

variability in labor laws, union structure, workplace attitudes, and collective-bargaining processes created a complex, changing situation. Most MNEs reasoned that headquarters was poorly positioned to manage worldwide labor relations. Hence, they delegated responsibility to local managers.

This outlook is giving way to a trend toward greater coordination and control of global labor policies by the senior leadership of MNEs. Coordinating globally dispersed value chains spurs headquarters to preempt disruptions caused by sporadic workplace activism in once less but now more interlinked sites around the world. Moreover, companies whose value creation is sensitive to labor costs no longer can delegate labor relations to a series of local managers. Integrating global operations pushes MNEs to integrate labor relations. Growing attention to and integration of their relations creates powerful advantages for MNEs. They translate their understanding of how to use the threat of production switching or resource redirection to strengthen their collective-bargaining positions.

Tel-Comm-Tek (TCT)

In May 2010, Mark Hopkins of Tel-Comm-Tek (TCT) India, a company headquartered in the United States, announced his resignation and intention to return to his home in Vermont.¹¹⁶ At the time, he was the managing director of the Indian subsidiary of TCT. During his tenure, Hopkins oversaw steady growth in market share and profitability of the Indian operation. Upon his announcement, TCT began searching for his replacement.

TCT: A Brief Introduction

TCT manufactures a variety of small office equipment in nine different countries. It distributes and sells products such as copying machines, dictation units, laser printers, and paper shredders worldwide. TCT reported sales in more than 70 countries. TCT has sold and serviced products in India since the early 1980s even though it lacked its own in-country manufacturing facility. Originally, it hired independent importers to sell its products. It soon realized that generating higher sales required setting up its own operations. In 1992, it opened a sales office in New Delhi. Map 20.1 profiles features of India.

Today, TCT is poised to expand its Indian operations. Local sales have been increasing at double-digit rates, powered by a boom in the Indian information-technology sector. Forecasts saw this trend accelerating over the next decade. Headquarters projected TCT India evolving into a key element of its global value chain and, ultimately, the center point of its Asian operations.

India: The Next Economic Juggernaut?

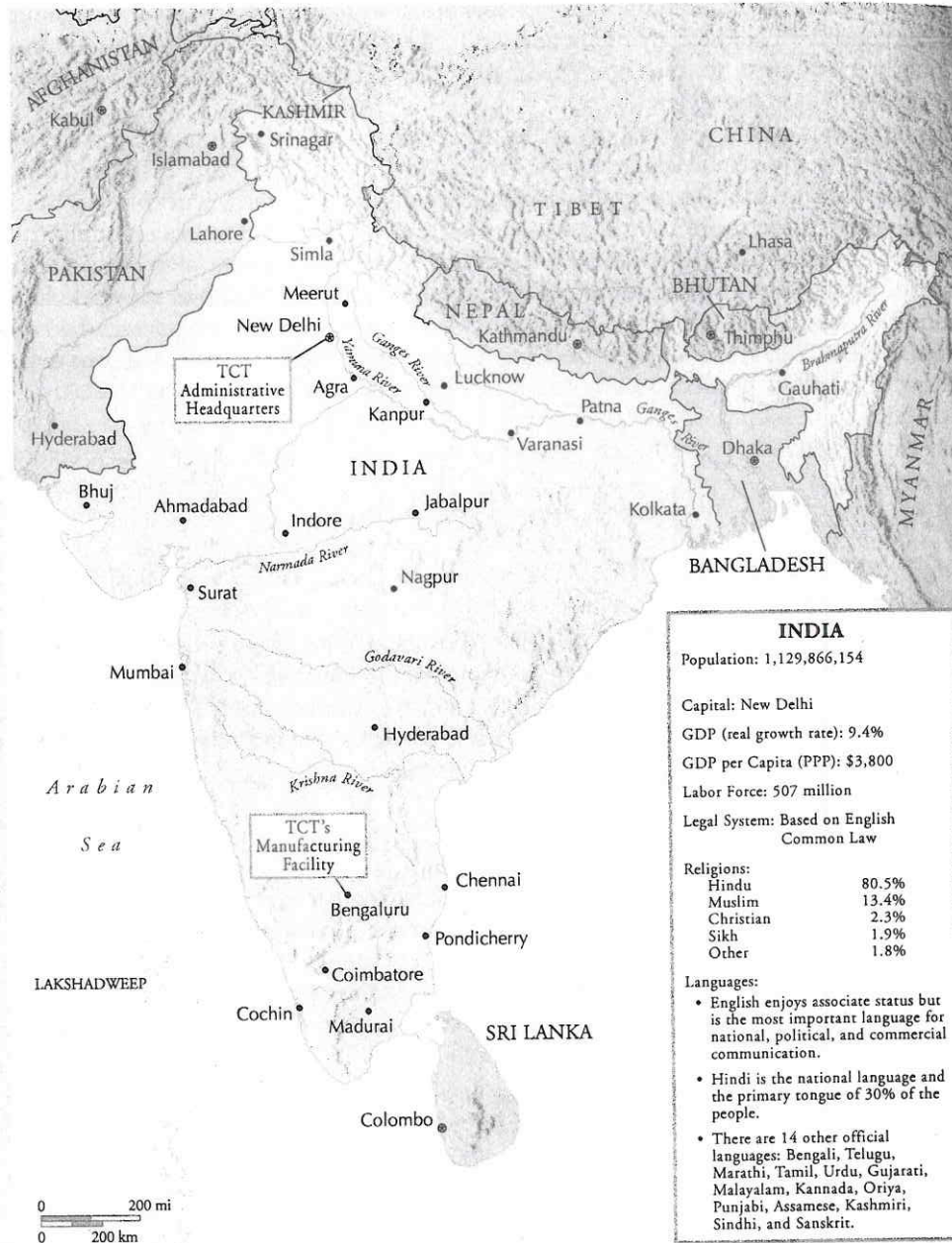
Some see India developing into the world's next big industrial power. This projection has led global companies to increase their local operations. For example, IBM, a longtime customer of TCT, increased its Indian staff from a handful to more than 100,000 employees between the mid-1990s and 2010 through a series of acquisitions and investments. Moreover, internal company analysis indicates that the economic growth rate for the overall economy, along with the sectors that TCT serves, could move total sales of the Indian subsidiary past those in the company's home market.

Expansion: Pros

Improving Infrastructure Shaping TCT India's expansion plans is the ongoing improvement in India's transportation infrastructure. Improvements in highways, railways, and



MAP 20.1 India



U.S.-based Tel-Comm-Tek (TCT), which makes small office equipment in nine countries and sells in more than 70, opened an Indian sales office in the capital of New Delhi in 1992 and broke ground on a manufacturing plant in Bengaluru in 2009. India is a competitive location from which TCT can supply markets locations throughout Asia. The company expects that total sales through its Indian subsidiary will eventually surpass total sales in the United States.

Source: Central Intelligence Agency, "India," *The World Factbook 2009*, www.cia.gov (accessed October 23, 2009).

seaports increase the efficiency of product movement both in and out of the country. Management envisions making the local subsidiary a vital link in TCT's increasingly sophisticated supply chain. Presently, TCT's supply chain integrates input suppliers, production, and wholesalers in the United States and Europe. Long-term plans outlined integrating supply points throughout Asia.

Democratic Norms India's independence in 1947 institutionalized strong democratic norms of accountability, transparency, and freedom. Progress on the economic front had been even more dynamic. From 1947 through 1990, India's decision to have a centrally planned economy led to the infamous "License Raj," a situation marked by elaborate licenses, regulations, and bureaucracy that were required to open and run a business. In 1991, India began a transition toward a free market economy with the intended demise of the License Raj. This transition, an ongoing process, has helped stabilize the economic

environment and boost India's attractiveness as a manufacturing site. Still, India's business environment poses problems.

Expansion: Cons

Problematic Legal Environment The Indian legal environment, although endorsing the principles of the rule of law, struggles with corruption. The primary driver of corruption, in many observers' eyes, is the country's vast bureaucracy, a legacy of the previous centrally planned economy. Partial success in dismantling the License Raj has resulted in a civil administration that influences many aspects of economic life. Notably, Western high-tech companies run into problems with intellectual property violation. Patent infringement and business-process piracy are not uncommon.

Outmoded Labor Laws The legal system creates other complications. For example, India's labor laws, little changed since they were enacted after independence in 1947, make it difficult to lay off employees even if a company's fortunes hit hard times or the economy slows. Companies are reluctant to hire workers, given the risk of being unable to fire them if circumstances change. Necessary terminations are difficult to execute and often involve extensive negotiations and settlements. "[C]ompanies think twice, 10 times, before they hire new people," said Sunil Kant Munjal, the chair of the Hero Group, one of the world's largest manufacturers of inexpensive motorcycles.

Anticompetitive Legislation In addition, Indian laws bar companies with more than 100 employees from competing in many industries. These laws protect small enterprises operating in many villages scattered throughout India, often at the expense of larger-scale operations. Another challenge is high tariffs. These had been put in place to promote domestic production and still apply to many classes of imports, including some that are inputs into products manufactured by TCT. Some of India's labor laws discourage flexibility; for example, some prohibit companies from allowing workers to clock more than 54 hours of overtime in any three-month period, even if workers are willing to do so.

TCT Moves Forward

In late 2009, TCT began building a factory in Bengaluru, the center of India's Silicon Valley (see Map 20.1). The plant will make a full range of laser printers, from entry level to high end. The first production run has been set for June 2010. Logistically, TCT plans to supply the factory with components from its manufacturing facilities in Europe and the United States. Eventually, management plans to find local suppliers or backward integrate into the local production of those components.

The scale of the production operation requires 150 to 200 production workers. TCT anticipates no problems in hiring a skilled labor force, given other companies' success stories. For example, the South Korean conglomerate LG looked to staff 458 assembly-line jobs at its consumer electronics factory opening in India. It required each applicant to have at least 15 years of education—a condition that translates into having both high school and technical college certification. Seeking a young workforce, the company also decided that no more than 50 workers could have prior work experience. Despite these restrictions, 55,000 people qualified for interviews.

TCT enlisted a U.S. engineering firm to supervise construction of its plant in Bengaluru. Upon completion, TCT will "turn over the key" to the on-site factory director, a U.S. expatriate sent to run the operational plant. This director reports to TCT's U.S. headquarters on production and quality-control matters. He or she will report to TCT India's managing director in New Delhi (the position made vacant by Hopkins's retirement) on all other matters, such as accounting, supply-chain logistics, finance, and labor relations. The managing director of TCT India, in turn, will report to the Asian Regional Office at TCT's U.S. headquarters.

Selecting a Managing Director

TCT prefers to fill executive vacancies by promotion from within the company. TCT uses a mix of home-, host-, and third-country nationals. In addition, TCT rotates its managers among its

foreign and U.S. locations. Headquarters sees international experience as an important facet of executive leadership.

The Candidates The Asian Regional Office charged a selection committee to nominate the new managing director for TCT India. The committee identified six candidates:

Tom Wallace A 30-year TCT veteran, Wallace is experienced in the technical and sales aspects. He has supported some supply-chain initiatives in the U.S. market. Although he has never worked abroad, he has toured the company's foreign operations and always expressed interest in an expatriate position. His superiors rate his performance as proficient. He will retire in about four and a half years. He and his wife speak English. Their children are grown and live with their own families in the United States.

Presently, Wallace supervises a U.S.-based operation that is about the size of that in India. However, the merger of Wallace's unit with another TCT division will eliminate his current position within six months.

Brett Harrison Harrison, 40, has spent 15 years with TCT, both running line activities and supervising staff. His superiors consider him highly competent and poised to move into upper-level management within the next few years. For the past three years, he has worked in the Asian regional office and has regularly toured TCT's Southeast Asian operations.

Both he and his wife have traveled to India several times in the last 20 years and are well acquainted with its geography, politics, customs, and outlooks. The Harrisons know many U.S. expatriates in the Bengaluru region. Their children, ages 14 and 16, have also vacationed in India with their parents. Mrs. Harrison is a midlevel executive with a multinational pharmaceuticals company that presently does not have an operation in India; there were rumors of a sales office opening in a few years.

Atasi Das Born in the United States, Das joined TCT 12 years ago after earning her MBA from a university in New England. At 37, she has successfully moved between staff and line positions, with broader responsibilities in strategic planning. For two years, she was the second in command of a product group that was about half the size of the Indian operations. Her performance regularly earns excellent ratings. Currently, she works on a planning-staff team based at TCT headquarters.

When she joined TCT, she noted that her ultimate goal was to be assigned international responsibilities, and she pointed to her undergraduate major in international management as evidence of her long-term plan. She recently reiterated her interest in international responsibilities, seeing it as an essential career step. She speaks Hindi and is unmarried. Her parents, who live in the United States, are first-generation immigrants from India. Several family members and relatives live in Kashmir and Punjab, northern states of India.

Ravi Desai Desai, 33, is currently an assistant managing director in the larger Asian operation. He helps oversee production and sales for the Southeast Asian markets in Singapore, Malaysia, and China. A citizen of India, he has spent his 10 years with TCT working in operational slots throughout Southeast Asia. He holds an MBA from the prestigious Indian Institute of Management. Some in TCT see him as a candidate to eventually direct the Indian operation. He is married, has four children (ages two to seven), and speaks English and Hindi well. His wife, also a native of India, neither works outside the home nor speaks English.

Jalan Bukit Seng Seng, 38, is the managing director of TCT's assembly operation in Malaysia. A citizen of Singapore, Seng has worked in either Singapore or Malaysia his entire life. However, he did earn undergraduate and MBA degrees from leading universities in the United States. He is fluent in Singapore's four official languages—Malay, English, Mandarin, and Tamil—and sees himself learning other languages as needed.

ope
exc
Sin

Sa
dir
sr
jok
rel
ex
pe
hi
m
la

C
-

His performance reviews, with respect to both the Malaysia plant and other TCT plant operations around the world, have consistently been positive, with an occasional ranking of excellent. Seng is unmarried, but he is close to extended family members who live in Singapore and Malaysia.

Saumitra Chakraborty At 31, Chakraborty is the assistant to the departing managing director in India. He has held that position since joining TCT upon graduating from a small private university in Europe four years earlier. Unmarried, he consistently earns a job performance rating of competent in operational matters and excellent in customer relationship management. Although he excels in employee relations, he lacks direct-line experience. Still, he has successfully increased TCT India's sales, somewhat owing to his personal connections with prominent Indian families and government officials, along with his skillfulness in the ways of the Indian business environment. Besides speaking India's main languages of English and Hindi fluently, Chakraborty speaks Kannada (the local language of Bengaluru). ■

QUESTIONS

1. Which candidate should the committee nominate for the assignment? Why?
2. What challenges might each candidate encounter in the position?
3. How might TCT go about minimizing the challenges facing each candidate?
4. Should TCT offer all candidates the same compensation package? If not, what factors should influence the features of each package?
5. Returning to material covered in Chapter 15, specifically that dealing with the idea of a matrix organization, do you see any benefit to appointing two of the individuals described here to the post? Operationally, one individual would be in charge of internal affairs, and the other would manage external affairs. What might be the benefits and problems with this arrangement?

SUMMARY

- HRM policies that support the company strategy create superior value. Still, many MNEs struggle to develop effective HRM policies.
- HRM's task is to staff the right person in the right job in the right place at the right time for the right salary.
- Executives in the MNE belong to one of three classes: locals, citizens of the countries in which they are working, or expatriates.
- Three frameworks guide how companies set about staffing their international operations: the ethnocentric, polycentric, and geocentric frameworks.
- Changing markets, growing cost consciousness, and evolving strategies are resetting established notions of who is an expatriate, how he or she should be compensated, and the duration of an international assignment.
- An ethnocentric staffing approach fills foreign management positions with home-country nationals. A polycentric staffing policy uses host-country nationals to manage local subsidiaries. A geocentric staffing policy seeks the best people for key jobs throughout the organization, regardless of nationality.
- Executives transferred from headquarters to local operations are more likely to understand the company's core competencies. However, an ethnocentric framework can result in a narrow perspective in foreign markets.
- MNEs often employ more locals than expatriate managers because the former better understand local operations and demand less compensation.
- Hiring locals rather than expatriates demonstrates that opportunities are available for local citizens, shows consideration for local interests, and is far cheaper.
- The selection of an individual for an expatriate position considers the candidate's technical competence, adaptiveness, and leadership ability.
- MNEs transfer people abroad to infuse technical competence and home-country business practices, control foreign operations, develop managers' business skills, and diffuse the organization culture.
- Training and predeparture preparations often include general country orientation, cultural sensitivity, and practical training.