

Global Human Resource Management

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

- 1. Discuss the evolution of global business.
- 2. Explain global human resource management.
- 3. Discuss the factors that set the stage for global HR practice.
- 4. Summarize global staffing practices.
- 5. Describe global performance management and human resource development practices.
- 6. Discuss global compensation practices.
- 7. Identify global safety and health issues.
- 8. Describe global employee and labor relations practices.
- 9. Discuss globalization issues for small to medium-sized businesses.

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The current state of globalization has resulted in a high level of interconnections between the economies of various parts of the world. U.S. employers will increasingly conduct business with entities in a variety of other countries as former underdeveloped parts of the world experience tremendous economic, trade, and standard of living growth. In addition, the move from traditional manufacturing to knowledge- and service-based employment also means that jobs as well as markets are more likely to be dispersed geographically. As the need for employers to interact globally increases, human resources (HR) management professionals are going to have increased opportunities to develop programs for U.S. employees in foreign assignments, as well as for indigenous employees in foreign offices of the parent company. In this chapter, we provide a glimpse of HR practices around the world.

OBJECTIVE 14.1

Discuss the evolution of global business.

Evolution of Global Business

The environment confronted by businesses today is so vastly different from doing business in one or two countries of only a few decades ago. The world is becoming more of a multinational community in which the interdependencies between countries and between organizations are increasing dramatically. It is now one large marketplace consisting of more than 7.1 billion people speaking 6,700 languages, with thousands of governments all having different regulations and tax requirements. There are more than 900,000 organizations. The top 100 companies generate more than \$13 trillion.¹ In fact, only 5 percent of the total amount of consumers worldwide resides in the United States.²

An indicator of the magnitude of the global economy is the gross domestic product (GDP), which describes the size of a country's economy. Size is expressed as the market value of all final goods and services produced within the country over a specified period. GDP figures are reported at each nation's GDP at purchasing power parity (PPP) exchange rates. That is, these figures indicate the sum value of all goods and services produced in the country valued at prices prevailing in the United States. This is the measure most economists prefer when looking at per capita welfare and when comparing living conditions or use of resources across countries. The five largest GDPs total more than \$45 trillion: United States, \$17.5 trillion; China, \$14.6 trillion; India, \$5.4 trillion; Japan, \$4.8 trillion; and Germany, \$3.3 trillion.³

With globalization, everybody in the organization, and especially in the HR department, has had to change focus, change attitude, and adjust the approach in the way an organization



operates. Not long ago, General Electric was “American,” and Sony was “Japanese,” but today these companies are truly global. Years ago, a lot of U.S. multinational corporations had operations in Canada or perhaps Mexico, but not in many other countries. Now, U.S. firms such as Coca-Cola, Procter & Gamble, and Texas Instruments do most of their business and employ most of their workers outside the United States. Countless products of U.S. companies are made outside the country. Many non-U.S. companies make products here, such as Toyota American, which manufactures cars in Kentucky. Companies still regularly do business in Canada and Mexico, but many now have operations in Hong Kong, Singapore, Japan, the United Kingdom, France, Germany, and Southeast Asia, to name a few. More and more U.S. global corporations are doing business in former Eastern Bloc countries. Vietnam, a country with which the United States was at war throughout the 1960s until the mid-1970s, now has U.S. firms operating there. Stewart McCardle, vice-president of global financial services for Weichert Relocation Resources Inc., said, “U.S. companies are placing employees throughout Africa, the Middle East and Eastern Europe. In South America, it’s not just Brazil or Argentina, but also Chile and Colombia.”⁴

Today, globalization is not limited to only large organizations. It is now important for both large and small firms. Going global can provide a company with an assortment of rewards. The major benefit is that having a global customer base provides some protection against domestic business cycles. Companies that export tend to be more profitable, better organized, and more competitive than companies that are exclusively domestically focused.

Most companies initially become global without making substantial investments in foreign countries by exporting, licensing, or franchising. Ultimately, they may become a multinational or global corporation.

Exporting

Exporting entails selling abroad, either directly or indirectly, by retaining foreign agents and distributors. It is a way that many small businesses enter the global market. When deciding to enter the global arena, exporters need to identify and understand their target markets. Companies must determine whether the market or country needs their products or services, whether there are any import tariffs or quotas, and the local pricing structures. Also, exporters have to understand and manage other countries’ cultures and governmental policies.⁵

Licensing

Licensing is an arrangement whereby an organization grants a foreign firm the right to use intellectual properties such as patents, copyrights, or trade names for a specific period of time. The use of a licensing arrangement is expanding in emerging markets. For example, 7-Eleven has granted licenses to use its trademark in Indonesia.

Franchising

Franchising is an option whereby the parent company grants another firm the right to do business in a prescribed manner. For example, Subway shops must follow marketing procedures established by the headquarters. Franchising arrangements involve integration of operations with trademark usage. The growth of franchising in the world is phenomenal. Franchisees must follow stricter operational guidelines than licensees. Fifteen years ago, only giants such as McDonalds were meaningfully engaged in international franchising, but now international expansion has become a popular choice for many small U.S. franchises.⁶ The internalization of franchising has become a noteworthy trend.⁷ More than 400 U.S. franchises operate internationally. High demand U.S. franchise categories include food and beverage, health and beauty, wellness and fitness, professional services, education, apparel/textile, and retail.⁸ KFC saw the benefit of being an early entrant into China and has more than 3,000 KFCs located throughout China, making Yum! Brands the largest U.S. franchisor in that country.⁹ Yum! Brands, also the parent company of Pizza Hut and Taco Bell, closed more U.S. units than it opened, whereas it expanded by 14 percent outside the United States.¹⁰ Naked Pizza of New Orleans recently opened its N K D Pizza in Dubai, United Arab Emirates.¹¹

In determining whether international franchising is justified, the company must evaluate the amount of time, effort, risk, and legal proceedings related to selling a franchise internationally. It also must determine whether the product is valued in the targeted country. Also, the unique

exporting

Selling abroad, either directly or indirectly, by retaining foreign agents and distributors.

licensing

Arrangement whereby an organization grants a foreign firm the right to use intellectual properties such as patents, copyrights, manufacturing processes, or trade names for a specific period of time.

franchising

Option whereby the parent company grants another firm the right to do business in a prescribed manner.

culture of the country should be a part of the decision-making process. Most franchise companies have to bend and change to the cultural experiences of each individual country. Many countries such as Australia, Brazil, China, France, Indonesia, Italy, Japan, Malaysia, Mexico, Russia, South Korea, Spain, and Venezuela have their own specific regulations.¹² Most U.S. companies rely heavily on contractual relationships; however, in many other countries, people conduct business based on relationships first rather than relying on a contract. For example, in countries such as Singapore, Australia, and the United Kingdom, it is best to focus on the specifics of the contract and provide detailed information when negotiating with prospects or their attorneys. In most Latin American countries, the Middle East, and China, it is important to first build a solid relationship with the investor.¹³

Multinational Corporation

Companies can vary greatly in their degree of global involvement. A **multinational corporation (MNC)** is a firm that is based in one country (the parent or home country) and produces goods or provides services in one or more foreign countries (host countries). An MNC directs manufacturing and marketing operations in several countries; these operations are coordinated by a parent company, usually based in the firm's home country. For example, General Motors is a U.S. corporation, headquartered in Detroit, Michigan, with manufacturing plants located in the United States, China, Mexico, and South Korea. Volkswagen is a German corporation, headquartered in Wolfsburg, Germany, with manufacturing facilities in many other countries, including the United States.

Global Corporation

A **global corporation** is an organization that has corporate units in a number of countries that are integrated to operate as one organization worldwide. The global corporation operates as if the entire world were one entity. Global corporations sell essentially the same products throughout the world with components that may be made or designed in different countries. Expectations are that as the world becomes more globally open, the globalization of corporations will become much more commonplace. Not many years ago, Procter & Gamble was primarily a U.S. business investing heavily in food brands. Now it is a truly global corporation with more than 300 brands in more than 180 countries crossing the Americas, Europe, the Middle East and Africa, and Asia.¹⁴ Its corporate leaders are an extremely diverse group, representing many cultures and backgrounds. Another global company, Johnson & Johnson has in 250 businesses in 60 countries.¹⁵

CH2MHILL is a global engineering company that oversees complex projects around the world, including the expansion of the Panama Canal. As the Watch It Video indicates, company leadership carefully anticipates and studies contextual factors that impact how business should be practiced in diverse cultural settings.

★ Watch It I

If your professor has assigned this, sign into mymanagementlab.com to watch a video titled CH2MHILL: Management in the Global Environment and to respond to questions.

Global Strategic Human Resource Management

The world is experiencing an increasing global workforce. Global HR problems and opportunities are enormous and are expanding. Individuals dealing with global HR matters face a multitude of challenges beyond that of their domestic counterparts. These considerations range from cultural to political barriers to demographic considerations in the workforce and international aspects such as compensation. Before upper management decides on a global move, it is vitally important that the critical nature of HR issues be considered. Companies that engage in the global economy place even greater emphasis on strategic HR. The functional areas associated with effective global HR management are similar to the ones they experience domestically, as shown in Figure 14-1. Although the six functions are the same, the global external environmental

multinational corporation (MNC)

Firm that is based in one country (the parent or home country) and produces goods or provides services in one or more foreign countries (host countries).

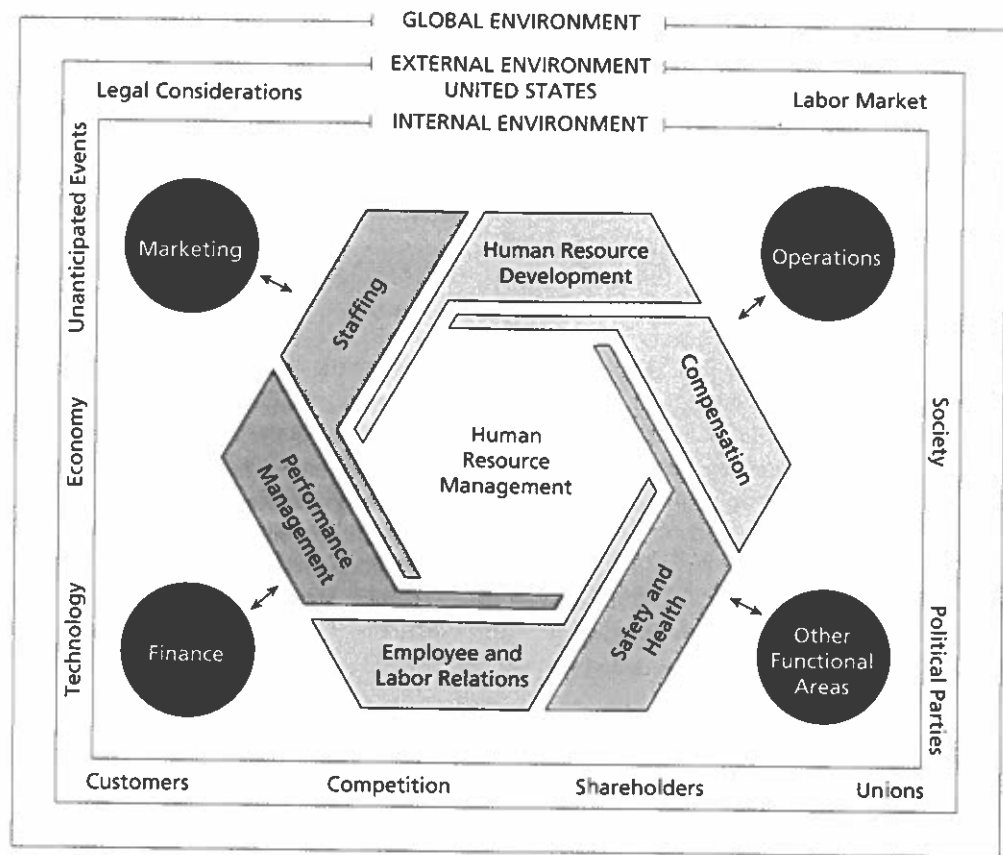
global corporation

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

OBJECTIVE 14.2

Explain global human resource management.

FIGURE 14-1
Environment of Global
Human Resources
Management



factors may significantly impact the manner in which they are implemented. Sound global HR management practices are required for successful performance in each area. As with domestic HR, the functional areas are not separate and distinct, but are highly interrelated. We will discuss the functional areas after giving some consideration to the setting in which global HR happens.

OBJECTIVE 14.3

Discuss the factors that set the stage for global HR practice.

Setting the Stage for Global HR Practice

HR practice in the United States is influenced by many factors that we have highlighted at various points throughout the previous chapters. These factors include country political and economic structure, the legal system, national cultural norms, and characteristics of the labor force. When practicing HR within any one country, these factors are relatively constant. For example, the United States has many worker protections such as antidiscrimination laws. Global HR practitioners require, at minimum, an appreciation of the variation in these five factors to understand how to best structure and implement the six HR functions that we revisit later in the chapter.

Country Politics and Economic Structure

A country's political system and its economic structure are highly related. In this section, we consider the United States and China given the substantial size of their economies and their prominence in global business. The United States political system is based on democracy. Democratic governments are formed by participation of all eligible citizens through voting directly on issues (for example, election of the U.S. president) or indirectly through elected representatives (for example, members of Congress and the Senate). Two political parties dominate the composition of government. The Democratic and Republican parties are the two major political parties in the United States. These parties often have differing opinions on how HR management should be accomplished. For example, Democrats tend to favor government regulation that protects the rights of employees, for instance, the Fair Labor Standards Act. Republicans, on the other hand, tend not to favor government regulation, believing that businesses should have as much flexibility as possible to operate successfully. For example, many in the Republican Party feel that the Patient Protection and Affordable Care Act

should be dismantled for many reasons, including the cost burden that employers must provide health insurance that meet minimum standards or pay a significant penalty for employees. The U.S. economy is based on the idea of *capitalism*. Under capitalism, the government does not possess ownership of all land, businesses, or natural resources. This economic system relies on market forces in which supply and demand for products, services, and labor determine monetary value. For example, in Chapter 9, we discussed how supply and demand influences pay rates.

China's political system is based on *communism*. Communism is set on the principle of community ownership. That is, all property, businesses, and natural resources are community owned, but these items are controlled by the single political party (Communist Party). Also, in communist societies, the government provides basic necessities based on need. In principle, citizens elect individuals to serve in the Communist Party, but that is rarely the case. In recent decades, China's economy has become more diverse. While maintaining communist control, economic growth has been fueled by market forces and capitalism. As a result, a growing segment of the population has gained considerable wealth and is adopting similar lifestyles as in the United States that is based on income and wealth. Still, one of the key challenges for the government has been to sustain adequate job growth for tens of millions of workers laid off from state-owned enterprises, migrants, and new entrants to the workforce.

Legal System

The growing complexity of legal compliance in the global environment is one of the most important trends affecting global business. Managers working for global businesses contend with a growing tide of employment legislation that cuts across national boundaries. Legal and political forces are unique to each country, and sometimes, the laws of one contradict those of another. For instance, the French authorities acknowledge that their data-protection laws are in direct conflict with the U.S. Sarbanes-Oxley Act, but they insist that multinationals comply with French law. Further, the nature and stability of political and legal systems vary across the globe. U.S. firms enjoy relatively stable legal and political systems, and the same is true in many of the developed countries. In other nations, however, the legal and political systems are much less stable. Some governments are subject to coups, dictatorial rule, and corruption, which can substantially alter both the business and legal environments. Legal systems can also become unstable, with contracts suddenly becoming unenforceable because of internal politics.

HR regulations and laws vary greatly among countries. In the United States, United Kingdom, and Canada, the list of hiring standards to avoid is quite lengthy and precise. In India, it is legal for an advertisement for an Indian airline flight attendant to read: "18–27 years old, different height minimums for males and females, status unmarried, unblemished complexion and good eyesight."¹⁶ As previously mentioned, merely conducting a background check is different from one country to another. In many Western European countries, laws on labor unions and employment make it difficult to lay off employees. Because of political and legal differences, it is essential that a comprehensive review of the political and legal environment of the host country is conducted before beginning global operations.

Some have asked the question, "Does operating under local laws and customs free a company of all ethical considerations?" Google certainly understands the problems that can occur when attempting to go global. To do business in China, Google had to submit its search results to government censorship, which was an undesirable concession. Still, company leaders felt the benefits to the Chinese people would exceed the evils of the censored results and went ahead with it. But after repeated squabbling with the Chinese government and evidence of hacking into the Gmail accounts of dissidents in late 2009 and in March 2010, Google removed its search engine from China.¹⁷ Each company will have to evaluate what it would do in instances such as Google encountered.

Americans may encounter laws that are routinely ignored by host countries, creating somewhat of a dilemma. For example, the laws in some countries that require a minimum age for factory workers are often not enforced. The U.S. Department of Labor report revealed continued child labor abuses in the apparel and textile industries.

National Cultural Norms

Cultural differences create challenges for managing HR. **Cultural values** pertain to the norms for behaviors and beliefs. Throughout the book, we discussed corporate culture, which is largely shaped by top management. In this case, national culture is steeped in a country's history, and

cultural values

The norms for behaviors and beliefs.

we can describe it based on a society's social traditions, political and economic philosophy, and legal system. More recently, researchers and practitioners have tried to understand how cultural values influence workplace practices. We often rely on six categories to describe national culture.¹⁸ These include power distance, individualism/collectivism, masculine/feminine, uncertainty avoidance, pragmatism/normative, and indulgence/restraint. We focus on the first three because those dimensions are among the most widely discussed in the global HR context.

Power distance describes the extent to which power is unequally distributed. High power distance cultures reinforce hierarchical control, and members generally do not expect justification for the actions taken by those in power. Low power distance cultures embrace greater equality and justification for actions, particularly where actions create a disadvantage to an individual or group. Germany is well known for a culture that rates low in power distance whereas the United Arab Emirates is culture that strongly captures a high power distance orientation.

Individualism refers to the extent to which an individual focuses on his or her own welfare relative to others. Collectivism describes a concern for the welfare of the larger group such as family, coworkers, or other groups. The United States and Canada are highly individualistic cultures, whereas Chile, China, and Mexico value collectivistic norms.

Masculine cultures place high value on achievement, material award, and assertiveness. Feminine cultures espouse cooperation, modesty, and quality of life. Japan is an example of a highly masculine culture, whereas Norway and Finland embody the values of a feminine culture.

The Watch It video provides additional perspective on China's culture. History and religion play an important role in shaping culture. In addition, cultural character influences how to conduct business.

★ Watch It 2

If your professor has assigned this, sign into mymanagementlab.com to watch a video titled *Impact of Culture on Business: Spotlight on China* and to respond to questions.

Labor Force Characteristics and Dynamics

As in the United States, the characteristics of the labor force worldwide holds implications for global HR practice. For example, China's work force is aging dramatically, much like in the United States.¹⁹ However, the Chinese government's one-child policy has left a substantial gap in younger generations; thus, a shrinking labor pool. For decades, the Chinese government imposed a policy in which couples were allowed to have up to one child. Recently, the government has begun to relax this policy by allowing some couples to have as many as two children. For entirely different reasons, Japan is facing a similar labor shortage because of cultural values that increasingly disfavor romantic relationships.²⁰ Economic growth in India has been affected by the widespread return of unskilled factory workers from large cities to rural farming locations.²¹ Low wages, high costs, and significant rates of inflation have made it difficult for those individuals to meet basic financial obligations. Government policies that provide substantial subsidies to residents create an attractive alternative. Factories struggle to maintain or expand production given the impracticalities of city life.

Educational attainment is an important consideration. A McKinsey Global Institute report warns that many countries throughout the world are facing a labor shortage of highly skilled workers that will continue for years to come.²² The report indicates that gaps between labor supply and demand for labor will increase between 3 percent and 11 percent based on country. At the same time, low-skilled workers will far exceed the demand for their services. Inadequate primary educational systems in many countries are a major contributor to these trends.

The role of gender plays a significant role in influencing employment. The global assignment of women and members of racial and ethnic minorities can involve cultural and legal issues. Regrettably, female talent is underused in emerging countries. This may be partly explained by family-related constraints and pressures, as well as work-related issues that combine to force women to either settle for dead-end jobs or leave the workforce. For example, in Saudi Arabia, women are not permitted to drive.²³ In China, there is a social stigma attached to women who use professional help or who place their parents in assisted-living facilities. Often, global careers are affected when a worker decides to

return to China to take care of her family. In the United Arab Emirates, a single woman cannot board a plane or stay in a hotel unless a male relative is willing to accompany her. In many emerging markets, workplace bias seems to escalate for young mothers. In India, a woman returning from a global assignment often is given less-challenging roles or projects or receives lower performance ratings.²⁴

There are also some positive trends that have emerged regarding women working the global environment. According to a recent study, nearly three million female university graduates enter the Chinese workforce each year. Of the total Graduate Management Admission Test applicants, 40 percent are male and 60 percent are female. The study also discovered that 76 percent of Chinese women aspire to top-level positions compared to only 52 percent in the United States.²⁵

Economic growth in the BRIC countries of Brazil, Russia, India, and China and in the United Arab Emirates far outpaces growth in developed nations. Women are rapidly moving into the management ranks. In 2009, women accounted for about 40 percent of the Brazilian labor force, but held 45 percent of managerial jobs and 30 percent of executive positions. China has the highest female labor-force participation rate of all BRIC nations, with 75 percent of women ages 15 to 65 in the workforce. Ninety-one percent of Chinese companies have senior female leaders, and women hold 32 percent of all senior management positions. But these women also confront problems of gender bias, significant elder care responsibilities, and long workweeks.²⁶

We now turn our attention to the six functional HR functional areas in a global context: staffing, human resources development (training), performance management, compensation, safety and health, and employee and labor relations.

OBJECTIVE 14.4

Summarize global staffing practices.

Global Staffing

Companies must choose from various types of global staff members and may use specific approaches to global staffing. Global staff members may be selected from among three different types: expatriates, host-country nationals, and third-country nationals.

Expatriate

An **expatriate** is an employee who is not a citizen of the country in which the firm operations are located but is a citizen of the country in which the organization is headquartered. The U.S. expatriate population has grown rapidly because of the large numbers of workers who are being sent to China and India. An example of an expatriate is a U.S. citizen who is employed by General Electric (headquartered in the United States) and is assigned to a position in Italy.

Host-Country National

A **host-country national (HCN)** is an employee who is a citizen of the country where the subsidiary is located. An example would be a U.S. citizen working for a Japanese company in the United States. Normally, the bulk of employees in international businesses will be HCNs. Companies that are staffed by locals not only are typically less expensive but also offer advantages from a cultural and business standpoint. In most industries, HCNs comprise more than 98 percent of the workforce in the foreign operations of North American and Western European MNCs. Halliburton is a leading energy services company headquartered in the United States with 75,000 employees working in 80 countries, representing 140 nationalities.²⁷ Halliburton's workforce, including managers, is overwhelmingly made up of citizens of the host country.²⁸ Hiring local people and operating the company like local companies whenever possible is good business. The ultimate goal of most foreign operations is to turn over control to local management.

Third-Country National

A **third-country national (TCN)** is a citizen of one country, working in a second country, and employed by an organization headquartered in a third country. An example would be an Italian citizen working for a French company in Germany.

Approaches to Global Staffing

Using the three basic types of global staff, there are four major approaches to global staffing: ethnocentric, polycentric, regiocentric, and geocentric staffing. These approaches reflect how the organization develops its HR policies and the preferred types of employees for different positions.

expatriate

Employee who is not a citizen of the country in which a firm's operations are located but is a citizen of the country in which the organization is headquartered.

host-country national (HCN)

Employee who is a citizen of the country where the subsidiary is located.

third-country national (TCN)

Citizen of one country, working in a second country, and employed by an organization headquartered in a third country.

ethnocentric staffing
Staffing approach in which companies primarily hire expatriates to staff higher-level foreign positions.

polycentric staffing
Staffing approach in which host-country nationals are used throughout the organization, from top to bottom.

regiocentric staffing
Staffing approach that is similar to the polycentric staffing approach, but regional groups of subsidiaries reflecting the organization's strategy and structure work as a unit.

geocentric staffing
Staffing approach that uses a worldwide integrated business strategy.

ETHNOCENTRIC STAFFING With **ethnocentric staffing**, companies primarily hire expatriates to staff higher-level foreign positions. This would be the case with Rich Products Corporation, based in Buffalo, New York, with \$3.3 billion in annual sales. Rich sells food products in 112 countries and employs 9,000 workers worldwide.²⁹ Judy Campbell, vice-president, international HR, said, "Our strategy has always been to focus on local talent development. We have never had more than six expats in any of our international locations."³⁰ This strategy assumes that home-office perspectives and issues should take precedence over local perspectives and issues and that expatriates will be more effective in representing the views of the home office. The corporate HR department is primarily concerned with selecting and training managers for foreign assignments, developing appropriate compensation packages, and handling adjustment issues when managers return home. Generally, expatriates are used to ensure that foreign operations are linked effectively with parent corporations.

POLYCENTRIC STAFFING When HCNs are used throughout the organization, from top to bottom, it is referred to as **polycentric staffing**. In developed countries such as Japan, Canada, and the United Kingdom, there has been more reliance on local executives and less on traditional expatriate management. The ultimate goal of most foreign operations is to turn over control to local management. The use of the polycentric staffing model is based on the assumption that HCNs are better equipped to deal with local market conditions. Organizations that use this approach will usually have a fully functioning HR department in each foreign subsidiary responsible for managing all local HR issues. Corporate HR managers focus primarily on coordinating relevant activities with their counterparts in each foreign operation. Most global employees are usually HCNs because this helps to clearly establish that the company is making a commitment to the host country and not just setting up a foreign operation. HCNs often have much more thorough knowledge of the culture, the politics, and the laws of the locale, as well as how business is done. There is no standard format in the selection of HCNs.

REGIOCENTRIC STAFFING **Regiocentric staffing** is similar to the polycentric approach, but regional groups of subsidiaries reflecting the organization's strategy and structure work as a unit. There is some degree of autonomy in regional decision making, and promotions are possible within the region but rare from the region to headquarters. Each region develops a common set of employment practices.

GEOCENTRIC STAFFING **Geocentric staffing** is a staffing approach that uses a worldwide integrated business strategy. The firm attempts to always hire the best person available for a position, regardless of where that individual comes from. The geocentric staffing model is most likely to be adopted and used by truly global firms. Usually, the corporate HR function in geocentric companies is the most complicated because every aspect of HR must be dealt with in the global environment.

Recruiting Host-Country Nationals

One of the biggest mistakes that can be made in the multinational arena is to assume that the recruiting approaches that work in the parent company will also be effective in recruiting HCNs. For example, an error that many recruiters make is believing that all countries in Europe are similar or the same. Thinking that Italy is similar to France simply because the countries are close to each other is like believing that the United States is similar to Mexico because they are neighbors in North America. The use of technology in global recruiting also varies considerably. For example, although Scandinavian companies in Norway, Sweden, and Denmark were among the first to promote Internet use for recruiting, recruiters in France, Italy, and much of southern Europe do not use it as much.³¹

Selecting Expatriates

Expatriates are often selected from those already within the organization, and the process involves four distinct stages: self-selection, creating a candidate pool, technical skills assessment, and making a mutual decision.

In stage one, self-selection, candidates determine whether they are right for a global assignment, whether their spouses and children are interested in relocating internationally, and whether this is the best time for a move. In the case of self-selection, the candidates assess themselves on

all of the relevant dimensions for a job and then decide whether to pursue a global assignment. The self-assessment extends to the entire family. One survey found that 55 percent of employees facing dual-career issues are less likely to put themselves forward as a candidate for a global assignment.³² When candidates are selected for expatriate assignments, spouses, partners, and entire families also need to be “selected.” Basically, candidates must decide whether to go to the next step in the selection process.

Stage two involves creating a candidate database organized according to the firm’s staffing needs. Included in the database is information such as the year the employee is available to go overseas, the languages the employee speaks, the countries the employee prefers, and the jobs for which the employee is qualified.

Stage three involves scanning the database for all possible candidates for a given global assignment; then the list is forwarded to the assigning department. There, each candidate is assessed on technical and managerial readiness relative to the needs of the assignment. In the final stage, one person is identified as an acceptable candidate based on his or her technical or managerial readiness and is tentatively selected.

If the decision is made to employ expatriates, certain selection criteria should be carefully considered in stages two and three. It takes a special blend of person to add up to an outstanding expatriate who can be productive and accepted in an unfamiliar setting. Expatriate selection criteria should include cultural adaptability, strong communication skills, technical competence, professional or operational expertise, global experience, country-specific experience, interpersonal skills, language skills, family flexibility, and country- or region-specific considerations. However, according to one survey by Cartus, a workforce development provider, when considering employees for international assignments, 72 percent of companies chose technical competence and 65 percent chose job experience.³³

Background Investigation

Conducting a background investigation on potential employees is especially important in the global environment. According to the HireRight study, 25 percent of global companies either conduct employee screening or have plans to start, an increase from 11 percent in 2009.³⁴ Conducting background investigations when working in the global environment is equally, or even more, important, but differences across cultures and countries often put up barriers. Each country has its own laws, customs, and procedures for background screenings. For instance, Japanese law covers a person working at the Tokyo office of a U.S.-based company and includes privacy statutes that prohibit criminal checks on Japanese citizens. The United Kingdom does

HR BLOOPERS

United Architect’s Expatriate Problems

On the flight back from United Architect’s London office, Nate Brown is trying to figure out how to handle his current challenge. As the HR Director of the multinational firm, Nate was in London to meet with an expatriate that has requested a transfer home. The architect moved to London six months ago for a three-year assignment and now she says it just isn’t going to work out. The firm transferred her to London rather quickly and didn’t follow their usual selection and orientation process because of the tight timeframe. The London office had just secured a new project and they needed an architect from the U.S. office to join them immediately to get the project started. The architect that was selected told

Nate that her husband had some concerns about taking the assignment because he would not be able to work while in London and he is at a critical point in his career. Further, although the architect had traveled for the firm previously, she had never traveled abroad. However, she agreed to take the assignment because she thought it would be good for her career. Now she is having problems getting along with her London colleagues and reports that she just is not happy living in London. Nate also believes her husband is pressuring her to move back home as well. The project is at a critical point and Nate knows it will be extremely difficult to find a new architect for the project now.

★ If your professor has assigned this, go to mymanagementlab.com to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

not allow third parties such as background-checking firms to have direct access to criminal records held by local police. Instead, the job applicant and the recruiting organization must sign and submit a formal request to a specific agency responsible for handling criminal records. It can take up to 40 business days to get information back. HireRight, a pre-employment screening company in Irvine, California, tells the story of a person who had been in the United States for two years and had applied for a job with a multinational firm. There were no gaps in the individual's employment history that would suggest he had ever been in jail. However, further checking revealed that he had been convicted of murder in his home country and in accord with a practice that was legal at the time, had paid a proxy to serve his prison term while he remained free and in the workforce.³⁵

Root Capital is a small business that invests in small agricultural businesses in Africa and South America. As described in the Watch It video, company leadership faces challenges in hiring local talent that meets its business objectives. Also, working across multiple national cultures, Root Capital faces challenges in maintaining employee cohesion across the distant locations.

★ Watch It 3

If your professor has assigned this, sign into mymanagementlab.com to watch a video titled *Root Capital: Human Resource Management and Operations* and to respond to questions.

OBJECTIVE 14.5

Describe global performance management and human resource development practices.

Global Performance Management and Human Resource Development

Some training and development professionals believe that performance appraisal as well as training and development strategies that work for a U.S. audience can be equally effective abroad. Unfortunately, nothing could be further from the truth. Also, global training and development is needed because people, jobs, and organizations are often quite different. Next, various aspects of global HR development will be discussed.

Performance Management

Two major influences on the effectiveness of performance appraisal practices throughout the world are information asymmetry and cultural values.³⁶ *Information asymmetry* refers to a difference in the quality and amount of information available to two or more individuals or groups. For example, let's assume that a company's headquarters in the United States instructed an employee to increase the staffing of its factory in New Delhi, India, by 10 percent in 2014. The headquarters will adopt this goal as a performance criterion come time to conduct the expatriate's performance appraisal. At the end of the year, the staffing increased by only 4 percent, which leads the company headquarters to judge the expatriate's performance as negative. The expatriate has learned from immersion in his job that illiteracy or substandard pay relative to the cost of living contributed dramatically to the result. However, the corporate headquarters does not have intimate knowledge of local conditions in New Delhi and simply attributed the outcome to an ineffective expatriate.

Cultural norms influence the adoption of performance appraisal practices as well as an employee's reaction to appraisal. In China and Japan, performance feedback is uncommon because the normative practice of "saving face" is well-ingrained in those cultures. Giving negative performance feedback would cast the employee in a negative light, which is something that the Japanese and Chinese seek to avoid at all costs.

There is some evidence to suggest that performance appraisal practices performed by companies within high power distance cultures rely on the manager or supervisor as the single source of judgment.³⁷ Where power distance is lower, it is not unusual for companies to solicit performance information from multiple sources, including subordinates. In individualistic cultures, performance appraisal seeks to differentiate employees based on performance. In contrast, performance appraisals in collectivist cultures generally do not focus on individual performance because negative performance information could hurt the solidarity of group members.

Expatriate Human Resource Development

The training of employees going on a global assignment has often been bleak but appears to be improving. The development process should start as soon as workers are selected—definitely before they begin the global assignment. Organizations are recognizing that expatriate employees and their families face special situations and pressure that training and development activities must prepare them to deal with. Employees and their families must have an effective orientation program and a readjustment-training program. In addition, the employee must have a program of continual development. Figure 14-2 illustrates the ideal expatriate preparation and development program, which includes pre-move orientation and training, continual development, and repatriation orientation and training.

Pre-Move Orientation and Training

Pre-move orientation and training of expatriate employees and their families are essential before the global assignment begins. The pre-move orientation needs to be aggressively undertaken so that the expatriate understands cultural do's and don'ts and is immersed in the language. Obviously, providing an expatriate a cultural "dummies" guide and a basic phrasebook for speaking the language is not enough. Continuing employee development, in which the employee's global skills are fitted into career planning and corporate development programs, makes the eventual transition to the host home country less disruptive. Marc Sokol, senior vice-president at Personnel Decisions International, said, "The cost of failure is very high. If you leave it to self-study, then you're rolling the dice."³⁸

Many organizations have established a formal *buddy system* to alleviate the stress new expatriates and their families normally endure and to reduce the time it takes for expatriates to operate at peak productivity. Buddies often inform expatriates of host-office norms and politics, invite them into their homes, introduce them to friends and networks, and help bolster their credibility in the office.

Continual Development: Online Assistance and Training

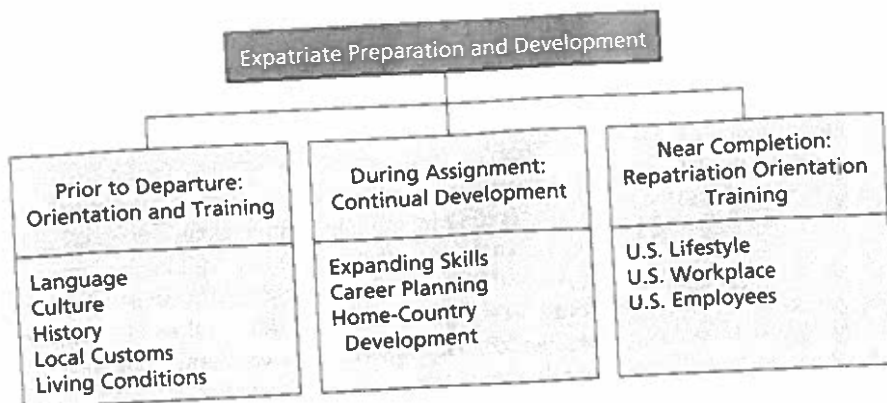
Companies now offer online assistance and training in areas such as career services, cross-cultural training, and employee assistance programs. The Internet offers global employees assistance 24 hours a day, seven days a week. Technology is a timesaving and cost-effective solution for the stress experienced by employees who are on assignment or doing business travel. With a satellite phone, individuals can communicate with one another in undeveloped countries. The distance problems from headquarters cannot be overcome without e-mail and voice mail, but for some issues Skype can be used if there is an Internet connection. Satellite phones throughout the world can also have Internet access, but the price goes up because additional hardware is required. Even if the assignment is a short-term business trip, technology can be used to provide ongoing contact and support with the home country. For example, online career services can give expatriates and their spouses the opportunity to upgrade skills while on assignment.

Repatriation Orientation and Training

Orientation and training are also necessary prior to repatriation, which is the process of bringing expatriates home. Repatriation is often the weak link in global HR management. Returning expatriates have not always had a pleasant experience. Even though a company may spend

repatriation
Process of bringing expatriates home.

FIGURE 14-2
The Expatriate Preparation and Development Program



considerable money in sending managers overseas, too many returning managers report dissatisfaction with the process.³⁹ Many companies do not specify in advance how the international experience will fit into an employee's career progression. In fact, numerous expatriates were not even guaranteed a job on their return.⁴⁰ Further, expatriates often come home to a company that has undergone significant change from such events as mergers, acquisitions, reorganizations, and workforce contraction or expansion, which can create an unfamiliar environment.⁴¹

International businesses spend upward of two to three times of an expatriate's base salary only to have 16 percent resign within two years of their return.⁴² Reasons given for leaving include they were not being properly prepared to return to their work and were not able to use skills they learned abroad. Employers should make every effort to find a place in the organization that will use the expatriate's experience gained during the assignment. Also, the returning expatriate should be given a job with at least the same degree of responsibility and authority.

To counter the challenges of repatriation, firms need to have a formal in-house repatriation program in place. A dialogue regarding expectations and career planning on return will help to manage expectations. Also, the exchange should continue after the employee has returned home. In addition, acknowledgment and recognition of the significant overseas contribution is a courtesy that the returning employee has earned and richly deserves. Ideally, there should be a clear career path or position identified for the expatriate employee on his or her return. An effective repatriation training program should support the assignees in defining their new or strengthened skills and knowledge and instruct them on how to posture themselves in the corporate environment to which they have returned.

Global E-learning

The recent recession has made organizations more aware of the cost benefits generated by e-learning.⁴³ Globalization has created a special need for e-learning, and companies are embracing it to train the global workforce. In the past, a training program for a *Fortune 200* company in the Far East would likely cost between \$250,000 and \$500,000 for travel and related expenses. Many believe that live, instructor-led training is still more effective, but the question that must be asked is, "how much more effective?" E-learning allows companies to keep the money and still receive a good training product. The Towards Maturity 2010–2011 Benchmark Survey predicts that at least 25 percent of multinational companies are introducing mobile-device learning, online learning tools, virtual classrooms, podcasting, and social learning tools to support trainers.⁴⁴

The most obvious deterrent to any global e-learning implementation is the failure to recognize the impact of cultural differences on the program's success.⁴⁵ Not analyzing the culture or failing to recognize important cultural differences can seriously damage success. One study found that only 25 percent of e-learning implementation plans addressed cultural differences that affect management. Cultural accessibility is required so all learners are able to achieve the same learning outcomes by putting in the same amount of effort. A problem that evolves in implementing global e-learning is that the e-learning program is embedded with the culture of the person(s) who developed the program.⁴⁶

Research showed that 91 percent of employees of global corporations said that English is "required" or "important" in their jobs, and that the need is increasing dramatically. Eighty-nine percent of employees said they are more likely to climb the corporate ladder if they can communicate in English. Many companies offer courses only in English or in English and one other language, usually Spanish. An English-only focus works for firms that routinely conduct their business all over the world in English. But others need courses in more than one language. Companies that want to offer courses in several languages usually turn to translators. Financial services provider GE Capital relies on translation companies to offer Web-based courses in English, French, German, and Japanese.⁴⁷

Hilton's team members are scattered the world over. In a sector that sees high turnover rates, it is also hard to imagine that a classroom trainer could keep up with the demands of hundreds of new workers requiring training. Hilton, along with many multinational companies, realized that it could save money through online courses. Hilton first introduced e-learning when the company launched its Hilton University with 60 generic business skills programs and 21 finance programs. Over the years, Hilton put in place an additional 40 business skills courses and significantly increased the number of generic online courses offered. Hilton came a long way in a short period, from 5,000 course completions after the first year to more than 40,000 completions in the third year.⁴⁸

Virtual Teams in a Global Environment

Virtual teams are becoming commonplace in many global organizations. In today's workplace it is not surprising to have as many as 50 percent of employees working on virtual teams.⁴⁹ Intel Corporation conducted a study that revealed that approximately two-thirds of their employees collaborated with team members located at different sites and in different regions.⁵⁰ With virtual teams, team members do not have to meet face-to-face to be effective, thereby eliminating "dead time" caused by traveling. These teams operate across boundaries of time and geography and have become a necessity of everyday working life.

Virtual teams enable companies to accomplish things more quickly and efficiently. The times when virtual team members are in one place are few, especially when members are located across the globe. This often makes global teams more difficult to manage effectively. Communication is the key to keeping teams working effectively together.⁵¹

Some of the difficulties that virtual teams confront with regard to communication are discussed next. Without face-to-face communication, team members often do not feel as connected or committed to the team. The virtual work environment does not provide opportunities to build trust that comes from close proximity.⁵² Although meeting face-to-face requires time and expense, virtual teams that invest in one or two such meetings per year perform better overall than those that do not.⁵³ Obviously, face-to-face communication is best for providing feedback followed by video, telephone, instant messaging, e-mail, and bulletin boards. E-mail and bulletin boards are generally best for tasks that require little collaboration such as information sharing. When teams need to solve complex problems or make decisions, technology such as videoconferencing or telepresence can be a valuable asset.⁵⁴

Communication problems between team members appear to be directly proportional to the number of time zones that separate them. An effective virtual leader rotates the time frames when conference calls for team meetings are going to be held so that the same people are not always inconvenienced. If it is only a couple of zones, teammates will be in their offices earlier or later than one another, but their workdays still overlap enough to allow phone calls. If the distance stretches from 9 to 12 time zones, workdays do not overlap at all, and e-mail and voice mail must be used.⁵⁵ There is also the language problem to contend with. Because English is becoming the world language, those for whom English is a second language may be at a disadvantage. Many Asians are concerned with saving face if they do not understand something. They may be hesitant to ask questions that would reveal their ignorance, thus widening the communication gap. On the other hand, those who are fluent only in English may be at a disadvantage when working with their international colleagues who move easily between their native languages, English, French, and Mandarin.⁵⁶

There are some general rules to follow in selecting virtual team members. Chad Thompson, Aon Hewitt's senior consultant with the talent and rewards practice, believes that the best virtual workers are those who thrive on interdependent working relationships. He also believes that employees who do not mind or who like ambiguity in their job responsibilities and who have strong communication skills also tend to succeed in virtual work environments. Workers who have been labeled as "lone wolves" usually do not function well in a virtual team because they do not collaborate well.⁵⁷

Virtual team members do not have the luxury of getting together over lunch or just communicating informally in the office. To overcome this lack of informal getting to know each other, Facebook (featuring pictures and profiles of team members), a discussion board, a team calendar, or a chat room might be beneficial. Team members can then connect with each other in ways other than meetings and establish a stronger group bond.⁵⁸

Global Compensation

Companies that are successful in the global environment align their HR programs in support of their strategic business plans. A major component is the manner in which the HR total compensation program supports the way the business is structured, organized, and operated both globally and regionally.

Compensation for Host-Country Nationals

Certainly, in compensation-related matters, organizations should think globally but act locally. The realities of global business—in which each country has its own culture and different service expectations—must be reflected in the way employees are serviced.⁵⁹ Brad Boyson, head of HR

OBJECTIVE 14.6

Discuss global compensation practices.

and corporate services for Hamptons MENA, a property company with operations throughout the Middle East, believes that prudent HR professionals should “benchmark on local conditions and add as needed.”⁶⁰

One reason that organizations relocate to other areas of the world is probably the high-wage pressures in the home country that threaten their ability to compete on a global basis. Globally, the question of what constitutes a fair day’s pay is not as complicated as it is in the United States; normally, it is slightly above the prevailing wage rates in the area. The same is often true of benefits and nonfinancial rewards. Variations in laws, living costs, tax policies, and other factors all must be considered when a company is establishing global compensation packages. For example, Puerto Rico has laws that require paying severance pay and a Christmas bonus. Employers in Nigeria are required to provide a life insurance policy for employees at a rate of three times their salary. In Italy, a mandatory benefit is paid when an employee leaves an organization, regardless of whether this is as a result of resignation, termination, or retirement. In Belgium, employers offering a defined contribution pension scheme must provide a guaranteed investment return of 3.25 percent.⁶¹

Some countries have employment laws that feature specific criteria for terminations, including those related to layoffs, shutdowns, mergers and acquisitions, and discharge for cause. Other termination laws call for notice periods, severance requirements, payout of paid time off and incentive compensation, benefits continuation, and employee consent and grievance procedures.⁶²

The company will want to create a precise picture of employment and working conditions to establish appropriate practices in each country. Some of the factors that should be considered include minimum-wage requirements, which often differ from country to country and even from city to city within a country; working-time information, such as annual holidays, vacation time and pay, paid personal days, standard weekly working hours, probation periods, and overtime restrictions and payments; and hiring and termination rules and regulations covering severance practices.

Culture often plays a part in determining compensation. North American compensation practices encourage individualism and high performance; continental European programs typically emphasize social responsibility; the traditional Japanese approach considers age and company service as primary determinants of compensation. In other countries, there is no guarantee that additional compensation will ensure additional output. In mainland China, workers who are paid by the hour often do not work hard. Under the communist system, working harder than anyone else did not result in additional pay. Therefore, there was no reason to do so. It has been found that, in some countries, additional pay has resulted in employees’ working less. As soon as employees have earned enough to satisfy their needs, time spent with family or on other noncompany activities is perceived as more valuable than additional cash. In former communist countries, people were used to a system in which pay and performance were not related. Under the old system, good employees were paid the same as poor performers. With the collapse of the Iron Curtain, the idea that pay and performance should be related is now making its way into people’s minds.

In countries such as France and Greece, where the best graduates often choose government positions with secure paychecks for life, it is quite difficult to attract good employees with pay schemes that include high bonuses for achieving specific objectives. In places such as Hong Kong, where people value risk and are motivated by personal financial gains, employees who have achieved a significant professional result expect a financial form of recognition (raise, bonus, or commission) within a matter of weeks. They are likely to look for another employer if they have to wait until their next annual performance review. Whereas people in the United States derive great status from high pay, nations in large parts of Europe and Asia shun conspicuous wealth. In Italy, where teamwork is more valued than individual initiative, sales incentives for top sales professionals working in small teams can be demotivating. The recipient of a large award may feel awkward when receiving larger than a fair share of the reward pie.

Because of these and other cultural differences, it is difficult to design a global, one-size-fits-all pay scheme that attracts the best talent in all countries. In particular, pay-for-performance schemes often need to be adapted to local preferences, depending on whether income security or higher risks and returns are preferred.

Expatriate Compensation

Expatriate compensation provides exceptional challenges compared to home-country employment, such as developing packages that are reasonably cost-effective while still attractive and motivating. For expatriate managers and professionals, the situation is more complex than simply

paying at or slightly above local host-country compensation rates. The largest expatriate costs historically have included overall remuneration, housing, cost-of-living allowances, and physical relocation. Because of the cost associated with moving a manager overseas, some firms are using shorter periods, often done far earlier in a manager's career, to give workers global involvement without moving the entire family.⁶³

Most companies ensure that expatriates' compensation accounts for additional costs that may be associated with moving to and living in another country. The **balance sheet approach** provides expatriates the standard of living they normally enjoy in the United States or the expatriate's home country. Thus, the United States or the home country is the standard for all payments. This approach has strategic value to companies for two important reasons. First, this approach protects expatriates' standards of living. Without it, companies would have a difficult time placing qualified employees in international assignments. Second, the balance sheet approach enables companies to control costs because it relies on objective indexes that measure cost differences between the United States and foreign countries.

Employees receive allowances whenever the costs in the foreign country exceed the costs in the United States. Expense categories include housing and utilities, goods and services, discretionary income, and taxes. Allowance amounts vary according to the lifestyle enjoyed in the United States. Companies can obtain pertinent information about costs for foreign countries from at least three information sources. First, they can rely on expatriates who have spent considerable time on assignment or foreign government contacts. Second, private consulting companies (e.g., Towers Watson) or research companies (e.g., Bureau of National Affairs) can conduct custom surveys. Third, most U.S. companies consult the *U.S. Department of State Indexes of Living Costs Abroad, Quarters Allowances, and Hardship Differentials*, which is published quarterly by the U.S. Department of State.

In the past few years, additional challenges have hit companies as they have attempted to go global. First, the devaluation of the U.S. dollar has had a major impact on expatriate compensation. Also, there have been changes to the U.S. tax code that affect expatriate lifestyle. These challenges come at a time when global business is expanding. Meeting these challenges will affect how effectively the United States competes in the global market. In the past, expatriates regularly received a premium for taking an overseas assignment. Today, overseas jobs with rich expatriate packages are becoming less prevalent.⁶⁴

balance sheet approach
Provides expatriates the standard of living they normally enjoy in the United States or the expatriate's home country.

OBJECTIVE 14.7

Identify global safety and health issues.

Global Safety and Health

Special needs are often encountered when global safety and health issues are encountered. Global health care provider CIGNA International has teamed up with CIGNA Behavioral Health to offer employee assistance programs (EAPs) for expatriate employees of multinational firms. The EAP allows CIGNA International participants to access a multilingual support and counseling network. Employees and their dependents can receive assistance through telephone or personal visits for a wide range of behavioral health and work-life concerns. The program is designed to help employees better manage stress and anxiety, depression, and substance abuse, as well as to help them to lead healthy lifestyles.

Specific to global assignments are emergency evacuation services and global security protection. An international firm was preparing to evacuate 15 expatriate employees and dependents from a country that had suffered an earthquake. When it came time to meet at the departure point, 25 people showed up. Those arranging for the evacuation had not known that two technical teams were in the country supporting clients at the time.

Often, evacuation and care of injured employees is done through private companies. Medical emergencies are frightening under any circumstances, but when an employee becomes sick or injured abroad, it can be a traumatic experience. If the travelers are assigned to more remote or less-developed areas, companies should be aware that in many medical facilities, needles are often reused, equipment is not properly used, and there is a lack of basic medical supplies. Also, employees and their families living abroad must constantly be aware of security issues. Many firms provide bodyguards who escort executives everywhere. Some firms even have disaster plans to deal with evacuating expatriates if natural disasters, civil conflicts, or wars occur.

Global companies continue to face global safety risks. That is one of the lessons learned after the 1984 disaster in Bhopal, India, affected Union Carbide's worldwide operations. The Bhopal

disaster was the worst industrial disaster in history. It was caused by the accidental release of 40 metric tons of methyl isocyanate (MIC) from a Union Carbide India, Limited (UCIL), pesticide plant located in the heart of the city of Bhopal, in the Indian state of Madhya Pradesh. UCIL was a joint venture between Union Carbide and a consortium of Indian investors. The accident in the early hours produced heavier-than-air toxic MIC gas, which rolled along the ground through the surrounding streets, killing thousands outright and injuring anywhere from 150,000 to 600,000 others, at least 15,000 of whom died later from their injuries. Some sources give much higher fatality figures.⁶⁵

Health and safety professionals with international experience say one of the most important trends sweeping through successful multinational companies is the shift to a single safety management system that applies to all their operations throughout the world. Although the example of Bhopal revealed the risks of safety failures, experts emphasize that taking a global approach to safety and health is not only about avoiding problems. It also opens up a wealth of opportunities to improve performance. Although events on the scale of Bhopal are rare, many companies have discovered that the way they treat their workers anywhere on the planet can pose a risk to their corporate reputation.

Employers should also be concerned with health issues for HCNs. In many instances, employee health has deteriorated because of an increase in chronic disease and lifestyle-related health issues, not only in developed countries, but also in emerging economies such as Mexico, China, and India. Twenty years ago, less than 10 percent of Mexican adults were obese; today, 68 percent are overweight and the problem is becoming increasingly widespread in younger people. It is estimated that 57.2 percent of the Indian population will have diabetes by 2025. China and the Philippines are troubled by inconsistent health care, especially among the poor.⁶⁶

OBJECTIVE 14.8

Describe global employee and labor relations practices.

Global Employee and Labor Relations

Obviously, the strength and nature of unions differ from country to country, with unions ranging from nonexistent to relatively strong. In fact, unionism in private companies is a declining phenomenon in nearly all developed countries. Codetermination, which requires firms to have union or worker representatives on their boards of directors, is common in European countries. Even though they face global competition, unions in several European countries have resisted changing their laws and removing government protections. Laws make it hard to fire workers, so companies are reluctant to hire. Generous and lengthy unemployment benefits discourage the jobless from seeking new work. Motorola paid a net pretax charge of about \$83 million in related severance fees for jobs cut in Germany. Wage bargaining remains centralized, and companies have little flexibility to fashion contracts that fit their needs. High payroll taxes raise labor costs, and their laws mandating cumbersome layoff procedures increase the cost of the product.



ETHICAL DILEMMA

Mordita

Your company, a distributor of heavy mining equipment, wants to trade in the Mexican market where cash under the table, *mordita* (a little bit), is part of doing business. This payoff practice is so ingrained in the Mexican culture that a business virtually cannot open a Mexican operation without going along. You have observed many companies that did not pay and they failed to enter the Mexican market, as well as those that paid and entered the

market, and overall, did fairly well. You can continue to raise your stature with mining companies, farmers, and contractors and encourage them to lobby the government to freely open the market, or you can pay the bribe.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

On the other hand, in some South American countries, such as Chile, collective bargaining for textile workers, miners, and carpenters is prohibited. And unions are generally allowed only in companies of 25 workers or more. This practice has encouraged businesses to split into small companies to avoid collective bargaining, leaving workers on their own.

OBJECTIVE 14.9

Discuss globalization issues for small to medium-sized businesses.

Globalization for Small to Medium-Sized Businesses

International sales have become a vital and growing part of the market for small to medium-sized businesses.⁶⁷ A recent study found that nearly a quarter of U.S. small firms receive some sales from overseas, and another 6 percent is expected to join their ranks for a combined total of approximately one million small to medium-sized business owners who engage in international sales in the near future.⁶⁸ Globalization, the Internet, and e-commerce have made it easier than ever for small businesses to reach the 95 percent of consumers that do not live in the United States. Exporting gives small businesses the opportunities to tap into new markets, increase sales, generate economies of scale, and improve inventory management, as well as help maintain U.S. competitiveness and create jobs.

The United States has a goal of doubling exports in five years, from \$1.57 trillion in 2009 to \$3.14 trillion in 2014. This growth is projected to create two million new jobs.⁶⁹ To achieve this goal, the Small Business Administration (SBA) has programs available to help small business customers expand into exporting. In 2009, SBA supported about 1,500 export loans to small business, totaling more than \$580 million and generating more than \$1.6 billion in sales. Export loan providers include the following:⁷⁰

- *Export Working Capital Loans* are short-term loans of 12 months or less. These loans provide a line of credit for suppliers, inventory, or production of goods. As a result of the Small Business Jobs Act, the SBA guarantee on these loans is 90 percent, with the maximum size of the loan being \$4.5 million.
- *Export Express Loans* help small businesses that need capital fast to take advantage of a possible overseas sale. They can help cover marketing materials, translation, or travel costs for a trade mission. These loans can get approval by the SBA within 36 hours. The Small Business Jobs Act increased loan sizes up to \$500,000 and are 90 percent guaranteed up to \$350,000. There is also a 75 percent guarantee for loans larger than \$350,000.
- *International Trade Loans* help businesses invest in real estate and working capital to support exporting over the long term. These loans can be used for expansion, renovation, and modernization of facilities or in some cases refinancing existing loans. Usually, these loans are needed when a few big orders from abroad start to flow in, and the business needs to expand to a larger location or buy equipment to meet demand. International Trade Loans can be for up to \$5 million. They carry a 90 percent guarantee, and maturity is usually 10 to 15 years for machinery or 25 years for real estate.⁷¹

There are numerous examples where the SBA has been helpful. An Export Working Capital Loan helped Nidek Medical Products, Inc., a manufacturer of medical nebulizers and oxygen concentrators for 25 years with 40 employees. The company was focusing largely on international sales and had established distribution warehouses in South America and Europe. But carrying the receivables for export sales had created a cash crunch and put the company's finances in jeopardy. With assistance from the SBA, the company received a \$1.3 million Export Working Capital Loan that solved its cash flow difficulties.

The move into global markets can be intimidating for leaders of smaller businesses, but HR professionals in these companies can help. They can learn more about the cultural and human capital factors that will have the biggest effect on new international initiatives. They can work with government and business groups to navigate the legal and bureaucratic environments that can make it difficult for businesses to get started in new markets.⁷²

Summary

1. **Describe the evolution of global business.** Most companies initially become global without making substantial investments in foreign countries by exporting, licensing, or franchising. A multinational corporation is a firm that is based in one country (the parent or home country) and produces goods or provides services in one or more foreign countries (host countries). A global corporation has corporate units in a number of countries that are integrated to operate as one organization worldwide.
2. **Explain global strategic HR management.** The world is experiencing an increasing global workforce. Global HR problems and opportunities are enormous and are expanding. Individuals dealing with global HR matters face a multitude of challenges beyond that of their domestic counterparts.
3. **Discuss the facts that set the stage for global HR practices.** HR practice in the United States is influenced by many factors. These factors include country political and economic structure, the legal system, national cultural norms, and characteristics of the labor force. When practicing HR within any one country, these factors are relatively constant. For example, the United States has many worker protections such as antidiscrimination laws. Global HR practitioners require, at minimum, an appreciation of the variation in these five factors to understand how to best structure and implement HR practices in other countries.
4. **Explain global staffing.** Companies must choose from various types of global staff members and may use specific approaches to global staffing. Global staff members may be selected from among three different types: expatriates, host-country nationals, and third-country nationals. There are four major approaches to global staffing: ethnocentric, polycentric, regiocentric, and geocentric.
5. **Describe global performance management and HR development practices.** Some training and development professionals believe that performance appraisal as well as training and development strategies that work for a U.S. audience can be equally effective abroad. Unfortunately, nothing could be further from the truth. Also, global training and development is needed because people, jobs, and organizations are often quite different. Some training and development professionals believe that training and consulting principles and strategies that work for a U.S. audience can be equally effective abroad. Nothing could be further from the truth. The ideal expatriate preparation and development program includes pre-move orientation and training, continual development, and repatriation orientation and training.
6. **Explain global compensation.** Globally, the question of what constitutes a fair day's pay for host-country nationals is not as complicated as it is in the United States; normally, it is slightly above the prevailing wage rates in the area. The same is often true of benefits and nonfinancial rewards. Expatriate compensation provides exceptional challenges compared to home-country employment, such as developing packages that are reasonably cost-effective while still attractive and motivating. For expatriate managers and professionals, the situation is more complex than simply paying at or slightly above local host-country compensation rates.
7. **Describe global safety and health.** U.S.-based global operations are often safer and healthier than host-country operations but frequently not as safe as similar operations in the United States.
8. **Explain global employee and labor relations practices.** The strength and nature of unions differ from country to country, with unions ranging from nonexistent to relatively strong.
9. **Describe globalization issues for small and medium-sized businesses.** There has been a growing push among business organizations and the government to help small and medium-sized businesses increase their exports.

Key Terms

exporting 368	cultural values 371	polycentric staffing 374
licensing 368	expatriate 373	regiocentric staffing 374
franchising 368	host-country national (HCN) 373	geocentric staffing 374
multinational corporation (MNC) 369	third-country national (TCN) 373	repatriation 377
global corporation 369	ethnocentric staffing 374	balance sheet approach 381

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Exercises

- ★14-1. We've studied HR practices primarily in the U.S. context throughout this book. What are some of the challenges that HR professionals face when designing the following HR practices outside the U.S. context?
- performance appraisal
 - training and development
 - compensation
- 14-2. What obstacles might have to be overcome to open a global organization in the following regions of the world?
- Asia
 - Europe
 - Middle East

Questions for Review

- 14-3. How has global business evolved?
- 14-4. Define the following terms:
- exporting
 - licensing
 - franchising
 - multinational corporation
 - global corporations
- ★14-5. What are some global issues confronting women?
- 14-6. What are the various types of global staff members?
- 14-7. What is the general process for selecting expatriates?
- ★14-8. Why is pre-move orientation and training of expatriates so important?
- ★14-9. Why is repatriation orientation and training needed?
- 14-10. What is the importance of e-learning in the global environment?
- 14-11. What difficulties do virtual teams have in the global environment?
- ★14-12. What is meant by the statement with reference to compensation for host-country nationals, "Organizations should think globally but act locally"?
- 14-13. What has been the status of expatriate compensation in recent years?
- 14-14. What are factors to consider in global health and safety?
- ★14-15. What are some problems and opportunities related to small and medium-sized businesses in the global environment?

INCIDENT 1 The Overseas Transfer

In college, Pat Marek majored in industrial management and was considered by his teachers and peers to be a good all-around student. Pat not only took the required courses in business, but also learned French as a minor. After graduation, Pat took an entry-level management training position with Tuborg International, a multinational corporation with offices and factories in numerous countries, including the United States. His first assignment was in a plant in Chicago. His supervisors quickly identified Pat for his ability to get the job done and still maintain good rapport with subordinates, peers, and superiors. In only three years, Pat had advanced from a manager trainee to the position of assistant plant superintendent.

After two years in this position, he was called into the plant manager's office one day and told that he had been identified as ready for a foreign assignment. The move would mean a promotion. The assignment was for a plant in Haiti, a predominantly French-speaking country, but Pat wasn't worried about living and working there. He was excited and wasted no time in making the necessary preparations for the new assignment.

Prior to arriving at the plant in Haiti, Pat took considerable time to review his French textbook exercises. He was surprised at how quickly the language came back to him. He thought that there wouldn't be any major difficulties in making the transition from Chicago to Haiti. However, Pat found, on arrival, that the community where the plant

was located did not speak the pure French that he had learned. There were many expressions that meant one thing to Pat but had an entirely different meaning to the employees of the plant.

When meeting with several of the employees a week after arriving, one of the workers said something to him that Pat interpreted as uncomplimentary. Actually, the employee had greeted him with a rather risqué expression but in a different tone than Pat had heard before. All of the other employees interpreted the expression to be merely a friendly greeting. Pat's disgust registered in his face.

As the days went by, this type of misunderstanding occurred a few more times, until the employees began to limit their conversation with him. In only one month, Pat managed virtually to isolate himself from the workers within the plant. He became disillusioned and thought about asking to be relieved from the assignment.

Questions

- 14-16. What problems had Pat not anticipated when he took the assignment?
- 14-17. How could the company have assisted Pat to reduce the difficulties that he confronted?
- 14-18. Do you believe the situation that Pat confronted is typical of an American going to a foreign assignment? Discuss.

INCIDENT 2 Was There Enough Preparation?

"Hi, Sam. How are the preparations going for your assignment in Japan?"

"Well, Elvis, I really feel prepared for the assignment, and the high level of apprehension I first experienced is gone."

"What exactly did the preparation program involve, Sam?"

"The experience was really exhaustive. First, I spent a good deal of time in a comprehensive orientation and training program. The program covered training and familiarization in the language, culture, history, living conditions, and local customs of Japan. Then, to make the transition back to home easier and better for my career, I have developed a plan with my boss that includes several trips back here to remain a key part of this operation. Also, my career development training will include the same training as the other managers in the home office. Finally, I was completely briefed on repatriation orientation and training that I would experience when I returned. Also, I was fully briefed on the compensation package, which appears to be fairly generous."

"That is great, Sam. Have you found a place to live yet?"

"Not yet, Elvis, but my wife and children are leaving in three days to meet with the company's relocation person to consider the various possibilities."

"How did the family like the orientation training, Sam?"

"Well, my wife ordered some Japanese language tapes, and I think she read all of the information that was covered in the class. She and the children will be fine because they have time to adapt; they don't have to hit the ground running like I do."

Questions

- 14-19. Do you believe that Sam's family is adequately prepared for the move to Japan? Why or why not?
- 14-20. Should the company's orientation program have included training for Sam's family? Discuss.
- 14-21. Is repatriation orientation and training necessary for Sam's family on their return to the United States?

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Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 14-22. What are the approaches to global staffing?
- 14-23. What are some global employee and labor relations problems?

Endnotes

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