properly assessed and safety should be planned by HR function. Emergency evacuation plans should be devised by HR.

More External Influences

Major external factors like type of government, state of the economy and accepted practices of doing business in host country influence the international HRM of multinational firms. For example, a host country can dictate hiring terms. In Malaysia, the local Malays should be adequately employed and periodical returns should be sent on employment patterns of different ethnic groups.

In developed countries, the labor is expensive and certain legal requirements have to be met. In less developed countries, the labor is cheap and employment regulations are relatively liberal and consequently the burden on HR management is less. The subsidiary HR manager should also learn the local business conventions and code of conduct like in the areas of gift-giving etc.

Summary

International HR concerns itself with more activities, like international taxation, international relocation and reorientation, administrative services for expatriates, host country government relations, and language translation services which are not there in domestic HR. Since the international HR cuts across more than one nation, a broader perspective in stead of single-country specific mindset is necessary.

It touches upon personal and family lives of the employees on transnational assignment. Certain items of work in international HR which were in the beginning slowly lose importance as the firm matures.

Unforeseen events like wars etc should be properly thought of. External uncontrollable factors like changes in host country economy influence the international HR.

The questions that should prick your mind

1. What are the two important activities of international HR that are different from domestic HR?
2. Why is a greater degree of involvement in employee's personal lives inevitable in many international HRM activities?

LESSON 3

International HRM vis-à-vis Domestic HRM: Moderating Variables

Learning Objectives

1. The factors that increase or decrease the differences between domestic and international HRM.
2. How cultural environment impacts international HR as different from domestic HR?
3. What is the importance of cultural awareness?
4. How do variables like type of industry, the dependence of the multinational on its home country and attitudes of senior managements moderate the difference between domestic and international HR?
5. Is the role of international HR expanding?

Introduction

We have so far learnt that because of involvement of different countries and different nationals in HR at international level the subject has become complicated when compared it to domestic HR. Besides this, there are other factors also which widen or make narrower the difference between international and domestic HR. Now let us take a look at each of them.

There are four variables that moderate (i.e. either diminish or accentuate) the differences between domestic and international HRM.

- Cultural Environment
- The industry with which the multinational is primarily involved
- The extent of reliance of the multinational on its home country domestic market
- The Attitude of Senior Management

We will examine each of above variables.

1. Cultural Environment

Culture is a Shaping Process Members of a group or a society share a distinct way of life with common values, attitudes, and behaviors that are passed over time from generation to generation in a gradual, yet dynamic process. A Person is Not Born With a Certain Attitude He acquires it through socialization process and hands it down to the next generation.

Culture is so invisible, but affective a process that one is not always aware of its effect on values, attitudes, and behaviors. By reading a novel or story about a group of men of a particular culture, the differences can not be understood.

The differences of culture can be better appreciated only when one directly deals with them in real life- like living with them or interacting with them. This is called '**culture shock**' which is phenomenon experienced by people moving across different cultures. The new environment

requires many adjustments in a relatively short period of time, since it challenges people's established thinking pattern to such an extent that their identity especially in terms of nationality, comes into question. People experience shock reaction to new cultural experiences. This is because people misunderstand or do not recognize important cues.

Culture shock can lead to negative feelings about the host country and its people and desire to return home. International business involves the interaction and movement of people across national boundaries.

Awareness of cultural differences is essential for those going out on foreign assignment as well as for those managing the HR function. One issue of cross-cultural understanding is that relating to distinction between **emic** and **etic** aspects. Emic is about culture-specific aspects of concepts or behavior. Etic is about culture-common aspects. Etic approach led to convergence theory. Etic approach is based on the assumption that the principles and practices of management are universal and hence applicable to every land. Local differences should be changed to meet the universal practices.

Etic approach led to divergence theory. Principles and practices are not universal in that they are divergent and hence local differences should be allowed. Etic assumptions led to the erroneous prediction that Japan would fall behind in industrial performance unless it adapts itself to the US practices which were thought to be universal. Appreciation of cultural diversity as assumed in emic or divergence approach is as necessary as the appreciation of universality of certain principles or cultural commonalities as in etic or convergence approach.

Importance of Cultural Awareness

It is now generally recognized that culturally insensitive attitudes and behaviors stemming from ignorance or from misguided belief (' my way is the best' or 'what works at home will work here') are not only improper but cause painful business failures. Hence HR managers and both headquarters and host country should be aware of the cultural differences. Activities such as hiring, promoting, rewarding and dismissal will be determined by the practices of the host country. Generally a local person is appointed as HR manager who should report to the boss relocated from headquarters. In such cases what the local HR manager does may not agreeable to the boss from the headquarters.

Suppose a local HR manager in Thailand has appointed all his relatives in the office; it is a folly of favoritism or nepotism as per boss' home country practices, but it is a responsibility of local HR manager to help his relatives.

Another example of bringing home country ideas to host country and its subsequent repercussions or failures is related to the banning of chewing of betel in Papua of New Guinea. In a multinational company operating in New Guinea has noticed that more accidents were taking place among drivers operating heavy earth moving equipment.

The expatriate manager linking accidents to use of stimulants like betel-chewing, has banned it. But in another move to reduce accidents, free coffee was provided at loading points and

the drivers were required to alight from the vehicles at these locations to drink it. What the expatriates did not realize was that betel nut like culturally acceptable coffee was a stimulant but the drivers chew betel nut to cover the smell that comes out of drink of alcohol. Out of incorrect understanding, they banned a wrong thing in an attempt to correct a situation but it did not help. Cultural differences cause adjustment and handling problems to both expatriates and families. The HR managers should help the expatriates prepare for these differences.

2. Industry Type

Industries are of two types:

- Multi-domestic Industry
- Global Industry.

Multi-domestic industry is one in which competition in each country is independent of the competition in other countries like retailing, distribution, insurance etc.

Global industry is one in which firm's competition in one country is significantly influenced by its position in other countries like those of commercial aircraft, semiconductors, and copiers.

Global industry competes at global level. A firm of a global industry integrates its activities on a worldwide basis to capture the linkages among the countries.

In multi-domestic industry, the international firm converts its global strategies into domestic strategies. In a multi-domestic industry, the HRM function is primarily domestic in structure and orientation.

The HR function of a multinational company in a global industry should be structured to deliver international competitive advantage.

A truly international conception of human resource management would require the following steps:

1. The parent organization should recognize that their own assumptions and values of home country are reflected in the way they manage human resources in host country.
2. The parent should recognize that their peculiar ways are not universally applicable though such ways have their strengths and weaknesses.
3. The parent organization should also recognize that their foreign subsidiaries may have other preferred ways of managing people, which may neither better or worse, but may be effective locally.
4. The cultural differences should be made discussable and usable.
5. All should believe that cross-cultural learning will produce effective ways of managing people.

By the above steps, a multinational company will be able to work through the difficulties inherent in such a strategy.

3. Reliance of The Multinational on Its Home-Country Domestic Market

HR practices are influenced by the extent to which the multinational depends on the home country domestic market. Global market perspective is seen as dominant in the operations

of the many multinationals. For many firms, the small size of their home market is the primary reason for exploring international markets. Many US companies because of the larger size of their home country have expanded relatively less into foreign markets as compared to those of Switzerland, Canada, Britain, and Sweden.

4. Attitudes of Senior Management to International Operations

The last but not the least of variables that moderate the differences between international and domestic HRM is attitudes of the senior management.

The real change should occur in the attitudes of the senior management so as to truly internationalize the HR function. If senior management is not strongly oriented towards internationalization, the importance of the international operations may be de-emphasized. Such managements may also erroneously assume that what is practiced in the domestic HRM is transferable to international HRM. It causes problems and also business failures. Now the challenge for HR manager is to work with top management to global mindset.

Expanding the Role of HRM in International Firms

One study by Bhat et al assessed how and whether HR department and staff are involved in planning at the strategic and corporate levels.

The study concluded that HR involvement at the corporate level tended to informal, limited in scope and heavily dependent on the competence and personal characteristics of the senior HR manager. The HR manager played a major role separate from the functional area. Staffing was the main area in which HR manager was involved, strategy formulation; other traditional HR areas (e.g. compensation and evaluation of manager performance) were viewed as general management concerns and not primarily HR related.

At **SBU** (strategic business unit- is a single or group of products or a single or group of markets) , the HR department was more involved in strategic planning; its emphasis was on how HR staff could help implement a strategy.

HR staff should be globally oriented and a global perspective of HR function through a broader view of issues enables the development of more effective corporate policies.

The need for a global perspective applies to both the individual HR manager and HR department. Towards this end, the HR managers should be transferred from headquarters to international operations, not into subsidiary HR departments but into other line positions that will broaden their perspectives. Moving HR staff from the subsidiaries into headquarters is another way of encouraging headquarters HR staff to appreciate the international operations of the firm and to develop the policies and activities to support staff throughout the entire global network. Wherever companies can not afford transfer of staff to international operations of the firm, other ways like an annual visit to key foreign subsidiaries. Larger multinational schedule frequent meetings of corporate and subsidiary HR managers as a way to foster corporate identity and to ensure greater consistency in global HR practices.

But in one survey (Reynold's survey of thirty five major US multinationals) it was found that HR professionals with international experience were typically narrowly focused on expatriate compensation. An expanded view of the role of HRM in international operations is required. One Caution: Always churn in your mind the concepts and apply them over the latest events reported in Economic Times or Business Standard ! If done so the registration of the awareness on your mind will be fairly permanent and help you answer examination questions better.

Summary

Besides the complexity of international operations and employees of different countries, there are other variable which make broader or narrower the differences between domestic and international HR.

Nation-specific culture, the type of the industry, the dependence of the multinational company on home country market and the attitude of the senior management do make the difference between international and domestic HR.

The role of international HR is expanding now from just staffing to strategy formulation.

The questions that should prick your mind

1. How does the type of industry impact the focus of international HR?
2. What is the importance of cultural awareness? Substantiate with recent events.
3. Is too much dependence on home market leads to neglect of international opportunities?
4. Is the role of international HR expanding from staffing to higher order planning?

Stages of Internationalization: Basic mindset towards nationality

Learning Objectives

1. How an organization grows from domestic operations to international level operations and how it impacts the HR function?
2. What are the stages that an organization passes through while growing from local operations to international operations?
3. What are the typical beliefs of an organization in appointment of managers for international organizations? On whom does it depend – locals or parent or third country nationals?
4. You will also learn- ethnocentric, geocentric, polycentric and region centric approaches to staffing.

Let us look at how internationalization impacts human resource management practices like staffing etc. Internationalization of business takes place while growing from small to big and domestic sale to sale to foreign country. A firm passes through certain phases in the growth of its business. In most of the cases the growth in domestic business precedes expanding into non-domestic business. We will now explore the stages of growth of business before and during international operations of the business.

Internationalization Stages and Human Resource Management

Multinational companies are not born overnight and they get through several stages before obtaining the size of a multinational corporation: export, franchising, subsidiaries in foreign countries, foreign production, joint ventures, etc.

The stages of internationalization as per Dowling are: export, sales subsidiary, licensing, foreign production, subcontracting and network of subsidiaries.

Studies on internationalization have revealed a common process, but it must be said that this process may not be the same for all firms.

Some companies go rapidly through the various steps, while others evolve slowly. Therefore, the number of steps or stages varies from firm to firm.

International human resource management practices are influenced by the growth and development of the organization.

Here is an example of the correlation between internationalization stages and human resource management policies. At the initial stage of internationalization, a middle person, such as an export agent or foreign distributor, generally handles exporting. As export sales increase, an

export manager may be chosen to control foreign sales. The establishment of an export department is the result of a further growth in exporting. At this stage, domestic staff controls exporting operations and as a result of it, the domestic human resource management handles administrative, selection, and compensation tasks in addition to the domestic activities.

Until now, no formal international human resource management exists. As the company gains expertise with the exportation in foreign markets, it may choose to establish sales subsidiaries in the foreign market countries. At this stage, the company has to make some decisions regarding staffing. The company has to choose between staffing the subsidiary with parent-country nationals, in order to maintain control, or with host-country nationals if country-specific factors (knowledge of the foreign market, language, sensitivity to host-country needs) are viewed as more important than control.

A choice has to be made here between control and knowledge. If the company decides to use parent-country nationals, the role of the domestic human resource department is supervising the selection and compensation of staff for the export department and sales subsidiaries.

Researches show that most companies choose host-country nationals at this stage. Still no international human resource department is created. After having established a sales subsidiary overseas a company may decide to set up a foreign production or enter a licensing agreement. The response to the foreign production is often a constitution of an international division controlling all international activities (international human resource department).

At this stage most companies give a greater importance on control policies and staff the facility with parent-country nationals. At this stage, the international human resource managers are primarily concerned with parent-country nation management, selection, and compensation. They have to identify employees who can direct the daily operations of the foreign subsidiaries, supervising transfer of managerial and technical know-how, communicating corporate policies and keeping corporate headquarter informed. When the company moves from an early production stage into a phase of growth through production standardization and diversification, the need of host-country nationals increases, because of the demand for national responsiveness at the foreign unit. This is due to factors like differences in market structures, distribution channels, customer needs, local culture, and pressure from the host government.

At this stage, the company needs to decide between centralization and decentralization of the decision making process and needs to figure out what kind of control the parent company can exercise over the foreign unit. Each growth stage offers new organizational challenges which can be properly planned by international human resource planning. Anticipating changes in hiring practices, taking a long term perspective to developing international managers, collecting data, participating in career path planning and recognizing potential parent-subsidiary conflict all have implications for both human resource planning and policies. The challenges are to be proactive and to encourage flexibility and local responsiveness.

The headquarters orientations and international human resource management

Four different types of headquarter orientations or predispositions towards subsidiaries have been identified (see figure below): ethnocentric, polycentric, region-centric and geocentric approach. Orientation means a prior decision that sets the direction of actions.

Aspects of enterprise	Ethnocentric	Polycentric	Regioncentric	Geocentric
Complexity of organisation	Complex in home-simple in subsidiaries	Varied and independent	Highly interdependent on regional basis	Increasingly complex and highly interdependent on worldwide basis
Authority and decision-making process	High in headquarters	Relatively low in headquarters	High regional headquarters and or high collaboration among subsidiaries	Collaboration of headquarters and subsidiaries around the world
Rewards, punishment and incentives	High in headquarters, low in subsidiaries	Wide variations-can be high or low rewards for subsidiaries	Rewards for contribution to regional objectives	Rewards to international and local executives for reaching local and world wide objectives
Communication: information flow	High volumes of orders, commands and advice to subsidiaries	Little to and fro headquarters; little among subsidiaries	Little to and fro headquarters, but may be high to and fro regional headquarters and among countries	Both ways and among subsidiaries around the world

Figure : The different approaches on managing subsidiaries (Source: Levitt T (1983))

Headquarters orientation is of four types. These orientations influence the organization on various aspects:

The complexity of organization, the decision-making process, the rewards and punishment practices, the communication process (information flow), the geographical identification and the human resources practices (recruiting, staffing and development).

In an ethnocentric approach, parent-country nationals hold the key positions. This means that few subsidiaries have any autonomy and the strategic decisions are made at headquarters. Moreover, headquarters management personnel hold key jobs in either domestic or foreign operations. Thus, expatriates manage subsidiaries.

A polycentric approach uses host-country nationals to staff the subsidiary while parent country nationals hold positions at headquarters. In this context, the multinational enterprise treats each subsidiary as a distinct national entity with some decision-making autonomy. Local nationals who are seldom promoted to positions at headquarters manage subsidiaries.

In a region-centric approach regional staff are utilized and developed for positions anywhere within the region. In this approach, regional managers may not be promoted to Headquarter positions but enjoy a degree of regional autonomy in decision-making.

Finally in a geocentric approach, the best people everywhere in the world are developed for key positions everywhere in the world. The organization ignores nationality in favor of ability. In order to be successful, the company following this approach for staffing practices, must accompany it by a worldwide-integrated business strategy.

Which approach should be used when developing a strategy for international human resource management? Each approach has its own advantages and disadvantages, but as Evans states, “each approach represents a different way of coping with the varying socio-economic environment of a multinational company”.

Factors such as strategy, structure, size, staff availability, headquarters attitudes, and government regulations determine the optimal approach.

In the literature, one can find two different kinds of positions. Certain researchers think that a company to be truly global should adopt the geocentric approach for the international human resource management.

On the other side, certain studies show that in certain situations the ethnocentric approach is favorable.

Summary

The role of International HRM grows as the firm goes international in its operations. Firms who have little domestic market or which are attracted to the opportunity outside his nation try the operations with export sales.

The most common route to go international is from export to sales subsidiary to licensing to foreign production to subcontracting to network of subsidiaries. Though this route varies from firm to firm.

The mindset of management with regard to appointment of staff is of four types, i.e. ethnocentric, geocentric, polycentric and region-centric. These mindsets determine whether host country national or parent country national or a third country national is appointed to particular post.

Ethnocentric mentality prefers parent country national. Polycentric approach prefers locals to local operations. Geocentric approach cuts across the nations and thus talent is brought across the borders.

Region-centric approach brackets a few nations into one group and staff are moved within the region of nations.

Questions that should prick your mind:

1. What stages require more intervention of International Human Resource Management?
2. What are the implications of ethnocentric, geocentric, polycentric and Region-centric approaches for International Human Resource Management?

LESSON 5

Factors affecting HR activities

Learning Objectives

1. What factors influence level, seriousness and extent of HR activities?
2. How does international growth determine the level of involvement of HR?
3. What are the attitudes of the top managements of MNEs with regard to who should sit where in managing international operations?
4. What are the typical stages of international and how they determine the level of involvement of HR activities?
5. How human resources are allocated in international human resource management?

Introduction

The human resource function does not operate in a vacuum. As with other areas of the organization, the shift from a domestic to a global focus affects the HR activities. As a consequence, HR activities are determined by, and influence, various organizational factors, such as:

- **Stage of internationalization:** ‘Internationalizing’ is the act of expanding operations outside domestic market i.e. foreign market.
- **Mode of operation:** It is used in the various foreign markets
- **Method of control and coordination;** and
- **Strategic importance of the overseas operations to total corporate profitability :** Strategic importance is criticalness or high importance of a particular activity.

To a certain extent, how the internationalizing firm handles the HR demands of its various foreign operations (with ease or difficulty) determines its ability to execute its chosen expansion strategies. Indeed, Finnish research suggests that personnel policies should lead rather than follow international operation decisions, yet one could argue that most companies take the opposite approach – that is, follow market-driven strategies. It means that first international operations are determined and then HR activities follow them.

We will learn in this lesson the level and variety of demands placed by international growth of a firm on the HRM department and its responses to them. By way of introduction, we outline various approaches to staffing foreign operations.

We then take a look at the path a domestic firm may take as it evolves into a global entity with a focus on how this development impacts on the form of structure, the approach to control and coordination, and the mode of operation used.

The purpose is to draw out the international dimension of human resource management to provide a meaningful context for the rest of this subject.

International Human Resource Management Approaches

Here, we are concerned with perhaps a more fundamental aspect: the allocation of human resources to the various international operations to ensure effective strategic outcomes.

The IHRM literature uses four terms to describe MNE(Multi National Enterprise) approaches to managing and staffing their subsidiaries: ethnocentric, polycentric, region-centric, and geocentric.

These terms are taken from the original initial literary work of Perlmutter, who claimed that it was possible to identify among nternational executives 3 primary attitudes : ethnocentric, polycentric and geocentric; toward building a multinational enterprise.

These attitudes are based on assumptions of top management upon which key product, functional and geographical decisions are made.

To demonstrate these 3 attitudes, Perlmutter used aspects of organizational design, such as decision-making, evaluation and control, information flows, and complexity of organization. He also included “perpetuation”, which he defined as “recruiting, staffing, development. A fourth attitude – region centric – was added later.

Although the HR implications of the approaches identified by Perlmutter will be examined in detail later, it is important to briefly outline them here since they have a bearing on our discussion of the organizational structure and control mechanisms that typically are adopted by firms as the process of their internationalization progresses.

The four approaches are:

Ethnocentric: Few foreign subsidiaries have any autonomy; strategic decisions are made at headquarters. Key positions at the domestic and foreign operations are held by headquarters’ management personnel. In other words, subsidiaries are managed by expatriates from the home country (PCNs).

Polycentric: The MNE treats each subsidiary as a distinct national entity with some decision-making autonomy. Subsidiaries are usually managed by local nationals (HCNs) who are seldom promoted to positions at headquarters. Likewise, PCNs are rarely transferred to foreign subsidiary operations.

Geocentric: Here, the MNE is taking a worldwide approach to its operations, recognizing that each part (subsidiaries and headquarters) makes a unique contribution with its unique competence. It is accompanied by a worldwide-integrated business, and nationality is ignored in favor of ability.

For example, the chief executive officer of the Swedish multinational Electrolux claims that within this global company there is no tradition to hire managing directors from Sweden, or locally, but to find the person best suited for the job; that is, the color of one’s passport does not matter when it comes to rewards, promotion, and development. PCNs, HCNs, and TCNs can be found in key positions anywhere, including those at the senior management level at headquarters and on the board of directors.

Region-centric: Reflects the geographic strategy and structure of the multinational. Like the geocentric approach, it utilizes a wider pool of managers but in a limited way. Personnel may move outside their countries but only within the particular geographic region. Regional

managers may not be promoted to headquarter positions but enjoy a degree of regional autonomy in decision-making. It may be seen as precursory step towards geocentrism.

While these attitudes have been a useful way of demonstrating the various approaches to staffing foreign operations, it should be stressed that the above categories refer to managerial attitudes that reflect the socio-cultural environment in which the internationalizing firm is born and dependant on the Categorization, which is based on Perlmutter's Study of U.S. Firms.

These attitudes also may reflect a general top management attitude, however, the nature of international business often forces adaptation upon implementation.

For instance, a firm may adopt an ethnocentric approach to all its foreign operations, but a particular host government may require the appointment of its own people in the key subsidiary positions; so, for that market, a polycentric approach is mandatory, making a uniform approach unachievable.

Likewise, a recent Korn / Ferry International survey of 35 businesses active in Russia found that western companies tended to maintain an ethnocentric approach to staffing despite attempts to "Russify" the local operations.

As well, the strategic importance of the foreign market, the maturity of the operation, and the degree of cultural distance between the parent and host country, influence the way in which the firm approaches a particular staffing decision.

In some cases an MNE may use a combination of approaches – for example, it may operate its European interests in a Region-centric way until there is greater confidence in operating in that region of the world.

Because of these operating realities, it is sometimes difficult to fit everything into definite structures discussed in the next section.

The internationalizing firm's strategic position, managerial mindset, organizational structure, and staffing approaches are in turn dependant on the environmental contingencies facing the particular internationalizing firm.

The Path To Global Status

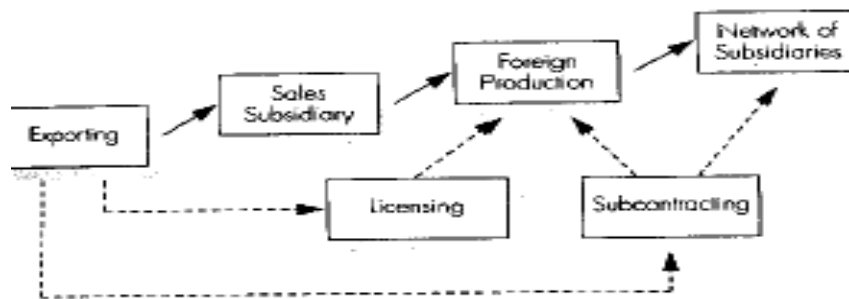


Exhibit 5.1: Stages of Internationalization

In addition to the strategic imperatives, mindsets and staffing approaches outlined above, IHRM is affected by the way the internationalization process itself is managed. Most firms pass through several stages of organizational development as the nature and size of their international activities grow.

As they go through these evolutionary stages, their organizational structures change, typically due to the strain imposed by growth and geographical spread, the need for improved coordination and control across business units, and the constraints imposed by host-government regulations on ownership and equity.

Multinationals are not born overnight; the evolution from a domestic to a truly global organization may involve a long and somewhat struggling process with many and diverse steps. Although research into internationalization has revealed a common process, it must be stressed that this process is not exactly the same for all firms.

As the exhibit shows, some firms may use licensing, subcontracting, or other operation modes, instead of establishing their own foreign production or service facilities.

Some firms go through the various steps rapidly while others evolve slowly over many years, although recent studies have identified a speeding up of the process.

For example, some firms are able to accelerate the process through acquisitions, thus leapfrogging over intermediate steps (i.e., move directly into foreign production through the purchase of a foreign firm rather than initial exporting, followed by sales subsidiary, as shown in exhibit above).

Nor do all firms follow the same sequence of stages as they internationalize – some firms can be driven by external factors such as host-government action (e.g., forced into a joint venture) or an offer to buy a company. Others are formed expressly with the in-stages, along the path to multinational status. It varies from firm to firm, as does the time frame involved.

The concept of an evolutionary process, however, is useful in illustrating the organizational adjustments required of a firm moving along the path to multinational status.

As already said, structural responses, control mechanisms, and HRM policies are linked to this evolutionary process.

Summary

The shift from a domestic to a global focus affects the HR activities. The managements of MNE(Multi National Enterprise) use four types of approaches to managing and staffing their subsidiaries: ethnocentric, polycentric, region-centric, and geocentric. Most firms pass through several stages of organizational development as the nature and size of their international activities grow. Export, Sales Subsidiary, International Division, Licensing, Acquisition and Transnational or Multinational Network.

Questions that must prick your mind

1. Does a multinational take birth at one single go?
2. What are the different mindsets of the managements of MNE with regard to which national should sit where in managing the international operations?
3. Identify the stages of business expansion into international operations?

LESSON 6

The Growth Path of Globalizing Firm

Learning Objectives

The issues in the typical path from domestic to global organization specially in exporting, establishing a sales subsidiary, establishing an international division and global product-division and draws out key HRM implications.

Export

What is, in most cases, the first stage of internationalization and what is its impact on the HR activities?



Exhibit 6.1 : Export Department

Exporting is the typically initial stage for firms entering international operations. As such, it rarely involves much organizational response until the level of export sales reaches a critical point. Of course, simple exporting may be difficult for service companies (such as legal firms) so that they maybe forced to make an early step into foreign direct investment operations (via a branch office, or joint venture.) Exporting often tends to be handled by an intermediary (e.g., an export agent or foreign distributor – usually a HCN, as local market knowledge is deemed critical).

As export sales increase, an export manager maybe appointed to control foreign sales and actively seek new markets. This person is commonly from the domestic operations – that is, a PCN.

Further growth in exporting may lead to the establishment of an export department at the same level as the domestic sales department as the firm becomes more committed to, or more dependent on, its foreign export sales as Exhibit 6.1 shows. At this stage, exporting is controlled from the domestic-based home office, through a designated export manager.

The role of the HR department is unclear, as indicated by the dotted arrow between these two functional areas in Exhibit 6.1. Welch and Welch argue there is a shortage of empirical evidence about HR responses at this early internationalization stage, even though there are HR activities involved (such as the selection of export staff), and perhaps training of the foreign agency staff. They suggest that as these activities are handled by the marketing department, or exporting staff, the HR department has little, if any, involvement with the development of policies and procedures surrounding the HR aspects of the firm's early international activities.

Sales Subsidiary

What is the stage next to export in internationalization and how it impacts what HR department does?



Exhibit 6.2: Sales Subsidiary

As the firm develops expertise in foreign markets, agents and distributors are often replaced by direct sales with the establishment of sales subsidiaries or branch offices in the foreign market countries.

This stage maybe prompted by problems with foreign agents, more confidence in the international sales activity, the desire to have greater control, and/or the decision to give greater support to the exporting activity, usually due to its increasing importance to the overall success of the organization.

The Exporting is the typically initial stage for firms entering international operations. As such, it rarely involves much organizational response until the level of export sales reaches a critical point, as illustrated in Exhibit 6.2.

Exporting is still controlled at corporate headquarters, but the firm must make a decision regarding the coordination of the sales subsidiary, including staffing. If it wishes to maintain direct control, reflecting an ethnocentric attitude, it opts to staff the sales subsidiary from its headquarters through the use of parent-country nationals (PCNs).

If it regards country specific factors – such as knowledge of the foreign market, language, sensitivity to host-country needs – as important, it may staff the subsidiary with host-country nationals (HCNs). However, it would appear that many firms use PCNs in key sales subsidiary positions.

The decision to use PCNs leads into expatriation management issues and activities. It may be that, at this point, the HR department becomes actively involved in the personnel aspects of the

firm's international operations, though there is little empirical evidence as to when, and how, HR-designated staff become involved (as indicated by the question mark in Exhibit 6.2).

International Division

What follows the stage of Sales Subsidiary in internationalization and what are HR activities in that phase?

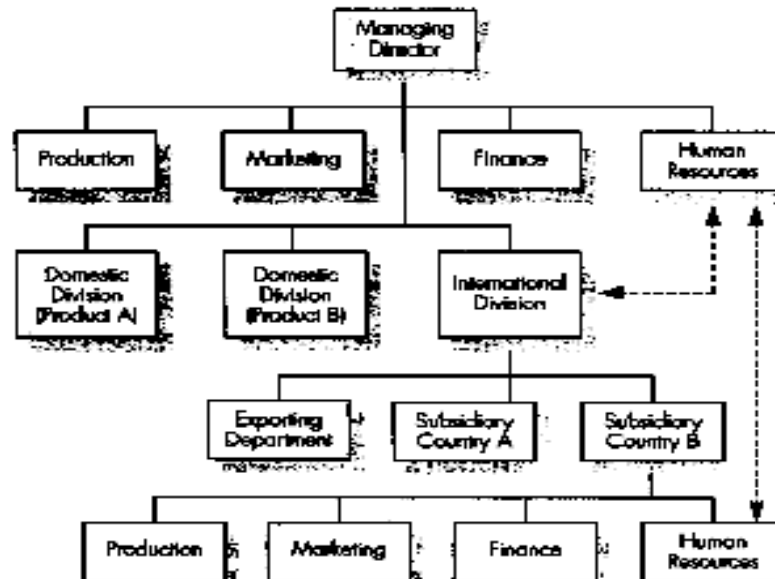


Exhibit 6.3: International Division

For some firms, it is a short step from the establishment of a sales subsidiary to foreign production or service facility. This step maybe considered small if the firm already is assembling the product abroad to take advantage of cheap labor or to save shipping costs or tariffs, for example. Alternatively, the firm may have a well-established export and marketing programme that enables it to take advantage of host government incentives, or to counter host-government controls on foreign imports by establishing a foreign production facility. For some firms, though the transition to foreign investment is a large, sometimes prohibitive, step. For example, an Australian firm that was successfully exporting mining equipment to Canada began to experience problems with after-sales servicing and delivery schedules.

The establishment of its own production facility was considered too great a step, so the firm entered into a licensing agreement with a Canadian manufacturer. According to Stop-ford and Wells, in the 1960s, most U.S manufacturing firms stumbled into manufacturing abroad without much design. Early investments in foreign production facilities were often defensive reactions against the threat of losing markets that had been acquired almost accidentally in the first place. Having made the decision to produce overseas, the firm may establish its own foreign production facilities, or enter into a joint venture with a local firm, or buy a local firm.

Regardless of the method of establishment, foreign production/ service operations tend to trigger the creation of a separate international division in which all international activities are grouped, as Exhibit 6.3 illustrates. With the spread of international activities, the firm establishes what has been referred to as “miniature replicas” (the foreign subsidiaries are structured to mirror that of the domestic organization). The subsidiary managers report to the head of the international division, and there may be some informal reporting directly to the various functional heads. For example, as shown in Exhibit 6.3, there maybe contact regarding staffing issues between the HR managers in the two subsidiaries and the HR manager at corporate headquarters.

Many firms at this stage of internationalization are concerned about maintaining control of the newly established subsidiary, and will place PCNs in all key positions in the subsidiary.

However, some firms decide that local employment conditions require local handling and place a HCN in charge of the subsidiary HR function, thus making an exception to the overall ethnocentric approach; others may place HCNs in several key positions, including HRM, to comply with host-government directives. The role of corporate HR staff is primarily concerned with expatriate management though there will be some monitoring of the subsidiary HR function-formally though the head of the International Division.

Pucik suggests that, initially, corporate HR activities are confined to supervising the selection of staff for the new international division. Expatriate managers perform a major role: “identifying employees who can direct the daily operations of the foreign subsidiaries, supervising transfer of managerial and technical know-how, communicating corporate policies, and keeping corporate HQ informed.” As the firm expands its foreign production or service facilities into other countries, increasing the size of its foreign workforce, accompanied by a growth in the number of expatriates, more formal HR policies become necessary.

The researchers Welch and Welch argue that the capacity of corporate HR staff to design appropriate policies may depend on how routine and institutionalized the existing approaches to expatriate management concerns have become, especially policies for compensation and pre-departure training, and that the more isolated the corporate HR function has been from the preceding international activities, the more difficult the task is likely to be.

It may be added that “an additional difficulty for the HRM department, when attempting to play a more proactive role, is that it may well lack credibility ; and the competencies to handle international personnel demands maybe seen as residing outside its current domain.” In other words the export department (or its equivalent) may have been in charge of international staffing issues and instigated required personnel responses, and now considers it has the competence to manage expatriates.

Global Product/Area Division

Over time, the firm moves from the early foreign production stage into a phase of growth through production (or service), standardization, and diversification.

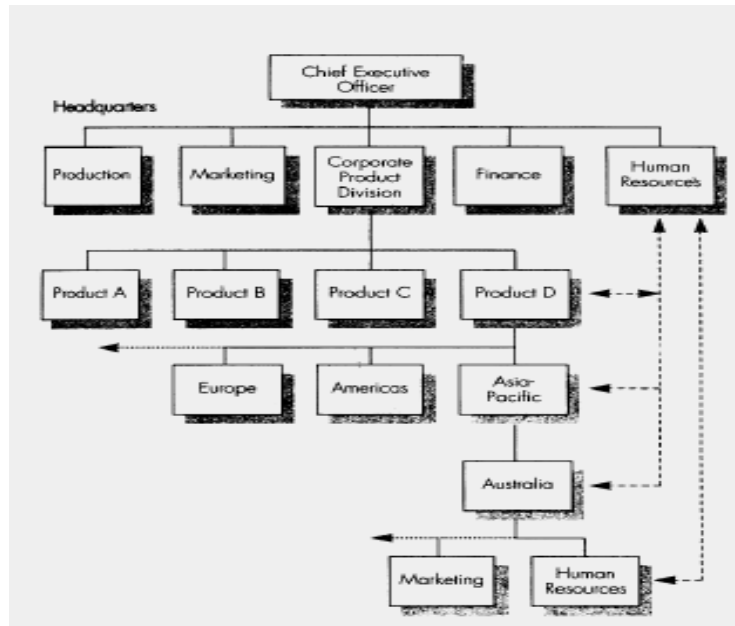


Exhibit 6.4A: Global Product Division

Consequently, the strain of sheer size may create problems, and the international division becomes overstretched making effective communication and efficiency of operation difficult. In some cases, corporate top managers may become concerned that the International division has enjoyed too much autonomy, acting so independently from the domestic operations to the extent that it operates as a separate unit – a situation that cannot be tolerated as the firm’s international activities become strategically more important.

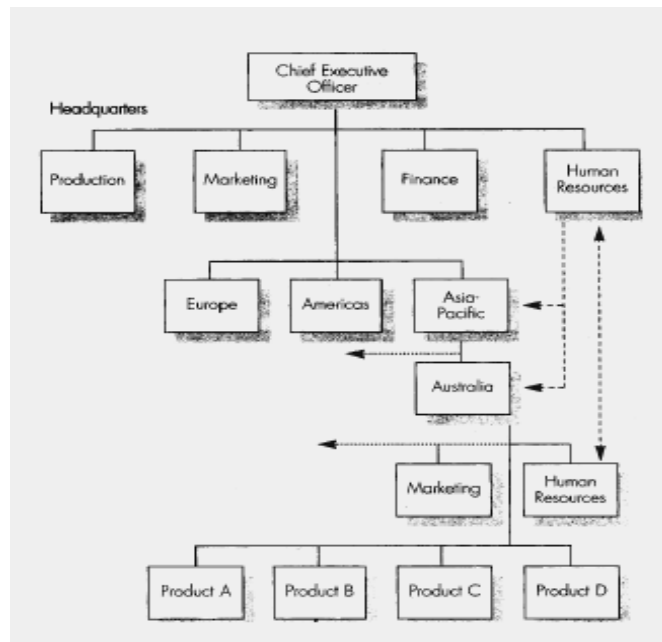


Exhibit 6.4B: Global Area Division

Typically, tensions will emerge between the parent company (headquarters) and its subsidiaries, stemming from the need for national responsiveness at the subsidiary unit and global integration imperatives at the parent headquarters. The demand for country-specific responses at the subsidiary unit develops because of factors such as differences in market structures, distribution channels, customer needs, local culture, and pressure from the host government. On the contrary, the need for more centralized global integration by headquarters comes from having multinational customers, global competitors, and the increasingly rapid flow of information and technology – and from the quest for large volume for economies of scale. As a result of these various forces for change, the multinational confronts two major issues of structure: The extent or degree to which key decisions are to be made at parent headquarters or at the subsidiary units (centralization vs. decentralization), and the type, or form, of control exerted by the parent over the subsidiary unit (bureaucratic control vs. normative). The structural response, at this stage of internationalization, can be either a product or service-based global structure (if the growth strategy is through product or service diversification) or an area-based structure (if the growth strategy is through geographical expansion). As part of the process of accommodating subsidiary concerns through decentralization, the MNE strives to adapt its HRM activities to each host-country's specific requirements. This naturally impacts on the corporate HRM function. (The dotted arrows in both exhibits denote other functions than HRM and marketing.)

As indicated by the dashed arrows, there is an increasing devolution of responsibility for local employee decisions to each subsidiary, with corporate HR staff performing a monitoring role, intervening in local affairs only in extreme circumstances.

For example, in the late-1980s, Ford Australia had a ceiling on its HRM decisions, and any decision that involved an amount above that ceiling (such as promotions above a certain salary grade) had to be referred to its regional HQ for corporate approval. Expatriate management remained the responsibility of corporate HR staff.

This HRM monitoring role reflects management's desire for central control of strategic planning – formulating, implementing, and coordinating strategies for its worldwide markets. As well, the growth in foreign exposure combined with changes in the organizational structure of international operations results in an increase in the number of employees needed to oversee the activities between the parent firm and its foreign affiliates. Within the human resource function, the development of managers able to operate in international environments becomes a new imperative.

As the multinational grows and the trend toward a global perspective accelerates, it increasingly confronts the “think global, act local” paradox.

The increasingly complex international environment - characterized by global competitors, global customers, universal products, rapid technological change, and world-scale factories – pushes the multinational toward global integration while, at the same time, host governments and other stakeholders (customers, suppliers, and employees) push for local responsiveness.

What type of organizational structure can be designed to fit these issues so that the optimum efficiency is achieved?

To facilitate the challenge of meeting conflicting demands mentioned earlier, the multinational typically needs to consider a more appropriate structure, and the choice appears to be either the matrix, the mixed structure, the hierarchy, the transnational, or the multinational network.

Summary

Exporting is the typically initial stage for firms entering international operations. As such, it rarely involves much organizational response until the level of export sales reaches a critical point.

Next stage is establishing a sales subsidiary in which a sales office is opened abroad, at which stage also the role of international HRM is less.

The stage next to sales subsidiary is establishment of foreign production or service facility. In this the foreign subsidiaries are structured to mirror that of the domestic organization.

Many firms at this stage of internationalization are concerned about maintaining control of the newly established subsidiary, and will place PCNs in all key positions in the subsidiary.

However, some firms decide that local employment conditions require local handling and place a HCN in charge of the subsidiary HR function, thus making an exception to the overall ethnocentric approach; others may place HCNs in several key positions, including HRM, to comply with host-government directives.

Over time, the firm moves from the early foreign production stage into a phase of growth through production (or service), standardization, and diversification by establishing International Product/Area division.

Typically from this stage, tensions will emerge between the parent company (headquarters) and its subsidiaries, stemming from the need for national responsiveness at the subsidiary unit and global integration imperatives at the parent headquarters.

The questions that must prick your mind

1. What are roles played by the international HRM in the internationalization phases of Exporting, establishing a Sales Subsidiary, Global Product/ Area Division?
2. Discuss the implications of establishing Global Product/ Area
3. Division for International Human Resource Management?

LESSON 7

Types of Organization Structures

Learning Objectives

1. Type of organization structure
2. Matrix
3. Mixed structure
4. Transnational
5. Multinational as network

Introduction

What type of organizational structure can be designed to fit the conflicting issues so that the optimum efficiency is achieved? The demand for country-specific responses at the subsidiary unit develops because of factors such as differences in market structures, distribution channels, customer needs, local culture, and pressure from the host government. On the contrary, the need for more centralized global integration by headquarters comes from having multinational customers, global competitors, and the increasingly rapid flow of information and technology – and from the quest for large volume for economies of scale.

To facilitate the challenge of meeting conflicting demands, the multinational typically needs to consider a more appropriate structure, and the choice appears to be either the matrix, the mixed structure, the hierarchy, the transnational, or the multinational network. These options are now described and discussed. The first option is Matrix organization.

The Matrix

In the matrix structure, the multinational is attempting to integrate its operations across more than one dimension. As shown in Exhibit 7.1, the international or geographical division and the product division share joint authority, thus violating Fayol's principle of unity of command. Advocates of this structural form see as its advantages that conflicts of interest are brought out into the open, and that each issue with priority in decision-making has an executive champion to ensure it is not neglected.

In other words, the matrix is considered to bring into the management system a philosophy of matching the structure to the decision-making process. Galbraith and Kazanjian argued that the matrix “continues to be the only organizational form which fits the strategy of simultaneous pursuit of multiple business dimensions, with each given equal priority... [The] structural form succeeds because it fits the situation.” In practice, firms that have adopted the matrix structure have met with mixed success. One reason is that it is an expensive form that requires careful implementation and commitment on the part of top management to be successful. In Exhibit 7.1, area managers are responsible for the performance of all three products within the various countries that comprise their regions, while product managers are responsible for sales of their specific product ranges across the areas.

For example, Product A Manager would be concerned with sales of Product A in Europe, the Americas, and in the Asia-Pacific area. Product managers report to the Vice-President Global Products for matters pertaining to product, and to the Vice-President International for geographical matters.

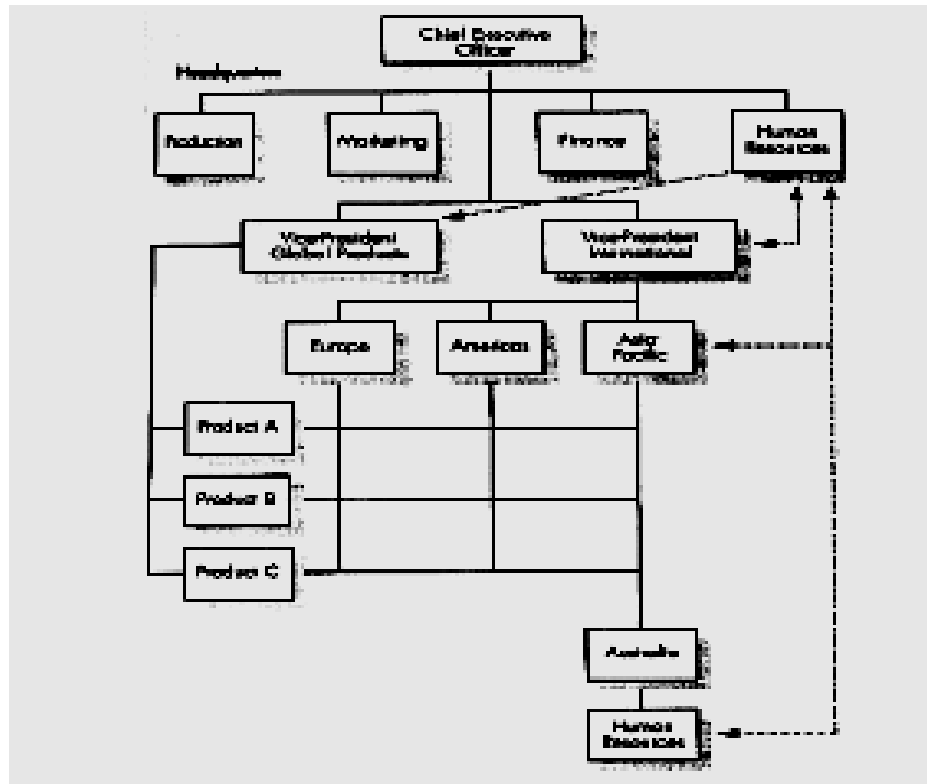


Exhibit 7.1

There is a similar dual reporting line for functional staff. This is illustrated in Exhibit 7.1 through the HR departments and the corporate level (dotted arrows). The HR manager in the Australia subsidiary would report to the country manager (Australia) as well as to the Asia-Pacific Area Manager (and thus indirectly to the Vice-President International). Country HR managers may also be involved in staffing issues involving product division staff (reporting indirectly to Vice-President Global Products). There may be additional reporting requirements to corporate HR at headquarters.

One supporter of the matrix organization, Barnevik, the former chief executive officer of Asea Brown Boveri (ABB), the European electrical systems and equipment manufacturer, discussing his organization's approach, explains:

ABB is an organization with 3 internal contradictions. We want to be global and local, big and small, radically decentralized with centralized reporting and control. If we resolve those contradictions, we create real organization advantage. That is where the matrix comes in.

The matrix is the framework through which we organize our activities. It allows us to optimize our businesses globally and maximize performance in every country in which we operate. Some people resist it. They say that the matrix is too rigid, too simplistic.

But what choice do you have? To say you don't like a matrix is like saying you don't like factories or you don't like breathing. It is a fact of life. If you deny the formal matrix, you wind up with an informal one – and that is much harder to reckon with. As we learn to master the matrix, we get a truly multi-domestic organization. It is in the attempt to master the matrix that many multinationals have floundered. Bartlett and Ghoshal comment that, in practice, particularly in the international context, the matrix has proven to be all but manageable. They Isolate Four Contributing Factors:

- Dual reporting, which leads to conflict and confusion;
- Proliferation of communication channels, which creates informational logjams;
- Overlapping responsibilities, which produce turf battles and a loss of accountability; and
- Barriers of distance, language, time and culture, which make it virtually impossible for managers to resolve conflicts and to clarify the confusion.

Bartlett and Ghoshal conclude that the most successful multinationals today focus less on searching for the idea structure, and more on developing abilities, behavior, and performance of individual managers. This assists in creating “a matrix in the minds of managers,” where individual capabilities are captured and the entire firm is motivated to respond cooperatively to a complicated and dynamic environment. If, however, the multinational opts for a matrix structure, particular care must be taken with staffing.

As Ronen notes, “It requires managers who know the business in general, who have good interpersonal skills, and who can deal with the ambiguities of responsibility and authority inherent in the matrix system”.

Training in such skills as planning procedures, the kinds of interpersonal skills necessary for the matrix, and the kind of analysis and orderly presentation of ideas essential to planning within a group is most important for supporting the matrix approach.

Moreover, management development and human resource planning are even more necessary in the volatile environment of the matrix than in the traditional organizations.

Mixed Structure

In an attempt to manage the growth of diverse operations, or because attempts to implement a matrix structure have been unsuccessful, some firms have opted for what can only be described as a mixed form.

In a survey conducted by Dowling, more than one-third (35 percent) of respondents indicated that they had mixed forms, and around 18 percent had product or matrix structures. Galbraith and Kazanjian also identify mixed structures that seem to have emerged in response to global pressures and trade-offs. For example, organizations that pursued area structures kept these geographical profit centers, but added worldwide product managers. Colgate-Palmolive has always had strong country managers. But, as they doubled the funding for product research, and

as Colgate Dental Crème became a universal product, product managers were added at the corporate office to direct the R&D funding and coordinate marketing programs worldwide.

Similarly, the product-divisionalised firms have been reintroducing the international division. At Motorola, the product groups had worldwide responsibility for their product lines. As they compete with the Japanese in Japan, an international group has been introduced to help coordinate across product lines.

Although all structural forms that result from the evolutionary development of international business are complex and difficult to manage effectively, given a firm's developing capabilities and experience at each new stage, mixed structures appear even more complex and harder to explain and implement, as well as control.

Thus, as our discussion of the matrix structure emphasized, it is important that all employees understand the mixed framework and that attention is also given to supporting mechanisms, such as corporate identity, interpersonal relationships, management attitudes, and HR systems, particularly promotion and reward policies.

Beyond the Matrix

Some writers are identifying a new stage of development that builds on the product/area and matrix structures.

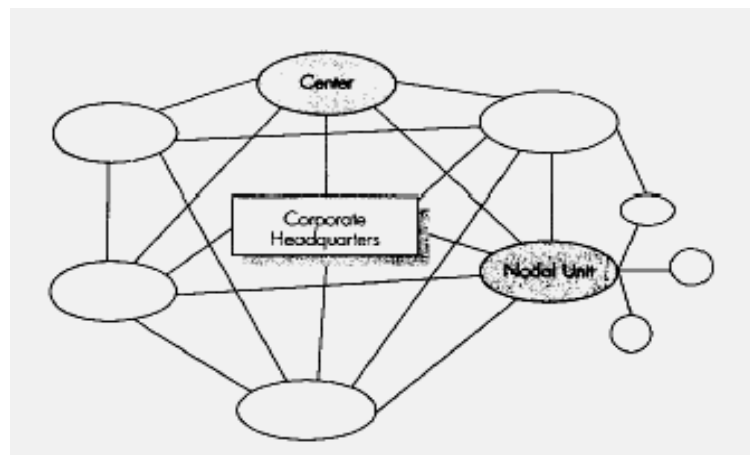


Exhibit 7.2: Beyond the Matrix

Early studies of headquarters subsidiary relationships tended to stress the resources, people and information flows from headquarters to subsidiary, examining these relationships mainly in the context of control and coordination. However, in the large, mature multinational, these flows are multidirectional: from headquarters to subsidiary, from subsidiary to subsidiary, and between subsidiaries (see Exhibit 7.2).

The result can be a complex network of interrelated activities and relationships. It is possible to identify 3 main approaches from the multinational management literature – the heterarchy, the transnational, and the network firm.

Although they have been given different terms, each form recognizes that, at this stage of internationalization, the concept of a superior structure that neatly fits the corporate strategy becomes inappropriate.

The proponents of each of these 3 forms are in agreement that multinationals at this stage become less hierarchical.

As Marschan explains reconsidering the long-standing principle that “the parent knows best” requires a radical change in the way the entire multinational is managed, turning it from an organizational pyramid into an integrated network.

These new forms and their IHRM implications are outlined below:

The Heterarchy

The heterarchy is a structural form proposed by Hedlund that recognizes that a multinational may have a number of different kinds of centers apart from the traditional center referred to as “headquarters”. Hedlund argued that competitive advantage does not necessarily reside in any one country (the parent country, for example). Rather, it maybe found in many countries, so each subsidiary center maybe simultaneously a center and a global coordinator of discrete activities, thus performing a strategic role not just for itself, but for the MNE as a whole (the subsidiary labeled “center” in exhibit 7.2). For example, some multinationals may centralize research and development in a particular subsidiary.

In a heterarchical MNE, control is less reliant on the top-bottom mechanisms of previous hierarchical modes and more reliant on normative mechanisms, such as the corporate culture and a widely shared awareness of central goals and strategies. From a HRM perspective, the heterarchy is interesting in that its success appears to rest solely on the ability of the multinational to formulate, implement, and reinforce the required demands skilful and experienced personnel as well as sophisticated reward and punishment systems in order to develop the normative control mechanisms necessary for effective performance. The use of staff as an informal control mechanism is important, which we explore later in this course.

The Transnational

The term transnational has been invented to describe a new organizational form that is characterized by an interdependence of resources and responsibilities across all business units regardless of national boundaries.

The transnational tries to cope with the large flows of components, products, resources, people and information among its subsidiaries, while simultaneously recognizing the distributed specialized resources and capabilities.

As such, it demands a complex process of coordination and cooperation involving strong cross-unit integrating devices, a strong corporate identity, and a well-developed worldwide management perspective.

In their study, Bartlett and Ghoshal noted:

Among the companies we studied, there were several that were in the process of developing such organizational capabilities. They had surpassed the classic capabilities of the multinational company that operates as decentralized federations of units able to sense and respond to diverse international needs and opportunities; and they had evolved beyond the abilities of the global company with its facility for managing operations on a tightly controlled worldwide basis

through its centralized hub structure. They had developed what we termed transnational capabilities – the ability to manage national boundaries, retaining local flexibility while achieving global integration.

More than anything else this involved the ability to link local operations to each other and to the center in a flexible way, and in so doing, to leverage those local and central capabilities. In fact, the matrix, the heterarchy, and the transnational share a common theme regarding the human resource factor.

Therefore, developing transnational managers or global leaders who can think and act across national and subsidiary boundaries emerges as an important task for top management introducing these complex organizational forms. Staff transfers play a critical role in integration and coordination.

The Multinational as a Network

Some scholars are advocating viewing certain large and mature internationalized firms as a network, in situations where:

- Subsidiaries have developed into significant centers for investments, activities, and influence, and can no longer be regarded as at the periphery;
- Interaction between headquarters and each subsidiary is likely to be dyadic, taking place between various actors at many different organizational levels and covering different exchanges, the outcome of which will be important for effective global performance; and
- Such MNEs are loosely coupled political systems rather than tightly bonded, homogeneous, hierarchically controlled systems.

This runs counter to the traditional structure where linkages are described formally via the organization's structure and standardized procedures, and informally through interpersonal contact and socialization.

Exhibit 7.2 attempts to depict such an intricate crisscrossing of relationships.

One subsidiary may act as a nodal unit linking a cluster of satellite organizations. Thus, one centre can assume responsibility for other units in its country or region. The management of a multi-centered networked organization is complex. Apart from the intra-organizational network (comprising of headquarters and the numerous subsidiaries), each subsidiary also has a range of external relationships (involving local suppliers, customers, competitors, host governments, and alliance partners).

The management of both the intra-organizational and inter-organizational spheres, and of the total integrated network, is crucial to global corporate performance. It involves what has been termed a less-hierarchical structure, featuring 5 dimensions; delegation of decision-making authority to appropriate units and levels; geographical dispersal of key functions across units in different countries; de-layering of organizational levels; de-bureaucratization of formal procedures; and differentiation of work, responsibility, and authority across the networked subsidiaries.

In line with this view, Ghoshal and Bartlett have expanded their concept of the transnational to define the MNE as an Inter-organizational system which is comprised of a network of exchange relationships among different organizational units, including headquarters and national subsidiaries, as well as external organisations, such as host governments, customers, suppliers and competitors, with which the different units of the multinational must interact. These authors argue a new way of structuring is not the issue – it is more the emerging management philosophy, with its focus on management process: “The actual configuration of the processes themselves, and the structural shell within which they are embedded, can be very different depending on the businesses and the heritage of each company.”

Ghoshal and Bartlett cite GE, ABB, and Toyota as prime examples of companies involved in developing such processes, with Intel and Corning, Philips and Alcatel, Matsushita and Toshiba regarded as companies embarking upon a network-type configuration. Likewise, the Ford Motor Company abandoned its regional structure in 1993, and adopted a multidisciplinary product team approach, networking plants across regions.

Different Countries Take Different Paths

The above discussion takes a generalist view of the growth of the internationalization firm through the various stages to multinational status, and the correspondent organizational structures. However, it is important to note a cultural element.

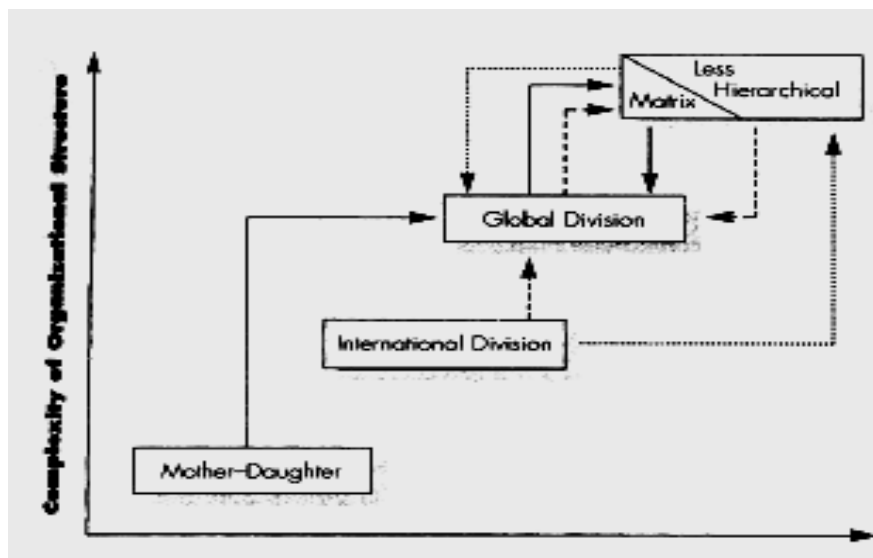


Exhibit 7.3 : U.S., European and Japanese Structural Changes

As can be seen from Exhibit 7.3, European firms have tended to take a different structural path than their U.S counterparts.

Franko’s study of seventy European multinationals revealed that European firms moved directly from a functional “mother-daughter” structure to a divisionalised global structure (with worldwide product or area divisions) or matrix organization without the transitional stage of an international division. Human resource management practices, changing to serve the needs of

the new structure, adjusted accordingly. Swedish have traditionally adopted the mother-daughter structure, but Hedlund suggests that this is changing. The Swedish multinationals in his study tended to adopt a mixture of elements of the mother-daughter structure and elements of the product division at this stage of their internationalization process.

While there is little empirical data to substantiate this, it would appear that there is a preference for matrix type structures within European firms, particularly Nordic multinationals. One could suggest that this structural form has better suited the more collaborative, group-oriented work organization found within these firms.

Needless to say, as can be seen from the above exhibit, some European multinationals have also tried and abandoned the matrix, as the backward arrows in Exhibit 7.3 portray. Japanese multinationals are evolving along lines similar to their U.S counterparts. Export divisions have become international divisions but, according to Ronen, the rate of change is slower. The characteristic of Japanese organizational culture (such as the control and reporting mechanisms and decision-making systems), the role of trading companies, and the systems of management appear to contribute to the slower evolution of the international division. In some cases, despite their high degree of internationalization, Japanese firms may not adapt their structure as they become more dispersed.

As mentioned previously, Ghoshal and Bartlett were able to include Japanese firms in their description of the network multinational. A 1996 study of 54 companies, taken from the Fortune 1991 list of the world's 500 largest industrial corporations revealed that the degree of internationalization differed between firms from the U.S, Europe and Japan.

The study also reports that the U.S multinationals in the sample gave more autonomy to their international operations than did their Japanese counterparts. We should mention that internationalizing firms from other Asian nations may also vary in structural form and growth patterns. Korean conglomerates (Chaebols) appear to have a stronger preference for growth-through-acquisitions than the "Greenfield" approach taken by Japanese multinationals, and this will influence their structural responses in terms of control and coordination. The so-called Chinese bamboo network/family firms may face significant challenges as their international activities expand and it becomes more difficult to maintain the tight family control that characterizes overseas Chinese firms. As the chairman of one Chinese multinational commented with regard to the effects of international growth: "You have no choice but to trust foreigners and to delegate. You run out of family rather rapidly."

Fashion or Fit ?

The above discussion has traced the evolution of the firm from a domestic-oriented into a global-oriented firm. A note of caution is added: Growth in the firm's international business activity does require structural responses, but the evolutionary process will differ across multinationals.

Apart from the country of origin aspect, other variables – size of organization, pattern of internationalization, management policies, and so on – also play a part. Researchers have

identified the pattern described here, but the danger is to treat the stages as normative rather than descriptive.

To quote Barlett: For some (MNEs) it seemed that organizational structure followed fashion as much as it related to strategy. Reorganizations, or from global structures to matrix forms, became widespread.

This, after all, was the classic organizational sequence described in the “stages theories”. Yet many companies that had expected such changes to provide them with the strategy-structure “fit” to meet the new pressures were disappointed. Developing a multidimensional decision-making process that was able to balance the conflicting global and national needs was a subtle and time-consuming process not necessarily achieved by redrawing the lines on a chart.

Examples of failed or abandoned multinational organizations abound. The movement charted in Exhibit 7.3 demonstrates this. For example, as previously mentioned, arrows indicating a backward movement from the matrix/less-hierarchical box to the global division reflect how some firms have tried and abandoned such structural forms. The exhibit, therefore, is a useful reminder that the networked firm is not the ultimate end state, though one can often get the impression from some writers that all internationalizing firms aspire one day to be referred to as “transnational/networked.”

Summary

The demand for country-specific responses at the subsidiary unit develops because of factors such as differences in market structures, distribution channels, customer needs, local culture, and pressure from the host government.

On the contrary, the need for more centralized global integration by headquarters comes from having multinational customers, global competitors, and the increasingly rapid flow of information and technology – and from the quest for large volume for economies of scale.

In the matrix structure, the multinational is attempting to integrate its operations across more than one dimension. In an attempt to manage the growth of diverse operations, or because attempts to implement a matrix structure have been unsuccessful, some firms have opted for what can only be described as a mixed form.

The new stages of development that builds on the product/m area and matrix structures are the heterarchy, the transnational, and the network firm.

For some (MNEs) it seemed that organizational structure followed fashion as much as it related to strategy. The networked firm is not the ultimate end state.

The questions that must prick your mind

1. How do the characteristics of matrix organization help in managing the international operations?
2. Can matrix organization be successful in pursuit of multiple business dimensions?
3. Is matrix too rigid and too simplistic? - discuss.
4. Can mixed form address the shortcomings of matrix?
5. Can heterarchy be a solution to all international HRM problems?
6. Explain the structure and features of Transnational and a Network of Multinational.
7. What do you understand about the attitudes of MNEs of Japan, China and Sweden with regard to control of foreign subsidiaries?

LESSON 8

Control and Coordination in Internationalized Firms

Learning Objectives

1. We will learn in this about the issues of control and coordination as firm goes international and grown into multiple units spread across several countries.
2. The methods of maintaining and building network relationships for effective coordination.
3. The contribution of staff transfers and expatriates in ensuring control.
4. The way HRM and different modes of operation affect each other.
5. The relationship between HRM activities and staffing approaches.

Control & Coordination

Introduction

The less-hierarchical configurations of management (less number of authority levels- also called flat structure), coordination appears to be a major cause of concern. Indeed, firms that classify themselves as global operators confront common co-ordination issues. As the chairman and chief executive officer of the French hotel and travel company, Accor, recently explained in a newspaper interview: Accor has to be a global company, in view of the revolution in the service sector which is taking place...National (hotel chains) cannot optimize their operations. They cannot invest enough money...Globalization brings considerable challenges which are often underestimated.

The principal difficulty is getting our local management to adhere to the values of the group... Every morning when I wake I think about the challenges of coordinating our operations in many different countries.

Human resource management plays a key role in control and coordination process, particularly where less-hierarchical structures we discussed above are concerned:

Ghoshal and Barlett argue that the key means for vital knowledge generation and diffusion is through personal contact.

This means that networked organizations need process to facilitate contacts. Training and development programs, held in regional centers or at head-quarters, become an important forum for the development of personal networks that foster informal communication channels, as well as for building corporate culture.

However, recent research suggests that the ability to participate in such forums depends on fluency in the common corporate language. Network relationships are built and maintained through personal contact. Therefore, staffing decisions are crucial to the effective management

of the linkages that the various subsidiaries have established. Nevertheless, staffing decisions may be made and often are, without regard to their effect on network relationships.

As with the hierarchy, the management processes in a networked multinational rely heavily on the ability to key staff to integrate operations to provide the internal company environment that fosters the required level of cooperation, commitment, and communication flows between functions and subsidiary units.

Staff transfers are also an important part of the required management process particularly that of control, despite the costs and challenges involved, which we shall discuss later, multinationals continue to rely on the movement of key staff to assist in coordination and control. In fact, the literature suggests that staff transfers become an important element in the soft control mechanisms described above.

The case of GE in Hungary is a good example of how staff transfers were an important part of GE's attempts to integrate its new acquisition into its "global family." Transfers of HCNs to headquarters were a useful way of exposing Hungarians from Tungsram to GE's corporate culture. Training and development programs played a role here, too. Expatriates are used to install a sense of corporate identity in subsidiary operations, and to assist in the transfer of corporate norms and values as part of corporate cultural (or normative) control.

Thus, proponents of less-hierarchical configurations argue there is greater reliance on informal control mechanisms than on the formal, bureaucratic control mechanisms that accompanied the traditional hierarchy. As seen from the above list, the informal control mechanisms highlighted in Exhibit 8.1 are assisted by HR practices.

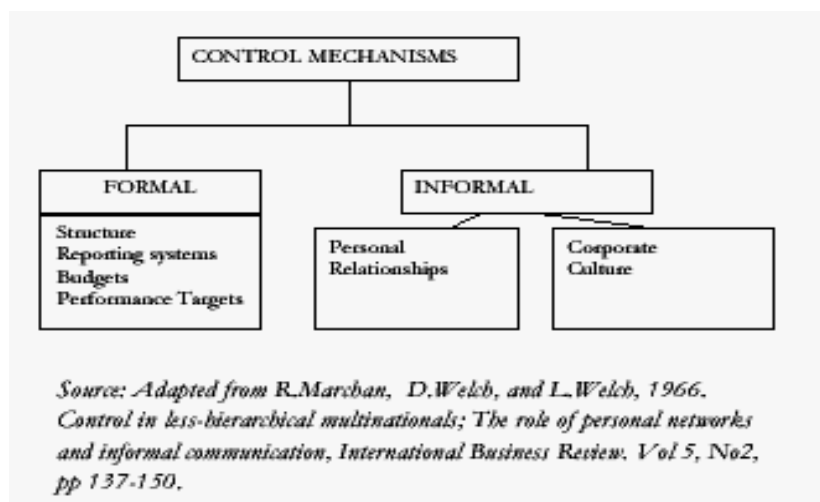


Exhibit 8.1: Control Mechanisms in the Networked MNC

It is also important to remember that international growth affects the firm's approach to HRM. For this reason, we have attempted to draw out the HRM implications at each stage of internationalization.

As mentioned earlier, firms vary from one another as they go through the stages of international development, and react in different ways to the circumstances they encounter in the various foreign markets. Therefore, we find a wide variety of matches between IHRM approaches, organizational structure, and stage of internationalization. For example, almost half the U.S.

firms surveyed by Dowling reported that the operations of the human resource function were unrelated to the nature of the firm's international operations.

A recent study by Monks of nine subsidiaries of multinationals operating in Ireland found that the majority adopted a local approach to the HR function, with headquarters involvement often limited to monitoring the financial implications of HR decisions.

Mode of Operation

The above discussion on structural adjustments has been based on the literature relating to the growth of the multinational enterprise.

The organizational forms illustrated are primarily concerned with integrating wholly owned subsidiaries.

However, as Welch and Welch argue, internationalizing firms may also adopt contractual (such as, licensing, franchising, management contracts, and projects) and cooperative (such as joint ventures) modes in order to enter and develop foreign markets.

Naturally, these modes are not mutually exclusive: A firm may have licensing arrangements with a foreign joint venture, or have a general strategy of growth international franchising but combine this with a wholly owned subsidiary or a joint venture in some markets. A framework is given here to illustrate how IHRM activities, such as staff placement, simultaneously link and influence the mode of operation utilized to support an internationalization strategy. This framework is reproduced in Exhibit 8.2. Welch and Welch explains the many forms of operation modes may demand different skills and place varying stresses on the resources of the company, particularly on its personnel. For example, Licensing might involve only limited commitments of staff, whereas the availability of key people becomes particularly critical for the success of a management contract in which the company is required to transfer a number of experienced managerial and technical staff to run a foreign facility.

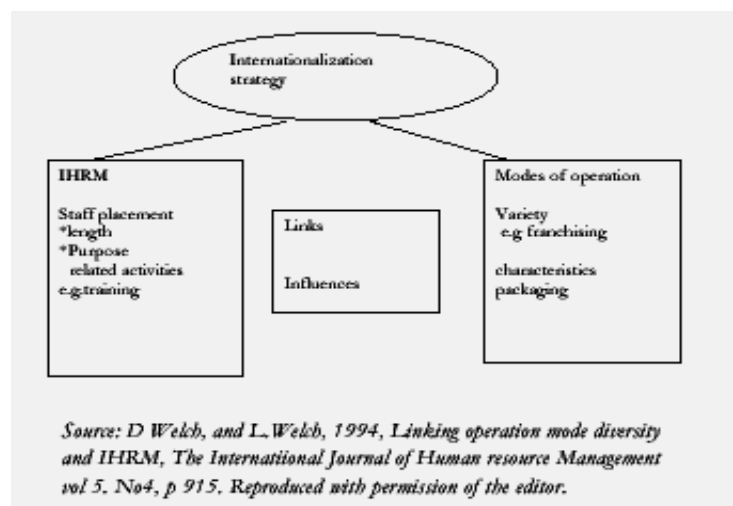


Exhibit 8.2 Linking Operation Mode and HRM

While decrying the paucity of empirical evidence regarding the IHRM demands of the contractual modes of operation, it is suggested that HRM concerns affect, and may even govern, the choice of market entry mode.

They use the entry of the U.S. hamburger chain, Mc Donald's into Russia to illustrate the interconnection between mode of entry and IHRM.

Expatriates were involved in assisting with the selection and training of local staff – each crew member received the standard Mc Donald's training (60 hours of training per crew member). Russians selected for managerial positions were sent to Mc Donald's Institute of Hamburgerology in Toronto, Canada, and to the Hamburger University in Oakbrook, Illinois, in the United States. When the first restaurant opened, they had a staff of 630 employees. Management contracts are also used as a way of operating in foreign markets. They involve a management role in the foreign company for a specified period of time and fee, and therefore require the posting of staff for extended periods of time. Walt Disney is an example of a firm that utilizes this mode of operation; the establishment of Euro-Disney (France) combined 49 percent equity with a management fee of 3 percent of gross revenue. Management contracts are also used in the hotel and airline industries. By its very nature, this form of contractual mode means that skilled, usually talented staff will be needed. Knowledge transfer is an important component, involving the training of HCN staff. However, there is a little treatment of the HR demands of a successful management contract in the HRMM literature. In one of the few international business texts that covers this contractual mode of operation, the authors comment:

The overall success of the contract operation, including the training aspect, depends on the quality of staff transferred or appointed to the contract venture, and therefore overall international human resource management by the company. Because management contracts are normally not a mainstream operational method, when used they will often receive secondary consideration in staffing requirements.

For this reason, companies tend not to be keen to commit large numbers of quality staff to contract operations.

Likewise the client organization prefers not to have large numbers of expatriate staff as it makes eventual replacement more difficult. Thus, for both sides there is an incentive to keep down foreign staff numbers.

There is a similar paucity of information associated with the IHRM demands of international project management – for the project firm itself, as well as the range of contributing firms (i.e. subcontractors, joint venture partners etc.) that may be involved in the international project.

Inter-firm Linkages

Another mode of operation is that of an alliance. A firm may enter into an alliance with an external party (or parties) such as a competitor, a key supplier, or an affiliated firm in order to compete more effectively in the global market place. Since these partnerships come in all shapes and sizes, the term alliance has come to mean different things to different people; strategic alliance, cooperative venture, collaborative agreement, or corporate linkage (of which one form may be a joint venture).

For the purpose of this discussion, we will use a broad definition: “ A corporate alliance is a formal and mutually agreed commercial collaboration between companies.

The partners pool, exchange, or integrate specified business resources for mutual gain. Yet the partners remain separate businesses.

The key point is that an alliance is a form of business relationship that involves some measure of inter-firm integration that goes beyond the traditional buyer-seller relationship, but stops short of a full merger or acquisition, though some alliances can develop into mergers or takeovers at a later date.

The particular type of venture that emerges is a function of the strategic importance of the venture to the parent company and the extent to which the parent seeks control over the resources allocated to the venture.

There was a marked growth in alliance formation in the 1980s. Alliances can now be found in such diverse industries as telecommunications, aerospace, automobiles, electronics, and transportation equipment. Shared activities can include research and development, production, and marketing. An alliance can involve arrangements such as licensing agreements, marketing or distribution partnerships and consortia. Regardless of the motive for entering into such an arrangement, the resultant partnership adds another dimension to a firm's structure.

In order to meet the objectives of the collaborative partnership within the context of broader corporate strategy, the firm needs to integrate or link the partnership venture to its own existing activities and functions and to devise a method of monitoring its performance. The way the partnership is interlinked naturally depends on the form that the collaboration takes.

As we have seen with other modes of operation, the various forms of inter-firm linkages affect HRM in different ways, depending on the type of alliance involved. For example, in an international joint venture, when a new entity brings together managers from two or more firms, the managers must become accustomed to working with a foreign partner (or partners). Indeed, Lorange links success to a match between the form of cooperative venture and human resource components, maintaining that "the human resource function is particularly critical to successful implementation of such cooperative ventures."

In their analysis of strategic alliances, Cascio and Serapio classify these collaborative forms of business relationships according to the extent of interaction required among people from the collaborating companies; they point out, for example, that a joint venture involves more interaction than does a marketing or distribution, partnership.

While the specific nature of joint venture management issues and HR implications will be further explored later, it is important to note here that HR factors play a crucial role in this type of relationship.

Linking HR to International Expansion Strategies

The preceding sections have explored the interrelationship between the HR function and the firm's involvement in international business operations. Clearly, it is important that the

internationalizing firm considers the HR implications of its international strategies – recognizing that people are a critical component for the successful implementation and attainment of the expansion strategies.

Using an inductive, grounded theory approach from a study of four Australian firms, including the Australian subsidiary of the U.S. based Ford Motor Company, Welch has developed a theoretical model that links firm-specific variables (such as stage in internationalization, organizational structure, and organizational culture) and situation variables (such as staff availability, need for control) with IHRM approaches and activities. Contextual variables (such as cultural distance and host-country legal requirements) are also included.

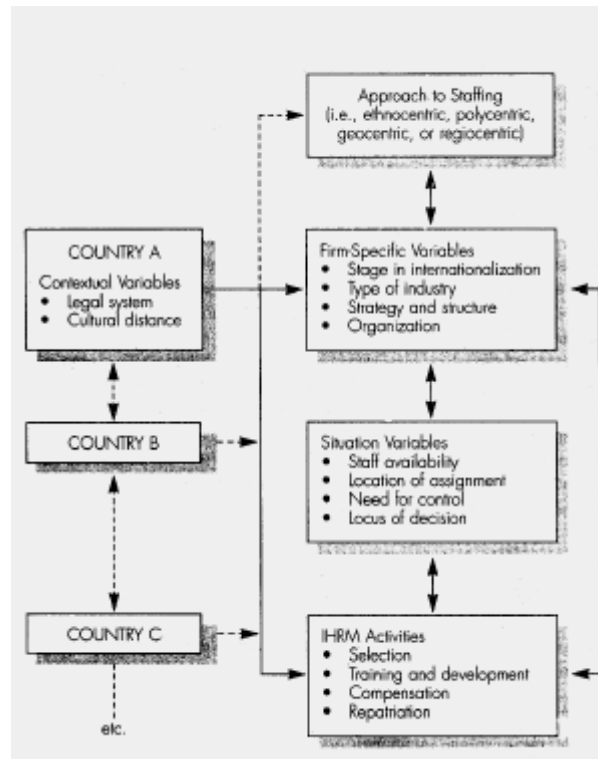


Exhibit 8.3 Determinants of IHRM - Approaches and activities

This model is adapted as Exhibit 8.3. Welch suggests these linkages may explain the various interrelationships between organizational factors and IHRM activities that may determine a firm’s approach to the staffing of overseas operations; that is, whether a multinational adopts an ethnocentric, polycentric, geocentric, or regiocentric approach to staff subsidiary operations.

The theoretical model may be helpful in drawing together the various organizational factors and HR issues discussed in this lesson. The HRM staffing approaches do influence and are influenced by organizational factors as well as country factors.

For instance, a firm that is growing into a networked organization (firm-specific variable) will develop a flexible global organization that is centrally integrated and coordinated yet locally responsive – a geocentric approach.

However, a key assumption underlying the geocentric staffing philosophy is that the multinational has sufficient numbers of high-caliber staff (PCNs, TCNs, and HCNs) constantly

available for transfer anywhere, whenever global management needs them. In practice, it is not easy to find or nurture the required numbers of high-quality staff (firm-specific and situation variables), nor assign them to certain operations due to host country requirements (country-specific variables).

The IHRM activities – selection, training and development, compensation, and repatriation play an important role in the development of the effective policies required to sustain a preferred approach to staffing.

Summary

The less-hierarchical configurations of management(less number of authority levels- also called flat structure), coordination appears to be a major cause of concern. Indeed, firms that classify themselves as global operators confront common co-ordination issues. Human resource management plays a key role in control and coordination process, particularly where less-hierarchical structures.

Training and development programs, held in regional centers or at head-quarters, become an important forum for the development of personal networks that foster informal communication channels, as well as for building corporate culture. Staff transfers are also an important part of the required management process particularly that of control, despite the costs and challenges involved.

Expatriates are used to install a sense of corporate identity in subsidiary operations.

There is a wide variety of matches between IHRM approaches, organizational structure, and stage of internationalization.

The internationalizing firms may also adopt contractual (such as, licensing, franchising, management contracts, and projects) and cooperative (such as joint ventures) modes in order to enter and develop foreign markets. It is important that the internationalizing firm considers the HR implications of its international strategies – recognizing that people are a critical component for the successful implementation and attainment of the expansion strategies.

The questions that must prick your mind

1. What are different operation modes of internationalization and how do they impact on HR department?
2. What are the control mechanisms of networked organizations?
3. What are management contracts and how do they impact on control and HR function?
4. How do internationalizing strategies affect HR activities?
5. What are different inter firm alliances and how do they impact on HR function?

International Hiring Policies and Sources of Recruitment

Learning Objectives

1. Goals of hiring and placing people
2. Factors that determine as to which country will be the source of recruitment
3. Executive staffing policies of multinational companies

Introduction

Hiring and placing people in positions where they can perform effectively is a goal of most organizations, whether domestic or international. As you will understand from our discussion on IHRM in the preceding lessons, there are staffing issues that internationalizing firms face, that are either not present in a domestic environment, or are complicated by the international context in which these activities take place. These issues are specific only to internationalized firms. Take, for example, this scenario: A U.S multinational wishes to appoint a new finance director for its Indian subsidiary. It may decide to fill the position by selecting from finance staff available in its parent operations (i.e., a PCN), or to recruit locally (a HCN), or seek a suitable candidate from one of its other foreign subsidiaries (a TCN). How it responds is determined partly by factors such as:

- Its general staffing policy on key positions in head quarters and subsidiaries (i.e., ethnocentrism, polycentrism, geocentrism, and regiocentrism);
- Its ability to attract the right candidate; and
- The constraints placed by the host government on hiring policies.

Recruitment is defined as searching for and obtaining potential job candidates in sufficient numbers and in sufficient quality so that the organization can select the most appropriate people to fill its job needs. Selection is the process of gathering information for the purposes of evaluating and deciding who should be employed in particular jobs.

We will explore the key issues surrounding international recruitment and selection, with a focus on selection criteria. As well, we will look at various factors – such as female managers, dual-career couples, equal opportunity legislation, and expatriate failure – that impact on the multinational's ability to recruit and select high-caliber staff. For convenience we will use the term multinational(MNE) throughout this course pack, but it is important to remember that the issues, although variously, pertain to all internationalizing

companies – regardless of size, industry, stage in internationalization, nationality of origin, and geographical diversity. We will begin with a more detailed look at the four staffing options outlined earlier.

Executive Nationality Staffing Policies

The four approaches to multinational staffing decisions: ethnocentric, polycentric, geocentric, and regiocentric – tend to reflect the managerial philosophy towards international operations held by top management at headquarters. It is important that we explore each of these approaches further, as each has important implications for international recruitment and selection practices.

The Ethnocentric Approach

An ethnocentric approach to staffing results in all key positions in a multinational being filled by parent-country national (PCNs) While this approach may be common for firms at the early stages of internationalization, there are often sound business reasons for pursuing an ethnocentric staffing policy including:

- A perceived lack of qualified host-country national (HCNs), and,
- The need to maintain good communication, coordination, and control links with corporate headquarters.

For instance, when a multinational acquires a firm in another country, it may wish to initially replace local managers with PCNs to ensure that the new subsidiary complies with overall corporate objectives and policies, or because local staff may not have the required level of competence.

Thus, an ethnocentric approach to particular foreign market situation could be perfectly valid for a very experienced multinational.

An ethnocentric policy, however, has a number of disadvantages.

Zeira has identified several major problems:

An ethnocentric staffing policy limits the promotion opportunity of HCNs, which may lead to reduced productivity and increased turnover among that group. The adaptation of expatriate managers to host countries often takes a long time during which PCNs often make mistakes make poor decisions. When PCN and HCN compensation packages are compared, the often-considerable income gap in favor of PCNs is viewed by HCNs as unjustified. For many expatriates a key international position means new status, authority, and an increase in standard of living. These changes may affect expatriates' sensitivity to the needs and expectations of their host-country subordinates.

Expatriate are very expensive!

Expatriates are also very expensive to maintain in international locations. A recent study 3 found that 50 percent of responding firms estimated that the average cost of expatriates was three to four times that of normal salary, and 18 percent indicated more than four times the salary.

The Polycentric Approach

A polycentric staffing policy is one in which HCNs are recruited to manage subsidiaries in their own country and PCNs occupy positions at corporate headquarters.

The advantages of a polycentric policy, some of which address shortcomings of the ethnocentric policy identified above, are:

- Employing HCNs eliminates language barriers, avoids the adjustment problems of expatriate managers and their families, and removes the need for expensive cultural awareness training programs;
- Employment of HCNs allows a multinational company to take a lower profile in sensitive political situations;
- Employment of HCNs is less expensive, even if a premium is paid to attract high-quality applicants;
- Employing HCNs gives continuity to the management of foreign subsidiaries. This approach avoids the turnover of key managers that, by its very nature, results from an ethnocentric approach.

A polycentric policy, however, has its own disadvantages. Perhaps the major difficulty is that of bridging the gap between HCN subsidiary managers and PCN managers at corporate headquarters.

Language barriers, conflicting national loyalties, and a range of cultural differences (e.g. personal value differences and differences in attitudes to business) may isolate the corporate headquarters staff from the various foreign subsidiaries.

The result may be that a multinational firm could become a “federation” of independent national units with nominal links to corporate headquarters.

A second major problem associated with a polycentric staffing policy concerns the career paths of HCN and PCN managers. Host-country managers have limited opportunities to gain experience outside their own country and can not progress beyond the senior positions in their own subsidiary; parent country managers also have limited opportunities to gain international experience.

As headquarters positions are held only by PCNs, the senior corporate management group will have limited exposure to international operations and, over time, this will constrain strategic decision making and resource allocation. Of course, in some cases the host government may dictate that key managerial positions be filled by its nationals. Alternatively, the multinational may wish to be perceived as a local company as part of a strategy of local responsiveness. Having HCNs in key, visible positions assists this.

The Geocentric Approach

The geocentric approach option utilizes the best people for the key jobs throughout the organization, regardless of nationality. There are two main advantages to this approach; it enables a multinational to develop an international executive team, and it overcomes the “federation” drawback of the polycentric approach. Phatak a researcher believes the feasibility of implementing a geocentric policy is based on five related assumptions.

1. Highly competent employees are available not only at headquarters, but also in the subsidiaries;
2. International experience is a condition for success in top positions;
3. Managers with high potential and ambition for promotion are constantly ready to be transferred from one country to another;
4. Competent and mobile managers have an open disposition and high adaptability to different conditions in their various assignments; and
5. Those not blessed initially with an open disposition and high adaptability can acquire these qualities as their experience abroad accumulates.

As with the other staffing approaches, there are disadvantages associated with a geocentric policy.

First, host governments want a high number of their citizens employed and will utilize immigration controls in order to force HCN employment even if not enough people with adequate skills are available.

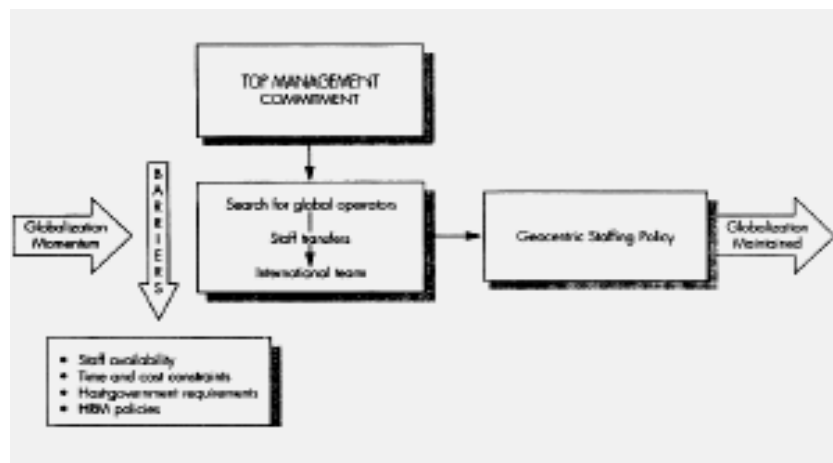


Exhibit-9.1 : Geocentric Staffing Requirements

In addition to this constraint on the implementation of geocentric policy, most Western countries require companies to provide extensive documentation if they wish to hire a foreign national instead of a local national. Providing this documentation can be time-consuming, expensive, and at times futile. Of course, the same drawback applies to an ethnocentric policy. A related issue, that will be discussed later, is the difficulty of obtaining a work permit for the accompanying spouse or partner.

Another disadvantage is that a geocentric policy can be expensive to implement because of increased training and relocation costs. A related factor is the need to have a compensation structure with standardized international base pay, which may be higher than national levels in many countries.

Finally, large number of PCNs, TCNs and HCNs need to be sent abroad in order to build and maintain the international team required to support a geocentric staffing policy.

To successfully implement a geocentric staffing policy, therefore, requires longer lead time and more centralized control of the staffing process. This necessarily reduces the independence of subsidiary management in these issues, and this loss of autonomy may be resisted by the subsidiary.

As shown in Exhibit 9.1, Welch identifies IHRM barriers that may impede a multinational from building the staffing resources required to sustain the geocentric policy that is implicit in globalization literature. The barriers – staff availability, time and cost constraints, host government requirements, and ineffective HRM policies- reflect the issues surrounding the geocentric approach listed in the literature reviewed above. Welch argues that top management commitment to a geocentric staffing policy is necessary to overcome barriers.

While there may be a genuine good intention among top managers at headquarters regarding the staffing of its global operations, leveraging (taking advantage of) critical resources in order to build the necessary international team of managers may prove to be a major challenge.

The Regiocentric Approach

A fourth approach to international staffing is a regional approach. One illustration of this approach is a regiocentric policy, which Heenan and Perlmutter define as functional rationalization on a more-than-one country basis.

The specific mix will vary with the nature of a firm's business and product strategy, but for a multinational one way is to divide its operations into geographical regions and transfer staff within these regions.

For example, a U.S. based firm could create three regions; Europe, the Americas, and Asia-pacific. European staff would be transferred throughout the European region (say a Briton to Germany, a French national to Belgium, and a German to Spain). Staff transfers to the Asia-Pacific region from Europe would be rare, as would transfers from the regions to headquarters in the United States.

One motive for using a regio-centric approach is that it allows interaction between executives transferred to regional headquarters from subsidiaries in the region and PCNs posted to the regional headquarters. This approach also reflects some sensitivity to local conditions, since local subsidiaries are staffed almost totally HCNs.

Another advantage is that a regiocentric approach can be a way for a multinational to gradually move from a purely ethnocentric or polycentric approach to a geocentric approach. To a certain extent, that appears to be the path taken by some multinationals such as the Ford Motor Company.

However, there are some disadvantages in a regiocentric policy. It can produce federalism at a regional rather than a country basis and constrain the organization from taking a global stance.

Another difficulty is that while this approach does improve career prospects at the national level, it only moves the barrier to the regional level. Staff may be promoted to regional headquarters but seldom to positions at the parent headquarters.

Selecting Managers – The Advantages and Disadvantages of Using PCNs, TCNs, and HCNs.

Parent Country Nationals

Advantages

Organizational control and Coordination is maintained and facilitated. Promising managers are given international experience. PCNs may be the best people for the job because of special skills and experiences. There is assurance that subsidiary will comply with company objectives, policies, and so on.

Disadvantages

The promotional opportunities of HCNs are limited Adaptation to host country may take a long time. PCNs may impose on inappropriate HQ style. Compensation for PCNs and HCNs may differ.

Third Country Nationals

Advantages

Salary and benefit requirements may be lower than for PCNs TCNs may be better informed than PCNs about host country environment.

Disadvantages

Transfers must consider possible national animosities (e.g., India and Pakistan). The host government may resent hiring TCNs. TCNs may not want to return to their own countries after assignment.

Host Country Nationals

Advantages

Language and other barriers are eliminated Hiring costs are reduced, and no work permit is required. Continuity of management improves, since HCNs stay longer in positions. Government policy may dictate hiring of HCNs. Morale among HCNs may improve as they see career potential

Disadvantages

Control and coordinati0n of HQ may be impeded. HCNs have limited career opportunity outside the subsidiary. Hiring HCNs limits opportunities for PCNs to gain foreign experience Hiring HCNs could encourage a federation of national rather than global units

A Guiding Philosophy Towards Staffing

In summary, based on top-management attitudes, a multinational can pursue one of several approaches to international staffing. It may even proceed on an adhoc basis, rather than systematically selecting one of the four approaches discussed above.

A danger with this approach according to Robinson is that: The firm will opt for a policy of using parent-country nationals in foreign management positions by default, that is, a simply as an automatic extension of domestic policy, rather than deliberately seeking optimum utilization of management skills.

This option is really a policy by default: there is no conscious decision or evaluation of appropriate policy. The “Policy” is a result of corporate inertia, inexperience, or both.

The major disadvantage here (apart from the obvious one of inefficient use of resources) is that the firm’s responses are reactive rather than proactive, and a consistent human resources strategy that fits its overall business strategy is difficult to achieve.

As was discussed in earlier, the approach of an appropriate policy on executive nationality tends to reflect organizational needs. For instance, if the multinational places a high priority on organizational control, then an ethnocentric policy will be adopted. However, there are difficulties in maintaining a uniform approach to international staffing. Therefore, strategies in different countries may require different staffing approaches. A U.S multinational may take a geocentric approach toward its operations in Europe and Asia-Pacific but, say, an ethnocentric approach toward its operations in Africa.

Summary

Recruitment is defined as searching for and obtaining potential job candidates in sufficient numbers and in sufficient quality so that the organization can select the most appropriate people to fill its job needs.

An MNE may decide to fill the position by selecting from Finance staff available in its parent operations (i.e., a PCN), or to recruit locally (a HCN), or seek a suitable candidate from one of its other foreign subsidiaries (a TCN) or region based/ continent based approach with regard to certain categories of employees.

An ethnocentric approach to staffing results in all key positions in a multinational being filled by parent-country national (PCNs).

A polycentric staffing policy is one in which HCNs are recruited to manage subsidiaries in their own country and PCNs occupy positions at corporate headquarters. A polycentric staffing policy is one in which HCNs are recruited to manage subsidiaries in their own country and PCNs occupy positions at corporate headquarters.

A fourth approach to international staffing is a regional approach. One illustration of this approach is a regiocentric policy which Heenan and Perlmutter define as functional rationalization on a more-than-one country basis.

Based on top-management attitudes, a multinational can pursue one of several approaches to international staffing. It may even proceed on an adhoc basis, rather than systematically selecting one of the four approaches discussed

above.

The questions that must prick your mind

What is the goal of hiring and placing people?

What are the factors that determine as to from which country the staff are selected-PCN or CN or TCN?

What are the key issues in staff selection to internationalized firms?

What are the advantages and disadvantages selecting staff from HCNs, PCNs, TCNs ?

Is there a universally accepted philosophy as to which national should be selected to a multinational?

LESSON 10

Expatriate Issues

Learning Objectives

The selection issues surrounding the three categories of nationality, commencing with selection issues around the use of expatriates.

Who is an expatriate and what are the issues of their selection.

The dimensions of expatriate failure like factors that lead to failure.

Selection criteria for expatriate managers.

Issues relating Female Expatriate Managers.

We have now established so far in the previous lessons the rationale behind the various staffing approaches that have been identified. We now will examine the selection issues surrounding the three categories of nationality, commencing with selection issues around the use of expatriates – a term which may include both PCN and TCNs, though much of the literature on this topic deals with PCNs.

Expatriate Selection

Given the important role commonly assigned to expatriates, it is logical to assume that MNEs take great care in their selection process. However, it would appear from the now considerable literature on expatriate selection that this is an area full with a lot of complexity. Predicting future performance potential when hiring or promoting staff is challenging even at the best of times, but operating in foreign environments certainly adds another level of uncertainty.

For this reason, before we take a critical look at the literature on the criteria for expatriate selection, based on a range of factors of successful performance, we will consider the current debate surrounding expatriate failure.

Expatriate Failure

The term expatriate failure has been defined as the premature return of an expatriate (i.e. a return home before the period of assignment is completed). In such a case, an expatriate failure represents a selection error, often compounded by ineffective expatriate management policies. Lately, there has been some discussion in the literature about the usefulness of defining expatriate failure so narrowly. An expatriate may be ineffective and poorly adjusted yet, if not recalled, he or she will not be considered a failure. Because of an inability either to effectively handle the new responsibilities or to adjust to the country of assignment, performance levels may be diminished.

These results will not be immediately apparent but can have long-term consequences in terms of subsidiary performance. However, if the expatriate remains for the duration of the assignment for all intents and purposes, the assignment will have been considered a success. Thus, the premature return rate is not a perfect measure of success or failure, and may

underestimate the problem. Also, in a somewhat provocative article published in 1995, Harzing has questioned the reported failure rate in the U.S. literature. She claims there is: Almost no empirical foundation for the existence of high failure rates when measured as premature-re-entry. Unfortunately, there has been no reliable large-scale empirical work on this subject for more than fifteen years.

Research finding on expatriate failures

The major work in this area was that of Tung who surveyed a number of U.S. European, and Japanese multinationals. Her results indicated a higher rate of early recalls in the U.S. multinationals in her sample (n=80) than did the European(n=29) and Japanese (n=35) firms.

Twenty-four percent of the U.S. firms had recall rates below 10 percent whereas 59 percent of the West European and 76 percent of the Japanese firms reported recall rates of less than 5 percent. Tung's results suggested that expatriate failure may be of more concern to U.S. firms. Further studies appear to confirm Tung's European results. For Example, Brewster conducted a study of 25 MNEs across five industries from five European countries. He reports low rates of early recall, consistent with those reported by Tung.

More recently, Forster conducted a study of expatriate failure rates in 36 U.K. based firms. Using the broadest definition of failure (i.e. including underperformance and retention upon completion of the assignment), he suggests that a high proportion of staff do struggle to cope with their international assignments. Forster concludes: If we accept that a broader definition of EFRs (expatriate failure rates) is warranted, then it can be argued that the actual figure of those who are 'failing' on IAs (International assignments) could be somewhere between 8 per cent and 28 per cent of U.K. expatriates and their partners.

Another study found that failure/performance problems/adjustment problems were the most frequently experienced problems listed by U.K. firms (27 percent).

A 1977-98 Price Waterhouse study of international assignment policy and practice among European multinationals (including U.S. subsidiaries) asked for data on expatriate failure rates. Seventeen per cent of the 18 companies surveyed reported recall rates of over 5 percent with a further 65 percent reporting at least some failures, compared with the 1955 study results (15 per cent and 63 percent, respectively). The report's author concludes: "One in twenty-five companies reported a failure rate in excess of 10%, " What is significant is that the study added "underperformance' to its definition of assignment failure, and found: The rates for employees currently under-performing on assignment as a result of difficulties in adapting to their cultural surroundings are even higher. 29% of companies report a rate more than one in twenty, with 7% reporting a rate over one in ten.

What can we conclude from this debate?

There are Several Points to be Considered:

In the absence of more recent empirical studies, we are still left with the impression that expatriate failure is higher in U.S. multinationals. We should note that there has not been a follow-up study of Tung's early work. The European studies reported above were conducted at various intervals since Tung's original study, and do not include the same countries. Further, other non-U.S. researchers have been reporting from regional or simple country perspectives. For example, in their study of Nordic firms, Bjorkman and Gertsen report expatriate failure rates of less than 5 percent; and, in their study of international HRMM policies of four MNEs operating internationally from Australia, Dodwling and Welch found that expatriate failure was not a major concern for these firms.

The above studies tend not to differentiate between types of expatriate assignments, the level of "International" maturity or firm size- factors that may influence failure in its broadest sense. Broadening out the definition of expatriate failure beyond that of premature return was agreeable.

Regardless of the definition or precise amount of "failure", its very exposure as a problem has broadened the issue to demonstrate the complexity of international assignments. In fact, one could argue that the so-called persistent myth of high U.S. expatriate failure rates has been a positive element in terms of the attention that has subsequently been directed towards expatriation practices.

It may be that companies operating internationally have since become more aware of the problems associated with expatriate failure and have learned how to avoid them. That is, multinationals have become more sophisticated in their approach to IHRM activities.

The costs associated with expatriate failure need a brief mention. These can be both direct and indirect. Direct costs include airfares and associated relocation expenses, and salary and training. The precise amounts varies according to:

- Level of position concerned;
- Country of destination;
- Exchange rates; and
- Whether the "failed" manager is replaced by another PCN.

The "invisible" or indirect costs are harder to quantify in dollar terms but can prove to be more expensive for the company. Many expatriate positions involve contact with host-government officials and key clients. Failure at this level may result in loss of market share, difficulties with host-government officials, and demands that PCNs be replaced with HCNs (thus affecting the multinational 's general staffing approach). The possible effect on local staff is also an indirect cost factor, since morale and productivity could suffer.

Zeira and Banai argue that multinational corporations should consider these factors as the real cost of expatriate failure, rather than the direct costs for salary and repatriation.

Failure also, of course, has an effect on the expatriate concerned, who may lose self-esteem, self-confidence, and prestige among peers.

Future performance may be marked by decreased motivation, lack of promotional opportunities, or even increased productivity to compensate for the failure. Finally, the expatriate's family relationships may be threatened. These are additional costs to organizations that are often overlooked.

As Gupta argues: A company that sends out people who may not be suitable for working cross-culturally is being grossly negligent". Expatriates tend to have a higher profile, so reducing the incidence of failure, and thereby the cost, is of some strategic importance. Naturally, the debate about the degree to which expatriate failure occurs has been accompanied by investigation and speculation about why failure occurs.

As part of her study, Tung asked respondents to indicate reasons for expatriate failure in their companies. There were national differences in the responses between the U.S and Japanese firms. For the European firms, "inability of the spouse to adjust" was the only consistent response provided. It should be pointed out that the spouse (or accompanying partner) carries a heavy burden. Upon arrival in the country of assignment, the responsibility for settling the family into its new home falls on the spouse, who may have left behind a career, along with friends and social support networks (Particularly relatives). Servants may be involved, for which the spouse is seldom prepared. It is often not possible for the spouse or partner to work in the country or assignment. The well-being and education of the children also concern the spouse. Though the majority of spouses are female, trailing male spouses face similar problems of adjustment.

These factors can contribute to a failure of the spouse to adjust which may affect the performance of the expatriate manager.

As Reynolds and Bennett explained: The negative impact of the accompanying spouse's career continuity. Self esteem and identity can be personally and professionally devastating. Not only can be marriage partnership's balance and health be jeopardized by the psychological assault to the trailing spouse, but so can the performance level of the employee who has been transferred. In fact, when one adds cultural adjustment problems to such a situation, it is perhaps not so surprising to find that some couples seek to return home prematurely.

Tung notes that the relatively lower ranking of "inability of spouse to adjust" by Japanese respondents is not surprising, given the role and status to which Japanese society relegates the spouse. However, other social factors may contribute to this finding. Because of the competitive nature of the Japanese education system, the spouse commonly opts to remain in Japan with the children, particularly where male offspring are concerned. The Japanese word for these unaccompanied male expatriates is *tanshin funin*, or bachelors-in-exile. Thus, in many cases, the spouse is not a factor in expatriate failure.

However, one should not assume that adjustment is not a problem for the Japanese. A tragic case that received front-page news treatment in Melbourne, Australia, involved a Japanese spouse. Police treated the incident as an apparent suicide-the unhappy, homesick woman drove her car, containing herself and her four year old son, off a landing place into the water, drowning them both. An extreme, terrible event, it serves to remind us that the global movement of staff may produce severe adjustment problems for some families.

Other factors that appear to contribute or provoke “failure” include: Length of assignment : The average assignment for Japanese firms is four to five years, compared with two to three years for American firms. This longer assignment allows the expatriate more time to adjust to the foreign situation. As well, Japanese firms do not expect the expatriate to perform up to full capacity until the third year; the first year of the foreign assignment is seen mainly as a period of adjustment to the foreign environment. Allen examined the differences between Japanese postings to the United States and vice versa .He found that some Japanese firms post to the United States only those senior managers who have a significant history with top executives in Japan. He also found that Japanese firms sometimes send a younger potential successor with the senior manager. Who acts as the junior manager’s mentor while in the United States.

Willingness to move: Respondents in Hamills study suggested that the reasons for the lower British expatriate failure rate were that British managers were more internationally mobile than U.S managers, and that perhaps British companies had developed more effective expatriate policies (e.g. many international assignments were an integral part of individual’s career development). Welch notes that the respondents in her study perceived an expatriate posting as a desirable appointment – an opportunity to travel and live abroad. This attitude is partly due to a feeling among

Australians of being isolated from the rest of the world, and partly to willingness to travel similar to that reported by Hamill. This positive outlook on the foreign assignment may have assisted the Australians in the study to adjust to the demands of the foreign location. Willingness to relocate as a requirement of success should, however, include family members. From a survey of 405 U.S .managers and their spouse/partners, working in 20 Fortune 500 corporations, Brett and Stroh found a significant causal relationship between the manager and the spouse’s willingness to move. They conclude that managers who are most ready for international relocation are those whose spouses are also supportive of that move- a not surprising finding.

Work-environment related factors: Gregersen and Black studied 220 American expatriates in four Pacific Rim countries. They found a positive correlation between what they term “intent to stay in the international assignment” and the PCNs commitment to the local company, adjustment to interaction with HCNs, and adjustment to general living conditions. Adjustment to the work role itself, however, was negatively associated with “intent to stay”.

International Assignments Pose Challenges

CASE 1: What works at home does not necessarily work abroad 21A four-day strike and pay rise of ten to fifteen percent were part of the cost paid by a South Korean textile firm for an incident involving one of the expatriate managers in its Vietnamese factory. A Vietnamese worker was confronted by his South Korean boss. Speaking in Korean, the manager, yelled at him for being in the wrong place in the factory. As he did not understand her, the Vietnamese did not respond. The South Korean manager kicked and slapped him - as “in South Korea it is common for employers to scold or even beat employees if they make a big mistake”. Here, though, such behavior resulted in ten of the Vietnamese’s co-workers having beaten the

manager immediately. The Manager was rushed to the hospital and the workers went on strike. The South Korean manager was subsequently repatriated.

CASE 2: Happy to be going home^{22A} A U.S. family from the Midwest, was posted to Melbourne, Australia. The expatriate's role was to assist the Australian subsidiary improve its quality control and supplier relationships. Chuck was placed in charge of the purchasing department. After twelve months, he had successfully established good links with the company's key component suppliers and was in the process of arranging joint company quality training programs with these suppliers to ensure the newly-instigated just-in-time inventory procedures were on a sound footing. Chuck was enjoying his new role. Meanwhile, his ten year old daughter was finding it difficult to make friends in the expensive private school the company had arranged for her to attend. His wife was also finding life in Australia somewhat hard to cope with. "On the surface, it seems so much like home, but Australians not at all the same as us Americans and some people make disparaging remarks about us. They use terms such as 'Yanks'. I miss not being able to find familiar things, such as brownie mix, in the supermarket.

"Both wife and daughter were very happy when circumstances provide an acceptable reason for an early end to Chuck's assignment. His elderly mother suffered a bad fall, and there were no other family members to take care of her. The family was repatriated after 14 months into a three year assignment. The expatriate was replaced by another PCN.

U.S. Firms	Japanese Firms
Inability of spouse to adjust	Inability to cope with large international Responsibility
Manager's inability to adjust	Difficulties with new environment
Other family reasons	Personal or emotional problems
Manager's personal or emotional maturity	Lack of technical competence
Inability to cope with larger International responsibility	Inability of spouse to adjust

Exhibit 10.1: Reasons for Expatriate Failure (in descending order of importance)

LESSON 11

Expatriate Selection

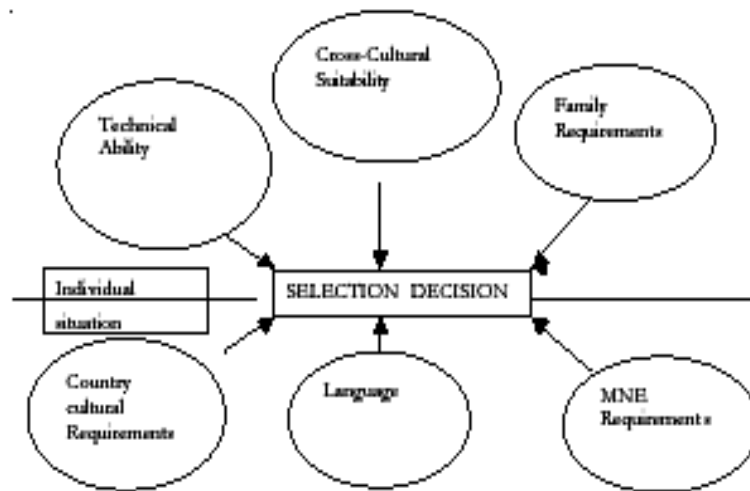


Exhibit 11.1: Factors in Expatriate Selection

Selection Criteria

Because of the high profile given to expatriate “failure”, along with the multifaceted nature of expatriate assignments, predicting success factors and developing appropriate selection criteria for international operators has become a critical IHRM issue. The challenge for those responsible for selecting staff for international assignments is to determine appropriate selection criteria. The predictors of success have been reflected in the way firms approach this critical activity. It should be noted that selection is a two-way process between the individual and the organization.

A prospective candidate may reject the expatriate assignment, either for individual reasons, such as family considerations, or for situational factors, such as the perceived toughness of a particular culture. Exhibit 11.1 illustrates the factors involved in expatriate selection, both in terms of the individual and the specifics of the situation concerned. We base the following discussion around this figure.

Technical Ability

Naturally, the person’s ability to perform the required tasks in an important consideration. Technical and managerial skills are therefore an essential criterion. Indeed, research findings consistently indicate that multinationals place heavy reliance on relevant technical skills during the expatriate selection process. For example, Hixon found that selection was based on technical ability and willingness to reside abroad. Mendenhall, Dunbar, and Oddou conclude

that U.S companies seem to focus their selection efforts on one single criterion that of technical competence – despite the importance of all the other criteria correlated to international success. A survey of 40 Michigan firms by McEenery and DesHaarnais revealed that functional or technical skills were the most important selection criteria used. Bjorkman and Gertsen report a comparable emphasis on technical skills in their survey of Scandinavian multinationals. More recently, study of U.K. and German multinationals found that the majority based their selection decision mainly on technical abilities. Similarly, the 1997-98 Price Waterhouse survey of 184 European firms (nearly a quarter of which had their worldwide headquarters in the United States) reports that the most important selection criteria were job-oriented skills (99 percent) and leadership skills (76 percent).

Reinforcing the emphasis on technical skills is the relative ease with which the multinational may assess the potential candidate's potential since technical and managerial competence can be determined on the basis of past performance. Since expatriates are usually internal recruits, personnel evaluation records can be examined and checked with the candidate's past and present superiors. Of course, as can be demonstrated in the Vietnamese example, past performance may have little or no bearing on one's ability to achieve a task in a foreign cultural environment. In fact, domestic does not equal international – technical abilities that may make a person a good performer in the domestic environment may be liabilities abroad.

One should note here that while technical ability (or lack thereof) does not emerge as a critical precursor to "failure". Job-oriented aspects may be a component in the expatriate's intention to stay in the foreign location, or with the firm upon return home after successful completion of the assignment. For instance, several recent U.S studies indicates that job autonomy is a powerful factor influencing expatriate turnover. The nature of the job itself may counter the individual's technical ability to do the job, or interact with other factors to cause underperformance, even early recall.

Cross-Cultural Suitability

The Cultural environment in which expatriates operate is an important factor in determining successful performance. According to the relevant literature, certain traits and characteristics have been identified as predictors of expatriate success. Although these traits may not guarantee an expatriate's success, without them the possibility of failure is enhanced. Apart from the obvious technical ability and managerial skills, expatriates require cross cultural abilities that enable the person to operate in a new environment. These include: Cultural empathy, adaptability, diplomacy, language ability, positive attitude, emotional stability, and maturity. Murray and Murray advocate that, while managerial or technical competence is regarded as the primary competence for expatriate success, effectiveness and coping skills are also required.

Effectiveness skills are defined as the ability to successfully translate the managerial or technical skills into the foreign environment, whereas coping skills enable the person to become reasonably comfortable, or at least survive, in a foreign environment. Reliance on technical skills as a predictor of success is, therefore, limiting – technical competence does not assist a person's ability to adapt to, and cope with, a new environment that involves dealing

effectively with foreign coworkers. Hence, the predictors of expatriate success have tended to stress the traits and characteristics of the candidate.

In practice, while inter-cultural competence is recognized as important, it is difficult to precisely define what this comprises, let alone assess a candidate's suitability in this regard. One has to take into consideration aspects such as the individual's personality, attitude to foreigners, ability to relate to people from another cultural group, and so on. As studies such as that by Tung report, multinationals may indicate that, for example, relational abilities are an important expatriate selection criterion, but few will assess a candidate's relational ability through a formal procedure such as a judgment by senior managers or psychological tests. As we will discuss shortly, testing procedures are not necessarily the answer.

Family Requirements

The contribution that the family, particularly the spouse, makes to the success of the international assignment is now well documented, having been the subject of much research in the past decade or so. For example, Black and Stephens examined the influence of the spouse on American expatriate adjustment. Surveying 220 U.S. expatriates and their spouses working in Japan, Taiwan, and Hong Kong, they found that a favorable opinion about the international assignment by the spouse is positively related to the spouse's adjustment. The adjustment of the spouse was found to be highly correlated to the adjustment of the expatriate manager.

Despite this important link, however, Black and Stephens relate that only 30 percent of the firms in their study sought the spouse's concerning the international assignment, and they conclude: Given

- (a) That spouse opinion about accepting the international assignment is related to spouse adjustment;
- (b) That spouse adjustment is positively related to expatriate adjustment and expatriate intentions to stay or leave; and
- (c) That premature return are quite costly,
- (d) it seems that firms could benefit from more careful attention to the opinion of the spouse concerning the assignment before the expatriate is transferred overseas.

Likewise, Australian research into the psychological impact of relocation on the partners of 58 expatriate and repatriate managers found that the amount of control the partner felt over the decision to relocate was significantly correlated to her satisfaction with life in the pre departure and early stages of expansion.

Another important finding was that the more comprehensive the company assistance, especially during the early stages of the expatriation process, the higher the level of psychological adjustment to relocation made by the expatriate partner.

These results suggest the need for the inclusion of the family in the selection process. Yet, when one looks at more recent studies of the expatriation practices of various multinationals, the inclusion of the spouse and family in the selection process continues to be either overlooked or treated in a peripheral way.

Brewster's study of 25 European MNEs found that only 16 percent interviewed the spouse during the selection process. The 1997-98 Price Waterhouse52 survey comments: Compared to our 1995 survey, the number of companies which routinely interview an employee's spouse or partner as part of the selection process has increased slightly, from 9% to 11%. However, overall, fewer companies involve the spouse or partner in the selection process under any circumstances, rising from half in 1995 to two-thirds currently. Of the companies which do interview the spouse or partner, 12% interview them on their own. Given that more than a third of the companies believe the assignments that either failed, or been ended prematurely, due to spouse or partner's difficulties with adapting to life in the host location, it is perhaps a little surprising that companies are not attributing more importance to assessing their suitability.

We can speculate why companies appear to be reluctant to include families in the selection process, based on the separation between work and private life that occurs in most Western cultures. For example, Welch found a reluctance on the part of Australian firms to include spouses in the formal selection process because it was considered to be outside their domain, and could evoke civil liberties concerns.

What one finds in practice is that multinationals which are of the key role the family plays may resort to informal methods, such as taking the couple who once live in the location concerned. However, this understandable unwillingness to become involved in an employee's private life constrains the multinationals ability to select the most appropriate couple.

Country / Cultural Requirements

The host country may be an important determinant of who is to be selected. Some regions and countries are considered "hardship postings" – remote areas away from major cities or modern facilities, or war-torn regions with high physical risk. Accompanying family members may be an additional responsibility that the MNE does not want to bear. There may be a reluctance to select females for certain Middle East or South Asian regions. Indeed some countries will not issue a work permit for a female. These aspects may result in the selection of HCNs rather than expatriates. Other country and cultural requirements, along with cultural adjustment issues, will be explored later.

MNE Requirements

As we examined previously, situational factors have an influence on the selection decision. For instance, the multinational may consider the proportion of expatriates to local staff when making selection decisions, mainly as an outcome of its staffing philosophy. However, operations in particular countries may require the use of more PCNs and TCNs than would normally be the case, as multinationals operating in parts of Eastern Europe and China are discovering. This Will Affect the Selection Ratio- that is, PCN:TCN:HCN

Other situational factors include:

The mode of operation involved. Selecting staff to work in an international joint venture may involve major input from the local partner and be constrained by the negotiated agreement on

selection process. The duration of the assignment Family members tend not to accompany an expatriate when the assignment is only for three to six months duration, so family requirements may not be strong factor in the selection decision. The amount of knowledge transfer inherent in the expatriate's job in the foreign operation. If the nature of the job is to train local staff, then the multinational may include training skills as a selection criterion. Some support for including situation factors comes from the argument proffered by Zeira and Banai. They claim that broadening of the spectrum to include the host environment would make it possible for multinationals to base the selection of their PCNs on the expectations of the real environment in which expatriates work, and with which they must cope. This, they argue, would allow better prediction of the extent of the candidate's suitability for the host country.

Language

The ability to speak a second language is an aspect often linked with cross-cultural ability. We have chosen to stress language as situation- determined in terms of its importance as a factor in the selection decision. Language skills may be regarded as a factor in the selection decision. Language skills may be regarded as of critical importance for some expatriate positions, but lesser in others. In Tung's initial studies, U.S respondents listed "knowledge of the host-country's language" as important for functional and operative jobs; where as communication skills, rather than specific language skills, was an important selection criterion for the top subsidiary management position. Nevertheless, some would argue that knowledge of the host country's language is an important aspect of expatriate performance, regardless of the level of position. Differences in language are recognized as a major barrier to effective cross cultural communication. Yet, in terms of the other selection criteria we have examined above, from the multinational's perspective, language is placed lower down the list of desirable attributes. For example, the 1997 – 98 Price Waterhouse survey ranks language skills as the third most important selection criterion (behind job-related and leadership skills). The U.K.-German study by Marx, referred to above, ranks language skills as number five (behind social competence, openness to other ways of thinking, cultural adaptation, and professional excellence). An explanation for this attitude may be drawn from a study from a study of the foreign language needs of U.S multinationals.

Through her interviews with people in nine companies of varying size and nature, Fixman found that foreign language skills were rarely considered an important part of international business success. She comments, "Language problems were largely viewed as mechanical and manageable problems that could be solved individually".

From the perspective of some expatriates, though, language is a factor in cultural adjustment, as the Tung-Arthur Andersen survey indicates: Respondents (predominantly Americans) greatly valued the ability to speak the local language regardless of how different the culture was from their home country.

Another component to language as a situation factor in the selection decision is the role of the common corporate language. Most multinationals, at some point, whether consciously or not, adopt a common corporate language as a way of standardizing reporting systems and procedures. This is not, perhaps, an issue for PCN selection within multinationals from the United States, the United Kingdom, Canada, and Australia, where the chosen company

language remains the same as that of the home country. It becomes a PCN selection factor though, for multinationals from non-English speaking countries that adopt English as the corporate language, unless the posting is to a country with a shared language. For instance, a Spanish multinational, using Spanish as the corporate language, selecting a manager to head a new subsidiary in Mexico, does not face the same language issue as a Spanish multinational, with English as its corporate language, selecting a manager to its U.S. facility. For the latter, fluency in English is important.

Inter-Relatedness of Criteria

As we will explore further later lessons, the above individual and situational factors involved in expatriate selection interact with each other in terms of performance. For example, in their discussion of the significance of the work role and intent to stay, Gregersen and Black link challenges at work with cultural adjustment. They argue that once the expatriate has mastered, or nearly completed, the assigned work, other factors may surface and assume relative importance. For instance, if the work becomes less demanding and no longer so time-consuming, the expatriate may have time to pay more attention to negative cross cultural experiences that the family is encountering. These negative experiences can become distorted when combined with lack of challenge at work and thus sow seeds for early recall, or underperformance. This adds to the dilemma of designing and using appropriate selection criteria that will predict performance in the foreign location.

The Use of Selection Tests

Although there is a consensus among scholars and practitioners that personal characteristics (or traits) are important, there is considerable debate about how many personal characteristics can be reliably and accurately measured. Personality and psychological tests have been used in the selection process, but the effectiveness of such tests as predictors of a cultural adjustment is questioned. For example, Torbiorn comments that though desirable personality traits are specified and recommended, the tests or criteria to assess these traits are seldom convincingly validated. Likewise, Willis states that if tests are used they should be selected with care and regard for reliability and validity because, while some tests may be useful in suggesting potential problems, there appears to be little correlation between test scores and performance. He further adds that most of the relevant tests have been devised in the United States and, therefore, may be culture-bound. Use of such tests without careful modification on non-American nationals adds another question mark to their reliability and validity as predictors of expatriate success. Another constraint is that in some countries (the United Kingdom and Australia, for instance) there is controversy about the use of psychological tests.

There is also a different pattern of usage across countries. The use of such tests is very low in Germany. The 1997-98 Price Waterhouse survey reports only 12 percent used formal assessment centers, and some companies “indicate through their comments that they also use psychometric tests.” A clear majority of respondents (85 per cent) mainly assessed expatriate suitability through the traditional interview process. The difficulty of predicting success, then, seems to be related to the lack of valid and reliable screening devices to identify, with certainty, managers who will succeed in a foreign assignment. The crucial variables affecting the

adjustment of the individual and family are not only difficult to identify or measure, but the complex relationship between personality factors and ability to adjust to another culture is not well understood.

Discussing this problem, Gertsen points out that the use of personality traits to predict intercultural competence is further complicated by the fact that personality traits are not defined and evaluated in the same way in different cultures. She states, “ The most serious problem, however, is that attitudes do not always result in the implicitly expected behavior. If a person has very positive attitudes towards a culture but is unable to express this in his behavior, it has no effect.” She concludes that attitudes are relevant only to the extent that they determine a person’s actual communicative behavior in another culture and that other personality traits are relevant in the same way.

Another drawback of expatriate selection based on traits or characteristics is the subjective nature of the scoring of abilities, especially those classified as personal and environmental characteristics. Nevertheless, models derived from this approach have value in that they provide some guidelines that can be applied during the selection process, rather than mere reliance on the potential manager’s domestic record as a predictor. One such model is offered by Mendenhall and Oddou. They propose a four-dimensional approach that attempts to link specific behavioral tendencies to probable international performance: The self-oriented dimension reflects the degree to which the expatriate expresses an adaptive concern for self-preservation, self-enjoyment and mental hygiene. These could be measured through certain psychometric tests (such as stress tolerance and Type A behavior). The perceptual dimension reflects the expertise the expatriate possess in accurately understanding why host nationals behave the way they do. Psychological tests with established validity could assess the flexibility of an individual’s perceptual and evaluative tendencies. They could be used in conjunction with in-depth evaluations from other sources such as a consultant psychologist and the applicant’s superiors. Use of testing may also encourage self-reflection regarding motivation for the assignment.

The others-oriented dimension reflects the degree to which the expatriate is concerned about host-national coworkers and desires to affiliate with them. This could be evaluated through similar techniques for perceptual dimension. The cultural-toughness dimension reflects a mediating variable that recognizes that acculturation (adjustment to the new culture) is affected by the degree to which the culture of the host country is incongruent with that of the home country. This could be assessed by comparing the host country’s political, legal, socioeconomic, and business systems to those in the parent country. If there is considerable disparity (i.e., if the host country is “culturally tough”), only applicants with high scores on a set of the various evaluation devices available should be considered for the assignment. For assignments to countries similar to the parent country(e.g., an assignment to Australia from the United States), applicants with more marginal evaluation scores may be considered. The evaluation of the candidate’s strengths and weaknesses on these four dimensions, Mendenhall and Oddou suggest, will focus appropriate attention on cross cultural ability and behavior, thus complementing technical ability assessment.

Other Factors in Expatriate Selection

Our examination so far has revealed that establishing criteria for expatriate selection remains problematic. Predictors of success have been identified, but it remains unclear as to how these should be measured.

Part of the problem is the design of appropriate tests, but other factors are involved. One is time- expatriates are often selected quickly to staff unexpected, international vacancies, skipping a lengthy screening process. Torbiorn has noted the impact of lack of planning in this area; "The mass of possible selection criteria proposed in the literature is rarely likely to be matched by a wide range of available candidates and the man chosen is often simply the man who happens to be there."

Another is that of Availability.

After going through the selection process, the multinational may find that the preferred candidate rejects the offered assignment. The main reasons for refusal, or non availability, include dual-career couples and family considerations.

Dual-Career Couples

Accepting the international assignment will impact upon the career of the potential candidate's spouse or partner. The increase in the number of dual-career couples is a worldwide trend, one that is posing a dilemma for both companies and employees alike. In the past, working spouses were less common, spouses were generally female, and they were prepared to follow their partner's work transfers, both domestic and international. This past situation is reflected in the use of terms such as "the trailing spouse" to refer to the housebound female who accompanied her husband.

But this situation has changed. Fewer families in Western countries; could be classified as "traditional". As Reynolds and Bennett point out, fewer U.S employees are willing to relocate, either domestically or internationally, without the support of their spouses, to the extent that the career-couple challenge is now an issue that multinational employers cannot ignore. A U.K.-based study supports this contention: 67 percent of respondents listed "spouse/partner reluctant to give up own career" as a major constraint to international staff transfers. A 1993 study, conducted by Royal Dutch Shell into its own expatriate management practices, revealed that more than half of all spouses were in employment prior to the assignment, yet fewer than 10 percent were able to work in the foreign location. Similar results were found in the 1997-98 Price Waterhouse survey mentioned previously, where the majority of companies(86 percent) admitted they had assignment offers turned down. The main reasons for refusals were domestic/family concerns (77 percent) and dual-career issues (58 percent). The increasing number of refusals indicates that: More people are immobile, and are prepared to state the grounds as family concerns. This is acceptable as a reason reflects a significant shift in thinking about the role of non-work aspects impinging on work-related matters. Multinationals are being forced to select from a diminishing pool of candidates who may be less qualified. This has strategic implications for staffing policies Harzing found that companies in her survey who experienced problems with dual-career couples sent out less PCNs and employed more HCNs

and TCNs. Such findings confirm the inclusion of staff availability as a barrier to developing a geocentric staffing policy

.Reflecting this global trend, the impact of the accompanying spouse's or partner's career orientation upon the international assignment is an emerging area of research. It seems that career orientation not only affects the couple's willingness to move, but may also negatively affect performance and retention in the foreign location. For example, a study of the impact of a spouse's career orientation on managers during transfers from the United States to Japan found that, although most spouses who worked before the international assignment did not find employment, a significantly higher proportion of career-oriented spouses did. In their discussion of this finding, Stephens and Black suggest that career oriented spouses may have had a higher employment rate in the foreign country because:

- They were more qualified;
- They had more to lose and therefore tried to harder to find employment; or perhaps
- Their spouses' companies provided job-finding and work visa assistance.

They caution that this finding should not necessarily lead companies to belief that job-finding assistance for spouses is not important. They conclude, "If organizations wish to take advantage of the career development aspects of international transfers and the benefits to the firm inherent in effective relocation programmes, they must consider the impact of international transfers on both partners in dual-career couples."

Some multinationals are endeavoring to come up with solutions to the dual-career challenge. According to Reynolds and Bennett: Most companies still use informal or ad hoc approaches to addressing the problems of their expatriate career couples. In isolation or with industry colleagues, companies are beginning to generate innovative programs and interventions to assist this special breed of couples.

LESSON 12

Expatriate Strategies

Strategies Multinationals have experimented with include the following:

Inter-company networking:

Here the multinational attempts to place the accompanying spouse or partner in a suitable job with another multinational – sometimes in a reciprocal arrangement. To illustrate, a U.S. Multinational may enter into an agreement with a German multinational also operating in, say China, that they find a position within their respective Chinese facilities for each other's accompanying partner (i.e. "you find any expatriate's spouse a job and work visa, and I will do likewise for you"). Alternatively, a local supplier, distributor, or joint venture partner may agree to employ the accompanying spouse/partner.

Job-hunting assistance:

Here the multinational provides spouse or partner assistance with the employment search in the host country. This may be through employment agency fees, career counseling, or simply work permit assistance. The 1997-98 Price Waterhouse survey found that 25.5 percent of the firms surveyed provided job finding assistance. Some may provide a fact-finding trip to the host location before the actual assignment.

Intra-company employment:

This is perhaps a logical but often a somewhat difficult solution. It means sending the couple to the same foreign facility, perhaps the same department. Not all multinationals are comfortable with the idea of having a husband and wife team in the same work location, nor do all couples wish it either. A large Australian multinational sent a couple into its Vietnamese operation, knowing that this would create a delicate situation – the wife reported directly to her husband. The selection decision was not undertaken lightly. HRM staff provided counseling before the assignment, and the situation was monitored carefully by headquarters.

Support for "commuter marriages" The spouse/partner may decide to remain in the home country, and the couple works out ways to maintain the relationship with the help of the firm. In a case known to the authors, when a major U.S. multinational assigned a female expatriate to its Australian subsidiary for 18 months, her husband remained in Chicago. The multinational supported this arrangement through subsidized telephone bills and three return airline tickers. Alternatively, couples may move to jobs in adjoining countries, or within the same geographical region. For instance, one may work in Hong Kong (the original posting), the other in Bangkok. This makes commuting (relationship maintenance) easier than from the United States. Multinationals adjust the compensation benefits to fit with the agreed arrangements.

On-assignment career support:

Motorola is an example of how a multinational may assist spouses to maintain and even improve career skills through what Motorola calls its Dual-career Policy. This consists of a lump-sum payment for education expenses, professional association fees, seminar attendance, language training to upgrade work-related skills, and employment agency fees. There are conditions attached, such as the spouse must have been employed before the assignment. Thus, if the spouse is unable to find suitable employment, the time can be spent on career development activities. These attempts demonstrate that creative thinking can assist multinationals overcome this potential barrier. However, it is worthy of note that 64.6 percent of the firms in the 1997-98. Price Waterhouse survey did not have a dual-career policy, and only 15.8 percent indicated they had a formal, written policy on this issue.

Reynolds and Bennett found the attitude that “this is a problem the couples responsible should resolve” still prevails in many U.S firms. Such an attitude contributes to the problem of staff immobility rather than solving it. Where assistance is lacking from multinationals, dual-career couples often obtain help from voluntary agencies such as the Federation of American Women’s Clubs Overseas (FAWCO) in the host location.

Female International Managers

The selection of females for international postings is a related issue. It would appear that, in the past, relatively few women were sent expatriate assignments. For example, in 1984, Adler reported a survey of international HR practices in over 600 U.S and Canadian companies that found only 3 percent (402) of the 13,338 expatriates identified were female. She found that female expatriates tend to be employed by companies with over 1,000 employees in the banking, electronics, petroleum, and publishing industries. There are various explanations for her findings: The data simply reflect the preferences of males and females, and the majority of females do not wish to be sent on a expatriate assignment. Such an explanation assumes that both males and females are offered the opportunity of expatriate assignments, which Alder reports is not the case. The data reflect the limited number of females with sufficient experience to be sent abroad. Many multinationals are concerned with the various social norms with regard to women that prevail in many countries. For example, some Middle Eastern countries would not issue a work visa to a female expatriate even if the multinational selected her. Alder argues that such examples are the exception rather than the rule, and that in many countries; social norms regarding the role of women do not apply to female expatriates because locals regard them as foreigners. This did appear to be the situation for female members of the U.S. armed forces situated in the Saudi Arabia during the Gulf War. However, there may be some gender-related constraints. For example, some of the traditional methods of entertainment in Asian business culture involve the sexual exploitation of women and clearly exclude female colleagues.

We could add another attitudinal dimension: a somewhat externalized belief that men in some cultures, such as certain Asian countries, do not like reporting to female managers, particularly foreign women, and therefore women should not be posted abroad. Such beliefs help create what has been termed the glass border that supports the glass ceiling. There is a paucity of empirical studies surrounding this issue, and what exists presents somewhat inconclusive data,

For example, a recent study of 70 U.S. women expatriates, working in 31 countries (mostly in Europe and Far East Asia), reports that 52.9 percent acknowledged the existence of discrimination in the local company, but 47.1 percent said that they did not encounter local discrimination because they were women. There is a suggestion in some of the literature that, as the proportion of women in the domestic workforce continues to increase, and as international experience becomes an essential criterion for career progression within multinationals, we will see more international managers who are female. However, the 1997-98 Price Waterhouse survey found that only 6 percent of expatriates were females.

Family Considerations

Apart from the accompanying partner's career, there are family considerations that can cause a potential expatriate to decline the international assignment. Disruption to children's education is an important consideration, and the selected candidate may reject the offered assignment on the grounds that a move at this particular stage in her child's life is inappropriate. The care of aging or invalid parents is another consideration. What has been somewhat overlooked is the issue of single parents.

Given the increasing divorce rates, this may become a critical factor in assignment selection and acceptance where the custody of children is involved. This is not necessarily an additional barrier for prospective female international managers only. An increasing number of males in the United States are being granted custody of the children of the marriage. The associated legal constraints, such as obtaining the consent of the other parent to take the child (or children) out of the home country, and visiting/access rights, may prove to be a major barrier to the international mobility of both single mothers and single fathers.

Work Permit Refused

International firms are usually required to demonstrate that a HCN is not available before the host government will issue the necessary work permit and entry visa for the desired PCN or TCN. In some cases, the multinational may wish to use an expatriate and has selected a candidate for the international assignment, only to find the transfer blocked by the host government. Some countries, such as the United States, are changing their legislation to facilitate employment related immigration, which will make international transfers somewhat easier.

As we will see later, the Social Character allows for free movement of citizens of member countries within the European Union. It is therefore important that HR staff keep up-to-date with changing legislation in the countries in which the multinational is involved. The Case Study below shows how one U.S. multinational's careful planning allowed it to obtain the required number of PCN visas.

Case Study: Citibank Plans for Changing Staffing Needs 86 Banks, along with oil and construction companies, remain heavy users of PCN employees, because these industries require very specific (sometimes firm-specific) skills frequently not found in foreign locations. In the mid 1980s, Australia offered a once-only opportunity for foreign banks to enter the local market. Citibank already held a limited banking license that allowed it to operate in Australia as

a merchant banking operation and finance company. A year before the licenses were to be awarded, Citibank sent one of its senior HR Managers on a year-long assignment to Sydney to assess the staffing implications of an application to the Australian government for a banking license. First, an assessment was made as to how many PCN visas would be required. Then, a detailed summary was prepared for the Australian immigration department that demonstrated the history of Citibank's investment in training Australian nationals, with career examples of HCNs who were now employed by Citibank in Australia, in other foreign locations, and in the United States. This proved to be a successful strategy: Citibank received one of the sixteen licenses on offer and all of the PCN work permits it requested. An important, related point is that generally a work permit is granted to the expatriate only. The accompanying spouse or partner may not be permitted to work in the host country. Increasingly, multinationals are finding that the inability of the spouse to work in the host country may cause the selected candidate to reject the offer of an international assignment. If the international assignment is accepted, the lack of work permit for the accompanying spouse or partner may cause difficulties in adjustment and even contribute to failure. For these reasons, as reported above, some multinationals provide assistance in this regard.

Summary (Lesson 10-12)

We discussed the debate surrounding the definition and degree of expatriate failure before looking at the factors involved in expatriate selection. An evaluation of the common criteria used revealed the difficulty of selecting the right candidate for an international assignment and the importance of including family considerations in the selection process.

Societal trends such as dual-career families will continue to constrain the firm's ability to attract the best candidate for the international assignment. Ensuring that high-potential employees are available is a major challenge for multinationals. It is also clear that, while our appreciation of the issues surrounding expatriate recruitment and selection has deepened in the past decade, much remains to be explored. One such area is how firms approach the TCN and HCH management selection process. Are we right in assuming that the same criteria are used for PCNs and TCNs? Another area is the continuing low level of female international managers. Despite the suggestion that more female managers will be used in the future, it may be that the dual-career issue, coupled with single-parent families, will prove to be major constraints to their mobility.

The questions that must prick your mind (Lesson 10-12)

1. What is expatriate failure? Why do expatriates fail?
2. What are failure rate trends in UK, US and Japan?
3. What are the factors that contribute to expatriate failure?
4. In view of significant level of expatriate failure, what precautions would you take as an international HR manager in selecting expatriate staff?
5. How do willingness to move, length of assignment and work-related factors impact on expatriate's success in foreign assignment?
6. What are the different failure factors in U.S. and Japanese firms?

7. How important are technical knowledge and cross-cultural understanding as criteria for expatriate selection?
8. What are the MNE-specific requirements that impact on expatriate selection?
9. What strategies can companies develop to overcome the potential barrier that dual career couples may become in terms of staff availability for international assignments?

LESSON 13

Selection of HCN and TCN

Learning Objectives

1. What is the selection process for third-country national employees and host country national employees?
2. Issues in selecting HCNs for transfers to Headquarters;
3. The issue of ensuring equal employment opportunity to all employees

Introduction

Surprisingly, there is little in the literature regarding the selection process for this group of international employees. Apart from discussions surrounding the motives for the use of TCNs, and the advantages and disadvantages involved there is a paucity of information regarding specific TCN selection issues and policies. It is safe to assume, however, that much of what we have covered in our treatment of expatriate selection issues applies to both PCNs and TCNs.

Thus, when selecting TCNs from within its own operations, the individual factors identified in technical ability, cross cultural adaptability, and family requirements—would apply equally to PCNs and TCNs. Situational factors may dominate the selection decision- such as lack of suitably qualified or available PCNs. However, the issue of work permits may be crucial determinant in the ability to use TCNs, as governments would prefer to see their own nationals employed. It may be harder to justify the use of TCNs than PCNs. For companies developing a geocentric staffing policy, transferring subsidiary staff to other subsidiaries, as well as to headquarters, is an important part of creating an international team (or cadre). High profile transfers can provide a powerful signal. Creating the means for such transfers is not easy.

As Percy Barnevik, Chairman and former CEO of the Swedish- Swiss conglomerate Asea Brown Boveri (ABB) commented recently: The difficulty is that bosses tend to attract clusters of people from their own nationality around them. They do this not because they are racists, but because they feel comfortable with people they know best. You get a German cluster or a Swedish cluster. So you must make sure that when a boss selects managers, he considers people from other countries. And you must make sure good people from other countries are available to him. Managers have to be asked to supply lists of potential candidates for work outside their countries. Then if a German manager selects four Germans for a task, you will be in a position to suggest an Italian or an American and ask him to think again.

Language ability as a selection criterion may be more critical because the TCN would need to be fluent in at least the common corporate language.

When recruiting and selecting external candidates for TCN positions, there may be a danger that the multinationals will place more emphasis on the potential candidate's ability to fit into

the multinational's corporate culture rather than on cross cultural ability. Whether selection is from an international or external pool, it would be important for HRM staff in all locations to be aware of the debate surrounding the use of selection tests, particularly the culture-bound nature of psychometric tests designed for PCNs.

Techniques for recruiting TCNs vary:

Some U.S. multinationals recruit potential TCNs from among the foreign student body at various U.S. business schools. In Europe, for example, in October 1997, Nokia, the Finish telecommunications multinational ran advertisements in local newspapers in Denmark and Netherlands for young graduates to take positions in its growing Asian operations. Stress was placed on technical skills and fluency in English (the company language).

For internal recruiting for TCN positions, companies which as IBM use their internal recruiting for TCN positions, companies such as IBM use their internal communication media, such as electronic bulletin boards, in-house journals, and so on, to advertise vacancies. An emerging trend is the use of foreign-born nationals, recruiting from ethnic groups living abroad. For example, a U.K multinational may select a Canadian-born Chinese to head up its Chinese facility. It was estimated that, in 1966, the majority of expatriate managers working in China were overseas Chinese from Malaysia, Singapore, Hong Kong, and Taiwan. The underlying assumption appears to be that such appointments will reduce cross-cultural difficulties. It is also a partial solution to the dearth of qualified local managers. Eastman-Kodak's HR director of the Greater China region regards this as a Band-Aid measure: "we could take everybody from our organizations in Hong Kong and Taiwan and put them in China and we still wouldn't come close to getting the number of managers we need." The company estimates that it will take at least 10 years to fully localize its Chinese management.

Selecting Host-Country Nationals:

When it comes to HCNs, we should distinguish between the selection of staff for positions in the local facility and the selection of staff for transfer into the parent's facilities in the home country.

Staffing the Local Subsidiary

We will begin with the issues surrounding recruiting and selecting HCNs for subsidiary operations. It is obvious that the multinationals must observe the host-country's legal requirements and social customs for hiring staff. In some countries, questions regarding a person's family, hobbies, parents, or religious convictions are unacceptable, since these are considered private areas.

In the absence of local hiring experience, the multinational may localize the HR function, or employ a local recruiting source. Appointing a HCN as the HR manager is attractive when the strategy is to appear as localized as possible (part of a polycentric staffing policy). It is sometimes seen as a way of ensuring that the local operation conforms to local standards, thus avoiding the "bad press" that can result from non-adherence. The sexual harassment allegations

at Mitsubishi Motor Manufacturing of America (MMMA), and at Astra USA, a Swedish subsidiary, in 1996 are cases in point.

There is a paucity of empirical studies on how the multinational approaches the recruitment and selection of local staff, though we can make some inferences from recent research that examines the standardization versus localization of HR practices. One such study, by Rosenzweig and Nohria, examined HRM practices in U.S. affiliates of foreign multinationals. A high level of localization of HR practices (i.e. adoption of U.S. work-related practices), though the precise degree depended on various factors such as funding, nationality of parent company, presence of expatriates, and extent of communication of the parent has been found.

Unfortunately, recruitment and selection activities were not specifically included in this study, nor was the nationality mix within the HR department revealed. Another study by Lu and Bjorkman examined the HRM localization issue in 65 Sino-Western international joint ventures (IJVs). They report a variety of approaches, depending on the mode of establishment, ownership and the contribution of critical resources to the venture.

The type of HR activity involved was also important:

Recruitment and training were the two activities that were most likely to be localized: HR managers commented during follow up interviews that recruitment and training were the two activities that were most likely to be localized. HR managers commented during follow up interviews that recruitment in IJVs closely resembled the practices utilized by local firms. Both used job advertisements, job fairs, and job exchange centers, criteria for selection also were similar, with an emphasis on education background, skills, and work experience.

Type of entry by MNE into New Market:

This is an Important Consideration. If the multinational establishes its own facility (i.e., builds its own plant-what is termed a “Greenfield site”), it may have more discretion in its hiring practices. Entry through acquisition generally means a ready-made workforce initially. South Korean multinationals have tended to follow a “growth through-acquisition” strategy, and have generally encountered more staffing and labor problems than have Japanese multinationals that preferred a “Greenfield sites” strategy.

An international joint ventures can be even more difficult, as the host-country partner will have specific goals regarding hiring. This is further complicated when the local joint venture partner is the host government. Some Western firms entering into China have found staffing to be somewhat problematic, as State-owned partners often insist that all, or almost all, existing employees are utilized by the joint venture.

Monks took a slightly different approach in her study of Irish subsidiaries of foreign multinationals. While she was interested in the standardization-localization issue, Monks confined her sample to the HR department. In all of the nine companies, the HR managers were Irish, though other top subsidiary management positions were not necessarily localized. The Irish HR managers interviewed considered their control over local staffing issues as almost

total. The exception was the Japanese firm in the sample—a finding which Monks considered consistent with Japanese subsidiary practices in other countries. Over-all, Monks found that HCN selection remained in the domain of the Irish HR managers, but there was minimal input into HR decisions and strategies at the corporate level. None of the HR managers attended meetings at the headquarters. Controls were through the monitoring of financial implications of staffing decisions.

Selecting HCNs for transfer to headquarters:

The second issue is the selection of HCNs for international transfer into the parent-company's domestic operations. Motives for utilizing HCNs in this way tend to be for training and development purposes, which we will discuss a little later. Among the reasons for HCN transfers is that so-called “inpatriates” can assist in breaking down the uni-culture of the U.S. multinational. Related to this point, in a somewhat controversial article published in 1988, Kobrin⁹⁶ argued that many U.S. firms have overdone the replacement of U.S. expatriates with HCNs, in response to the difficulties that Americans have had in adjusting to other cultural environments, rather than for reasons of effectiveness and efficiency. In doing so, Kobrin warned that U.S. multinationals could become composed primarily of employees who identify with the local subsidiary rather than the worldwide organization. An influx of “inpatriates” is one way of preventing or overcoming such a problem.

In their article, Harvey and Buckley advocate careful selection and management of “inpatriates” to ensure that the advantages of such transfers are obtained. Other types of HCN transfers into parent operations can be to facilitate subsidiary learning and integration. HCNs may be transferred for technical and operative skills training, as well as to acquire a sense of belonging—part of building a global corporate culture. Of course, these transfers may be of a shorter duration than a general expatriate posting, and the reason for the transfer will affect selection.

Some South Korean MNEs have encountered problems finding and keeping local management, particularly in the United States. As a counter to this, HCN managers were transferred into South Korean facilities in an attempt to expose foreigners to the Korean way of doing business. Transfers of HCNs to the foreign partner's headquarters are playing an important training role in developing Chinese staff. As we will demonstrate in the later lessons, language becomes more important as a selection criterion for HCN transfers. Ability to communicate in the common corporate language, and the language of the parent company (where these are different), may determine a potential candidate's suitability.

Equal Employment Opportunity Issues:

In the recruitment and selection process, multinationals must address the issue of equal employment opportunity (EEO) for employees in all employment locations. The legal definition and coverage of relevant laws are immediate problems since the multinational must take into consideration the increasingly conflicting national laws on employment. For example, mandatory retirement and hiring ages are illegal in the United States and some other countries but remain a legal requirement in other countries.

Determining which law applies where, and which has precedence, is a problem without a specific solution. The United States has a comprehensive statute (Title VII of the Civil Rights Act of 1964) to cover many EEO situations. However, it should be noted here that the U.S. Supreme Court has held that this act does not apply outside the territorial borders of the United States. The case involved an American citizen who claimed that he had been illegally discriminated against while working abroad for a U.S. corporation. A naturalized citizen born in Lebanon, the plaintiff began working for Aramco Corporation in Texas in 1979 and was transferred by the company to work in Saudi Arabia in 1980, where he worked until 1984, when he was discharged. The Court rejected the person's claim that he had been harassed and ultimately discharged by Aramco Corporation on account of his race, religion, and national origin. The decision has important implications for the status and protection of Americans working abroad for U.S. firms. Equal employment opportunity laws are expressions of social values with regard to employment and reflect the values of a society or country.

In parts of the Middle East, Africa, Asia, and Latin America, women have tended to have a lower social status and are not universally employed. On the other hand, with the increasing rate of female entry into the workforce, many Western countries have introduced legislation to cover sex discrimination. Multinationals must be aware of legislation and ensure subsidiary compliance where appropriate. The selection procedures must be defended against illegality. The Case Study below demonstrates this point through the experience of an international hotel chain.

Case Study: Obeying Local EEO Laws

In 1993, one of the Hyatt hotels in Australia had to explain to the Equal Employment Opportunity Commissioner on national TV as to why it was circulating an internal memo that violated Australian Equal Employment (EE) legislation. The internal memo concerned was from a Japanese Hyatt hotel that had vacancies for two young single males. Under Australian EE law, these constitute age, marital status, and sex discrimination, respectively, so the memo violates Australian law on three counts. The hotel's defense that such circulation of internal job vacancies was a normal company practice. The EE Commissioner did recognize that special circumstances may have been behind the internal memo—that the positions were traineeships and that the persons would share accommodation in a male-only dormitory.

Summary

It is apparent, though that staff selection remains critical, finding the right people to fill positions, particularly key managers—whether PCN, TCN, or HCN – can determine international expansion.

As the American in charge of McDonald's Russian operations commented in a 1997 CNN interview, staff availability remained a major constraint to further expansion in the region. However, effective recruitment and selection is only the first step. As we will explore in the next chapter, maintaining and retaining productive staff is equally important.

The questions that must prick your mind

1. What are the issues in selecting Third-Country Nationals (TCNs) and Host Country Nationals (TCNs) and how do you address them?
2. What are the issues related to transfer of HCNs to headquarters and how do you solve them?
3. How do you ensure equal employment opportunities to all employees?

International Performance Management

Learning Objectives

1. We will identify similarities to performance management in the domestic context.
2. We will examine as to what extent sales performance or return on investment from particular international operation are justifiable criteria to assess its performance?
3. The components of international performance management system.
4. Goal Priorities of an MNE – Overall VS Individual subsidiary; Long term Vs Short-term.
5. How time and distance hinder performance management.

One of the most challenging aspects for a firm operating internationally is managing the performance of its various international facilities.

As we discussed earlier, control becomes more complex, as the geographical spread, product, and operation mode become more diversified.

Staffing decision are only part of the picture; the multinational require an effective system for managing the performance of its goal operations that assist strategic cohesion and competitiveness, but, at the same time, does not impose burdensome reporting procedures that impinge on local responsiveness.

Monitoring performance and ensuring conformance to agreed standards are important elements. We will identify similarities to performance management in the domestic context, yet highlight those aspects that require a substantial modification of the traditional performance management (especially appraisal criteria) imposed by international operations.

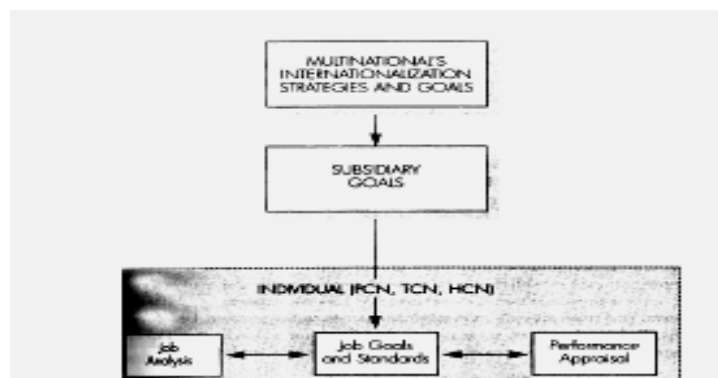


Exhibit 14.1: Basic components of international performance management.

It provides a convenient starting point for our exploration of the link between global profitability of an MNE and individual performance management, whether PCN, TCN, or HCN.

Basic Components of Performance Management

Multinational Performance Management While its general strategic position may be international, multinational, global, or transnational¹ (depending on its size, industry, geographic dispersal, etc.), a multinational makes strategic choices based on economic and political imperatives. Within this context, as indicated in Exhibit 14.1, the multinational has specific expectations for each of its foreign affiliates in terms of market performance and contribution to total profits and competitiveness. When evaluating subsidiary performance against these expectations, however, it is important to recognize various constraints that may affect goal attainment.

We identify five major constraints.

Whole Versus Part

By its very nature, a multinational is a single entity that faces an international environment, which means, that it simultaneously confronts differing national environments. Integration and control imperatives often place the multinational in the position where it decides that the good of the whole is more important than one subsidiary's short-term profitability. In an example provided by Pucik, a multinational establishes an operation in a particular market where its main global competitor has a dominant position. The objective of entering the market is to challenge the competitor's cash flow with aggressive pricing policies.

Pucik explains that "the balance sheet of this particular subsidiary might be continuously in the red, but this strategy, by being tough with the competitor's resources, may allow substantially higher returns in another market. The difficulties in qualifying such a global strategy in terms of the usual return-on-investment objectives are obvious."

In another situation the multinational establishes a joint venture in a particular market in order to have a presence there, even though it has low expectations in the short term, and may provide minimum resources to the venture. Undoubtedly, the consequences of such global decisions for subsidiary management must be taken into consideration for performance evaluation.

Non Comparable Data

Frequently, the data obtained from subsidiaries may be neither interpretable nor reliable. As Garland et.al. illustrate: 3 Sales in Brazil may be skyrocketing, but there are reports that the Brazilian government may impose tough new exchange controls within a year, thus making it impossible for the multinational to repatriate profits. Does this mean that the MNE is performing effectively?

Sales in Peru may be booming, but headquarters management was unaware that under Peruvian accounting rules, sales on consignment are counted as firm sales. How should the headquarters accounting system handle these sales relative to sales from other subsidiaries that do not consider sales on consignment as firm sales? Garland et.al. Further explain that physical measures of performance may be easier to interpret than in the above examples, but difficulties may still arise.

For instance, notions of what constitutes adequate quality control checks can vary widely from one country to another, import tariffs can distort pricing schedules, a dock strike in one country can unexpectedly delay supply of necessary components to a manufacturing plant in another country, and local labor laws may require full employment at plants that are producing at below capacity. These factors can make an objective appraisal of subsidiary performance problematic, and may complicate the evaluation of individual subsidiary managers.

Volatility of the International Environment

The instability of the international environment requires that long-term goals be flexible in order to respond to potential market contingencies. According to Pucik, a rigid approach may mean that subsidiaries could be pursuing strategies that no longer fit the new environment. Consider, for example, the impact on international business of major events in the last decade such as the collapse of communist rule beginning in 1989 throughout Eastern Europe and the former Soviet Union, the Persian Gulf War in 1991, the formation of the Single European Market in 1992, recent market reforms in China, the handover in 1997 of the British colony of Hong Kong to the control of the People's Republic of China (PRC), and the current economic downturn in the so-called "tiger" economies of South-East Asia.

Each of these events has had profound implications for the global and local strategies of multinationals operating in these countries. Because subsidiaries operate under such volatility and fluctuation, they must tailor long-term goals to the specific situation in a given market. Problems arise when subsidiary managers perceive goals and deadlines set by a distant headquarters strategy team as unrealistic and inflexible-failing to take into account local conditions that change as a result of a volatile environment. Obviously, involving regional and subsidiary managers in strategic planning assists in overcoming this perception.

Separation by Time and Distance

Judgments concerning the relationship between the multinational and local subsidiary activities are further complicated by the physical distances involved, time-zone differences, the infrequency of contact between the corporate head-office staff and subsidiary management, and the cost of the reporting system. Developments in sophisticated worldwide communications systems, such as fax machines, video telephone conferences, and e-mail do not fully substitute for "face-to-face" contacts between subsidiary managers and corporate staff. In some areas, the telecommunications system may be so overloaded, or underdeveloped, that reliable telephone, fax services, and internet connections can not be assumed. Meeting personally is often necessary to fully understand each person's situation. For this reason many multinational corporate managers spend a considerable amount of time traveling in order to meet expatriate

and local managers in foreign locations. It is then possible for HR corporate staff, when designing performance management systems, to take account of country specific factors

Variable Levels of Maturity of International Operations

According to Pucik, without the supporting infrastructure of the parent, market development in foreign subsidiaries is generally slower and more difficult to achieve than at home where established brands can support new products and new business areas can be cross-subsidized by other divisions. More time may be needed to achieve results than is customary in a domestic market, and this fact ought to be considered in the performance management process. Further, variations in customs and work practices between the parent-country and the foreign subsidiary need to be recognized.

For example, one does not fire a Mexican manager because worker productivity is half the American average. In Mexico, that would mean that this manager is working at a level three or four times as high as the average Mexican industrial plant. Here we need relevant comparative data, not absolute numbers; our harassed Mexican manager has to live with Mexican constraints, not European or American ones, and these can be very different. The way we measure workers productivity is exactly the same, but the numbers come out differently because of that environmental difference.

Summary

In summary, there are a number of significant constraints that must be considered when evaluating the performance of a foreign subsidiary. Because this evaluation is primarily based on strategic factors, it must directly affect the evaluation and success of the subsidiary chief executive.

The questions that must prick your mind

1. To what extent sales performance or return on investment from particular international operation are justifiable criteria to assess its performance?
2. To what extent can the subsidiary data on performance be relied on?
3. Do time and distance hinder understanding of performance and obstacles? If they hinder, how do you propose to address them?
4. How does the maturity of the MNE firm impact on the performance of subsidiary?

LESSON 15

Factors Associated With Individual Performance And Appraisal

Learning Objectives

1. Differentiate performance management from performance appraisal.
2. Study the different variables of expatriate performance.
3. Characterize the dimensions of task and explain how those dimensions impact on performance measurement.
4. How role conflicts impact on expatriate performance.
5. The impact of role definition, host environment, support from headquarters and ability to internalize the host country culture.

Introduction

This lesson deals with the key factors surrounding individual performance management that pertain to three categories of employees—PCNs, TCNs, and HCNs – at various management and operative levels.

As you can see from Exhibit 14.1, we differentiate between “performance management” and “performance appraisal”. Performance management is a process that enables the multinational to evaluate and continuously improve individual, subsidiary unit, and corporate performance, against clearly defined, pre-set goals and targets.

As Tahvanianen points out, strong goal setting and appraisal are key elements of a performance management system that also may include training and development and performance related pay. In a sense, by adopting on the goal-setting strengths of management by-objectives and more traditional methods of performance appraisal, its proponents argue, some what convincingly, that effective performance management is beneficial to both the individual and the firm.

Expatriate Performance Management

Performance can be viewed as a combination of several variables, such as motivation, ability, working conditions, and expectations. When attempting to determine expatriate performance, it is important to consider the impact of the following variables and their interrelationship since the assessment of expatriate performance is enhanced by a consideration of the variables that influence success or failure in a foreign assignment.

The compensation package; The task (assignment task variables and role of the expatriate); Headquarters’ support: The environment in which performance occurs (subsidiary or foreign facility); and Cultural adjustment of the individual and the accompanying family members.

Exhibit 15-1 depicts these variables and forms the basis on which we will explore both the nature of the expatriate assignment, how performance is managed, the criteria for assessment, and the other elements that comprise an effective performance management system. Generally, we will use the term expatriate to cover both PCNs and TCNs, since much of the following is applicable to both.

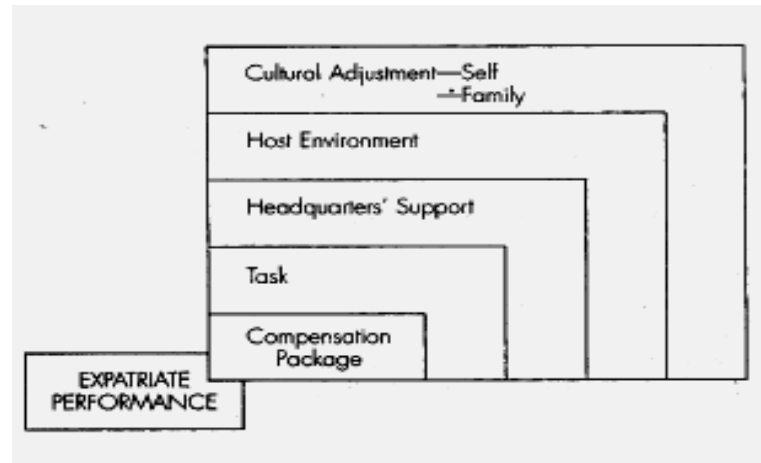


Exhibit 15.1: assignment Task Variables

Compensation Package

We will examine in greater detail the issues surrounding compensation in later; however, it is essential that we first recognize the importance of remuneration and reward in the performance equation. Perceived financial benefits, along with the career progression potential associated with the international assignment, are often important motives for accepting the posting. If these expectations are not realized during the assignment, the level of motivation and commitment is likely to decrease, thus affecting performance.

Task

As you will have begun to understand that expatriates are assigned to foreign operations to fulfill specific tasks. Hays identify four expatriate task roles:

1. The Chief executive officer, or subsidiary manager, oversees and directs the entire foreign operation.
2. The structure reproducer carries the assignment of building or reproducing in a foreign subsidiary a structure similar to that which he or she knows from another part of the company. He or she could be building a marketing framework, implementing an accounting and financial reporting system, or establishing a production, plant.
3. The operative performs functional job tasks in an existing operational structure, in generally lower-level, supervisory positions.

In her study of expatriate performance management in the Finnish multinational, Nokia Telecommunications, and Tahvanainen identifies five categories of personnel; top managers, middle managers, business establishers, project employees, and research and development (R & D) project personnel. There are clear differences in the way performance management is approached within these groups. For example, middle managers play a moderate role in establishing performance goals, where business establishers play a strong role in establishing their performance goals and job description.

Task variables are generally considered to be more under multinational's control than are environmental factors. Because of this relative control, task variables can be better assessed and more easily changed, depending of course, on the level of position and the nature of the task assignment. Along with the specifics of the task, the multinational, like any other organization, determines the role that accompanies each task position. Although an individual may affect how a role is interpreted and performed, the role itself is predetermined. For the expatriate (role recipient) the parent company (role sender) predetermines his or her role in the foreign assignment, and role expectations may be clearly communicated to the expatriate before departure. Bulk and Porter found that American expatriates working in Hong Kong exhibited similar managerial behavior to those employees remaining in the United States.

In their discussion of this finding, these authors suggest that U.S. multinationals involved communicated role expectations by omitting to provide cross cultural training before departure. In the absence of incentives to modify their role behavior when abroad, it is not surprising that the expatriates concerned performed as they did. This study reminds us that the transmission of expatriate role conception is culturally bound.

As Torbiorn Explains The content of the managerial role, as perceived by both the individual manager and the parent company, is affected by organizational norms, in terms of parent company expectations of the manager, and by the set of cultural norms that the manager holds in relation to other cultural and organizational norms that may be represented by other role senders. Organizational and cultural norms thus interactively determine the role content of the manager. The difficulty this presents for the expatriate manager is that the role is defined in one country but performed in another; that is; the cultural norms regarding the set of behaviors that define a manager in the United States may not be the same as those considered appropriate for a manager's role in Indonesia.

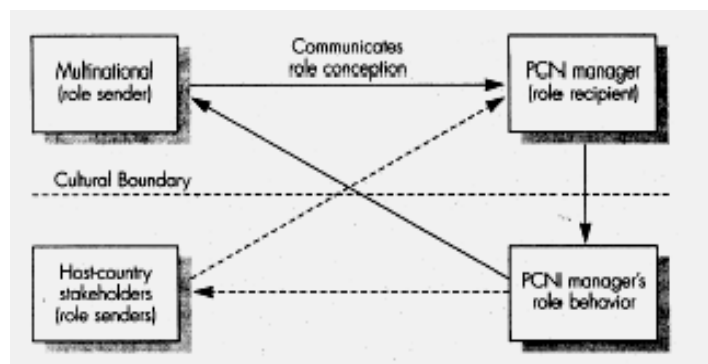


Exhibit 15.2: PCN Role Conception

Communication of role conception from the multinational to the expatriate is indicated by the straight arrows in Exhibit 15.2 and 15.3.

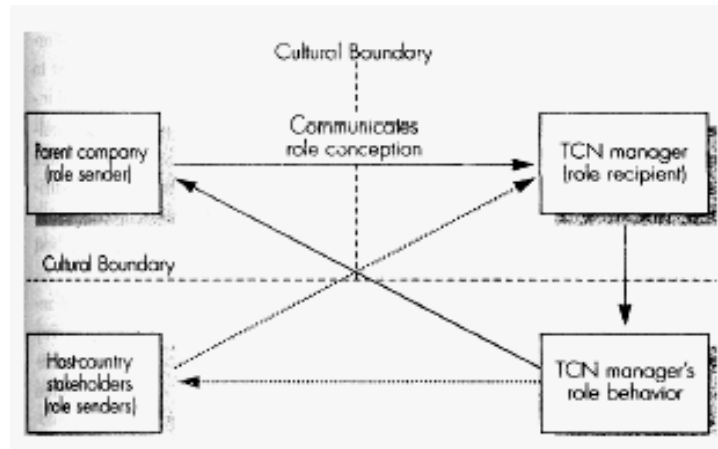


Exhibit 15.3: TCN Role Conception

Role conception is also communicated to the role recipient by host-country stakeholders (e.g. subsidiary employees, host government officials, customers, suppliers, etc.) as shown by the dashed arrows. This, however, crosses a cultural boundary. Role behavior provides the feedback loop, again at two levels; the parent-and host-country stakeholders.

Trying to perform to different expectations may cause role conflict. If the PCN manager adapts his role behavior according to the role conception communicated in the host environment, it may conflict with that predetermined at headquarters.

What is role conflict?

Two activities of the same employee or two activities of two different employees go in different directions and thus leads to within-the-person dispute or person-person dispute.

How does role conflict arise in expatriate's performance? Janssen study of expatriate performance indicated that role conflict is likely to result in situations where the international manager has an understanding of the host-country culture and realizes that the use of headquarters' procedures or actions may lead to ineffective management. She proposes that the higher the degree of intercultural interaction, the more problems the expatriate has with role conflict.

Intercultural interaction is 'happening of one aspect of one culture meeting the another aspect of another culture'. Example is requirement of Virginty Test by the Government of Britain on a women employee of Indian origin especially in a context where chastity, respect for women, unquestioning trust placed on women etc are just a part of the Indian culture. From the perspective of headquarters, commitment to the parent is perceived as important, given the part that the PCN plays in transferring know-how and "the company way of doing things" into the subsidiary.

This helps to explain the preference for using headquarters' standards in expatriate performance evaluation as a control mechanism. If the PCN is perceived to identify too closely with host subsidiary concerns, he or she may be recalled (the term going native is often used to describe this perception). Some multinationals will restrict the length of stay to no more than three years to restrain the possibility of PCN's liking for local aspects and operating in harmony with local concerns. Because of the importance given to the parent as role sender in performance evaluation, a PCN may elect to ignore role communication sent from the host-country stakeholders if she or he considers that performance evaluation is determined by how role behavior confirms to headquarters' expectation.

After all, the expatriate's career is with the parent, not the host subsidiary. Role conflict was found to affect commitment to the parent company, but was unrelated to commitment to the host company. Another intervening variable may be that of role autonomy. (How one performs depends on how wide is one's authority to take decisions on different issues). Job discretion emerges as an important aspect in a recent survey by Birdseye and Hill of 115 U.S. expatriates working in various countries. They found that "Foreign work methods may be more structured than their American counterparts (perhaps more procedures and protocols) and those individuals have less discretion in how they approach tasks and problems."

Birdseye and Hill conclude that individuals are likely to blame this lack of discretion on the organization, the job, and the location- in that order. A similar finding emerged from a study of U.S domestic and international relocation by Feldman and Thompson. The degree of change in the organization was positively related to adjustment, while the degree of change in the organization was negatively related to adjustment. Thus, role conflict and role autonomy appear to be important elements in job satisfaction and task performance. Role expectations are likely to be more complex for the TCN than the PCN, because the role is defined by and performed in two countries PCN, because the role is defined by and performed in two countries other than the TCN's own; that is, role conception crosses two cultural boundaries, as shown in Exhibit 15.3

Parent – and host country role senders may have differing expectations of role behavior that, in turn, are different to the accepted managerial behavior defined by the prevailing norms in the TCN's own country. For example, a U.S. manager working for a Dutch multinational posted as a TCN in Indonesia may face added difficulties. The American's role behavior may be deemed inappropriate by both the parent (Dutch multinational) and the host national (Indonesians).

As Torbiorn points out: The task of the PCN manager could be described as one of realizing the expectations of a psychologically close, but physically distant stakeholder (parent) in an environment containing other role senders (host country stakeholders) who are psychologically distant, but physically close. The TCN manager must try to meet the expectations of role senders who are all psychologically distant in a context that is also psychologically distant. However, as you will recall from our discussion of the rationale for using TCN, often the country of assignment is perceived by headquarters as culturally close(i.e. a German multinational decides to transfer a Canadian into the United States rather than a German).

Whether cultural closeness lessens the potential for TCN role conflict situations has yet to be empirically investigated. Since there very few studies that specifically examine TCN performance management issues, we can only assume that many of the aspects relating to PCNs discussed above will apply to the TCN situation. An American manager working in Indonesia, for instance, whether as a PCN or TCN, may encounter lack of job discretion - with perhaps the same effect in terms of performance depending on the strength of other intervening variables. For example, differing role senders may worsen the situation through conflicting role expectations.

The preceding discussion shows the importance of considering the role that accompanies each task position. Given that task performance is a core component of expatriate evaluation, it is also necessary to recognize that it does not occur in isolation. Many individuals and firms rank job ability as the primary ingredient relating to their expected probability of success in the international assignment. Certain types of tasks, however, require significantly more interaction with host-country stakeholders. Thus the task variables should not be evaluated in isolation from the subsidiary environment context. Another factor relating to task variables that should be considered is the similarity of the job the individual is assigned abroad to the job he or she held domestically.

Some types of tasks require an individual to operate within a given structure, while other tasks demand the creation of the structure. Individuals vary greatly in their ability to imagine and implement a system and their tolerance for lack of structure and vagueness. Some multinationals have experienced failure abroad because they assumed that an individual could be effective in setting up a structure, such as a marketing system, based on evidence of good performance within the existing marketing structure in the domestic corporation.

Headquarters' Support

The expatriate assignment differs from a domestic relocation because it involves the transfer of the individual and accompanying family members into a foreign environment, which is outside their normal, cultural comfort zones. The individual's primary motivation for accepting the assignment may be career or financially orientated, but this is often mixed with a genuine feeling of loyalty and commitment to the sending organization.

As we will explore later, the process of adjustment to the foreign location typically produces, to varying degrees, a range of emotional and psychological reactions to unfamiliar situations encountered over the period of the stay in the host country. The level of headquarters' support provided to the individual and the family is an important performance variable that involves more than the tangible, monetary support contained in the compensation package. To appreciate this interaction, we need to consider the elements that comprise the employment contract and its relationship to organizational commitment and performance.

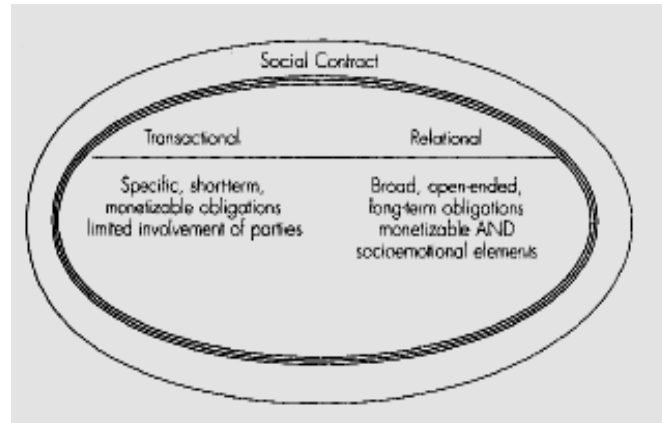


Exhibit 15.4: The Employment Contract

As described in Exhibit 15.4, the employment contract contains two components – the transactional and the relational – contained within a broader social contract. The latter (relational) represents an implicit contract to execute the employment exchange according to a set of variables, beliefs, and norms. The transactional contract comprises the specific, short-term, monetizable obligations; the relational contract comprises the specific, short-term, monetizable obligations; the relational contract is characterized by broad, open-ended, long-term obligations based on both exchanges around monetizable elements (e.g., pay for service) and socio-emotional elements (e.g., loyalty and support). For expatriates, the transactional contract is the terms and conditions of the assignment itself.

It is the relational contract, combined with the social contract in which it is embedded, that underlies expatriate expectations regarding organizational support while in the foreign location. The relational element of the employment contract is connected to the concept of the psychological contract; The “beliefs that individuals hold regarding promises made, accepted, and relied upon between themselves and another. It is based on perceived reciprocal obligations pertaining to both formal contracts and implicit agreements and is, by nature, very subjective and specific to the individual. Violation of the psychological contract occurs when an individual feels that the organization has not fulfilled its obligations in return for the efforts and contribution by the individual; perceived violation has a negative effect on commitment and loyalty to the organization.

In one of the few studies that examine the effect of the psychological contract on expatriate behavior, Guzzo, Noonan, and Elron found that retention in the foreign location was influenced by expatriate’s subjective evaluations of employer practices. More importantly, there was no significant correlation between how much multinationals provided in terms of benefits and services, and expatriate retention. Rather, it is the perception of insufficient support provided in the host location that is the critical factor especially that provided to the family, such as job-search assistance for the partner, adequate access to schooling for the children, and so on.

Thus, if the expatriate perceives that the multinational has not provided the promised level of support, violation of the psychological contract may affect performance and organizational loyalty, and activate an early recall. A perception of lack of adequate support for the family

may decrease commitment to the point that the expatriate resigns from the organization. Other studies also indicate the importance of headquarters' support. For example, Harvey reports that support during foreign assignments is a critical aspect for dual-career couples. Likewise, DeCieri, Dowling, and Taylor found that company assistance to be one of the most consistent and strong predictors of psychological adjustment of expatriate partners to relocation. The way in which the expatriate and family are received and supported by subsidiary staff is also important. We may, therefore, conclude that perhaps headquarters' support in the foreign location is a more powerful explanatory variable in expatriate performance than is generally recognized.

Host Environment

The environment has an impact on any job, but it becomes of primary importance with regard to expatriate management. According to Gregerson et al the international context – with its differing societal, legal economic, technical, Generally, we will use the term expatriate to cover both PCNs and TCNs, since much of the following is applicable to both and physical demands – can be a major determinant of expatriate performance. Consequently, expatriate performance should be placed within its international as well as its organizational context. Therefore, the five major constraints identified earlier in terms of multinational strategy and goal setting for the subsidiary are important considerations for expatriate performance management. The type of operation to which the expatriate is assigned is important.

For instance, in China it may be relatively easier to perform in a wholly owned subsidiary than in a joint venture with a state owned enterprise. Conflicting goals between the parent companies are a common problem within international joint ventures and can make the expatriate's job more difficult. An expatriate IJV(International Joint Venture) manager may have difficulty trying to serve two masters and experience a high level of uncertainty regarding the effect of differing goal expectations for the IJV upon her or his performance evaluation. Similarly, the stage of the international business will influence the success of the expatriate. The process of adjustment to the foreign location typically produces, to varying degrees, a range of emotional and psychological reactions to unfamiliar situations encountered over the period of the stay in the host country. The level of headquarters' support provided to the individual and the family is an important performance variable that involves more than the tangible, monetary support contained in the compensation package.

Cultural Adjustment

The process of cultural adjustment may be critical determinant of expatriate job performance, as we discussed in the context of “expatriate failure” earlier. Indeed, much of the literature reviewed in our discussion of the cause of expatriate “failure” covers the process of adjustment. It is likely that expatriates and their families will have some difficulty adjusting to a new environment, and this will impact on the manager's work performance. The dilemma is that adjustment to a foreign culture is multifaceted, and individuals vary in terms of their reaction and coping behaviors. Determining the relevance of adjustment to the new environment when assessing expatriate work performance may be problematical.

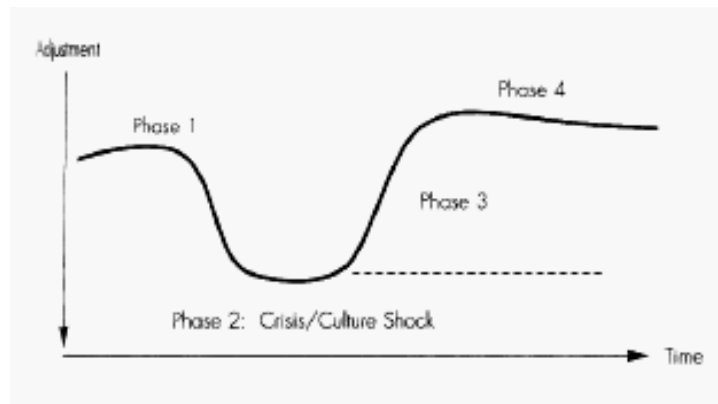


Exhibit 15.5: The Phase of Cultural Adjustment

The concept of an adjustment cycle, or curve, depicted in Exhibit 15.5, is helpful in demonstrating the typical phases that may be encountered during cultural adjustment. The curve (sometimes referred to as the U-Curve) is based on psychological reactions to the assignment and comprises certain phases. Phase 1 begins with reactions prior to the assignment – the expatriate may experience a range of positive and negative emotions such as excitement, anxiety, fear of the unknown, sense of adventure, and so on. There can be an upswing of mood upon arrival in the assignment country that produces what has been referred to as the ‘honeymoon’ or “tourist” phase. Then, as the novelty wears off, realities of every day life in the foreign location begin to intrude, homesickness sets in, and a downswing may commence- a feeling that :” the party is over” – which can create negative appraisals of the situation and the location leading to a period of crisis (Phase 2).

This can be a critical time, and how the individual copes with the psychological adjustment at this phase has an important outcome in terms of success or failure. There is a suggestion that “failure as an early recall” may be triggered at this point (indicated by the dotted line in Exhibit 15.5). Once past this crisis point, as the expatriate comes to terms with the demands of the new environment, there is a pulling up (Phase 3) as the person begins to adjust to the new environment. This levels off over time to what has been described as healthy recovery (Phase 4). One should remember through, the following points: The U-Curve is not normative. Some people do not experience this U-Curve. Individuals will differ in their reactions to the foreign location. · The time period involved varies, and there is no conclusive statistical support for the various phases. Black and Mendenhall point out that the U-Curve describes these phases but does not explain how and why people move through the various phases. · There may be another critical points during the assignment – beyond Phase 4 – that may produce downturns, negative reactions, and upswings (i.e., a cyclical wave rather than a UCurve) · As we will discuss in Chapter 7, the return home after completion of the assignment may require some psychological adjustment.

Despite these limitations, however, expatriates often relate experiencing these phases, and awareness of the psychological adjustment process can assist the expatriate adopt positive coping behaviors. We should also note that family members will experience the phases differently, and not necessarily move through the various phases at the same time as each other.

How accompanying family members handle cultural adjustment is important, since there can be a spill-over effect- an unhappy spouse may affect the expatriate's ability to adjust, and these impacts on performance. For example, in their study of American managers in Japan, Korea, Taiwan, and Hong Kong, Black and Stephens found a high correlation between spouse and expatriate adjustment. Firms can assist in the cultural adjustment of the expatriate and family members. Recognizing that cultural adjustment is a major problem when bringing HCNs (including Americans) into its home operations, the Norwegian multinational, Norsk Hydro, has developed a family mentoring program.

Supervised by Corporate Expatriate Services staff, Norsk Hydro employees volunteer to "adopt" a visiting family. The volunteers are generally employees who have worked abroad as expatriates and thus have an understanding of what it is like to move a family unit into another country. Personality factors appear to play a role in explaining an international manager's ability to adapt to a foreign environment and, therefore, increase the probability of successful performance. Much of the effectiveness literature is concerned with assessing personality variables, particularly in the context of staff selection and performance. For example, an individual's position along the dogmatism/ authoritarianism scale, which can be determined with some accuracy, has a significant influence on his or her performance as an international manager.

Dogmatism is a relatively closed conception of belief and disbeliefs about reality; authoritarianism is a preoccupation with power and status considerations and a general hostility toward out-groups. Authoritarian personality traits and dogmatism tend to represent one end of the scale; the other end is represented by the corresponding opposites of openness, social sensitivity, and empathy. These variables are relevant to the performance of international managers because open-minded individuals seem to adapt more easily to new environments. Those who score high on authoritarianism/dogmatism often have difficulty accepting and adjusting to a new culture and, therefore, may be somewhat less effective in accomplishing tasks within the local cultural setting.

The Five variables – compensation package, task headquarters' support, host environment and cultural adjustment – reviewed above and shown in Exhibit 15.5 are not mutually exclusive; they interact in a way that has significant implications for the evaluation of international employees' performance. Designers and users of performance management systems need to be conscious of, and responsive to, the impact of these variables.

Summary

The Five variables – compensation package, task headquarters' support, host environment and cultural adjustment – reviewed. Task variables are generally considered to be more under multinational's control than are environmental factors. The process of adjustment to the foreign location typically produces, to varying degrees, a range of emotional and psychological reactions to unfamiliar situations encountered over the period of the stay in the host country. The level of headquarters' support provided to the individual and the family is an important performance variable that involves more than the tangible, monetary support contained in the compensation package.

The process of adjustment to the foreign location typically produces, to varying degrees, a range of emotional and psychological reactions to unfamiliar situations encountered over the period of the stay in the host country. The level of headquarters' support provided to the individual and the family is an important performance variable that involves more than the tangible, monetary support contained in the compensation package. The process of cultural adjustment may be critical determinant of expatriate job performance.

The questions that must prick your mind

1. How do you differentiate performance appraisal from performance management?
2. What are the variables that determine the expatriate's performance?
3. Characterize the dimensions of task and explain how those dimensions impact on performance measurement.
4. Explore role conflict and role autonomy as to how they impact on expatriate performance?
5. Discuss the issues of role conception, role receiver and role sender with respect to the expatriate's performance?
6. Why is the support for expatriate from headquarters essential for his performance?
7. How does the environment in host location impact on job and expatriate management?

LESSON 16

Criteria Used for Performance Appraisal of International Employees

Learning Objectives

1. What are the performance criteria that should be used in evaluating expatriate performance and what precautions have to be taken while using them?
2. What are hard goals, soft goals and contextual goals?
3. The issues relating to who should set goals.
4. How frequently the performance should be appraised.
5. What is the contextual model of expatriate performance management?

Introduction

Now that we have an understanding of the variables likely to influence expatriate performance, we can discuss the criteria by which performance is to be evaluated or appraised (the terms are used interchangeably). As you will recall, individual performance management involves job analysis, job goals and standards, and performance appraisal. Traditionally, it consists of a formal process of goal setting, performance appraisal, and feedback. Data from this process is often used to determine pay and promotion, and training and development requirements. Company goals, against which job goals and standards are established and measured, influence the individual's job analysis and job description. There are differences in the way this process is handed within companies. For example, in Germany and Sweden it is common for employees to have input into job goal setting, whereas in other countries such as the United States, job goals tend to be assigned.

Performance Criteria

Goals tend to be translated into performance appraisal criteria. Specificity and measurability issues are important aspects, and we need to recognize that hard, soft, and contextual goals are often used as the basis for performance criteria. Hard goals are objective, quantifiable, and can be directly measured such as return-on-investment (ROI), market share, and so on. Soft goals tend to be relationship-or trait-based, such as leadership style or interpersonal skills. Contextual goals attempt to take into consideration factors that result from the situation in which performance occurs. For example, multinationals commonly use arbitrary transfer pricing and other financial tools for transactions between subsidiaries in order to minimize foreign-exchange risk exposure and tax expenditures.

Another consideration is that all financial figures are generally subject to the problem of current conversion, including sales and cash positions. Further complications arise because host governments can place restrictions on repatriation of profits and currency conversion. The nature of the international monetary system and local accounting differences may preclude an accurate measurement of results. This poses a dilemma. The use of transfer pricing and other

financial tools is necessary because of the complexity of the international environment. Multinationals can not allow subsidiaries to become autonomous in financial management terms, and hence place controls on subsidiary managers. Thus the final results recorded for any particular subsidiary do not always reflect accurately its contribution to the achievements of the corporation as a whole.

For this reason such results should not be used as a primary input in performance appraisal. A performance management approach, rather than a traditional performance appraisal, is now advocated since it allows clarification of goals and expectations of performance against those goals. Janssen' suggested that performance evaluation of subsidiary managers against hard criteria is often supplemented by frequent visits by headquarter staff and meetings with executives from the parent company. Soft criteria can be used to compliment hard goals, and take into account areas that are difficult to quantify, such as leadership skills, but their appraisal is some what subjective and, in the expatriate context, more complicated due to cultural exchanges and clashes. However, relying on hard criteria such as financial data to evaluate how well an expatriate manager operates a foreign subsidiary does not consider the way results are obtained and the behavior used to obtain these results. Concern with questionable ethical practices led to the enactment of the U.S. Foreign Corrupt Practices Act (FCPA), which may prompt an increased use of behavioral as well as results data to appraise the performance of expatriate managers in foreign subsidiaries. However, an appraisal system that uses hard, soft, and contextual criteria builds on the strengths of each while minimizing their disadvantages, using multiple criteria wherever possible is recommended in the relevant literature.

Who Conducts the Performance Appraisal?

Another issue concerns who conducts the performance appraisal. Typically, employees are appraised by their immediate superiors, and this can pose problems for subsidiary managers. They work in countries geographically distant, yet are evaluated by superiors back at headquarters who are not in the position to see on a day-to-day basis how to expatriate performs in a particular situation. Consequently, subsidiary managers tend to be assessed according to subsidiary performance, with a reliance on hard criteria similar to that applied to heads of domestic units or divisions.

Of course, there is a danger that a PCN or TCN subsidiary managers will make decisions and implement local strategies that favor short-term performance to the detriment of longer term organizational goals – her or his subsidiary performance will not be affected if the expatriate assignment has been completed before the consequences of those decisions and strategies begin to take effect. Appraisal of other expatriate employees is likely to be conducted by the subsidiary's chief executive officer, the immediate host-country supervisor, or the individual's home-country manager, depending on the nature and level of the position concerned.

Host-country managers may have a clearer picture of expatriate performance and can take into consideration contextual criteria, but they may have culturally bound basis (e.g. about role behavior) and lack an appreciation of the impact of the expatriate's performance in the broader organizational context. Some expatriates may prefer to have parent-company evaluators given that their future career progression may depend on how the evaluation data is utilized back at

headquarters; this may be especially so in cases where foreign operations are relatively less important than domestic U.S. operations. Others, may prefer host-country evaluation if they perceive it as a more accurate reflection of their performance. Multiple raters are sometimes used in the domestic context— such as the technique referred to as “360-degree feedback.” It has been argued that, given the cross-cultural complexity of the foreign assignment, a team of evaluators should be used for expatriate performance evaluation.

Gregersen et.al found that most firms (81 percent) in their survey of HR directors in 58 U.S multinationals used more than one rater when assessing expatriate performance. The immediate superior (in either the home-or host-country), the expatriate as self-rater, and the HR manger (either home or host country based) were commonly used as multiple evaluators of U.S. expatriate performance. Likewise, a survey of 99 Finish internationally operating companies reports that 79 percent of respondents indicated that expatriate performance evaluation was conducted by the superior located in Finland. Often though, this was simply because there was no suitable person in the host country to conduct such evaluations. The availability of knowledgeable, trained raters may constrain the approach taken in the international context.

Standardized or Customized Performance Appraisal Form

Domestic companies commonly design performance appraisal forms for each category, particularly those using a traditional performance appraisal approach rather than performance management. Such standardization assists in the collection of accurate performance data on which personal decisions can be made and allows for cross-employees comparisons. The question often posed is, Should these standardized forms be adapted when used for evaluating international managers? As Gregersen et.al argue: In principle, performance appraised systems are designed carefully and often presumed to be static. Valid reasons exist for maintaining standard, traditionally used appraisals (e.g. when the system has been tested, has identified baselines, and reduces further development costs).

These reasons are valued as long as the context of the performance does not change. In the expatriate setting, however, the performance context does change, and sometimes it changes dramatically. Given a global context, previous testing and established baselines grounded in domestic situations can become meaningless. Despite this, they found in their sample of U.S. firms that 76 percent, in fact used the same standardized appraisal forms for expatriate evaluation.

Frequency of Evaluation

In practice, evaluation is commonly performed on a yearly basis, and this appears to extend to international performance systems, even though the domestic oriented literature on this topic recommends more frequent performance evaluation and feedback. For example, the majority of U.S firms in the Gregersen et.al study referred to earlier reported annual appraisal practices. It is interesting to note that the U.S. firms using annual appraisal systems were more likely to use standard appraisal forms and hard criteria. In their discussion of this finding, Gregersen et. al commented that replicating domestic practices requires less effort in collecting and interpreting the data, and that the preference for following the domestic system might reflect lack of

The model (see Exhibit 16.1) illustrates how performance evaluation is both an outcome of the company's strategies and goals (through goal setting), and an important source of information on which other personnel-related activities, such as training and development and performance-related pay, are based. As you can see from Exhibit 16.1, the organizational context is comprised of the nature of the job, the organizational structure, a standard performance management system, top-management support size of the receiving unit (subsidiary), and the style and the skills of the manager and subsidiary employees. The mediating effect of any of these elements varies according to the strength of its interaction with other elements. In Nokia, for example, the organizational structure emerged as important. Like some of the Nordic counterparts, Nokia has adopted a global matrix form that prevails at the top-management level of the multinational as an overarching structure. However, in some divisions, and particularly at lower organizational levels, a traditional line-management organization remains.

The multinational also uses project teams.

Tahvanainen found that employees within these different organizational configurations were managed differently. For example, expatriate in line positions were evaluated by their host-country managers, whereas product managers, who reported through the matrix structure, were evaluated by host and home-country superiors. As Thavanainen points out, the matrix structure can, in fact resolve inherent conflict between differing expectations, as the two superiors evaluating an expatriate's performance are, in the normal course of their work, required to recognize commonality of goal and area goals in other areas besides employee performance. Another aspect of the model shown in Exhibit 16.1 is that clarification of performance expectations is an important element linking company strategies and goals with performance evaluation.

Individual goal setting does not always occur with all job categories, but performance expectations may be conveyed in informal ways. Likewise, a concept- daily management- is added as a critical component of the organizational context. For example, expatriates working in customer project operations tended to rely more on guidance, performance review, feedback, and coaching on an ongoing, informal basis rather than Nokia's standardized performance management system. The model also indicates, through the use of dotted lines and arrows connecting the various elements that performance management varies across job categories and expatriate situations and the extent to which data collected through the performance management system is utilized. A somewhat surprising finding of the Nokia study is the seemingly irrelevance of national culture as a contingency variable. While the Finnish culture indirectly affected expatriate performance management, it was not evident as a powerful factor that influenced general expatriate performance management. Tahvanainen explains that this finding may reflect the implementation of a standard, global performance management system within Nokia, rather than extending an existing domestic system to expatriates.

Another explanation is that, in general, Nokia expatriates either did not report to HCN managers, or only to PCN managers, so their performance was evaluated in the Finnish context. For these reasons, and in recognition that the framework is limited by its empirical grounding in a single case study, Tahvanainen includes national context in her contextual model. Individual

performance management involves job analysis, job goals and standards, and performance appraisal. Traditionally, it consists of a formal process of goal setting, performance appraisal, and feedback. Hard goals are objective, quantifiable, and can be directly measured such as return-on-investment (ROI), market share, and so on. Soft goals tend to be relationship-or trait-based, such as leadership style or interpersonal skills.

Contextual goals attempt to take into consideration factors that result from the situation in which performance occurs. Typically, employees are appraised by their immediate superiors, and this can pose problems for subsidiary managers. Domestic companies commonly design performance appraisal forms for each category, particularly those using a traditional performance appraisal approach rather than performance management. Such standardization assists in the collection of accurate performance data on which personal decisions can be made and allows for cross-employees comparisons.

The questions that must prick your mind

1. What performance criteria are used in evaluating expatriate performance and what precautions have to be taken while using them?
2. Can standardized domestic appraisal forms be used for international managers or should they be customized?
3. How frequently should the performance be evaluated?
4. What is the contextual model of expatriate performance management?

LESSON 17

HCN Employees Appraisal

Learning Objectives

What are different aspects of appraisal of HCN employees and how is it done. The discussion so far has omitted the issue of appraising the performance of HCN employees.

To a certain extent, this reflects the limited research on the topic in the context of IHRM, though there is a growing body of literature on comparative HRM practices. What is important to mention here is that the practice of performance appraisal itself confronts the issue of cultural applicability. Performance appraisal in different nations can be interpreted as a signal of distrust or even an insult. In Japan, for instance, it is important to avoid direct confrontation to “save face,” and this custom affects the way in which the performance appraisal is conducted.

A Japanese manager cannot directly point out a work-related problem or error committed by a subordinate. Instead, he likely to start discussing with the subordinate about the strong points of that person’s work, continuing with a discussion about the work on a relatively general level. Then he might continue to explain the consequences of the type of mistake committed by the subordinate, still without directly pointing out the actual mistake or the individual employee. From this, the subordinate is supposed to understand his mistake and propose how to improve his work. One way to overcome the dilemma of cultural adaptation is to use host-country nationals to assist in devising a suitable system for appraising the local staff in the subsidiary and to advice on the conduct of the appraisal.

The need for local responsiveness may affect the multinational’s ability to effectively implement a standardized approach to performance management at all levels within the global operation. As we discussed in relation to PCNs and TCNs, the level of position involved is an important consideration. If a multinational has to appoint a HCN as its subsidiary manager, then much of what we covered in terms of goals (particularly hard goals) and performance measures could be expected to apply to the HCN.

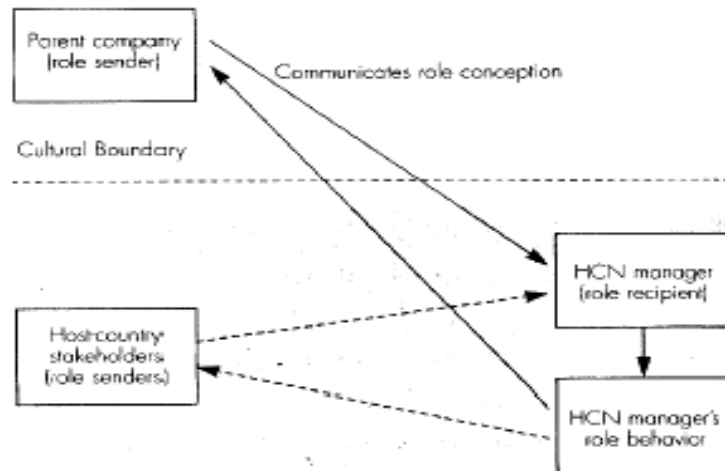


Exhibit 17.1: HCN Role Conception

In terms of task performance and potential role conflict, as seen in Exhibit 17.1, Torbiorn recognizes that HCN managers face particular role concerns that are different from those of the PCN and TCN managers. The HCN manager is expected to perform a role that is conceptualized by a psychologically and physically distant parent company, but enacted in an environment with other role senders who are both psychologically and physically close. Parent-company role conception is communicated to the HCN, but it crosses the cultural boundary, as does feedback expressed as the HCN's role behavior (the straight arrows in Exhibit 17.1). Input from host-country role senders, though, does not cross a cultural boundary. The HCN receives role expectations and enacts role behaviors in his or her own cultural environment.

For subsidiary staff below the top-management level, one would expect that the performance management system is localized to take into consideration local behavioral norms of work behavior. Torbiorn's model depicts only HCN managerial role conception and communication. Conflict may arise in cases where HCNs report to a PCN expatriate manager who also conducts their performance evaluation. In a way, this is the reverse of the discussion surrounding local managers evaluating the performance of expatriates in terms of cultural bias. The difference, of course, is the impact that parent-company standards have on the performance management system and the degree to which localization is permitted in a standardized approach. It may not be culturally sensitive to use evaluation techniques such as 360-Degree Feedback. In practice, U.S. multinationals have often used the same appraisal form for HCNs as for their domestic employees. Sometimes the forms are translated from English; sometimes they are not.

Both approaches have drawbacks.

While some companies are developing information system to assist in performance appraisal, the widespread use of computer-generated data is hampered by the legal constraints imposed by some host governments or by concerns about personal privacy.

This is, however, a dynamic issue. Despite these problems, it is possible to devise a standardized appraisal system that caters for local concerns. An aspect often overlooked in the

limited literature is the potential for role conflict for those HCNs transferred into the parent-company's operations. For that period, the HCN may be evaluated according to role behavior expectations communicated by role senders that are physically close but psychologically distant, in an environment that is also psychologically distant. The HCN is then transferred, usually back into her or his home country, and may experience difficulties in readjusting role behavior.

Performance Appraisal at Pepsi-Cola International

Pepsi-Cola International (PCI), with operations in over 150 countries, has devised a common performance appraisal system that focuses on motivating managers to achieve and maintain high standards of performance. Administrative consistency is achieved through the use of a performance appraisal system of five feedback mechanisms-Instant Feedback, coaching, accountability based performance appraisals, development feedback, and a human resource plan. The common system provides guidelines for performance appraisal yet allows for modification to suit cultural differences. For example, the first step – Instant Feedback – is based on the principle that any idea about any aspect of the business or about an individual's performance is raised appropriately and discussed in a sensitive manner. The instant Feedback message can be delivered in any culture; the important thing is not how it is done but that it is done. In practice at PCI, the successful delivery of instant Feedback requires some adjustment to local cultures. Americans use it because it fits the fast-paced way of doing business. In most Asian cultures, feedback may be tough and direct but is never given in public; nor, in some Asian Cultures, does head-nodding during instant Feedback signify agreement, only that the message has been heard. Some Latins will argue very strongly if they do not agree with the feedback, and some employees, Indian nationals, for example, will insist on a great deal of specificity.

The purpose of Instant Feedback is always to improve business performance, not to criticize cultural styles. Using this system, PCI tries to balance the cultural and administrative imperatives of successfully managing the performance of a diverse workforce.

What Happens to a Person who is Always on Move?

The performance effects of factors associated with constant air travel on the person's health, and the stress of long absence from family and home have been the subject of little investigation in HR or IHRM performance management literature. A survey by the World Bank on the effect of frequent travel on its staff revealed an increase in psychological disorders, such as depression, nervous anxiety, and sleep disturbance. "We first attributed these symptoms to jet lag, but we realized that other significant factors were involved. The three main influences are separation from home and family, workload and lack of back-up abroad." Among 500 frequent fliers surveyed by Hyatt Hotel, 18 percent said that their absences had a negative impact on their marriages.

Can Virtual Assignments Solve Staff Immobility?

Related to this, the 1997-1998 Price Waterhouse survey identifies a trend to what is being called "virtual assignments" to overcome staff immobility. Instead of moving into the host environment, the person manages the international position from the home country using a combination of regular communication link-ups and frequent trips to the foreign location. For

three percent of the companies in the Price Waterhouse survey have agreed to such assignments instead of the traditional expatriate posting. Half of the companies report that their use of virtual assignments has increased over the last two years and 53 percent anticipate the trend to increase over the next five years. These emerging trends serve to remind us that there are many dimensions to international business operations – all of which have performance management implications.

Summary

The practice of performance appraisal itself confronts the issue of cultural applicability. Performance appraisal in different nations can be interpreted as a signal of distrust or even an insult.

The questions that must prick your mind

1. What are different aspects of appraisal of HCN employees and how is it done?
2. What are the issues involved in HCN's role conception?

Training and Development in International HRM

Learning Objectives

1. Importance and objectives of pre departure training
2. Components of training
3. Preliminary visits as method of training
4. Language training
5. Providing practical assistance on relocation
6. Training on job related issues

Introduction

In order to compete successfully in a global market, more firms are focusing on the role of human resources as a critical part of their core competence and a source of competitive advantage. As Kamoche reminds us: “the human resource refers to the accumulated stock of knowledge, skills, and abilities that the individuals possess, which the firm has built up over time into an identifiable expertise.” The question for the multinational firms is how to maintain and leverage its human resources so that suitably trained, internationally oriented personnel are available to support its strategic responses and contribute to its core competencies.

Importance of Training and Development

An indication of the importance of training and developing staff is the increasing number of multinationals that establish their own “universities.” or “Schools.” Motorola, McDonald’s Hamburger, and Disney universities are good examples of these in-house training centers; several European, Japanese, and Korean firms have similar arrangements.

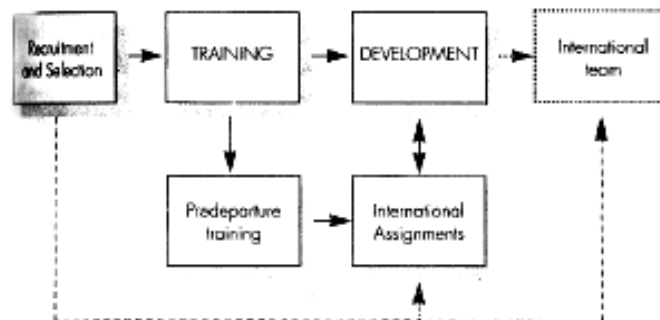


Exhibit 18.1: International Training and Development

It shows the link between international recruitment and selection and training and development activities. As we discussed in previous unit, training and development programs are an integral part of an effective performance management system. However, new employees generally undergo some form of training upon selection; for example, you may recall from the account of McDonald's entry into Russia that crew members were each given 60 hours of training prior to the opening of the Moscow outlet. In this Unit, we will understand the difference between the terms training and development. Training aims to improve current work skills and behavior, whereas development aims to increase abilities in relation to some future position or job-usually managerial. We will begin by examining the training approaches and issues for each aspect, especially the impact of international assignments upon career paths within a multinational, will then be addressed.

Expatriate Training

Most expatriates, whether PCNs, or TCNs, are selected from within the multinational's existing operations, though, as indicated by the dotted arrow in Exhibit 18.1, some expatriates may be hired externally. In view of the fact that the primary selection criterion is technical ability, it is not surprising to find that most of the literature is devoted to expatriate pre-departure training activities that are mainly concerned with developing cultural awareness. Once an employee has been selected for an expatriate position, pre-departure training is considered to be the next critical step in attempting to ensure the expatriate's effectiveness and success abroad, particularly where the assignment country is considered culturally tough. Some form of cultural preparation is indicated because, as you may recall from our discussion of expatriate failure in the previous unit, functional ability alone does not determine success.

Effective cultural training also enables individuals to adjust more rapidly to the new culture. As Early points out, "A major objective of intercultural training is to help people cope with unexpected events in a new culture." For these performance related reasons, investing resources in training for international assignments can be justified easily. The limited U.S. based research into this area reveals that a large number of U.S. multinationals have been reluctant to provide even a basic level of pre-departure training. Tung asked respondents to indicate the frequency of use of training programs. The results showed that the U.S. multinationals tended to use training programs for expatriates less frequently than the European and Japanese firms (32 percent compared with 69 percent and 57 percent, respectively). According to Ronen this finding was consistent with earlier research. A review of extent literature shows that the rate of pre-departure training provision has been slow to increase in the intervening years since Tung's 1982 study.

A 1984 study of 1,000 U.S. multinationals found that only 25 percent offered extensive pre-departure training programs. Another study, conducted in 1989, surveyed U.S. firms regarding relocation programs and found that only 13 percent of respondents indicated that they would offer expatriates a pre-departure program. In their 1990 review of U.S practices, McEnery and DesHarnais estimated that between 50 and 60 percent of U.S. companies operating abroad at that time did not provide any pre-departure preparation. The various authors report that, among the various reasons cited by firms for the low use of cross cultural training, top management does not believe pre-departure training is necessary or effective. So, while the potential benefits

of cultural awareness training are widely acknowledged, such training is not offered by a large number of U.S. multinationals. The emphasis placed by European (including Scandinavian) multinationals on predeparture training, particularly language training, has been found to be stronger than that of U.S. multinationals. More recently, the 1997-98 Price Waterhouse survey of European firms (including subsidiaries of non-European multinationals) revealed that cultural awareness training remains the most common form of predeparture training, and that it is still offered on a voluntary basis rather than as a mandatory requirement.

Only 13 percent of the firms surveyed always provided their expatriates with access to cultural awareness courses, though a further 47 percent now provided briefings for culturally “challenging” postings (compared with 21 percent in their 1995 survey). In the past, regardless of country of origin, firms placed less priority on providing predeparture training for the spouse and family. However, perhaps due to increasing recognition of the interaction between expatriate performance and family adjustment, more multinationals are now extending their predeparture training programs to include the spouse or partner and children.

Components of Effective Predeparture Training Programs

Studies indicate that the essential components of predeparture training programs that contribute to a smooth transition to foreign post include cultural awareness training, preliminary visits, language instruction, and assistance with practical, day-to-day matters.

We will look at each of these in turn.

Cultural Awareness Programs

It is generally accepted that to be effective, the expatriate employee must adapt and not feel isolated from the host country. A well-designed cultural awareness training program can be extremely beneficial, as it seeks to foster an appreciation of the host-country’s culture so that expatriates can behave accordingly, or at least develop appropriate coping patterns. Sieveking, Anchor, and Marston cite the culture of the Middle East to emphasize this point. In that region, emphasis is placed on personal relationships, trust, and respect in business dealings; coupled with this is an overriding emphasis on religion that permeates almost every aspect of life. As discussed in previous units, without an understanding (or at least an acceptance) of the host-country culture in such a situation, the expatriate is likely to face some difficulties during the international assignment. The components of cultural awareness programs vary according to country of assignment, duration, purpose of the transfer, and the provider of such programs.

As part of her study of expatriate management, Tung identified five categories of predeparture training, based on different learning processes, type of job, country of assignment, and the time available:

Area studies programs that include environmental briefing and cultural orientation

- Culture assimilators;
- Language training;
- Sensitivity training; and
- Field experiences.

To understand possible variations in expatriate training, Tung proposed a contingency framework for deciding the nature and level of rigor of training (intensity of training). Two determining factors were the degree of interaction required in the host culture and the similarity between the individual's native culture and the new culture. The related training elements in her framework involved the content of the training and the rigor of the training. Essentially, Tung argued that: · If the expected interaction between the individual and members of the host culture was low, and the degree of dissimilarity between the individual's native culture and the host culture was low, then training should focus on task – and job-related issues rather than culture related issues. The level of rigor necessary for effective training should be relatively low.

If there was a high level of expected interaction with host nationals and a large dissimilarity between the cultures, then training should focus on cross cultural skill development as well as on the new task. The level of rigor for such training should be moderate to high. Tong's model specifies criteria for making training method decisions such as degree of expected interaction and cultural similarity. One limitation is that it does not assist the user to determine which specific training methods to use or what might constitute more or less rigorous training. Mendenhall and Oddou proposed a model that builds upon Tong's. It was refined subsequently by Mendenhall, Dunbar, and Oddou. They propose three dimensions – training methods, low, medium, and high levels of training rigor, and duration of the training relative to degree of interaction and culture novelty – as useful guidelines for determining an appropriate program.

For example, if the expected level of interaction is low and the degree of similarity between the individual's native culture and the host culture is high, the length of the training should probably be less than a week. Methods such as area or cultural briefings via lectures, movies, or books would provide the appropriate level of training rigor. On the other hand, if the individual is going overseas for a period of two to twelve months and is expected to have some interaction with members of the host culture, the level of training rigor should be higher and its length longer (one to four weeks). In addition to the information-giving approaches, training methods such as culture assimilators and role plays may be appropriate.

If the individual is going to a fairly novel and different host culture and the expected degree of interaction is high, the level of cross cultural training rigor should be high and training should last as long as two months. In addition to the less rigorous methods already discussed, sensitivity training, field experiences and inter-cultural experiential workshops may be appropriate training methods in this situation. In their literature review, Black and Mendenhall concluded that the Mendenhall, Dunbar, and Oddou model, like that of Tung, is primarily “cultural” in nature, with little integration of the individual's new tasks and the new host culture. Black and Mendenhall proposed what they described as an extensive theoretically based model using Bandura's social learning theory and prior cultural awareness training models. They take three aspects of social learning theory – attention, retention, and reproduction – and show how these are influenced by individual differences in expectations and motivation, and the incentives to apply learned behaviors in the foreign location.

This approach recognizes that effective training is only the first step and that the expatriate's willingness and to act on that training in the new environment is crucial to effective

performance. However, their theoretical model and related propositions have yet to be rigorously tested. An obvious practical limitation of Black and Mendenhall's model is that insufficient time is often given as a reason why multinational do not provide predeparture training; it would be difficult to develop appropriate predeparture training programs in such cases. Other contextual and situational factors – such as cultural toughness, length of assignment, and the nature/type of the job – may have a bearing on the content, method, and processes involved in the cultural awareness training program. More importantly, monitoring and feedback should be recognized as important components of individual skill development, particularly as adjustment and performance are the desired outcomes of cultural awareness training.

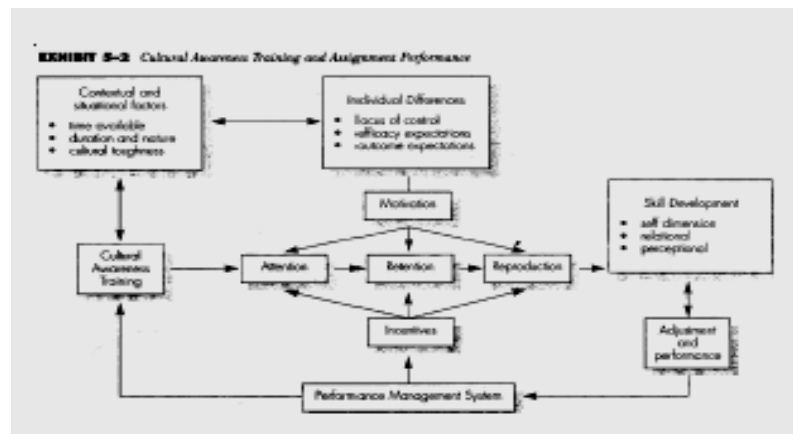


Exhibit 18.2: Cultural Awareness Training and Assignment Performance

It stresses the importance of attention paid by the potential expatriate to the behaviors and probable outcomes of a cultural awareness training program, the individual's ability and willingness to retain learned behaviors, and their reproduction as appropriate in the host location. Based on our review of performance management in previous unit, it seems important that adjustment and performance be linked to the multinational's performance management system. For instance, one could expect that poor performance could be addressed by clarifying incentives for effective reproduction of the required level of behavior, or by providing additional cultural awareness training. We combine adjustment and performance and link it to the performance management system; Black and Mendenhall have adjustment and performance as separate outcomes, with adjustment leading to performance.

Preliminary Visits

One useful technique in orienting international employees is to send them on a preliminary trip to the host country. A well-planned overseas trip for the candidate and spouse provides a preview that allows them to assess their suitability for an interest in the assignment. Such a trip also serves to introduce expatriate candidates to the business context in the host location and helps encourage more informed predeparture preparation.

When used as part of a predeparture training program, visits to the host location can assist in the initial adjustment process. The 1997 – 98 Price Waterhouse survey mentioned earlier reports that 53 percent of firms always provided preliminary visits and a further 38 percent

indicated such use in certain circumstances. The average length of visit was about a week. The country of assignment was a determining factor; visits were not provided if the country concerned was already known to the expatriate (perhaps from a previous visit either on firm-related business or as a tourist), or was perceived as culturally close (e.g. Zurich to Frankfurt, or New York to Toronto).

Obviously, the couple may reject the assignment on the basis of the preliminary visit. As one firm in the 1997-98 Price Waterhouse survey admits: “we do not provide pre-assignment visits where conditions are so poor that nobody would want to go.” Most firms that utilize preliminary visits, though, weigh their cost against premature recall and underperformance risks. A potential problem exists in that the aim of the preliminary visit is often twofold – part selection decision and part predeparture training. The multinational could send mixed signals if it offers the preliminary visit as part of the selection process but the couple find upon arrival in the proposed country of assignment that they are expected to make decisions regarding suitable housing and schools. The couple may interpret such treatment as “accepting the preliminary visit equals accepting the assignment”. Thus negating its role in the decision making process. When multinationals use the preliminary visit to allow the couple to make a more informed decision about accepting the overseas assignment, it should be used solely for that purpose. From the couple’s perspective, they often find it difficult to reject the assignment in spite of negative impressions gained during the visit when they have been flown to the prospective location at the multinational’s expense.

Combined with cultural awareness training, the preliminary visit is a useful component of a predeparture program. Exposure to the expatriate community, if one exists in the proposed host location, can also be a positive outcome of the preliminary visit. Brewster and Pickard found that an expatriate community has an influence on expatriate adjustment. Perhaps the welcome received from, and interaction with, current expatriates may assist in developing a positive attitude to the assignment, confirm acceptance of the assignment, and even provide motivation to reproduce appropriate behaviors retained from cultural awareness training.

LESSON 19

Tutorial

Language Training

Language training is a seemingly obvious, desirable component of a predeparture program. However, there are three interrelated aspects related to language ability that need to be recognized.

The Role of English as the Language of World Business

It is generally accepted that English is the language of world business, though the form of English is more “international English” than that spoken by native speakers of English. Multinationals from English speaking countries such as the United States, the United Kingdom, and Australia often use this fact as a reason for not considering language ability in the selection process, and for not stressing language training as part of predeparture programs. Such an attitude may lead to the downplaying of the importance of foreign language skills. For example, in 1989 survey by Columbia University of 1500 seniors executives in twenty countries, participants were asked to rate the importance of a number of attributes “for the CEO of tomorrow.” For the attribute “trained in a foreign language” 19 percent of the U.S respondents gave a rating of very important compared to 64 percent of non-U.S. respondents.

Fix man’s study of U.S. multinationals’ foreign language needs, conducted the same year, found that foreign language skills were seldom included as part of cross cultural understanding, and that language problems were largely viewed as mechanical and manageable problems that could easily be solved. However, as Pucik comments, an exclusive reliance on English diminishes the multinational’s linguistic capacity. The resultant lack of language competence has strategic and operational implications as it limits the multinational’s ability to monitor competitors and process important information. For example, translation services, particularly those external to the firm, cannot make strategic inferences and firm-specific interpretations of language specific data. Fix man raises the question of protecting important technology in international joint venture activities; “It would seem that the less one understands of a partner’s language, the less likely one is to detect theft of technology.”

Perhaps more importantly, as Wright and Wright in their study of British firms point out, to accept English as the de facto language of international business gives the advantage to the other person: The other speaker controls what is communicated and what is understood. The monolingual English speaker has less room to maneuver, no possibility of finding out more that he (or she) is given. His position forces him to be reactive rather than proactive in the relationship. What he says and understands is filtered through the other speaker’s competence, over which he has no control. Disregarding the importance of foreign language skills may reflect a degree of ethnocentrism. A study by Hall and Gudykunst has shown that the lower the level of perceived ethnocentrism in an MNE, the more training it provides in cultural awareness and language training. Firms are including language training as evidenced by recent surveys,

such as the 19978-98 Price Waterhouse survey referred to above. Firms in that survey reported that language training was not only provided where necessary to the expatriate but generally extended to the spouse or partner (81 percent) and children (42 percent). Perhaps as a result of the increased global competitive pressures, and growing awareness of its strategic and operational importance, more U.S. multinationals are requesting that U.S. business schools include foreign languages in their curricula and are giving hiring preference to graduates with foreign language skills. A similar trend is evident in the United Kingdom and in Australia.

Host-Country Language Skills and Adjustment

Clearly, the ability to speak a foreign language can improve the expatriate's effectiveness and negotiating ability. As Baliga and Baker point out, it can improve manager's access to information regarding the host-country's economy, government, and market. Of course, the degree of fluency required may depend on the level and nature of the position that the expatriate holds in the foreign operation, the amount of interaction with external stakeholders such as government officials, clients, trade officials, as well as with host-country nationals. The importance of language skills was identified as a critical component in assignment performance in a recent survey over 400 expatriates' conducted by Tung-Arthur Andersen. Respondents indicated that the ability to speak the local language, regardless of how different the culture was to their home country, was as important as cultural awareness in their ability to adapt and perform on assignment. Knowledge of the host country language can assist expatriates and family members gain access to new social support structures outside of work and the expatriate community. Language skills, therefore, are important in terms of task performance and cultural adjustment. Its continued omission from predeparture training can be partly explained by the length of time it takes to acquire even a rudimentary level of language competence. Hiring language competent staff to enlarge the "language pool" from which potential expatriates may be drawn is one answer, but its success depends on up-to-date information being kept on all employees, and frequent language auditing to see whether language skills are maintained.

Knowledge of the Corporate Language

In the literature reviewed, where language skills and fluency are considered, it tends to be in the context of cross cultural communication. Recent work by Marschan, Welch, and Welch highlights what appears to be a some-what neglected issue – the impact that the adoption of a common corporate language has upon HRM activities within the multinational. At a certain stage in its internationalization process, multinationals from non-English-speaking countries, the standardization of information and reporting systems tend to be handled in the language of the parent's country of origin until geographical dispersal makes that problematical. The multinational then adopts (either deliberately or by default) a common company language to facilitate reporting standardization and other control mechanisms, particularly normative control. As we mention above, English has become the language of international business, and quite often, English becomes the common language within these multinationals. Marschan et.al. Suggest that the question of a common corporate language does not consciously arise to the same extent within multinationals from English-speaking countries such as the United States. English is automatically the chosen corporate language. Regardless, it is a better argument that

language skills become an important aspect. PCNs can find themselves performing as communication channels between subsidiary and headquarters, due to their ability to speak the corporate language. It also can give added power to their position in the subsidiary as PCNs often have access to information that those not fluent in the corporate language are denied. Marschan et.al. also point out that a PCN fluent in the parent company language and the language of the host subsidiary can perform a gate keeping role, whatever the formal position the expatriate may hold. What this line of research suggests is that for multinationals that have adopted a corporate language, predeparture training programs may need to include both language of the host country and the corporate language.

Practical Assistance

Another component of predeparture training program is that of providing information that assists in relocation. Practical assistance makes an important contribution toward the adaptation of the expatriate and his or her family to their new environment. Being left to fend for themselves may result in a negative response toward the host-country's culture, and or contribute to a perceived violation of the psychological contract. Many multinationals now take advantage of relocation specialists to provide this practical assistance. Further language training for the expatriate and family could be provided, particularly if such training was not possible before departure. While local orientation and language programs are normally organized by the personnel staff in the host country, it is important that corporate HRM staff liaise with the sending line manager as well as the HR department in the foreign location to ensure that practical assistance is provided.

Job-Related Factors

Although the literature reviewed has concentrated almost exclusively on the cultural awareness and adjustment components of predeparture training, it is important that we note that there may be some job-related aspects that needed to be addressed in an effective predeparture training program. As we discussed earlier, expatriates are often used because of a lack of suitably trained staff in the host location. Consequently, expatriates often find themselves training HCNs as their replacements. The obvious question is how are expatriates prepared for this training role? Our review of extant literature indicates that this aspect has yet to be specifically addressed. We do know from the cross cultural management literature that there are differences in the way people approach tasks and problems, and that this can have an impact on the learning process. The ability to transfer knowledge and skills in a culturally sensitive manner perhaps should be an integral part of predeparture training programs. A related issue is that an international predeparture training programs. A related issue is that an international assignment can be promotion to be managerial role for which the preparation is effectively the international assignment. We will take up this in our section on career development. The bulk of this chapter has so far focused on the expatriate, and we have not distinguished between PCNs and TCNs, In theory, all staff should be provided with the necessary level of predeparture training given the demands of the international assignment. Anecdotal evidence does suggest, however, that in some firms predeparture training may not be provided to TCNs- at least to the extent of that available to PCNs.

This omission could create perceptions of inequitable treatment in situations where PCNs and TCNs work in the same foreign location. As an Australian working in the Japanese subsidiary of a U.S. multinational remarked, “we were third-class nationals in Japan. The Americans received cultural training about Japan before they left the United States. We were just given our plane tickets.”

Summary

An indication of the importance of training and developing staff is the increasing number of multinationals that establish their own “universities.” or “Schools.” Effective cultural training also enables individuals to adjust more rapidly to the new culture. Due to increasing recognition of the interaction between expatriate performance and family adjustment, more multinationals are now extending their predeparture training programs to include the spouse or partner and children. The components of cultural awareness programs vary according to country of assignment, duration, purpose of the transfer, and the provider of such programs. One useful technique in orienting international employees is to send them on a preliminary trip to the host country. A well-planned overseas trip for the candidate and spouse provides a preview that allows them to assess their suitability for an interest in the assignment. As part of her study of expatriate management, Tung identified five categories of predeparture training, based on different learning processes, type of job, country of assignment, and the time available:

- Area studies programs that include environmental briefing and cultural orientation

- Culture assimilators;
- Language training;
- Sensitivity training; and
- Field experiences.

To understand possible variations in expatriate training, Tung proposed a contingency framework for deciding the nature and level of rigor of training (intensity of training). It is generally accepted that English is the language of world business, though the form of English is more “international English” than that spoken by native speakers of English. Multinationals from English speaking countries such as the United States, the United Kingdom, and Australia often use this fact as a reason for not considering language ability in the selection process, and for not stressing language training as part of predeparture programs. Another component of predeparture training program is that of providing information that assists in relocation.

The questions that must prick your mind

1. What are the objectives of training in international training and development?
2. What was the importance placed on predeparture training in U.S. and European MNEs till 1980s?
3. What are the components of expatriate training?
4. What are the guidelines to determine an appropriate training program?
5. How does preliminary visit of an employee on future expatriate assignment help as a method of training?
6. Discuss language training issues in training in IHRM.

LESSON 20

HCN Training

Learning Objectives

1. The importance of HCN training
2. Purposes of HCN staff transfers

Introduction

There are many issues related to HCN training. Consider the following case. A multinational, as part of its cost leadership strategy, decides to build a production facility in Country X where labor costs are low. It then finds it to invest heavily in training local employees, thereby automatically increasing the cost of that labor (the paradox referred to as “the expense of cheap labor”). Not only does the unit cost of labor rise over time, but trained employees may well become attractive to its foreign and local competitors, who simply offer higher wages to lure them away. If this “poaching” of HCNs is successful, the multinational discovers that its competitors, who simply offer higher wages to lure them away. If this “poaching” of HCNs is successful, the multinational discovers that its

Competitors reap the training benefits while it receives little return for its investment in human capital.

Thus, the level of HCN competence has important training and cost consequences although these may not be initially recognized during country selection. Mode of operation is another issue related to HCN training. For instance, entering into a joint venture arrangement can lead to unexpected training costs if the local partner regards the joint venture operation as a convenient way of re-deploying surplus employees who may not have the skills required. The multinational has to invest heavily in the training of the joint venture HCNs in order to achieve its strategic objectives for the foreign market; leading to cost perhaps not “factored in” the original market-entry decision. These costs may, however, be offset by intangible factors. For example, in some Chinese joint ventures, training programs are regarded by HCNs as incentives to work for foreigners. Thus the provision of HCN training can help in retaining qualified HCN employees, thereby assisting the multinational to recoup its training costs. When it comes to HCN training programs, given our understanding of cultural differences, it could be assumed that this is an area that the multinational would automatically delegate to the local operation.

To a certain extent, training programs are localized, but there are many cases where multinationals have successfully replicated work practices in their foreign subsidiaries through intensive training programs designed and implemented by headquarters. This is particularly true regarding technical training for operating employees in areas where certain skills and work practices are regarded as strategically essential. Japanese multinationals such as Nissan and Honda have been able to train substantial numbers of HCNs in their U.S., U.K., and European subsidiaries with reasonable success. To save on costs, some multinationals are now using satellite technology to deliver custom-designed training courses from home-country locations.

International Training of HCNs

HCNs can be transferred into the parent country, into either its headquarters or home-subsidary operations. There are various motives for HCN staff transfers: · It facilitates specific firm-based training. You may recall from the GE case presented earlier, that Tungsram staffs were transferred to GE plants in the United States for technical and operative training. Likewise, the Pepsi-Cola International Management Institute is an umbrella system for the delivery of training programs such as sales force management or production techniques for the manufacturing of Pepsi brands. Part of this approach is the “Designate Program,” which brings HCNs to the United States for a minimum of eighteen months of training in the domestic U.S. Pepsi system. Fiat, the Italian automobile manufacturer, uses staff transfers as part of its training program, with HCN recruits spending time at corporate headquarters.

While technical and managerial training may be the primary goal, there is often a secondary, yet equally important, objective of building a sense of corporate identity. The Swedish telecommunications company, L.M.Ericsson, has two levels of formal management programs. One caters to the top 300 managers in the group, the other to the 1,500 middle managers. While the focus of course content differs for these two programs, there is a common aim to develop informal networks among Ericsson managers throughout the entire global company. As part of its approach, the company established the Ericsson Management Institute. These types of corporate training centers serve as a useful venue for HCNs from various countries to meet and develop personal networks that facilitate informal communication and control.

Particular skills may be required in the subsidiary and the most cost-effective way is to bring certain HCN staff into the parent operations. For example, in the late 1980s when Ford Australia began manufacturing the Capri model –a sports car aimed at the U.S. market – Australian production and engineering employees spent time in Ford’s U.S. factories to quickly gain the necessary knowledge required to meet U.S. safety regulations. As discussed earlier, the presence of HCNs may assist in broadening the outlook of parent-company employees. Also, it may be that HCNs have particular knowledge and skills that can be transferred into parent operations. The “importing” by Matsushita of 100 overseas managers a year to work alongside their Japanese counterparts is perhaps an extreme strategy. In Matsushita’s case, the necessity of having to use English with the “imported Foreigners” improved the parent-company’s language base. In a recent article, Harvey advocates that “in patriates’ (HCNs) need the same pre-departure training programs as those designed for expatriate assignments. This is perhaps an obvious point.

After all, cultural adjustment is inherent in international staff transfers, regardless of the direction of the transfer – that is, whether it is the PCN moving to a another subsidiary or a HCN coming to parent operations or transferring to another subsidiary. Harvey’s suggested model for “in patriate” pre-departure training appears to mirror those proposed for U.S. expatriate cultural-awareness training. In order to design and implement HCN pre-departure training, local management, particularly those in the HR department, need to be conscious of the demands of an international assignment –just as we have discussed in terms of corporate/ headquarters HR staff. There perhaps also needs to be recognition and encouragement of this form headquarters, and monitoring to ensure that sufficient subsidiary resources are allocated

for such training. A related aspect is that HCNs require adequate language skills in order to gain the maximum benefit from parent-based training. Lack of language competence may be a major barrier in terms of access to corporate training programs since these are conducted in the parent/corporate language. As a study of Finnish multinational- Kone Elevators- found, subsidiary staff who would have benefited from attendance at the corporate training center in Finland were often excluded on the ground of lack of competence in English, the corporate language. Provision of corporate language training may be an important component of HCN training.

The questions that must prick your Mind

1. Why should there be focus on training HCNs?
2. What are the motives of HCN staff transfer?

LESSON 21

Developing International Staff and Multinational Teams

Learning Objectives

1. Methods of developing international staff and multinational teams
2. International Job Rotation and its contribution to development of international teams
3. Impact of foreign assignment on individual's career development.

Introduction

Foreign assignments have long been recognized as an important mechanism for developing international expertise – for both management and organizational development. As we discussed earlier, establishing truly global operations means having a team of international managers (PCNs, HCNs, and TCNs) who are available to go anywhere in the world. To develop such teams, many multinationals are conscious that they need to provide international experience to many levels of managers (regardless of nationality) and not just to a small cadre of PCNs. One technique used to develop larger pools of employees with international experience is through short-term development assignments ranging from a few months to several years. However, some very successful multinationals, such as the Swedish-Swiss conglomerate ABB, have carried on the practice of developing a small cadre of international employees rather than internationalizing everyone. International job rotation, therefore, is one well-established technique for developing multinational teams and international operators.

It may be supported by PCN, TCN, and HCN attendance at common training and development programs held either in the parent country, or regional centers, or both. The Global Leadership Program at the University of Michigan is an example of externally provided training programs. For a period of five weeks, teams of American, Japanese, and European executives learn global business skills through action learning. To build cross-cultural teams, the program utilizes seminars and lectures, adventure-based exercises, and field trips to investigate business opportunities in countries such as Brazil, China, and India. The overall objective of the Global Leadership Program is to produce individual with a global perspective. The success of such programs depends on participants being able to apply these skills in their home location and assist in the development of multinational, cross border, cross functional teams. International meetings in various locations have also become important forums for fostering interaction and personal networks that also may be used later to build global teams. In line with a general trend towards an emphasis on work teams, there is a suggestion in the literature that multinationals would benefit from building on their inherent diversity to foster innovation, organizational learning, and the transfer of knowledge.

Fostering a sense of corporate identity and teamwork seems an important aspect of leverage resources and ideas from all parts of the multinational. The following remark from Jack Welch, CEO of GE, reflects this line of thinking. The aim in a global business is to get the best ideas from everywhere. Each team puts up its best ideas and process-constantly. That raises the bar.

Our culture is designed around making a hero out of those who translate ideas from one place to another, who help somebody else. They get an award, they get praised and promoted.

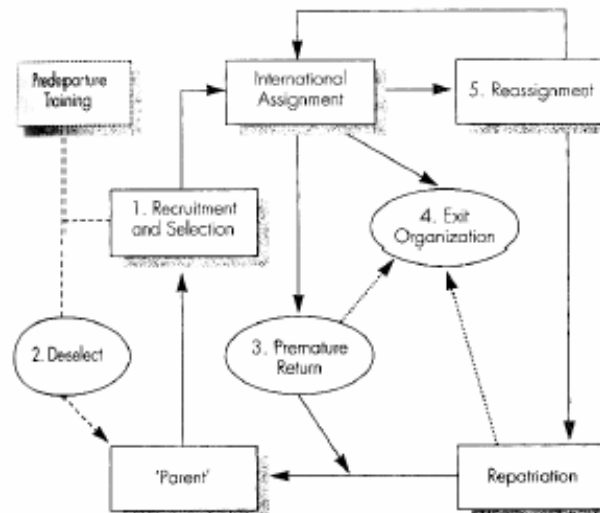


Exhibit 21.1: Expatriate Career Decision Points

Individual Career Development

The above discussion has been from the multinational's perspective. We now briefly look at the impact that an international assignment has on an individual's career. There is an implicit assumption that an international assignment has per se management development potential; perceived career advancement is often a primary motive for accepting such postings. However, there is a paucity of research that demonstrates the link between an international assignment and career advancement. Two exceptions are studied by Feldman and Thomas, and Naumann; while these studies confirm career expectations as motives, the expatriates involved were taken from those currently on assignment. There is a need for research that examines career paths as a direct consequence of international assignments. It is possible to trace the typical assignment and identify critical decision points that may have career-related outcomes for a particular individual.

Exhibit 21.1 attempts to illustrate a sequence that may be common to all expatriates-PCNs as well as HCNs who accept assignments to either the parent operations, or to other subsidiaries (thus becoming TCNs). For ease of discussion, though, we will simply use the term expatriate and refer to the sending unit or subsidiary as parent. Exhibit 21.1 follows the stages of expatriation from recruitment and selection to completion of the particular assignment. The numerals are positioned at what have been identified as critical decision points. For example, Decision Point 1 occurs during recruitment and selection for a specific assignment, where the expatriate either applies, or is informally selected, for an international assignment. Further information about the host location during the recruitment and selection process (including pre departure training if that is available), or family considerations, may prompt the potential

candidate to withdraw at this point. Hence Decision Point 2 is “deselect.” There may be some career considerations as to whether a voluntary withdrawal at the point would have a negative consequence upon the person’s future. Such a perception may influence the individual’s decision to accept rather than reject the assignment. As we discussed earlier in terms of adjustment and performance overseas, the expatriate may decide to leave the international assignment (as indicated in Decision Point 3 – Premature Return).

The individual then is assigned a position back in the “parent” operation. The premature return may or may not have career advancement consequences. Alternatively, as indicated by Decision Point 4, the expatriate may decide to exit the organization-prompted by a perceived violation of the psychological contract, or perhaps as a result of another job offer that is perceived to be better in terms of the person’s career. This may be with a domestic firm back in the home country or with another foreign multinational.

Decision Point 5, Reassignment, can be either back into the “parent” organization or the person may accept another overseas assignment. Those, who elect to take a consecutive international assignment may, upon subsequent reassignment return to the “parent” operation, or become part of what is often referred to as the international “cadre”, or team. As we will discuss in later lessons, reassignment (or repatriation) back into the “parent” operation is a common ending to an international assignment and may or may not be a position that leads to career advancement.

There is a suggestion that turnover among repatriates may be as a consequence of a perceived lack of career advancement on the basis of the international experience. Decision Point 4 can be relevant at this stage, as indicated by the dotted arrow connecting “repatriation” with “exit organization.” These decision points are based on the issues we have discussed in the preceding lessons, as well as on the suggestions in the literature regarding the management development potential of international assignments. How individuals react at each point may vary according to the perceived value of the assignment; that is; whether the perceived benefits outweigh the costs in terms of family disruption (including a spouse or partner’s career) and the factors that we have identified as important to performance while on an international assignment. Of course, the actual benefits will also depend on the multinational’s willingness and ability to utilize the experiences the expatriate has gained during the international assignment.

Summary

The international assignment emerges as an important way of training international operators, developing the international team, or “cadre,” as well as helping to build personal networks to support soft-control mechanisms. · In this sense, an international assignment is both training (gaining international experience and competence) and managerial and organizational development. · Thus, multinationals must address the growing need for international training and development and deal with controversial questions concerning which employees to train and the overall purpose of the training. · One technique used to develop larger pools of employees with international experience is through short-term development assignments ranging from a few months to several years.

There is an implicit assumption that an international assignment has per se management development potential; perceived career advancement is often a primary motive for accepting such postings.

The questions that must prick your Mind

1. What are the various ways to build international teams?
2. What is international job rotation and how does it help MNE in staffing and managing international operations?
3. How does international assignment impact on individual career development of the staff?

International Compensation Management

Learning Objectives

1. The objectives that can be pursued through compensation system.
2. Key components of international compensation program
3. Base salary
4. Foreign service inducement/ Hardship premium
5. Allowances
6. Benefits

Introduction

For multinational firms, successful management of compensation and benefits requires knowledge of the employment and taxation laws, customs, environment, and employment practices of many foreign countries. Also needed are familiarity with currency fluctuations and the effect of inflation on compensation, and an understanding of why and when special allowances must be supplied and which allowances are necessary in what countries. All of these needs must be fulfilled within the context of shifting political, economic, and social conditions. The level of local knowledge required in many of these areas requires specialized advice; many multinationals retain the services of consulting firms which may offer a broad range of services or provide highly specialized services relevant to HRM in multinational context. Because of their high-cost, HR managers spend a great deal of time developing effective compensation and benefit programs for international employees.

A survey by the Conference Board found that 29 percent of firms reported an expatriate cost of 2 to 2.9 times salary, 50 percent reported 3 to 3.9 times salary, and 18 percent reported 4 to 4.9 times salary. A recent report in Fortune on doing business in China reported that hiring a local Chinese manager with 15 years of experience would cost less than U.S. \$70,000; a U.S. expatriate chief financial officer would cost U.S.\$300,000 with the following compensation package (all figures in U.S.\$) Because of the complexity and expense involved, much of the discussion in this lesson addresses PCN compensation. However, issues relevant to TCNs and HCNs are also described because they are becoming more important to the success of many multinationals.

Objectives of International Compensation

When developing international compensation policies, a firm seeks to satisfy several objectives. First, the policy should be consistent with the overall strategy, structure, and business needs of the multinational. Second, the policy must work to attract and retain staff in the areas where the multinational has the greatest needs and opportunities.

Thus, the policy must be competitive and recognize factors such as incentive for Foreign Service, tax equalization, and reimbursement for reasonable costs. Third, the policy should facilitate the transfer of international employees in the most cost-effective manner for the firm. Fourth, the Policy must give due consideration to equity and ease of administration. The international employee will also have a number of objectives that need to be achieved from the firm's compensation policy. First, the employee will expect that the policy offers financial protection in terms of benefits, social security, and living costs in the foreign location.

Second, the employee will expect that a foreign assignment will offer opportunities for financial advancement through income and/or savings. Third, the employee will expect that issues such as housing, education of children, and recreation will be addressed in the policy. (The employee will also have expectations in terms of career advancement and repatriation, as discussed in previous lessons). If we contrast the objectives of the multinational and the employee, we see the potential for many complexities and possible problems since some of these objectives cannot be maximized on both sides. The "war stories" about problems in international compensation that we read in HR practitioner magazines is testimony to these complexities and problems. If we take away the specialist jargon and allow for the international context, are the competing objectives of the firm and the employee fundamentally different from that which exists in a domestic environment? We think not, and agree with the broad thrust of a challenging article by Milkovich and Bloom, which argues that firms must rethink the traditional view in international compensation, that local conditions dominate compensation strategy. We will cover some of the technical aspects and complexities of compensation in an international context.

Key Components of an International Compensation Program

The area of international compensation is complex primarily because multinationals must cater for three categories of employees; PCNs, TCNs, and HCNs. In this lesson, we discuss key components of international compensation, which include base salary, foreign service inducement/hardship program, allowance, and benefits.

Base Salary

The term base salary acquires a somewhat different meaning when employees go abroad. In a domestic context, base salary denotes the amount of cash compensation that serves as a benchmark for other compensation elements (e.g., bonus and benefits). For expatriates, it is the primary component of a package of allowances, many of which are directly related to base salary (e.g. Foreign Service premium, cost-of-living allowance, housing allowance) as well as the basis for in-service benefits and pension contributions.

It may be paid in home-or-local-country currency. The base salary is the foundation block for international compensation whether the employee is a PCN or TCN. Major differences can occur in the employee's package depending on whether the base salary is linked to the home country of the PCN or TCN or whether an international rate is paid. (We will deal with this issue later in the next lesson) Foreign Service Inducement / Hardship Premium Parent country nationals often receive a salary premium as an inducement to accept a foreign assignment or as

compensation for any hardship caused by the transfer. Under such circumstances, the definition of hardship, eligibility for the premium, and amount and timing of payment must be addressed.

In cases in which hardship is determined, U.S. firms often refer to the U.S. Department of State's Hardship's Post Differentials Guidelines to determine an appropriate level of payment. As Ruff and Jackson have noticed, however, making international comparisons of the cost of living is problematic. It is important to note that these payments are more commonly paid to PCNs than TCNs. Foreign service inducements, if used, are usually made in the form of a percentage of salary, usually 5 to 40 percent of base pay. Such payments vary, depending upon the assignment, actual hardship, tax consequences, and length of assignment. In addition, differentials may be considered; for example, a host-country's work week may be longer than that of the home country, and differential payment may be made in lieu of overtime, which is not normally paid to PCNs or TCNs.

Allowances

Issues concerning allowances can be very challenging to a firm establishing an overall compensation policy, partly because of the various forms of allowances that exist. The cost-of-living allowance (COLA), which typically receives the attention, involves a payment to compensate for differences in expenditures between the home country and the foreign country (e.g., to account for inflation differentials). Often this allowance is difficult to determine, so companies may use the services of organizations such as Organization Resource Counselors, Inc., (a U.S. based firm) or Employment Conditions

Abroad (based in Britain) who specialize in providing regular up-to-date COLA information on a global basis to their clients; the COLA may also include payments for housing and utilities, personal income tax, or discretionary items. The provision of a housing allowance implies that employees should be entitled to maintain their home-country living standards (or, in some cases, receive accommodations that are equivalent to that provided for similar foreign employees and peers).

Such allowances are often paid on either an assessed or an actual basis. Other alternatives include company-provided housing, either mandatory or optional; a fixed housing allowance; or assessment of a portion of income, out of which actual housing costs are paid. Housing issues are often addressed on a case-by-case basis, but as firm internationalizes, formal policies become more necessary and efficient. Financial assistance and/or protection in connection with the sale or leasing of an expatriate's former residence are offered by many multinationals. Those in the banking and finance industry tend to be the most generous, offering assistance in sale or leasing, payment of closing costs, payment of leasing management fees, rent protection, and equity protection. Again, TCNs receive these benefits less frequently than PCNs. There is also a provision for home leave allowances. Many employers cover the expense of one or more trips back to the home country each year. The purpose of paying for such trips is to give expatriates the opportunity to renew family and business ties, thereby helping them to avoid adjustment problems when they are repatriated. Although firms traditionally have restricted the use of leave allowances to travel home, some firms give expatriates the option of applying the allowances to foreign travel rather than returning home. Firms allowing use of home leave

allowances for foreign travel need to be aware that expatriate employees with limited international experience who opt for foreign travel rather than returning home may become more homesick than other expatriates who return home for a “reality check” with fellow employees and friends. Education allowances for expatriates’ children are also an integral part of any international compensation policy. Allowances for education can cover items such as tuition, language class tuition, enrollment fees, books and supplies, transportation, room and board, and uniforms (outside of the United States, it is quite common for high school students to wear uniforms). The level of education provided for, the adequacy of local schools, and transportation of dependents who are being educated in other locations may present problems for multinationals. PCNs and TCNs usually receive the same treatment concerning educational expenses.

The employer typically covers the cost of local or boarding schools for dependent children, although there may be restrictions, depending on the availability of good local schools and on their fees. Attendance at a university may also be provided for when deemed necessary. Relocation allowances usually cover moving, shipping, and storage charges, temporary living expenses, subsidies regarding appliance or car purchases (or sales), and down payments or lease-related charges. Allowances regarding perquisites (cars, club memberships, servants, etc.) May also need to be considered (usually for more senior positions, but this varies according to location). These allowances are often contingent upon tax-equalization policies and practices in both the home and the host countries. Increasingly, as indicated earlier, many multinational firms are also offering spouse assistance to help guard against or offset income lost by an expatriate’s spouse as a result of relocating abroad.

Although some firms may pay an allowance to make up for spouse’s lost income, U.S. firms are beginning to focus on providing spouses with employment opportunities abroad, either by offering job-search assistance or employment in the firm’s foreign unit (subject to a work visa being available). Multinationals generally pay allowances in order to encourage employees to take international assignments and to keep employees “whole” relative to home standards. In terms of housing companies usually a tax-equalized housing allowance in order to discourage the purchase of housing and/ or to compensate for higher housing costs; this allowance is adjusted periodically, based on estimates of both local and foreign housing costs.

Benefits

The complexity inherent in international benefits often brings more difficulties than when dealing with compensation. Pension plans are very difficult to deal with country to country because national practices vary considerably. Transportability of pension plans, medical coverage, and social security benefits are very difficult to normalize. Therefore, firms need to address many issues when considering benefits, including:

- Whether to maintain expatriates in home-country programs, particularly if the firm does not receive a tax deduction for it.
- Whether firms have the option of enrolling expatriates in host-country benefit programs and/or making up any difference in coverage.

- Whether expatriates should receive home-country or host country social security benefits. Most U.S. PCNs typically remain under their home-country's benefit plan.

In some countries, expatriates can not opt out of local social security programs; in such circumstances, the firm normally pays for these additional costs. European PCNs and TCNs enjoy portable social security benefits within the European Union. Laws governing private benefit practices differ from country to country; firm practices also vary. Not surprisingly, multinationals have generally done a good job of planning for the retirement needs of their PCN employees, but this is generally less the case for TCNs. There are many reasons for this; TCNs may have little or no home-country social security coverage, they may have spent many years in countries that do not permit currency transfers of accrued benefit payments, or they may spend their final year or two of employment in a country where final average salary is in a currency that relates unfavorably to their home-country currency. How their benefits are calculated and what type of retirement plan applies to them may make the difference between a comfortable retirement in a country of their choice and a forced penurious retirement elsewhere.

In addition to the already discussed benefits, multinationals also provide vacations and special leave. Included as part of the employee's regular vacation, annual home leave usually provides airfares for families to return to their home countries. Rest and rehabilitation leave, based on the conditions of the host country, also provides the employee's family with free airfares to a more comfortable location near the host country. In addition to rest and rehabilitation leave, emergency provisions are available in case of a death or illness in the family. Employees in hardship locations often receive additional leave expense payments and rest and rehabilitation periods.

Summary

We have examined the complexities which arise when firms move from compensation at the domestic level to compensation in an international context. Compensation policy becomes a much less precise process than is the case in the domestic HR context.

We have detailed the key components of an international compensation program

The questions that must prick your mind

1. What are the objectives of international compensation?
2. What are the key components of international compensation package?
3. What are the different allowances that are a part of international compensation package?
4. What is hardship premium?

LESSON 23

Approaches to International Compensation

Learning Objectives

1. The various approaches to international compensation
2. The going rate approach
3. The balance sheet approach
4. Taxation
5. International living costs data
6. Arriving at salary differences between PCNs and HCNs

Introduction

There are two main options in the area of international compensation- the Going Rate approach (also referred to as the market rate approach) (exhibit 21.2) and the Balance Sheet approach (sometimes known as the build-up approach). In this lesson, we describe each approach and discuss the advantages and disadvantages inherent in each approach.

The Going Rate Approach

With this approach, the base salary for international transfer is linked to the salary structure in the host country. The multinational usually obtains information from local compensation surveys and must decide whether local nationals (HCNs), expatriates of the same nationality, or expatriates of all nationalities will be the reference point in terms of benchmarking. For example, a Japanese bank operating in New York would need to decide whether its reference point would be local U.S. salaries, other Japanese competitors in New York, or all foreign banks operating in New York. With the Going Rate approach, if the location is in a low-pay country, the multinational usually supplements base pay with additional benefits and payments.

Advantages	Disadvantages
Equality with local nationals	Variation between assignments for same employees
Simplicity	Variation between expatriates of same nationality in different countries
Identification with host country	Potential re-entry problems
Equity amongst different nationals	

Exhibit 21.1: Advantages and Disadvantages of Growing Rate Approach

Advantages include: equality with local nationals (very effective in attracting PCNs or TCNs to a location that pays higher salaries than those received in the home country), approach is simple and easy for expatriates to understand, expatriates are able to identify with the host country, and there is often equality among expatriates of different nationalities. There are also disadvantages with the Going Rate approach. First, there can be variation between assignments for the same employees- most obviously when we compare an assignment in an advanced economy with one in a developing country, but also between assignments in various advanced economies where differences in managerial salaries and the effect of local taxation can significantly influence an employee's compensation level using the Going Rate approach. Not surprisingly, individual employees are very sensitive to this issue. Second, there can be variation between expatriates of the same nationality in different locations.

A strict interpretation of the Going Rate approach can lead to rivalry for assignments to locations that are financially attractive and little interest in locations considered to be financially unattractive. Finally, the Going Rate approach can pose problems upon repatriation when the employee's salary reverts to a home country level that is below that of the host country. This is not only a problem for firms in developing countries, but also for firms from many countries where local managerial salaries are well below that of the United States, which is the world market leader in managerial salaries. For example, a survey by Towers Perrin of total compensation for CEOs around the world reported the following results:

Country	CEO Compensation (in U.S \$)
United States	\$901,181
Hong Kong	\$672,877
Singapore	\$572,414
France	\$523,511
Britain	\$489,710
Australia	\$476,700
Switzerland	\$465,180
Canada	\$440,886
Germany	\$423,898
Malaysia	\$342,151

Exhibit 21.2 Going Rate Approach

- Based on local market rates
- Relies on survey comparisons
- Local nationals (HCNs)
- Expatriates of same nationality ,Expatriates of all nationals
- Compensation based on the selected survey comparison
- Base pay and benefits may be supplemented by additional payments for low pay countries

The Balance Sheet Approach (Exhibit 21.3)

Basic objective is maintenance of home-country living standard, plus financial inducement

Home-country pay and benefits are the foundations of this approach

Adjustments to home package to balance additional expenditure in host country

Financial incentives(expatriate/hardship premium) added to make the package attractive

Most common system in usage by multinational firms

The Balance Sheet Approach

The key characteristics of this approach (the most widely used approach for international compensation) are summarized in Exhibit 21.3. The basic objective is to “keep the expatriate whole” (i.e., maintaining relativity to PCN colleagues, and compensating for the costs of an international assignment) through maintenance of home-country living standard, plus a financial inducement to make the package attractive. The approach links the base salary for PCNs and TCNs to the salary structure of the relevant home country. For example, a U.S. executive taking up a national position would have his or her compensation package built on the U.S. base-salary level rather than that applicable to the host country. The key assumption of the approach is that foreign assignees should not suffer a material loss due to their transfer, and this is accomplished through the utilization of what is generally referred to as the balance sheet approach.

According to Reynolds:

The balance-sheet approach to international compensation is a system designed to equalize the purchasing power of employees at comparable position levels living abroad and in the home-country, and to provide incentives to offset qualitative differences between assignment locations. There are four major categories of outlays incurred by expatriates that are incorporated in the balance sheet approach.

- **Goods and services:** home country outlays for items such as food, personal care, clothing household furnishings, recreation, transportation and medical care.
- **Housing:** major costs associated with housing in the host country.
- **Income taxes:** parent-country and host-country income taxes.
- **Reserve:** Contributes to savings, payments for benefits, pension contributions, investments, education expenses, social security taxes, and so on.

Where costs associated with the host-country assignment exceed equivalent costs in the parent country, these costs are met by both the firm and the expatriate to ensure that parent-country equivalent purchasing power is achieved.

Employee:		Brin Smith	
Position		Marketing Manager	
Country:		New Eupharia	
Reason for change:		New Assignment	
Effective date of change:		1 st February 1998	
Item	Amount	Paid in Australian Dollars	Paid in Local Currency
	A\$ PA	A\$ PA	NE\$ PA
Base Salary	135,000	66,500	101,250
Cost of living allowance	33,750		50,625
Overseas service premium (20%)	27,000	27,000	
Hardship allowance (20%)	27,000	27,000	
Housing deduction (7%)	- 9,450	- 9,450	
Tax deduction	- 51,079	- 51,079	
Total	162,221	60,971	151,875
COLA Index = 150			
Exchange Rate = 1.5			Authorized / Date

Exhibit 21.3 shows a typical spreadsheet for an expatriate assignment using the balance sheet approach.

In this example, an Australian expatriate is assigned to a country called New Euphoria which has a COLA index of 150 relative to Australia, and an exchange rate of 1.5 relative to the A\$. In addition to a Foreign Service premium, a hardship allowance is also payable for this location. Housing is provided by the firm, and a notional cost for this is recognized by a 7 percent deduction from the package, along with a national tax deduction (we discuss taxation later in the lesson). The expatriate can see from this spreadsheet what components are offered in the package and how the package will be split between Australian currency and New Euphoria currency. There are advantages and disadvantages of the balance sheet approach, which are summarized in Exhibit 21.4. There are three main advantages. First, the balance sheet approach provides equity between foreign assignments and between expatriates of the same nationality.

Advantages	Disadvantages
* Equity	* Can result in great disparities
- between assignments	- between expatriates of different nationalities
-between expatriates of the	- between expatriates and localsame nationality nationals
*Facilities expatriate reentry administer	* can be quite complex to
*Easy to communicate to employees	

Exhibit 21.4: Advantages and disadvantages of Balance Sheet Approach

Second, as will be discussed further, repatriation of expatriates is facilitated by this emphasis on equity with the parent country since expatriate compensation remains anchored to the compensation system in the parent country. Third, this approach is easy to communicate, as Exhibit 21.4 illustrates. There are two main disadvantages of the balance sheet approach. First, this approach can result in considerable disparities – both between expatriates of different nationalities and between PCNs and HCNs. Problems arise when international staffs are paid different amounts for performing the same (or very similar) job in the host location, according to their different home base salary. For example, in the Singapore regional headquarters of a U.S. bank, a U.S. PCN and a New Zealand TCN may perform the same banking duties but the American will receive higher salary than the New Zealander because of the differences in U.S. and New Zealand base-salary levels.

As noted above, differences in base-salary levels can also cause difficulties between expatriates and HCNs. Traditionally; this has referred to the problem of highly paid PCNs being resented by local HCN employees because these “foreigners” are perceived as being excessively compensated (and because they are blocking career opportunities for locals). However, feelings of resentment and inequity can also run in the other direction.

For instance, as indicated above, the United States has the highest level of managerial compensation in the world. Thus, a firm that establishes a subsidiary in the United States (or acquires a U.S. business) may find that if it uses a balance sheet approach, its expatriates may be substantially underpaid compared to local American employees. While the logic of the balance sheet states that being tied to the home country assists in repatriation because the expatriate identifies with the home country, research in equity theory suggests that employees do not always assess compensation issues in a detached and rational way.

As we discussed earlier, perceived insufficiency of support may be interpreted as a violation of the psychological contract and have a negative impact on expatriate adjustment and performance. The issue of base- salary differences is also a concern for U.S. employees working for foreign firms operating in the United States. Many non-U.S. multinationals are reluctant to pay high U.S. salaries to U.S. employees who are offered international assignments

(as HCNs in the firm's home-country operations or as TCNs). U.S. employees are equally reluctant to accept the lower salaries paid in the firm's home country. Thus, the balance sheet approach not only can produce disparities, but also may act as a barrier to staff acceptance of international assignments.

A second problem with the balance sheet approach is that while this approach is both elegant and simple as a concept, it can become quite complex to administer. Complexities arise in the areas of taxation, living costs, and differentiating between PCNs and TCNs. Taxation probably causes the most concern to HR practitioners and expatriates (both PCNs and TCNs) since it generally evokes emotional responses. No one enjoys paying taxes and this issue can be very time consuming for both the firm and the expatriate. To illustrate the potential problems, for the U.S. expatriate an assignment and in the United States. This tax cost, combined with all the other expatriate costs, makes some U.S. multinationals think twice about making use of expatriates. It is important to note that Section 911 of the U.S. Internal Revenue Service Code contains provisions permitting a substantial deduction on foreign-earned income, but U.S. expatriates must file with the IRS and usually also with the host-country tax office during their period of foreign service- a requirement more onerous than for some other nationalities who may not be required to declare their total global income to their home-country taxation authority. Multinationals generally select one of the following approaches to handle international taxation:

Tax equalization: firms withhold an amount equal to the home country tax obligation of the PCN, and pay all taxes in the host country.

Tax protection: the employee pays up to the amount of taxes he or she would pay on compensation in the home country. In such a situation, the employee is entitled to any windfall received if total taxes are less in the foreign country than in the home country.

In her view of global compensation, Stuart adds two other approaches: ad hoc (each expatriate is handled differently, depending on the individual package agreed to with the firm), and laissez-faire (employees are "on their own" in conforming to host-country and home-country taxation laws and practices). However, neither of these approaches are recommended. We will focus on tax equalization and tax protection since these are the most common approaches. Tax equalization is by far the more common taxation policy used by multinationals. Thus, for a PCN, tax payments equal to the liability of a home country taxpayer with the same income and family status are imposed on the employee's salary and bonus. The firm typically pays any additional premium or allowances, tax-free to the employees. As multi nationals operate in more and more countries, they are subject to widely discrepant income tax rates.

It is important to note that just focusing on income tax can be misleading because the shares of both social security contribution and consumption taxes are rising in the OECD (Organization for Economic Cooperation and Development) countries. For example, if we look at total tax revenues as a percentage of GDP, the "top five" highest taxation countries are Denmark, Sweden, Finland, Belgium, and France. The United States is 20th, with the other large advanced economies towards the bottom of the list (Japan, 19th; Britain 14th, and Germany, 11th). Many multinationals have responded to this complexity and diversity across countries by

retaining the services of an international accounting firm to provide advice and prepare host-country and home-country tax returns for their expatriates. When multinationals plan compensation packages, they need to consider to what extent specific practices can be modified in each country to provide the most tax-effective, appropriate rewards for PCNs, HCNs and TCNs within the framework of the overall compensation policy of the firm.

International Living Costs Data

Obtaining up-to-date information on international living costs is a constant issue for multinationals. As we noted at the beginning of this unit, the level of local knowledge required in many areas of international HRM requires specialized advice. Consequently, many multinationals retain the services of consulting firms that may offer a broad range of services or provide highly specialized services relevant to HRM in a multinational context. A number of consulting firms offer regular surveys that calculate the COLA index and are undated in terms of currency exchange rates. A recent survey of living costs in selected cities ranked the ten most expensive cities as Tokyo, Reyjavik (Iceland), Geneva, Oslo, Libreville (Gabon), Copenhagen, Berlin, Helsinki, Stockholm, and Munich. The first U.S. city in the index was New York, ranked as the 28th most expensive city; the least expensive city was La Paz (Bolivia) ranked at 90th.

Multinationals using the balance sheet approach must constantly update compensation packages with new data on living costs, an on-going administrative requirement. This is an issue to which expatriate employees pay great attention, and forms the basis of many complaints if updating substantially lags behind any rise in living costs. Multinationals must also be able to respond to unexpected events, such as the currency and stock market crash that suddenly unfolded in a number of Asian countries in late 1997. Some countries, such as Indonesia, faced a devaluation of their currency (the Indonesian rupiah) by over 50 percent against the U.S dollar in a matter of weeks which had a dramatic impact on prices and the cost of living. There is also much debate about what should be in the “basket of goods” that consulting firms use as the basis for calculating living costs around the world.

For example, the British magazine The Economist has developed its own benchmark of living costs based on the cost of a McDonald’s “Big Mac” around the world. There are also considerable disparities in purchasing power around the world.

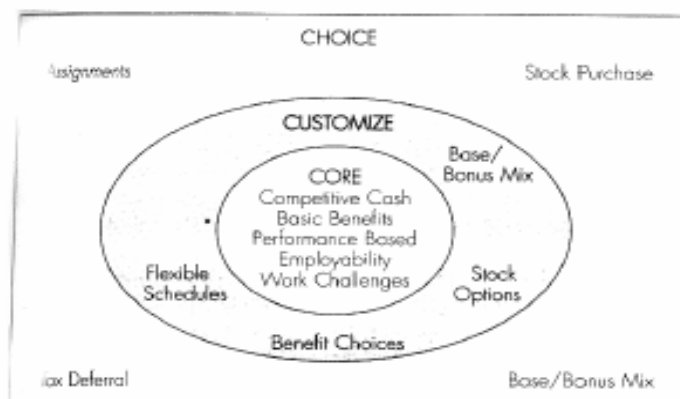


Exhibit 21.5 Purchasing power of working time

For example, while U.S. workers do not have the highest hourly earnings, the purchasing power of their working time is high in terms of less working time required to pay for items such as petrol (gasoline in the U.S.), income tax liability, consumer durables (e.g., a TV set), and food items (e.g., bread and coffee). It is also possible to take a wider view and focus on business costs rather than living costs for expatriates, because the multinational firm is interested in the overall cost of doing business in a particular country as well as the more micro issue of expatriate living costs. A recent study by the Economist Intelligence Unit calculated an index that measures the relative costs of doing business in 27 economies by compiling statistics relating to wages, costs for expatriate staff, air travel and subsistence, corporation taxes, perceived corruption levels, office and industrial rents, and road transport. The “top ten” most expensive countries in terms of business costs in 1997 were:

- | | |
|------------------|--------------------|
| 1. Germany | 6. The Netherlands |
| 2. United States | 7. Sweden |
| 3. Belgium | 8. Australia |
| 4. Britain | 9. Italy |
| 5. France | 10. Singapore |

Germany is the most expensive country overall because of its very high basic wages, while the second most expensive rank for the United States is in large part because of high executive salaries. In general, developed countries rank as more expensive than developing countries because their wages costs are higher.

Differentiating Between PCNs and TCNs.

As we have indicated, one of the outcomes of the balance sheet approach is to produce differentiation between expatriate employees of different nationalities because of the use of nationality to determine the relevant home-country base salary. In effect, this is a differentiation between PCNs and TCNs. Many TCNs have a great deal of international experience because they often move from country to country in the employ of one multinational (or several) headquartered in a country other than their own (e.g., an Indian banker may work in the Singapore branch of U.S. bank). As Reynolds has observed, there is no doubt that paying TCNs according to their home-country base salary can be less expensive than paying all expatriates on a PCN scale (particularly if the multinational is headquartered in a country such as the United States or Germany, which has both high managerial salaries and a strong currency), but justifying these differences can be very difficult. Nonetheless, it is common practice for multinationals to use a home country balance sheet approach for TCNs. Evidently, the reduction in expenses outweighs the difficulty of justifying any pay differentials. However, as firms expand internationally, it is likely that TCN employees will become more valuable and firms may need to rethink their approach to compensating TCNs. As a starting point, multinational firms need to match their compensation policies with their staffing policies and general HR philosophy.

If for example, a firm has an ethnocentric staffing policy; its compensation policy should be one of keeping the expatriate whole (i.e., maintaining relativity to PCN colleagues plus compensating for the costs of international service).

If however, the staffing policy follows a geocentric approach (i.e., staffing a position with the “best person” regardless of nationality) there may be no clear “home” for the TCN, and the firm will need to consider establishing a system of international base pay for key managers paid in a major reserve currency, such as the U.S. dollar or the Deutsche Mark.

This system allows firms to deal with considerable variations in base salaries for managers.

Summary

We outlined the two main approaches to the international compensation (the Going Rate and the balance sheet) and the advantages and disadvantages of each approach. Special problem areas such as taxation, obtaining valid international living costs data, and the problems of managing TCN compensation were also outlined.

Questions That Must Prick Your Mind

What are the various approaches to determining international compensation?

Differentiate between going rate approach and balance sheet approach, listing their respective benefits?

How is the aspect of taxation dealt with in fixing taxation?

Discuss the aspect of international living cost data taking into account some representative nations.

How does IHRM function differentiate PCNs and HCNs in the matter of compensation?

LESSON 24

Repatriation Process

Learning Objectives

1. Issues of Repatriation
2. Phases of Repatriation
3. Post assignment career anxiety
4. Devaluing international experience
5. Coping with new role demands
6. Loss of status and pay
7. Social Factors
8. Effect on partner's career

Introduction

It is evident from the preceding units of course that there have been considerable advances in our understanding and knowledge of the issues surrounding the management of expatriates in terms of recruitment and selection, pre-departure training, and on-assignment support. However, as Exhibit 7-1 indicates, the expatriation process also includes repatriation: the activity of bringing the expatriate back to the home country. It has become more widely recognized by practitioners and academics that repatriation needs careful managing, although this increased attention is somewhat belated. The increasing field-level and anecdotal evidence shows that reentry into the home country presents new problems as the repatriate (returning person) copes with what has been termed re-entry shock, or reverse culture shock. While people frequently expect life in a new country to be different, they may be less prepared for homecoming to present problems of adjustment.

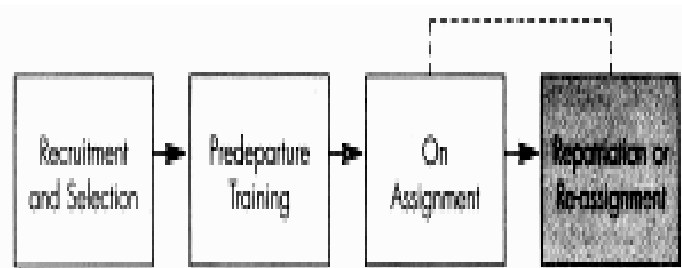


Exhibit- 24.1 Expatriation Includes Repatriation

As a consequence, it can be a traumatic experience for some, even more than what was encountered in the foreign location. From the multinational's perspective, repatriation is frequently considered as the final stage in the expatriation process (as indicated in Exhibit 24.1), but the multi-national's ability to attract future expatriates is affected by the manner in

which it handles repatriation. In this unit, we focus on the key factors associated with re-entry, including how the individual and the receiving work unit handle the repatriation process as well as family adjustment. We also explore how repatriation affects the successful “closure” of the foreign assignment, future career paths within the multinational and staff availability for international assignments, and family readjustment.

Repatriation Process

Typically, on completion of the foreign assignment, the multinational brings the expatriate back to the home country, although it should be noted that not all international assignments end with a transfer home: rather, the expatriate is re-assigned to another international post (shown by the dotted line in Exhibit 24.1). Some expatriates may agree to become part of the multinational’s international team of managers, and thus have consecutive international assignments, as we discussed earlier. Should one of these assignments be with the home-country operations, it will be treated as “just another posting.” At some point, members of this international team, or “cadre,” will face repatriation, and since this may occur at the retirement from- work life stage, there are different concerns that need to be addressed, which are discussed later in this unit. It is possible to divide repatriation into four related phases, as illustrated in Exhibit 24.1

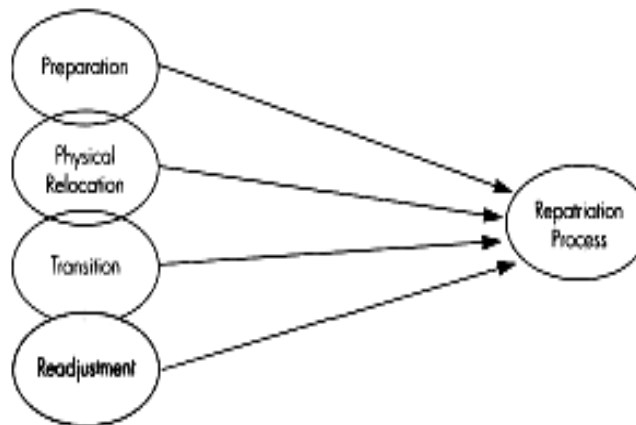


Exhibit 24.1 The Repatriation Process

1. Preparation: involves developing plans for the future and gathering information about the new position. The firm may provide a checklist of items to be considered before the returning home (e.g., closure of bank accounts and settling bills) or a thorough preparation of employee and family for the transfer home. However, there is little evidence in the literature that preparation for repatriation is seen by the multinational to be as important as pre-departure training; at best, there may be some inclusion of repatriation issues in the pre-departure training provided to the expatriate.

2. Physical relocation: refers to removing personal effects, breaking ties with colleagues and friends, and traveling to the next posting, usually the home country. Most multinationals use

removal firms or relocation consultants to handle the physical relocation, both for the movement out and the return home of the employee and family, and this may be formalized in their HR policies. According to Forster, 4 comprehensive and personalized relocation assistance reduces the amount of un-certainty, stress, and disruption experienced by the repatriate and family.

3. Transition: means settling into temporary accommodation where necessary, making arrangements for housing and schooling, and carrying out other administrative tasks (e.g. renewing driver's license, applying for medical insurance, opening bank account). Some companies hire relocation consultants to assist in this phase also.

4. Readjustment: involves coping with reverse culture shock and career demands.

For example, in 1996 Harzing conducted a comprehensive survey of 287 subsidiaries of nearly 100 different multinationals.

LESSON 25

Tutorial

Career Anxiety

Perhaps for the majority of repatriates, the overriding concern is the effect of the international assignment on the person's subsequent career path. The limited research on repatriation indicates that for most expatriates a major reason for accepting the international assignment is its value in terms of career progression. This expectation may be based on: Clear messages sent by top management to the effect that an international assignment is a condition for career progression; that is, verbal or written statements such as: "We are an international company and we need internationally-oriented people who have worked in our international facilities." Comments made by HR or line managers during the recruitment and selection stage; for example, the line manager may suggest to a younger employee: "You should volunteer for that international assignment. It would be a smart career move at this stage in your life." Perceptions of the career potential of the international assignment given the career paths of former expatriates—other people have been promoted upon repatriation so this is perceived to be the norm.

As a consequence, the re-entry position frequently is judged by whether it matches the repatriate's career expectation, particularly when the international assignment has caused considerable family disruption such as a forced break in the career of the accompanying partner or difficulties experienced with the education of the children involved. Put simply, the repatriate wants the "end to justify the means," so that the family unit is fully compensated for the sacrifices it has made in expectation of career advancement. Anxiety over the re-entry position may begin long before repatriation occurs. The expatriate may fear that the period abroad has caused a loss of visibility and isolation from the parent company—as captured in the phrase: "Out of sight, out of mind." The perception may be a function of the degree of autonomy and independence the expatriate and the subsidiary are given by the multinational and the amount of contact that the person has with the home work unit.

A recent survey by Harzing found that expatriates sent to independent subsidiaries are more likely to experience this feeling. As a consequence, the person fears he or she has been forgotten when decisions about promotion are made back at headquarters. The expatriate can also become anxious that the company has not planned adequately, so she or he will be placed in a mediocre or makeshift job. It may be that the multinational is in the process of change—such as restructuring accompanied by job shedding, or in the aftermath of a merger or acquisition. Knowledge of these changes will add to the level of anxiety, particularly if the expatriate does not have a guaranteed job upon repatriation.

Such concerns may affect productivity during the last couple of months of the international assignment as the person contemplates the re-entry process. Upon repatriation, the manager may find that these fears have materialized. Peers have been promoted ahead of the repatriated manager, and the repatriate is placed in a position that is, in effect, a demotion.

For example, one U.S. repatriate is quoted as saying: “I believe I would have moved much higher had I not gone overseas.” The situation may be exacerbated if the repatriate had held a senior position in the foreign location and now finds himself (or herself) at a less senior level. Worse, the repatriate may find that, since there is no suitable position available, she or he is retrenched. This has become of greater concern in the after-math of the recent restructuring undertaken by many multinationals, and more companies alter their policies regarding the guarantee of a re-entry position. As a 1997 survey by The Conference Board of 152 HR expatriate managers from U.S., European, and Asian multinationals found, re-entry into now-smaller home operations is more problematical:

Through the mid-1980s, most companies offered a return guarantee to expatriates, ensuring a position at the same level within the organization. Since then, however, the trend has been for companies to offer a general guarantee without specifying the level of the position upon repatriation. It should be noted that the Conference Board survey found a difference between continental European multinationals and those from the United States and United Kingdom.

Twenty-three continental European companies (74 percent) provided written guarantees of a return position, compared with 8 (50 percent) of the U.K. companies and 95 (38 percent) of the U.S. companies in the sample. This difference is supported by other studies. The Tung—Arthur Andersen 1997 survey of 49 North American firms reports that the majority (almost 60 percent) did not guarantee a position at home upon successful completion of the international assignment. In her study of international HR practices in German and U.K. firms, Marx found that the major country difference was the “guaranteed job on return category.” The majority of German firms offered a guaranteed job upon return from the foreign assignment, whereas the converse was reported by the U.K. firms—that is, the majority of U.K. firms admitted that they were not able to offer jobs upon repatriation. This difference is supported by other studies. The Tung—Arthur Andersen 1997 survey of 49 North American firms reports that the majority (almost 60 percent) did not guarantee a position at home upon successful completion of the international assignment.

In her study of international HR practices in German and U.K. firms, Marx found that the major country difference was the “guaranteed job on return category.” The majority of German firms offered a guaranteed job upon return from the foreign assignment, whereas the converse was reported by the U.K. firms—that is, the majority of U.K. firms admitted that they were not able to offer jobs upon repatriation. Downsizing has resulted in slimmer and flatter organizations with fewer openings for repatriates; continental European firms have perhaps found it more difficult to implement, or are just embarking on such restructuring. The 1997-98 Price Waterhouse survey reports that the number of multinationals giving written or unwritten guarantees has decreased from 69 percent in the 1995 survey to 46 percent. Of course, the sample included European subsidiaries of U.S. multinationals, as well as U.K. multinationals, which may distort the picture a little but, nevertheless, more European firms are expanding into non-European markets and closing facilities in Europe, which means fewer positions for repatriates.

Should this trend of not guaranteeing re-entry positions continue, it is likely to have an adverse impact on staff availability? The implicit message being sent to personnel is that an international assignment is a high-risk career strategy, which is a powerful deterrent for potential, high caliber expatriates. There is the added danger that the policy of non-guarantee of a re-entry position may serve to reinforce the career anxiety of expatriates currently on foreign assignments, thus affecting their adjustment, productivity, and commitment to the multinational. Marx found that for the German firms in her sample, “attracting people to go abroad” was the fourth most frequently reported problem. German HRM managers included “worry about missing out on career prospects whilst working abroad” as one of the barriers to mobility. 17 Other European firms are reporting similar difficulties: Forty-eight percent of the European firms in the Price Waterhouse survey referred to above re-ported experiencing problems with attracting employees for international assignments. Among the reasons cited for this situation was “job security/availability upon repatriation.”

Devaluing the International Experience

Career anxiety is compounded if the re-entry position does not appear to be connected with the person’s international experience. Often, repatriates find themselves in “holding” positions, such as a task force or project team, in temporary positions, engaged in duties that do not appear to exploit their newly gained, international expertise. The feeling voiced by many repatriates is echoed in the - following comment by an Australian repatriate: “You gain a lot of experience, but it is dismissed here.” A similar view was related by a Norwegian repatriate: “The job I returned to was not satisfactory.... I felt strongly overqualified and it took three-quarters of a year before I got a relevant job.” In these situations, repatriates become an underutilized resource, programs that exploit the international experience and cosmopolitan view that the expatriate has gained while abroad do not exist, and the return position is frequently a lateral move rather than a promotion.

Such treatment was highlighted by Tung’s earlier study. 22 It remains evident in the re-cent Conference Board, Tung—Arthur Andersen, and. Price Waterhouse surveys referred to above. The perceived degrading of the repatriates recent experience may be coupled with negative career progression; that is, the re-entry position is a less challenging job with reduced responsibility and status than’ that held either during the international assignment or prior to the period abroad. This combination can have a demotivating effect on the repatriate, as well as affect the multinational’s ability to attract potential expatriates, as discussed earlier. The devaluing of the international experience has been linked to repatriate turnover.

For example, Stroh found that the best predictors of repatriate turnover were whether the company had a career development plan, and whether the company was undergoing turbulence, such as downsizing. “Organizations that were more likely to plan for the repatriation of their employees and that provided career development planning for them were more likely to have lower rates of repatriate turnover.” Black, Gregersen, and Mendenhall²⁴ argue that work adjustment has an important impact on a person’s intent to stay with the organization. Career expectations have been discussed in relation to expatriate adjustment and performance, but it is easy to see how the repatriate may evaluate his or her treatment upon re-entry and interpret his or her treatment as a violation of the psychological contract. This perception may stem from the

belief that the person's performance abroad warrants promotion; that signals were given by the organization that effective performance in the international assignment would result in career advancement. When the expected promotion does not eventuate, the repatriate may feel there is no option but to exit the organization.

Coping With New Role Demands

Given the above factors, it is not surprising that re-entry poses a challenge for the repatriate and frequently reveals a mismatch of expectations, which affect the repatriate's perception of the new role, especially if an anticipated promotion does not materialize. As we discussed earlier, effective role behavior is an interaction between the concepts of the role, the interpretation of expectations, the person's ambitions, and the norms inherent in the role. The literature suggests that readjustment problems may occur because, although the repatriate is attempting to function back in the home country, his or her role conception remains influenced by that of the foreign assignment

The person has been operating for some time in the foreign location, and consequently may have made significant changes to his or her role behavior. For example, an American working in Indonesia may have altered his participative managerial style to one more authoritarian based on messages sent by the foreign subsidiary, or it could be that the time in the Indonesian subsidiary has reinforced an authoritarian tendency. Conflict is likely to occur if the repatriate does not resume the managerial behavior appropriate to the U.S. context upon return. Torbiorn²⁷ contends that as long as the repatriates "identity and basic values are still bound up in the culture of the home country; the strain of adjusting to conditions at home will be slight. " However, while the repatriate may retain the role conception and the cultural norms regarding behavior appropriate to that role, his or her ambitions may color the interpretation of expectations.

In this sense, the foreign subsidiary's influence may linger and what is communicated to the parent company, in the form of role behavior, will not conform to the parent's expectations. The role sender, however, may not recognize the cultural and corporate boundaries that affect the repatriates role conception and role behavior, thus unwittingly contributing to readjustment problems.

While research in this area is limited, in their study of 125 repatriated managers from four large U.S. multinationals, Black and Greg-ersen²⁸ found that role clarity, rather than role conflict, was significantly related to work adjustment. Discussing these findings, the authors explain that role conflict may be an important factor in expatriate assignments due to conflicting role signals between home office and the foreign subsidiary, whereas role conflict upon return most likely stems from conflicting job signals from different individuals within the home operation.

They add, "While there are advantages in providing jobs that are clear and free from role conflicts, it is perhaps more important for firms to provide clear jobs upon repatriation." In other words, role clarity emerges as an aspect of healthy readjustment. They add, "While there are advantages in providing jobs that are clear and free from role conflicts, it is perhaps more important for firms to provide clear jobs upon repatriation." A further contribution to our

understanding of repatriate readjustment comes from Black and Gregersen's finding regarding role discretion. Role discretion refers to the freedom to adjust the work role to fit the individual, making it easier for the person to utilize past, familiar behavior, thus reducing the level of uncertainty in the new job that assists adjustment. They found from their sample that role discretion had a positive impact on adjustment—a finding that appears to confirm earlier studies on the relationship between role discretion, role clarity, and work adjustment. In a later survey of Finnish repatriates, Gregersen found fairly consistent results in terms of role clarity and role discretion with those of American repatriates.

He comments:

The consistent results between American and Finnish managers suggest that greater role discretion upon repatriation seems to facilitate repatriation adjustment. In addition, the importance of role clarity to work adjustment suggests that Finnish and American firms may want to provide clearer jobs upon Ortb repatriation. However, it would appear that, for North American companies at least, role clarity and role discretion remains a repatriation issue. It emerged as important in Baughn's³¹ survey of U.S. repatriates.

The category "reduced responsibility and autonomy on the job" was ranked second, after "career advancement," as a major concern upon repatriation for respondents in the Tung Arthur Andersen survey. These findings lend added support to the combining of role clarity, role conflict, and role discretion into a category 'Job Variables' in the theoretical model of repatriation developed by Black, Gregersen, and Mendenhall.

The above studies suggest that the corporate boundary in Exhibit 24.1 may be stronger than the "cultural boundary," in terms of the repatriate role. Limited support for this conclusion also may be drawn from the results of a recent U.K. study. Forster³³ surveyed 124 expatriates who had returned to the United Kingdom in the preceding twelve months.

Analysis of the responses indicated five predictors for repatriation maladjustment (in ranked order): length of time abroad, unrealistic expectations of job opportunities in the home company, downward job mobility, reduced work status, and negative perceptions of the help and support provided by employers during and after repatriation. Job-related factors were found to be more important than non work and family factors. A point found significant in the above studies, which is not directly addressed but may help to explain the interrelationships between the variables, is that the period abroad does alter the person.

The experiences of living and working in another country can affect the person's self-efficacy (the degree to which an individual believes that she or he can execute a set of behaviors). As well, the expatriate position commonly involves a more demanding job position. Learning how to successfully cope with the various challenges encountered during the foreign assignment may give the person more self-confidence, along with a broader perspective. These changes may be subtle for some people; for others they can be profound—and may be influenced by factors such as length of time spent abroad, country of assignment, and individual differences such as age and personality. As a result, the re-entry shock experienced by the repatriate may be as much a function of the degree to which the person has altered, as to the changes that have occurred in the home country, as indicated in Exhibit 21.4

The period of time spent abroad is an important aspect. The longer the person is away from the home country, the more likely there will be readjustment problems upon return.

Another contributing factor may be the length of time that the repatriate is kept in a so-called “holding pattern,” as mentioned earlier. This may be acceptable as an interim measure, but the longer the repatriate is treated as temporary, the more likely he or she is to become anxious about the future, and have less commitment to the home work unit and the parent organization. Other workplace changes may affect readjustment. The repatriate often encounters changes in the formal and informal information channels in the home organization, particularly if there has been widespread restructuring and downsizing. Technological advances in the multinational may render the repatriates functional skills and knowledge “out-dated. A Norwegian repatriate described his reaction: “Everything had changed.... I had inadequate technological knowledge on, for instance, PC systems.”

Unless there was sufficient contact with the expatriate during the international assignment, the person will be unprepared for these changes. When coupled with other job-related problems, these changes make work adjustment a difficult process.

Loss of Status and Pay

Usually, the international assignment is a form of promotion. It carries greater autonomy, a broader area of responsibility (because of the smaller size of the international subsidiary) and, at the top management level, a prominent role in the local community. The result is higher status. Some expatriates use the term kingpin to describe their positions abroad. Upon return, the repatriate is expected to resume her or his position within the home company—with the loss of status and autonomy. In effect, the repatriate is treated as just another company executive. This shift may cause readjustment problems.

For example, a repatriate can find that, whereas in the foreign operation he or she was the key, decision maker, now he or she has to seek permission from a superior. One Australian repatriate described this feeling: “Over there, you are the big fish in the small pond. Back home, you return to being the small fish in a big pond.” Compounding the problem is the loss of expatriate premiums.

As Conway states, “More commonly, employees are brought home to resume life on a scale that may be significantly less comfortable than what they had grown used to abroad. Pay is usually lower in absolute terms.” A similar finding is reported by the Tung—Arthur Andersen survey referred to earlier. However, in their study of 21 U.S. firms, Napier and Petersen found that most of the repatriates in their sample felt that their personal finances were better after the assignment than before, even though they were not as favorable as before the international assignment. Napier and Petersen explain that the total compensation package received while on assignment was greater than before, thus allowing the person to return to the United States with increased savings. Another contributing factor is that the returning manager may no longer be able to afford to buy a home similar to the one sold a few years before. A U.S. study suggests that the current practice of providing expatriates with better housing than they had at home may contribute to repatriation problems; that is, a drop in the standard of housing conditions has a negative impact on the adjustment of U.S. repatriates. This creates somewhat of a dilemma for U.S. HR managers. As discussed previously, the amount of support provided for the expatriate

and family is critical to adjustment and intent to stay, but may have a negative effect on re-entry.

Social Factors

The familiar surrounds of the home environment may ease the transition, or at least the cultural adjustment will not be as demanding as that confronted in the foreign country. However, the international experience can distance the repatriate, and his or -her family, socially and psychologically. If the expatriate position gave the person a high profile, involving interaction with the social and economic elite, the return home may bring with it some measure of social disappointment, thus reinforcing the kingpin syndrome. The financial loss of the compensation premium, housing subsidy, and related benefits can exacerbate these feelings. It must be stressed here that where spouses, partners, and children are involved each family member is experiencing his or her own readjustment problems. For some returnees re-entry is a shock. It is as if they had pressed the “pause” button as they flew out of the country and expected life at home to remain in the “freeze frame.”

Re-entry reminds them that life is not static. As a coping behavior in the foreign location, others may have glamorized life back home and now have to come to terms with reality—to accept the negative as well as the positive aspects of home. For example, the foreign country may have appeared more expensive in relative terms, but upon repatriation, the family is confronted with a higher level of inflation in the home country than was previously the case. Conversely, life at home may now seem dull and unexciting, and the family may begin to glamorize the life they left behind in the foreign location. These reactions can be compounded if the family income has been reduced upon repatriation. Forty-five percent of the HR professionals responding to the Conference Board survey mentioned earlier reported that the majority of expatriates experienced a fall in income with the removal of the compensation benefits received while abroad.

Of course, the income level depends on whether the spouse or partner has been able to work while in the foreign location, and how quickly she or he is able to find a suitable job upon repatriation. Naturally, impressions generated about changes in the home country may depend on how effectively the family has been able to keep up-to-date with events back home. One could expect that the coverage’s by satellite television news channels such as CNN and BBC World, and global-oriented newspapers, make it easier for U.S. and U.K. expatriates to follow their home events than those coming from smaller countries (e.g., Australia or Norway). The Internet has the potential to provide an avenue for expatriates to stay in touch. Of course, the usefulness of media services depends on the availability of, and access to, television cable networks and computer facilities in the foreign location.

Reestablishing social networks can also be difficult, especially if the family has been repatriated to a different state or town in the home country. Families who return to their previous domestic locations often find that friends have moved away; repatriated spouses or partners may find their friends have re-entered the workforce and are no longer available for social activities. There can be a sense of loss as the level of attention and support from the multinational is withdrawn: “The phone does not ring. We went from a very close [expatriate]

community to here where everyone is very busy with their own lives.” Many repatriates report that people show little interest in hearing about their expatriate experiences, which can make conversation uncomfortable. As one U.S. repatriate relates: “It was very difficult discussing my experiences with my co-workers and friends because Americans refuse to accept that life somewhere else could be as good or better than in the U.S.A.”

Children may also find re-entry difficult. Coming back to school, attempting to regain acceptance into peer groups, and being out-of-touch with current slang, sports, and fashion can cause problems. However, there are few reported studies in the literature that focus on children’s repatriation. An exception is a study of 40 Japanese children that found that the children faced difficulties reintegrating into both their peer groups and the Japanese educational system. One can speculate though that the more difficult the re-entry processes for the children, the greater the “spill-over” effect for the repatriate.

Effect on Partner’s Career

Partners encounter difficulties in re-entering the workforce, particularly if the partner has not been able to work outside the home prior to, or during, the foreign assignment, but now desires to find outside ‘ employment—either as part of a reentry coping strategy or due to altered family circumstances. Negative experiences during the job search may affect the partner’s self-worth, compounding the readjustment process, and even causing tension in the relationship. For those who held positions prior to the international assignment, difficulties in re-entering the workforce may depend on occupation, length of time abroad, unemployment levels in the home country, and personal characteristics such as age and gender. There is a dearth of research into the effects of the foreign assignment and repatriation upon the partner’s career, and many questions surrounding this issue remain unexplored.

For instance, · Do new employers consider the value of the time abroad to “compensate” for the forced career disruption? The conference Board survey reports “That being a ‘trailing’ spouse during the expatriate’s international assignment constitutes a damaging gap in their employment history.”⁴⁸ · Have those partners who were able to work during the foreign assignment found employment in career-related jobs and been able to progress upon repatriation? · Do male “trailing” partners face different challenges upon repatriation than do females?

In one of the few reported studies into dual-career expatriates, Harvey⁴⁹ found a difference between female expatriate managers’ expectations prior to and after expatriation, exposing the need for support for the male “trailing” partner. The international assignment was the focus of Harvey’s study, but one could assume that the same results would hold true upon repatriation. Readjustment of the expatriate, whether male-led or female-led, may be linked with concerns that the foreign assignment might have on the partner’s career. Given that dual-career couples are on the increase and that more females expect international assignments, the issue of the partner’s career is likely to become a major factor determining staff availability for future international assignments.

The 1997-98 Price Waterhouse survey indicates that some companies are providing accompanying partners with job finding assistance upon repatriation (21 percent indicated job finding assistance, 9.8 percent counseling, and 6 percent financial assistance for retraining). In summary, re-entry shock can produce a U-Curve similar to that examined in Chapter 3 in terms of adjustment to the host location. Indeed, it is sometimes referred to as the W-Curve to include re-entry shock upon repatriation. As can be seen from the case in Exhibit 24.1, job-related and social factors may combine to create a somewhat volatile situation that may lead to the repatriates exit from the multinational.

CASE STUDY

Re-Entry Problems

John Handel had been back in his hometown for two months after an exciting three years working in the Japanese subsidiary of a U.S. multinational. As he sat in his empty office looking out at the city skyline, John reviewed his situation. Well, he had to admit, for him it had been an exciting and challenging time since his position there as finance manager had been a promotion. More importantly, it had brought him in contact with different work approaches and procedures and he had interacted with American expatriates from headquarters as well as local Japanese. Even though his previous position had been in the Asia Pacific Regional Office, it had not provided him with the same exposure as he enjoyed in Japan. John knew that he had gained valuable experience and self-confidence as a result. It had not been all excitement though for the family. Anne, his wife, did not complain but John knew that she faced a difficult time because of his international assignment. One reason was because his two teenage children had to attend the International School located at a considerable distance from the Japanese subsidiary, which meant they only came “home” on weekends.

It made life particularly lonely for Anne, who was not working in Japan. She did admit that she often missed her work as a pathologist. Anne was having trouble back home finding employment—her previous department in a local medical school had been closed down due to reduced government funding. Both children enjoyed the international environment at the school, and had adjusted better than John had hoped. Coming back to Australia though was proving to be traumatic. His elder son had not been accepted into his chosen university course due to non-recognition of the accreditation of the International School—or at least that was what Peter claimed. His younger son, Jason, wasn’t adjusting easily either. Dinner last night had not been a happy occasion, but tonight would be worse, John knew. How was he going to explain that the family had made sacrifices to further his career that was now going nowhere? His repatriated position back to the Regional Office was badly timed, to say the least.

Headquarters in the States had decided to reorganize the entire global operation and, as a result, the Regional Office was to be upgraded to a Regional Headquarters, and relocated in Japan. John knew that it made sound business sense—most of the Asian-Pacific activity was centered around the Japanese facility and its South-East Asian and Chinese markets. To retain its regional headquarters in Australia on the grounds of sentiment was unthinkable in such a highly competitive industry. “But where does that leave me? All the work is being transferred northwards. My position will now be filled by someone from either headquarters or, more

probably, from Japan. My boss made that quite clear. I could not have asked the family to move back anyway,” thought John. The situation was compounded by the news today that several of his colleagues in the regional office had been made redundant. “My acceptance of the international assignment has been career suicide—and not just for me,” John thought. “I will have to see if there are positions available elsewhere if I am going to be able to face Anne and the boys tonight. Surely another company will value my international experience.”

Summary

It has become more widely recognized by practitioners and academics that repatriation needs careful managing, although this increased attention is somewhat belated. On completion of the foreign assignment, the multinational brings the expatriate back to the home country, although it should be noted that not all international assignments end with a transfer home— rather, the expatriate is re-assigned to another international post.

As with cross-cultural adjustment, the re-entry process is a complex interaction of several factors. Which may be grouped the major factors under two headings: Job-Related Factors and Social Factors. The international experience can distance the repatriate, and his or -her family, socially and psychologically. If the expatriate position gave the person a high profile, involving interaction with the social and economic elite, the return home may bring with it some measure of social disappointment, thus reinforcing the kingpin syndrome.

The Questions that must prick your mind

1. What is re-entry shock? Why does it happen? How does one cope with it? What should an MNE do to address it?
2. What factors contribute to re-entry shock?
3. How can multinationals assist dual-career couples’ repatriation?
4. Discuss the case presented in Exhibit 25.1 What steps should the HR department concerned have taken to assist in John’s repatriation?

LESSON 26

Multinational Responses on Repatriation

Learning Objective

1. Responses to the MNEs to the different issues of repatriation
2. Topics covered under repatriation
3. Mentoring Program in MNEs

Introduction

Early studies into the issue of repatriation indicated that it was some-what neglected by multinationals. For example, Mendenhall, Dunbar, and Oddou concluded that U.S. human resource professionals might be unaware of the challenges facing repatriated managers. Commenting on the results of his 1989 study Harvey noted that: Even though many executives have experienced difficulties upon repatriation, [U.S.] multinational companies have seemingly not addressed the issues related to repatriation with the same level of interest as preparing executives for expatriation. While there appears to have been some increase in the level of aware-ness, the 1997 Conference Board survey reported that only 27 percent of responding firms indicated they held re-entry sessions to discuss issues such as career objectives, performance, and plan for re-entry; the majority of these firms indicated that they waited until 90 days or less be-fore initiating such sessions.

In 1989 Harvey surveyed members of the Institute for International HRM of the U.S. Society for Human Resource Management to ascertain U.S. firms' current approaches to repatriation. He found that 31 percent of U.S. firms offered some form of repatriation program. Harvey's findings are comparable with those of the 1997 Conference Board survey with 22 percent of the U.S. multinationals, 25 percent of U.K. multinationals, and 5 percent of continental European multinationals offering formal repatriation programs. Harvey's survey found that 35 percent of the programs included the spouse, whereas only 19 percent of firms in the Conference Board survey indicated spouse programs. One must add a note of caution here. The Conference Board report does not break down the figures by country so it is not possible to compare the U.S. data on spouse and family inclusion with that of Harvey's earlier study. Harvey asked those firms that indicated they did not have a repatriation training program to give reasons for the lack of such a program. The most frequently mentioned reasons were:

- Lack of expertise in establishing a program (47 percent);
- Cost of program to train repatriates (36 percent);
- No perceived need for repatriation training by top management (35percent)

Harvey Concluded: The lack of acceptance of repatriation programs among the survey respondents tends to illustrate the absence of organized efforts by large sophisticated multinationals to assist expatriated personnel.... The almost total lack of attention to family

members would appear to be one of the most egregious errors being made. One reason for this oversight may be that repatriation problems are not dramatic, or visible, or readily identifiable as expensive. By its very nature, an incidence of so-called expatriate failure is likely to attract attention within the home work unit; whereas a repatriate exiting the organization can become just another statistic, unless the multinational has a policy of separating out repatriates from the general employee turnover numbers. Black and Gregersen calculate that a U.S. multinational spends around \$1 million on each expatriate over the duration of a foreign assignment.

They argue that if approximately 25 percent of employees exit the firm within a year of repatriation it “represents a substantial financial and human capital loss to the firm, especially if the skills, knowledge, and experience that the individual gains are important to the firm and scarce in the internal or external labor markets. While there is no simple, quick solution, preparing the repatriate and family for re-entry appears to have some value. The potential for mismatch of expectations regarding the future may be addressed as part of pre-repatriation training before the return, and discussed during re-entry counseling sessions (sometimes referred to as debriefing) between the receiving organization in the home country and the repatriate. In today’s parlance, such sessions would enable both parties to “take a reality check.”

What should be covered in formal repatriation programs?

Mentoring Program

Some companies assign the expatriate a mentor (also referred to as a company contact, sponsor, or “godfather”). The mentor is usually in a more senior position than the expatriate, from the sending work unit, and knows the expatriate personally. The rationale behind the use of a mentor is to alleviate the “out-of-sight, out-of-mind” feeling discussed earlier through the provision of information (e.g., workplace changes) on a regular basis, so that the expatriate is more prepared for conditions faced upon re-entry. A mentor should also ensure that the expatriate is not forgotten when important decisions are made regarding positions, promotions, and so on.

Topics Covered by a Repatriation Program

Preparation, physical relocation, and transition information (what the company will help with)
Financial and tax assistance (including benefit and tax changes, loss of overseas allowance)
Re-entry position and career path assistance
Reverse culture shock (including family disorientation)
School systems and children’s education (including adaptation)
Workplace changes (such as corporate culture, structure, decentralization)

- Stress management, communication-related training

Establishing networking opportunities
Help in forming new social contacts
The Conference Board survey found that 26 percent of respondents provided mentors for their expatriates, although this was related to various organizational factors:

Size of expatriate workforce: Firms with more than 250 expatriates were more likely to assign mentors (43 percent) than those with 55-100 expatriates (15 percent).

Work unit responsible for the expatriate: Mentors are more likely if corporate HR formulates expatriate policy (in 35 percent of cases), and when the expatriate is managed by a separate international assignments unit (in 41 percent of cases) rather than at the divisional level (18 percent).

Nationality of responding company: Thirty-five percent of continental European firms reported the use of mentors compared to 20 percent in U.S. firms. Over a quarter of the European-based firms in the 1997-98 Price Waterhouse survey use a career mentor/sponsor system, with a further 19 percent indicating that such a scheme would be introduced in the future.

It is reasonable to suggest that the practice of mentoring has to be managed to be effective. For example, what happens when the mentor retires or leaves the firm (two likely events in a multinational undergoing radical restructuring)? Who monitors the mentor's performance? It may be that having a mentor assists the expatriate adjust during the foreign assignment but, by itself, does not necessarily help in re-entry. Stroh concludes that her study "did not show that having a mentoring program would make an independent contribution to repatriate retention rate," although there was a suggested link between assignment of a mentor, career development, and repatriate retention. In other words, an effective mentor is likely to alert the firm of the eminent return of the repatriate and thus affect the re-entry position, or the practice is part of a managed repatriation program. An interesting finding of the Price Waterhouse survey is that, where a mentoring system is in place, there has been a significant increase in the number of firms that clearly define mentor duties (69 percent in contrast to 46 percent in 1995). The duties reported include:

Maintaining contact with the expatriate throughout the assignment; Ensuring expatriates are kept up-to-date with developments in the home country; Ensuring expatriates are retained in existing management development programs; and Assisting expatriates with the repatriation process, including helping them with a repatriation position. The survey, however, does not report how these mentors were monitored.

Conclusion

This Unit has been concerned with the repatriation process. One may conclude that in re-entry readjustment, the broader socio cultural context of the home country takes a backstage position—unlike in the expatriation adjustment phase, where the foreign culture can be overwhelming. Cultural novelty has been found to affect adjustment and, for the majority of repatriates, coming home to the familiar culture may assist in readjustment. Gregersen, for example, argues that expatriates with more extensive international experience, in more significantly different cultures, are the group most likely to experience reverse culture shock. In-deed, given the more profound effect that job-related factors appear to have, re-entry shock is perhaps a more accurate term to describe the readjustment process experienced upon repatriation. It is evident that the way the multinational handles repatriation has an impact on staff availability for international assignments. Re-entry positions signal the importance given to international experience.

If the repatriate is promoted or given a position that obviously capitalizes on international experience, other members of the multinational interpret international assignments as a positive career move. On the other hand, if the multinational does not reward expatriate performance, tolerates high turnover among repatriates, or is seen to terminate a re-patriate's employment on re-entry, it sends a clear message—its workforce may interpret the acceptance of an international assignment as a high-risk decision in terms of future career progression within the organization. The multinational's ability to attract high-caliber staff for international assignments is thereby lessened and can have a long-term negative effect on its activities. Viewing repatriation as part of the expatriation process, as suggested in Exhibit 25.1, should remind those responsible for expatriation management of the need to prepare repatriates for re-entry. While recognition of the importance of repatriation programs is increasing, and companies are experimenting with other measures such as mentors, other avenues could be explored (e.g., using repatriates as an important information source).

Inviting repatriates to assist in developing repatriation programs may contribute to relevant and effective policies. It may also have a desirable side-effect upon readjustment, simply by giving participants a sense that they are not an underutilized resource, and that the firm recognizes they can make a valuable contribution to the expatriation process. Conway makes a further point that the trend towards using external consultants to handle relocation may preclude the multi-national from obtaining relevant feedback, particularly from repatriates. It is, naturally, important that wherever possible the multinational ensures equity of treatment between PCNs, TCNs, and HCNs. While the focus of this chapter has been repatriation in the general sense, the issue of career expatriates should be raised. The repatriation literature reviewed in preparation for this unit makes little mention of the process of managing the return of those who have worked outside their home countries for lengthy periods of time. For this strategically important group of employees, at some point repatriation may coincide with retirement. One is left with the impression that those who return to retire in their home country are no longer of concern to their firms. However, one could expect that these individuals would require special counseling to assist not only the transition back to the home country, but from work to retirement as well.

Summary

Early studies into the issue of repatriation indicated that it was some-what neglected by multinationals. While recognition of the importance of repatriation programs is increasing, and companies are experimenting with other measures such as mentors.

The questions that must prick your mind

1. What are the elements of a good mentoring system?
2. What aspects would you include in a pre-repatriation program?

International Labor Relations

Learning Objectives

1. Historical differences in Union structures
2. Key issues in international labor relations
3. Labor relations policies and practices of MNEs
4. The degree of inter-subsidiary production integration
5. Nationality of ownership of the subsidiary
6. International Human Resource Management Approach
7. MNE prior experience in Labor relations
8. Subsidiary characteristics
9. Characteristics of home product market
10. Management Attitudes towards unions.

Introduction

Before we examine the key issues in labor relations as they relate to multinational firms, we need to consider some general points about the field of international labor relations. First, it is important to realize that it is difficult to compare industrial relations systems and behavior across national boundaries; a labor relations concept may change considerably when translated from one industrial relations context to another.

The concept of collective bargaining, for example, in the United States is understood to mean negotiations between a labor union local and management; in Sweden and Germany the term refers to negotiations between an employers' organization and a trade union at the industry level. Cross-national differences also emerge as to the objectives of the collective bargaining process and the enforceability of collective agreements. Many European unions view the collective bargaining process as an ongoing class struggle between labor and capital, whereas in the United States union leaders tend toward a pragmatic economic view of collective bargaining rather than an ideological view.

Second, it is generally recognized in the international labor relations field that no industrial relations system can be understood without an appreciation of its historical origin. As Schregle has observed, A comparative study of industrial relations shows that industrial relations phenomena are a very faithful expression of the society in which they operate, of its characteristic features and of the power relationships between different interest groups. Industrial relations cannot be understood without an understanding of the way in which rules are established and implemented and decisions are made in the society concerned. An interesting

example of the effect of historical differences may be seen in the structure of trade unions in various countries.

Poole has identified several factors that may underlie these historical differences:

- The mode of technology and industrial organization at critical stages of union development;
- Methods of union regulation by government;
- Ideological divisions within the trade union movement;
- The influence of religious organizations on trade union development and
- Managerial strategies for labor relations in large corporations.

Great Britain	general, craft, industrial, white-collar, public sector
Japan	enterprise
The Netherlands	religious, conglomerate, white-collar
Norway	industrial, craft
Sweden	industrial, craft, white-collar and professional
Switzerland	industrial, craft, religious, white-collar
United States	industrial, craft, conglomerate, white-collar
West Germany	industrial, white-collar
Great Britain	general, craft, industrial, white-collar, public sector
Japan	enterprise
The Netherlands	religious, conglomerate, white-collar
Norway	industrial, craft
Sweden	industrial, craft, white-collar and professional
Switzerland	industrial, craft, religious, white-collar
United States	industrial, craft, conglomerate, white-collar
West Germany	industrial, white-collar

As Exhibit 27.1: shows, union structures differ considerably among Western countries.

These include industrial unions, which represent all grades of employees in an industry; craft unions, which are based on skilled occupational groupings across industries; conglomerate unions, which represent members in more than one industry; and general unions, which are open to almost all employees in a given country. These differences in union structures have had a major influence on the collective bargaining process in Western countries. Some changes in union structure are evident over time; for example, enterprise unions are increasingly evident in industrialized nations. Enterprise unions are common in Asia-Pacific nations, although there are national variations in their functions, and in the proportion of enterprise unions to total Unions. The less one knows about how a structure came to develop in a distinctive way, the less likely one is to understand it. As Prahalad and Doz note, the lack of familiarity of multinational managers with local industrial and political conditions has sometimes needlessly worsened a conflict that a local firm would have been likely to resolve.

Increasingly, multinationals are recognizing this shortcoming and admitting that industrial relations policies must be flexible enough to -adapt to local requirements. This is evidently an enduring approach, even in firms that follow a non-union labor relations strategy where possible, as Exhibit 8-2 points out: Key Issues In International Labor Relations The focus of this unit is on the labor relations strategies adopted by multinationals rather than the more general topic of comparative labor relations. A central question for labor relations in an international context is that of the orientation of multinational firms to organized labor. Labor Relations Policies and Practices of Multinational Firms because national differences in economic, political, and legal systems produce markedly different labor relations systems across countries, multinationals generally delegate the management of labor relations to their foreign subsidiaries. However, a policy of decentralization does not keep corporate headquarters from exercising some coordination over labor relations strategy. Generally, corporate headquarters will become involved in or oversee labor agreements made by foreign subsidiaries because these agreements may affect the international plans of the firm and/or create precedents for negotiations in other countries. Further, Marginson, Armstrong, Edwards, and Purcell found that the majority of the firms in their study monitored labor performance across units in different countries.

Comparison of performance data across national units of the firm creates the potential for decisions on issues such as unit location, capital investment, and rationalization of production Capacity. The use of comparisons would be expected to be greatest where units in different countries undertake similar operations. Much of the literature on the labor relations practices of Multinationals tends to be at a more cross-national or comparative level. There is, however, some research on labor relations practices at the firm level. Empirical research has identified a number of differences in multinational approaches to labor relations. For example, a series of studies by Hamill found that U.S. firms were less likely than their British counterparts to recognize trade unions, preferred not to join employer associations, had more highly developed and specialized personnel departments at plant level, and tended to pay higher wages and offer more generous employee fringe benefits than local firms. Marginson, Arm-strong, Edwards, and Purcell investigated the potential consequences of firm strategies for the management of labor, using a 1992 survey of multinationals operating in Britain. They found a tendency for strategic decisions that affect the interests of employees to be made beyond national jurisdictions. Indeed,

a number of studies have examined differences in the propensity of multinational headquarters to intervene in, or to centralize control over, matters such as industrial relations in host locations. Multinational headquarters involvement in labor relations is influenced by several factors, as detailed below. The Degree of Inter-Subsidiary Production Integration According to Hamill, a high degree of integration was found to be the most important factor leading to the centralization of the labor relations function within the firms studied. Labor relations throughout a system become of direct importance to corporate headquarters when transnational sourcing patterns have been developed; that is, when a subsidiary in one country relies on another foreign subsidiary as a source of components or as a user of its output. In this context, a coordinated labor relations policy is one of the key factors in a successful global production strategy. One example of the development of an international policy for labor relations can be seen in the introduction of employee involvement across Ford's operations.

Nationality of Ownership of the Subsidiary

There is evidence of differences between European and U.S. firms in terms of headquarters involvement in labor relations. A number of studies have revealed that U.S. firms tend to exercise greater centralized control over labor relations than do British or other European firms. U.S. firms tend to place greater emphasis on formal management controls and a close reporting system (particularly within the area of financial control) to ensure that planning targets are met. In his review of empirical research of this area, Bean showed that foreign-owned multinationals in Britain prefer single employer bargaining (rather than involving an employer association), and are more likely than British firms to assert managerial prerogative on matters of labor utilization. Further, Hamill found U.S.-owned subsidiaries to be much more centralized in labor relations decision making than British owned. Hamill attributed this difference in management procedures to the more integrated nature of U.S. firms, the greater divergence between British and U.S. labor relations systems than between British and other European systems, and the more ethnocentric managerial style of U.S. firms.

International Human Resource Management Approach

We discussed in previous lessons the various international human resource management approaches utilized by multinationals; these have implications for international labor relations. Interestingly, an ethnocentric pre-disposition is more likely to be associated with various forms of labor relations conflict. Conversely, it has been shown that more geocentric firms will bear more influence on host-country industrial relations systems, due to their greater propensity to participate in local events.

MNE Prior Experience in Labor Relations

European firms have tended to deal with labor unions at industry level (frequently via employer associations) rather than at firm level. The opposite is more typical for U.S. firms. In the United States, employer associations have not played a key role in their industrial relations system, and firm-based labor relations policies are the norm.

Subsidiary Characteristics

Research has identified a number of subsidiary characteristics to be relevant to centralization of labor relations. First, subsidiaries that are formed through acquisition of well established indigenous firms tend to be given much more autonomy over labor relations than are Greenfield sites set up by multinational firm. Second, according to Enderwick, greater intervention would be expected when the subsidiary is of key strategic importance to the firm and the subsidiary is young.

Third, where the parent firm is a significant source of operating or investment funds for the subsidiary, that is, where the subsidiary is more dependent on headquarters for resources, there will tend to be increased corporate involvement in labor relations and human resource management. Finally, poor subsidiary performance tends to be accompanied by increased corporate involvement in labor relations. Where poor performance is due to labor relations problems, multinationals tend to attempt to introduce parent-country labor relations practices aimed at reducing industrial unrest or increasing productivity.

An important factor is the extent of the home product market (discussed in some depth in the beginning). If domestic sales are large relative to overseas operations (as is the case with many U.S. firms), it is more likely that overseas operations will be regarded by the parent firm as an extension of domestic operations. This is not the case for many European firms, whose international operations represent the major part of their business. Lack of a large home market is a strong incentive to adapt to host-country institutions and norms. There is evidence of recent change in the European context:

Since the implementation of the Single European Market in 1993, there has been growth in large European-scale companies (formed via acquisition or joint ventures) that centralize management organization and strategic decision making. However, processes of operational decentralization with regard to labor relations are also evident.

Management Attitudes towards Unions

An additional important factor is that of management attitudes or ideology concerning unions. Knowledge of management attitudes concerning unions may provide a more complete explanation of multinational labor, relations behavior than could be obtained by relying solely on a rational economic model. Thus, management attitudes should also be considered in any explanation of managerial behavior along with such factors as market forces and strategic choices. This is of particular relevance to U.S. firms, since union avoidance appears to be deeply rooted in the value systems of American managers.

As Exhibit 27.3 shows, the United States has one of the lowest union-density rates (the percentage of wage and salary employees who are union members) in the Western world. Hence, U.S. managers are less likely to have extensive experience with unions than managers in many other countries. Worldwide trade union membership has fallen over the past decade, although the decline is not universal. This decline in union density in many countries may be explained by economic factors such as reduced public sector employment, reduced employment in manufacturing industries as a share in total employment, and increased competition; it is also

suggested to be associated with decentralization of labor relations to business unit level, changes in governance, and legislative changes. For example, the sharpest drop in union density (almost 36 per-cent over the past decade) has been in central and eastern Europe, and may be explained by political and economic changes associated with the dissolution of the Soviet bloc and the end of compulsory union membership. Union membership decline is also linked to the introduction of new forms of work organization, globalization of production, and changes in workforce structure. Although there are several problems inherent in data collection for a cross-national comparison of union-density rates, several theories have been suggested to explain the variations among countries. Such theories consider economic factors such as wages, prices, and unemployment levels; social factors such as public support for unions; and political factors.

In addition, studies indicate that the strategies utilized by labor, management, and governments are particularly important. Another key issue in international labor relations is industrial disputes.

Hamill examined strike-proneness of multinational subsidiaries and indigenous firms in Britain across three industries. Strike-proneness was measured via three variables—strike frequency, strike size, and strike duration. There was no difference across the two groups of firms with regard to strike frequency, but multinational subsidiaries did experience larger and longer strikes than local firms. Hamill suggests that this difference indicates that foreign owned firms may be under less financial pressure to settle a strike quickly than local firms—possibly because they can switch production out of the country. Overall, it is evident that international labor relations are influenced by a broad range of factors. Commenting on the overall results of his research, Hamill concluded that: general statements cannot be applied to the organization of the labor relations function within MNCs. Rather; different MNCs adopt different labor relations strategies in relation to the environmental factors peculiar to each firm. In other words, it is the type of multinational under consideration which is important rather than multinational itself.

The key to successfully expanding overseas is to become one with the culture of the location, even if it means unionization of employees, Michael R. Quinlan, chairman and chief executive officer of McDonald's Corp., tells conferees at a meeting of the Human Resources Management Association of Chicago. After opening fast-food restaurants in 53 nations, McDonald's has learned that it must follow the established practices of foreign country to succeed there, Quinlan says. For example, number of European countries and Australia has very strict unionization standards, and operations there are unionized as condition of doing business. Acknowledging that Mc-Donald's has had some "horrible union fights around the world," Quinlan advises employers considering expansion into other nations to "do it their way, not your way." The main implication of dealing with unions is the increased cost of wages and benefits, according to Quinian. Still, he adds that he does not feel unionization has interfered with employees' loyalty to McDonald's, or to the company's philosophy of service and employee motivation. Declaring that unions do not "bring much to the equation" of the employee /employer relationship, Quinlan says McDonald's is "basically a nonunion company" and intends to stay that way. Another source of difficulty for McDonald's in its expansion overseas lies in the fact that fast-food restaurants are unfamiliar in most nations. Opening the first McDonald's inside the Communist-bloc, in Yugoslavia, took 12 years, Quinlan notes. He also points out that the company's policy is to staff its restaurants, from crew through management, only with nationals—for the 3,300 foreign outlets, the corporation employs only 35 expatriate U.S. citizens, and its goal is to have 100 percent local employees within five years. Source: Reprinted with permission from Bulletin to Management (BNA Policy and Practice Series), Vol. 42, pp. 66, 71 (March 7, 1991). Copyright 1991 by The Bureau of National Affairs, Inc. (800-372-1033) <http://www.bna.com>

Exhibit 27-2 : IHR in the News Advice for Companies Going Global

	Union density		Proportionate changes in union density (%)	Rank order of union density ^e	
	1985	1995	1985-95	1985	1995
	Australia ^d	46	33	-28	2
Canada ^d	35	35	0	6	3
France ^d	15	11	-27	9	10
Germany ^d	36 ^o	30	-16	5	5
Ital/ ^a	42	38	-10	4	2
Japan ^{d,b}	29	24	-18	7	7
Korea ^f	12	13	+8.3	10	9
Sweden ^d	85	83	-2.2	1	1
UK ^d	45	29	-35	3	6
USA ^g	18	15 ^b	-12	8	8

Notes

a. 1991.
b. 1993.
c. Rank order of union density of the ten countries listed,
d. Replies by governments,
e. Replies by workers' organizations,
f. Replies from Korea Labour Statistics Department,
g. Adjusted density rate.

Source: ILO unpublished data (1996); Australia ABS Cat. No. 6325.0 Korea NSO

Source: G.J. Bamber, P. Ross, and G. Whitehouse, 1998. *Employment relations and labour market indicators in ten industrialised market economies: Comparative statistics*, International Journal of Human Resource Management, vol. 9, no. 2, Table 14. Reprinted with kind permission of the editor.

Exhibit 27.3 Union Membership for Selected Countries

Labor Unions And International Labor Relations

Labor unions may limit the strategic choices of multinationals in three ways: by influencing wage levels to the extent that cost structures may become uncompetitive, by constraining the ability of multinationals to vary employment levels at will, and by hindering or preventing global integration of the operations of multinationals. We shall briefly examine each of these potential constraints.

Influencing Wage Levels although the importance of labor costs relative to other costs is decreasing, labor costs still play an important part in determining cost competitiveness in most industries. The influence of unions on wage levels is, therefore, important. Multinationals that fail to successfully manage their wage levels will suffer labor cost disadvantages that may narrow their Strategic options.

Constraining the Ability of Multinationals to Vary Employment Levels at Will

For many multinationals operating in Western Europe, Japan, and Australia, the inability to vary employment levels at will may be a more serious problem than wage levels. Many countries now have legislation that limits considerably the ability of firms to carry out plant closure, redundancy, or layoff programs unless it can be shown that structural conditions make these employment losses unavoidable. Frequently, the process of showing the need for these programs is long and drawn-out. Plant closure or redundancy legislation in many countries also frequently specifies that firms must compensate redundant employees through specified formulae such as two weeks' pay for each year of service.

In many countries, payments for involuntary terminations are rather substantial, especially in comparison to those in the United States.

Labor unions may influence this process in two ways: by lobbying their own national governments to introduce redundancy legislation, and by encouraging regulation of multinationals by international organizations such as the Organization for Economic Cooperation and Development

(OECD), (Later in this unit we describe the Badger case, which forced Raytheon to finally accept responsibility for severance payments to employees made redundant by the closing down of its Belgian subsidiary). Multinational managers who do not take these restrictions into account in their strategic planning may well find their options severely limited. In fact, recent evidence shows that multinationals are beginning to consider the ability to dismiss employees to be one of the priorities when making investment location decisions.

Hindering or Preventing Global Integration of the Operations of Multinationals

In recognition of these constraints, many multinationals make a conscious decision not to integrate and rationalize their operations to the most efficient degree, because to do so could cause industrial and political problems. Prahalad and Doz cite General Motors as an example of this "sub optimization of integration." GM was alleged in the early 1980s to have undertaken substantial investments in Germany (matching its new investments in Austria and Spain) at the demand of the German metalworkers' union (one of the largest industrial unions in the Western world) in order to foster good labor relations in Germany. One observer of the world auto industry suggested that car manufacturers were sub-optimizing their manufacturing networks partly to placate trade unions and partly to provide redundancy in sources to prevent localized social strife from paralyzing their network. This sub optimization led to unit manufacturing costs in Europe that were 15 percent higher, on average, than an economically optimal network would have achieved. Prahalad and Doz drew the following conclusion from this example: Union influence thus not only delays the rationalization and integration of MNCs' manufacturing networks and increases the cost of such adjustments (not so much in the visible severance payments and 'golden handshake' provisions as through the economic losses incurred in the meantime), but also, at least in such industries as automobiles, permanently reduces the efficiency of the integrated MNC network. Therefore, a treating labor relation as incidental and relegating them to the specialists in the various countries is inappropriate. In the same way as government policies need to be integrated into strategic choices, so do labor relations.

Summary

Key issues in international labor relations are :

- a. Labor relations policies and practices of MNEs
- b. The degree of inter subsidiary production integration
- c. Nationality of ownership of the subsidiary
- d. International Human Resource Management Approach
- e. MNE prior experience in Labor relations
- f. Subsidiary characteristics
- g. Characteristics of home product market
- h. Management Attitudes towards unions.

It is difficult to compare industrial relations systems and behavior across national boundaries; a labor relations concept may change considerably when translated from one industrial relations context to another. The concept of collective bargaining, for example, in the United States is understood to mean negotiations between a labor union local and management; in Sweden and Germany the term refers to negotiations between an employers' organization and a trade union at the industry level.

Labor unions may limit the strategic choices of multinationals in three ways: by influencing wage levels to the extent that cost structures may become uncompetitive, by constraining the ability of multinationals to vary employment levels at will, and by hindering or preventing global integration of the operations of multinationals.

The Questions That Must Prick Your Mind

1. How do unions in Europe and U.S. view collective bargaining?
2. Discuss the key issues in international labor relations?
3. How do nationality of ownership of subsidiary and managerial approach to HRM affect labor relations?
4. What is sub optimization? Why and how is it employed?

LESSON 28

The response of Labor Union to Multinationals

Learning Objectives

1. MNEs characteristics that concern labour unions
2. Labor responses to the moves of MNEs
3. International Trade Secretariats
4. Lobbying for Restrictive National Regulation
5. Regulation of multinationals by International organizations

Introduction

Labor union leaders have long seen the growth of multinationals as a threat to the bargaining power of labor because of the considerable power and influence of large multinational firms. While it is recognized that multinationals are “neither uniformly anti-union nor omnipotent and monolithic bureaucracies,” their potential for lobbying power and flexibility across national borders creates difficulties for employees and trade unions endeavoring to develop countervailing power. There are several ways in which multinationals have impacts on trade union and employee interests. Kennedy has identified the following seven characteristics of MNEs as the source of labor unions’ concern about multi-nationals:

• **Formidable financial resources:**

This includes the ability to absorb losses in a particular foreign subsidiary that is in dispute with a national union and still show an overall profit on worldwide operations. Union bargaining power may be threatened or weakened by the broader financial resources of a multinational. This is particularly evident where a multinational has adopted a practice of transnational sourcing and cross-subsidization of products or components across different countries. “The economic pressure which a nationally based union can exert upon a multinational is certainly less than would be the case if the company’s operations were confined to one country.”

• **Alternative source of supply:**

This may take the form of an explicit “dual sourcing” policy to reduce the vulnerability of the multinational to a strike by any national union. Also, temporary switching of production in order to defeat doctrinal action has been utilized to some extent, for example, in the automotive industry.

The ability to move production facilities to-other countries:

A reported concern of employees and trade unions is that job security may be threatened if a multinational seeks to produce abroad what could have, or previously has, been manufactured domestically. National relative advantages provide MNEs with choice as to location of units. Within the EU, for example, evidence suggests that multinational management are locating skill-intensive activities in countries with national policies promoting training and with relatively high labor costs. Conversely, semi-skilled, routine activities are being located in countries with lower labor costs. Threats by multinationals, whether real or perceived, to reorganize production factors

Internationally, with the accompanying risk of plant closure or rationalization, will have an impact on management— labor negotiations at a national level. However, technical and economic investments would reduce a multi-national's propensity to relocate facilities.

A remote locus of authority (i.e., the corporate head-office management of a multinational firm):

While many multinationals report de-centralization and local responsiveness of HRM and industrial relations, trade unions and works councils have reported that the multinational decision-making structure is opaque and the division of authority obscured. Further, employee representatives may not be adequately aware of the overall MNE organizational strategy and activities.

• Production facilities in many industries:

As Vernon has noted, most multinationals operate in many product lines.

• Superior knowledge and expertise in labor relations

• The capacity to stage an “investment strike”:

Whereby the multinational refuses to invest any additional funds in a plant, thus ensuring that the plant will become obsolete and economically noncompetitive. Another issue reported by labor unions is their claim that they have difficulty accessing decision makers located outside the host country and obtaining financial, information. For example, according to Martinez Lucio and Weston: Misinformation has been central to the management strategy of using potential investment or disinvestment in seeking changes in certain organizations. .. For example, in companies such as Heinz, Ford, Gillette, and General Motors, workers have established that they had on occasions been misinformed by management as to the nature of working practices in other plants. The response of labor unions to multinationals has been threefold: to form international trade secretariats (ITSSs), to lobby for restrictive national legislation, and finally, to try and achieve regulation of multinationals by international organizations. International Trade Secretariats (ITSSs). There are 15 ITSSs, which function as loose confederations to provide worldwide links for the national unions in a particular trade or industry (e.g., metals, transport, and chemicals). The secretariats have mainly operated to facilitate the ex-change of information.

One of the fastest growing of the ITSs is the International Federation of Commercial, Clerical, Professional, and Technical Employees (generally known by its French initials, FIET), which is focused on the service sector. The long-term goal of each ITS is to achieve transnational bargaining with each of the multinationals in its industry. Each ITS has followed a similar program to achieve the goal of
Transnational bargaining.

The elements of this program are :

1. Research and information
2. Calling company conferences
3. Establishing company councils
4. Company-wide union-management discussions and
5. Coordinated bargaining.

Overall, the ITSs have met with limited success, the reasons for which Northrup attributes to:

1. The generally good wages and working conditions offered by multinationals
2. Strong resistance from multinational firm management
3. Conflicts within the labor movement and
4. Differing laws and customs in the labor relations area.

Lobbying for Restrictive National Legislation

On a political level, labor unions have for many years lobbied for restrictive national legislation in the United States and Europe. The motivation for labor unions to pursue restrictive national legislation's is based on a desire to prevent the export of jobs via multinational investment policies.

For example, in the United States, the AFL-CIO has lobbied strongly in this area. A major difficulty for unions when pursuing this strategy is the reality of conflicting national economic interests. In times of economic downturn, this factor may become an insurmountable barrier for trade union officials. To date, these attempts have been largely unsuccessful and, with the increasing internationalization' of business, it is difficult to see how governments will be persuaded to legislate in this area.

Regulation of Multinationals by International Organizations

Attempts by labor unions to exert influence over multinationals via inter-national organizations have met with some success. Through trade union federations such as the European Trade Union Confederation (ETUC) and the International Confederation of Free Trade Unions (ICFTU), the labor movement has been able to lobby the International Labor Organization (ILO), the United Nations Conference on Trade and Development (UNCTAD) the Organization for Economic Cooperation and Development (OECD), and the European Union (EU) .The ILO has identified a number of workplace-related principles that should be respected by all nations: freedom of association, the right to organize and collectively bargain, abolition of forced labor, and nondiscrimination in employment. In 1977 the ILO adopted a code of conduct for multinationals (Tripartite Declaration of Principles Concerning MNEs and Social Policy). The

ILO code of conduct, which was originally proposed in 1975, was influential in the drafting of the OECD guidelines for multinationals, which were approved in 1976. These voluntary guidelines cover disclosure of information, competition, financing, taxation, employment and industrial relations, and science and technology. A key section of these guidelines is the umbrella or chapeau clause, (the latter is the more common term in the literature) that precedes the guidelines themselves. This clause states that multinationals should adhere to the guidelines “within the framework of law, regulations and prevailing labor relations and employment practices, in each of the countries in which they operate.” Campbell and Rowan state that employers have understood the chapeau clause to mean compliance with local law supersedes the guidelines, while labor unions have interpreted this clause to mean that the guidelines are a “supplement” to national law. The implication of this latter interpretation is significant: a firm could still be in violation of the OECD guidelines even though its activities have complied with national law and practice. Given the ambiguity of the chapeau clause and the fact that the OECD guidelines are voluntary, it is likely that this issue will remain controversial.

There is also some controversy in the literature as to the effectiveness of the OECD guidelines in regulating multinational behavior. This lack of agreement centers on assessments of the various challenges to the guidelines. The best-known of these challenges is the Badger case. The Badger Company is a subsidiary of Raytheon, a U.S.-based multinational. In 1976 the Badger Company decided to close its Belgian subsidiary, and a dispute arose concerning termination payments. Since Badger (Belgium) NV had filed for bankruptcy, the Belgian labor unions argued that Raytheon should assume the subsidiary’s financial obligations. Raytheon refused, and the case was brought before the OECD by the Belgian government and the International Federation of Commercial, Clerical, Professional, and Technical Employees (FIET), an international trade secretary. The Committee on International Investments and MNEs (CIIME) of the OECD indicated that paragraph six of the guidelines (concerned with plant closures) implied a “shared responsibility” by the subsidiary and the parent in the event of a plant closing. Following this clarification by the CIIME and a scaling down of initial demands, Badger executives and Belgian government officials negotiated a settlement of this case. Blanpain concludes that the Badger case made clear the responsibility of the parent company for the financial liability of its subsidiary, but that this responsibility is not unqualified. As to whether the Badger case proved the “effectiveness” of the OECD guidelines, Jain and Campbell and Rowan point out that the Belgian unions devoted considerable resources to make this a test case and had assistance from both American unions (which, through the AFL-CIO, lobbied the U.S. Department of State) and the Belgian government in their negotiations with the OECD and Badger executives. Liebhaber is more specific in his assessment: Despite an outcome which those in favor of supervision consider to be positive, the Badger Case is a clear demonstration of one of the weaknesses in the OECD’s instrument, namely that it does not represent any sort of formal undertaking on the part of the twenty-four member states which are signatories to it.

The social forces of each separate country must apply pressure on their respective governments if they want the guidelines applied. Recognizing the limitations of voluntary codes of conduct, European labor unions have also lobbied the Commission of the European Union to regulate the activities of multinationals. Unlike the OECD, The Commission of the EU can translate guidelines into law, and has developed a number of proposals concerning disclosure of

information to make multinationals more “transparent.” These are discussed in more detail in the next unit.

Summary

Labor union leaders have long seen the growth of multinationals as a threat to the bargaining power of labor. There are several ways in which multinationals have an impact on trade union and employee interests. Kennedy has identified the following seven characteristics of MNEs as the source of labor unions’ concern about multi-nationals. The response of labor unions to multinationals has been threefold: to form international trade secretariats (ITSS), to lobby for restrictive national legislation, and finally, to try and achieve regulation of multinationals by international organizations. Recognizing the limitations of voluntary codes of conduct, European labor unions have also lobbied the Commission of the European Union to regulate the activities of multinationals. Unlike the OECD, The Commission of the EU can translate guidelines into law.

The Questions That Must Prick Your Mind

1. What are the seven MNE characteristics that are source of concern for labor unions?
2. What are the three responses of labor unions to MNEs which have power to limit the bargaining power of unions?
3. In what ways can labor unions constrain the strategic choices of multinationals?

Regional Integration: The European Union (EU)

Learning objectives

1. Social Policy and Social Dimensions of EU
2. Disclosure of Information and European Works Councils (EWCs)
3. Social Dumping
4. North American Free Trade Agreement

Introduction

Regional integration such as the development of the European Union (EU) has brought significant implications for international labor relations. In the Treaty of Rome (1957), some consideration was given to social policy issues related to the creation of the European Community. In the EU, the terms “social policy,” or “social dimension,” are used to cover a number of issues including, in particular, labor law and working conditions, aspects of employment and vocational training, and social security. There have been a number of significant developments in EU social policy over the past four decades. The Social Charter of the Council of Europe came into effect in 1965. In 1987, the major objective of the implementation of the Single European Act was to establish the Single European Market (SEM) on December 31, 1992, in order to enhance the free movement of goods, money, and people within the SEM. Hence, the social dimension aims to achieve a large labor market by eliminating the barriers that restrict the freedom of movement and the right of domicile within the SEM. The European Community Charter of the Fundamental Social Rights of Workers (often referred to simply as the Social Charter) was introduced in 1989, and has guided the development of social policy in the 1990s. Naturally, the social dimension has been the subject of much debate—proponents defend the social dimension as a means of achieving social justice and equal treatment for EU citizens, while critics see it as a kind of social engineering. At the signing of the Treaty on European Union in Maastricht in February 1992, Britain was allowed to opt out of the social policy agreements.

The other eleven member states were party to a protocol (The Social Policy Protocol), which allows them to agree their own directives without Britain’s participation. With the election of the Blair Labor government in Britain in 1997, this anomaly was resolved when all members of the EU Signed the Treaty of Amsterdam on June 17, 1997. This means that there now exists a single coherent legal basis for action by the EU Member States with regard to social policy. The Social Chapter in the Treaty of Amsterdam opens with a general statement of objectives. Its first Article (Article 117 of the EC Treaty), drawn largely from Article 1 of the Maastricht Social Agreement, begins with a reference to fundamental social rights such as those in the European Social Charter of 1961 and the Social Charter of 1989. It then sets out the objectives

for the EU: to support and complement the activities of the Member States in a number of listed areas.

These include improvement of working conditions and of the working environment in the interest of workers' health and safety, information and consultation of workers, integration of persons excluded from the labor market, and equality of opportunity, and at work, between men and women.

Introduction

Based in Brussels and Luxembourg DG V is the European Commission de-partment responsible for social policy. It is made up of six directorates re-sponsible for different areas of social policy.

Directorate General

Directorate A: is responsible for employment policies, labour market poli-cies, employment services (EURES), and local' development and readaption.

Directorate B: is responsible for policy development of the European Social Fund, information on the Fund, assessment of the political impact of the Fund, the Community Initiatives, technical assistance and innovation studies, and adaptation to industrial change.

Directorate C: is responsible for the operation of the Euro-pean Social Fund in the Member States.

Directorate D: is responsible for relations with the social partners and or-ganisation of the social dialogue, industrial relations and labour law, coor-dination of social security for migrant workers, migration policy and promotion of free movement for workers, equal opportunities for women and men, and family policy.

Directorate E: is responsible for analysis of and research on the social situation, social security and actions in the social field, and integration of disabled people. It also deals with external relations, international organisations, information and publica-tions on behalf of the whole Directorate-General.

Directorate F: (based in Luxembourg) is responsible for analysis, coordina-tion and development of policies and programmes in the field of public health, implementation of action programmes targeted on diseases, health promotion and disease surveillance, and health and safety at work, it also provides the permanent secretariat for the Advisory Committee of Safety, Hygiene and Health Protection at the Workplace.

Directorate G: is responsible for the management of human and financial re-sources for the Directorate-General, for audit and inspection, and evaluation.

Source: [http:// europa.eu.int/en/comm/dg05/staffgen/cover.htm](http://europa.eu.int/en/comm/dg05/staffgen/cover.htm)

Exhibit 29.1: The Six Directorates

However, the Treaty excludes matters of pay, the right of association, and the right to strike or to lock out. The European Commission department responsible for social policy is known as Directorate-General V (often abbreviated to 'DG V').

Exhibit 29-1 summarizes the six directorates of DG V and the different areas of social policy covered by each directorate.

Disclosure of Information and European Works Councils

The EU has introduced a range of directives related to the social dimension. Of the directives concerned with multinationals, the most contentious has been the Vredeling directive (associated with Henk Vredeling, a former Dutch member of the EU Commission). The Seventh (Vredeling) Directive's requirement of disclosure of company information to unions faced strong opposition led by the British government and employer representatives. They argued that employee involvement in consultation and decision making should be voluntary. More recently, the European Works Councils (EWC) Directive was approved on September 22, 1994, and implemented two Years later. Under the terms of the Treaty of Amsterdam, this directive applies to all EU member states. This is the first pan-European legislation that regulates collective relationships between Multinationals and employees. Based in Brussels and Luxembourg DG V is the European Commission department responsible for social policy. It is made up of six directorates responsible for different areas of social policy.

The directive requires EWC (European Works Council)s to be established in multinationals with at least 1,000 employees, having 100 or more employees in each of two member states. According to Chesters, more than 1,000 multi-nationals, including around 200 U.S.-based firms, are affected by the EWC directive. The directive is designed to provide coverage to all employees, whether unionized or not. The EWC directive aims to enhance employees' rights to information and consultation in general, and provide rights to information regarding international corporate decisions that would significantly affect workers' interests. Partly in response to the EWC directive, firms such as General Motors and Heinz have subsidized visits of worker representatives to other plants and provided information and forums for discussion at the European level.

Obviously all firms will need to become familiar with EU directives and keep abreast of changes.

While harmonization of labor laws can be seen as the ultimate objective, Michon argues that the notion of a European social community does not mean unification of all social conditions and benefits or, for that matter, of all social systems. However, the EU does aim to establish minimal standards for social conditions that will safeguard the fundamental rights of workers.

Social "Dumping"

One of the concerns related to the formation of the SEM (Single European Market) was its impact on jobs. There was alarm that those member states that have relatively low social security

costs would have a competitive edge and that firms would locate in those member states that have lower labor costs. The counter-alarm was that states with low-cost labor would have to increase their labor costs, to the detriment of their competitiveness. There are two industrial relations issues here: the movement of work from one region to another and its effect on employment levels; and the need for trade union solidarity to prevent workers in one region from accepting pay cuts to attract investment at the expense of workers in another region. There is some, although not as much as was expected, evidence of “social dumping” in the EU. It is likely that this issue will be a contentious one in Europe for some time and multinationals need to be aware of this debate when doing business in Europe.

Regional Integration

The North American Free Trade Agreement (**NAFTA**) Another important regional economic integration involves the formation of a free trade zone between the United States, Canada, and Mexico. The Canada—United States Free Trade Agreement (**FTA**) went into effect on January 1989, and a draft accord to create NAFTA, which brought Mexico into the trading bloc, was announced in August 1992. The NAFTA agreement was signed by the governments of the United States, Mexico, and Canada in December 1992, ratified by the U.S. Congress in November 1993, and came into force in January 1994. It is important to stress here that NAFTA differs from the Single European Market in that it is a free trade zone and not a common market. NAFTA deals only with the flow of goods, services, and investments among the three trading partners; it does not address labor mobility or other common policies of the SEM. However, in an effort to manage the social dimension of NAFTA, the North American Agreement on Labor Cooperation (**NAALC**) came into effect in 1993. Although it has been criticized as weak and ineffective, this accord has introduced new institutions to process complaints of violations of labor laws, and committed each of the three nations to introduce a set of 11 labor rights principles.

There are significant HR implications in NAFTA that must be considered by HR managers in North American firms. While NAFTA does not include workplace laws and their enforcement, as was discussed in the context of the SEM, the country with the least restrictive workplace laws will have a competitive advantage. Organized labor in the United States and Canada responded to the passage of NAFTA with substantial opposition, based on fear of job losses due to the transfer of production to Mexico to take advantage of lower wage rates and lax enforcement of social and labor legislation.

In other words, the concern about social dumping is similar to the concern at the formation of the SEM, but there is a difference. In the case of NAFTA, jobs are able to cross borders, but workers are not. Although there has been a general lack of coordination between labor organizations of the NAFTA countries, examples in telecommunications, trucking, and electrical industries show that NAFTA has stimulated some strategic cross border collaboration among individual labor unions and their allies. The EU and NAFTA provide examples of regional integration, which present many issues for international labor relations. As regional integration, and interregional integration, develops in other parts of the world, issues will continue to emerge for international labor relations.

Summary

Regional integration such as the development of the European Union (EU) has brought significant implications for international labor relations. The EU has introduced a range of directives related to the social dimension. EU does aim to establish minimal standards for social conditions that will safeguard the fundamental rights of workers. One of the concerns related to the formation of the SEM (Single European Market) was its impact on jobs. There was alarm that those member states that have relatively low social security costs would have a competitive edge and that firms would locate in those member states that have lower labor costs. The counter-alarm was that states with low-cost labor would have to increase their labor costs, to the detriment of their competitiveness. Another important regional economic integration involves the formation of a free trade zone between the United States, Canada, and Mexico. The Canada : United States Free Trade Agreement (FTA) went into effect on January 1989, and a draft accord to create NAFTA, which brought Mexico into the trading bloc, was announced in August 1992.

The Questions that must prick your mind

1. What are covered under ‘ Social Policy’ and how does it determine labor relations?
2. What is “social dumping,” and why should unions be concerned about it?

LESSON 30

Issues, challenges and Theories in IHRM

Learning Objectives

1. The issues and challenges related to host-country staffing through an examination of the HR implications of operating in China.
2. HR practices before and after launch of economic reforms in China.
3. Biao-Xian
4. Implications of economic reforms in China for an MNE

Introduction

In this course, we have explored the international HRM issues relating to managing people in a multinational context. To that end, we have focused on the implications that the process of internationalization has for the activities and policies of HRM. Where possible and appropriate, we have endeavored to broaden the discussion of the various topics so that we take account of the fact that there is more to IHRM than expatriation. Where possible and appropriate, we have endeavored to broaden the discussion of the various topics so that we take account of the fact that there is more to IHRM than expatriation. Despite this objective, there remains an imbalance towards expatriation issues at the expense of the subsidiary perspective. This is mainly due to the increasing volume of expatriate related literature. As a way of redressing the balance, in this unit, we explore some of the issues and challenges related to host-country staffing through an examination of the HR implications of operating in China and India.

These two countries represent huge growth markets, and also are good examples of contrasting societies in which foreign firms attempt to operate. A focus on expatriation also precludes broader strategic issues. We, therefore, include in this unit a short discussion of key concerns related to ethics and social responsibility—topics, such as bribery, that are receiving increased attention and are somewhat controversial. While some scholars and practitioners would still regard IHRM as a scientific field in its infancy, there has been considerable progress toward developing theoretical bases. The remainder of this chapter identifies such developments, particularly those that attempt to place specific IHRM activities into the organizational and strategic contexts. Managing People in an International Context

This section looks at key HRM aspects of operating in two different countries as a way of illustrating the situations that may confront multi-nationals attempting to penetrate developing markets. We will trace the impact that recent economic reforms in China and India have had in terms of staffing foreign operations in these two markets. We will start with China. As the more common mode of operation in both cases has been the international joint venture (IJV), it allows us to elaborate on the HRM challenges posed by IJV operations China In late 1978, the Chinese government announced an open-door policy and began economic reforms aimed at moving the country from a centrally planned economy to a market economy. Under its centrally planned economy, industries “were owned and run by the state, and their growth was regulated by

planning targets rather than by the profit-maximizing decisions of independent entrepreneurs.” Thus, planning was the dominant control mechanism, with the market mechanism in a supplementary role. Industrial enterprises (the Western term/inn is in-appropriate in the communist context) were under the control of relevant government departments.

The past two decades of economic reforms have seen foreign multinationals expand their operations into China—many attracted by the sheer size of its potential market. By the end of 1996, China had absorbed a total foreign direct investment (FBI) of U.S.\$171.8 billion with 281,298 projects, and was ranked second to the United States as a global destination for FBI. Of particular interest is the enthusiasm for establishing foreign invested enterprises (FIEs), including foreign joint ventures and wholly foreign-owned ventures (FIEs is commonly used as the umbrella term to describe FDI in China). Consequently, employment in FIEs has increased from 550,000 employees in 1986 to 8,820,000 in 1995. FDI has tended to take the form of an international joint venture (IJV) with a state-owned enterprise (SOE) as the local partner, or as a fully owned subsidiary. To a certain extent, foreign ownership is instrumental in protecting FIEs from the various pressures of localization. However, many FIEs in China are either under-performing or failing. As we discuss later in this chapter, the management of people is a critical factor in determining success or failure in international joint ventures. Chinese HRM policies and practices are quite different from those used in developed and market-economy developing countries and careful consideration of local idiosyncratic practices is required to operate successfully. FDI has tended to take the form of an international joint venture (IJV) with a state-owned enterprise (SOE) as the local partner, or as a fully owned subsidiary. To a certain extent, foreign ownership is instrumental in protecting FIEs from the various pressures of localization. However, many FIEs in China are either under-performing or failing.

As we discuss later in this chapter, the management of people is a critical factor in determining success or failure in international joint ventures. Chinese HRM policies and practices are quite different from those used in developed and market-economy developing countries and careful consideration of local idiosyncratic practices is required to operate successfully. “The legacy of management ‘with Chinese characteristics’ still weighs heavily on all firms operating in China.” Knowledge of how employees have been managed in the past may help multinationals to understand local managers’ difficulty or inertia in accepting nontraditional or Western-style HRM practices. Therefore, we include prior as well as current practices to provide a better appreciation of the effect that the transition to a market economy is having on the four major functions of HRM.

Staffing

Prior to the reforms, Chinese employees were classified into two groups:

- **Workers:** all blue-collar employees, who were administered by the Ministry of Labor.
- **Cadres:** white-collar staff, managed by the Ministry of Personnel. The broad definition of cadres is “state institution and military ‘civil servants’ and [its] narrow meaning is persons engaged in ‘certain specified leadership work or management work’ (e.g., organization cadres and enterprise cadres).”

Since the reforms, the distinction between cadres and workers has gradually become blurred, particularly in foreign-invested and privately owned enterprises. Employees belong to either managerial or non managerial groups. However, the Ministry of Labor and the Ministry of Personnel are still two separate government departments in China. A centralized labor allocation system determined the staffing levels in Chinese enterprises. Established in the early 1950s, this system was based on the Maoist theory that labor was not a commodity but a national resource, and that the government had a monopoly control of urban jobs.

The Ministry of Labor and Ministry of Personnel maintained a tight control over labor allocation by setting quotas for employment at individual enterprises, including annual quotas for new recruits. Local bureaus of labor and personnel assigned workers and staff to a particular job in a work unit— called *danwei* in Chinese. Centralized allocation effectively deprived enterprises of their autonomy to select employees, denied the individual the right to choose his or her employment, and ignored changes in labor supply and demand. However, the centralized allocation system did achieve a high employment rate in urban areas. Accompanying the centralized labor allocation was the belief in life-long employment: “the worker’s inalienable right to his job and other related benefits.” Therefore, over 80 percent of employees in state-owned enterprises (approximately 80 million) enjoyed job security, especially those employed in heavy industries such as mining. The guaranteed continuation of employment, along with various welfare and benefits offered to employees, such as Accommodation, medical treatment, child care, and pensions, has been referred to as the iron rice bowl. In exchange for job security, employees had little freedom to move to another work unit—that is, they were unable to quit or transfer jobs and were locked into a dependency relationship with their enterprises. Managers were deprived of their right to fire or layoff unqualified employees.

From October 1986, all newly employed workers in the state sector were hired on a contract basis rather than effectively being given permanent employment. By the end of 1996, a labor contract system had become compulsory in both public and private sectors, including the managerial level, thus revoking the long-standing tradition of lifetime employment.

In theory, both workers and managers had the freedom to select each other. The new labor contract system has facilitated de-centralization of employment practices. Governmental influence has gradually diminished. Enterprises have more autonomy to select their employees, and “two-way selection”—that is, free selection of occupation by individuals and free selection of employees by enterprises—is more common.

Two-way selection has been facilitated by the emergence of a labor market with personnel exchange and service centers established by the government to provide job information and relevant services. Western recruitment methods, such as job advertisement and employment tests, are now used, especially by FIEs and privately owned enterprises. As enterprises now have to match production to market demands and be responsible for their own survival, they need to attract and retain competent and motivated employees.

Performance Appraisal

Prior to the current reforms, performance appraisal for cadres was mainly for promotion or transfer, with the main criteria being political loyalty and seniority; the appraisal was usually conducted annually by the personnel department of the cadre's organization. Each cadre was given an appraisal form divided into three parts: self-evaluation, peer-group opinions, and an assessment written by the head of the department in which the cadre worked. Thus, the appraisal method relied heavily on "superior rating subordinate," and lacked specified criteria and other performance measures commonly used in Western market economies.

Performance appraisal for blue-collar workers was used less frequently. It was an informal and subjective process, reflected in the emphasis placed on one's *biaoxian*. The term *biaoxian* refers to the "broad and vaguely defined realm of behavior and attitudes subject to leadership evaluation —behavior that indicates underlying attitudes, orientations, and loyalties worthy of reward. A worker's *biaoxian* was usually judged on the basis of subjective impressions of day-to-day job performance and demonstrated cooperation. Consequently, personal relationships with colleagues, especially with the leaders, became the key to getting a good *biaoxian*. Such appraisals were characterized by vagueness, open to individual interpretation, and dominated by political ideology.

As part of the economic reforms, aimed at breaking the iron rice bowl, the government issued a document:

"Suggestion for Implementing the Cadre Performance Appraisal System" outlining a performance appraisal scheme for cadres.

The new scheme was based on the socialist principle of distribution (i.e., from each according to one's ability and to each according to one's work).

It aimed at identifying training needs, as well as distinguishing between high and low performers. More importantly, it held cadres accountable to, as well as for, their subordinates via subordinates' evaluation. New appraisal criteria focused on four broad areas:

Good moral practice (de) : virtue or moral integrity. The cadre is evaluated on whether he or she is in step politically with the Party, and carries out government orders and regulations.

Adequate competence (neng) : This covers three main aspects: educational background; ability in leadership, organization, negotiation, planning, forecasting, and decision making; and physical status, which also includes age.

Positive working attitude (qing) : refers to diligence and usually assesses attendance at work, discipline, initiative, and sense of responsibility.

Strong performance record (jie) : measures the cadre's work effectiveness, including quality and quantity, as well as other contributions made to the organization.

While these criteria have been in practice since the 1980s, some new methods for assessing cadres have been introduced, such as computer-aided panel assessment (ceping kaohe) and position related yearly assessment (gangwei niandu kaohe). These methods require both quantitative and qualitative measurement to reduce the subjectivity and informality inherent in the traditional performance appraisal approach. Performance appraisal has also become more widely used in enterprises at the worker level since 1978. In mid-1990 “The Regulation on Workers’ Performance Appraisal” was issued by the Ministry of Labor, which specified the type, content, method, and management of appraisals.

Some new approaches have been developed, such as position specification, management by objectives, and internal subcontracting. All aim to break the iron rice bowl by distinguishing high and low performers and linking performance to rewards. For example, position specification usually includes quality control, technical requirements, quantified work loads, tools and machine maintenance, labor discipline, caring for the working environment, team-work cooperation, and safety of production methods.

All aim to break the iron rice bowl by distinguishing high and low performers and linking performance to rewards. For example, position specification usually includes quality control, technical requirements, quantified work loads, tools and machine maintenance, labor discipline, caring for the working environment, team-work cooperation, and safety of production methods. In their study of performance appraisal in China, Zhu and Bowling found that over 78 percent of employees surveyed (n = 440) confirmed that performance appraisal was conducted by their enterprises; however, only 53 percent indicated that a job description existed. Also, whereas the majority of the enterprises surveyed conducted performance appraisal on a yearly basis, the bonus was usually distributed more frequently (either monthly or quarterly). This raises doubt as to whether performance was really being linked to rewards. In addition, other researchers have noted problems with performance assessment in China because of the emphasis given to political considerations, and problems with inconsistent measurement, subjectivity, static rather than forward-looking attitudes, and a lack of communication. Although performance appraisal is primarily used for determining bonus and wages rather than for developmental or communication purposes, it is being used by many Chinese enterprises to weaken the old practice of egalitarianism and to facilitate the abolition of the iron rice bowl.

Compensation

The compensation system before the reforms was characterized by egalitarianism at both enterprise and individual levels regardless of performance. Enterprises had no right to set up or change any wage scale, let alone to increase (or decrease) their total payroll. A nationally unified wage system was structured by the state in 1956 for both blue- and white-collar employees. Under this system, there were 8 grades for workers, 15 grades for technical personnel, and 25 grades for cadres such as managers and administrative personnel. Usually the highest pay received in an enterprise was only two to three times more than one in the lowest, and the entry level was very low. These minimal wage differentials reflected the strong ideological and political influence upon work enterprises. Wage increases were infrequent, occurring at intervals of several years, and commonly took the form of national unified grade promotions for all employees. Not only was the wage system egalitarian, it also provided numerous benefits to

employees, such as insurance, medical coverage, public welfare, nonstaple food, winter heating subsidy, and a home leave traveling allowance. These benefits helped to maintain the iron rice bowl and made the enterprises mini-welfare states. Reform of the compensation system began at the enterprise level. Enterprises were treated as relatively independent business units, and compensation was linked to performance.

The enterprise reform launched in 1984, the Enterprise Law issued in 1988, and related regulations during the 1990s aimed at separating the ownership of an enterprise from its controlling authority so each enterprise had autonomy and incentives. The state-regulated wage system has now been replaced by diversified wage packages with more emphasis on enterprise profitability and individual performance.

Since 1985, different systems of wage determination have been introduced, such as floating and structural wage systems. In 1992, the Minister of Labor introduced a new position-and skills wage system based on the four major working factors emphasized by the International Labor Organization in 1950 (i.e., knowledge and skills required, responsibility assumed, work intensity (load) involved, and working conditions). Enterprises were required to include these four components in their wage packages to override the egalitarianism of the old wage scales. These reforms have tried to quantify each worker's performance and link performance to pay. However, in the absence of job descriptions and performance appraisal, the degree to which performance-related pay was fairly distributed could vary across enterprises.

No matter how diversified wage packages might be, all packages had a bonus as an important part (since the restoration of the bonus after the reforms). As enterprise reform has become more widespread, the distribution of bonuses has been more closely tied to individual performance. How to match compensation with the contributions made by individuals remains a difficult issue and the bonus system is still at an experimental stage. Nonetheless, performance-based compensation has become the trend, and egalitarianism is being replaced by wage differentiation based on individual and enterprise performance.

Training and Development

Pre-reform employee training was generally divided into two parts:

Training for blue-collar workers: This was primarily in the form of apprenticeships and technical school education that were the major sources of skilled workers.³⁶ Technical school students would be assigned to an enterprise by the state after completing two to three years of study.

Training for cadres: Training for managers, especially managers who were also members of the Communist Party, was mainly offered by schools run by the Party at central, provincial and municipal levels or colleges for cadre education and training. Training priority was usually given to political studies, and this focus is regarded as a major cause of the current shortage of qualified managers in industry. Many cadres, especially managerial staff, lack the knowledge and skills required to change their roles from merely carrying out government orders to assuming full

responsibility for the enterprise's performance or deciding on management matters. This shortage has hampered the move to a market economy.

At the workers' level, lack of education and training is widespread. A survey covering 20 million industrial employees in 26 provinces and cities was conducted in 1980. It revealed that 8.2 percent of employees were literate or semiliterate, 32 percent had less than 9 years of education, 40.8 percent had completed year 9, 15.9 percent had finished year 12, and only 3.1 percent had a university education.³⁸ In mid-1980, the state re-introduced apprenticeship programs, which had been abolished during the Cultural Revolution (1966-1976). The traditional post-employment apprenticeships were gradually replaced by pre-employment traineeships and this practice was legitimized in the Labor Law, which became effective in 1995. Reforms introduced in 1990 sought to connect training, examination, job arrangement, and compensation to encourage employees to learn technical skills. These have since been replaced gradually by a vocational qualification verification system. This latest system reflects, to some extent, the government's recognition of the German model of a dual education system (i.e., liberal education and vocational training).

The practice of double certificate (i.e., education certificate and vocational qualification certificate) aims to achieve an outcome similar to the situation in Germany, with young people attaining vocational knowledge and skills. This system has now been widely implemented and has enabled workers to take the training course of their choice and to be more flexible in job selection, and is consistent with the two-way selection system and the position-and-skills wage system discussed above. Because the lack of adequately trained management had been identified as a major impediment to its reforms, the government established institutions for adult further education for professional and management training. A nationwide program of management training has supported these institutions and the government has collaborated with institutions from several countries, including the United States, United Kingdom, Australia, Canada, Japan, and the European Union nations, to conduct courses, including MBA programs. In spite of the progress achieved in employee and management training and development many inadequacies and limitations remain. The results from a 1994 survey disclosed that 34 percent of 1,508 respondents had not received any training opportunities in enterprises. Re-searchers have also found that Chinese enterprises usually only emphasize technical training rather than behavioral training. Many foreign managers may regard training as costly and risky, because they may not receive immediate returns and employees may leave the enterprise after training.

Implications for Multinationals

By way of conclusion, and to assist in understanding the impact of the transition on HR practices, we pose and answer three questions in relation to managing HCNs in FIEs:

1. How can foreign firms develop effective HRM strategies to improve the productivity of their workforce in China?

Multinationals need to know the current HRM practices in China. Many practices commonly used in the West are now employed in China. However, foreign firms need to be aware that in China, "the shift from the older practices has only been partial, especially in larger enterprises,

whether state-owned enterprises or even Sino-foreign joint ventures.”⁴⁵ This is mainly because multinationals have a stronger association with government partners in China than in other developing countries, and thus tend to be somewhat locked into maintaining management practices that are a legacy of pre-reform days.⁴⁶ Researchers have noted that in some FIEs, the egalitarian pay system is still in practice even though the eight-grade wage structure has been abandoned.

2. To what extent can foreign multinationals transfer their home-country’s HR practices to their subsidiaries in China?

Multinational managers should not assume that identical HR practices can be applied to their Chinese enterprises. Some researchers claim that Western-style HRM practices should be introduced only when a Chinese perspective, and Chinese values and methods, have been incorporated.

Take performance appraisal as an example. It has been argued that to increase the effectiveness of appraisal in China, the Western appraisal system, which encourages individual economic performance, should incorporate the Chinese values of satisfying performance, such as harmonious functioning in a work group and fulfillment of individual obligations towards the work unit and colleagues.

3. What are the future HRM issues for China due to its ongoing economic reforms?

Developing and retaining quality staff : Chan has noted that “both Western and Chinese management find HRM appropriate as a non adversarial and consensual management style that succeeds in co-opting the workforce. However, a particular term may have a different connotation or orientation. For example, while the training and development function does exist in China, it is still passive and narrowly defined “in contrast to the Western HRM notion of planning for long-term staff development.” Training is more focused in improving current performance deficiencies. There is a lack of career development, particularly as employees tend to change jobs frequently in pursuit of higher wages rather than skills development. The absence of career development plus a high emphasis on material incentives have partly contributed to the problems of high turnover and “disloyalty” observed in many enterprises, including FIEs.

Compensation : The change in employee attitudes toward the distribution of bonuses is another identified trend. Traditionally, China has been a collective-oriented society, however, Chinese employees now prefer reward differentials “determined primarily according to individual contributions’ and there is greater acceptance of wider reward disparities based on individual performance.⁵⁶ With further reforms inevitable in China, a compensation system based on individual performance will become more common and more entrenched Localizing Staffing. As more foreign multinationals expand their businesses into China, they have sought local management for their operations in order to develop a large corporate presence in China.

When hiring Chinese nationals for executive jobs (because of their communication skills, local contacts, and understanding of the domestic market)⁵⁹ many multinationals have found that Chinese managers lack decision-making skills and are wary of taking personal initiatives.

Along with job-related skills, corporate management training programs are required that provide HRM skills appropriate to the Chinese context and skills for problem-solving in high pressure situations. To conclude, it is necessary to remember that China is still undergoing a transition stage, and will continue its economic restructuring and re-forms into the next century.

The government expects enterprises to become corporate entities and competitors adaptable to the market, so effective HRM practices are needed to develop a competitive workforce.

Summary

In late 1978, the Chinese government announced an open-door policy and began economic reforms aimed at moving the country from a centrally planned economy to a market economy. Under its centrally planned economy, industries “were owned and run by the state, and their growth was regulated by planning targets rather than by the profit-maximizing decisions of independent entrepreneurs.” Thus, planning was the dominant control mechanism, with the market mechanism in a supplementary role. Performance-based compensation has become the trend, and egalitarianism is being replaced by wage differentiation based on individual and enterprise performance. When hiring Chinese nationals for executive jobs (because of their communication skills, local contacts, and understanding of the domestic market) many multinationals have found that Chinese managers lack decision-making skills and are wary of taking personal initiatives.

Questions that must prick your mind

1. What has China done towards economic reforms from 1978 onwards?
2. Discuss the HR practices before and after economic reforms in China.
3. What is Biao-Xian? Has it changed with reforms in China?
4. What are the implications of post-reform HR practices in China for an MNE?
5. On what areas did the new appraisal system focus in China?

LESSON 31

Issues and challenges to IHR function with respect to India.

Learning Objectives

1. The issues and challenges related to host-country staffing through an examination of the HR implications of operating in India.
2. Red Tape and Bureaucracy
3. Unfamiliarity and Cultural distance
4. Recruitment, Compensation and Appraisal systems in India and their implications for an MNE

Introduction

With an estimated population of 973.5 million, India is the world's fifth largest economy. It is a heterogeneous country characterized by diverse cultural groups (or subcultures) and a strong social class system (known as the caste system). While the official languages are Hindi and English, there are 14 recognized regional languages. The main religions, as a proportion of the total population, are Hindu (84 percent), Muslim (11 percent), Sikh (2 percent), and Christian (2 percent). In 1997, the country celebrated 50 years of independence from British colonial rule. Post independence, India pursued a protectionist, import substitution policy to promote local industries, and this involved restrictions on foreign investment and imports. Foreign firms were "encouraged" to localize, by taking Indian partners and adopting Indian, or hybrid, brand names (such as Lehar-Pepsi or Hero-Honda). However, since 1991, the Indian government has been progressively liberalizing its economy. Foreign firms may now own 100 percent of Indian companies in some sectors, and as much as 74 percent in others. Its large market potential has attracted interest from multinationals from various countries, exposing once protected local firms to foreign competition.

For foreign firms, part of the attraction has been the low cost of Indian labor. However, the competitiveness of India in terms of the availability, qualifications, and skills of its human resources is considered to be one of the lowest in the world. Geissbauer and Siemsen argue that the cost advantage derived from the availability of cheap labor tends to be neutralized by lower productivity. According to the Australian Department of Foreign Affairs and Trade, the low investment of capital employed per worker, combined with a work culture that does not encourage high performance work practices, are mainly responsible for the low level of productivity of the Indian labor force. This adds another dimension to the "expense of cheap labor" paradox we discussed earlier. However, it is important not to make generalizations. For example, the Indian software industry is highly competitive—Indian firms do not just compete on price, but on the basis of quality, innovation, and technical expertise, and draw on a huge pool of relatively low-cost, technically-qualified, English-speaking software professionals. In 1996, 104 firms out of the Fortune 500 outsourced their software development to India. About 10 percent of Microsoft's 20,000 worldwide workforce is Indian. The complexity of the Indian business environment has impacted on the method that foreign firms have tended to use to enter

and service the Indian market. Even though there is less restriction on the form of operation mode since 1991, when it comes to equity arrangements, foreign multinationals have shown a preference for international joint ventures (IJVs). For those foreign firms not able or willing to invest in equity arrangements, licensing has been a heavily used alternative. The motives for entering into an IJV arrangement are many and varied, but a major reason is to spread risks. However, as many firms soon discover, forming an IJV creates a risk in itself and the relevant literature reports a high failure rate. Success seems to depend on an ability to balance “the desire and need to control the venture on the one hand, and the need to maintain harmonious relations with the partner(s) on the other hand.

Likewise, the factors attributed to the failure of a joint venture are most frequently human-related—poor decisions, behavioral errors, or unanticipated staffing events. Interests may be incongruent, particularly when one of the parents is the host government. Therefore, an IJV presents a major management challenge, particularly so when a foreign firm has been forced into the IJV by necessity rather than choice : as is often the case in both China and India. It is evident that selecting the right people for key management positions is critical to success, and the harmonization of management styles is also essential. Of the many reasons for establishing an IJV, two seem particularly relevant for India : dealing with bureaucracy and unfamiliarity and cultural distance.

Dealing with Bureaucracy

The pervasive corruption encountered by Western firms is attributed to excessive controls and unfulfilled demand for goods and services, leading to India being ranked as the ninth most corrupt country in the world. Indian bureaucracy is said to be parochial and obstructionist—“red tape” is considered one of the most significant problems in conducting business in India.

Widespread tax evasion is another feature of the Indian economy

In the face of such reports, many foreign firms do not want to confront these issues directly. A recent study of Australian firms operating in India found that a major reason for forming IJVs was to entrust the local partner to deal with government officials, other agencies, and the “bureaucracy.” Likewise, a study of 26 Norwegian firms in India found that 11 had established IJVs, and only one had a wholly owned subsidiary. The overriding reason for the Norwegian preference for the IJV was to reduce risks by having the local partner deal with “things Indian.” As one Norwegian executive commented: “The Indian market is difficult and complex. It’s good to have a partner who knows the business and the bureaucracy. A partner who has the right connections.

Unfamiliarity and Cultural Distance

Generally speaking, most Westerners perceive India to be culturally distant and this can lead to a preference for an IJV with a local partner. Hofstede classified India as high on his power-distance dimension (i.e., a society where less powerful members accept the unequal distribution of power). He also ranked India as weak on the uncertainty-avoidance dimension (tolerance for future uncertainty and risk), dominant on the collectivism dimension (emphasis on group

orientation), and dominant on the masculine dimension (characterized by, for example, its high level of bureaucracy and the social caste system). One could suggest that high-power distance is one of the major features of the Indian management style. According to Sharma,⁸⁰ an average Indian manager represents:

A plausible picture of the average Indian's resistance for change, his willingness to delegate but unwillingness to accept authority, his fear of taking an independent decision, his possessive attitude towards his inferiors and his abject surrender to his superiors, his strict observance of rituals and his disregard of them in practice, his preaching of high morals against personal immorality, and his near-desperate efforts at maintaining the status quo while talking of change.

The extent of power distance may have a negative correlation with the level of trustworthiness: that is, the higher the power distance, the lower the trust. Ratnam regards perceived trustworthiness as a key HRM problem, in the Indian context. He described the scenario as follows: Workers consider employers as *Paisa chor* (they swindle and appropriate surpluses from the enterprise). Balance sheets are generally considered to be excellent pieces of fiction. Employers consider workers as *Kam chor* (mean, lazy people who shun work). Labor unrest is a related feature of the Indian environment that may make an IJV attractive.

Two major areas of industrial dispute are wages and working hours. Due to the constant pressure from trade unions, it is often difficult to maintain a part-time and contractual workforce, even though there has been an increase in the number of such arrangements. It has been suggested that, because of the antagonistic nature of trade unions, it is often very difficult to organize an Indian workforce into teams. State intervention is the norm in industrial matters. However, as most trade unions have strong links with political parties and many politicians are current or former union leaders, such interventions tend to be biased towards labor.

As a consequence, most multi-nationals find a local partner very helpful in dealing with situations involving trade unions and labor legislation. However, the advantages of the local partner can be offset by some of the problems inherent in the IJV as a form of international operation. As we will now explore, HRM plays an important role in assisting foreign firms to achieve their goals for their Indian IJVs.

Staffing

In a complex cultural context like India, it may be more advantageous to use local managers. A study by As-Saber, Bowling, and Liesch⁸⁶ found that the pervasive corruption encountered by Western firms is attributed to excessive controls and unfulfilled demand for goods and services, leading to India being ranked as the ninth most corrupt country in the world. Indian bureaucracy is said to be parochial and obstructionist—"red tape" is considered one of the most significant problems in conducting business in India. The authors suggest that a major reason for HCN preference is the belief that the right Indian will know more than an expatriate manager could learn in years on the job.

Additional reasons given by the multinationals in their study were:

- Avoids extra costs associated with relocating expatriates;

- Reluctance of many Western managers to live in India;
- Ensures continuity of management as HCNs are likely to stay longer in the position; and
Creates higher morale among HCNs due to a perceived career path.

Thus, the motives identified in this study for adopting a polycentric approach to staffing Indian IJVs are consistent with those discussed in general terms in earlier. However, the question of control over the IJV remains a concern for multinational firms. In situations of minority equity, control can be obtained through the use of managers who are loyal to the parent company and its organizational ethos. The success of some foreign firms in India may be attributed to effective integration of the local UV managers into the “global family” as illustrated in the case of Hindustan Lever presented in Exhibit 31.1.

Unilever, the consumer goods multinational (food, and home and personal care products), was created through the merger in 1929 of the British firm, Lever Brothers, and The Netherlands firm, Margarine Unie. In 1998, it was operating in 90 countries worldwide. It is controlled by two holding companies:

Unilever PLC (English) and Unilever N.V. (Netherlands). Its two Chairmen head the seven-member Executive Committee which includes the Personnel Director—the top decision-making body. Reporting to the Executive Committee is the Executive Council, which includes the heads (Presidents) of the 12 Business Groups based essentially on geographical markets. The Business Groups establish regional strategies and policies. Individual companies in each country report to a business group. Unilever has over 1,000 brands and 13 product categories. It describes itself as an international, multi-focal firm rather than a global multinational—half the products are foods, aimed at local tastes, and it tries to localize as much as possible. The firm currently has an expatriate workforce of 7 percent of total employees, drawn from many countries, including India.

Unilever has been operating in India for over 60 years through a 51 per-cent local entity, Hindustan Lever. Unilever endeavors to establish a strong sense of corporate identity, referred to as “Unileverization.” It has been rather successful in India—to the extent that there is a popular saying: You can take the person out of Hindustan Lever, but you can’t take Hindustan Lever out of the person. Values such as thrift and simplicity are advocated from the top. Its current team of 1,200 managers have been drawn from graduates of India’s top business schools and developed through its in-house training program.

Cultivating its own talent that is familiar with the Indian way of doing business, combined with loyalty to Unilever’s worldwide approach to managing, has made Hindustan Lever staff attractive to foreign and local competitors. There has been active poaching of its management staff. In a newspaper interview last year, the Hindustan Lever Chairman was asked about the effects of the arrival of more foreign multinationals in India. He commented that Hindustan lever has had to make adjustments: “We have significantly increased our salaries at various levels.” Management costs have doubled over the previous four to five years as a percentage of turnover.

Exhibit 31-1 : Unilever’s Indian’ Experience

Recruitment and Selection of HCNs

Once hired, it is not easy to dismiss employees under Indian labor law. The Industrial Dispute Act provides strict rules for layoffs and dismissals. Consequently, dismissals, and layoffs are difficult, and such actions can be contested through a petition to the government and can lead to a time-consuming process of negotiation. The prolonged dismissal process may be avoided through appropriate selection of staff. One of the attractions of the IJV is the assumption that a more experienced local partner can assist in identifying a suitable workforce. The IJV may perhaps even use the existing human resources (its internal labor market) of the local partner, if this pool of labor is considered to be sufficient in terms of skill and productivity levels.

Compensation

Since the economic liberalization in the early 1990s, it has become more difficult for foreign multinationals to find and retain high-quality local staff, as the rapid rise in the level of foreign and local investments in India has led to a shortage of skilled people.

This, in turn, is placing pressure on the compensation packages of qualified managers. According to a recent survey, an average Indian manager's annual real-salary increase is one of the highest in the world. Consistent with this report, a recent study found that continuous pay increases, along with a commitment to improve working conditions, are two preconditions to retain experienced staff, particularly in high-growth industries such as telecommunications and computer software development. Pressure is also being brought to bear on the minimum wage level, and this will increase the cost of labor over the longer term. The case of Unilever, outlined in Exhibit 31-1, illustrates how competition for key people can affect even an established subsidiary operation.

Training and Development

As was discussed earlier, international business operations places specific demands on effective training and development of PCN, TCN, and HCN staff. The IJV complicates this issue due to potential conflicts in managerial styles and expectations. Training expatriates in negotiation and conflict-resolution skills is advocated to enable them to cope with, and resolve, the unexpected issues and problems inherent in both the Indian context and operating in the joint venture situation. Despite the availability of cheap labor, as mentioned earlier in this section, low labor productivity is a common complaint among existing manufacturers in India. As a consequence, a multinational may have to provide extensive training programs for its local staff. The introduction of new production equipment and concepts such as just-in time, quality management, and so on, require additional training. Developing and retaining the workforce so that the multinational has a pool of managerial talent to draw on is also a challenge, as illustrated by the competitive situation now confronting Unilever's Indian operations (Exhibit 31-1).

Implications for Multinationals

Considering the cultural differences outlined above, it would appear that including local staff and practices is essential in building a performance-based work culture in Indian operations. A skill-

based approach may contribute to improved labor productivity and better performance. It is also evident that, as FDI expands, foreign firms are being forced to pay a premium price for quality people. Despite wage and salary increases, it is still cheaper to hire quality HCNs than employing expatriates, with the added advantage that locals are more familiar with the complexities of Indian business culture. However, staff training and development remain as important considerations.

Through this brief overview of two countries undergoing market re-forms and liberalization, it has been possible to illustrate the critical role that competent and trained staff play in partly determining the multinational's ability to achieve its strategic goals in these markets. It also reminds us that, as discussed earlier, having the right people in the right place remains the perennial challenge for firms operating internationally.

Summary

Post independence, India pursued a protectionist, import substitution policy to promote local industries, and this involved restrictions on foreign investment and imports. Foreign firms were "encouraged" to localize, by taking Indian partners and adopting Indian, or hybrid, brand names (such as Lehar-Pepsi or Hero-Honda). The complexity of the Indian business environment has impacted on the method that foreign firms have tended to use to enter and service the Indian market.

Even though there is less restriction on the form of operation mode since 1991, when it comes to equity arrangements, foreign multinationals have shown a preference for international joint ventures (IJVs). The pervasive corruption encountered by Western firms is attributed to excessive controls and unfulfilled demand for goods and services, leading to India being ranked as the ninth most corrupt country in the world. Indian bureaucracy is said to be parochial and obstructionist—"red tape" is considered one of the most significant problems in conducting business in India. The pervasive corruption encountered by Western firms is attributed to excessive controls and unfulfilled demand for goods and services, leading to India being ranked as the ninth most corrupt country in the world. Indian bureaucracy is said to be parochial and obstructionist—"red tape" is considered one of the most significant problems in conducting business in India. Despite wage and salary increases, it is still cheaper to hire quality HCNs than employing expatriates, with the added advantage that locals are more familiar with the complexities of Indian business culture. However, staff training and development remain as important considerations.

Questions that must prick your mind

1. What are the obstacles an MNE faces while dealing with Indian economic environment?
2. Why do MNEs prefer HCNs as managers in India?
3. Why is an MNE afraid of dealing with Indian bureaucracy and cultural distance?

LESSON 32

Corporate Social responsibility

Learning Objectives

Key concerns related to

1. Ethics
2. Social responsibility
3. Bribery
4. MNE a global citizen
5. International accords and codes of conduct

Introduction

Ethics and the question of corporate social responsibility are complex and the source of much controversy. In this section, we briefly discuss questions often raised about the existence of Transnational cultural standards of moral behavior and the implications for IHR and international managers. Our intention is not to review the literature in international business ethics, but to demonstrate the complexity that surrounds international business conduct, for the multinational, and for expatriates and local staff in subsidiary operations.

In the domestic context, debates about corporate social responsibility have focused on whether a firm should adopt non-economic goals. Those who argue for a narrow view of corporate social responsibility believe that a firm's only responsibility is to maximize profits for shareholders within the law. Proponents of a broader view of corporate social responsibility argue that firms should adopt the role of a "good citizen" and balance the interests of shareholders with the best interests of society. When business is conducted across national and cultural borders, the debate about corporate social responsibility takes on added layers of complexity. In particular, perplexing questions about the existence of universal ethical standards are raised. This is especially problematic when multinationals operate in host countries with different standards of business practice. The questions of ethical relativity and corporate social responsibility arise not only in the context of different home- and host-country employment practices but also in the central operations and policies of multinationals.

To appreciate the dilemma, take the situation of a multinational assigning a PCN to manage its operations in a host country. Whose standards should prevail? Those of the multinational's parent country or the host country? There are three main responses to this question. The first involves ethical relativism, the second ethical absolutism, and the third, ethical universalism. For the ethical relativist, there are no universal or international rights and wrongs: it all depends on a particular culture's values and beliefs.

Thus, if the people of Indonesia tolerate the bribery of their public officials, this is morally no better or worse than the people of Singapore or Denmark who refuse to accept bribery. For the

ethical relativist, when in Rome, one should do as the Romans do. While relativism may be appealing to those who fear cultural imperialism, it is a logically and ethically incoherent theory. Unlike the relativist, the ethical absolutist (or imperialist) believes that when in Rome, one should do what one would do at home, regard-less of what the Romans do.

This view of ethics gives primacy to one's own cultural values. Opponents of this view argue that ethical absolutists are intolerant individuals who confuse respect for local traditions with ethical relativism. It must be noted that while some behaviors are wrong wherever they are practiced (e.g., bribery of government officials) other behaviors may be tolerated in their cultural context (e.g., the practice of routine gift giving between Japanese business people). When PCNs discover too late that the political-legal environment in which their home-country policies were formulated is significantly different from that of the host countries in which they operate, the results can be extreme. Donaldson cites an example of a U.S. expatriate manager in China who followed her firm's policy on employee theft. On catching an employee stealing, she fired the employee and notified the relevant authorities. She was horrified to later learn that the employee had been executed.

In contrast to the ethical relativist, the ethical universalist believes there are fundamental principles of right and wrong, which transcend cultural boundaries, and that multinationals must adhere to these fundamental principles. However, unlike the absolutist, the universalist is careful to distinguish between practices that are simply culturally different and those that are morally wrong.

The difficulty for managers operating in diverse cultural environments is to identify moral norms, which transcend cultural boundaries, and then, without compromising those norms, recognize and respect diversity where it is morally appropriate to do so. One useful way to determine the ethical dimensions of a proposed project, policy, or behavior is to consider consequences, as well as rights and justice claims, for all stakeholders.

The Multinational as a Global Citizen

A global world is an interconnected world. It presents a critical challenge to identify common ethical values that underlie cultural, religious, and philosophical differences. While there are important differences between Western and Eastern philosophical traditions, they share four fundamental core human values: good citizenship, respect for human dignity, respect for basic rights, and equity.

For example, Donaldson links the Western values of individual liberty and human rights to the Japanese value of living and working together for the common good (*kyosei*) and the Muslim value of the duty to give alms to the poor (*Zakat*). Applications of core human values to specific duties of multinationals include the adoption of adequate workplace and environmental health and safety standards, the payment of basic living wages, equal employment opportunity, refraining from the use of child labor, providing basic employee training and education, and allowing workers to organize and form unions. Many multinationals now place considerable importance on being regarded as good global citizens and have initiated action to address public concerns about the environment and human rights. However, translating general ethical

principles and core values into practice in the international business domain, even allowing for some limited consensus within the international community, is an enormous task in the absence of a supranational legislative authority.

A number of mechanisms to facilitate the incorporation of ethical principles into international business behavior have been suggested. Predictably, these have centered on regulation, both self-imposed and government-decreed, the development of international accords, and the use of education and training programs.

International Accords and Codes of Conduct

One of the most interesting initiatives in international business self-regulation is the Caux Roundtable Principles for Business Conduct, developed in 1994 by Japanese, European, and North American business leaders meeting in Caux, Switzerland. This is the first international ethics code for business and aims to set a global benchmark against which individual firms can write their own codes and measure the behavior of their executives. The Caux Principles are grounded in two basic ethical ideals: *kyosei* and human dignity. The preamble to the Caux Principles states that:

The Japanese concept of *kyosei* means living and working together for the common good enabling cooperation and mutual prosperity to coexist with healthy and fair competition. Human dignity relates to the sacredness or value of each person as an end, not simply as the means to the fulfillment of other's purposes or even majority prescription.

The Caux Principles aim to further the twin values of living and working together and human dignity by promoting free trade, environmental and cultural integrity, and the prevention of bribery and corruption. The Principles have their origin in the Minnesota principles developed by the Minnesota Center for Corporate Responsibility in the United States. Following their adoption in 1994, worldwide endorsements have been sought. There are a number of international agreements and treaties in place which provide guidelines for managing corporate social responsibility across a wide range of problems in the multinational context.

Some of these multilateral compacts were discussed earlier. Of particular interest to multinationals are the OECD Guidelines for Multi-national Enterprises (1976) and the International Labor Office Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (1977). Based on their study of the international codes of conduct of the Organization for Economic Cooperation and Development (OECD), the International Chamber of Commerce (ICC), the International Labor Organization (ILO), and the United Nations, Payne, Rai-born, and Askvik suggest that international standards of ethics should address six major issues:

- 1. Organizational relations:** including competition, strategic alliances and local sourcing;
- 2. Economic relations:** including financing, taxation, transfer prices, local reinvestment, equity participation, and fiscal policies;

3. Employee relations: including compensation, safety, human rights, nondiscriminations, collective bargaining, whistle blowing, training and sexual harassment;

4. Customer relations: including pricing, quality and advertising;

5. Industrial relations: including technology transfer, research and development, infrastructure development, and organizational stability/longevity; and

6. Political relations: including legal compliance, bribery and other corrupt activities, subsidies, tax incentives, environmental protection and political involvement.

Industries or individual firms can also develop self-regulatory codes.

A corporate code of conduct is a public statement of the firm's values and guiding principles. The need for comprehensive and cohesive codes of conduct for firms involved in international business is widely recognized as an important issue. Donaldson reports that 90 percent of all Fortune 500 firms have codes of conduct and 70 percent have statements of vision and values.

The percentages in Europe and Asia are lower but increasing rapidly.

An example of a U.S. multinational's code of ethics, which is comprehensive in recognizing relationships between the company and its many stakeholders, is Johnson & Johnson's Credo, which, in part, states:

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly, and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified.

We must provide competent management, and their actions must be just and ethical. We are responsible to the communities in which we will live and work and to the world community as well. We must be good citizens—support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources. A common difficulty with codes of conduct is their enforcement. The attitudes of senior management play a crucial role in developing, implementing, and sustaining high ethical standards. Expatriates, line managers, and HR professionals may also play a role in institutionalizing adherence to ethics codes through a range of HR-related activities, including training and the performance—reward system. If self-regulatory mechanisms fail to shape the level of socially responsible behavior required of multinationals by society, then firms can expect legislative measures will be called for to resolve conflicts between themselves and host and home countries. Such is the case with bribery.

Bribery: A Recurring Problem in International Business

Bribery and corruption top the list of the most frequent ethical problems encountered by international managers. Macken estimates that about U.S.\$85 billion is involved in bribes from industrialized countries to developing nations. Bribery involves the payment of agents to do things that are inconsistent with the purpose of their position or office in order to gain an unfair advantage. Bribery can be distinguished from so-called gifts and “facilitating” or “grease,” payments. The latter are payments to motivate agents to complete a task they would routinely do in the normal course of their duties. While most people do not openly condone bribery, many argue for a lenient approach based on the view that bribery is necessary to do business. However, it is now generally agreed that bribery undermines public confidence in markets, adds to the cost of products, and may affect the safety and economic well-being of the general public.

For these reasons, there is increased interest in the regulation of bribery. In 1977 the United States enacted the Foreign Corrupt Practices Act (FCPA) to prohibit U.S.-based firms from making bribery payments to foreign government officials. The FCPA also applies to individual U.S. citizens, nationals, and residents. The Act was amended in 1988 to permit “facilitating” payments.

In addition, payments to agents violate the Act if it is known that the agent will use those payments to bribe a government official. Sanctions under the Act are severe.

Corporate fines can go up to U.S.\$2 million and individual penalties to U.S.\$100,000 and five years imprisonment. The FCPA mandates record-keeping provisions to help ensure that illegal payments are not disguised as entertainment or business expenses. The FCPA has been criticized because it places U.S. firms at a competitive disadvantage since European and Japanese firms do not face criminal prosecution for paying bribes to foreign officials.

Moreover, nine European countries, as well as Australia and New Zealand, have allowed firms to deduct bribery payments as “business expenses” from their taxable income; on this latter point, it should be noted that most countries require a receipt for such an expense, and receipts for bribes are relatively uncommon. The evidence on the effect of the FCPA is mixed. While some studies report that the Act has had adverse effects, other studies have shown that even though some business may have been lost, the Act has not made U.S. firms less competitive, nor has it caused U.S. exports to decline. In the absence of adequate international self-regulation to control bribery and corruption, the OECD countries have looked to uniform domestic government regulation to provide a level playing field. At the end of 1997, 34 member countries of the OECD reached formal agreement on an international convention that criminalizes corporate bribery of foreign officials. The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was signed on December 17, 1997. According to the Convention, each member country must introduce and enact its own legislation criminalizing bribery by the end of 1998. Thus it would seem that by the turn of the century the United States will not be alone in legislating against corruption and bribery in the international arena. At the instigation of the United States, the OECD Convention signatories have also been asked to adopt a resolution that prohibits the tax deductibility of bribes, and to rewrite their legislation to bring it into line with the Convention.

Some non-OECD countries have also moved to curtail bribery and corruption.:-

For example, in Malaysia and Singapore several foreign firms caught bribing public officials have been declared ineligible to bid on future government contracts. The debate over payment to foreign officials is likely to continue well into the twenty-first century.

Implications for the HR Function of the Multinational Firm

Ethical issues are also people issues and thus the issues raised above have direct implications for the HR function. It is recognized that the HR function is responsible for many of the activities that build a sense of corporate identity, such as staff selection and training.

As we discussed earlier, corporate culture is one of the soft control mechanisms, and ethical codes of conduct : along with public statements regarding corporate values : are an important element of such normative control. To achieve the goal of corporate social responsibility, HR professionals in multinationals may be required to:

- Minimize the exposure of employees to corrupt conduct by assisting in the development, publication, and implementation of appropriate codes of conduct;
- Ensure training programs cover areas of ethical concern: such as bribery, human rights, justice, and the common good : in a manner consistent with the multinational's objectives in this regard;
- Align performance appraisal and compensation systems so that they support the ethical stance taken;
- Be conversant with the type of requests that may be made of staff operating internationally not just expatriates but also those who visit foreign markets in various capacities and provide the necessary training so that they have the requisite negotiating skills to handle problem situations that may arise; and
- Ensure that employees understand the difference between corrupt bribery payments, gifts, and allowable facilitation payments.

Given the strong positions taken by governments on ethical behavior, it is important that all staff are fully briefed on their responsibilities in this regard. In conclusion, while people involved in international business activities face many of the same ethical issues as those in domestic business, the issues are made more complex because of the different social, economic, political, cultural, and legal environments in which multinationals operate. Some firms do prepare expatriate managers for the ethical choices they will face in relation to bribery and corruption. However, in their study of 31 U.S. firms, Carlson and Blodgett found that few provided their employees with information about the firm's stand on issues such as child labor, unfair trade practices, pirating of copyrights, and environmental protection. 117 This study indicates that many firms may need to place more emphasis on pre departure training and in-country orientation of expatriates that includes an ethics component covering such basic information. To not do so is likely to increase the risk that difficulties will arise in the operationalization of ethical responsibilities for multinationals.

Summary

When business is conducted across national and cultural borders, the debate about corporate social responsibility takes on added layers of complexity. For the ethical relativist, there are no universal or international rights and wrongs: it all depends on a particular culture's values and beliefs. The ethical absolutist (or imperialist) believes that when in Rome, one should do what one would do at home, regard-less of what the Romans do. This view of ethics gives primacy to one's own cultural values. The ethical universalist believes there are fundamental principles of right and wrong, which transcend cultural boundaries, and that multinationals must adhere to these fundamental principles.

A global world is an interconnected world. It presents a critical challenge to identify common ethical values that underlie cultural, religious, and philosophical differences. While there are important differences between Western and Eastern philosophical traditions, they share four fun-damental core human values: good citizenship, respect for human dignity, respect for basic rights, and equity. One of the most interesting initiatives in international business self-regulation is the Caux Roundtable Principles for Business Conduct, de-veloped in 1994 by Japanese, European, and

North American business leaders meeting in Caux, Switzerland. This is the first international ethics code for business and aims to set a global benchmark against which individual firms can write their own codes and measure the behavior of their executives.

Questions that must prick your mind

1. What implications do trans-cultural standards of moral behavior have for IHR and international managers?
2. How do ethical relativist and ethical absolutist view the cultural beliefs and values?
3. What challenges does an interconnected present day world pose to IHRM with respect to cross cultural management?
4. Discuss international accords and corporate codes of conduct and their implications to IHRM.
5. Examine the issue of bribery and its implications for IHRM and what remedies do you suggest?

LESSON 33

Theoretical development in IHRM

Learning objectives

1. Strategic International Human Resource Management
2. Endogenous and exogenous factors

Introduction

Various researchers in the IHRM field have been endeavoring to develop a theoretical body of knowledge to provide the necessary robust frame-works and models pertaining to a more mature scientific field of inquiry. Many of these developments have been incorporated into the relevant chapters of this text where appropriate. Reviewing these theoretical contributions, it is possible to identify two streams of inquiry: the micro-level, which has concentrated on HRM activities particularly expatriate management, and the macro-level, which has a more strategic focus. Both streams of research are appropriate and critical to theory development. Early work in the IHRM field has been dominated by large-scale quantitative studies by U.S. researchers on expatriate management is-sues in U.S. firms.

These have a common approach in using HR managers as the respondents.

The work by Tung, Black, Oddou, Mendenhall, Gregersen, and Harvey are good examples of such contributions. These studies are important in that the empirical findings identified key issues and challenges in the use of expatriates in staffing subsidiary operations. More significantly, these researchers raised the profile of IHRM as an area of scientific inquiry. Surveying HR managers is a logical and useful contribution to research and theory building, but it became somewhat inevitable that IHRM, as a scientific field, would need to consider other IHRM phenomena than expatriation management activities. It was also desirable for research to move beyond description—broadening methodological approaches to include inductive as well as deductive research.

Some researchers, therefore, are using an inductive, exploratory approach.

For example, Welch, Monks, and Tahvanainen utilize qualitative case studies. Also, utilizing research methods that allow HR managers' perspectives to be supported by others such as expatriates and partners, as well as archival material and documentation, has yielded additional insights into IHRM activities and issues, and consideration of broader organizational factors. Other re-searchers have used quantitative methodology to determine linkages between a specific HRM activity and broader organizational strategies.

For example, the investigation of Spanish multinationals' expatriate compensation approaches and subsidiary strategies by Bonache and Fernandez; and the study linking the HR function to firm performance by Stroh and Caligiuri. In a recent review of IHRM research trends, De Cieri

and Dowling identify a line of research that has come to be termed strategic inter-national human resource management (SIHRM). It considers the HRM issues and activities that result from, and impact on, the strategic activities and international concerns of multinationals. This line of inquiry parallels that of strategic HRM, which focuses on the link between organizational strategy and performance, and HRM. Its strength, in terms of theory development, is that it draws on various schools in strategic management, rather than solely on domestic human resource management. Thus, institutional theory, resource dependence theory, transaction cost, the behavioral school, and the resource-based view have been drawn on in order to develop a more informed perspective of SIHRM. The theoretical framework derived by Schuler, Dowling, and De Cieri is a good example of such work. Commenting on the emerging body of research into SIHRM, De Cieri and Dowling remark that, while SIHRM as a distinct area of research has been a useful step, it may be more appropriate to speak of strategic HRM in multinationals. This allows a more balanced view to be taken of the similarities and differences between international and domestic HRM. To this end, De Cieri and Dowling propose a revised framework of SHRM in multinational firms, which is shown in Exhibit 33.1. As depicted in Exhibit 33.1, multinationals operate in the context of worldwide conditions, including the exogenous contexts of industry, nation, region, and interorganizational networks and alliances.

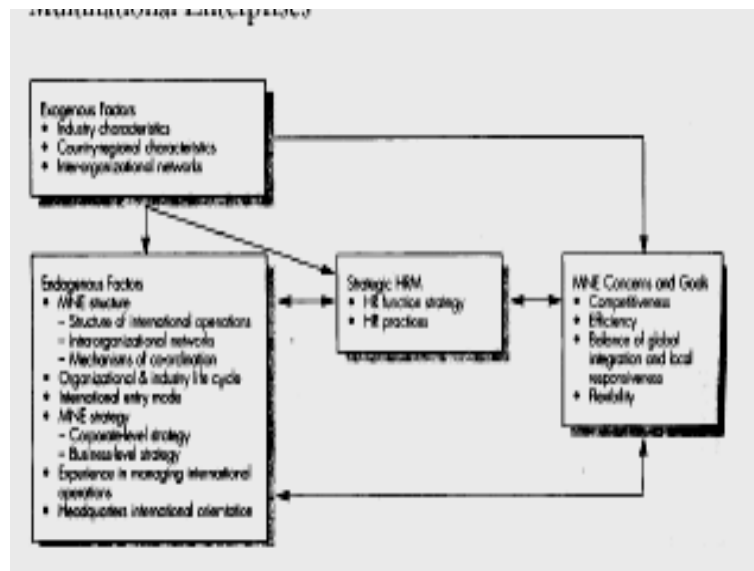


Exhibit 33.1 Integrative Framework of Strategic HRM in Multinational Enterprises

The economic reforms in India and China, as discussed earlier in this chapter, are strong examples of the impact that the exogenous context has on HR practices. Likewise, the removal of internal trade barriers and integration of national markets in the European Union has brought a new range of inter-organizational relationships. The introduction of the European Monetary Union from January 1999 has the potential to hold significant implications for inter-organizational relationships.

As indicated in their above figure, De Cieri and Bowling, therefore, argue that exogenous factors exert a direct influence on endogenous factors, SHRM strategy and practices, and

multinational concerns and goals. In the above exhibit, endogenous factors are shown in order of most “tangible” to most “intangible.” Multinational structure is used as an umbrella term to cover structure of international operations, intra-organizational networks, and mechanisms of co-ordination. The life-cycle stage of the firm and the industry in which it operates are important influences for SHRM in multinationals as are international operation modes (although De Cieri and Bowling term these as international entry modes) and levels of firm strategy. Intangible endogenous factors include the multinational’s experience in international business and its headquarters’ international orientation. Following developments in the literature, particularly that integrating resource dependence and resource-based perspectives, the authors develop an argument for reciprocal relationships between endogenous factors, SHRM, and multinational concerns and goals, as indicated in Exhibit 33.1.

It is also possible to identify reciprocal relationships between strategic issues and SHRM strategy and practices. De Cieri and Dowling refer to several studies that have shown that HR activities such as expatriate management are influenced by both endogenous and exogenous factors. One can see, for example, a similarity between these authors’ endogenous factors and the firm-specific variables in the model developed by Welch, reviewed earlier.

Effective SHRM is expected to assist the firm in achieving its goals and objectives

In supporting this position, De Cieri and Dowling refer to the emerging body of SHRM literature that examines the relationships between endogenous characteristics, SHRM strategy and practices, and firm performance or competitive advantage. These authors, however, recognize that some research has suggested that multinationals will gain by utilizing and integrating appropriate SHRM strategy and practices to enhance firm performance, but point out that important question about the nature of this relationship remain. Thus, it appears that IHRM research is entering the second phase of theory building. Based on multiple-theory and multiple-method approaches, further work should move the level of analysis from the micro to the more strategic level. Further, the field is increasingly being driven by research outside of the United States. This is evident from the number of studies from scholars from Europe (including the Nordic countries and the United Kingdom), Asia, and the Pacific included in this book. While most research is still single-country, these various studies have identified common IHRM concerns facing firms as they internationalize, regardless of their country of origin. The real challenge is to develop innovative and effective research approaches including the conduct of multi-team, multi-country research that would support the repeated calls for multidiscipline, multi-level, and multi-method theory development.

Summary

Reviewing these theoretical contributions, it is possible to identify two streams of inquiry: the micro-level, which has concentrated on HRM activities particularly expatriate management, and the macro-level, which has a more strategic focus. Both streams of research are appropriate and critical to theory development. The removal of internal trade barriers and integration of national markets in the European Union has brought a new range of inter-organizational relationships. The life-cycle stage of the firm and the industry in which it operates are important influences for SHRM in multinationals.

Questions that may prick your mind

1. What is meant by Strategic Human Resource Management?
2. What are endogenous and exogenous factors in IHRM?

LESSON 34

A Comprehensive Case Study

Case history: MIMSI

Machines for the milking of cows have become increasingly sophisticated and integrated into larger milk collection, storage and quality monitoring systems. Development, manufacture and selling of such machines and systems is the domain of MIMSI. More recently, consultancy and training for users has also become more important. With internationalization of the company and of milking systems more generally, increasingly diverse markets have to be catered for. In some countries, highly automated milking systems appear unfeasible or impractical or too costly (in view of unreliable or absent electricity supply, low labor costs, difficult repair or service, low familiarity with engineering products, etc.). In other countries, competition in agriculture forces farmers to specialize, concentrate and automate milk production.

MIMSI originated from the merger of a Swedish and a Dutch milking machine producer in 1974. The headquarters of the first joint company was in Jönköping (Sweden). Later, in view of more advantageous taxation of company profits and better international transport links, the headquarters were moved to Hoofddorp, outside Amsterdam. In 2002, the company has production facilities in Almelo (Netherlands), Jönköping, Vilsbiburg (Germany), Lisieux (France), Seoul (Korea), Rosario (Argentina), Potchefstroom (South Africa), Nakuru (Kenya) and Oshkosh (Wisconsin, USA). Development is more concentrated in the founding companies' location, i.e. Almelo and Jönköping. The production locations in the USA, France and Germany had been taken over, whereas those in the other countries had been founded and built up by the multinational after the merger of the Dutch and Swedish founding companies. In the whole multinational, there is a continuous discussion about decentralization of development to other locations, to permit adaptation to specific local customers and problems. Some element of local development (to adapt machines and systems to local requirements and opportunities) is now present in most locations. In addition, there are sales agents and repair and service firms under contract in 43 countries world wide. In the multinational company, there are - generally speaking - two factions: The 'globalizers', whose motto is: We follow cows wherever they go. And the 'regionalists', whose motto is: No one cow, pasture and farm is like the other. These factions to some extent fight for power in the enterprise. The opposition between them is both, technical (product design and standardization, measurement and control systems, larger systems architecture, software) and commercial (marketing approaches, price policies, measure of customization versus standardization). It is also inherent to different approaches of localizing and integrating functions around the world, including procurement and outsourcing policies, and it also has a human resource angle. Meet the board of management of the multinational company:

Chairman: Marcel Bluntschli (Swiss), 56, who joined MIMSI after having worked for a long time in Nestlé. He has mainly commercial and financial experience in the world wide organization of Nestlé, a food products multinational.

Product development: Arlette Mertz (French), 47. A telecommunications engineer who made a career out of development of computer control for integrated milking and dairy systems. She joined the Board after MIMSI acquired the French subsidiary. Production: Leif Johannesson (Swedish), 55, a production engineer from Jönköping who has worked in the company most of his working life. Finance: Mark Hollingsworth (US), 48, who had worked in international finance for American banks previously. Human Resources: Annette Veenema (Dutch), 46, a business studies graduate from Wageningen with experience in HRM consultancy firms. Marketing: Kees Hellemans (Dutch), 51, a business studies graduate from Groningen who had come from Stork (Hengelo, NL), where he had set up a world wide selling network for food processing equipment. European operations: Birger Boklund (Swedish), 57, former technical director of the Swedish arm of MISMI.

American operations: Charles Krausnitzer (US), 60, former manager of an Anheuser-Busch brewery in Milwaukee which was closed down in 1995. African and Asian operations: Cyril Chatterjee (Kenyan of Indian origin), 56, former manager of a larger farming estate in the Kenyan highlands. Whilst the ‘functional’ Board members mainly work at Hoofddorp, they have to travel a lot. The directors of European, American and Asian/African operations come to Board meetings once a month at Hoofddorp, but they spend most of their time at regional headquarters (Vilsbiburg for Europe, Oshkosh for America, Potchefstroom for Africa/Asia). The enterprise has 9500 employees world-wide. Its capital shares are traded on the stock exchange of Amsterdam. The subsidiaries in the countries mentioned are incorporated as companies under the respective national law. They are mostly companies wholly owned by the ‘mother’, MISMI. Share ownership in MISMI is with: The Palmström family in Sweden, who had owned the Swedish constituent previous to the merger: 35% A consortium of Campina-Melkunie (NL), Oetker group (Germany) and Nestlé (Switzerland): 40% Various floating investors (private, investment funds etc.): 25% As can be gathered from the list of Board members and their functions, the world wide enterprise organisation has a matrix structure, composed of a functional and a regional axis. However, allocation of precise competencies to subsidiaries, regional directorates and functional directorates is a matter of continuous change and debate. Human Resource responsibility is mainly located in national subsidiaries, but also in regional directorates to a minor extent, for professional and managerial staff, and the extent of its centralisation at Hoofddorp is contentious.

Product development is strongly present at Almelo, Lisieux, Jönköping and Vilsbiburg locations, and this is very much controlled from Hoofddorp. Production and marketing is intermediate in centralization and standardization, but similarly a subject of discussion and adaptation.

Roster of Meetings and Topics

Introduction and Overview

Plenary Meeting

➤ Internationalization of Business

Why should milking machine manufacturers, serving a traditional clientele of farmers, merge internationally and want to turn into a multinational firm?

➤ **Strategies of Internationalization**

Task: Listen to Finance Director Mark Hollingsworth at a recent Board meeting: “Look, I have done my best to earn money for the company by centralizing our cash and funds management. But globalisation of other operations is not keeping up with the globalisation of finance. That makes it much more difficult for us. We should work towards international pooling and centralisation of as many functions as possible. That allows a more refined control of finance. And this is also the way to penetrate more markets, rather than through this sort of messy merging and acquiring of firms and politicking to intertwine the components that this company must have seen in the past. I was not here at the time; things should have been streamlined better.”

How do you explain the expansion of the firm in the past and what do you recommend for the future?

In Groups

Organising Multinationals

Task: MISMI’s matrix organisation is a continuing concern. The marketing people mostly argue that the authority of local management needs to be strengthened. Kees Hellemans offered this comment: “How do you expect to sell milking machines which are the same for Tanzania and for Wisconsin? You always sell some, but your market share is limited”. Mark Hollingsworth strongly comes up for global integration and centralisation: “Economies of scale give you better profit margins.” Johannesson and Mertz say: “Well you need a bit of both, really. Do not make up an organisation structure that does not work.” Bluntschli tries to mediate: “Look, we have to expand, within markets and to other countries, otherwise we lose out against the competition. We need competitive prices and adapted solutions at the same time, and possibly a greater range of models and more customisation. Let us have a consultant look into a workable organisation structure.”

What is your analysis and recommendation?

In Groups

Cultural Diversity and How to Deal With it

Task: Production Director Leif Johannesson talks to Annette Veenema: “It is very frustrating; our production sites are to learn from each other better and I try to move people around a bit. But often they have great difficulty understanding a foreign environment. Can I come to grips with this more systematically, and can we prepare people for foreign contexts better, so that they understand each other more smoothly and behave towards each other in ways which avoid fundamental misunderstanding?”

In Groups

Staffing Multinationals

Task: Veenema is proposing to the Board that there should be much greater international mobility of staff: More international recruitment, and more international careers in the multinational. At present, there are on average 1-2 expatriates per location that had been transferred there by the centre. Chatterjee responds: “We have very good managers and engineers in Africa and Asia, you know. We are doing well, and we often have awful difficulties integrating foreigners who become ill, have marital troubles, do not understand the culture, and everyone knows they get paid twice what we get at least, just for being there. And if one of us works in Europe or the US, look how we are compensated for the mobility!” Mertz argues: “Only local people can solve local problems. We do need to cooperate internationally, but with the internet and video-conferencing, we can do projects across borders very well. Why should we go to all this trouble of relocation, integration and re-integration?” Krausnitzer suggests that staffing should be left to the regional directors: “...they are intermediate between the centre and individual locations. People on the same continent understand each other.” Bluntschli turns to Boklund, as ‘someone intermediate’, to offer a solution. Boklund who is travelling most of the time, asks a student doing a project and exam dissertation to draft an analysis for him, as a basis for further suggestions. What do you say?

In Groups

Training and Development

Task: After having started a discussion on the frequency of international careers and transfers in MISMI, Veenema is opposed by Hollingsworth, who says that international postings are usually a waste of time. He cites, as an example, the case of Xaver Kaczmarek, a hydraulics and pneumatics specialist presently working at Vilsbiburg, his home town, after having worked at, first, Lisieux for three years and then Nakuru for five years. Kaczmarek recounts: “Well, Lisieux was quite ok. Normandy is lovely, a bit like Lower Bavaria, they are friendly and they enjoy life, and Paris is not too far. Then Nakuru. At first I was enthusiastic. The rift valley is the most beautiful place on earth and people are easy. But then you should see it in the rainy season: all mud, and nothing works any more. And many things do not work for the rest of the year. There was no good school for the children. Nairobi is nearly two hundred km away, and the road is awful, full of holes. OK, I learnt a lot, getting by in a somewhat chaotic place, and I guess they learnt a lot from my hydraulics knowledge. Then the question was what to do afterwards. Vilsbiburg indicated to Veenema that I should go to Rosario, where they had an opening at the time. What do these people think they are doing? I cannot move my family around the world like a gypsy! My wife was threatening me with a divorce! So now I am back at Vilsbiburg, and people just look at me as if I came from Mars. They do not know what working in Africa means, and they have no idea what this background may be useful for at home. When I went, I was a valued specialist, and now, to be honest, I feel like an outcast. I would not miss having been at Nakuru for the world, but for my career...” Hollingsworth argues: “This case is typical. You can check by doing a survey. It confirms what I have said all along. International postings are too costly, also in terms of human resources wasted and annihilated.” Veenema has a survey done of

people who have worked abroad. Of these, 63% replied that ‘in a longterm career perspective, I find that the balance of costs and benefits due to my foreign postings is negative’. Can anything be done to increase benefits?

In Groups

Appraisal, Compensation, Performance

Task: After a Board meeting, Krausnitzer and Boklund go for some serious drinking in Amsterdam. Later in the night or early morning, they compare their salaries and see that Krausnitzer’s gross salary is nearly twice that of Boklund. Krausnitzer’s reply is simple: “Well we do make a larger profit in the US than you in Sweden or Europe”. Boklund responds slowly, under the influence of alcohol but also because Swedes do that to indicate that they are really serious: “When we took you over, there was no profit and it is thanks to our investment that you can now make any profit. And US firms always make more profit because their investment comes from share capital more than ours. We are more indebted to banks. They are interested in reasonable long-term profits, not more.” Krausnitzer is not put off: “Yeah, that is your problem in old Europe, isn’t it. Besides, what I get is the market rate in the US”. Now Boklund becomes even more reluctant to answer back. When he is sober again, he goes to see Bluntschli and talks to him, to find out that Krausnitzer even earns clearly more than Bluntschli. The latter replies: “What can I do, markets are markets.” In the next Boardmeeting, Boklund asks for an overall review of compensation and appraisal in the larger company. “Come on”, Hollingsworth interjects, “you do not seriously intend to have a universal compensation scheme that applies everywhere?” “No”, Veenema says, “but at least a scheme that allows us to develop and promote management talent intenationally, in a fair and reasonably objective way”. “Pay’em by the results they have, that’s what I say”, is the response of Krausnitzer, and Hollingsworth nods approvingly. Chattergee throws in, with a grin: “My Korean factor productivity and market growth in our region is the highest. And Potchefstroom is not trailing too far behind. We do not make a huge profit in the division, but this is because of the internal transfer pricing which shifts all the profits to Europe and the US. So, depending on the criteria, compensation by results suits us nicely, in Africa and Asia.” Can you help Veenema with a compensation and appraisal approach?

In groups

Participation and Co-determination in an International Perspective

Task: Demand for MISMI’s products is picking up in Europe, and the company now has to choose between two main options: Expand facilities in existing locations, or set up a new production facility elsewhere in Europe, possibly closer to national markets farther away from those already covered. Boklund and Johannesson are cautious: “As long as we are not sure that investment into a wholly new facility is warranted because demand will be stable in the long run, it is preferable to expand existing facilities except in Almelo. There, the labour market is just too tight, at the moment”. Hollingsworth objects: “I think this is the best opportunity to relocate production away from the industrial rust belt in Europe. They have high labour costs and the unions and councils and so on drive you crazy. Let us have more HRM if you want but less

labour relations with unions. This makes the working of companies in Europe less flexible. Let's go to Turkey, that's what I say. We would have shut down Oshkosh years ago, for being in a unionised state, had it not been so important to be close to all those dairy farmers in Wisconsin." "I guess you are right", says Krausnitzer; "I want to move to the South after retirement anyway. Texas would suit me just fine." Johannesson and Boklund are becoming very calm again, and speaking slowly, they ask: "Is it not... a little easy to assume... that unions and councils... might have no function in the enterprise?" Mertz wants to get on and rapidly comments: "In France we are sometimes glad if unions and councils are not too important, but the main thing is not to have several unions competing in one company, and laws on participation are not bad per se, so I would ask the HRM Director to explain to us the meaning of participation in different countries and what it means to us". "Yes, you explain it to us before we make a decision", Krausnitzer joins in. Bluntschli has the last word: "I could not agree more". Veenema is holding the baby, again, but having another student doing a practical and dissertation for her, she knows how to delegate ungrateful staff work.

In Groups

Collective Bargaining, Social Policy, International Government

Task: To show multinationals with headquarters in the Netherlands that they are important to the government, Prime Minister Kok has invited a number of Chairmen of Boards to attend a speech. Bluntschli is among them. Kok speaks seriously about the necessity of a Social Europe, he refers to treaties and EU directives and recommendations, and he urges the 'captains of industry' to help with the building-up of this 'Social Europe'. Bluntschli walks away from the event somewhat apprehensively and talks about it at the next Board meeting. The Americans on the Board mention that there is something "like the EU happening in the Americas, called NAFTA". Bluntschli becomes even more apprehensive: "I thought that social legislation and collective bargaining was for the states, not international bodies. The chairman of the Works Council at Vilsbiburg also told me not to take all this Social Europe too seriously. Obviously workers are reluctant to share their national advantages with the rest of the world." Chatterjee stiffens and mumbles something about former South Africa, and Veenema expresses doubts: "I think at least we need to know what it implies for us, for our HRM, and we need to develop policies for dealing with that". Bluntschli gives a sigh of relief and replies: "I thank you for your constructive and helpful approach, dear Annette. By all means do draft a paper for us to tell us. But do not spend too much money on these expensive consultants who pretend to know so much. Talk to the employers' association". "They only provide services to members", Veenema replies, "and you remember that upon the urgent request of the non-European Board members, we did not join the Dutch employers' association, since we are a multinational company". Bluntschli gives another sigh, not of relief: "Oh well, get a student in to do a project".

In Groups

Gendered international HRM

Task: Veenema is complaining about the lack of good specialists and managers interested in international mobility. She says: "In order to fulfill our requirements, we need to tap new pools

of talent. Now, I see that women do not penetrate far into the real management layers. They get stuck on the way. I think we should consider the reasons and work towards a more conscientious policy of promoting women into international management”. Krausnitzer innocently joins in: “Yeah, it is bad enough for the wives of managers that are transferred. We do precious little for them”. With a stern face, Mertz tersely replies: “I do not think that this is the same problem. It sounds a bit sexist to me. If public authorities like in Sweden or France provided full-day schools and pre-school education everywhere, that would help”. “And still you are an exception”, Boklund says quietly; “a lot depends on how we treat people in the company, you know”. The men are becoming quiet. Hollingsworth is about to start a sentence: “Well, if we emphasized performance more as I always say, then...” But Bluntschli puts a hand on his arm and interrupts him: “This is a thorny issue. I think we should first await a more specific analysis from our HRM director, who thank God also is a woman, before expressing premature opinions”.

International Staffing

Learning Objectives

1. In the 3 lesson, we will focus on:
2. The human resource management covering the international operations employed by the MNCs in the UK, US and Japan.
3. Staff policies, expatriate policies, and failure rates in each country will be discussed.
4. Finally there will be a brief conclusion.

British MNCs

Staffing Policies

Regarding the staff policies used in the UK MNCs, Scullion (1991) claimed that the use of parent-country nationals expatriates to run foreign subsidiaries is still growing. It is believed that British MNCs prefer to use expatriates rather than locals. In his research, two-thirds of the companies used expatriates to run their overseas operations. The principal reason of using expatriates was management development, while the second major reason cited was the objective of control of local operations. Another trend found by his research was the tendency for companies to offer younger managers international experience much earlier in their career than previously (Scullion, 1991). By contrast, in an earlier research, Tung (1988b) reveals that UK MNCs would reduce the number of expatriates employed for their overseas subsidiaries. The reasons were three-fold: the high cost of expatriates, MNCs desire to offer greater autonomy to its local subsidiaries and the localization policies of host governments. The research data illustrated that UK MNCs have the intention to employ more third-country nationals (TCNs), for example, ICI is one of the surveyed companies, and it employed 250 TCNs out of 550 expatriates. Even though the ultimate goal is localisation, it is necessary to employ more parent-country nationals in the start-up phase of an overseas operation and the research findings have supported this view. For instance, NatWest transferred 90 percent of expatriates from the UK, when it first established operation in the US (Tung, 1988a). However, findings have been found slightly different from Hamill (1989). He discovered that the practices of staffing policy depend on industry. In his research, the banking industry has a strong preference for employing British nationals in overseas management positions, particularly in less developed countries. Whereas, in other industries, employing local nationals was the preferred policy. For instances, Food, Engineering, Chemicals and Oil industries. He also realised that British MNCs are continuing to employ a large number of expatriates. Similar to Scullion's research, international assignment as part of management development was one of the main reasons for using expatriates. Other reasons include to retain overall control from the headquarters, the required technical expertise is not available in the host country, and to provide training for locals (Hamill, 1989).

Expatriate Policies

Selection

According to Forster and Johnsen (1996), the most common selection procedure in British MNCs is informal interviews, but half of the companies involved in the research employed formal interviews, the method least used is the psychometric testing. The most important criteria regard technical skills, adaptability and previous domestic work record (Brewster, 1988; Hamill, 1989; Tung, 1988;). However, cited from a bank HR manager, there is no standard way of selecting people for international assignments and the bottom line is that if the people are told to go, they go...(Forster and Johnsen, 1996). By contrast, Hamill (1989) stated two banks in his research considered a wider range of personal characteristics, including cultural empathy, family stability, and previous experience abroad, etc. Therefore, the selection criteria and procedures could differ from company to company.

Training

The most significant method of training for expatriates in the UK MNCs is informal briefings and some MNCs provided language training. Whereas, banks provided shadowing opportunities for their expatriates (Brewster, 1988). Tung has found out that 3 out of 4 MNCs surveyed provided technical and management development training, language training, and 2 MNCs offered cultural orientation (1988b). However, all the training was provided for expatriates, but did not include their families.

Repatriation

Hamill (1989) states that few of the companies studied had formal repatriation policies. Similarly, research also indicated UK MNCs intended to adopt an ad hoc sink and swim attitude towards repatriate employees and their families (Johnston 1991). Even though they do not employ any formal repatriation policies, Johnston discovered that British MNCs were making good use of repatriates' skills. 65 percent of respondents indicated that the repatriates' work performance in the UK was improved as a result of using skills and experiences gained overseas (Johnston, 1991). Another common shared finding is that many companies have experienced difficulty in placing repatriates in the UK MNC and the returnees are also having problems with fitting into their parent companies (Forster and Johnsen, 1996; Johnston, 1991; Hamill, 1989). An inappropriate and incomprehensive planning on repatriation may be the cause of these problems.

Failure Rates

Research indicated that the failure rate amongst British expatriates is low. According to Hamill (1989) and Scullion (1991), they discovered that most of the UK MNCs had less than 5 percent failure. The failure rate is lower than the American expatriates for four reasons. First, the British expatriates were more internationally mobile than US expatriates. Second, the UK MNCs had developed more effective expatriate policies covering international transfers. Thirdly,

international experience was highly valued, and overseas assignments were regarded as being a crucial part of the individual's career development. A further and potentially controversial reason was due to lower performance standards in the UK MNCs (Hamill, 1989; Scullion, 1991).

LESSON 36

US MNCs

Staffing Policies

Kobrin stated that twenty years ago, US MNCs employed numerous expatriates in their overseas subsidiaries, it was not limited to the most significant managerial positions, but it was usual to find expatriates in the second and third levels of management. However, this situation has changed the local or third country nationals have replaced the American expatriates. A study conducted by Ondrack (1985) reveals that US MNCs used a combination of parent-country nationals for some control functions, for instance, finance; and local or third country nationals served for market-sensitive functions, such as, marketing and personnel. Another earlier study directed by Tung (1982) stated that host country nationals are used to a much greater extent of all levels of management in developed countries compared to the less developed countries. This is reasonable, as it is expected that the more developed regions would have a larger number of skillful staff in the management-level positions. Reducing American expatriates is another controversial issue. The reasons for reducing the number of American expatriates were at least two-fold. The first one is that Americans are unable to cope with working and living in new and foreign cultures, therefore, US MNCs have found it easier to replace them with foreign nationals than to make an effort to tackle the underlying problems (Kobrin, 1988). In addition, American managers are reluctant to accept foreign operation positions, as they have feared that if they went abroad, they would be forgotten and would miss the chance of promotion. Therefore, they prefer to focus on the huge domestic markets (Feltus, Robinson and Fink, 1993). Even though, several good reasons have been suggested, such as, reducing costs; increasing managerial effectiveness, and contributing to host country managerial and technical development (Kobrin, 1988). Researchers still claimed US MNCs have made an error (Boyacigiller, 1990; Kobrin, 1988), as several problems could be raised by reducing the number of American expatriates:

1. Reduced identification with the worldwide organisation and its objectives;
2. Difficult to exercise control through personnel;
3. Lacking opportunities for Americans to gain international experience through overseas assignments.

By and large, American expatriates are not the only choice for their overseas operations, local and third country nationals also play an important role in the subsidiaries of US MNCs. Unless the regions are lacking skilled labour or their overseas subsidiaries are in the start-up phase (Boyacigiller, 1990; Tung, 1982).

Expatriate Policies Selection

Research conducted in the early 70s, exposed that the most important selection criteria is the domestic performance record, as MNCs believed that if a man can produce within the US, then there is no reason why he would fail if he was working overseas (Baker and Ivancevich, 1971).

They also discovered that about 20 percent of the companies surveyed used psychological tests as tests are too expensive and MNCs doubt the reliability. In the 80s, Tung has realised that psychological testing was used more often by the West European MNCs than the US MNCs (Tung, 1982). In the same research, Tung recognised that half of the firms surveyed conducted interviews with both candidate and spouse.

Training

Baker and Ivancevich (1971) detected that about two-thirds of the respondents reported that they did not arrange predeparture training programmes for expatriates. It is consistent with the findings of Tung, she discovered that 68 percent of the respondents did not have any type of training programme to prepare the candidate for the international assignments. Even if MNCs provide pre-departure training for expatriates, their spouses are being ignored (Tung, 1982). Black (1989) realized that over 90 percent of the firms in his study did not offer predeparture training for the spouse. The reasons for omitting training programs were: trend of employing local nationals; short-term nature of such assignments; doubt over the effectiveness of such training programme and lack of time. In addition, the MNCs fear that employees may leave the company, as the mobility of the US workforce is high (Tung, 1982; 1987). Lublin (1992: B1) reported that Probably between \$2 billion and \$2.5 billion a year is lost from failed transfers in American MNCs, said J. Stewart Black.

After suffering tremendously, in the 90's, nearly half of major U.S. companies gave cross-cultural training to prepare the international transfers, consultants evaluated there was about 10% a decade ago. He also disclosed that the expatriate failure rate of Reynolds Metals Co (a big aluminum manufacturer in the US) dropped to almost zero after using cross-cultural training for more than a decade (Lublin, 1992).

Repatriation

Expatriates returning home is a problem for UK MNCs, it is the same situation for US MNCs. Stated by Copeland and Griggs (1985), US MNCs and their expatriates are not aware reentry could be a problem. However, American returnees found it is hard to come back and deal with the feeling of unimportance and lost power. In Korn/Ferry, nearly 93 percent of the returnees missed the decision-making autonomy (cited by Copeland and Griggs, 1985). In addition, they suffer from the consequences of being out of sight, out of mind in the promotion process. Another study found that employees had problems readjusting to the job return to the US, researchers criticised that lack of clear repatriation policies and comprehensive planning of the companies were responsible for those difficulties (Black and Gregersen, 1991). Fortunately, there are still some MNCs who are concerned about repatriation, for example, Motorola tackles the problem by offering re-entry workshops to help the returnees (Copeland and Griggs, 1985).

Failure Rates

It has been reported that American expatriates had a high expatriate failure rate. For example, Tung found that nearly 70 percent of the companies studied had failure rate of between 10

and 20 percent. 7 percent of the companies had failure rates of 20 to 40 percent (Tung, 1982, 1984a).

The reasons of having higher failure rate of US expatriates were at least five-fold:

1. The US MNCs had a shorter duration of the overseas assignments, typically, they are two to three years, it might not long enough for American expatriates to adjust to the new environment.
2. Lacking a comprehensive training and supporting planning.
3. The expatriates were worrying about out of sight, out of mind and being forgotten in the promotion process.
4. Americans were comparatively less internationally mobile, and unable to adjust to the new environment.
5. International experience was not as valued in the career paths, as the huge domestic markets; American workforce did not find overseas assignments attractive.

LESSON 37

Japan MNCs

Staffing Policies

Japanese expatriates always play a vital role in Japanese subsidiaries in Europe (JETRO, 1991; cited by Sachwald, 1995). It was reported that Japanese MNCs used parent country nationals more extensively in their top and middle management positions in their overseas operations (Beamish, Delios and Lecraw, 1997). It is consistent with the findings of Tung (1984b: 6) which stated that Japanese MNCs employed more parent country nationals than host country nationals and third nationals country, except in Canada and Africa. Beamish and his colleagues exposed that the newly formed wholly owned Japanese subsidiaries were more likely to employ more expatriates than the other entry modes, such as, newly formed joint-venture, acquisition and capital participation (Beamish, Delios and Lecraw, 1997). It is consistent with the US and UK MNCs, it is necessary to use more PCN expatriates in the start-up phase of the overseas operations (Tung, 1982). In Beamish and his colleagues study, Japanese MNCs employed more Japanese in senior management positions in the US than in other countries (Beamish, Delios and Lecraw, 1997: 187). This finding is similar to that presented by Tung (1982, 1984). One of the explanations for this situation is that North American operations were relatively more important to Japanese MNCs, as the US is the largest market in the world. (Beamish, elios and Lecraw, 1997). In addition, it was found that Japanese MNCs prefer to send older and more experienced managers (Allen, 1988). In short, Japanese MNCs tend to use an ethnocentric staffing policy. Not only smooth communication between overseas subsidiaries and headquarters could be ensured, but also the Japanese-style management could be successfully transmitted. However, non-Japanese executives find it difficult to integrate into those subsidiaries with a high portion of Japanese expatriates (Sachwald, 1995).

Expatriates policies

Selection

Managerial talent was the most important criteria for selecting candidates of CEO, whereas, technical knowledge of business, experience in company, and adaptability were vital criteria for electing candidates for the functional head. In addition, gender of candidate was being considered in the election, usually women would not be assigned as expatriates. Tung, 1984b). In Tung's study, more than half of the companies surveyed conducted interviews with the candidates, but one of the firms included the spouse in interviews (Tung, 982). There is consistency with the findings of Fukuda and Chu (1994) which identified that the most important criteria was candidate's technical competence.

Training

It was reported that Japanese MNCs provided more rigorous training programmes to prepare their expatriates for overseas operations. 57 percent of the Japanese MNCs in Tung's study offered training programmes for the expatriate candidates Tung, 1982, 1984a). Apart from the

environment briefing, cost of the Japanese MNCs stress the importance of language training. It can help the expatriate to communicate with the local employees and make it easier to adjust to the foreign country, consequently, the expatriate performance could be better in the new environment (Tung, 1984b). Besides language training, they offered general training for career staff, field experience, graduate programs abroad, in-house training programs, and employed outside agencies, etc. These amounts of investment are huge, for example, the overseas training programmes are about US\$27,000 per trainee, including the regular salary, tuition fee, living expense, etc. (Tung, 1984a).

Reported by Fukuda and Chu (1994), around 60 percent of Japanese subsidiaries surveyed in Hong Kong and in Taiwan indicated that their companies offered special preparatory programmes that were more than just language training. The most common preparation programme is 'study abroad', which focuses on the adjustment to the new job and to the general non-work environment as well.

Repatriation

Repatriation was identified as a problem for the UK and US MNCs, however, it was not reported for the Japanese MNCs. In Black's study, he discovered that Japanese expatriates less feared of the problem of out-of-sight, out-of-mind than the American expatriates (Black, 1994). Revealed by previous studies, Japanese expatriates had closer communication with headquarters and exchange of information was more frequent, consequently, Japanese expatriates were more updated with their headquarters (Negandhi and Baliga, 1981; Yoshino, 1976, cited by Schneider and Asakawa, 1995). Besides, Japanese expatriates have certain planned career paths at headquarters, as a result, they have less anxiety and do not fear reintegration problems (Morris, 1991). In fact, Japanese expatriates and their families found repatriation was difficult. For instance, many returned Japanese feel as if they are being ostracised, as in Japanese society it rejects anyone out of the ordinary. One of the returnees said he never told anyone that he had been working and living in the US (O'Reilly, 1988). In addition, Japanese expatriates worry that their children could not get into the top Japanese university after spending a few years abroad. For example, American schools are often a year or two behind Japanese in subjects, such as, math (O'Reilly, 1988).

Failure Rates

According to Tung, 69 percent of companies surveyed had failure rates between 10 and 20 percent, and about 34 percent had failure rates of below 10 percent (Tung, 1984a). In a more recent study, Fukuda and Chu reported that 40 percent and 76 percent of the Japanese subsidiaries studied in Hong Kong and Taiwan, respectively, claimed that they had no expatriate failure. However, they criticised that this was because only half of the subsidiaries had fixed duration for an overseas assignment (Fukuda and Chu, 1994). According to Tung (1987), the Japanese expatriates experienced less failure incidents for six reasons. They are summarised as follows:

1. Having long-term orientation in terms of overall planning and performance assessment, for example, longer duration of the overseas assignments allowed expatriates more time to adjust to the new environment;
2. Used more rigorous training programmes to prepare candidates for international assignments, such as, language training, cross-cultural training, in-house training programmes, etc.,
3. Provided a comprehensive expatriate support system, for example, having mentors to help the expatriates in home and host country;
4. Overall qualification of candidates for overseas assignments is better, for example, candidates had higher education levels;
5. Low job mobility, consequently, companies are more willing to provide training for staff;
6. Family support, Japanese wives have high obedience and are more dependent than their American counterparts. They would not want their spouse fail in expatriate postings; hence, they would provide huge support to their spouse.

Conclusion

In conclusion, the expatriate management policies significantly differ from country to country, one country could be doing well in one part, and other countries might be performing better in one another. For example, according to Peterson and his colleagues, American companies gave more autonomy to expatriates in developing the international operations. On the other hand, Japanese companies provided more time to prepare those candidates for expatriates postings, whereas, European companies including the UK had better planning in compensation (Peterson, Sargent, Napier and Shim, 1996).

As a consequence, it is impossible to judge which one is the best practice, although Japanese's practice seems to be better, owing to different cultural background, even if the Americans copied the whole practice, the results would not be the same. However, MNCs should be open-minded and try their best to find out which policies are the most suitable for their own workforce.

Summary

Regarding the staff policies used in the UK MNCs, the use of parent-country nationals expatriates to run foreign subsidiaries is still growing. It is believed that British MNCs prefer to use expatriates rather than locals. Twenty years ago, US MNCs employed numerous expatriates in their overseas subsidiaries, it was not limited to the most significant managerial positions, but it was usual to find expatriates in the second and third levels of management. However, this situation has changed the local or third country nationals have replaced the American expatriates. Japanese MNCs used parent country nationals more extensively in their top and middle management positions in their overseas operations. The newly formed wholly owned Japanese subsidiaries were more likely to employ more expatriates than the other entry modes, such as, newly formed joint-venture, acquisition and capital participation.

Questions that must prick your mind

1. Characterize British HR policies and practices.
2. Characterize US HR policies and practices.
3. Characterize Japanese HR policies and practices

LESSON – 38

HR Practices Before and after the Launch of Economic Reforms in China

Learning Objectives

1. The issues and challenges related to host-country staffing through an examination of the HR implications of operating in China.
2. HR practices before and after launch of economic reforms in China.
3. Biao-Xian
4. Implications of economic reforms in China for an MNE

Introduction

In this course, we have explored the international HRM issues relating to managing people in a multinational context. To that end, we have focused on the implications that the process of internationalization has for the activities and policies of HRM. Where possible and appropriate, we have endeavored to broaden the discussion of the various topics so that we take account of the fact that there is more to IHRM than expatriation. Where possible and appropriate, we have endeavored to broaden the discussion of the various topics so that we take account of the fact that there is more to IHRM than expatriation. Despite this objective, there remains an imbalance towards expatriation issues at the expense of the subsidiary perspective. This is mainly due to the increasing volume of expatriate related literature. As a way of redressing the balance, in this unit, we explore some of the issues and challenges related to host-country staffing through an examination of the HR implications of operating in China and India. These two countries represent huge growth markets, and also are good examples of contrasting societies in which foreign firms attempt to operate. A focus on expatriation also precludes broader strategic issues. We, therefore, include in this unit a short discussion of key concerns related to ethics and social responsibility—topics, such as bribery, that are receiving increased attention and are somewhat controversial. While some scholars and practitioners would still regard IHRM as a scientific field in its infancy, there has been considerable progress toward developing theoretical bases. The remainder of this chapter identifies such developments, particularly those that attempt to place specific IHRM activities into the organizational and strategic contexts.

Managing People in an International Context

This section looks at key HRM aspects of operating in two different countries as a way of illustrating the situations that may confront multi-nationals attempting to penetrate developing markets. We will trace the impact that recent economic reforms in China and India have had in terms of staffing foreign operations in these two markets. We will start with China. As the more common mode of operation in both cases has been the international joint venture (IJV), it allows us to elaborate on the HRM challenges posed by IJV operations.

China

In late 1978, the Chinese government announced an open-door policy and began economic reforms aimed at moving the country from a centrally planned economy to a market economy. Under its centrally planned economy, industries “were owned and run by the state, and their growth was regulated by planning targets rather than by the profit-maximizing decisions of independent entrepreneurs.” Thus, planning was the dominant control mechanism, with the market mechanism in a supplementary role. Industrial enterprises (the Western term/inn is inappropriate in the communist context) were under the control of relevant government departments. The past two decades of economic reforms have seen foreign multinationals expand their operations into China—many attracted by the sheer size of its potential market. By the end of 1996, China had absorbed a total foreign direct investment (FBI) of U.S.\$171.8 billion with 281,298 projects, and was ranked second to the United States as a global destination for FBI. Of particular interest is the enthusiasm for establishing foreign invested enterprises (FIEs), including foreign joint ventures and wholly foreign-owned ventures (FIEs is commonly used as the umbrella term to describe FDI in China). Consequently, employment in FIEs has increased from 550,000 employees in 1986 to 8,820,000 in 1995. FDI has tended to take the form of an international joint venture (IJV) with a state-owned enterprise (SOE) as the local partner, or as a fully owned subsidiary. To a certain extent, foreign ownership is instrumental in protecting FIEs from the various pressures of localization. However, many FIEs in China are either under performing or failing. As we discuss later in this chapter, the management of people is a critical factor in determining success or failure in international joint ventures. Chinese HRM policies and practices are quite different from those used in developed and market-economy developing countries and careful consideration of local idiosyncratic practices is required to operate successfully. FDI has tended to take the form of an international joint venture (IJV) with a state-owned enterprise (SOE) as the local partner, or as a fully owned subsidiary. To a certain extent, foreign ownership is instrumental in protecting FIEs from the various pressures of localization. However, many FIEs in China are either under-performing or failing. As we discuss later in this chapter, the management of people is a critical factor in determining success or failure in international joint ventures. Chinese HRM policies and practices are quite different from those used in developed and market-economy developing countries and careful consideration of local idiosyncratic practices is required to operate successfully. “The legacy of management ‘with Chinese characteristics’ still weighs heavily on all firms operating in China.” Knowledge of how employees have been managed in the past may help multinationals to understand local managers’ difficulty or inertia in accepting nontraditional or Western-style HRM practices. Therefore, we include prior as well as current practices to provide a better appreciation of the effect that the transition to a market economy is having on the four major functions of HRM.

Staffing

Prior to the reforms, Chinese employees were classified into two groups:

- **Workers:** all blue-collar employees, who were administered by the Ministry of Labor.

Cadres: white-collar staff, managed by the Ministry of Personnel.

The broad definition of cadres is “state institution and military ‘civil servants’ and [its] narrow

meaning is persons engaged in ‘certain specified leadership work or management work’ (e.g., organization cadres and enterprise cadres).” Since the reforms, the distinction between cadres and workers has gradually become blurred, particularly in foreign-invested and privately owned enterprises. Employees belong to either managerial or non managerial groups. However, the Ministry of Labor and the Ministry of Personnel are still two separate government departments in China. A centralized labor allocation system determined the staffing levels in Chinese enterprises. Established in the early 1950s, this system was based on the Maoist theory that labor was not a commodity but a national resource, and that the government had a monopoly control of urban jobs.

The Ministry of Labor and Ministry of Personnel maintained a tight control over labor allocation by setting quotas for employment at individual enterprises, including annual quotas for new recruits. Local bureaus of labor and personnel assigned workers and staff to a particular job in a work unit—called *danwei* in Chinese. Centralized allocation effectively deprived enterprises of their autonomy to select employees, denied the individual the right to choose his or her employment, and ignored changes in labor supply and demand. However, the centralized allocation system did achieve a high employment rate in urban areas. Accompanying the centralized labor allocation was the belief in life-long employment: “the worker’s inalienable right to his job and other related benefits.” Therefore, over 80 percent of employees in state-owned enterprises (approximately 80 million) enjoyed job security, especially those employed in heavy industries such as mining. The guaranteed continuation of employment, along with various welfare and benefits offered to employees, such as accommodation, medical treatment, child care, and pensions, has been referred to as the *iron rice bowl*. In exchange for job security, employees had little freedom to move to another work unit—that is, they were unable to quit or transfer jobs and were locked into a dependency relationship with their enterprises. Managers were deprived of their right to fire or layoff unqualified employees. From October 1986, all newly employed workers in the state sector were hired on a contract basis rather than effectively being given permanent employment. By the end of 1996, a labor contract system had become compulsory in both public and private sectors, including the managerial level, thus revoking the long-standing tradition of lifetime employment. In theory, both workers and managers had the freedom to select each other. The new labor contract system has facilitated de-centralization of employment practices. Governmental influence has gradually diminished. Enterprises have more autonomy to select their employees, and “two-way selection”—that is, free selection of occupation by individuals and free selection of employees by enterprises—is more common. Two-way selection has been facilitated by the emergence of a labor market with personnel exchange and service centers established by the government to provide job information and relevant services. Western recruitment methods, such as job advertisement and employment tests, are now used, especially by FIEs and privately owned enterprises. As enterprises now have to match production to market demands and be responsible for their own survival, they need to attract and retain competent and motivated employees.

Performance Appraisal

Prior to the current reforms, performance appraisal for cadres was mainly for promotion or transfer, with the main criteria being political loyalty and seniority; the appraisal was usually conducted annually by the personnel department of the cadre’s organization. Each cadre was

given an appraisal form divided into three parts: self-evaluation, peer-group opinions, and an assessment written by the head of the department in which the cadre worked. Thus, the appraisal method relied heavily on “superior rating subordinate,” and lacked specified criteria and other performance measures commonly used in Western market economies. Performance appraisal for blue-collar workers was used less frequently. It was an informal and subjective process, reflected in the emphasis placed on one’s *biaoxian*. The term *biao-xian* refers to the “broad and vaguely defined realm of behavior and attitudes subject to leader-ship evaluation — behavior that indicates underlying attitudes, orientations, and loyalties worthy of reward. A worker’s *biao-xian* was usually judged on the basis of subjective impressions of day-to-day job performance and demonstrated cooperation. Consequently, personal relationships with colleagues, especially with the leaders, became the key to getting a good *biao-xian*. Such appraisals were characterized by vagueness, open to individual interpretation, and dominated by political ideology. As part of the economic reforms, aimed at breaking the iron rice bowl, the government issued a document:

“Suggestion for Implementing the Cadre Performance Appraisal System” outlining a performance appraisal scheme for cadres.

The new scheme was based on the socialist principle of distribution (i.e., from each according to one’s ability and to each according to one’s work). It aimed at identifying training needs, as well as distinguishing between high and low performers. More importantly, it held address accountable to, as well as for, their subordinates via subordinates’ evaluation. New appraisal criteria focused on four broad areas:

- **Good moral practice** (*de*) : virtue or moral integrity. The cadre is evaluated on whether he or she is in step politically with the Party, and carries out government orders and regulations.
- **Adequate competence** (*neng*) : This covers three main aspects: educational background; ability in leadership, organization, negotiation, planning, forecasting, and decision making; and physical status, which also includes age.
- **Positive working attitude** (*qing*) : refers to diligence and usually assesses attendance at work, discipline, initiative, and sense of responsibility.
- **Strong performance record** (*jie*) : measures the cadre’s work effectiveness, including quality and quantity, as well as other contributions made to the organization.

While these criteria have been in practice since the 1980s, some new methods for assessing cadres have been introduced, such as computer-aided panel assessment (*ceping kaohe*) and position related yearly assessment (*gangweiniandu kaohe*). These methods require both quantitative and qualitative measurement to reduce the subjectivity and informality inherent in the traditional performance appraisal approach. Performance appraisal has also become more widely used in enterprises at the worker level since 1978. In mid-1990 “The Regulation on Workers’ Performance Appraisal” was issued by the Ministry of Labor, which specified the type, content, method, and management of appraisals. one new approaches have been developed, such as position specification, management by objectives, and internal subcontracting. All aim to break the iron rice bowl by distinguishing high and low performers

and linking performance to rewards. For example, position specification usually includes quality control, technical requirements, quantified work loads, tools and machine maintenance, labor discipline, caring for the working environment, team-work cooperation, and safety of production methods. All aim to break the iron rice bowl by distinguishing high and low performers and linking performance to rewards. For example, position specification usually includes quality control, technical requirements, quantified work loads, tools and machine maintenance, labor discipline, caring for the working environment, team-work cooperation, and safety of production methods. In their study of performance appraisal in China, Zhu and Bowling found that over 78 percent of employees surveyed ($n = 440$) confirmed that performance appraisal was conducted by their enterprises; however, only 53 percent indicated that a job description existed. Also, whereas the majority of the enterprises surveyed conducted performance appraisal on a yearly basis, the bonus was usually distributed more frequently (either monthly or quarterly).

This raises doubt as to whether performance was really being linked to rewards.

In addition, other researchers have noted problems with performance assessment in China because of the emphasis given to political considerations, and problems with inconsistent measurement, subjectivity, static rather than forward-looking attitudes, and a lack of communication. Although performance appraisal is primarily used for determining bonus and wages rather than for developmental or communication purposes, it is being used by many Chinese enterprises to weaken the old practice of egalitarianism and to facilitate the abolition of the iron rice bowl.

Compensation

The compensation system before the reforms was characterized by egalitarianism at both enterprise and individual levels regardless of performance. Enterprises had no right to set up or change any wage scale, let alone to increase (or decrease) their total payroll. A nationally unified wage system was structured by the state in 1956 for both blue- and white-collar employees. Under this system, there were 8 grades for workers, 15 grades for technical personnel, and 25 grades for cadres such as managers and administrative personnel. Usually the highest pay received in an enterprise was only two to three time more than one in the lowest, and the entry level was very low. These minimal wage differentials reflected the strong ideological and political influence upon work enterprises. Wage increases were infrequent, occurring at intervals of several years, and commonly took the form of national unified grade pro-motions for all employees. Not only was the wage system egalitarian, it also provided numerous benefits to employees, such as insurance, medical coverage, public welfare, non staple food, winter heating subsidy, and a home leave traveling allowance.

These benefits helped to maintain the iron rice bowl and made the enterprises mini-welfare states. Reform of the compensation system began at the enterprise level. Enterprises were treated as relatively independent business units, and compensation was linked to performance. The enterprise reform launched in 1984, the Enterprise Law issued in 1988, and related regulations during the 1990s aimed at separating the ownership of an enterprise from its controlling authority so each enterprise had autonomy and incentives. The state-regulated wage

system has now been replaced by diversified wage packages with more emphasis on enterprise profitability and individual performance.

Since 1985, different systems of wage determination have been introduced, such as floating and structural wage systems. In 1992, the Minister of Labor introduced a new position and skills wage system based on the four major working factors emphasized by the International Labor organization in 1950 (i.e., knowledge and skills required, responsibility assumed, work intensity (load) involved, and working conditions). Enterprises were required to include these four components in their wage packages to override the egalitarianism of the old wage scales. These reforms have tried to quantify each worker's performance and link performance to pay. However, in the absence of job descriptions and performance appraisal, the degree to which performance-related pay was fairly distributed could vary across enterprises. No matter how diversified wage packages might be, all packages had a bonus as an important part (since the restoration of the bonus after the reforms). As enterprise reform has become more widespread, the distribution of bonuses has been more closely tied to individual performance. How to match compensation with the contributions made by individuals remains a difficult issue and the bonus system is still at an experimental stage. Nonetheless, performance-based compensation has become the trend, and egalitarianism is being replaced by wage differentiation based on individual and enterprise performance.

Training and Development

Pre-reform employee training was generally divided into two parts:

- **Training for blue-collar workers:** This was primarily in the form of apprenticeships and technical school education that were the major sources of skilled workers.³⁶ Technical school students would be assigned to an enterprise by the state after completing two to three years of study.
- **Training for cadres:** Training for managers, especially managers who were also members of the Communist Party, was mainly offered by schools run by the Party at central, provincial and municipal levels or colleges for cadre education and training. Training priority was usually given to political studies, and this focus is regarded as a major cause of the current shortage of qualified managers in industry. Many cadres, especially managerial staff, lack the knowledge and skills required to change their roles from merely carrying out government orders to assuming full responsibility for the enterprise's performance or deciding on management matters. This shortage has hampered the move to a market economy.

At the workers' level, lack of education and training is widespread. A survey covering 20 million industrial employees in 26 provinces and cities was conducted in 1980.

It revealed that 8.2 percent of employees were literate or semiliterate, 32 percent had less than 9 years of education, 40.8 percent had completed year 9, 15.9 percent had finished year 12, and only 3.1 percent had a university education.³⁸ In mid-1980, the state re-introduced apprenticeship programs, which had been abolished during the Cultural Revolution (1966-1976).

The traditional post-employment apprenticeships were gradually replaced by pre-employment traineeships and this practice was legitimized in the Labor Law, which became effective in

1995. Reforms introduced in 1990 sought to connect training, examination, job arrangement, and compensation to encourage employees to learn technical skills. These have since been replaced gradually by a vocational qualification verification system. This latest system reflects, to some extent, the government's recognition of the German model of a dual education system (i.e., liberal education and vocational training). The practice of double certificate (i.e., education certificate and vocational qualification certificate) aims to achieve an outcome similar to the situation in Germany, with young people attaining vocational knowledge and skills. This system has now been widely implemented and has enabled workers to take the training course of their choice and to be more flexible in job selection, and is consistent with the two-way selection system and the position-and-skills wage system discussed above. Because the lack of adequately trained management had been identified as a major impediment to its reforms, the government established institutions for adult further education for professional and management training.

A nationwide program of management training has supported these institutions and the government has collaborated with institutions from several countries, including the United States, United Kingdom, Australia, Canada, Japan, and the European Union nations, to conduct courses, including MBA programs. In spite of the progress achieved in employee and management training and development many inadequacies and limitations remain. The results from a 1994 survey disclosed that 34 percent of 1,508 respondents had not received any training opportunities in enterprises.

e-searchers have also found that Chinese enterprises usually only emphasize technical training rather than behavioral training. Many foreign managers may regard training as costly and risky, because they may not receive immediate returns and employees may leave the enterprise after training.

Implications for Multinationals

By way of conclusion, and to assist in understanding the impact of the transition on HR practices, we pose and answer three questions in relation to managing HCNs in FIEs:

1. How can foreign firms develop effective HRM strategies to improve the productivity of their workforce in China?

Multinationals need to know the current HRM practices in China. Many practices commonly used in the West are now employed in China. However, foreign firms need to be aware that in China, "the shift from the older practices has only been partial, especially in larger enterprises, whether state-owned enterprises or even Sino-foreign joint ventures."⁴⁵ This is mainly because multinationals have a stronger association with government partners in China than in other developing countries, and thus tend to be somewhat locked into maintaining management practices that are a legacy of pre-reform days.⁴⁶ researchers have noted that in some FIEs, the egalitarian pay system is still in practice even though the eight-grade wage structure has been abandoned.

2. To what extent can foreign multinationals transfer their some-country's HR practices to their subsidiaries in China?

Multinational managers should not assume that identical HR practices can be applied to their

Chinese enterprises. Some searchers claim that Western-style HRM practices should be introduced only when a Chinese perspective, and Chinese values and methods, have been incorporated.⁴⁸ Take performance appraisal as an example. It has been argued that to increase the effectiveness of appraisal in China, the Western appraisal system, which encourages individual economic performance, should incorporate the Chinese values of satisfying performance, such as harmonious functioning in a work group and fulfillment of individual obligations towards the work unit and colleagues.

3. What are the future HRM issues for China due to its ongoing economic reforms?

Developing and retaining quality staff : Chan has noted that “both Western and Chinese management find HRM appropriate as a non adversarial and consensual management style that succeeds in co-opting the workforce. However, a particular term may have a different connotation or orientation.

For example, while the training and development function does exist in China, it is still passive and narrowly defined “in contrast to the Western HRM notion of planning for long-term staff development.”

Training is more focused on improving current performance deficiencies. There is a lack of career development, particularly as employees tend to change jobs frequently in pursuit of higher wages rather than skills development. The absence of career development plus a high emphasis on material incentives have partly contributed to the problems of high turnover and “disloyalty” observed in many enterprises, including FIEs.

Compensation

The change in employee attitudes toward the distribution of bonuses is another identified trend. Traditionally, China has been a collective-oriented society, however, Chinese employees now prefer reward differentials “determined primarily according to individual contributions’ and there is greater acceptance of wider reward disparities based on individual performance.⁵⁶ With further reforms inevitable in China, a compensation system based on individual performance will become more common and more entrenched. Localizing Staffing. As more foreign multinationals expand their businesses into China, they have sought local management for their operations in order to develop a large corporate presence in China.

When hiring Chinese nationals for executive jobs (because of their communication skills, local contacts, and understanding of the domestic market)⁵⁹ many multinationals have found that Chinese managers lack decision-making skills and are wary of taking personal initiatives. Along with job-related skills, corporate management training programs are required that provide HRM skills appropriate to the Chinese context and skills for problem-solving in high pressure situations.

To conclude, it is necessary to remember that China is still undergoing a transition stage, and will continue its economic restructuring and re-forms into the next century. The government expects enterprises to become corporate entities and competitors adaptable to the market, so effective HRM practices are needed to develop a competitive workforce.

Summary

In late 1978, the Chinese government announced an open-door policy and began economic reforms aimed at moving the country from a centrally planned economy to a market economy. Under its centrally planned economy, industries “were owned and run by the state, and their growth was regulated by planning targets rather than by the profit-maximizing decisions of independent entrepreneurs.” Thus, planning was the dominant control mechanism, with the market mechanism in a supplementary role. Performance-based compensation has become the trend, and egalitarianism is being replaced by wage differentiation based on individual and enterprise performance.

When hiring Chinese nationals for executive jobs (because of their communication skills, local contacts, and understanding of the domestic market) many multinationals have found that Chinese managers lack decision-making skills and are wary of taking personal initiatives.

Questions that must prick your mind

1. What has China done towards economic reforms from 1978 onwards?
2. Discuss the HR practices before and after economic reforms in China.
3. What is Biao-Xian? Has it changed with reforms in China?
4. What are the implications of post-reform HR practices in China for an MNE?
5. On what areas did the new appraisal system focus in China?

LESSON – 39

A case study of Union Representation and Collective Bargaining in USA

Learning Objectives

1. Formation of labor unions in USA
2. Effects of labor unions
3. Collective Bargaining in USA

Harmonious working relations between labor & management are critical to organization. Traditionally both parties have assumed a win lose situation, adversarial posture towards each other.

Improving Productivity, Qwl. And Profits Through Labor-Management Cooperation in USA

Many managers see unions as a major stumbling block to the implementation of workplace Changes those are essential to increased competitiveness. To them, unions are a problem. To others, unions can be and should be part of the solution to problems of workplace competitiveness. Many union leaders and members, in turn, deeply distrust management's motives. They see "enhanced competitiveness" as thinly veiled code words for downsizing. What is right? Is it possible for a well-established union to take a leadership role in workplace innovation and imaginative approaches to enhancing competitiveness? Is it possible for management to allow creative approaches to more efficient operations *without* cutting workers as a result of the increase in efficiency. To be sure, management and workers have ample reason to distrust each other. Chrysler's union workers grouse that management is demanding-ever-faster production while getting bonuses that make their own \$4300 profit-sharing checks look paltry. In 1993 Chrysler paid 200 executives bonuses equal to 100 percent of salary.

The Unionization Process The Legal Basis

The Wagner, or National Labor Relations Act, of 1935 affirmed the right of all employees to engage in union activities, to organize, and to bargain collectively without interference or coercion from management. It also created the National Labor Relations Board (NLRB) to supervise representation elections and to many union leaders fear cooperative work systems, because they suspect that management's real intention is to circumvent lawfully designated unions. In some cases this has occurred, as in a recent decision by the National Labor Relations Board that Electromation, Inc., used teams to create a company-dominated union .Even though the wages at the unionized Stevens plants are not substantially higher now than at the company's non unionized plants or than the wages at other non union textile plants in the south, the wage level was never the biggest issue. The union contract has meant expanded benefits, a seniority system to protect workers when jobs are lost and to provide opportunities when jobs open, and a grievance procedure with access to binding arbitration. For the company, the settlement allowed it to put its past squabbles with the workers behind and to concentrate on battling foreign textile imports. Among union members, however, worker after worker echoes

the same sentiment: the collective bargaining agreement has meant that they are treated with new dignity on the job.'

Organizing Drive

There are three ways to kick off an organizing campaign: (1) employees themselves may begin it, (2) employees may, request that a union begin one for them, or (3) in some instances, national and international unions may contact employees in organizations that have been targeted for-organizing. In all three cases, employees are asked to sign *authorization cards* that designate the union as the employees' exclusive representative in bargaining with management. Well-defined rules govern organizing activities:

1. Employee organizers may solicit fellow employees to sign authorization cards on company premises but not during working time.
2. Outside organizers may not solicit on premises *if* a company has an existing policy of prohibiting all forms of solicitation and if that policy has been enforced consistently.
3. Management representatives may express their views about unions through speeches to employees on company premises. However, they are legally prohibited from interfering with an employee's freedom of choice concerning union membership.

The organizing drive usually continues until the union obtains signed authorization cards from 30 percent of the employees. At that point it can petition the National Labor Relations Board (NLRB) for a representation election. If the union secures authorization cards from more than 50 percent of the employees however, it may ask management *directly* for the right to exclusive representation. Usually the employer refuses, and then the union petitions the NLRB to conduct an election.

Administration Of The Collective Bargaining Agreement

To many union and management officials, the real test of effective labor relation comes after the agreement is signed, that is, in its day-to-day administration. At that point, the major concern of the union is to obtain in practice the employee rights that management has granted on paper. The major concern of management is to establish its right to manage the business and to keep operations running." A key consideration for both is the form of union security that governs conditions of employment.

Union Security Clauses

Section 14b of the Taft-Hartley Act enables states to enact "right-to-work" laws that prohibit compulsory union membership (after a probationary period) as a condition of continued employment. Table 15-2 illustrates die forms that such union security provisions can take and indicates that most of them arc illegal in the 21 states that ha've passed right-to-work laws.

Agency shop agreements appear in about 12 percent of all collective bargaining contracts. May the "service charge" for representation be used to pay for activities such as lobbying for prolabor legislation, organizing efforts, and political activities addition, *to* collective bargaining? Non-union-member employees of American Telephone & Telegraph Company sued the Communications Workers of American (CWA) over this issue. The Supreme Court

ruled that a union may be violating the rights of non members who are required to pay agency fees for union representation it uses those fees for political and other activities not directly related to collective bargaining. How much money goes to activities other than collective bargaining? At the trial-court level, a federal judge ordered the CWA to rebate 79 percent of the agency fees it had collected one year, because the union could only prove that 21 percent of its collections were devoted to collective bargaining

The Bargaining Unit in US

When the petition for election is received, the NLRB conducts a hearing to determine the appropriate (collective) bargaining unit, that is, *the group of employee eligible to vote in the representation election*. Sometimes labor and management agrees jointly on the appropriate bargaining unit. When they do not, the NLRB must determine the unit. The NLRB is guided in its decision, especially if there is no previous history to bargaining between the parties, by a concept called "community of interest." That is, the NLRB will define a unit that reflects the shared interests of the employees involved. Such elements include: similar wages, hours, and working conditions; the physical proximity of employees to one another; common supervision; the amount to interchange of employees within the proposed unit; and the degree of integration to the employer's production process or operation. Under the Taft-Hartley Act, however, professional employees cannot be forced into a bargaining unit with non-professionals without their majority consent. The size of bargaining unit is critical both for the union and for the employer because it is strongly related to the outcome of the representation election. The larger the bargaining unit, the more difficult it is for the union to win. In fact, if a bargaining unit contains several hundred employees, it is almost invulnerable.

LESSON – 40

Ethics In Employee Relation

Learning Objectives

Ethics is the study of

1. How our behavior affects other people,
2. People's rights and duties,
3. Moral rules that people apply in making decisions,
4. Nature of relationships among people.

Ethical behavior builds trust and confidence with creditors, suppliers, and customers. It reduces Government's interference. Henry Ford: My policy is to force prices down as soon as production will permit and give benefit to users. Resulted in enormous profits by deepening market penetration to lower segments.

Universal Bench Marking With Regard To Business Ethics.

The 'Caux Roundtable Principles for Business Conduct' developed in 1994 by the North American, Japanese, and European leaders meeting in Caux, Switzerland. This was the first International business code for ethics and aimed at setting up a global benchmark against which individual businesses could develop their own codes. The Caux principles are grounded in two basic values---'Kyosei' and Human Dignity. "Kyosei" means living and working together for the common good enabling healthy and fair competition to coexist with cooperation and mutual prosperity. Human dignity relates to the sanctity of each person as an end in himself, and not merely as a means of fulfilling other purposes.

Procedural Justice In Action: Employee Voice Systems

For most organizations, the most important thing they can do to ensure procedural justice is to provide individuals and groups the capacity to be heard, a way to communicate their interests upward-a voice system. Voice systems serve four important functions:

1. They assure fair treatment to employees.
2. They provide a context in which unfair treatment can be appealed.
3. They help to improve the effectiveness of an organization.
4. They sustain employee loyalty and commitment"

Moral Relativism

Morality is relative to particular cultures. If members of any culture share norms and customs, an outsider can only try to understand. He has no right to judge. In Middle East there is strict

segregation of sexes, alcohol is banned, and offices virtually close during Ramzan, Muslims pray five times a day. Advisable, but difficult.

12 questions for examining the ethics of a business decision.

1. Have you defined the problem accurately?
2. How would you define the problem if you stood on the other side of the fence?
3. How did this situation occur in the first place?
4. To whom and to what do you give your loyalty as a person and as a member of the corporation?
5. What is your intention in making this decision?
6. How does this intention compare with the probable result?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before you make your decision?
9. Are you confident that your decision will be as valid in the long run as it seems now?
10. Could you discuss your decision without qualm with your boss, your C.E.O., the Board of Directors, your family, society as a whole?
11. What is the symbolic potential of your action if understood? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?

(Gavin's case)

A British company trying to make personal money?

Their behavior may have encouraged them to propose without any preliminaries/ Ethics not to be weighed by financial loss or profit/ Things that appear attractive in the short term don't in the long run. They will make money, but the reputation of both Gavin and the company will suffer. He will be accepted to repeat this behavior.

Questions that should prick your mind

1. What is the importance of business ethics in maintaining employee relation?
2. How does the organization practice "moral relativism" in a multi-cultural setting?

GLOSSARY:

Balance-sheet method Attempts to equate purchasing power in the host country with the expatriate's purchasing power in his or her home country.

Benchmarking measures standards of performance against others doing similar work.

Commutor marriages The spouse will stay back in home country and the expatriate spouse will make necessary frequent contact arrangement with home country spouse with the help of the firm.

Compensation Organization's entire reward package, including not only financial rewards and benefits but nontangible rewards, such as job security.

Continuous Improvement (Kaizen) requires employees to constantly seek ways of improving the quality of the product or service.

Convergence hypothesis An assumption based on the theory that there are some principles of sound management that hold good regardless of national environment and because of universality of sound management practices societies would become more and more alike in the future.

Cross-cultural training Increases the relational abilities of future expatriates and, in some cases, their spouses and families.

Cultural toughness The degree to which the culture of a host country is incongruent with that of home country.

Delaying is the removal of middle layers of management resulting in a 'flatter' management organisation.

Divergence Theory The opposite of convergence hypothesis.

Dual career couples Both the spouses have career.

Emic Culture specific aspects of concepts or behavior

Ethnocentric IHRM All aspects of HRM for managers and technical workers tend to follow the parent organization's home-country HRM practices.

Etic Culture common aspects of concepts or behavior

Expatriate Employee who comes from a different country from where he or she is working.

Expatriate Employee who comes from a different country from where he or she is working

Global IHRM Recruiting and selecting worldwide, and assigning the best managers to international assignments regardless of nationality.

Global industry An industry in which a firm's competitive position in one country is significantly influenced by its position in other countries like commercial aircrafts, semiconductors and copiers.

Global pay system Worldwide job evaluations, performance appraisal methods, and salary scales are used.

Headquarters-based compensation system Paying home country wages regardless of location.

Home country nationals (HCN) Expatriate employees who come from the parent firm's home country.

Host country nationals (HCN) Local workers who come from the host country where the unit (plant, sales unit, etc.) is located.

Host-based compensation system Adjusting wages to local lifestyles and costs of living.

Human resource management (HRM) HRM Functions are recruitment, selection, training and development, performance appraisal, compensation, and labor relations.

IHRM orientation Company's basic tactics and philosophy for coordinating IHRM activities for managerial and technical workers.

Inpatriate Employees from foreign countries who work in the country where the parent company is located.

International cadre Separate group of expatriate managers who specialize in a career of international assignments.

International human resource management (IHRM) All HRM functions, adapted to the international setting.

Key success factors for expatriate assignments Motivation, relational abilities, family situation, and language skills.

Labor relations Ongoing relationship between an employer and those employees represented by labor organizations.

Management contracts A way of operating in foreign markets, which involves a management role by a hired firm for a specified time and fees.

MNE Multinational national enterprise

Multidomestic industry A group of firms in which competitions in each country is independent of competition in other countries.

Multi-Skilling is the increase of the skills base of the workforce, usually bringing in new technology

Multi-tasking requires for staff to take on a wider range of tasks, usually involving on-the-job training

Outsourcing occurs when management invites external contractors to undertake work that was previously done by in-house staff.

Performance appraisal System to measure and assess employees' work performance.

Polycentric IHRM Firm treats each country-level organization separately for HRM purposes.

Recruitment Process of identifying and attracting qualified people to apply for vacant positions in an organization.

Regiocentric IHRM Regionwide HRM policies are adopted.

Repatriation problem Difficulties that managers face in coming back to their home countries and reconnecting with their home organizations.

Selection Process by which companies fill vacant positions in the organization.

Third country nationals(TCN) Expatriate workers who come from neither the host nor hHost country nationals

Total Quality Management (TQM) usually involves the introduction of continuous monitoring. It refers to initiatives designed to improve the quality of products and services to meet customer's requirements.

Training and development Giving employees the knowledge, skills, and abilities to perform successfully both in current jobs and in future jobs.

Training rigor Extent of effort by both trainees and trainers required to prepare the trainees for expatriate positions.

Transnational A new organizational form that is characterized by an interdependence of resources and responsibilities regardless of national boundaries.

“The lesson content has been compiled from various sources in public domain including but not limited to the internet for the convenience of the users. The university has no proprietary right on the same.”



EIILM UNIVERSITY
S I K K I M

Jorethang, District Namchi, Sikkim- 737121, India
www.eilmuniversity.ac.in