



## CHAPTER 4

# Global Human Resource Management

***After you have read this chapter, you should be able to:***

- Discuss the major factors influencing global HR management.
- Define *culture* and explain how national cultures can be classified.
- List and define several types of international employees.
- Explain why staffing activities are more complex for international jobs than for domestic ones.
- Discuss three aspects of international training and development.
- Identify basic international compensation practices.
- Describe several international health, safety, and security concerns.

## HR TRANSITIONS

# Mercedes-Benz Builds World-Class Vehicles in Alabama

Building Mercedes vehicles in Alabama may have seemed somewhat unusual a few years ago, but not any longer. Certainly, when Mercedes-Benz announced that it had selected Alabama as the site for building its “M” class sports utility vehicles, many skeptics wondered how successful that plant would be. Along with other car manufacturers such as Toyota, Nissan, and BMW, all of which have established manufacturing plants in the United States, Mercedes followed the growing trend—also seen in other industries—of foreign-owned corporations establishing operations in the United States. Now one of the most notable successes in combining foreign firms and U.S. workers can be seen at Mercedes-Benz and its Vance, Alabama, plant.

Central Alabama is hardly where one would have expected Mercedes to build a new plant. Vance, Alabama (population 400), is an hour’s drive from Birmingham, and now has a 1-million-square-foot plant for building Mercedes M class vehicles. Mercedes chose to build in Vance for several reasons. First, wage rates and overall labor costs in the U.S. are significantly lower compared to German wage and benefit costs. Second, the U.S. is the largest market for sport utility vehicles. Third, the State of Alabama offered Mercedes incentives valued at \$250 million, including \$90 million in training assistance. Finally, there was a supply of quality workers, who could be trained to build the M class vehicles.

When Mercedes started taking applications for workers, the state of Alabama provided employment screening assistance. Over 40,000 Alabamians applied for the 650 jobs the plant would fill at start-up. Virtually none of the applicants had previous experience building cars. Andreas Renschler, a German sent to head up the M class plant, referred to the plant as a “learning field” both for workers and Mercedes. In choosing workers, Mercedes focused on adaptability and the ability of individuals to work in teams. For Mercedes, the firm could try new and more flexible production methods

those traveling to Germany or Alabama.

The Mercedes M class management team was international in nature also. Renschler hired a Canadian with experience at Toyota and an American who had worked at General Motors and Nissan plants in the United States.

Five years later, the plant and the M class vehicles are a huge success. About 80,000 vehicles are being produced annually, and the plant cannot keep up with the demand. The quality of vehicles produced in the Alabama plant has equaled or exceeded the quality of other vehicles produced in

*One of the most notable successes in combining foreign firms and U.S. workers can be seen at Mercedes-Benz and its Vance, Alabama, plant.*

that were not typical in its German plants.

Once selected, approximately 160 Alabama workers went to Germany to work at Mercedes plants as part of their training. There they learned production tasks from specially selected German workers and supervisors. As more Alabama workers were trained in Germany, it ultimately became less necessary to send the remaining new hires to Germany, so 70 Germans were sent to Alabama to work for two years as trainers at the training facilities in Alabama. In preparation for these interchanges, two weeks of language and culture training were given to

Germany over much longer periods of time. As a result, the Alabama plant is being expanded and more workers are being added. With all of these successes, probably the best indicator that Alabama workers are building world-class vehicles is this: Because of the high demand for the M class vehicles in Europe and worldwide, Mercedes has had to convert a plant in Austria to produce M class vehicles. Mercedes is sending Alabama workers to train Austrian workers in the production methods and working approaches used in Alabama. Truly Alabama workers and Mercedes have become global in nature.<sup>1</sup>

“You develop long-lasting company power by developing local people.”

YUICHI KATO

The internationalization of business has proceeded at a rapid pace as the world has become a global economy. Many U.S. firms receive a substantial portion of their profits and sales from outside the United States, and estimates are that the largest 100 U.S. multinational firms have foreign sales of more than \$500 billion in one year. For firms such as Colgate and Coca-Cola, foreign sales and profits account for over 60% of total sales and profits. Other U.S. firms have substantial operations in other countries as well.<sup>2</sup>

Globalization has had a major impact on HR management,<sup>3</sup> and has raised a number of issues noted in earlier chapters. But additional issues have included:

- How should a company staff plants around the world with a mix of parent-country nationals, host-country nationals, or third-country nationals?
- How will these employees be recruited, selected, trained, compensated, and managed?
- What characteristics of the countries being considered affect the HR decisions that must be made?

## A Survey of Business Issues Worldwide



### LOGGING ON . . .

#### ECA International Global Partners in Human Resources

This global human resource network provides expatriate remuneration survey reports for 68 countries and publications dealing with human resource management issues.

<http://www.ecaltd.com>

The impact of global competition can be seen in many U.S. industries. The automobile, steel, and electronics industries have closed unproductive facilities or reduced employment because of competition from firms in Japan, Taiwan, Korea, Germany, and other countries. At the same time, as the opening discussion of Mercedes in Alabama illustrates, foreign-owned firms have been investing in plants and creating jobs in the United States. The growth in employment resulting from foreign investments has helped to replace some of the jobs lost at U.S. firms due to downsizing.

An international agreement, the General Agreement on Tariffs and Trade (GATT), was signed to provide general guidelines on trade practices among nations, but a number of provisions in GATT affect HR practices in the various countries, including the United States. The brief look at the various areas of the world that follows illustrates some of those HR issues, as well as the changing nature of international economic linkages.

### North America

The United States, Canada, and Mexico have recognized the importance of world trade by eliminating barriers and working more closely together, starting in North America.<sup>4</sup> One aspect of this cooperation is that U.S. firms, as well as companies from other nations such as Japan, South Korea, and Taiwan, have taken advantage of the lower Mexican wage rates to establish operations in Mexico. The signing of the North American Free Trade Agreement (NAFTA) expanded trade opportunities among Canada, the United States, and Mexico. But NAFTA also placed restrictions on employers to ensure that their HR practices in Mexico met certain standards. The Commission on Labor Cooperation (CLC) was established as part of NAFTA to review complaints filed in the United States, Canada, or Mex-

ico regarding occupational safety and health, child labor, benefits, and labor-management relations.

## Latin America

One highlight of recent years in Latin America is the resurgence of the economies of the largest countries, specifically Brazil, Argentina, and Chile. Economic austerity programs in those countries have reduced their inflation rates to more normal levels. Expanding populations created by relatively high birthrates have led to those countries being seen as attractive for foreign investment, and many multinational organizations based in the United States, Asian countries, and European nations have expanded operations through joint ventures with host-country firms.<sup>5</sup>

## Asia

In Asia, Japan's economy has been maturing, and Japanese society has been changing because of a rapidly aging population. Also, younger Japanese are becoming more "westernized" and are buying more imported goods. Gradually the Japanese government has had to open up its markets and make changes in its economy in response to pressure from the United States and other countries.

Economic relations between foreign firms and firms in such Asian countries as Taiwan, South Korea, Singapore, and Malaysia have become more complex, and their exports have increased dramatically. The rapid growth of the economies in those Asian countries, as well as in Indonesia, Thailand, and Vietnam, has led more foreign firms to establish manufacturing facilities there and to increase trade opportunities.

Two other Asian countries, India and China, have huge populations. Consequently, a growing number of foreign firms are establishing operations in those nations.<sup>6</sup> But the difficulty of attracting foreign managers and professionals to these countries and the costs of providing for them have created a shortage of qualified human resources in both India and China.

## Europe

Changes in Europe, after the disintegration of the USSR into 14 independent states, include opening to international commerce the economies of Eastern European countries. This change has given U.S.-based and other firms dramatically expanded opportunities to sell products and services. Also, the ample supply of workers available in those countries, whose wage rates are relatively low, means that labor-intensive manufacturing facilities can be established to tap the available labor pools.<sup>7</sup>

In Western Europe, efforts to create a unified European economic market have led to cross-country mergers of firms and greater cooperation by European governments. The creation of the Euro, a unified currency, is reshaping European economies also. At the same time, some national governmental efforts may have the effect of limiting the import of U.S.- and Japanese-made goods to participating European countries. Therefore, U.S. and Asian firms have added offices and production facilities in Europe to avoid potential trade restrictions.

The stagnation of the economies and high costs imposed on employers in Western European countries such as Germany and France have led to double-

digit unemployment rates. As a result, many European-headquartered organizations have shifted production to new plants in the United States and other countries, as the Mercedes-Benz plant in Alabama illustrates.

## Africa

In many parts of Africa, opportunities for international operations are inhibited by civil strife and corrupt governments. Also, the infrastructure in many countries is inadequate. A more positive outlook exists for the country of South Africa since its discredited apartheid policy was repealed. As a result, foreign firms are entering South Africa and establishing operations and joint ventures. But race relations still must be considered by HR professionals in global organizations operating in South Africa.

## Factors Affecting Global HR Management

Managing human resources in different cultures, economies, and legal systems presents some challenges. However, when well done, HR management pays dividends. A seven-year study in Britain of over 100 foreign companies showed that good HR management, as well as other factors, accounted for more of the variance in profitability and productivity than did technology, or research and development.<sup>8</sup>

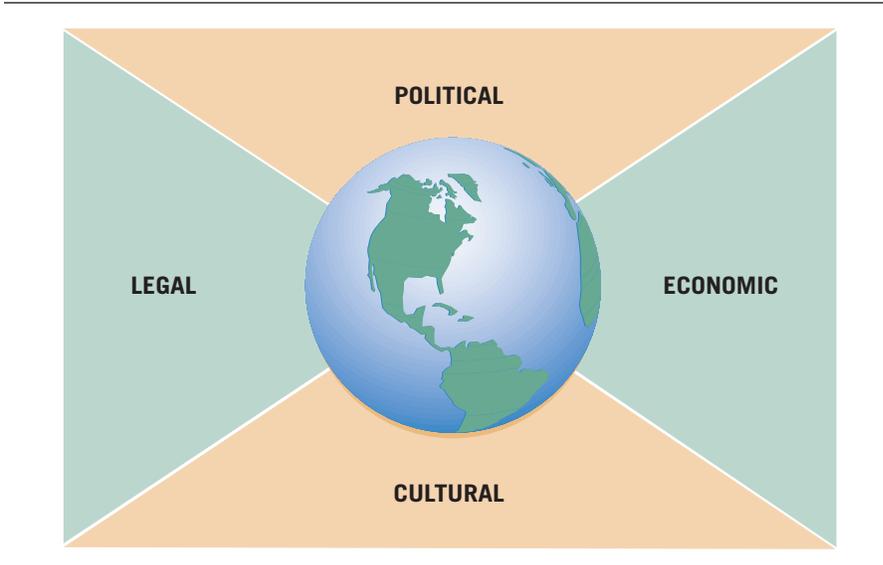
The most common obstacles to effective HR management are cross-cultural adaptation, different organizational/workforce values, differences in management style, and management turnover. Doing business globally requires that adaptations be made to reflect these factors. It is crucial that such concerns be seen as interrelated by managers and professionals as they do business and establish operations globally. Figure 4–1 depicts the general considerations for HR managers with global responsibilities. Each of those factors will be examined briefly.

### Legal and Political Factors

The nature and stability of political systems vary from country to country. U.S. firms are accustomed to a relatively stable political system, and the same is true in many of the other developed countries in Europe. Although presidents, prime ministers, premiers, governors, senators, and representatives may change, the legal systems are well-established, and global firms can depend on continuity and consistency.

However, in many other nations, the legal and political systems are turbulent. Some governments regularly are overthrown by military coups. Others are ruled by dictators and despots who use their power to require international firms to buy goods and services from host-country firms owned or controlled by the rulers or the rulers' families. In some parts of the world, one-party rule has led to pervasive corruption, while in others there are so many parties that governments change constantly. Also, legal systems vary in character and stability, with business contracts sometimes becoming unenforceable because of internal political factors.

International firms may have to decide strategically when to comply with certain laws and regulations and when to ignore them because of operational or political reasons. Another issue involves ethics. Because of restrictions imposed

**FIGURE 4–1** *Considerations Affecting Global HR Management*

on U.S.-based firms through the Foreign Corrupt Practices Act (FCPA), a fine line exists between paying “agent fees,” which is legal, and bribery, which is illegal.

HR regulations and laws vary among countries in character and detail. In many Western European countries, laws on labor unions and employment make it difficult to reduce the number of workers because required payments to former employees can be very high, as the HR Perspective on the next page indicates. Equal employment legislation exists to varying degrees.

In some countries, laws address issues such as employment discrimination and sexual harassment. In others, because of religious or ethical differences, employment discrimination may be an accepted practice.

All of these factors reveal that it is crucial for HR professionals to conduct a comprehensive review of the political environment and employment-related laws before beginning operations in a country. The role and nature of labor unions should be a part of that review.

## Economic Factors

Economic factors affect the other three factors in Figure 4–1. Different countries have different economic systems. Some even still operate with a modified version of communism, which has essentially failed. For example, in China communism is the official economic approach. But as the government attempts to move to a more mixed model, it is using unemployment and layoffs to reduce government enterprises bloated with too many workers.<sup>9</sup>

Many lesser-developed nations are receptive to foreign investment in order to create jobs for their growing populations. Global firms often obtain significantly cheaper labor rates in these countries than they do in Western Europe, Japan, and the United States. However, whether firms can realize significant profits in developing nations may be determined by currency fluctuations and restrictions on transfer of earnings.

## HR PERSPECTIVE

## The Legal and Political Environment of Unemployment in Europe

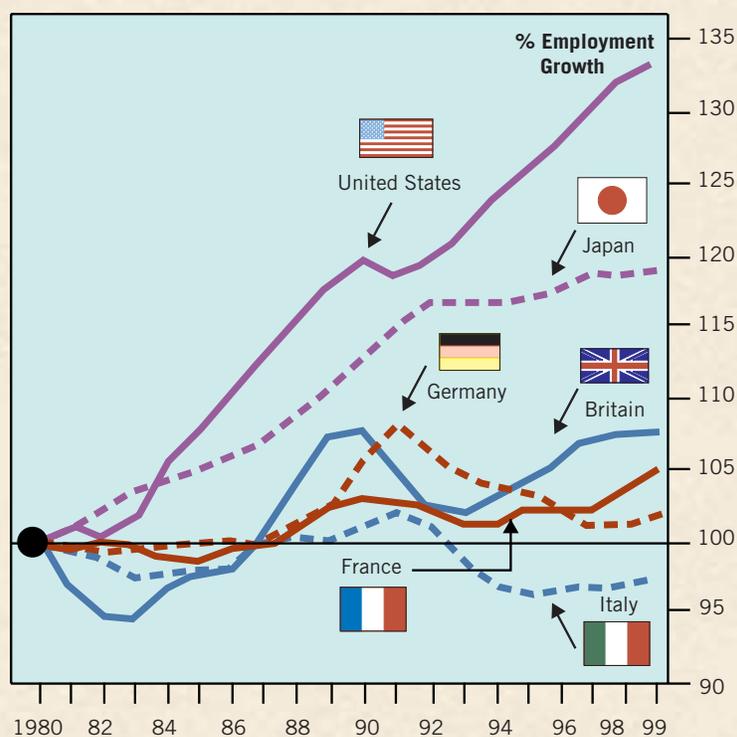
Europe cannot seem to shake its chronic unemployment. The unemployment rate has ranged from almost 20% in Spain to over 10% in France—but it averages about 12%. Joblessness is much higher in Europe than in the United States or Japan. The accompanying chart shows the percent employed recently compared to the base year of 1980. While the United States has created many new jobs, Europe has created very few.

Forecasts are that even with an improvement in the economy and employment, unemployment at over 10% will continue in European Union (EU) countries. Why?

Economists disagree about many matters, but not about unemployment. Generally they agree that labor markets need to be flexible, but in European countries they are relatively rigid. Very generous unemployment benefits, high minimum wages, strong unions, and unique

(by U.S. standards) laws dissuade employers from hiring more employees. For example, in Spain, a permanent employee who is fired can get 45 days' pay times the number of years he has been with the company. It is a large liability, so few firms create more permanent jobs. Similar legislation in other countries tends to keep those who have jobs at work, but the effect of the protective legislation keeps employers from creating more jobs. Economists tell us that in the long run, without such laws, firms that cut costs and become more productive create more jobs because productive industries tend to expand.

The pressure of world competition that is forcing painful reform is not popular in Europe. Many Europeans are crying "enough," and questioning how quickly the European economies can transform themselves into the Anglo-Saxon model of capitalism—high productivity, low jobless rates, and a minimal social safety net—is not typical in most Western European countries. For example, a recent French poll found that two-thirds of the French people prefer their rich benefits and high unemployment to America's approach of lower unemployment and limited social welfare benefits. Of course, elected politicians tend to follow the wishes of their constituents, bringing political and legal factors together—in this case, resulting in an average of 12% unemployment.<sup>10</sup>



SOURCE: OECD

Also, political instability can lead to situations in which the assets of foreign firms are seized. In addition, nations with weak economies may not be able to invest in maintaining and upgrading the necessary elements of their infrastructures, such as roads, electric power, schools, and telecommunications. The absence of good infrastructures may make it more difficult to convince managers from the United States or Japan to take assignments overseas.

Economic conditions vary greatly. For example, Figure 4–2 shows the relative *cost of living* for major cities in the world. Cost of living is a major economic consideration for global corporations.

In many developed countries, especially in Europe, unemployment has grown, but employment restrictions and wage levels remain high. Consequently, many European firms are transferring jobs to lower-wage countries, as Mercedes-Benz did at its Alabama plant. In addition, both personal and corporate tax rates are quite high. These factors all must be evaluated as part of the process of deciding whether to begin or purchase operations in foreign countries.

## Cultural Factors

Cultural forces represent another important concern affecting international HR management. The culture of organizations was discussed earlier in the text, and



### LOGGING ON . . .

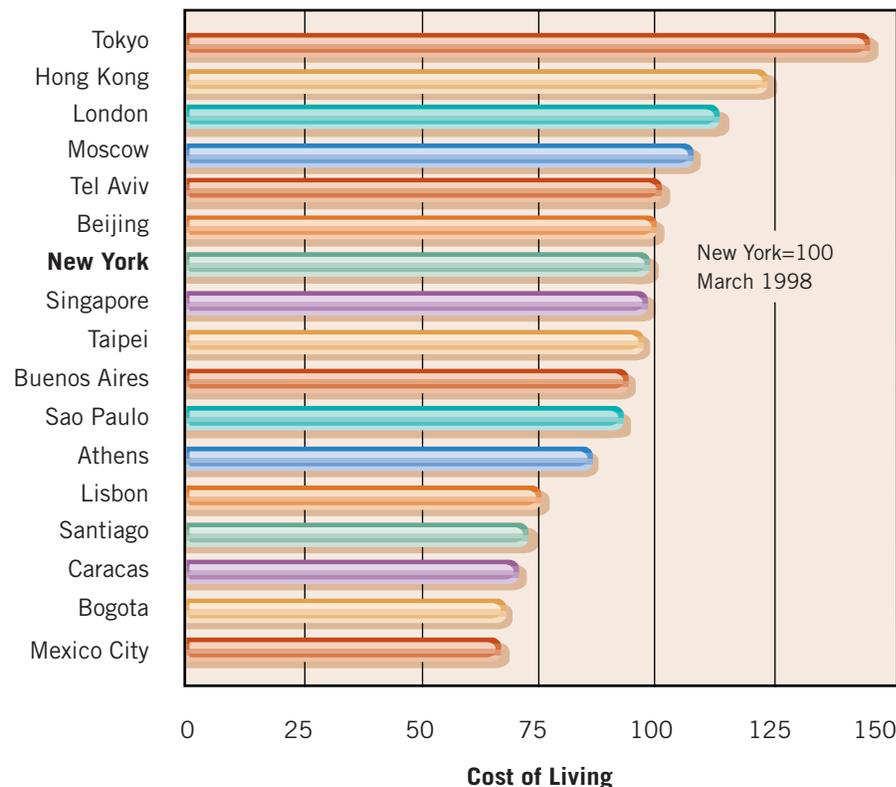
**The Online Development Center of Basil Rouskas Associates, Inc.—**

#### **International HR Issues**

An international directory of HR professionals is listed at this website to assist HR professionals with international issues. Other related websites are also listed for expatriates and travelers.

<http://www.basilrouskas.com/international.htm>

**FIGURE 4–2** *Cost-of-Living Comparison in Major World Cities*



SOURCE: European Information Union, 1998.

**Culture**

The societal forces affecting the values, beliefs, and actions of a distinct group of people.

of course, national cultures also exist. **Culture** is composed of the societal forces affecting the values, beliefs, and actions of a distinct group of people. Cultural differences certainly exist between nations, but significant cultural differences exist within countries also. One only has to look at the conflicts caused by religion or ethnicity in Central Europe and other parts of the world to see the importance of culture on international organizations. Getting individuals from different ethnic or tribal backgrounds working together may be difficult in some parts of the world. Culture can lead to ethical differences among countries. The HR Perspective on the next page gives several examples.

One widely used way to classify and compare cultures has been developed by Geert Hofstede, a Dutch scholar and researcher. Hofstede conducted research on over 100,000 IBM employees in 53 countries, and he identified five dimensions useful in identifying and comparing culture. A review of each of those dimensions follows.<sup>11</sup>

**Power distance**

Dimension of culture that refers to the inequality among the people of a nation.

**POWER DISTANCE** The dimension of **power distance** refers to the inequality among the people of a nation. In countries such as Germany, the Netherlands, and the United States, there is a smaller power distance—which means there is less inequality—than in such countries as France, Indonesia, Russia, and China. As power distance increases, there are greater status and authority differences between superiors and subordinates.

One way in which differences on this dimension affect HR activities is that the reactions to management authority differ among cultures. A more autocratic approach to managing is more common in most other countries, while in the United States there is a bit more use of participatory management.

**Individualism**

Dimension of culture that refers to the extent to which people in a country prefer to act as individuals instead of members of groups.

**INDIVIDUALISM** Another dimension of culture identified by Hofstede is **individualism**, which is the extent to which people in a country prefer to act as individuals instead of members of groups. On this dimension, people in Asian countries tend to be less individualistic and more group-oriented, whereas those in the United States score the highest in individualism. An implication of these differences is that more collective action and less individual competition is likely in those countries that deemphasize individualism.

**Masculinity/Femininity**

Dimension of cultures that refers to the degree to which “masculine” values prevail over “feminine” values.

**MASCULINITY/FEMININITY** The cultural dimension **masculinity/femininity** refers to the degree to which “masculine” values prevail over “feminine” values. Masculine values identified by Hofstede were assertiveness, performance orientation, success, and competitiveness, whereas feminine values included quality of life, close personal relationships, and caring. Respondents from Japan had the highest masculinity scores, while those from the Netherlands had more femininity-oriented values. Differences on this dimension may be tied to the role of women in the culture. Considering the different roles of women and what is “acceptable” for women in the United States, Saudi Arabia, Japan, and Mexico suggests how this dimension might affect the assignment of women expatriates to managerial jobs in the various countries.

**Uncertainty avoidance**

Dimension of culture that refers to the preference of people in a country for structured rather than unstructured situations.

**UNCERTAINTY AVOIDANCE** The dimension of **uncertainty avoidance** refers to the preference of people in a country for structured rather than unstructured situations. A structured situation is one in which rules can be established and there are clear guides on how people are expected to act. Nations high on this factor, such as Japan, France, and Russia, tend to be more resistant to change and more

## HR PERSPECTIVE

## Cultural and Ethical Differences

Why do negotiators from some countries get loud, angry, emotional, and gesture wildly in business negotiations, while others sit quietly, smile, and make sure they get what they want? It is, in many cases, differences in culture. Culture is in one sense a shared set of meanings, values, and common views on relations with other people, right and wrong, etc. These differences lead to different ideas as to what constitutes ethical business behavior. For example:

- In one Eastern European country, obtaining a new telephone line in less than three months requires making a cash payment, referred to as an “expediting charge” (a bribe in most places), to the local manager of the telephone office. All parties to the deal know that the manager will retain the cash, but a telephone is essential for doing business internationally.
- Foreign firms wishing to do business in one Asian Pacific country

must hire a “business representative” in order to obtain appropriate licenses and operating permits. In this country, it is well known that the two best representatives are relatives of the head of the country. It also is common to give the representative 10%–20% ownership in the business as a “gift” for promptly completing the licensing process.

A U.S.-based firm engaged in such practices could be violating the Foreign Corrupt Practices Act (FCPA), which prohibits U.S. firms from engaging in bribery and other practices in foreign countries that would be illegal in the United States. Competing firms from other countries are not bound by similar restrictions. However, the law reflects the U.S. culture’s view on the ethics of bribery.

Specifically relating to HR management, another major concern is the use of child labor and prison

labor. According to one estimate, over 80 million children under age 18 are working in factories and fields for international companies. In some countries, people convicted of “political crimes” are forced to work in factories that manufacture goods to be sold to U.S. and European firms. In those countries, prison labor also competes with other labor sources at lower wage rates.

When stories of these situations have been publicized, customer boycotts and news media coverage have focused unfavorable attention on the companies involved. To counter such concerns, firms such as Levi Strauss and Starbucks Coffee, among others, have established minimum standards that must be met by all operations of their subcontractors and suppliers. Unfortunately, other firms have not been as aggressive.<sup>12</sup>

rigid. In contrast, people in places such as Hong Kong, the United States, and Indonesia tend to have more “business energy” and to be more flexible.

A logical use of differences on this factor is to anticipate how people in different countries will react to changes instituted in organizations. In more flexible cultures, what is less certain may be more intriguing and challenging, which may lead to greater entrepreneurship and risk taking than in the more “rigid” countries.

**LONG-TERM ORIENTATION** The dimension of **long-term orientation** refers to values people hold that emphasize the future, as opposed to short-term values, which focus on the present and the past. Long-term values include thrift and persistence, while short-term values include respecting tradition and fulfilling social obligations. People scoring the highest on long-term orientation were China and Hong Kong, while people in Russia, the United States, and France tended to have more short-term orientation.

Differences in many other facets of culture could be discussed. But it is enough to recognize that international HR managers and professionals must recognize that cultural dimensions differ from country to country and even within coun-

**Long-term orientation**

Dimension of culture that refers to values people hold that emphasize the future, as opposed to short-term values focusing on the present and the past.

tries. Therefore, the HR activities appropriate in one culture or country may have to be altered to fit appropriately into another culture or country.

## Types of Global Organizations

A growing number of organizations that operate within only one country are recognizing that they must change and develop a more international perspective.<sup>13</sup> Organizations may pass through three stages as they broaden out into the world, as shown in Figure 4-3. A discussion of each stage follows.

### Importing and exporting

The phase of international interaction in which an organization begins selling and buying goods and services with organizations in other countries.

**IMPORTING AND EXPORTING** The first phase of international interaction consists of **importing and exporting**. Here, an organization begins selling and buying goods and services with organizations in other countries. Most of the international contacts are made by the sales and marketing staff and a limited number of other executives who negotiate contracts. Generally, HR activities are not affected except for travel policies for those going abroad.

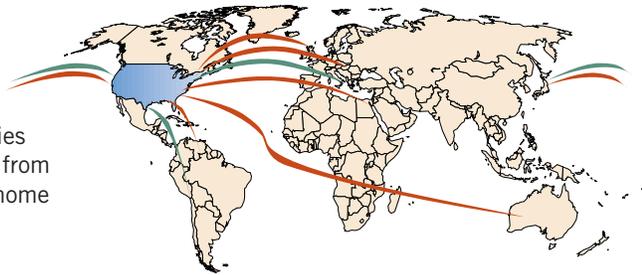
**FIGURE 4-3** *Transition to Global Organization*

#### I. Importing-Exporting



Home country

Lines indicate countries involved in importing from and exporting to the home country.

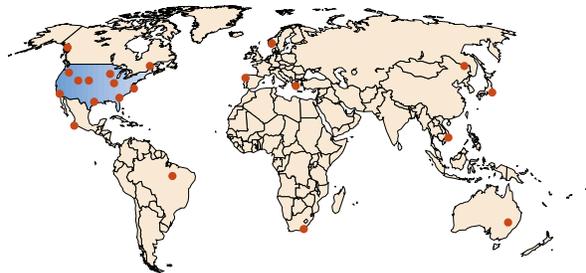


#### II. Multinational Enterprise



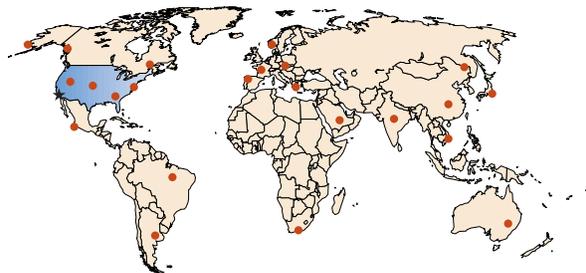
Home country

- Location of operations (some are located in home country).



#### III. Global Organization

- Operations
- ★ Headquarters



**MULTINATIONAL ENTERPRISES** As firms develop and expand, they identify opportunities to begin operating in other countries. A **multinational enterprise (MNE)** is one in which organizational units are located in foreign countries. Typically these units provide goods and services for the geographic areas surrounding the countries where operations exist. Key management positions in the foreign operations are filled with employees from the home country of the corporation. As the MNE expands, it hires workers from the countries in which it has operations. HR practices for employees sent from corporate headquarters must be developed so that these employees and their dependents may continue their economic lifestyles while stationed outside the home country. Ways to link these individuals to the parent company are also critical, especially if the international job assignment is two to three years long. There are likely to be laws and regulations differing from those in the home country that must be considered. As a result, the HR professionals in the parent organization must become knowledgeable about each country in which the MNE operates and know how staffing, training, compensation, health and safety, and labor relations must be adapted.<sup>14</sup>

**GLOBAL ORGANIZATION** The MNE can be thought of as an *international* firm, in that it operates in various countries but each foreign business unit is operated separately. In contrast, a **global organization** has corporate units in a number of countries that are integrated to operate as one organization worldwide. An MNE may evolve into a global organization as operations in various countries become more integrated.

Another example of making the transition from MNE to global organization involves Ford Motor Co. in the early 1990s. Ford started shifting from having a separate, relatively autonomous unit on each continent to operating as a global firm. One facet of Ford's approach illustrates the shift. Previously, Ford had its major design centers in the United States, and centers elsewhere adapted U.S.-designed vehicles to market needs in various countries. If separate Ford vehicles were developed, they often differed in model name and style. Under the global approach, Ford is merging design facilities and people from all over the world. In centers located in several countries, designers, engineers, and production specialists will work in teams to develop cars. Ford plans to develop a common "platform" and model for what it hopes will become a "world car" that can be produced and sold throughout the world. It will differ in different countries only in having the steering wheel and the instrumentation on the right for such countries as Great Britain and Australia.

HR management in truly global organizations moves people, especially key managers and professionals, throughout the world. Individuals who speak several languages fluently are highly valued, and they will move among divisions and countries as they assume more responsibilities and experience career growth. As much as possible, international HR management must be viewed strategically in these organizations.<sup>15</sup> Global HR policies and activities are developed, but decentralization of decision making to subsidiary units and operations in other countries is necessary in order for country-specific adjustments to be made.<sup>16</sup>

## Managing Internationally

Are good domestic managers going to make good managers in another country? How is management on a day-to-day basis different internationally? The specific

### Multinational enterprise (MNE)

An organization with units located in foreign countries.

### Global organization

An organization that has corporate units in a number of countries that are integrated to operate as one organization worldwide.



### LOGGING ON . . .

#### HR Global Network

This site contains archives and resources on the latest new ideas in global HR and training. A list of resources and archives for academic knowledge is also provided to assist HR professionals in global management.

<http://www.mcb.co.uk/hr/>

answers to these questions depend on the countries involved. However, some observations from those who have managed in multiple countries can be useful.

Managing globally means dealing with eclectic staffs and teams, understanding foreign competition, and studying the politics, culture, and operating style in different markets. Global managers apparently must handle more complexity, relate well to very diverse groups, learn to listen rather than talk, and be comfortable with the observation “I have no idea what will happen today.”<sup>17</sup> Clearly understanding their own company objectives and administrative approach is important as well.<sup>18</sup>

Differences in successful managers can be great across countries. For example, the successful head of a major Chinese appliance manufacturer approaches management and leadership much differently than would be tolerated in the United States. He assesses employees’ performance each month and adjusts pay monthly—up or down. Poor employees are humiliated. The slowest worker on each shift must explain his problems in public. Managers who fail to reach goals are named in the company paper, and must volunteer for a pay cut.<sup>19</sup>

Protocol, dress, greetings, and even business cards are potentially cultural differences that can work against the unattentive manager.<sup>20</sup> Dealing with gender issues among countries can be a problem as well, as the HR Perspective shows.

Despite somewhat different challenges for global managers than those faced by domestic managers, the need for international managerial talent is increasing. Finding and selecting good expatriates (including managers) is the next topic.

## International Staffing

Staffing (or finding, choosing and placing) good employees is difficult even at home. However, it becomes more difficult in other countries. For example, until recently in Russia, very few Russians had resumes available to give to prospective employers with vacant positions. Consequently, recruiting is often done only by word of mouth. Only recently have more sophisticated methods—such as structured interviews, testing or work samples—been used on a limited basis. More systematic selection is becoming necessary in Russia and many of the former Soviet-bloc countries as younger, more highly educated candidates are being needed by international firms.<sup>21</sup>

Deciding on the mix of local employees, employees from the home country, and even people from third countries that will best meet organizational goals is a challenge.<sup>22</sup> In staffing an overseas operation, cost is a major factor to be considered. The cost of establishing a manager or professional in another country can run as high as \$1 million for a three-year job assignment. The actual costs for placing a key manager outside the United States often are twice the manager’s annual salary. For instance, if the manager is going to Japan, the costs may be even higher when housing costs, schooling subsidies, and tax equalization payment are calculated. Further, if a manager or professional executive quits an international assignment prematurely or insists on a transfer home, associated costs can equal or exceed the annual salary. “Failure” rates for managers sent to other countries run as high as 45%.<sup>23</sup>

## HR PERSPECTIVE

### The Female Factor

Even though slightly more than half of the world population is female, in some countries being female presents some special problems in dealing with local males about business issues.

For example, in Pakistan a female pilot for a major international carrier made radio contact with ground control personnel who were so astonished to hear a woman they refused to speak to her. Consequently, the male copilot had to take over the landing. Many American women wonder if they must start all over again overseas after attaining success in the United States. Their bosses often have similar concerns, especially in male-dominated cultures of the Middle East, Latin America, and Asia. The fear is that women will not be taken seriously and therefore are unable to represent the company's interests effectively.

Male chauvinism is still a fact of life in many other countries as well.

For example, in Poland, most of the business persons one will meet are male. In such a male-dominated society, admonishing Polish businessmen for their sexist attitudes, real or perceived, does not help change those attitudes or advance women's business efforts.

The female factor may have its greatest impact in some Islamic countries. The role of women in much of the Islamic world is different from that in the United States, though not uniformly so. For example, in Egypt only 9% of women are in paid employment, and only about 10% of managers are female. In very conservative countries such as Iran and Saudi Arabia, even shaking hands with a woman can cause extreme embarrassment. Just getting into Saudi Arabia is difficult for a woman who is unaccompanied by a husband or close relative, because the government will not issue her a visa. Once in Saudi Arabia, a woman will find that people are segregated

by gender and a woman must be escorted in public. She may not drive, and taxi drivers will not pick up unaccompanied female customers.

Although small mistakes in etiquette are usually forgiven in most countries, some social customs regarding females elicit strong emotional reactions if ignored. For instance, proper dress is very important for women working abroad. Longer skirts and higher necklines are good rules of thumb. In Asia, modest and gentle behavior is the expectation for females. Also, in many places the friendly, open smiles of U.S. women business professionals may be seen as an invitation for a more personal relationship. As a result, U.S. businesswomen should learn that it is best to err on the side of formality when doing business in many countries.<sup>24</sup>

Factors that are most likely to be causes of concern for an employee sent overseas are shown in Figure 4-4. The figure shows that only roughly two-thirds to three-fourths of employees sent to another country are satisfied with the way the top five support needs are being met.

To meet these needs, organizations are outsourcing various functions, citing gains in cost effectiveness, expertise, and efficiency. Several respondents to a survey on the subject suggested that outsourcing certain HR functions to international experts may be a long-term trend.<sup>25</sup>

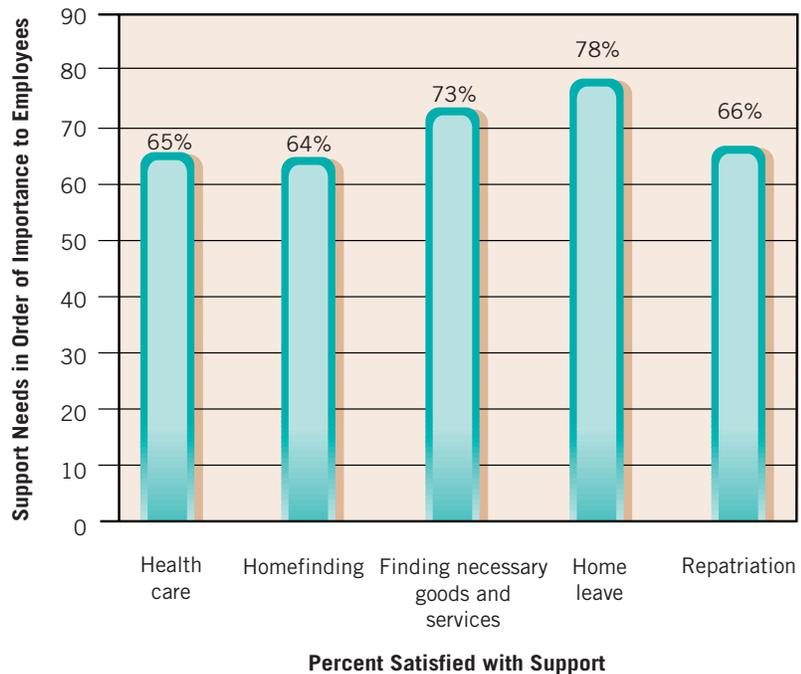
### Types of International Employees

International employees can be placed in three different classifications.

- An **expatriate** is an employee working in a unit or plant who is not a citizen of the country in which the unit or plant is located but is a citizen of the country in which the organization is headquartered.

#### Expatriate

An employee working in a unit or plant who is not a citizen of the country in which the unit or plant is located, but is a citizen of the country in which the organization is headquartered.

**FIGURE 4-4 Concerns in International Assignments**

SOURCE: 1997 *International Assignee Research Project*, Berlitz International, HFS Mobility Services, SHRM International HR, 1997, 3.

### Host-country national

An employee working in a unit or plant who is a citizen of the country in which the unit or plant is located, but where the unit or plant is operated by an organization headquartered in another country.

### Third-country national

An employee who is a citizen of one country, working in a second country, and employed by an organization headquartered in a third country.

- A **host-country national** is an employee working in a unit or plant who is a citizen of the country in which the unit or plant is located, but where the unit or plant is operated by an organization headquartered in another country.
- A **third-country national** is a citizen of one country, working in a second country, and employed by an organization headquartered in a third country.

Each of these individuals presents some unique HR management challenges. Because in a given situation each is a citizen of a different country, different tax laws and other factors apply. HR professionals have to be knowledgeable about the laws and customs of each country. They must establish appropriate payroll and record-keeping procedures, among other activities, to ensure compliance with varying regulations and requirements.

**EXPATRIATES** Many MNEs use expatriates to ensure that foreign operations are linked effectively with the parent corporations. Generally, expatriates also are used to develop international capabilities within an organization. Experienced expatriates can provide a pool of talent that can be tapped as the organization expands its operations more broadly into even more countries. Japanese-owned firms with operations in the United States have rotated Japanese managers through U.S. operations in order to expand the knowledge of U.S. business practices in the Japanese firms.

Several types of expatriates may be differentiated by job assignment, because not all individuals who decide to work as expatriates are similar in the assignments undertaken.

- *Volunteer expatriates:* These are persons who want to work abroad for a period of time because of career or self-development interests. Often, these expatriates volunteer for shorter-term assignments of less than a year so that they can experience other cultures and travel to desired parts of the world.
- *Traditional expatriates:* These are professionals and managers assigned to work in foreign operations for one to three years. They then rotate back to the parent corporation in the home country.
- *Career development expatriates:* These individuals are placed in foreign jobs to develop the international management capabilities of the firm. They may serve one to three “tours” in different countries, so that they can develop a broader understanding of international operations.
- *Global expatriates:* The broadcast category comprises those individuals who move from one country to another. Often, they prefer to work internationally rather than in the home country.

American managers are developing a reputation as being somewhat more versatile and adaptable, perhaps because of leading a more diverse workforce at home. Their management education is often very good as well—both from formal business schools and in-house training programs.<sup>26</sup> Whirlpool, GTE, Quaker Oats, and others are using retired American managers to staff hard-to-fill temporary international jobs. They find it is faster and less expensive than relocating a regular expatriate, who would normally expect to stay three years or more.<sup>27</sup>

**HOST-COUNTRY NATIONALS** Using host-country nationals is important for several reasons. It is important if the organization wants to establish clearly that it is making a commitment to the host country and not just setting up a foreign operation. Host-country nationals often know the culture, politics, laws, and business customs better than an outsider would. Also, tapping into the informal “power” network may be important. In one Southeast Asian country, foreign companies have learned that a firm’s problems are resolved more quickly if a family member of that country’s president is a consultant to the firm or a member of its management. But U.S. firms must take care that the individuals used actually perform work for the company; the “salary” must not be a disguised bribe paid in order to obtain contracts. Otherwise, the firms could be in violation of the FCPA addressing foreign corrupt practices. Another reason to use host-country nationals is to provide employment in the country. In many lesser-developed countries, compensation levels are significantly lower than in the United States, so U.S. firms can gain cost advantages by using host-country nationals to staff many jobs.

Recruiting the first group of local employees can be a challenge. The initial group helps create a culture for that organization—for better or worse. Yet, the opportunity for serious errors is great. For example, many countries have very different employment laws, which may make it difficult to dismiss an employee. In countries where there is a shortage of qualified candidates, good potential employees may be lost if not approached correctly. To accomplish successful hiring of host-country nationals, many firms form partnerships with local companies to help with hiring.<sup>28</sup>

**THIRD-COUNTRY NATIONALS** Using third-country nationals emphasizes that a truly global approach is being taken. Often, these individuals are used to handle responsibilities throughout a continent or region. For instance, a major U.S.-based electronics company has its European headquarters in Brussels, Belgium.



**BNA 445.30.20-  
445.30.30**

#### **Hiring Foreign Nationals**

This section provides an overview of the U.S. Visa requirements for non-U.S. citizens hired by U.S. employers.

While most employees on the clerical staff are Belgians, only about 20% of the professionals and managers are from Belgium. Most of the rest, except for five U.S. expatriates, are from other Western European countries.

It is unusual to find third-country nationals in a new multinational enterprise (MNE). These are usually staffed with qualified nationals and expatriates. Third-country nationals are often first hired when a company has several foreign operations and decides to open another. The choice is often between transferring another expatriate from headquarters or transferring an employee from another overseas operation. Third-country nationals are more common in MNEs with headquarters in North America than in other regions.<sup>29</sup>

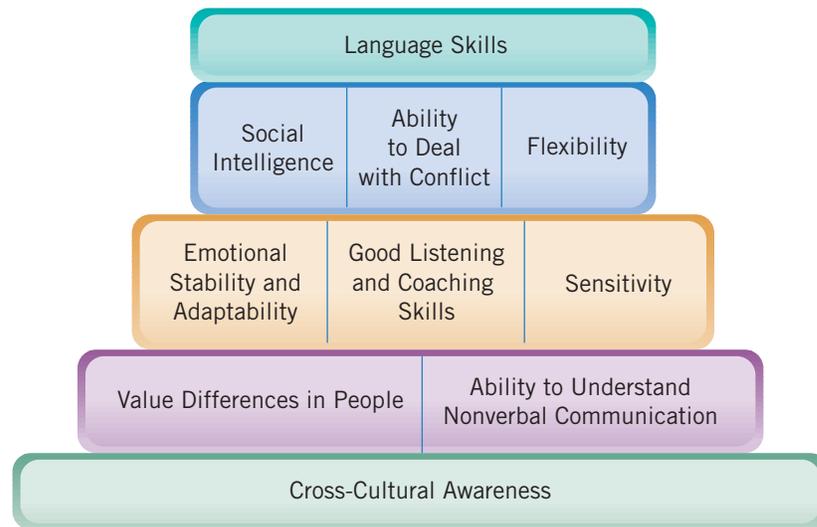
**TRANSNATIONAL PROJECT TEAMS** There has been a dramatic increase in the number and variety of multicultural or “transnational” teams. These teams may be temporary or somewhat permanent and are formed to solve a specific problem or to handle ongoing activities. They often include headquarters representatives, host-country nationals, and third-country nationals. They are useful not only as potentially valuable business units but also as development vehicles for leaders. Eastman Kodak formed a transnational team based in London to launch its photo CD at the same time in several European countries. The team dealt with complex strategic issues across geographic and cultural barriers.<sup>30</sup>

## Selection for International Assignments

The selection process for an international assignment should provide a realistic picture of the life, work, and culture to which the employee may be sent. HR managers should prepare a comprehensive description of the job to be done. This description especially should note responsibilities that would be unusual in the home nation, including negotiating with public officials; interpreting local work codes; and responding to ethical, moral, and personal issues such as religious prohibitions and personal freedoms. Figure 4–5 shows the most frequently cited key competencies for expatriates. Most of these competencies can be categorized as either cultural adaptability or communication skills. The following discussion examines those ideas.

**CULTURAL ADAPTABILITY** Most staffing “failures” among those placed in foreign assignments occur because of cultural adjustment problems, not because of difficulties with the jobs or inadequate technical skills. Organizational support for the employees is particularly important for successful cultural adjustment. Once employees have been selected for international assignments, continuing organizational support for the employees is crucial. The intention of expatriates to quit and their commitment to their organizations are affected by how they view the support given to them by their employers.

Throughout the selection process, especially in the selection interviews, it is crucial to assess the potential employee’s ability to accept and adapt to different customs, management practices, laws, religious values, and infrastructure conditions. For example, in Nigeria the local telephone system is so inefficient that overseas calls can be made more easily than crosstown calls, especially in Lagos, the capital city. A U.S. citizen who is accustomed to the convenience and reliability of the U.S. telephone system may become impatient and angry when confronted with such delays.

**FIGURE 4-5** *Global Skills and Competencies for Successful Expatriates*

SOURCE: Adapted from Michael L. Wheeler, "Global Diversity," *Business Week*, December 1, 1997, 37.

**COMMUNICATION SKILLS** One of the most basic skills needed by expatriate employees is the ability to communicate orally and in writing in the host-country language. Inability to communicate adequately in the language may significantly inhibit the success of an expatriate. Numerous firms with international operations select individuals based on their technical and managerial capabilities and then have the selected individuals take foreign language training. Intensive 10-day courses offered by Berlitz and other schools teach basic foreign language skills.

But in any language there is more to communication than simply vocabulary. Greetings, gestures, pace, and proximity all are different in various countries.<sup>31</sup> Basic values about other people and interacting with them are at least as important as speaking the language.

**FAMILY FACTORS** The preferences and attitudes of spouses and other family members also are major staffing considerations. Two of the most common reasons for turning down international assignments are family considerations and spouses' careers.<sup>32</sup> Nearly three-fourths of expatriates are married, and most are male. Of the expatriates who are married, only about 13% are not accompanied on overseas assignments by their spouse.<sup>33</sup>

With the growth in dual-career couples, the difficulty of transferring international employees is likely to increase, particularly given work-permit restrictions common in many countries. Some international firms have begun career services to assist spouses in getting jobs with other international firms.

**EQUAL EMPLOYMENT OPPORTUNITY (EEO) CONCERNS** The assignment of women and members of racial/ethnic minorities to international posts involves

legal issues, because these individuals may be protected by U.S. Equal Employment Opportunity (EEO) regulations. Many U.S. firms operating internationally have limited assignments of women and other protected-class individuals in deference to cultural concerns. The Civil Rights Act of 1991 extended coverage of EEO laws and regulations to U.S. citizens working internationally for U.S.-controlled companies. However, the act states that if laws in a foreign country require actions that conflict with U.S. EEO laws, the foreign laws will apply. If no laws exist, only customs or cultural considerations, then the U.S. EEO laws will apply.

In a related area, some foreign firms in the United States, particularly those owned by Japan, have “reserved” top-level positions for those from the home country. Consequently, EEO charges have been brought against these firms. Previous court decisions have ruled that because of a treaty between Japan and the United States, Japanese subsidiaries can give preference to Japanese over U.S. citizens.

However, it should be noted that most other EEO regulations and laws do apply to foreign-owned firms. In a closely related area, women have brought sexual harassment charges against foreign managers, and other protected-class individuals have brought EEO charges for refusal to hire or promote them.<sup>34</sup> In those cases, courts have treated the foreign-owned firms just as they would U.S.-owned employers.

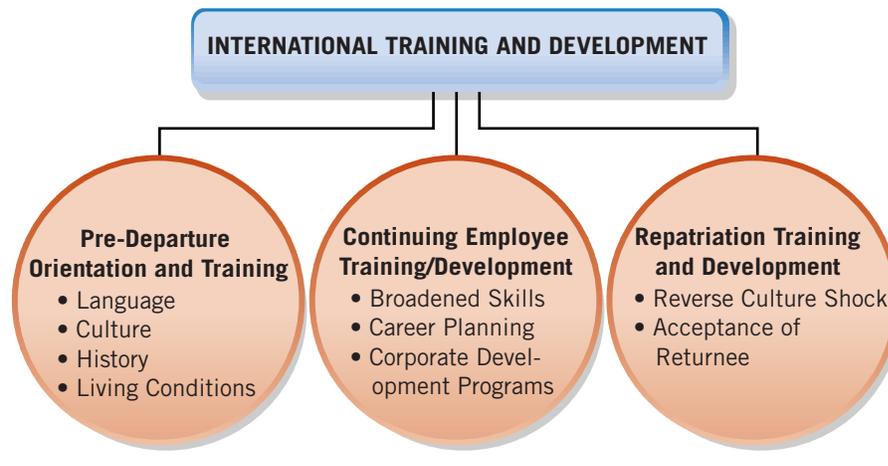
## International Training and Development

Just as in any organization—global in scope or not—training and development are key factors for HR success. For the global firm these activities are just as important, but for incoming expatriates, host-country nationals, and third-country nationals, training and development is crucial. The training needs of a German expatriate assigned to the United States for the first time might be very different than the needs of an employee working for the company as a factory assembler in Mexico, but both need training to be effective.<sup>35</sup> For example, when companies first began to put down roots in Mexico on the U.S./Mexican border, there was little incentive to train employees who were seen simply as a source of cheap labor. But employee turnover rates ran over 20% a month in many places, and employers found that the gains in labor costs were offset with shoddy quality. Training quickly became an important part of turning the HR catastrophe around. Greatly improved productivity has resulted from programs of continuous training, skills improvement, vocational training, and employees training other employees.<sup>36</sup>

Figure 4–6 shows three different kinds of training and development activities for global employees. Not all apply to every type of international employee, but all are important.

### Pre-Departure Orientation and Training

The orientation and training that expatriates and their families receive before departure have a major impact on the success of the overseas assignment. Three areas affect the cross-cultural adjustment process: (a) work adjustment, (b) interaction adjustment, and (c) general adjustment. Permeating all of those

**FIGURE 4-6 International Training and Development**

areas is the need for training in foreign language and culture familiarization. Many firms have formal training programs for expatriates and their families, and this training has been found to have a positive effect on cross-cultural adjustment.<sup>38</sup>

Individuals selected to work outside the United States for MNEs need answers to many specific questions about their host countries. Such areas as political and historical forces, geographic and climatic conditions, and general living conditions are topics frequently covered in the orientation and training sessions on the culture of the host country. Expatriates and their families also must receive detailed, country-specific training on customs in the host country. Such knowledge will greatly ease their way in dealing with host-country counterparts. Training in such customs and practices also should be part of the training programs for individuals who will not live outside the home country but will travel to other countries for business purposes.

A related issue is the promotion and transfer of foreign citizens to positions in the United States. As more global organizations start or expand U.S. operations, more cross-cultural training will be necessary for international employees relocated to the United States. For example, many Japanese firms operating in the United States have training programs to prepare Japanese for the food, customs, and other practices of U.S. life. The acceptance of a foreign boss by U.S. workers is another concern. These issues point to the importance of training and development for international adjustment.

Once global employees arrive in the host country, they will need assistance in “settling in.” Arrangements should be made for someone to meet them and assist them. Obtaining housing, establishing bank accounts, obtaining driver’s licenses, arranging for admissions to schools for dependent children, and establishing a medical provider relationship are all basics when relocating to a new city, internationally or not. But differences in culture, language, and laws may complicate these activities in a foreign country. The sooner the expatriates and their families can establish a “normal” life, the better the adjustment will be, and the less likely that expatriate failure will occur.

## Continuing Employee Training/Development

Career planning and continued involvement of expatriates in corporate employee development activities are essential. One of the greatest deterrents to accepting foreign assignments is employees' concern that they will be "out of sight, out of mind." If they do not have direct and regular contact with others at the corporate headquarters, many expatriates experience anxiety about their continued career progression. Therefore, the international experiences of expatriates must be seen as beneficial to the employer and to the expatriate's career.<sup>37</sup>

One way to overcome problems in this area is for firms to invite the expatriates back for regular interaction and development programs with other company managers and professionals. Another useful approach is to establish a mentoring system. In this system, an expatriate is matched with a corporate executive in the headquarters. This executive talks with the expatriate frequently, ensures that the expatriate's name is submitted during promotion and development discussions at the headquarters, and resolves any headquarters-based problems experienced by the expatriate.<sup>39</sup>

Opportunities for continuing education represent another way for international employees to continue their development. In some of the more developed European countries, foreign executives and professionals may enroll in Master of Business Administration (MBA) programs at well-respected universities. By obtaining an MBA while on the international assignment, the expatriate keeps up with those with similar jobs in the home country who pursue advanced degrees while working full time.

## Repatriation Training and Development

### Repatriation

The process of bringing expatriates home.

The process of bringing expatriates home is called **repatriation**. Some major difficulties can arise when it is time to bring expatriates home. For example, the special compensation packages often available to expatriates are dropped, which means that the expatriates experience a net decrease in total income, even if they receive promotions and pay increases. In addition to concerns about personal finances, repatriated employees must readjust to a closer working and reporting relationship with other corporate employees. Often, expatriates have a greater degree of flexibility, autonomy, and independent decision making than do their counterparts in the United States.

Expatriates often must also be reacclimatized to U.S. lifestyles, transportation services, and other cultural practices, especially if they have been living in less-developed countries.<sup>40</sup> For example, the wife of a U.S. expatriate was accustomed to bargaining for lower prices when she shopped in the foreign country. During the first week after her return to the United States, she tried to bargain with the checkout cashier at a supermarket before she realized that she was back in a place where this practice was not normal.

## International Compensation

Organizations with employees in many different countries face some special compensation pressures. Variations in laws, living costs, tax policies, and other factors all must be considered in establishing the compensation for expatriate managers and professionals. Even fluctuations in the value of the U.S. dollar must be tracked and adjustments made as the dollar rises or falls in relation to currency

rates in other countries. Add to all of these concerns the need to compensate employees for the costs of housing, schooling of children, and yearly transportation home for themselves and their family members. When all these different issues are considered, it is evident that international compensation is extremely complex. Typical components of an international compensation package for expatriates are shown in Figure 4-7. Several approaches to international compensation are discussed next.

## Balance-Sheet Approach

Many multinational firms have compensation programs that use the balance-sheet approach. The **balance-sheet approach** provides international employees with a compensation package that equalizes cost differences between the international assignment and the same assignment in the home country of the individual or the corporation. The balance-sheet approach is based on some key assumptions, which are discussed next.<sup>41</sup>

**HOME-COUNTRY REFERENCE POINT** The compensation package is developed to keep global employees at a level appropriate to their jobs in relation to similar jobs in the home country. Special benefits or allowances are provided to allow the global employees to maintain a standard of living at least equivalent to what they would have in the home country.

### Balance-sheet approach

An approach to international compensation that provides international employees with a compensation package that equalizes cost differences between the international assignment and the same assignment in the home country of the individual or the corporation.

**FIGURE 4-7** *Typical Expatriate Compensation Components*





### LOGGING ON . . .

#### Runzheimers International Compensation and Relocation

This website offers compensation tools including news releases, publications, survey information, other web sites, and much more to address the global HR issues faced by organizations.

<http://www.runzheimers.com/intcomp.htm>



### BNA: 2409.30.20

#### Income Tax Exclusions

Notice in this section that withholding of federal income tax is not required of U.S. citizens working outside the U.S.

#### Tax equalization plan

Compensation plan used to protect expatriates from negative tax consequences.

**LIMITED DURATION OF GLOBAL ASSIGNMENT** Another basic premise of the balance-sheet approach is that expatriate employees generally have international assignments lasting two to three years. The international compensation package is designed to keep the expatriates “whole” for a few years until they can be reintegrated into the home-country compensation program. Thus, the “temporary” compensation package for the international assignment must be structured to make it easy for the repatriated employee to reenter the domestic compensation and benefits programs. Also, it is assumed that the international employee will retire in the home country, so pension and other retirement benefits will be home-country-based.

### Global Market Approach

Increasingly, global organizations have recognized that attracting, retaining, and motivating managers with global capabilities requires taking a broader perspective than just sending expatriates overseas. As mentioned earlier, in many large multinational enterprises, key executives have worked in several countries and may be of many different nationalities. These executives are moved from one part of the world to another and to corporate headquarters wherever the firms are based. It appears that there is a high demand for these global managers, and they almost form their own “global market” for compensation purposes.

Unlike the balance-sheet approach, a global market approach to compensation requires that the international assignment be viewed as continual, not just temporary, though the assignment may take the employee to different countries for differing lengths of time. This approach is much more comprehensive in that the core components, such as insurance benefits and relocation expenses, are present regardless of the country to which the employee is assigned. But pegging the appropriate pay level, considering rates in the host country, home country, and/or headquarters country, becomes more complex. Further, the acceptability of distributing compensation unequally based on performance varies from country to country.<sup>42</sup> Therefore, global compensation requires greater flexibility, more detailed analyses, and greater administrative effort. Some factors affecting executive compensation include the “cultural distance” from headquarters and how much responsibility and autonomy the subsidiary incurs.

### Tax Concerns

Many international compensation plans attempt to protect expatriates from negative tax consequences by using a **tax equalization plan**. Under this plan, the company adjusts an employee’s base income downward by the amount of estimated U.S. tax to be paid for the year. Thus, the employee pays only the foreign-country tax. The intent of the tax equalization plan is to ensure that expatriates will not pay any more or less in taxes than if they had stayed in the United States.

## Global Employee Relations Issues

Several issues related to employee relations are often concerns in international situations. *Health and safety issues* may be of concern to employees overseas, and *security* has become a very difficult issue in certain areas of the world. The nature

of *labor unions* and labor laws can be an important variable for managers from other countries when dealing with host-country national employees. Finally, *maintaining the expatriate employee* in an international position given the potential difficulties deserves attention.

## Global Health and Safety

Safety and health laws and regulations vary from country to country, ranging from virtually nonexistent to more stringent than in the United States. The importance placed on workplace safety varies among different countries.

With more and more expatriates working internationally, especially in some of the less-developed countries, significant health and safety issues are arising, and addressing these issues is part of the HR role.<sup>43</sup> For instance, in many parts of the former Soviet Union, medical facilities are more primitive, treatment is not as available, and pharmaceuticals are less easily obtained. U.S. expatriates traveling to such countries as Turkmenistan and Tajikistan commonly take antibiotics, other medications, and syringes and needles with them in case they need them. Similar practices are recommended for those traveling or working in some African and lesser-developed Asian countries, including China.

Another consideration is provision of emergency evacuation services. For instance, how to evacuate and care for an expatriate employee who sustains internal injuries in a car accident in the Ukraine or Sierra Leone may be a major issue. Many global firms purchase coverage for their international employees from an organization that provides emergency services, such as International SOS, Global Assistance Network, or U.S. Assist. To use such a service, an employer pays a membership fee per employee, and all employee travelers are given emergency contact numbers. If an emergency arises, the emergency services company will dispatch physicians or even transport employees by chartered aircraft. If adequate medical assistance can be obtained locally, the emergency services company maintains a referral list and will make arrangements for the expatriate to receive treatment. Legal counsel in foreign countries, emergency cash for medical expenses, and assistance in retrieving lost documents or having them reissued also are provided by emergency services firms.

## International Security and Terrorism

As more U.S. firms operate internationally, the threat of terrorist actions against those firms and the employees working for them increases. U.S. citizens are especially vulnerable to extortions, kidnapping, bombing, physical harassment, and other terrorist activities. In a three-month period in a recent year, several hundred terrorist acts were aimed at businesses and businesspeople. Many of these acts targeted company facilities and offices. Nevertheless, individual employees and their families living abroad must constantly be aware of security issues.<sup>44</sup>

Countries vary in the extent to which they are likely to see violence at the workplace. Figure 4-8 shows the share of workers reporting violence on the job in different countries.

It should be noted, of course, that not all violence occurs at work. Kidnapping, murder, home invasion, robberies, and car-jackings are relatively frequent in some places.<sup>45</sup> People who appear affluent are targets, and in some countries a person can appear ostentatiously wealthy simply by wearing eyeglasses.<sup>46</sup> Many firms provide bodyguards who escort executives everywhere. Different routes of

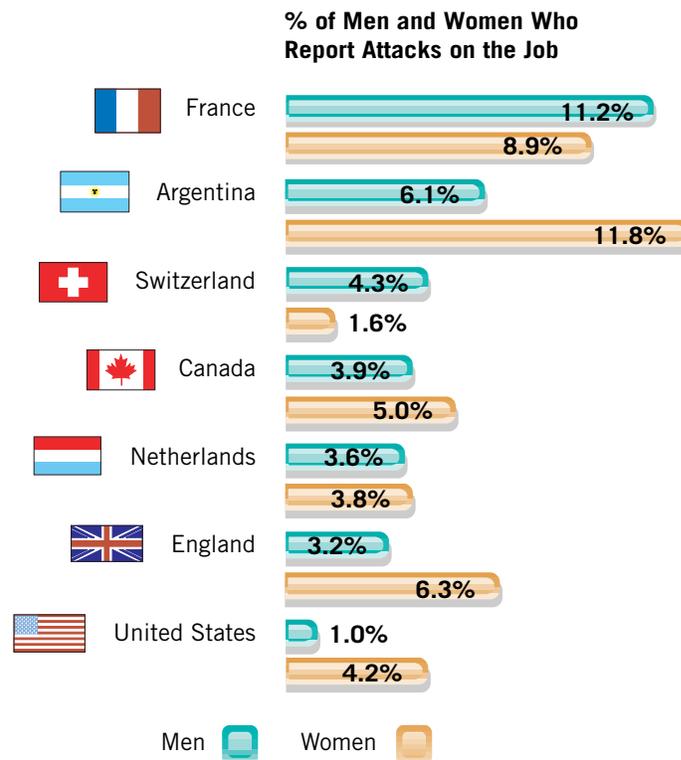


### LOGGING ON . . .

#### Travel Advisories

U.S. State Department Warnings and Consider Advisory Sheets are distributed by St. Olaf College (Minnesota) of all countries at

<http://www.stolaf.edu/network/travelisories.html>

**FIGURE 4-8 Violence at Work Globally**

SOURCE: International Labor Organization Data, 1998

travel are used, so that “normal” patterns of movement are difficult for terrorists to identify. Family members of employees also receive training in security. Children are told to avoid wearing sweatshirts with U.S. logos and to be discreet when meeting friends. In a number of countries schools for children of U.S. expatriates have instituted tight security measures, including sign-in procedures for visitors, guards for the grounds, and improved security fences and surveillance equipment.<sup>47</sup>

Firms themselves are taking other actions. For example, one U.S. firm removed its large signs from facilities in a Latin American country. Removal of signs identifying offices and facilities reduces the visibility of the firm and thus reduces its potential as a target for terrorist acts. Many international firms screen entry by all employees, and many use metal detectors to scan all packages, briefcases, and other items. Physical barriers, such as iron security fences, concrete barricades, bulletproof glass, and electronic surveillance devices, are common in offices.

## Global Labor-Management Relations

The strength and nature of unions different from country to country. In some countries, unions either do not exist at all or are relatively weak. Such is the case in China and a number of African countries. In other countries, unions are extremely strong and are closely tied to political parties.<sup>48</sup> This is the case in

## HR PERSPECTIVE

## Research on Expatriate Withdrawal from International Assignments

Margaret Shaffer and David Harrison conducted research using a sample of over 600 expatriates living in 45 countries to determine reasons behind their decisions to quit their international assignments. Using their research, as reported in *Personnel Psychology*, the authors of the study built a model to predict turnover among expatriates.

The picture that emerged from the research was consistent with what turnover research in the United States has found: Work-related factors of *job satisfaction* and *organiza-*

*tional commitment* were significant predictors of expatriate withdrawal. The researchers also found that factors including non-work satisfaction and several family variables—spouse adjustment, spouse satisfaction, and living conditions—were important.

The researchers concluded that international Human Resources management efforts must address *non-work factors*, including those associated with the foreign environment and with the expatriate's family, in order to reduce turnover of

expatriates. They also concluded that family issues have a strong impact on satisfaction and adjustment throughout the entire duration of the overseas assignment, and expatriate retention can be improved by initiating HR management strategies that focus on them. Additionally, researchers identified listing of family-related practices that international employers should consider using.<sup>49</sup>

some European countries. In still other countries, such as the United States and Great Britain, unions have declined in influence and membership during the last decade.

Some countries require that firms have union or worker representatives on their boards of directors. This practice is very common in European countries, where it is called **co-determination**. But signs of change in Europe are beginning to emerge.<sup>50</sup> Predictions are that in the next decade unions will have less power in Europe as competition worldwide forces change.<sup>51</sup> However, union militancy is increasing in some lesser-developed countries, such as Brazil, Mexico, Poland, and Romania.

Differences from country to country in how collective bargaining occurs also are quite noticeable. In the United States, local unions bargain with individual employers to set wages and working conditions. In Australia, unions argue their cases before arbitration tribunals. In Scandinavia, national agreements with associations of employers are the norm. In France and Germany, industry-wide or region-wide agreements are common. In Japan, local unions do the bargaining but combine at some point to determine national wage patterns. In spite of these differences, unions appear to have somewhat similar effects internationally in most situations regarding employment and provision of benefits.

### Co-determination

A practice whereby union or worker representatives are given positions on a company's board of directors.

## Maintaining the Expatriate Employee

Problems associated with expatriate assignments have been noted throughout the chapter. Some interesting research on expatriates' psychological withdrawal from international assignments is reflected in the HR Perspective. Those problems are well-documented but not always dealt with very well by employers who need to send employees overseas. Yet, international strategies are threatened with

ineffectiveness when those who are offered such international assignments refuse them or take them unwillingly.

Whether the problem is with the family, salaries, loss of visibility in the company, living conditions, danger, or whatever, the loss of good employees with international experience is a big issue for some organizations. For example, one executive noted that after spending three years of hard work overseas—generating millions of dollars in profit for the company—when it was time to come home, suddenly his supervisors were saying, “Where will we send him?” “What will he do?” “What will we pay him?” “Why won’t he stay overseas?” Another notes that when his three years were over and he needed to come back to the United States because of his children’s ages, his superiors quickly turned the discussion toward another three years abroad. In the end he became discouraged and gave up 18 years with the company to move to another firm in the United States.<sup>52</sup>

Behind the hype and the horror stories, there is one valid generalization about foreign assignments: They can pay professional and personal dividends, but they carry some real risks.<sup>53</sup> The organizations that help their expatriates deal with the risks—and choose the right people for those very challenging assignments—ultimately share in the benefits with their successful employees.

## Summary

- International HR activities must be adapted to reflect what is appropriate in different countries.
- Global HR management is most influenced by legal, political, economic, and cultural factors.
- Culture is composed of the societal forces affecting the values, beliefs, and actions of a distinct group of people.
- One scheme for classifying national cultures considers power distance, individualism, masculinity/femininity, uncertainty avoidance, and long-term orientation.
- Organizations doing business internationally may evolve from organizations engaged in importing and exporting activities, to multinational enterprises, to global organizations.
- Staffing international jobs can be costly, and selection criteria must include a wide range of skills, abilities, and family factors in addition to the required business knowledge and experience.
- Training and development activities for international employees focus on pre-departure orientation and training, continued employee development, and readjustment training for repatriates.
- Compensation practices for international employees are much more complex than those for domestic employees, because many more factors must be considered.
- Global organizations must be concerned about the health, safety, and security of their employees.
- Labor-management relations vary from country to country.

## Review and Discussion Questions

1. Discuss the following statement: “Shifts in the types of jobs and the industries in which jobs are gained or lost reflect global competition and other economic shifts that are occurring in the United States.”
2. Select a country and identify how you believe it would stand on Hofstede’s five dimensions of culture.
3. What are some advantages and disadvantages associated with using expatriate managers instead of host-country nationals?

4. Assume you have been asked to consider a job in a foreign country with a U.S.-based corporation. Develop a list of questions and issues that the corporation should address with you before you make your decision.
5. Assuming you accepted a foreign job, what should the content of the pre-departure training be for you and your family?
6. Discuss the following statement: Global compensation packages should keep expatriates even with what they would receive at home, but not allow them to get rich.
7. Suppose an expatriate employee is to work in Bulgaria for two years. What health, safety, and security issues should be addressed?

## Terms to Know

balance-sheet approach	129	importing and exporting	118	power distance	116
co-determination	133	individualism	116	repatriation	128
culture	116	long-term orientation	117	tax equalization plan	130
expatriate	121	masculinity/femininity	116	third-country national	122
global organization	119	multinational enterprise (MNE)	119	uncertainty avoidance	116
host-country national	122				

## Using the Internet



### Training Your Workforce for Global Business Negotiations

With the globalization of the marketplace, your company has decided to explore some international business opportunities. They have informed you, the HR manager, that they are sending a team to Colombia to negotiate a business agreement. It is your responsibility to train the team on some of the customs and

negotiating tactics that are acceptable in Colombia. Use the website <http://www.getcustoms.com> to obtain the information. Access the passport database, choose Colombia, and go to Colombia's business practices. Then identify five negotiating tactics to share with the team.

## CASE

### McDonald's Global HR

One of the best-known companies worldwide is McDonald's Corporation. The fast-food chain, with its symbol of the golden arches, has spread from the United States into 91 countries. With over 18,000 restaurants worldwide, McDonald's serves 33 million people each day. International sales are an important part of McDonald's business, and over 50% of the company's operating income results from sales outside the United States. To generate these sales, McDonald's employs over one million people, and by

2000, McDonald's had grown to over two million employees.

Operating in so many different countries means that McDonald's has had to adapt its products, services, and HR practices to legal, political, economic, and cultural factors in each one of those countries. A few examples illustrate how adaptations have been made. In some countries, such as India, beef is not acceptable as a food to a major part of the population, so McDonald's uses lamb or mutton. To appeal to

Japanese customers, McDonald's has developed teriyaki burgers. Separate dining rooms for men and women have been constructed in McDonald's restaurants in some Middle Eastern countries.

HR practices also have had to be adapted. Before beginning operations in a different country, HR professionals at McDonald's research the country and determine how HR activities must be adjusted. One method of obtaining information is to contact HR professionals from other U.S. firms operating in the country and ask them questions about laws, political factors, and cultural issues. In addition, the firm conducts an analysis using a detailed outline to ensure that all relevant information has been gathered. Data gathered might include what employment restrictions exist on ages of employees and hours of work, what benefits must be offered to full-time and part-time employees (if part-time work is allowed), and other operational requirements. For instance, in some of the former communist countries in Eastern Europe, employers provide locker rooms and showers for their employees. These facilities are necessary because shower facilities, and even consistent water supplies, are unavailable in many homes, particularly in more rural areas around major cities. Also, public transportation must be evaluated to ensure that employees have adequate means to travel to work.

Once a decision has been made to begin operations in a new country, the employment process must begin. Often, McDonald's is seen as a desirable employer, particularly when its first restaurant is being opened in a country. For instance, in Russia, 27,000 people initially applied to work at the first Moscow McDonald's, which currently has over 1,500 employees. Because customer service is so important to McDonald's, recruiting and selection activities focus on obtaining employees with customer service skills. For worker positions such as counter representative

and cashier, the focus is to identify individuals who will be friendly, customer-service-oriented employees. A "trial" process whereby some applicants work for a few days on a conditional basis may be used to ensure that these individuals will represent McDonald's appropriately and will work well with other employees.

For store managers, the company uses a selection profile emphasizing leadership skills, high work expectations, and management abilities appropriate to a fast-paced restaurant environment. Once applicant screening and interviews have been completed, individuals are asked to work for up to a week in a restaurant. During that time, both the applicants and the company representatives evaluate one another to see if the job "fit" is appropriate. After the first group of store managers and assistant managers are selected, future managers and assistant managers are chosen using internal promotions based on job performance.

Once the restaurants are staffed, training becomes crucial to acquaint new employees with their jobs and the McDonald's philosophy of customer service and quality. McDonald's has taken its Hamburger University curriculum from the United States and translated it into 22 different languages to use in training centers throughout the world. Once training has been done for trainers and managers, they then conduct training for all employees selected to work at McDonald's locations in the foreign countries.<sup>54</sup>

## Questions

1. Identify cultural factors that might be important in a training program for food handlers at McDonald's in Saudi Arabia.
2. Rather than focusing on the differences, what similarities do you expect exist among McDonald's customers and employees in both the United States and abroad?

## Notes

1. Based on information provided by Linda Paulmeno, Director of Communications, Mercedes-Benz U.S. at Alabama Business Conference, January 1999; David Stamps, "Mercedes-Benz Sows a Learning Field," *Training*, June 1997, 27; and Bill Vlasic, "In Alabama, the Soul of a New Mercedes?" *Business Week*, March 31, 1997, 70.
2. Patricia Kranz, "A New Breed of Blue Chips," *Business Week*, July 7, 1997, 52-95.
3. William G. Sanders and Mason A. Carpenter, "Internationalization and Firm Governance," *Academy of Management Journal* 41 (1998), 158.
4. Jeffrey Garten, "Why the Global Economy Is Here to Stay," *Business Week*, March 23, 1998, 21.
5. "A Survey of Business in Latin America," *The Economist*, December 6, 1997 (special section P1-26).
6. "Pay as You Learn," *The Economist*, May 10, 1997, 32.
7. "Employment Trends," *Manpower Argus*, June 1998, 1-11.
8. Maureen Minehan, "New Research Shows Investment in People Outperforms Investment in Technology," *Worldlink*, July 1998, 1.

9. Kathy Chen, "Endurance Test," *The Wall Street Journal*, April 30, 1998, R14.
10. Skip Kaltenheuser, "A Little Dab Will Do You?," *World Trade*, January 1999, 58–62; "Portrait of a Changing Europe," *Business Week*, April 27, 1998, 92; "OECD Employment Outlook," *Financial Times*, June 23, 1998, 7; "Can Europe Get Back to Work," *The Economist*, August 8, 1998, 61; "Europe Hits a Brick Wall," *The Economist*, April 5, 1997, 21; and Carl Edmondson, "A Continent at the Breaking Point," *Business Week*, February 24, 1997, 50.
11. Based on information in Geert Hofstede, "Business Cultures," *The UNESCO Courier*, April 1994, 12–17; and Geert Hofstede, "Cultural Constraints in Management Theories," *Academy of Management Executive*, February 1993, 81–94.
12. Andrea Charman, "Going Global? What about Your Cultural Strategy," *Purchasing Today*, September 1998, 43–45.
13. Charlene Marmer Solomon, "Brace for Change," *Global Workforce*, January 1999, 6–10.
14. Tatiana Kostova and Srilata Zaher, "Organizational Legitimacy Under Conditions of Complexity: The Case of Multinational Enterprises," *Academy of Management Review* 24 (1999), 64–81; and Ruth Thaler-Carter, "Portrait of an International Human Resources Professional," *International HR Update*, December 1997, 1.
15. Allan Bird, Sully Taylor, and Schon Beechler, "A Typology of International Human Resources Management in Japanese Multinational Corporations: Organizational Implications," *Human Resource Management*, Summer 1998, 159–172.
16. Alfred J. Walker, "The Global HR Model," *HR Focus*, April 1998, S9–S11.
17. Hal Lancaster, "Learning to Manage in a Global Workplace," *The Wall Street Journal*, June 2, 1998, B1.
18. David Molnar and G. Michael Lowe, "Seven Keys to International Management," *HR Focus*, May 1997, 11; and John Fadel and Mark Petti, "International HR Policies," *Workforce*, April 1997, 529.
19. "China and the Chaebol," *The Economist*, December 20, 1997, 97.
20. Richard Gesteland, "Do's and Taboos," *The Rotarian*, April 1998, 26–29.
21. Donald M. Bostwick, "Human Resource Management Practices in Post-Soviet Russia," *International Focus (SHRM)*, 1998, 2.
22. Shari Caudron, "World Class Executives," *Industry Week*, December 1, 1997, 60.
23. Victoria Griffith, "Move Me, Move My Spouse," *Financial Times*, April 28, 1997, 16.
24. Based on Helen Trickett, "Covering New Ground," *Business Traveler*, April 1997, 33; and Shelda Hodge, "The Female Factor," *Purchasing Today*, July 1997, 38–39.
25. Windham International, *1996 Survey on HR Program Outsourcing* (New York: Windham International, 1996), 25–26.
26. Del Jones, "Versatility, Training Give Edge to Americans Abroad," *USA Today*, January 26, 1997, 1B.
27. Jo Ann S. Lublin, "Companies Send Intrepid Retirees to Work Abroad," *The Wall Street Journal*, March 2, 1998, B1.
28. Valerie Frazee, "How to Hire Locally," *Global Workforce*, July 1998, 19.
29. Calvin Reynolds, "Strategic Employment of Third-Country Nationals," *Human Resource Planning*, March 1998, 33.
30. Paul Iles and P.K. Hayers, "Managing Diversity in Transnational Project Teams," *Journal of Managerial Psychology* 12, (1998), 95.
31. T. Russell Walker, "Where the Rubber Meets the Road," *Global Workforce*, January 1999, 14–15.
32. Julie Cook, "Lending an Ear," *Human Resource Executive*, February 1999, 54–56.
33. *Global Relocation Trends* (New York: Windham International, 1997), 9.
34. Pepi Sappal, "Sometimes It's Hard to Be a Woman," *HR World*, January/February 1999, 21–24.
35. Charlene Solomon, "Destination USA," *Workforce*, April 1997, S18.
36. Joel Millman, "High Tech Jobs Transfer to Mexico with Surprising Speed," *The Wall Street Journal*, April 9, 1998, A18.
37. "Focus: Global Training," *BNA Workforce Strategies*, November 24, 1997, WS63–66.
38. Valerie Frazee, "Send Your Expats Prepared for Success," *Global Workforce*, March 1999, 6–8.
39. Widget Finn, "Someone to Watch Over You," *HR World*, January/February 1999, 27–29.
40. Reyer Swaak, "Repatriation: A Weak Link in Global HR," *HR Focus*, April 1997, 29.
41. Valerie Frazee, "Is the Balance Sheet Right for your Expatriates?," *Global Workforce*, September 1998, 19.
42. May Mukuda, "Moving Toward Globalization," *ACA Journal* (Winter 1997), 57.
43. Thomas H. Valk, "Global EAPs Help Expatriates Succeed," *SHRM/AOOP Working Mind Series*, April 1998, 1.
44. Julie Cook, "Spanning the Globe," *Human Resource Executive*, June 5, 1998, 57.
45. Samuel Greengard, "Mission Possible: Protecting Employees Abroad," *Workforce*, August 1997, 30.
46. Vanessa Houlder, "Your Money or Your Life," *Financial Times*, June 30, 1998, 12.
47. Lori Lincoln, "Wanted: American Money," *Business Traveler*, April 1997, 17.
48. Michael Schuman, "Korean Unions Step Up Fight on Layoffs," *The Wall Street Journal*, February 11, 1998, A18.
49. Margaret Schaffer and David Harrison, "Expatriates' Psychological Withdrawal from International Assignments," *Personnel Psychology* (1998), 87.
50. Helene Cooper and Tom Kamm, "Loosening Up," *The Wall Street Journal*, June 4, 1998, A1.
51. William Erikson, "Workplace Earthquake?," *Business Week*, April 17, 1998, 106.
52. Cynthia Kemper, "Glamor of Overseas Work Fades with 'Ex Pat' Stigma," *Denver Post*, September 7, 1997, E6.
53. John S. McClenahan, "To Go or Not To Go?," *Industry Week*, January 20, 1997, 33.
54. Adapted from Robert Grossman, "HR in Asia," *HR Magazine*, July 1997, 104; and Charlene M. Solomon, "Big Mac's McGlobal HR Secrets," *Personnel Journal* (April 1996), 47–54.