Global Mobility at Shell

opening case

Royal Dutch Shell is a British-Dutch multinational oil and gas company that is headquartered in the Netherlands and incorporated in the United Kingdom. The company is one of the world's largest oil producers with revenues of over $300 billion and operations in more than 70 countries. The company has some 90,000 employees, of which 6,000–7,000 at any one time are on expatriate assignments outside their home country. A crucial task for Shell is to manage this extensive population of expatriate workers in order to meet its commercial goals and transfer valuable technical and managerial knowledge across operations located in different nations. It's no easy task.

Shell's long-term goal is to develop local talent wherever possible, thereby leveraging local employees' networks, market knowledge, and language skills, while also minimizing costs. However, there are many cases where deploying foreign nationals makes the most commercial sense. First, there is often a shortage of skills in certain locations. Shell has found this to be a vital issue in the Middle East and North Africa, where Shell often works with local joint venture partners or third parties. Moving Shell employees from other countries to work with partners and transfer expertise is often a key part of the company's strategy. Second, Shell recognizes that the skills of staff and senior leadership are improved by significant exposure to overseas markets. In other words, in a multinational like Shell, high-potential employees need to understand what it is like to live and work in other countries—to get a sense for the conditions on the ground. Third, in many instances, senior Shell employees need to be on the management boards of local subsidiaries in order to effectively monitor and control those operations and keep the head office informed of developments.

As Shell has found, however, moving employees to other countries raises a number of important challenges. It's not always easy to recruit skilled personnel to work in different locations. A survey of expatriate personnel at Shell found that five issues had the greatest impact on the willingness of an employee to accept an international assignment. In order of importance, these were (1) separation from children during their secondary education, (2) harm done to a spouse's career and employment, (3) failure to recognize and involve a spouse in the relocation decision, (4) failure to provide adequate information and assistance regarding relocation, and (5) health issues. The underlying message was that the family is the basic unit of expatriation, not the individual, and Shell needed to do more to recognize this.

To deal with these issues, Shell implemented a number of programs designed to address some of these problems. To help with the education of children, Shell built elementary schools for Shell employees where there was a heavy concentration of expatriates. As for secondary school education, Shell worked with local schools, often providing grants, to help them upgrade their educational offerings. It also offered an education supplement to help expatriates send their children to private schools in the host country.

continued

Helping spouses with their careers is a more vexing problem. According to the survey data, half the spouses accompanying Shell staff on assignment were employed until the transfer. When expatriated, only 12 percent were able to secure employment, while a further 33 percent wished to be employed. Shell set up a spouse employment center to address the problem. The center provides career counseling and assistance in locating employment opportunities both during and immediately after an international assignment. The company also agreed to reimburse up to 80 percent of the costs of vocational training, further education, or reaccreditation.

Shell set up a global information and advice network known as "The Outpost" to provide support for families facing the challenges of global mobility. The Outpost has its headquarters in The Hague with about 50 local offices around the world. The center recommends schools and medical facilities and provides housing advice and up-to-date information on employment, study, self-employment, and volunteer work.

Finally, there are also important issues with expatriate pay. An expatriate's basic salary and bonus are linked to what they would receive in their home country. Additional pay is given to expatriates moving to more expensive locations so that they can maintain their standard of living. Shell also recognizes that employees often need additional financial incentives to persuade them to leave family and friends and location "premiums" to persuade them to move to less popular expatriate destinations, such as Kuwait and Iraq. Shell also uses tax equalization as part of its expatriate pay approach. Specifically, home country taxes are deducted from an expatriate's pay, while the host country taxes are paid by the company. Of course, all of these added factors make expatriates an expensive resource that can cost up to three times as much as a local employee. ●

Sources: Binbraik, Aysha, "International Mobility at Shell," *Mercer Management Consulting*, 2016; DeGraff, J., "Single System Expatriate Compensation," *Cornell HR Review*, April 7, 2010; Barbian, J., "Return to Sender," *Training*, January 2002, 40–43; and Mainwaring, J., "Shell Schools: Supporting Expat Families," *Rigzone*, June 21, 2012.

Introduction

human resource management (HRM)
Activities an organization conducts to use its human resources effectively.

This chapter continues our focus on business functions within a company engaged in a global marketplace of some 7 billion people by looking at global human resource management. **Human resource management (HRM)** refers to the activities an organization carries out to use its human resources effectively.[1] These activities include determining the firm's human resource strategy, staffing, performance evaluation, management development, compensation, and labor relations. Taken together, these activities determine how an international business builds and manages its global workforce.

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None of these global HRM activities is performed in a vacuum; all are related to the global strategy of the firm. As we will see in this chapter, HRM has an important strategic component.[2] Through its influence on the character, development, quality, and productivity of the firm's human resources, the HRM function can help the firm achieve its primary strategic goals of reducing the costs of value creation and adding value by better serving customers. A good example of this is given in the opening case, which looks at how Shell uses its human resources around the world. At any one time, some 7 percent of Shell's employees are working outside of their home country, many for extended periods. The benefits of this include transferring valuable managerial and technical skills to local operations, developing leaders who know what it is like to do business in different countries (a major issue in a multinational like Shell, which has operations in 70 nations), and ensuring management oversight of local operations.

Irrespective of the desire of managers in multinational companies such as Shell to build a truly global enterprise with a global workforce, the reality is that HRM practices still have to be modified to national contexts. The strategic role of HRM is complex enough in a purely domestic firm, but it is more complex in an international business, where staffing, management development, performance evaluation, and compensation activities are complicated by profound

differences between countries in labor markets, culture, legal systems, economic systems, and the like (see Chapters 2, 3, and 4). For example,

- Compensation practices may vary from country to country, depending on prevailing management customs.
- Labor laws may prohibit union organization in one country and mandate it in another.
- Equal employment legislation may be strongly pursued in one country and not in another.
- Ethnic and cultural realities may require some modification of company policies.

If it is to build a cadre of managers capable of managing a multinational enterprise, the HRM function must deal with a host of issues. It must decide how to staff key management posts in the company, how to develop managers so that they are familiar with the nuances of doing business in different countries, how to compensate people in different nations, and how to evaluate the performance of managers based in different countries. HRM must also deal with a myriad of issues related to expatriate managers. (An **expatriate manager** is a citizen of one country who is working abroad in one of the firm's subsidiaries.) It must decide when to use expatriates, determine whom to send on expatriate postings, be clear about the reasons why, compensate expatriates appropriately, and make sure that they are adequately debriefed and reoriented once they return home.

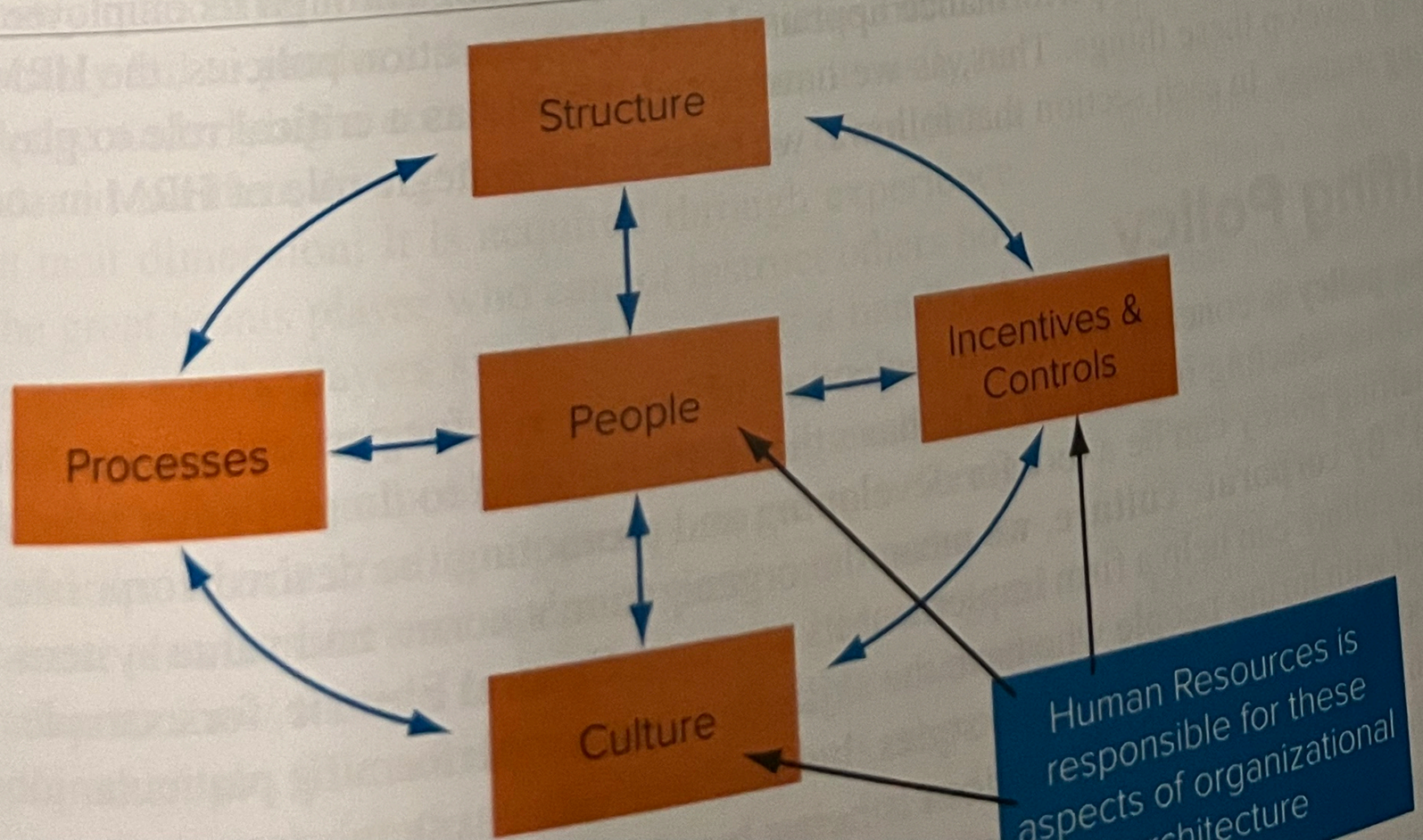
expatriate manager
A national of one country appointed to a management position in another country

This chapter looks closely at the role of HRM in an international business. It begins by briefly discussing the strategic role of HRM. Then we turn our attention to four major tasks of the HRM function: staffing policy, management training and development, performance appraisal, and compensation policy. We point out the strategic implications of each task. We then look at how firms can build a globally diverse workforce, and why this can benefit the enterprise, resulting in higher financial performance. The chapter closes with a look at international labor relations and the relationship between the firm's management of labor relations and its overall strategy.

Strategic Role of Global HRM: Managing a Global Workforce

LO 17-1
Summarize the strategic role of human resource management in international business.

A large and expanding body of academic research suggests that a strong fit between human resource practices and strategy is required for high profitability.[3] You will recall from Chapter 12 that superior performance requires not only the right strategy, but that the strategy be supported by the right organizational architecture. Strategy is implemented through organization. As shown in Figure 17.1, people are the linchpin of a firm's organizational architecture. For a firm to outperform its rivals in the global marketplace, it must have the right people in the right postings. Those people must be trained appropriately so that they have the skill sets required to



17.1 FIGURE
The role of human resources in shaping organizational architecture.

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International Internship Directory

People are what make value chains "valuable," and global human resource management, which is the focus of Chapter 17, is a critical part of operating worldwide. The obvious HR issue to us as authors is YOU—the student and reader of this text! Our goal is to provide information and data and infuse our knowledge to each student using the text. globalEDGE™ can help take this knowledge to another level with its International Internship Directory (globaledge.msu.edu/international-internships). The directory is a reference guide for students and others (e.g., faculty, staff, and administrators) to help match students with international internship opportunities offered by universities, governmental agencies, nonprofit groups, private organizations, and corporations. To search for an internship, you can select a type of organization, country, or subject of study (e.g., international business). Check it out. What opportunities can you find based on your interests?

perform their jobs effectively and so that they behave in a manner that is congruent with the desired culture of the firm. Their compensation packages must create incentives for them to take actions that are consistent with the strategy of the firm, and the performance appraisal system the firm uses must measure the behavior that the firm wants to encourage.

As indicated in Figure 17.1, the HRM function, through its staffing, training, compensation, and performance appraisal policies, has a critical impact on the people, culture, incentive, and control system elements of the firm's organizational architecture (performance appraisal systems are part of the control systems in an enterprise). Thus, HRM professionals have a critically important strategic role. It is incumbent on them to shape these elements of a firm's organizational architecture in a manner that is consistent with the strategy of the enterprise so that the firm can effectively implement its strategy.

In short, superior human resource management can be a sustained source of high productivity and competitive advantage in the global economy. At the same time, research suggests that many international businesses have room for improving the effectiveness of their HRM function. In one study of competitiveness among 326 large multinationals, the authors found that human resource management was one of the weakest capabilities in most firms, suggesting that improving the effectiveness of international HRM practices might have substantial performance benefits.[4]

In Chapter 12, we examined four strategies pursued by international businesses: localization strategy, global standardization strategy, transnational strategy, and international strategy. In this chapter, we will see that success also requires HRM policies to be congruent with the firm's strategy. For example, a transnational strategy imposes different requirements for staffing, management development, and compensation practices from a localization strategy. Firms pursuing a transnational strategy need to build a strong corporate culture and an informal management network for transmitting information and knowledge within the organization. Through its employee selection, management development, performance appraisal, and compensation policies, the HRM function can help develop these things. Thus, as we have noted, HRM has a critical role to play in implementing strategy. In each section that follows, we review the strategic role of HRM in some detail.

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Staffing Policy

LO 17-2

Identify the pros and cons of different approaches to staffing policy in international business.

staffing policy

strategy concerned with selecting employees for particular jobs.

corporate culture

the organization's norms and value systems.

Staffing policy is concerned with the selection of employees for particular jobs. At one level, this involves selecting individuals who have the skills required to do particular jobs. At another level, staffing policy can be a tool for developing and promoting the desired corporate culture of the firm.[5] By **corporate culture**, we mean the organization's norms and value systems. A strong corporate culture can help a firm implement its strategy. General Electric, for example, is not just concerned with hiring people who have the skills required for performing particular jobs; it wants to hire individuals whose behavioral styles, beliefs, and value systems are consistent with those of GE. This is true whether an American is being hired, or an Australian, a German, or a Swede, and whether the hiring is for a U.S. operation or a foreign operation. The belief is that if employees are predisposed toward the organization's norms and value systems by their personality type, the firm will be able to attain higher performance.

TYPES OF STAFFING POLICIES

Research has identified three types of staffing policies in international businesses: the ethnocentric approach, the polycentric approach, and the geocentric approach.[6] We review each policy and link it to the strategy pursued by the firm. The most attractive staffing policy is probably the geocentric approach, although there are several impediments to adopting it.

The Ethnocentric Approach

An **ethnocentric staffing policy** is one in which all key management positions are filled by parent-country nationals. This practice was widespread at one time. Firms such as Procter & Gamble, Philips, and Matsushita (now called Panasonic) originally followed it. In the Dutch firm Philips, for example, all important positions in most foreign subsidiaries were at one time held by Dutch nationals, who were referred to by their non-Dutch colleagues as the Dutch Mafia. Historically, in many Japanese and South Korean firms, such as Toyota, Matsushita, and Samsung, key positions in international operations have often been held by home-country nationals. For example, according to the Japanese Overseas Enterprise Association, only 29 percent of foreign subsidiaries of Japanese companies had presidents who were not Japanese. In contrast, 66 percent of the Japanese subsidiaries of foreign companies had Japanese presidents.[7] Today, there is evidence that as Chinese enterprises are expanding internationally, they too are using an ethnocentric staffing policy in their foreign operations.[8]

ethnocentric staffing policy
A staffing approach within the multinational enterprise in which all key management positions are filled by parent-country nationals.

Firms pursue an ethnocentric staffing policy for three reasons. First, the firm may believe the host country lacks qualified individuals to fill senior management positions. This argument is heard most often when the firm has operations in less developed countries. Second, the firm may see an ethnocentric staffing policy as the best way to maintain a unified corporate culture. Many Japanese firms, for example, have traditionally preferred their foreign operations to be headed by expatriate Japanese managers because these managers will have been socialized into the firm's culture while employed in Japan.[9] Procter & Gamble until fairly recently preferred to staff important management positions in its foreign subsidiaries with U.S. nationals who had been socialized into P&G's corporate culture by years of employment in its U.S. operations. Such reasoning tends to predominate when a firm places a high value on its corporate culture.

Third, if the firm is trying to create value by transferring core competencies to a foreign operation, as firms pursuing an international strategy are, it may believe that the best way to do this is to transfer parent-country nationals who have knowledge of that competency to the foreign operation. Imagine what might occur if a firm tried to transfer a core competency in marketing to a foreign subsidiary without a corresponding transfer of home-country marketing management personnel. The transfer would probably fail to produce the anticipated benefits because the knowledge underlying a core competency cannot easily be articulated and written down. Such knowledge often has a significant tacit dimension; it is acquired through experience. Just like the great tennis player who cannot instruct others how to become great tennis players simply by writing a handbook, the firm that has a core competency in marketing, or anything else, cannot just write a handbook that tells a foreign subsidiary how to build the firm's core competency anew in a foreign setting. It must also transfer management personnel to the foreign operation to show foreign managers how to become good marketers, for example. The need to transfer managers overseas arises because the knowledge that underlies the firm's core competency resides in the heads of its domestic managers and was acquired through years of experience, not by reading a handbook. Thus, if a firm is to transfer a core competency to a foreign subsidiary, it must also transfer the appropriate managers.

Will We See an Influx of Chinese Workers Worldwide?

Asia is among the fastest-growing areas of the world for international students. For example, foreign enrollment of students at universities in Indonesia and South Korea has more than doubled since 2005. In particular, China has become the most popular destination in Asia, and the country ranks third among all countries in hosting international students. Education in China is still a state-run system of public education, where the Ministry of Education is in charge. By some estimates, China has been growing investment in education by some 20 percent annually for more than a decade, and the quality of education has been improved along with this increased spending. This has resulted in Chinese people becoming more knowledgeable about today's global marketplace; adding to the pool of talent are the Chinese who are educated abroad and decide to return home after their education. Collectively, these highly educated Chinese are more likely to want to work for a foreign company than a Chinese company. Companies already recruit Chinese in China for their foreign operations, but how significant do you think the potential influx of Chinese-educated people around the world will become in the next five years?

Source: Sheehy, K., "Explore the World's Top Universities," *U.S. News & World Report*, October 8, 2013, http://www.usnews.com/education/best-global-universities/articles/2013/10/08/explore-the-worlds-top-universities.

Despite this rationale for pursuing an ethnocentric staffing policy, the policy is now on the wane in most international businesses for two reasons. First, an ethnocentric staffing policy limits advancement opportunities for host-country nationals. This can lead to resentment, lower productivity, and increased turnover among that group. Resentment can be greater still if, as often occurs, expatriate managers are paid significantly more than home-country nationals.

Second, an ethnocentric policy can lead to *cultural myopia*—the firm's failure to understand host-country cultural differences that require different approaches to marketing and management. The adaptation of expatriate managers can take a long time, during which they may make major mistakes. For example, expatriate managers may fail to appreciate how product attributes, distribution strategy, communications strategy, and pricing strategy should be adapted to host-country conditions. The result may be costly blunders. They may also make decisions that are ethically suspect simply because they do not understand the culture in which they are managing.[10] In one highly publicized case in the United States, Mitsubishi Motors was sued by the federal Equal Employment Opportunity Commission for tolerating extensive and systematic sexual harassment in a plant in Illinois. The plant's top management, all Japanese expatriates, denied the charges. The Japanese managers may have failed to realize that behavior that would be viewed as acceptable in Japan was not acceptable in the United States.[11]

polycentric staffing policy
A staffing policy in a multinational enterprise in which host-country nationals are recruited to manage subsidiaries in their own country, while parent-country nationals occupy key positions at corporate headquarters.

The Polycentric Approach

A **polycentric staffing policy** requires host-country nationals to be recruited to manage subsidiaries, while parent-country nationals occupy key positions at corporate headquarters. In many respects, a polycentric approach is a response to the shortcomings of an ethnocentric approach. One advantage of adopting a polycentric approach is that the firm is less likely to suffer from cultural myopia. Host-country managers are unlikely to make the mistakes arising from cultural misunderstandings to which expatriate managers are vulnerable. A second advantage is that a polycentric approach may be less expensive to implement, reducing the costs of value creation. Expatriate managers can be expensive to maintain.

A polycentric approach has its drawbacks. Host-country nationals have limited opportunities to gain experience outside their own country and thus cannot progress beyond senior positions in their own subsidiary. As in the case of an ethnocentric policy, this may cause resentment. Perhaps the major drawback with a polycentric approach, however, is the gap that can form between host-country managers and parent-country managers. Language barriers, national loyalties, and a range of cultural differences may isolate the corporate headquarters staff from the various foreign subsidiaries. The lack of management transfers from home to host countries and vice versa can exacerbate this isolation and lead to a lack of integration between corporate headquarters and foreign subsidiaries. The result can be a "federation" of largely independent national units with only nominal links to the corporate headquarters. Within such a federation, the coordination required to transfer core competencies or to pursue experience curve and location economies may be difficult to achieve. Thus, although a polycentric approach may be effective for firms pursuing a localization strategy, it is inappropriate for other strategies.

The federation that may result from a polycentric approach can also be a force for inertia within the firm. After decades of pursuing a polycentric staffing policy, food and detergents giant Unilever found that shifting from a strategic posture that emphasized localization to a transnational posture was very difficult. Unilever's foreign subsidiaries had evolved into quasi-autonomous operations, each with its own strong national identity. These "little kingdoms" objected strenuously to corporate headquarters' attempts to limit their autonomy and to rationalize global manufacturing.[12]

geocentric staffing policy
A staffing policy where the best people are sought for key jobs throughout a multinational enterprise, regardless of nationality.

The Geocentric Approach

A **geocentric staffing policy** seeks the best people for key jobs throughout the organization, regardless of nationality. This policy has a number of advantages. First, it enables the firm to make the best use of its human resources. Second, and perhaps more important, a geocentric policy enables the firm to build a cadre of international executives who feel at home working in a number of cultures. Creation of such a cadre may be a critical first step toward building a strong unifying corporate culture and an informal management network,

both of which are required for global standardization and transnational strategies.[13] Firms pursuing a geocentric staffing policy may be better able to create value from the pursuit of experience curve and location economies and from the multidirectional transfer of core competencies than firms pursuing other staffing policies. In addition, the multinational composition of the management team that results from geocentric staffing tends to reduce cultural myopia and to enhance local responsiveness.

In sum, other things being equal, a geocentric staffing policy seems the most attractive. Indeed, in recent years there has been a sharp shift toward adoption of a geocentric staffing policy by many multinationals. For example, India's Tata Group, now more than a $100 billion global conglomerate, runs several of its companies with American and British executives. Japan's Sony Corporation broke 60 years of tradition in 2005 when it installed its first non-Japanese chair and CEO, Howard Stringer, a former CBS president and a U.S. citizen who was born and raised in Wales. American companies increasingly draw their managerial talent from overseas. In 2014, for example, Microsoft appointed Satya Nadella, a native of India, to its CEO position. One study found that by the mid-2000s, 24 percent of the managers among the top 100 to 250 people in U.S. companies were from outside the United States. For European companies, the average was 40 percent.[14]

However, a number of problems limit the firm's ability to pursue a geocentric policy. Many countries want foreign subsidiaries to employ their citizens. To achieve this goal, they use immigration laws to require the employment of host-country nationals if they are available in adequate numbers and have the necessary skills. Most countries, including the United States, require firms to provide extensive documentation if they wish to hire a foreign national instead of a local national. This documentation can be time-consuming, expensive, and at times futile. A geocentric staffing policy also can be expensive to implement. Training and relocation costs increase when transferring managers from country to country. The company may also need a compensation structure with a standardized international base pay level higher than national levels in many countries. In addition, the higher pay enjoyed by managers placed on an international fast track may be a source of resentment within a firm.

Types of Staffing Policies Summary

The advantages and disadvantages of the three approaches to staffing policy are summarized in Table 17.1. Broadly speaking, an ethnocentric approach is compatible with an international strategy, a polycentric approach is compatible with a localization strategy, and a geocentric approach is compatible with both global standardization and transnational strategies. (See Chapter 12 for details of the strategies.)

TABLE 17.1
Comparison of Staffing Approaches

Staffing Approach	Strategic Appropriateness	Advantages	Disadvantages
Ethnocentric	International	Overcomes lack of qualified managers in host nation Unifies culture Helps transfer core competencies	Produces resentment in host country Can lead to cultural myopia
Polycentric	Localization	Alleviates cultural myopia Inexpensive to implement	Limits career mobility Isolates headquarters from foreign subsidiaries
Geocentric	Global standardization and transnational	Uses human resources efficiently Helps build strong culture and informal management networks	National immigration policies may limit implementation Expensive

While the staffing policies described here are well known and widely used among both practitioners and scholars of international businesses, some critics have claimed that the typology is too simplistic and that it obscures the internal differentiation of management practices within international businesses. The critics claim that within some international businesses, staffing policies vary significantly from national subsidiary to national subsidiary; while some are managed on an ethnocentric basis, others are managed in a polycentric or geocentric manner.[15] Other critics note that the staffing policy adopted by a firm is primarily driven by its geographic scope, as opposed to its strategic orientation. Firms that have a broad geographic scope are the most likely to have a geocentric mindset.[16]

LO 17-3
Explain why managers may fail to thrive in foreign postings.

EXPATRIATE MANAGERS

Two of the three staffing policies we have discussed—the ethnocentric and the geocentric—rely on extensive use of expatriate managers. As defined earlier, expatriates are citizens of one country who are working in another country. Sometimes the term *inpatriates* is used to identify a subset of expatriates who are citizens of a foreign country working in the home country of their multinational employer.[17] Thus, a citizen of Japan who moves to the United States to work at Microsoft would be classified as an inpatriate (Microsoft has large numbers of inpatriates working at its main U.S. location near Seattle). With an ethnocentric policy, the expatriates are all home-country nationals who are transferred abroad. With a geocentric approach, the expatriates need not be home-country nationals; the firm does not base transfer decisions on nationality. A prominent issue in the international staffing literature is **expatriate failure**—the premature return of an expatriate manager to his or her home country.[18] Here, we briefly review the evidence on expatriate failure before discussing a number of ways to minimize the failure rate.

expatriate failure
The premature return of an expatriate manager to the home country.

Expatriate Failure Rates

Expatriate failure represents a failure of the firm's selection policies to identify individuals who will not thrive abroad.[19] The consequences include premature return from a foreign posting and high resignation rates, with expatriates leaving their company at about twice the rate of domestic managers.[20] The costs of expatriate failure are high. One estimate is that the average cost per failure to the parent firm can be as high as three times the expatriate's annual domestic salary plus the cost of relocation (which is affected by currency exchange rates and location of assignment). Estimates of the costs of each failure run between $40,000 and $1 million.[21] In addition, approximately 30 to 50 percent of American expatriates, whose average annual compensation package runs to $250,000, stay at their international assignments but are considered ineffective or marginally effective by their firms.[22] In a seminal study undertaken in the 1980s, Rosalie Tung surveyed a number of U.S., European, and Japanese multinationals.[23] Her results, summarized in Table 17.2, show that 76 percent of U.S. multinationals experienced expatriate failure rates of 10 percent or more, and 7 percent experienced a failure rate of more than 20 percent. Tung's work also suggests that U.S.-based multinationals experience a much higher expatriate failure rate than either European or Japanese multinationals. However, more recent work suggests that Tung's widely quoted estimates may no longer hold. For example, a study of 136 large multinationals from four different countries undertaken in the late 2000s found that the rate of premature return of expatriate managers had dropped to 6.3 percent and that there was little difference between multinationals from different nations. The authors of this study suggest that multinationals have gotten much better at the selection and training of expatriates since Tung's study.[24]

Would You Send a Woman on an International Assignment?

Would you send a woman expatriate to Saudi Arabia, Japan, Korea, or Kuwait? How are Western women expatriates doing in foreign cultures that have traditionally limited women's public roles? In many cases, women sent to these countries have met with substantial success. Their key challenge is often simply to get the assignments! Once in place, women expatriates are usually successful. This is in part because once in the culture, women expatriates are seen first as expatriates who fall outside the local role for women. In addition, "expat" women also have salience in their new environment—they are noticed—and this can be a distinct business advantage. Locals often take pride in developing business relationships with women expatriates because by doing so, they can suggest that the foreign stereotype of their culture is superficial and incomplete. But cultural barriers still remain, with some cultures having restrictions on what women are allowed to do and not do in business settings and social life. With these lingering potential problems in some countries in the world, would you send a woman on an international assignment?

Recall Rate Percentage	Percentage of Companies
U.S. multinationals	
20–40%	7%
10–20	69
<10	24
European multinationals	
11–15%	3%
6–10	38
<5	59
Japanese multinationals	
11–19%	14%
6–10	10
<5	76

17.2 TABLE
Expatriate Failure Rates
Source: P. L. Tung, "Selection and Training Procedures of U.S., European, and Japanese Multinationals," California Management Review vol. 25, no. 1, 1982: 57–71.

Tung asked her sample of multinational managers to indicate reasons for expatriate failure. For U.S. multinationals, the reasons, in order of importance, were

1. Inability of spouse to adjust.
2. Manager's inability to adjust.
3. Other family problems.
4. Manager's personal or emotional maturity.
5. Inability to cope with larger overseas responsibilities.

Managers of European firms gave only one reason consistently to explain expatriate failure: the inability of the manager's spouse to adjust to a new environment. For the Japanese firms, the reasons for failure were

1. Inability to cope with larger overseas responsibilities.
2. Difficulties with new environment.
3. Personal or emotional problems.
4. Lack of technical competence.
5. Inability of spouse to adjust.

The most striking difference between these lists is that "inability of spouse to adjust" was the top reason for expatriate failure among U.S. and European multinationals but only the fifth reason among Japanese multinationals. Tung comments that this difference was not surprising, given the role and status to which Japanese society traditionally relegates the wife and the fact that most of the Japanese expatriate managers in the study were men.

Since Tung's study, a number of other studies have consistently confirmed that the inability of a spouse to adjust, the inability of the manager to adjust, or other family problems remain major reasons for continuing high levels of expatriate failure.[25] One study by International Orientation Resources, an HRM consulting firm, found that 60 percent of expatriate failures occur due to these three reasons.[26] Another study found that the most common reason for assignment failure is lack of partner (spouse) satisfaction, which was listed by 27 percent of

Which Country Do You Want to Go to?

The HSBC Expat Explorer Survey is an interesting way to better understand the friendliness of a country. The Expat Explorer Survey provides an overall ranking based on economics, experience, and raising children in the country (because expatriates are often younger professionals establishing their family lives while abroad). Singapore, Norway, New Zealand, Germany, Netherlands, Canada, and Australia are at the top today. Interestingly, of the 46 countries ranked, at the bottom of the ranking are Brazil, Peru, Argentina, and Egypt. Many rankings are based on how countries see foreign visitors, and visiting instead of staying to work in the country also has implications. According to the World Economic Forum's "friendliest countries" ranking, the attitude of the local population toward foreign visitors is the best in Iceland, New Zealand, Morocco, Macedonia, and Austria. The bottom five countries, from the ranking of 140 countries are Bolivia, Venezuela, Russia, Kuwait, and Latvia. Kuwait is at the bottom both for expats to work and visitors in general for tourism. If you can pick one country in the world to work in and also to visit as a visitor—not at the same time, naturally—which country would it be?

Sources: Davis, C., "The World's Friendliest Countries to Foreigners, According to the World Economic Forum," *The Huffington Post*, April 9, 2013; Blanke, J., and Chiesa, T., *The Travel and Tourism Competitiveness Report 2013*, World Economic Forum; and HSBC Expat Explorer Survey, www.expatexplorer.hsbc.com.

respondents.[27] The inability of expatriate managers to adjust to foreign postings seems to be caused by a lack of cultural skills on the part of the manager being transferred. According to one HRM consulting firm, this is because the expatriate selection process at many firms is fundamentally flawed: "Expatriate assignments rarely fail because the person cannot accommodate to the technical demands of the job. Typically, the expatriate selections are made by line managers based on technical competence. They fail because of family and personal issues and lack of cultural skills that haven't been part of the selection process."[28]

The failure of spouses to adjust to a foreign posting seems to be related to a number of factors. Often, spouses find themselves in a foreign country without the familiar network of family and friends. Language differences make it difficult for them to make new friends. While this may not be a problem for the manager, who can make friends at work, it can be difficult for the spouse, who might feel trapped at home. The problem is often exacerbated by immigration regulations prohibiting the spouse from taking employment. With the recent rise of two-career families in many developed nations, this issue has become much more important. One survey found that 69 percent of expatriates are married, with spouses accompanying them 77 percent of the time. Of those spouses, half were employed before an assignment and only 12 percent were employed during an assignment.[29] Research suggests that the main reason managers now turn down international assignments is concern over the impact such an assignment might have on their spouse's career.[30]

Expatriate Selection One way to reduce expatriate failure rates is by improving selection procedures to screen out inappropriate candidates. In a review of the research on this issue, Mendenhall and Oddou state that a major problem in many firms is that HRM managers tend to equate domestic performance with overseas performance potential.[31] Domestic performance and overseas performance potential are *not* the same thing. An executive who performs well in a domestic setting may not be able to adapt to managing in a different cultural setting. From their review of the research, Mendenhall and Oddou identified four dimensions that seem to predict success in a foreign posting: self-orientation, others-orientation, perceptual ability, and cultural toughness.

1. *Self-orientation.* The attributes of this dimension strengthen the expatriate's self-esteem, self-confidence, and mental well-being. Expatriates with high self-esteem, self-confidence, and mental well-being were more likely to succeed in foreign postings. Mendenhall and Oddou concluded that such individuals were able to adapt their interests in food, sport, and music; had interests outside of work that could be pursued (e.g., hobbies); and were technically competent.
2. *Others-orientation.* The attributes of this dimension enhance the expatriate's ability to interact effectively with host-country nationals. The more effectively the expatriate interacts with host-country nationals, the more likely he or she is to succeed. Two factors seem to be particularly important here: relationship development and willingness to communicate. Relationship development refers to the ability to develop long-lasting friendships with host-country nationals. Willingness to communicate refers to the expatriate's willingness to use the host-country language. Although language fluency helps, an expatriate need not be fluent to show willingness to communicate. Making the effort to use the language is what is important. Such gestures tend to be rewarded with greater cooperation by host-country nationals.
3. *Perceptual ability.* This is the ability to understand why people of other countries behave the way they do—that is, the ability to empathize. This dimension seems critical for managing host-country nationals. Expatriate managers who lack this ability tend to treat foreign nationals as if they were home-country nationals. As a result, they may experience significant management problems and considerable frustration. As one expatriate executive from Hewlett-Packard observed, as reported by in the Mendenhall and Oddou study: "It took me six months to accept the fact that my staff meetings would start 30 minutes late, and that it would bother no one but me." According to Mendenhall and Oddou, well-adjusted expatriates tend to be nonjudgmental and nonevaluative in interpreting the behavior of host-country nationals and willing to be flexible in their management style, adjusting it as cultural conditions warrant.

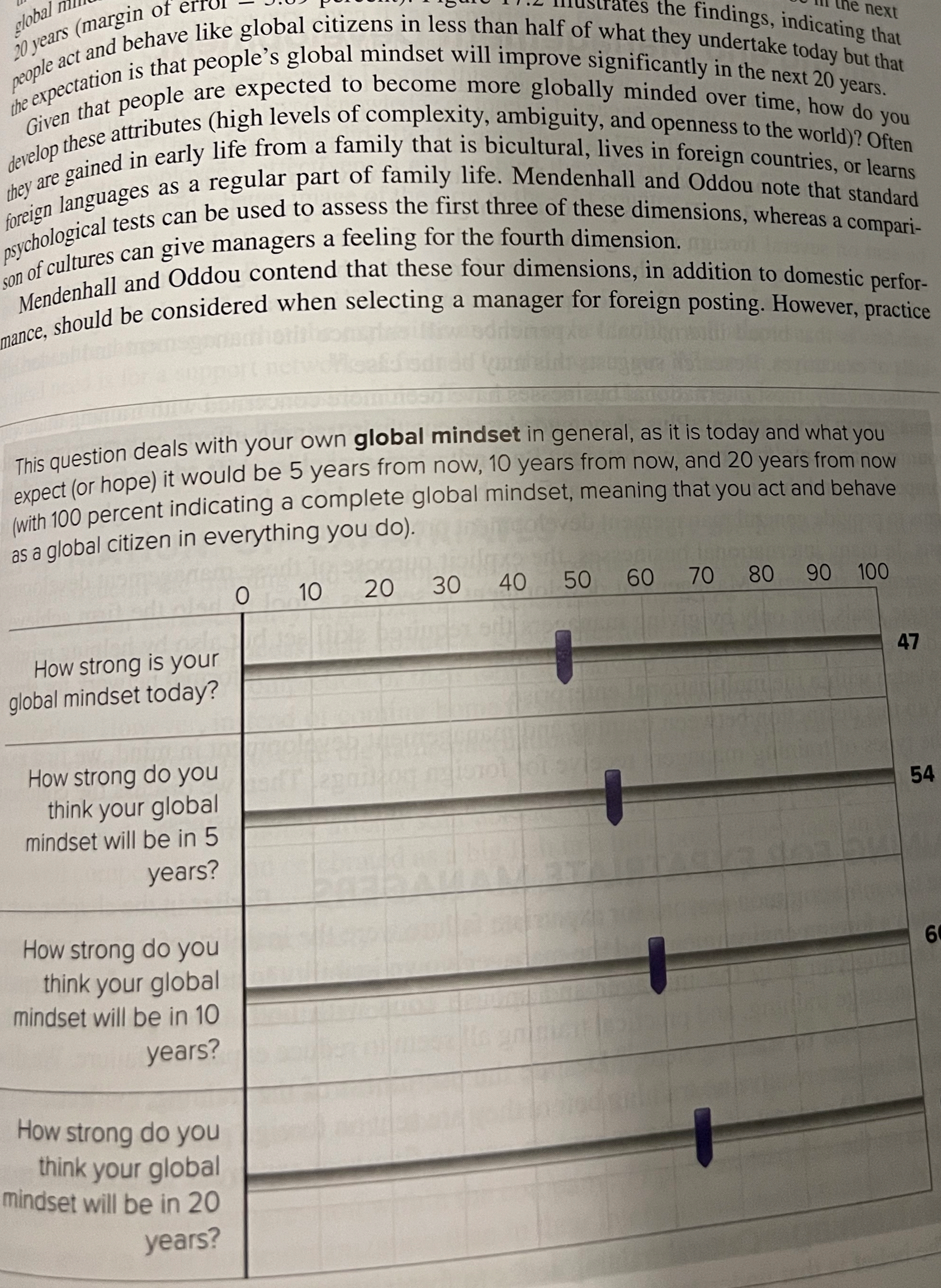
4. *Cultural toughness.* This dimension refers to the relationship between the country of assignment and how well an expatriate adjusts to a particular posting. Some countries are much tougher postings than others because their cultures are more unfamiliar and uncomfortable. For example, many Americans regard Great Britain as a relatively easy foreign posting and for good reason—the two cultures have much in common. But many Americans find postings in non-Western cultures, such as India, Southeast Asia, and the Middle East, to be much tougher.[32] The reasons are many, including poor health care and housing standards, inhospitable climate, lack of Western entertainment, and language difficulties. Also, many cultures are extremely male-dominated and may be particularly difficult postings for female Western managers.

GLOBAL MINDSET Some researchers suggest that a global mindset, one characterized by cognitive complexity and a cosmopolitan outlook, is the fundamental attribute of a global manager. Such managers can deal with high levels of complexity and ambiguity, and are open to the world. In a study of 615 people in the United States in March 2015 for this textbook, people's global mindset was assessed as it is today and what they hope or predict it would be in the next 20 years (margin of error = 3.89 percent). Figure 17.2 illustrates the findings, indicating that people act and behave like global citizens in less than half of what they undertake today but that the expectation is that people's global mindset will improve significantly in the next 20 years.

Given that people are expected to become more globally minded over time, how do you develop these attributes (high levels of complexity, ambiguity, and openness to the world)? Often they are gained in early life from a family that is bicultural, lives in foreign countries, or learns foreign languages as a regular part of family life. Mendenhall and Oddou note that standard psychological tests can be used to assess the first three of these dimensions, whereas a comparison of cultures can give managers a feeling for the fourth dimension.

Mendenhall and Oddou contend that these four dimensions, in addition to domestic performance, should be considered when selecting a manager for foreign posting. However, practice

17.2 FIGURE
Global mindset of Americans.



does not often conform to the authors' recommendations. Tung's research, for example, showed that only 5 percent of the firms in her sample used formal procedures and psychological tests to assess the personality traits and relational abilities of potential expatriates.[33] Research by International Orientation Resources suggests that when selecting employees for foreign assignments, only 10 percent of the 50 *Fortune* 500 firms surveyed tested for important psychological traits such as cultural sensitivity, interpersonal skills, adaptability, and flexibility. Instead, 90 percent of the time employees were selected on the basis of their technical expertise, not their cross-cultural fluency.[34]

Mendenhall and Oddou do not address the problem of expatriate failure due to a spouse's inability to adjust. According to a number of other researchers, a review of the family situation should be part of the expatriate selection process (see the opening case on Royal Dutch Shell for an example).[35] A survey by Windam International, another international HRM consulting firm, found that spouses were included in preselection interviews for foreign postings only 21 percent of the time and that only half of them received any cross-cultural training. The rise of dual-career families has added an additional and difficult dimension to this long-standing problem.[36] Increasingly, spouses wonder why they should have to sacrifice their own career to further that of their partner.[37]

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LO 17-4

Recognize how management development and training programs can increase the value of human capital in the international business firm.

Training and Management Development

Selection is just the first step in matching a manager with a job. The next step is training the manager to do the specific job. For example, an intensive training program might be used to give expatriate managers the skills required for success in a foreign posting. However, management development is a much broader concept. It is intended to develop the manager's skills over his or her career with the firm. Thus, as part of a management development program, a manager might be sent on several foreign postings over a number of years to build his or her cross-cultural sensitivity and experience. At the same time, along with other managers in the firm, the person might attend management education programs at regular intervals. The thinking behind job transfers is that broad international experience will enhance the management and leadership skills of executives. Research suggests this may be the case.[38]

Historically, most international businesses have been more concerned with training than with management development. Plus, they tended to focus their training efforts on preparing home-country nationals for foreign postings. Recently, however, the shift toward greater global competition and the rise of transnational firms have changed this. It is increasingly common for firms to provide general management development programs in addition to training for particular posts. In many international businesses, the explicit purpose of these management development programs is strategic. Management development is seen as a tool to help the firm achieve its strategic goals, not only by giving managers the required skill set but also by helping reinforce the desired culture of the firm and by facilitating the creation of an informal network for sharing knowledge within the multinational enterprise.

With this distinction between training and management development in mind, we first examine the types of training managers receive for foreign postings. Then we discuss the connection between management development and strategy in the international business.

TRAINING FOR EXPATRIATE MANAGERS

Earlier in the chapter, we saw that the two most common reasons for expatriate failure were the inability of a manager's spouse to adjust to a foreign environment and the manager's own inability to adjust to a foreign environment. Training can help the manager and spouse cope with both these problems. Cultural training, language training, and practical training all seem to reduce expatriate failure. We discuss each of these kinds of training here.[39] Despite the usefulness of the training, evidence suggests that many managers receive no training before they are sent on foreign postings. One study found that only about 30 percent of managers sent on one- to five-year expatriate assignments received training before their departure.[40]

Cultural Training

Cultural training seeks to foster an appreciation for the host country's culture. The belief is that understanding a host country's culture will help the manager empathize

with the culture, which will enhance his or her effectiveness in dealing with host-country nationals. It has been suggested that expatriates should receive training in the host country's culture, history, politics, economy, religion, and social and business practices.[41] If possible, it is also advisable to arrange for a familiarization trip to the host country before the formal transfer, because this seems to ease culture shock. Given the problems related to spouse adaptation, it is important that the spouse, and perhaps the whole family, be included in cultural training programs.



Chairman of China's Lenovo Group Ltd., Yang Yuanqing (left), shakes hands with CEO Steve Ward (right), as the nonexecutive director, Li Chuanzhi (center), smiles after a press conference in Hong Kong.

©Vincent Yu/AP Images

Language Training English is the language of world business; it is quite possible to conduct business all over the world using only English. Notwithstanding the prevalence of English, however, an exclusive reliance on English diminishes an expatriate manager's ability to interact with host-country nationals. As noted earlier, a willingness to communicate in the language of the host country, even if the expatriate is far from fluent, can help build rapport with local employees and improve the manager's effectiveness. Despite this, one study of 74 executives of U.S. multinationals found that only 23 believed knowledge of foreign languages was necessary for conducting business abroad.[42] Those firms that did offer foreign language training for expatriates believed it improved their employees' effectiveness and enabled them to relate more easily to a foreign culture, which fostered a better image of the firm in the host country.

Practical Training Practical training is aimed at helping the expatriate manager and family ease themselves into day-to-day life in the host country. The sooner a routine is established, the better are the prospects that the expatriate and his or her family will adapt successfully. One critical need is for a support network of friends for the expatriate. Where an expatriate community exists, firms often devote considerable effort to ensuring the new expatriate family is quickly integrated into that group. The expatriate community can be a useful source of support and information and can be invaluable in helping the family adapt to a foreign culture.

REPATRIATION OF EXPATRIATES

A largely overlooked but critically important issue in the training and development of expatriate managers is to prepare them for reentry into their home-country organization.[43] Repatriation should be seen as the final link in an integrated, circular process that connects good selection and cross-cultural training of expatriate managers with completion of their term abroad and reintegration into their national organization. However, instead of coming home to share their knowledge and encourage other high-performing managers to take the same international career track, expatriates too often face a different scenario.[44]

Often when they return home after a stint abroad—where they have typically been autonomous, well compensated, and celebrated as a big fish in a little pond—they face an organization that doesn't know what they have done for the past few years, doesn't know how to use their new knowledge, and doesn't particularly care. In the worst cases, reentering employees have to scrounge for jobs, or firms will create standby positions that don't use the expatriate's skills and capabilities and fail to make the most of the business investment the firm has made in that individual.

Research illustrates the extent of this problem. According to one study of repatriated employees, 60 to 70 percent didn't know what their position would be when they returned home. Also, 60 percent said their organizations were vague about repatriation, about their new roles, and about their future career progression within the company; 77 percent of those surveyed took jobs at a lower level in their home organization than in their international assignments.[45] Not surprisingly, 15 percent of returning expatriates leave their firms within a year of arriving home, and 40 percent leave within three years.[46]

management FOCUS

Monsanto's Repatriation Program

Monsanto is a global provider of agricultural products with some 22,000 employees and about $15 billion in sales. At any one time, the company will have 100 mid- and higher-level managers on extended postings abroad. Two-thirds of these are Americans posted overseas; the remainder are foreign nationals employed in the United States. At Monsanto, managing expatriates and their repatriation begins with a rigorous selection process and intensive cross-cultural training, both for the managers and for their families. As is the case at many other global companies, the idea is to build an internationally minded cadre of highly capable managers who will lead the organization in the future.

One of the strongest features of this program is that employees and their sending and receiving managers, or sponsors, develop an agreement about how this assignment will fit into the firm's business objectives. The focus is on why employees are going abroad to do the job and what their contribution to Monsanto will be when they return. Sponsoring managers are expected to be explicit about the kind of job opportunities the expatriates will have once they return home.

Once they arrive back in their home country, expatriate managers meet with cross-cultural trainers during debriefing sessions. They are also given the opportunity to showcase their experiences to their peers, subordinates, and superiors in special information exchanges.

However, Monsanto's repatriation program focuses on more than just business; it also attends to the family's reentry. Monsanto has found that difficulties with repatriation often have more to do with personal and family-related issues than with work-related issues. But the personal matters obviously affect an employee's on-the-job performance, so it is important for the company to pay attention to such issues.

This is why Monsanto offers returning employees an opportunity to work through personal difficulties. About three months after they return home, expatriates meet for three hours at work with several colleagues of their choice. The debriefing session is a conversation aided by a trained facilitator who has an outline to help the expatriate cover all the important aspects of the repatriation. The debriefing allows the employee to share important experiences and to enlighten managers, colleagues, and friends about his or her expertise so others within the organization can use some of the global knowledge. According to one participant, "It sounds silly, but it's such a hectic time in the family's life, you don't have time to sit down and take stock of what's happening. You're going through the move, transitioning to a new job, a new house, and the children may be going to a new school. This is a kind of oasis; a time to talk and put your feelings on the table." Apparently it works; since the program was introduced, the attrition rate among returning expatriates has dropped sharply.

Sources: A. Walton, "Who Says Monsanto Roundup Ingredient Is Probably Carcinogenic. Are They Right," *Forbes*, March 21, 2015; C. M. Solomon, "Repatriation: Up, Down, or Out?" *Personnel Journal*, January 1995, pp. 28–34; and J. Schaefer, E. Hannibal, and J. O'Neill, "How Strategy, Culture and Improved Service Delivery Reshape Monsanto's International Assignment Program," *Journal of Organizational Excellence* 22, no. 3 (2003), pp. 35–40.

The key to solving this problem is good human resource planning. Just as the HRM function needs to develop good selection and training programs for its expatriates, it also needs to develop good programs for reintegrating expatriates back into work life within their home-country organization, for preparing them for changes in their physical and professional landscape, and for utilizing the knowledge they acquired while abroad. For an example of the kind of program that might be used, see the accompanying Management Focus that looks at the repatriation program developed by Monsanto.

MANAGEMENT DEVELOPMENT AND STRATEGY

Management development programs are designed to increase the overall skill levels of managers through a mix of ongoing management education and rotations of managers through a number of jobs within the firm to give them varied experiences. They are attempts to improve the overall productivity and quality of the firm's management resources.

International businesses are increasingly using management development as a strategic tool. This is particularly true in firms pursuing a transnational strategy, as increasing numbers are. Such firms need a strong unifying corporate culture and informal management networks to assist in coordination and control. In addition, transnational firm managers need to be able to detect pressures for local responsiveness—and that requires them to understand the culture of a host country.

Management development programs help build a unifying corporate culture by socializing new managers into the norms and value systems of the firm. In-house company training programs and intense interaction during offsite training can foster esprit de corps—shared experiences, informal networks, perhaps a company language or jargon—as well as develop technical competencies. These training events often include songs, picnics, and sporting events

that promote feelings of togetherness. These rites of integration may include "initiation rites" wherein personal culture is stripped, company uniforms are donned (e.g., T-shirts bearing the company logo), and humiliation is inflicted (e.g., a pie in the face). All these activities aim to strengthen a manager's identification with the company.[47]

Bringing managers together in one location for extended periods and rotating them through different jobs in several countries help the firm build an informal management network. Such a network can then be used as a conduit for exchanging valuable performance-enhancing knowledge within the organization.[48] Consider the Swedish telecommunications company Ericsson. Interunit cooperation is extremely important at Ericsson, particularly for transferring know-how and core competencies from the parent to foreign subsidiaries, from foreign subsidiaries to the parent, and between foreign subsidiaries. To facilitate cooperation, Ericsson transfers large numbers of people back and forth between headquarters and subsidiaries. Ericsson sends a team of 50 to 100 engineers and managers from one unit to another for a year or two. This establishes a network of interpersonal contacts. This policy is effective for both solidifying a common culture in the company and coordinating the company's globally dispersed operations.[49]

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Performance Appraisal

LO 17-5

Explain how and why performance appraisal systems might vary across nations.

Performance appraisal systems are used to evaluate the performance of managers against some criteria that the firm judges to be important for the implementation of strategy and the attainment of a competitive advantage. A firm's performance appraisal systems are an important element of its control systems, and control systems are a central component of organizational architecture. A particularly thorny issue in many international businesses is how best to evaluate the performance of expatriate managers.[50] This section looks at this issue and considers guidelines for appraising expatriate performance.

PERFORMANCE APPRAISAL PROBLEMS

Unintentional bias makes it difficult to evaluate the performance of expatriate managers objectively. In many cases, two groups evaluate the performance of expatriate managers—host-nation managers and home-office managers—and both are subject to bias. The host-nation managers may be biased by their own cultural frame of reference and expectations. For example, Oddou and Mendenhall report the case of a U.S. manager who introduced participative decision making while working in an Indian subsidiary.[51] The manager subsequently received a negative evaluation from host-country managers because in India, the strong social stratification means managers are seen as experts who should not have to ask subordinates for help. The local employees apparently viewed the U.S. manager's attempt at participatory management as an indication that he was incompetent and did not know his job.

Home-country managers' appraisals may be biased by distance and by their own lack of experience working abroad. Home-office managers are often not aware of what is going on in a foreign operation. Accordingly, they tend to rely on hard data in evaluating an expatriate's performance, such as the subunit's productivity, profitability, or market share. Such criteria may reflect factors outside the expatriate manager's control (e.g., adverse changes in exchange rates, economic downturns). Also, hard data do not take into account many less visible soft variables that are also important, such as an expatriate's ability to develop cross-cultural awareness and to work productively with local managers. Due to such biases, many expatriate managers believe that headquarters management evaluates them unfairly and does not fully appreciate the value of their skills and experience. This could be one reason many expatriates believe a foreign posting does not benefit their careers. In one study of personnel managers in U.S. multinationals, 56 percent of the managers surveyed stated that a foreign assignment is either detrimental or immaterial to one's career.[52]

GUIDELINES FOR PERFORMANCE APPRAISAL

Several things can reduce bias in the performance appraisal process.[53] First, most expatriates appear to believe more weight should be given to an onsite manager's appraisal than to an offsite manager's appraisal. Due to proximity, an onsite manager is more likely to evaluate the soft variables that are

important aspects of an expatriate's performance. The evaluation may be especially valid when the onsite manager is of the same nationality as the expatriate because cultural bias should be alleviated. In practice, home-office managers often write performance evaluations after receiving input from onsite managers. When this is the case, most experts recommend that a former expatriate who served in the same location should be involved in the appraisal to help reduce bias. Finally, when the policy is for foreign onsite managers to write performance evaluations, home-office managers should be consulted before an onsite manager completes a formal termination evaluation. This gives the home-office manager the opportunity to balance what could be a very hostile evaluation based on a cultural misunderstanding.

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Compensation

LO 17-6

Understand how and why compensation systems might vary across nations.

Two issues are raised in every discussion of compensation practices in an international business. One is how compensation should be adjusted to reflect national differences in economic circumstances and compensation practices (see Shell in the opening case). The other issue is how expatriate managers should be paid. From a strategic perspective, the important point is that whatever compensation system is used, it should reward managers for taking actions that are consistent with the strategy of the enterprise.

NATIONAL DIFFERENCES IN COMPENSATION

Differences exist in the compensation of executives at the same level in various countries. The results of a survey undertaken by Towers Watson, for example, suggest that U.S. CEOs earn, on average, roughly double the pay of non-U.S. CEOs.[54]

National differences in compensation raise a perplexing question for an international business: Should the firm pay executives in different countries according to the prevailing standards in each country, or should it equalize pay on a global basis? The problem does not arise in firms pursuing ethnocentric or polycentric staffing policies. In ethnocentric firms, the issue can be reduced to that of how much home-country expatriates should be paid (which we consider later). As for polycentric firms, the lack of managers' mobility among national operations implies that pay can and should be kept country-specific. There would seem to be no point in paying executives in Great Britain the same as U.S. executives if they never work side by side.

However, this problem is very real in firms with geocentric staffing policies. A geocentric staffing policy is consistent with a transnational strategy. One aspect of this policy is the need for a cadre of international managers that may include many different nationalities. Should all members of such a cadre be paid the same salary and the same incentive pay? For a U.S.-based firm, this would mean raising the compensation of foreign nationals to U.S. levels, which could be expensive. If the firm does not equalize pay, it could cause considerable resentment among foreign nationals who are members of the international cadre and work with U.S. nationals. If a firm is serious about building an international cadre, it may have to pay its international executives the same basic salary irrespective of their country of origin or assignment. Currently, however, this practice is not widespread.

Over the past decade many firms have moved toward a compensation structure that is based on consistent global standards, with employees being evaluated by the same grading system and having access to the same bonus pay and benefits structure irrespective of where they work. Some 85 percent of the companies in a survey by Mercer Management Consulting stated they now have a global compensation strategy in place.[55] McDonald's, which is featured in the accompanying Management Focus, is one such enterprise. Another survey found that two-thirds of multinationals now exercise central control over the benefit plans offered in different nations.[56] However, except for a relative small cadre of internationally mobile executives, base pay in most firms is set with regard to local market conditions.

EXPATRIATE PAY

The most common approach to expatriate pay is the balance sheet approach. According to Organizational Resources Counselors, some 80 percent of the 781 companies it surveyed used this approach.[57] This approach equalizes purchasing power across countries so employees can enjoy the same living standard in their foreign posting that they enjoyed at home. In addition, the approach provides financial incentives to offset qualitative

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McDonald's Global Compensation Practices

With more than 400,000 managers and senior staff employees in 118 countries around the world, by the early 2000s McDonald's realized it had to develop a consistent global compensation and performance appraisal strategy. As with many companies that have expanded to many corners of the world, McDonald's found itself with a decentralized and inconsistent compensation program. Many reasons existed for this new global HR compensation strategy. Foremost among them was that McDonald's executive of worldwide human resources, Rich Floersch, pointed to a need to have a consistent global HR strategy to attract and retain better people. After months of consultation with global managers to ensure that any new system was formed via a collaborative approach, McDonald's began to roll out its new global compensation program.

One important element of this program calls for the corporate head office to provide local-country managers with a menu of business principles to focus on in the coming year. These principles include areas such as customer service, marketing, and restaurant re-imaging. Each country manager then picks three to five areas to focus on for success in the local market. For example, if France is introducing a new menu item, it might create business targets around that for the year. Human resource managers then submit their business cases and targets to senior executives at headquarters for approval. At the end of the year, the country's annual incentive pool is based on how the region met its targets, as well as on the business unit's operating income. A portion of an individual employee's annual bonus is based on that mix.

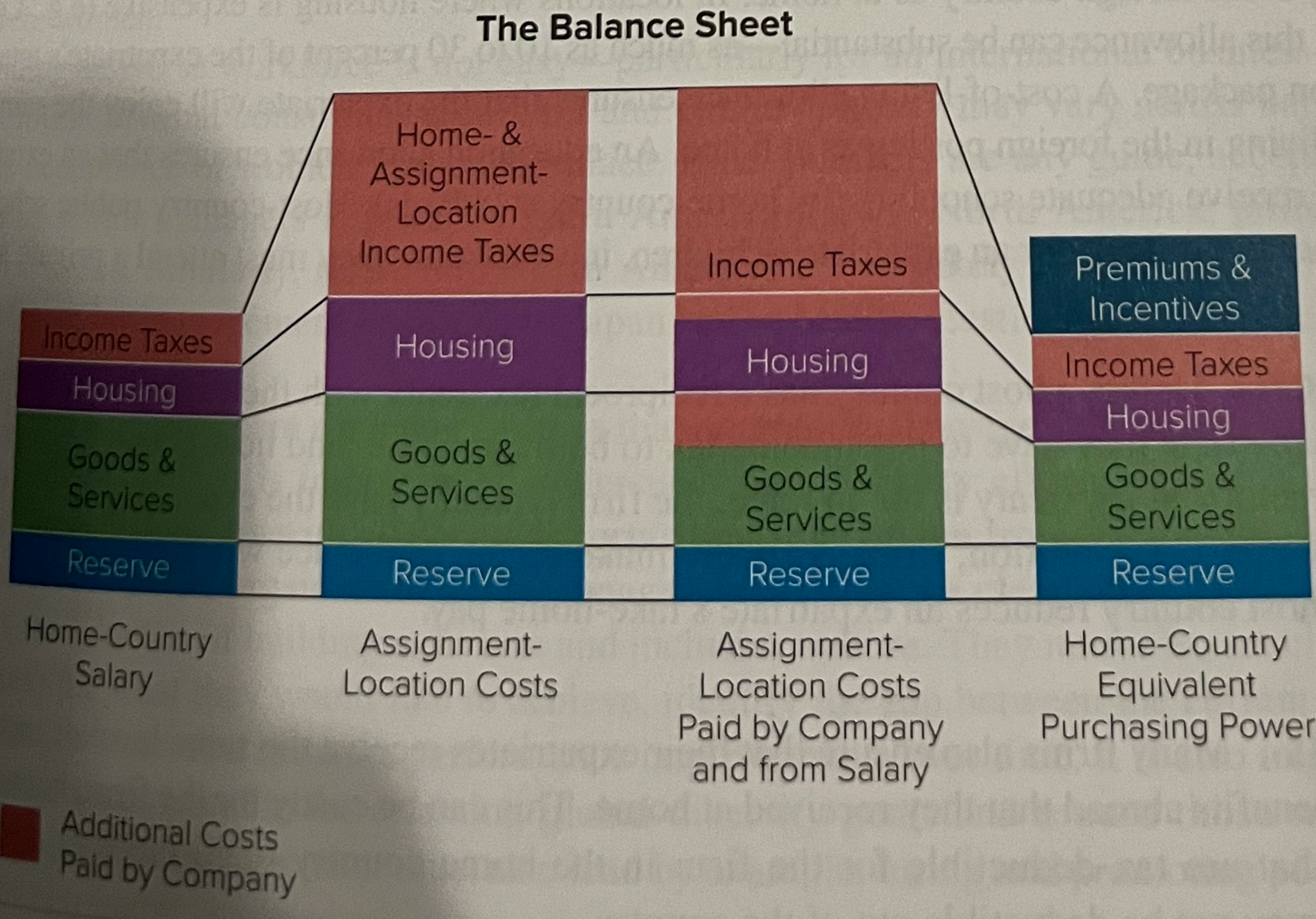
The other portion of an employee's annual incentive is based on individual performance. McDonald's has always had a performance rating system, but within its new HR management strategy, the company has now introduced global guidelines that suggest 20 percent of employees receive the highest rating, 70 percent the middle, and 10 percent the bottom. By giving guidelines rather than forced ranking, McDonald's hopes to encourage differentiation of performance while allowing for some local flexibility. Also, by providing principles and guidance, and yet allowing local-country managers to customize their compensation programs to meet local market demands, McDonald's also claims it has seen a reduction in turnover. The company's own internal surveys suggest more employees now believe that their compensation is fair and reflects local market conditions. Overall, "McDonald's benefits and compensation program is designed to attract, retain and engage talented people who will deliver strong performance and help McDonald's achieve our business goals and objectives."

Sources: Marquez, J., "McDonald's Rewards Program Leaves Room for Some Local Flavor," *Workforce Management*, April 10, 2006, 26; Zillman, C., "McDonald's Loses Big on Labor Ruling," *Forbes*, July 29, 2014; "McDonald's Corporate Careers," http://careers.mcdonalds.com/corporate/benefits.jsp, accessed May 9, 2018; and Black, V., "How I Got Here: Rich Floersch of McDonald's," *Bloomberg Business*, August 14, 2012.

differences between assignment locations.[58] Figure 17.3 shows a typical balance sheet. Note that home-country outlays for the employee are designated as income taxes, housing expenses, expenditures for goods and services (food, clothing, entertainment, etc.), and reserves (savings, pension contributions, etc.). The balance sheet approach attempts to provide expatriates with the same standard of living in their host countries as they enjoy at home plus a financial inducement (i.e., premium, incentive) for accepting an overseas assignment.

FIGURE 17.3

The balance sheet approach to expatriate pay.



Where Would You Go to Find Expat Resources?

Not so many years ago, business professionals whose companies sent them overseas to work had few outside resources to help them become acclimated to their new status as expatriates. Today, however, a wealth of information is available. For example, a simple keyword search online for "expatriate" yields an almost endless supply of links: newspapers and magazines published exclusively for expats; websites catering to expatriates in specific regions or countries; general information sites offering insiders' guides to different countries and their finance, culture, and health care systems; not to mention blogs and chat rooms, forums and groups. The expatriate boom has even fueled an industry offering a broad array of services for expats, from mail forwarding to tax preparation to health and life insurance. One example is globalEDGE™'s section on "Travel/Living Abroad" (https://globaledge.msu.edu/global-resources/travel-living-abroad). While often good, the examples in this short write-up are all online, removed from the country itself. How much would you trust online information and data as the only source for "getting to know" the new country you have just signed on to spend three years in as an expat?

The components of the typical expatriate compensation package are a base salary, a foreign service premium, allowances of various types, tax differentials, and benefits. We briefly review each of these components.[59] An expatriate's total compensation package may amount to three times what he or she would cost the firm in a home-country posting. Because of the high cost of expatriates, many firms have reduced their use of them in recent years. However, a firm's ability to reduce its use of expatriates may be limited, particularly if it is pursuing an ethnocentric or geocentric staffing policy.

Base Salary An expatriate's base salary should normally be in the same range as the base salary for a similar position in the home country. At the same time, while an expatriate may have a base salary that he or she would have in their home country, foreign nationals in these expatriate locations do not necessarily get the same salary levels. Oftentimes, developed nations (e.g., Germany, the United States) offer higher base salaries than comparable jobs and positions in the company in other, developing or less developed, countries. The base salary is normally paid in either the home-country currency or in the local currency.

Foreign Service Premium A foreign service premium is extra pay the expatriate receives for working outside his or her country of origin. It is offered as an inducement to accept foreign postings. It compensates the expatriate for having to live in an unfamiliar country isolated from family and friends, having to deal with a new culture and language, and having to adapt to new work habits and practices. Many firms pay foreign service premiums as a percentage of base salary, ranging from 10 to 30 percent after tax, with 16 percent being the average premium.[60]

Allowances Four types of allowances are often included in an expatriate's compensation package: hardship, housing, cost of living, and education. A hardship allowance is paid when the expatriate is being sent to a difficult location, usually defined as one where such basic amenities as health care, schools, and retail stores are grossly deficient by the standards of the expatriate's home country. A housing allowance is normally given to ensure that the expatriate can afford the same quality of housing in the foreign country as at home. In locations where housing is expensive (e.g., London, Tokyo), this allowance can be substantial—as much as 10 to 30 percent of the expatriate's total compensation package. A cost-of-living allowance ensures that the expatriate will enjoy the same standard of living in the foreign posting as at home. An education allowance ensures that an expatriate's children receive adequate schooling (by home-country standards). Host-country public schools are sometimes not suitable for an expatriate's children, in which case they must attend a private school.

Taxation Unless a host country has a reciprocal tax treaty with the expatriate's home country, the expatriate may have to pay income tax to both the home- and host-country governments. When a reciprocal tax treaty is not in force, the firm typically pays the expatriate's income tax in the host country. In addition, firms normally make up the difference when a higher income tax rate in a host country reduces an expatriate's take-home pay.

Benefits Many firms also ensure that their expatriates receive the same level of medical and pension benefits abroad that they received at home. This can be costly for the firm, because many benefits that are tax-deductible for the firm in the home country (e.g., medical and pension benefits) may not be deductible out of the country.

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Building a Diverse Global Workforce

A diverse global workforce can be a source of competitive advantage. A diverse workforce is one that has a significant mix of both genders and in which cultural and ethnic minorities are well represented. Workforce diversity has been linked to superior financial performance. One study by McKinsey and Company found that companies in the top quartile of gender and ethnic diversity were 35 percent more likely to have financial returns above their national industry median. Another study concluded that companies with the strongest record of promoting women to the executive suite outperformed their industry norms, with return on assets 18 percent higher.[61]

There are a number of reasons for thinking that a diverse workforce will improve performance.[62] First, diverse talents bring insights into the needs of a diverse customer base that (for example) a homogenous management group composed exclusively of white males cannot. Due to their different perspective and life experiences, women and minorities may see things that white males don't. People with different lifestyles and different backgrounds challenge each other more, which can lead to creative insights. This can result in improved problem solving, better product design and delivery, more effective marketing, and better sales promotions. Second, an enterprise with a homogenous employee base is underutilizing the talent to be found among women and minorities. Its human capital will not be a strong as it could be, and performance will suffer as a result. Third, when the customer set is diverse (as is often the case for many global businesses), those customers may appreciate interacting with an enterprise whose employees look like them, and therefore, have a better understanding of their needs, tastes, and preference. Fourth, a diverse workforce may improve the brand image of an enterprise, setting up a virtuous circle where it does better among its customer set and is more able to attract top talent from among women and minorities. Finally, there is evidence that diversity increases employee satisfaction, which results in higher productivity, so long as the workforce is diverse enough.[63] For minority workers, the boost in satisfaction kicks in when representation exceeds 15 percent of the workforce. In contrast, when diversity recruitment is a token effort, psychological outcomes are poorer.

The available evidence suggests that many companies still have a long way to go when it comes to promoting diversity. For example, the consulting company Mercer looked at gender diversity among 164 companies from 28 different countries.[64] It found that women continue to be underrepresented at all levels in the labor force worldwide. Fewer women participate in the global labor force, and women make up a small percentage of senior management positions in most organizations. For example, the study found that in 2014, only 24 percent of senior executives in North America were women, 18 percent in Europe, and just 12 percent in Latin America. The imbalance between men and women also tends to get larger the higher up in an organization one goes. For the average global organization, Mercer found that while 36 percent of lower-level managers were women, only 26 percent of senior managers and 19 percent of company executives were women.

Building a diverse workforce is not easy—particularly for an international business—since the definition of what constitutes a cultural and ethnic minority may vary across nations, as may the acceptance of women in the workplace. If the numbers are any guide, acceptance of women as senior managers is lower in Latin America than in North America, probably for cultural reasons. Similarly, relative to North America, it is unlikely that there will be many women in senior management positions in Japan or the Middle East, where traditional values are emphasized.

This being said, there are a number of steps that international businesses can take to promote workforce diversity.[65] It is important to understand that diversity efforts represent a type of organizational change. As with all change efforts, it must be driven from the top but also incorporate all levels of the organization. Top managers must create a clear value proposition that identifies the benefits of building a diverse and inclusive culture. They must also set clear goals (not quotas) for what they would like to achieve, identify the gap between the current situation and the desired state, and measure performance improvements over time. It is also important to hold managers accountable for attaining global diversity goals and reward those who hit or exceed goals. Senior management must also lead by example, hiring and promoting people from diverse backgrounds.

Diversity workshops can be used to educate employees at all levels about the value of building a more inclusive and diverse workforce. A key task here is to overcome the subconscious biases and stereotyping of the majority that may lead to discrimination against minority employees. Techniques include (1) role playing, where members of the majority get to experience bias personally; (2) reminding people about biases at key moments, such as just before performance reviews; and (3) helping people to focus on differences to reduce stereotyping. In one experiment, French students discriminated against potential employees who were Arabs but stopped doing so if asked to describe the differences between photos. The act of articulating differences made the students aware of their own subconscious biases.

Outreach to women and minorities can help to increase recruitment from these demographics. Adjusting work policies can help to foster a more diverse workforce (e.g., having child care facilities on site can make a company more attractive to women). Several companies have also found that it helps to create employee reference groups where minorities can help each other through networking, advice, and mutual support.

LO 17-7
Understand how organized labor can influence strategic choices in international business firms.

International Labor Relations

The HRM function of an international business is typically responsible for international labor relations. From a strategic perspective, the key issue in international labor relations is the degree to which organized labor can limit the choices of an international business. A firm's ability to integrate and consolidate its global operations to realize experience curve and location economies can be limited by organized labor, constraining the pursuit of a transnational or global standardization strategy. Prahalad and Doz cite the example of General Motors, which gained peace with labor unions in Germany by agreeing not to integrate and consolidate operations in the most efficient manner.[66] General Motors made substantial investments in Germany—matching its new investments in Austria and Spain—at the demand of the German metalworkers' unions.

One task of the HRM function is to foster harmony and minimize conflict between the firm and organized labor. With this in mind, this section is divided into three parts. First, we review organized labor's concerns about multinational enterprises. Second, we look at how organized labor has tried to deal with these concerns. And third, we look at how international businesses manage their labor relations to minimize labor disputes.

THE CONCERNS OF ORGANIZED LABOR

Labor unions generally try to get better pay, greater job security, and better working conditions for their members through collective bargaining with management. Unions' bargaining power is derived largely from their ability to threaten to disrupt production, either by a strike or some other form of work protest (e.g., refusing to work overtime). This threat is credible, however, only insofar as management has no alternative but to employ union labor.



Employees work on the chassis of an Adam Opel AG car at a GM factory in Eisenach, Germany.

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A principal concern of domestic unions about multinational firms is that the company can counter its bargaining power with the power to move production to another country. Ford, for example, clearly threatened British unions with a plan to move manufacturing to continental Europe unless British workers abandoned work rules that limited productivity, showed restraint in negotiating for wage increases, and curtailed strikes and other work disruptions.[67]

Another concern of organized labor is that an international business will keep highly skilled tasks in its home country and farm out only low-skilled tasks to foreign plants. Such a practice makes it relatively easy for an international business to switch production from one location to another as economic conditions warrant. Consequently, the bargaining power of organized labor is once more reduced.

A final union concern arises when an international business attempts to import employment practices and contractual agreements from its home country. When these practices are alien to the host country, organized labor fears the change will reduce its influence and power.

This concern has surfaced in response to Japanese multinationals that have been trying to export their style of labor relations to other countries. For example, much to the annoyance of the United Auto Workers, many Japanese auto plants in the United States are not unionized. As a result, union influence in the auto industry is declining.

THE STRATEGY OF ORGANIZED LABOR

Organized labor has responded to the increased bargaining power of multinational corporations by taking three actions: (1) trying to establish international labor organizations, (2) lobbying for national legislation to restrict multinationals, and (3) trying to achieve international regulations on multinationals through such organizations as the United Nations. These efforts have not been very successful.

In the 1960s, organized labor began to establish international trade secretariats (ITSs) to provide worldwide links for national unions in particular industries. The long-term goal was to be able to bargain transnationally with multinational firms. Organized labor believed that by coordinating union action across countries through an ITS, it could counter the power of a multinational corporation by threatening to disrupt production on an international scale. For example, Ford's threat to move production from Great Britain to other European locations would not have been credible if the unions in various European countries had united to oppose it.

However, the ITSs have had virtually no real success. Although national unions may want to cooperate, they also compete with each other to attract investment from international businesses and hence jobs for their members. For example, in attempting to gain new jobs for their members, national unions in the auto industry often court auto firms that are seeking locations for new plants. One reason Nissan chose to build its European production facilities in Great Britain rather than Spain was that the British unions agreed to greater concessions than the Spanish unions did. As a result of such competition between national unions, cooperation is difficult to establish.

A further impediment to cooperation has been the wide variation in union structure. Trade unions developed independently in each country. As a result, the structure and ideology of unions tend to vary significantly from country to country, as does the nature of collective bargaining. For example, in Great Britain, France, and Italy, many unions are controlled by left-wing socialists, who view collective bargaining through the lens of "class conflict." In contrast, most union leaders in Germany, the Netherlands, Scandinavia, and Switzerland are far more moderate politically. The ideological gap between union leaders in different countries has made cooperation difficult. Divergent ideologies are reflected in radically different views about the role of a union in society and the stance unions should take toward multinationals.

Organized labor has also met with only limited success in its efforts to get national and international bodies to regulate multinationals. Such international organizations as the International Labour Organization and the Organisation for Economic Co-operation and Development have adopted codes of conduct for multinational firms to follow in labor relations. However, these guidelines are not as far-reaching as many unions would like. They also do not provide any enforcement mechanisms. Many researchers report that such guidelines are of only limited effectiveness.[68]

APPROACHES TO LABOR RELATIONS

International businesses differ markedly in their approaches to international labor relations. The main difference is the degree to which labor relations activities are centralized or decentralized. Historically, most international businesses have decentralized international labor relations activities to their foreign subsidiaries because labor laws, union power, and the nature of collective bargaining varied so much from country to country. It made sense to decentralize the labor relations function to local managers. The belief was that there was no way central management could effectively handle the complexity of simultaneously managing labor relations in a number of different environments.

Although this logic still holds, the trend is toward greater centralized control. This trend reflects international firms' attempts to rationalize their global operations. The general rise in competitive pressure in industry after industry has made it more important for firms to control their costs. Because labor costs account for such a large percentage of total costs, some firms are now using the threat to move production to another country in their negotiations with

unions to change work rules and limit wage increases (as Ford did in Europe). Because such a move would involve major new investments and plant closures, this bargaining tactic requires the input of headquarters management. Thus, the level of centralized input into labor relations is increasing.

In addition, the realization is growing that the way work is organized within a plant can be a major source of competitive advantage. Much of the competitive advantage of Japanese automakers, for example, has been attributed to the use of self-managing teams, job rotation, cross-training, and the like in their Japanese plants.[69] To replicate their domestic performance in foreign plants, the Japanese firms have tried to replicate their work practices there. This often brings them into direct conflict with traditional work practices in those countries, as sanctioned by the local labor unions, so the Japanese firms have often made their foreign investments contingent on the local union accepting a radical change in work practices. To achieve this, the headquarters of many Japanese firms bargains directly with local unions to get union agreement to changes in work rules before committing to an investment. For example, before Nissan decided to invest in northern England, it got a commitment from British unions to agree to a change in traditional work practices. By its very nature, pursuing such a strategy requires centralized control over the labor relations function.

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Key Terms

human resource management (HRM), p. 476
expatriate manager, p. 477
staffing policy, p. 478
corporate culture, p. 478
ethnocentric staffing policy, p. 479
polycentric staffing policy, p. 480
geocentric staffing policy, p. 480
expatriate failure, p. 482

Summary

This chapter focused on human resource management in international businesses. HRM activities include human resource strategy, staffing, performance evaluation, management development, compensation, and labor relations. None of these activities is performed in a vacuum; all must be appropriate to the firm's strategy. The chapter made the following points:

1. Firm success requires HRM policies to be congruent with the firm's strategy and with its formal and informal structure and controls.
2. Staffing policy is concerned with selecting employees who have the skills required to perform particular jobs. Staffing policy can be a tool for developing and promoting a corporate culture.
3. An ethnocentric approach to staffing policy fills all key management positions in an international business with parent-country nationals. The policy is congruent with an international strategy. A drawback is that ethnocentric staffing can result in cultural myopia.
4. A polycentric staffing policy uses host-country nationals to manage foreign subsidiaries and parent-country nationals for the key positions at corporate headquarters. This approach can minimize the dangers of cultural myopia, but it can create a gap between home- and host-country operations. The policy is best suited to a localization strategy.
5. A geocentric staffing policy seeks the best people for key jobs throughout the organization, regardless of their nationality. This approach is consistent with building a strong, unifying culture and informal management network and is well suited to both global standardization and transnational strategies. Immigration policies of national governments may limit a firm's ability to pursue this policy.
6. A prominent issue in the international staffing literature is expatriate failure, defined as the premature return of an expatriate manager to his or her home country. The costs of expatriate failure can be substantial.
7. Expatriate failure can be reduced by selection procedures that screen out inappropriate candidates. The most successful expatriates seem to be those who have high self-esteem and self-confidence, can get along well with others, are willing to attempt to communicate in a foreign language, and can empathize with people of other cultures.
8. Training can lower the probability of expatriate failure. It should include cultural training, language training, and practical training, and it should be provided to both the expatriate manager and the spouse.